

Canada Has Checked Debt With Hung Parliament Like U.K. Elected

May 07, 2010, 1:36 PM EDT

By Alexandre Deslongchamps

May 7 (Bloomberg) -- Canadian lawmakers have succeeded in cutting corporate taxes, keeping the debt in check and sealing free-trade accords during six years of minority governments similar to what awaits Britain after yesterday's election.

"We've had minority governments, and we've managed to come into the financial crisis in much better condition than other countries," said Murray Leith, who helps manage C\$7.5 billion (\$7.2 billion) as a money manager at Odlum Brown Ltd. in Vancouver. "Despite minority governments, we've managed okay."

Prime Minister Stephen Harper, 51, who took power in 2006, now heads his second and Canada's third straight minority government. Since the first minority government, Canada's benchmark stock index has gained 38 percent while the currency has strengthened 29 percent against the U.S. dollar.

The U.K. voted yesterday in an election that produced no parliamentary majority for the first time since 1974, leaving the fate of Prime Minister Gordon Brown, 59, and Conservative David Cameron, 43, with the Liberal Democrats.

The pound has fallen 8.7 percent against the dollar this year amid concern that a hung Parliament may produce a government that's too weak to fix Britain's finances. The U.K. currency dropped to a 13-month low against the dollar today, weakening 0.9 percent to \$1.4704 in London.

Canada has a parliamentary system based on the British system. There are four parties with seats in Canada's Parliament: the governing Conservatives, the main opposition Liberal Party, the separatist Bloc Quebecois, and the New Democratic Party.

Longest Minority

At almost six years, it is the longest stretch without a majority in the country's history, recently surpassing another period during the 1960s.

"What strikes me about Canada is how relatively stable the system has been, notwithstanding the fact that it's a minority," said Nelson Wiseman, a political science professor at the University of Toronto. "Harper's been governing as if he has a majority."

The reluctance of Canada's three opposition parties to trigger elections has allowed Harper to remain in power. The Liberal Party let his last budget pass, even though it opposed the fiscal plan.

"All four parties in our House have come to learn that voters are the unseen chair at the table," said Geoff Norquay, a lobbyist at Earncliffe Strategy Group in Ottawa and a former spokesman for Harper. "It became quite clear to them that many Canadians have tuned out the issue of the day or the latest partisan gotcha issue, and said, stop and figure it out."

Dealing With Deficits

Norquay said whether the U.K. is able to deal with its deficits will depend on whether voters reach a "social consensus" on the issue like Canadians did in the 1990s.

The lack of a majority hasn't hindered Harper's ability to pursue his agenda. He's now set a course to restore fiscal balance by 2014 after running up a record C\$53.8 billion deficit in 2009, which came one year after the end of a streak of 11 budget surpluses.

Harper also suspended Parliament, using a procedure known as proroguing, in 2008 when the three opposition parties said they would band together to oust the Conservatives.

Canadian lawmaker Ralph Goodale, who served as finance minister in a minority parliament after the June, 2004 elections, said he had to reassure investors at the time about the ability of the government to maintain fiscal discipline.

Minority governments have "to listen to opposition representations, to take them into account, to have that give- and-take on fiscal policy matters," Goodale, 60, said. "But you've also got to have an absolute bottom-line. You have to know where the endgame is and be prepared to say no."

Positive View

A Nanos Research poll found last year that 54 percent of the 1,002 people polled between July 30 and Aug. 2 said they had a positive or somewhat positive view of minority governments, compared with 37 percent who see them negatively.

Minority governments may lead to the postponement of policies that have sparked opposition. During Harper's 2008 campaign, he told reporters he would shelve efforts on controversial policies such as bank mergers.

Acrimonious sound-bites also dominate the daily question period, when opposition lawmakers can ask public questions of ministