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TWO DIFFERENT CONFLICTS IN FEDERAL SYSTEMS: AN APPLICATION TO CANADA[†]

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SUMMARY

Canadians are used to taking seriously the threat of separation when it comes to Quebec, but a more serious, less manageable form of conflict may eventually emerge in the federation between Western Canada and the rest of Canada. Where the Canadian government has been successful so far in managing the "conflict of taste" that has led to Quebec's historic discomfort in the Canadian federation, because the federal government possesses the tools to address that challenge, it does not have the same tools to manage the "conflict of claim" that is creating increased dissatisfaction with Confederation in the West. The result is that Canada is a less stable federation than many observers realize. Interestingly, the future of its unity depends largely on whether the West is able to establish a lasting political alliance with Ontario even though that would mean Quebec no longer being critical for national coalitions.

Conflicts of taste revolve around differences in political preferences between regions within a federation. While Quebec is animated by its different culture, history and language than the rest of Canada, which has created a conflict of taste, mechanisms have been put in place to help mitigate the friction, including: Provincial powers over key cultural institutions such as education and health, special fiscal and immigration arrangements for Quebec, guaranteed bilingualism in federal institutions and tax-collection powers unique to Quebec. Quebec's ability to wield federal power through a Central Canadian alliance with Ontario has also helped partially alleviate the province's discomfort within Confederation.

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Conflicts of claim are more difficult because they involve disputes over "sharing the wealth" (as opposed to building wealth together). These arise when a smaller, richer region is called on to transfer wealth to larger, poorer regions within a federation, the way that Alberta and other resource-rich parts of the West have been made to subsidize the rest of Canada through equalization, tax and numerous other net contributions to the federal fisc. Because of the difference in populations, significant transfers are required in order to have a material per capita impact on the more populated poorer regions, while the larger, poorer regions can control through their political voting power the size of the transfers they wish to extract from the smaller, richer region. In these arrangements, conflict arises when the smaller, richer region feels as if the benefits from being part of a federation are outweighed by the cost of serving as a largely powerless cash cow.

This could feasibly become the case for Alberta, which is called on to provide other provinces with massive wealth transfers, even as other provinces have worked to hurt Alberta's economy both through past policies (such as the National Energy Program) and recent ones (such as B.C. and Quebec's opposition to allowing Alberta oil to be transported for export through their provinces). Canada, notably, lacks formal institutions that provide small regions like Alberta with proper federal representation, such as an elected and powerful Senate, as in the U.S. and Australia. Polls also show the attachment of Albertans to the Canadian nation state is not as strong as in other provinces.

Whether this all conspires to result in a conflict-of-claim crisis depends, largely, on Ontario. That province has in the past formed political alliances with Quebec against western interests, but it has also formed political alliances with the West, ensuring Alberta's and other resource-rich western interests are protected in a way that the West lacks the political power to do on its own. Despite Canada's deficiency in formal mechanisms to deal with conflicts of claim, there are ways the federal government could help address the West's growing restlessness within Confederation, but it must have the will to do so. Whether it does depends largely on whether Ontario voters want it to.

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

Much of the literature on conflict in federal states focuses on differences in tastes among regions.[2] Heterogeneous regions differ in cultural tastes for public and private goods but will co-operate to achieve economic and social benefits from a union. Many characterizations of federal unions assume that transfers are made between sub-national states (or, as we shall also call them, regions) to achieve a co-operative outcome by a central government. However, transfers themselves create conflict since transfers made between regions result in one region giving up wealth to another. Thus the political process used to determine transfers could result in conflict of claim. If, in a democracy, a large, poor region votes for large transfers from a rich, small-populated region, the small region perceives it has little control over decisions. Even the progressivity of the tax system is part of the overall transfers, since a rich minority can be out-voted by those who benefit from redistribution, a point to which I return later. The concepts will be applied to Canada where both types of conflict are present.

This paper takes three parts. In the first section, I detail the underlying concepts related to regional stress: conflicts of taste and claim. The second section provides a brief historical review of evolving economic and political shifts in Canada, especially in the past 40 years. I conclude with a discussion of current developments in Canada with respect to conflicts of taste and claim.

CONFLICT OF TASTE AND CLAIM

What is a region?

We often make reference to regions, but what makes a region a region?

Regions can be political entities as defined by legal borders, such as a country, province or state, governed by representatives, who may be elected by the population, as in a democracy, the system focused on here. Typically, regions are considered to be homogenous with a similar history, culture

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1 The original ideas developed here go back to a paper I had written with the late Richard Simeon (Mintz and Simeon 1982). The idea of conflict of claim I derived in the analysis of federations provided in R. J. May (1969). The discussion in this paper is based on a book that I am currently writing on what I call Canada's "western drift."

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

and common preferences among the members of the population. A region might have a common industrial structure.

Regions can be identified in terms of certain common characteristics that can influence their voting preferences. In a federation this occurs both at the federal and sub-national level. Some regions may be dominated by a particular industry, such as finance (e.g., London), manufacturing (e.g., the Rust Belt in the U.S.) or by a common culture (e.g., Quebec). Obviously, a region may correspond to a particular legal entity: Quebec, for example, has been dominated by a Francophone population since its inception and is primarily a manufacturing/service economy. It is not uncommon however for a region to overlap several political jurisdictions. This is particularly important in the discussion below regarding Western Canada's four provinces: British Columbia, Alberta, Saskatchewan and Manitoba.

Ultimately, sovereign governments directly rule the region, creating laws that apply to it, thereby creating a common institutional framework. Yet, even within a political entity there may be several regions, which are observed in terms of common characteristics such as their economic structure, history, culture and institutions. Political and administrative coherence among regions in a federation is the dominant characteristic underlying much of the analysis below.

An economic perspective in explaining the two conflicts

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

These principles provide a normative view on "what should be done," but they do not provide positive analysis on "how it is to be done." To achieve unity, federations decide on the allocation of spending, taxing and regulatory powers to satisfy national and sub-national interests, often — but not necessarily — according to a written constitution. For example, powers involving significant economies of scale or spillovers might be allocated to central government, while those involving primarily autonomy and accountability might be allocated to sub-national governments. Even once powers are allocated to each level of sovereign government, mechanisms are needed to co-ordinate policies among the central and sub-national governments, such as regional representation in the central governing bodies including the cabinet, bilateral or multilateral agreements, and meetings. An important mechanism is representation in national legislatures that provides an expression of regional interests in central-government decision-making. Of 143 democratic federations, 39 per cent (56) have bicameral legislatures, with 34 of these having regional representation. Of the 28 democratic federal states, 17 have regional representation in one of the bicameral legislatures.[3]

Conflicts arise, however, when regions cannot agree on "what should be done" because they do not have the access to "how it is to be done" mechanisms. This is especially important in the Canadian

[3] The above data are provided by R. Hickey (2013). Canada is listed as a country with a bicameral legislature of which the Senate is selected on a regional basis. However, as discussed below, it is unelected (similar to the House of Lords in the United Kingdom) and only has power to delay legislation passed by the House of Commons. The Senate is therefore a weak form of regional representation.

case, since central-government elected institutions have no formal regional representation (the Canadian Senate being unelected, legitimate regional representation is best achieved through informal mechanisms such as cabinet appointments). This is unlike the U.S. or Germany, which have formal, elected regional-based representative institutions at the federal level.

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

Conflict of taste

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

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

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

Conflict of claim[4]

Conflict of claim raises a different set of issues. In this case, regions may have similar preferences but one region is wealthier, perhaps because it has better access to natural resources or tidewater compared to another region. A union is more possible if the two regions combine for economic gains. However, to achieve an agreement, the rich region might pay compensation to the poor region out of altruism or for certain benefits (such as discouraging poorer populations moving to the rich region). The amount paid to the poor region is bounded by (i) the minimum needed to compensate the poor region to be at least somewhat better off than if it were autonomous; and (ii) the maximum that the rich region is willing to give up before it is in a worse position compared to if it were autonomous.

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

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

A broader framework when both conflicts occur

Conflicts in federation therefore revolve around differences in taste and claim that cannot be easily resolved at a national level. There are many potential areas of conflict, including around regulatory policy (e.g., environmental policy), internal trade, and labour policy. Conflicts can also pertain to budgetary policy, namely spending and taxing decisions.

Labour mobility, for example, can reduce conflict since migration from poor to rich regions can lead to reduced differentials in regional incomes and conflict of claim. However, that could lead to the "emptying out" of a region that might have fewer people to share the fixed costs of public and private services, potentially leading to conflict of taste.

Trade policy is also important to conflicts in a federation. With differing preferences and industrial structures, free trade among regions creates significant gains to an economic union due to these differences. However, trade also introduces more competition, undermining economic power of both regional private and public interests. It is not unusual to find that these vested interests might advance limits on trade, thereby reducing gains arising from an economic union.

Another important example arises from populations voting on the progressivity of the income tax. The large population might determine the "national choice" for redistribution even though the smaller region might disagree with the decision. This is an example of conflict of taste over redistributive policies.

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

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

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

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

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

To illustrate, Catalonia and its conflict in Spain is an example of both conflict of taste and claim for the same region. Catalonia has different culture and history than other parts of Spain, including its distinct language, Catalan. Catalonia is also the most industrialized region in Spain with the highest per capita income. In 2006, the Spanish government granted Catalonia "nation" status and provided it the same taxation responsibility as the Spanish central government. Spain's constitutional court struck down portions of this autonomy statute in 2010, ruling that Catalans constituted a "nationality" but not a "nation."[5] After the 2008 global financial crisis, many in Catalonia expressed anger with the per capita transfers made to poorer regions from the taxes Catalans paid to the central government.[6] Support for separation became stronger as a result.

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

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

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5 See https://www.britannica.com/place/Catalonia.

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

A CANADIAN PERSPECTIVE

Canada has been undergoing a major transformation since its inception. At its founding in 1867 as the Dominion of Canada, with four provinces — Ontario, Quebec, New Brunswick and Nova Scotia — its initial focus was obviously on Central Canada and the Maritimes, and not the sparse population in the West. In 1869, the British government arranged for Canada to pay 300,000 pounds for Rupert's Land and the North-Western Territory from the Hudson's Bay Company, which gave up its charter to the British Crown. The lands were transferred to Canada in 1870. Other provinces were established or joined later — Manitoba in 1870, British Columbia in 1871 and Prince Edward Island in 1873 — which created a coast-to-coast country under the Dominion of Canada. From the North-West Territories land, Alberta and Saskatchewan became provinces in 1905, while Manitoba was expanded and new territories were created in the North.

In 1871, Canada's population was 3.5 million. Despite the vast area of land, the population was primarily concentrated in Ontario (1.6 million) and Quebec (1.2 million).[7] Western Canada's population, from British Columbia to Manitoba, was a mere 84,000.

Of course, Western Canada exploded over the years (Figure 1). Today, over 30 per cent (11.4 million) of Canada's 36-million people reside in the four western provinces, which now collectively account for more people than Quebec (8.3 million).[8] Ontario remains the largest province with 13.9 million people, so that Central Canada — Ontario and Quebec — accounts for three-fifths of Canada's population. However, if we look at the distribution of the population in another way, 25.3 million or 70 per cent of Canadians live west of the Ottawa River that divides Ontario from Quebec and the Atlantic. This is a significant change from 1970 when Quebec was the second-largest region (27.9 per cent of the population compared to 26.5 per cent for Western Canada).

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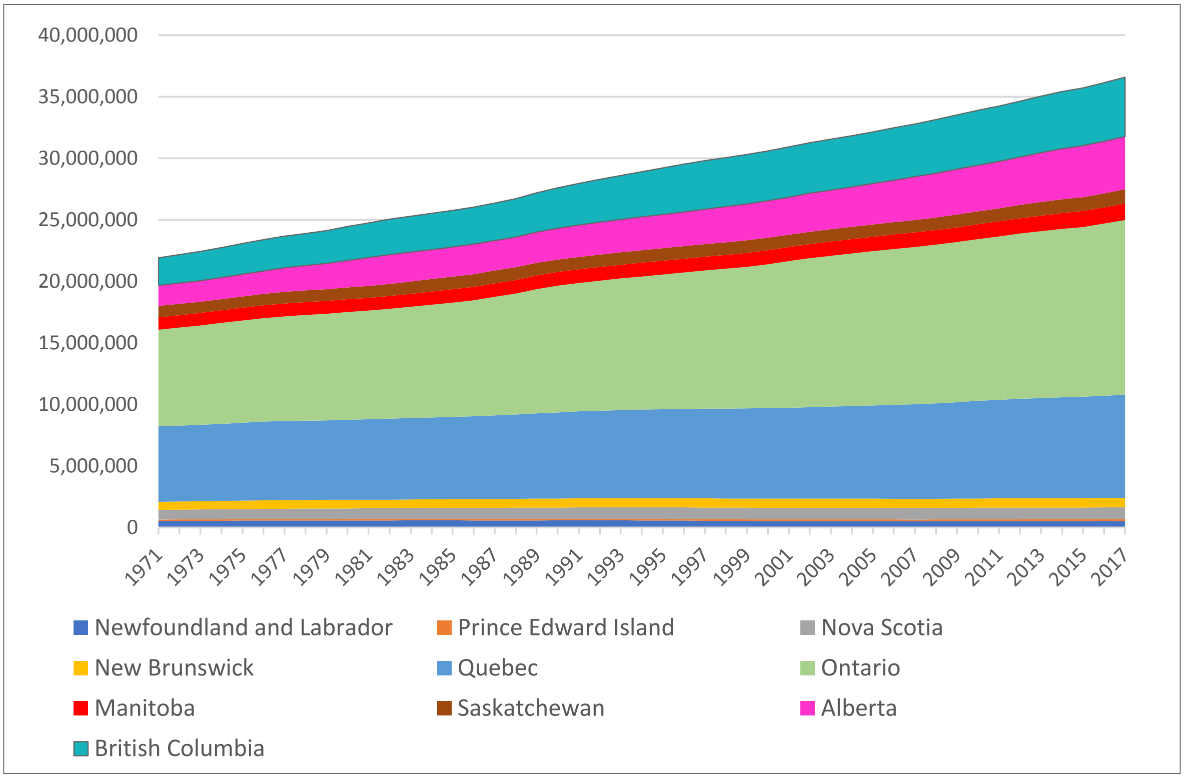
7 http://www.statcan.gc.ca/pub/11-516-x/sectiona/4147436-eng.htm.

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

FIGURE 1 **PROVINCIAL SHARES OF CANADA'S POPULATION: 1971-2017**

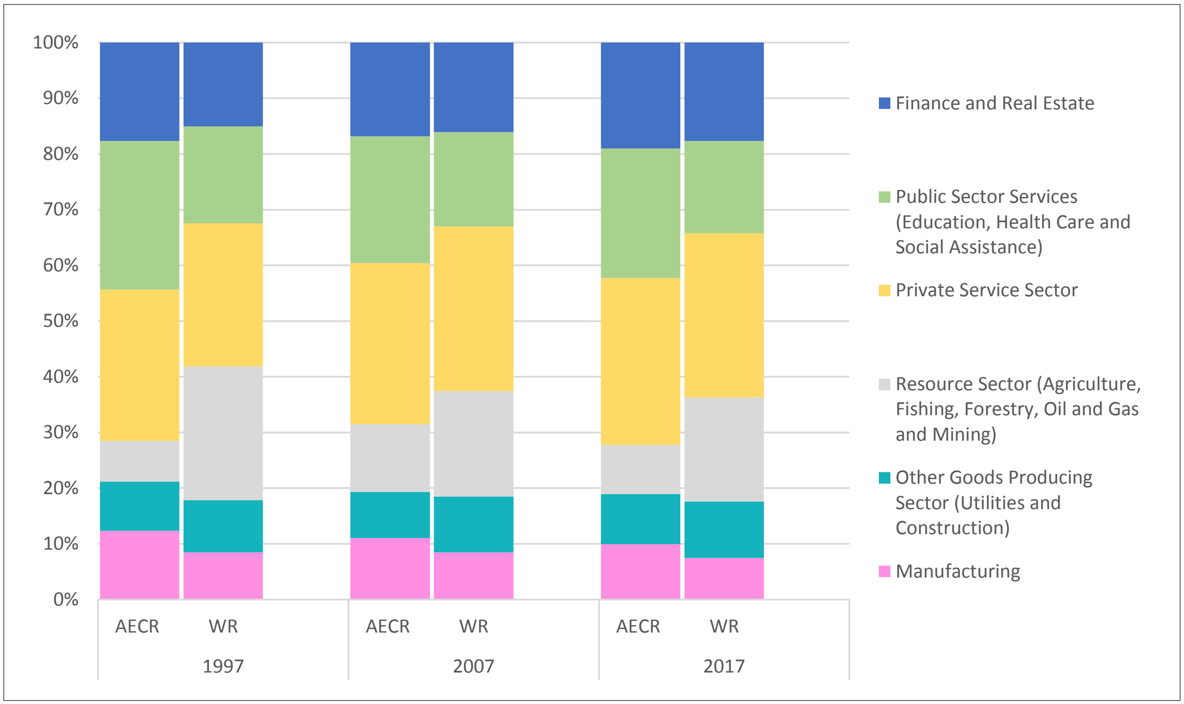


Source: Statistics Canada.

Canada is often viewed as having four regions: the Atlantic, Quebec, Ontario and the West. Certainly the economic structure of the provinces differs. Western Canada is especially resource-based (Table 1) while Ontario and Quebec have larger manufacturing, finance and public sectors as a share of GDP. The Atlantic tends to be more resource-based with fishing, forestry, mining and oil and gas, but the economy is small.

The differences between Central and Western Canada are the basis of much of the discussion below regarding conflicts of taste and claim. The resource sector that dominates Western Canada is capital-intensive with highly variable commodity prices. The labour base, which is less concentrated than in Ontario and Quebec, requires highly skilled immigrants, typically younger and more educated. Risk and exposure to international markets is inherent in the western economy, thereby requiring continual adjustments to economic shifts.

FIGURE 2 **GDP SHARE OF MAJOR SECTOR IN REGION (%)**



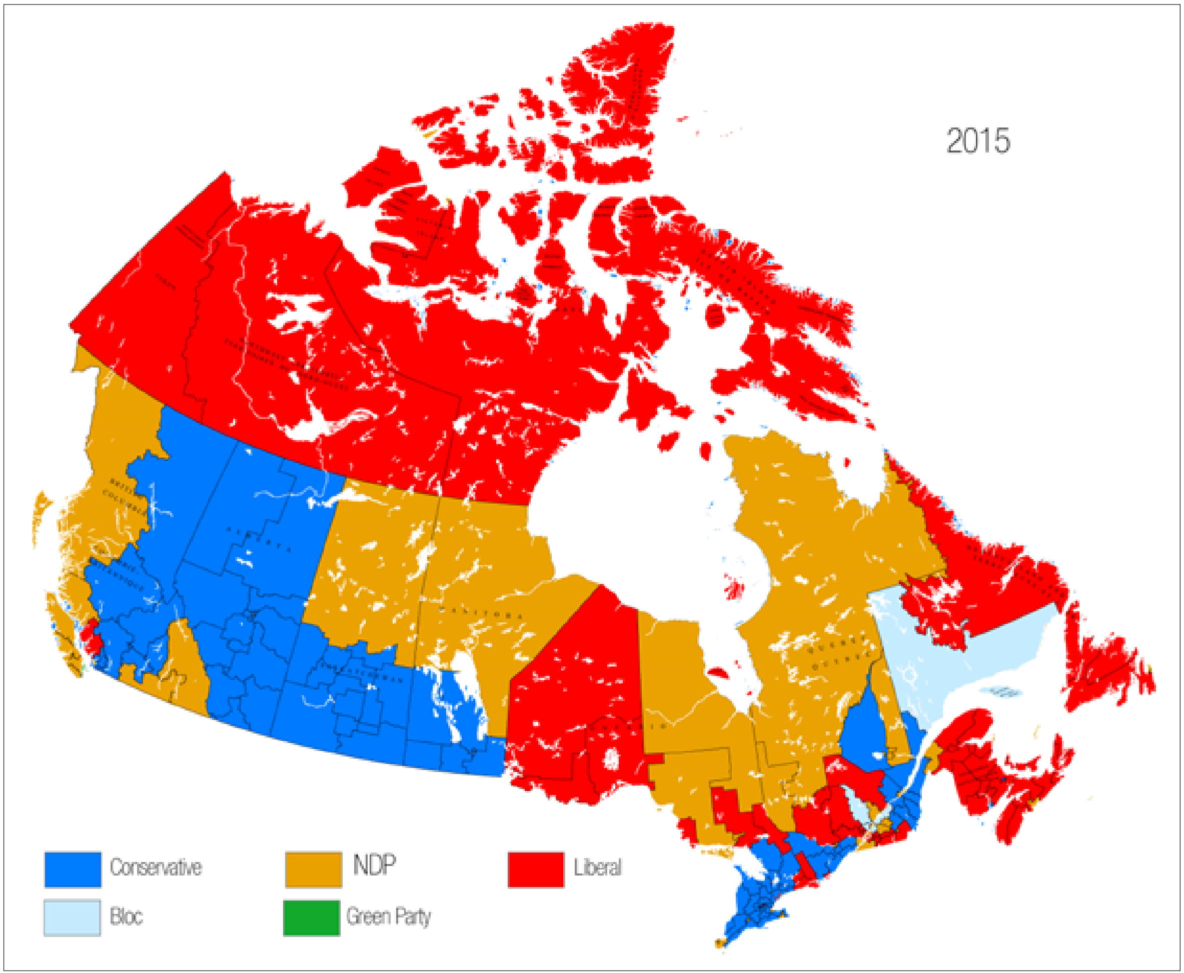
Notes: Atlantic, Eastern and Central Region (AECR) represents: Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario. Western Region (WR) represents Manitoba, Saskatchewan, Alberta, British Columbia.

Source: Statistics Canada.

With the growth of the West, Canada has been moving from its traditional monocentric economy (based in Central Canada) to a polycentric economy, with one economy in the Ottawa-Toronto-Montreal triangle and a smaller one emerging in the West. Unlike the Atlantic provinces, which account for barely more than a twentieth of Canada's population and is struggling to even maintain its current population, the West continues to grow, even if its progress is challenged from time to time by short-term downturns in commodity markets.

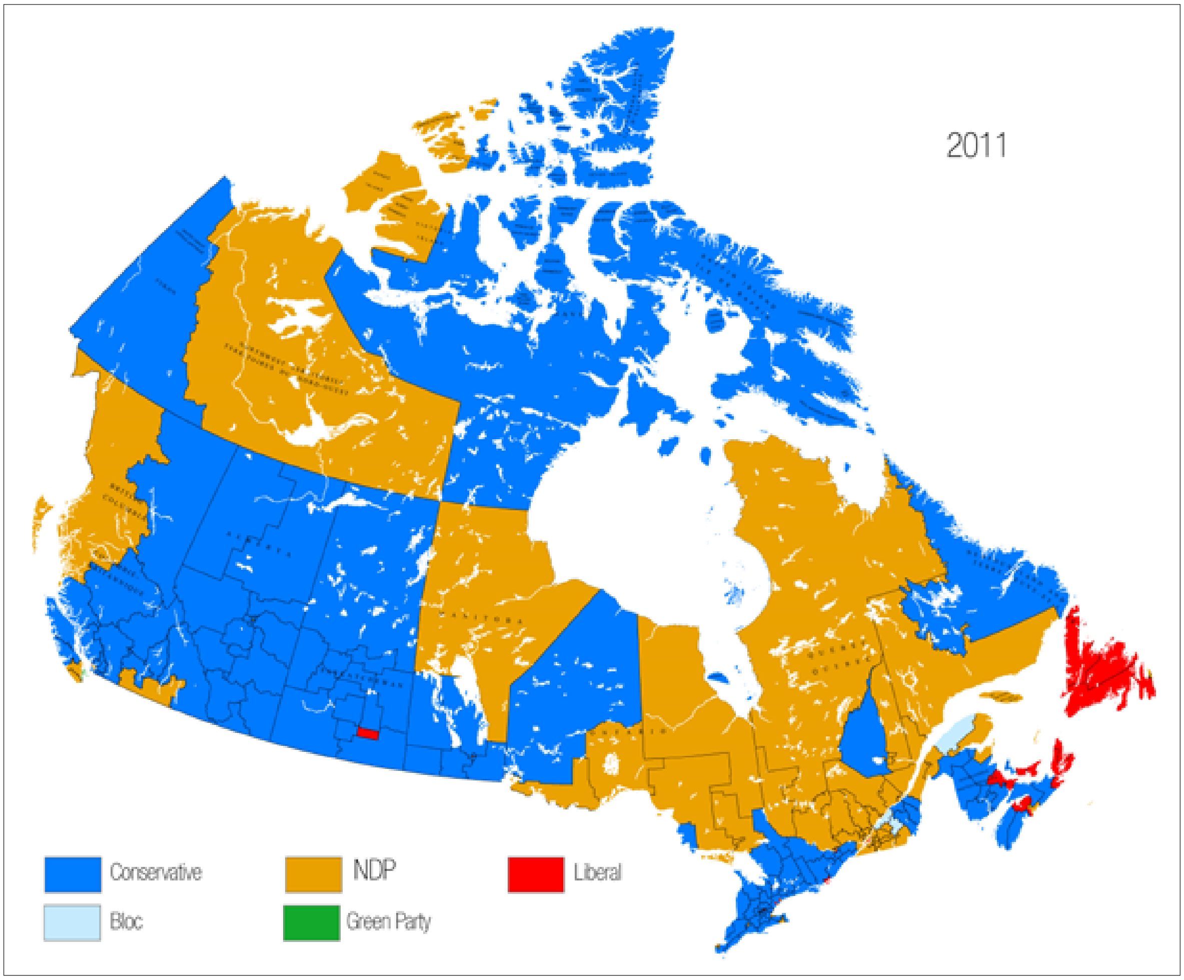
Each of the western provinces does not always act in political harmony since their political preferences are not necessarily in sync with each other. However, there is a region — interior B.C, Alberta, Saskatchewan and southern Manitoba — that is largely resource-based, especially concentrated in agriculture,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

MAP 1 **FEDERAL 2015 ELECTION, DISTRIBUTION OF SEATS**



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

MAP 2 FEDERAL 2011 ELECTION, DISTRIBUTION OF SEATS



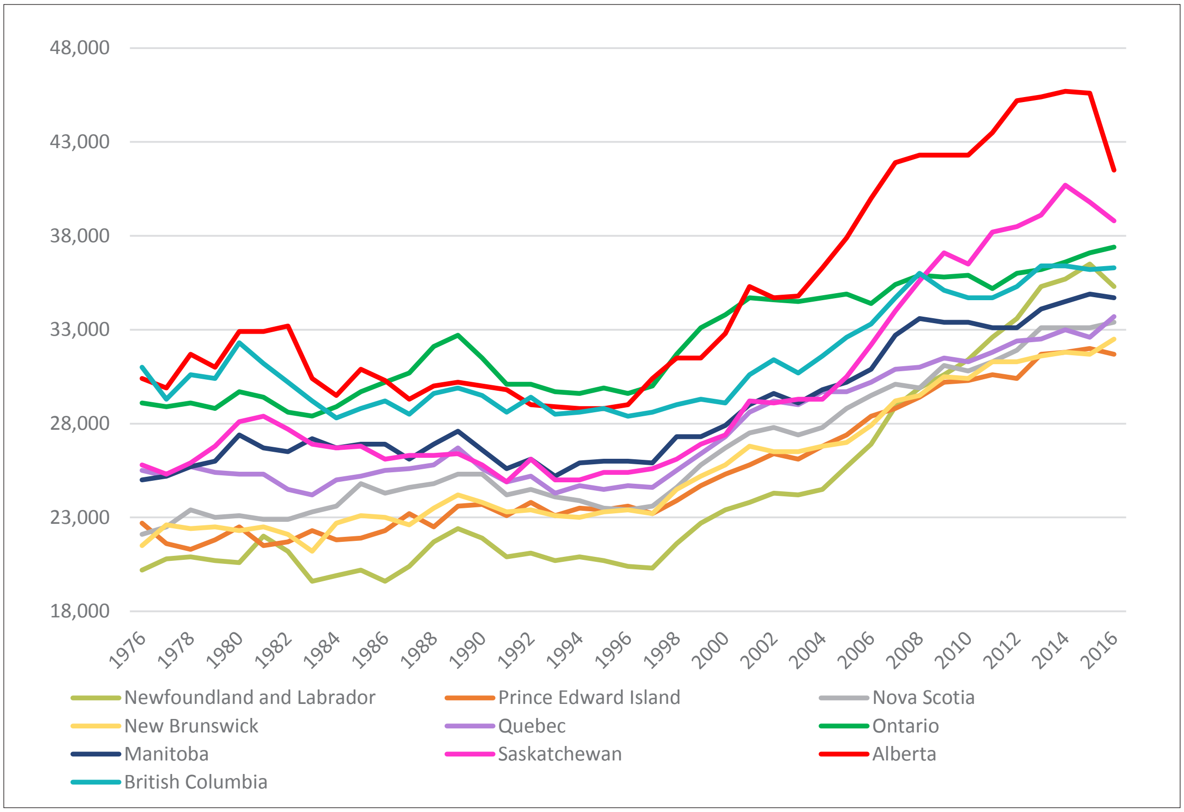
Legend: Conservative (dark blue), Liberal (red), New Democratic Party (orange) and Bloc Québécois (light blue).

Economic shifts in the Canadian economy

With the growth of Western Canada, a destabilizing "conflict of claim" became salient in Canada arising from differences in economic power between the larger and smaller populated regions. After 1973, with the boom in oil prices, Canadian economic power shifted to the West. While populous Ontario was the perennial "have" province that subsidized other provinces, the situation changed after the 1970s as Ontario's per capita GDP and personal disposable income moved to the national average and Alberta became much richer than other provinces (Figure 3). Ontario is no longer the rich province that subsidizes the rest of Canada, having officially become a "have-not" province under Canada's equalization formula in 2009 (this is changing in 2019 as Ontario is expected to no longer receive equalization payments once becoming a "have" province).

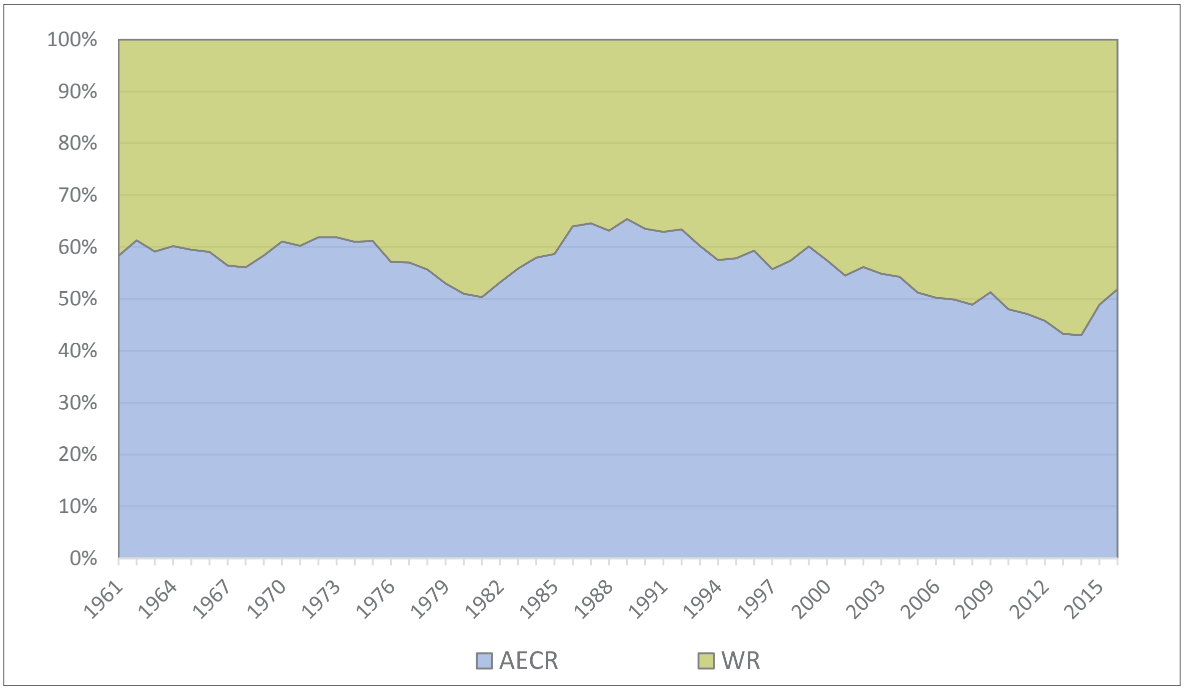
Growth and labour productivity depends in part on capital investment. Over the past four decades, private investment has shifted to the West in part due to the strength of the resource sector, which is capital-intensive. Today, the four western provinces account for almost half of private investment, a much bigger share than their population share (Figure 4).

FIGURE 3 REAL PER CAPITA DISPOSABLE INCOME (2007 CHAINED DOLLARS) BY PROVINCE: VARIOUS YEARS



Source: Statistics Canada.

FIGURE 4 PRIVATE INVESTMENT SHARES — WESTERN CANADA VS. REST OF CANADA



Notes: Atlantic, Eastern and Central Region (AECR) represents: Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario. Western Region (WR) represents Manitoba, Saskatchewan, Alberta, British Columbia.

Source: Statistics Canada.

Implications for regional conflict

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

Conflict of claim is well illustrated by Alberta's role in Confederation. Although Alberta's history was influenced by American migration in the Far West (Woodward 2011), its climate and geography shaped it development, as the same factors similarly did in Saskatchewan, the B.C. interior and southern Manitoba. Resource ownership has given substantial wealth to Alberta, resulting in the fourth-largest province becoming the wealthiest part of Canada (as documented above).

TABLE 1 CUMULATIVE NET CONTRIBUTION OF PROVINCES (2017 DOLLARS)

Province/Territory	Net Contribution 1961–2017 in $ Billions	Average Annual Net Contribution Per Capita 1961–2017	Average Annual Net Contribution Per Capita 2010–17
Newfoundland and Labrador	-$172.3	-$5,501	-$3,177
Prince Edward Island	-$49.1	-$6,607	-$8,458
Nova Scotia	-$305.8	-$6,034	-$7,329
New Brunswick	-$202.7	-$4,919	-$6,421
Quebec	-$476.3	-$1,172	-$2,020
Ontario	$722.9	$1,225	$394
Manitoba	-$175.2	-$2,712	-$3,573
Saskatchewan	-$98.8	-$1,747	$305
Alberta	$611.0	$3,674	$5,576
British Columbia	$120.8	$551	$768

Source: Calculations by R. Mansell and M. Khanal.

Of all the provinces, Quebec has received the largest net financial transfers from the rest of Canada, with the federal government spending more in the province than it receives from Quebec in taxes, partly as an effort to mitigate separatist sentiments in the province. The case is different for Alberta which is a large per capita contributor to the rest of Canada. According to recent analysis (Hearn and Mansell 2018), Quebec roughly received $2,020 per capita in federal spending in the province net of taxes paid to the federal government from Quebec, while Alberta paid $5,576 per capita to the federal government in net taxes (all numbers in 2017 dollars).[9] Cumulative net contributions for the period 1961–2017 have also been estimated (in 2017 dollars): Cumulatively, Albertans paid an annual average of $3,674 per capita or $611 billion in federal revenues net of federal expenditure to the rest of the federation (Table 1). This was far more than the average annual per capita net contributions of Ontario, B.C. or Saskatchewan (Saskatchewan became a net contributor in 2009).

9 Similar estimates are provided by Hartmann, Thurgood and Thies (2018).

Canada's diversity

Canada is viewed as a "mosaic" rather than a "melting pot," with immigrants identifying with their cultural or social background rather than a national identity, unlike the case in the U.S.[10] Canada is relatively more diverse than other advanced countries. Using a conventional measure of diversity (or "fractionalization" as the authors put it),[11] Alesina et al. (2003) estimate diversity for a large number of countries with one (1) representing complete diversity and zero (0) representing homogeneity. Canada's measured ethnic diversity is measured at 0.7124, religious diversity at 0.6958 and language diversity at 0.5772. In contrast, the U.S. diversity variables are 0.4901 (ethnic), 0.8241 (religious) and 0.2514 (language). Generally, European countries have lower diversity values than in North America. The significant diversity in Canada helps explain the weakness of national identification, which contributes to greater potential conflict among regions.

To analyze federal and provincial diversity, I use a measure similar to that used by Alesina et al. to measure whether Canadian provinces are more homogeneous than Canada as a whole, based on Statistics Canada 2016 census data (Table 2). Here, diversity is measured on the basis of language and "racial" lines. Ethnic diversity could not be measured as those answering the census can indicate multiple backgrounds, such as "Canadian" or as a region with an ethnic background (such as Scottish or Asian), resulting in answers that are well above 100 per cent of the population. However, one can see what portion of the population in a province or Canada as whole report identify as "Canadian."

As shown in the following table, the provinces tend to be more homogeneous than Canada in terms of language diversity. Canada as whole scores 64.2-per-cent above each of the individual provinces. The least diversified by language are the Atlantic provinces, except New Brunswick, followed by Saskatchewan and Quebec. In terms of "racial" diversity, Ontario, B.C. and Manitoba are more diversified than Canada as whole due to the size of Chinese, South Asian and Aboriginal minority populations in the three provinces. The Atlantic provinces, followed by Quebec and Nunavut, are also more homogeneous than Canada as a whole on a "racial" basis. The response of being "Canadian" is weakest in the West, the three territories and Ontario, and highest in Quebec (Canada as a whole reflects the average across all provinces and territories). However, only 32.3 per cent of the population list themselves as "Canadian."

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

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

TABLE 2 MEASURES OF DIVERSITY FOR CANADA AND EACH PROVINCE AND TERRITORY, 2016 (IN PERCENTAGES)

	Language Diversity	"Racial" Diversity	Ethnic Origin as "Canadian"
Newfoundland and Labrador	6.1	20.4	53.9
Prince Edward Island	17.5	12.9	42.3
Nova Scotia	17.1	22.4	42.6
New Brunswick	48.9	14.0	55.8
Quebec	39.9	27.8	58.3
Ontario	54.9	52.7	23.5
Manitoba	44.7	54.5	19.4
Saskatchewan	32.0	44.1	20.6
Alberta	44.6	49.7	22.7
British Columbia	51.8	56.9	19.0
Yukon	32.7	48.0	24.6
Northwest Territories	40.4	58.4	18.6
Nunavut	43.1	24.9	3.7
Canada	64.2	45.9	32.3

Note: Values closer to one (1) imply greater diversity in columns one and two, measured as one minus the squared proportion of population in each category. Language diversity is based on "English," "French," "Mandarin," "Tagalog," "German," "Arabic," "Cantonese," "Spanish" and "Inuktitut," among others. "Racial" diversity is broken down according to "Aboriginal," "non-minority (white)," "Chinese," "Filipino," "South Asian," "Black," and "Arab," among others.

Source: Statistics Canada 2016 census.

The federal government has been long dominated by Central Canadians or the "Laurentian Consensus,"[12] with political, business and thought leaders residing in the two major provinces, Ontario and Quebec. However, given today's distribution of population, diversity and economic power, political coalitions can now form either between Central Canadians (Ontario and Quebec) or between Ontario and Western Canada, the latter happening from 2006–15.[13] While the 2015 election returned the Liberals to power with strong representation across Central Canada, Bricker and Ibbitson's (2013) key message still holds: A political coalition between Ontario and the West can dominate Canadian politics without Quebec playing a central role, just as a Central Canadian coalition does not require support from Western Canada. Electoral power at the federal level therefore depends on the distribution of seats in Canada's first-past-the-post system, and provincial shares largely depend on population shares. The question is which type of political coalition will dominate in the 21st Century, with Ontario as the axis, and whether Canada will have unstable coalitions over time related to shifts in economic and political power.

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

[12] John Ibbitson (2012).

[13] Hansard; 39th Parliament, 1st Session; No. 087, November 27, 2006.

Accommodation with conflict of taste: Quebec

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

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

A partial list of these adjustments has included the following.

First, certain constitutional guarantees were provided that enabled provinces to have power over policies related to their institutions. At the time of Confederation, the provinces were given control of institutions including education, hospitals and property rights under the British North America Act of 1867. Primary education was particularly important since it related to maintaining the Catholic religion in Quebec and Protestantism in Ontario (Section 93), while nevertheless guaranteeing religious education for the minority of either religion in each province. French and English were also guaranteed in proceedings of both Parliament and the Quebec legislature (Section 133). When the Supreme Court of Canada was later created, two of its judges were to be from Quebec (which uses civil law) and proceedings were permitted in either language. Bilingualism has also been extended over the years at the federal level, including requiring the civil service to speak both French and English.

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

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

Other arrangements are often provided to give Quebec more autonomy, such as in the case of labour-market training.

Another benefit enjoyed by Quebec is its ability to share federal power, along with Ontario, by being part of a winning coalition, including in John A. MacDonald's first government at the time of Confederation.

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

Accommodation with conflict of claim: Alberta

Conflict of claim is more difficult to handle since it often involves a zero-sum game over the distribution of resources. With strong regional rather than national identification (Holm 2016), voters in a small province feel more aggrieved over the transfer of resources to the rest of Canada. Unlike conflict of taste, which can be dealt with through various federal mechanisms that can provide autonomy to a province over policies reflecting taste (e.g., education and redistributive policies), conflict of claim means "sharing the wealth," which, in order to avoid conflict, requires the donor province to perceive that there are gains to such sharing, as discussed above.

Mechanisms to deal with conflict of claim are twofold. The first is the assignment of spending and taxing powers to provinces to enable them greater autonomy over policies that manage and redistribute income and wealth. Second, given control over resources, the subnational entity will wish to preserve its power over its resource wealth. Third, regional representation at the federal level or co-ordination mechanisms that facilitate bargaining can assist in reducing conflict of claim. The most difficult problem is when majority voting at the federal level results in policies contrary to the interests of the subnational entity that is "paying the bills," as in the case of Alberta.

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

The western provinces resented the domination of Ontario over banking as well as federal tariffs that made consumer goods and farm equipment more expensive. Farmers were particularly upset with loans called in during the Great Depression, leading to demands among many Albertans for separation from Canada. This led to the election of the Social Credit party in Alberta, which passed legislation to tax and regulate all banks in Alberta. The courts declared the legislation as *ultra* *vires*,[14] since only the federal government had banking powers. Nonetheless, the western provinces did create co-operatives and non-bank financial institutions over the years to fund business development and mortgages in their provinces. Tariffs have been reduced due to international free-trade agreements and many of these century-old grievances have thus disappeared. However, the development of natural resources continues as the most important conflict of claim.

When Canada was created, the four initial provinces in Confederation — Ontario, Quebec, New Brunswick and Nova Scotia — owned lands and resources. When British Columbia joined in 1871 and Prince Edward Island joined in 1873, they were given similar rights to land and natural-resource ownership. However, no similar rights were given to Manitoba, which became a province in 1870, nor to Alberta and Saskatchewan when they were made provinces in 1905. At the heart of the problem was that Manitoba, Saskatchewan and Alberta were created from Rupert's Land, which the federal government purchased from the Hudson's Bay Company. The federal government wanted to retain ownership of western assets to facilitate colonization efforts and railway construction, and the other provinces wanted more federal grants if the three provinces were given resource ownership (Janigan 2013). Provincial grievances continued until 1930 when the federal government transferred resource ownership to the three Prairie provinces.

While mineral revenues were not significant, land ownership was important to the provinces as a source of revenue. At the beginning of Confederation, much of the federal revenues initially came from custom duties and excise taxes, with a minor amount from non-tax revenues. Custom duties accounted for 60 per cent of total revenues, a major source of revenues for the Dominion. Excise duties, also a Dominion tax, accounted for about a fifth of total revenues. Provincial revenues were generally from non-tax revenues (land sales, licences and public domain, including natural-resource revenues), although the federal government raised some non-tax revenues, such as land sales in the territories. Thus, the lack of resource ownership for the three provinces was a significant issue, as the provinces needed funds for schools, hospitals and infrastructure as their populations grew.

The conflict of claim over resource ownership reached a new level in 1980 with the federal government's National Energy Program, a catalyst that inflamed western separation. With the NEP, the federal Liberal government adopted a public policy that subsidized domestic energy prices below world market prices, paid for by new taxes levied on oil and gas exported to the U.S., representing a potential loss of $133 billion in the present value of energy rents accruing to the oil-and-gas-producing provinces in the West.[15] With the NEP coinciding with a downturn in oil prices, Alberta's economy was badly hit. Western frustration resulted in the creation of the Western Canada Concept Party in Alberta, whose platform favoured separation (it elected one member to the Alberta legislature). With the defeat of the federal Liberal government in 1984 and the election of the more western-friendly Mulroney Progressive Conservative government, which ended the National Energy Program, calls for separation quieted down.

No western provinces had a referendum to separate after the National Energy Program in 1980, but voters did express their disaffection with Central Canada by spawning the new federal Reform Party, which eventually merged with the Progressive Conservatives to become a new Conservative

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

[15] Helliwell and McCrae (1981). Albertans lost $46,000 per capita and non-Albertan Canadians gained $7,500 per capita.

party. This new party led to a political coalition of Ontario and western interests, resulting in the election of the Harper Conservative government in 2006.

Conflict of claim for oil-and-gas-producing provinces, Alberta and Saskatchewan primarily, has reasserted itself in the past several years. With the development of oil sands projects and controversy over their environmental impact, opponents have made attempts to stop their development.[16] While several new pipelines were in service by 2010 (such as Enbridge's Clipper line and TransCanada's Keystone pipeline), the former Obama administration in the U.S. would not sanction TransCanada's proposed Keystone XL (the Trump administration has now approved it but, at this time, it is still subject to Nebraska regulatory approval and must clear a Montana court injunction).

A proposal by TransCanada to build the Energy East line, converting for oil transport a natural gas mainline from Alberta to Montreal, extending to New Brunswick, was withdrawn in face of federal regulatory changes during the application stage and Quebec's opposition. An Enbridge pipeline, Northern Gateway, shall no longer be built, despite having won regulatory approval, since the federal government banned tankers carrying oil sands products from B.C's north coast. A proposal by Kinder Morgan to expand the Trans Mountain pipeline to transport more oil to Vancouver's port for export has been approved by the federal government but, with regulatory and legal uncertainties, Kinder Morgan considered withdrawing the application leading the federal government to purchase the pipeline. However, the pipeline's future still remains unclear. B.C. and some First Nations oppose the project. A recent federal court decision has stalled the pipeline's construction, requiring greater consultation with First Nations located near tidewater and study of marine-life impacts. As a result of new pipeline transportation projects being blocked, the transportation system for Alberta oil is highly constrained, resulting in a current loss in revenues and royalties of $14.7 billion per year, based on one recent estimate.

The federal government's Bill C-69, which includes The Impact Assessment Act, is currently being considered by the Senate and has not yet been passed. However, it is deeply opposed by Alberta and Saskatchewan, with Ontario recently objecting as well. The bill would significantly alter the approval process for resource projects under federal purview and the construction of interprovincial infrastructure. The act includes twenty social, environmental and economic factors such as sustainability, other options to the project, gender implications, health effects and climate change, which are to be addressed by a proponent in the application. The minister can choose to block a proposal before an assessment is made. Although the legislation provides for a faster approval time including 300 days for the final decision, the minister has opportunities to "stop the clock" during the process. Governments in Alberta, Saskatchewan and Ontario fear that many resource projects will be put on hold due to regulatory and delay costs.

Similar opposition has developed towards liquefied natural gas plant developments in British Columbia. Canada, unlike the U.S. and Australia, has not yet built an LNG plant for exporting natural gas to Asia, even though the former B.C. Liberal government tried to develop projects before it lost power in 2017 (to retain power, the current NDP minority government requires support from the Green Party, which is opposed to LNG developments). A recent LNG project has gained approval by the B.C. government, although it may still be challenged in the courts. This has also become a grievance for oil-and-gas-producing provinces in other parts of the West.

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

These recent developments are a classic issue of conflict of claim, in part between B.C. and Alberta and Saskatchewan, but also with the federal government and Quebec.[17] The federal government is pursuing carbon-reduction policies to meet a target of lowering greenhouse gas emissions by 30 per cent by 2030, which at current trends is unlikely to happen. Opposition to pipeline construction and LNG plants that would raise Canada's GHG emissions in the coming years is based on concerns that it will make it harder for other parts of Canada to achieve climate change goals. On the other hand, Alberta, Saskatchewan and, to a lesser extent, Manitoba feel particularly aggrieved, since oil and gas development is being constrained and wealth is being lost even though production continues elsewhere in the world, especially in the U.S. with its growth in shale oil and gas production.

Given the size of Alberta's net contribution to the rest of Canada, Albertans are raising concerns about the equalization program that has benefited other provinces, especially Quebec, which helped block the Energy East pipeline proposal.

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

- Like Quebec, Alberta could push for federal transfers to be converted from cash to personal tax points, giving Alberta a bigger share of the personal income tax (as in Quebec). Thus, for example, Alberta could choose a personal tax system that might be more conducive to attract the skilled labour it needs. Currently, federal transfers to Alberta are $8.3 billion or 27 per cent of federal personal tax revenues paid by Albertans. Substituting cash transfers for personal tax points would increase Alberta's personal income tax collections by two-thirds to $20.4 billion, giving the province much more control over redistribution.
- The provinces have ownership of resources while the federal government has joint control over environmental regulation. A federal-provincial agreement that reduces friction over environmental policy would help reduce conflicts over resource ownership and sustainability.
- Carbon policies could be co-ordinated by the federal government, but leave the provinces to determine the "means" to achieve federal targets. For example, the federal government would develop an agreement with the provinces to establish targets and provinces would present for federal approval the policies they will use to reach the target. No longer would the federal government dictate the mechanism, as is currently the case with carbon-tax or cap-and-trade policies.
- The equalization program that was recently renewed without discussion among the provinces should be reviewed for improvement. Even if the program remains based on equalizing fiscal capacities among provinces, it is not clear how fiscal capacity should be measured and how to make the program more responsive to risks faced by the provinces. The current stabilization program that provides funds to provinces seeing a significant drop in revenues is capped at $60 per capita and fails to include volatile resource revenues.

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

CONCLUSIONS

This analysis focuses on two different forms of regional conflict in a federation: conflict of taste and conflict of claim. Conflict of taste arises from differences in political preferences among populations and conflict of claim arises from one region having greater wealth than others and being expected to share it with others. This can be especially problematical when a small, rich region is expected to support large populations. Both conflicts lead to regional stress and unstable federations. Canada illustrates the nature of these conflicts: Quebec in terms of tastes and Alberta in terms of claim. While Canada has managed conflict of taste with various mechanisms, conflict of claim, which requires "sharing the wealth," is far more difficult to resolve.

To achieve unity, federations decide on the allocation of spending, taxing and regulatory powers to satisfy national and sub-national interests, often but not necessarily according to a written constitution. Even once powers are allocated to each level of sovereign government, mechanisms are needed to co-ordinate policies among the central and sub-national governments, such as regional representation in the central governing bodies including the cabinet, bilateral or multilateral agreements and meetings. An important mechanism is representation in national legislatures that provides an expression of regional interests in central-government decision-making.

Canada lacks an elected national body that represents regional interests. Thus, much of the accommodation occurs with federal-provincial co-ordination mechanisms. However, if national parties focus only on political support from the large regions to the detriment of smaller ones, conflict potentially arises. Conflict of taste is more easily accommodated by assignment of certain powers to the provinces but conflict of claim, which often reflects a zero-sum game, is more challenging.

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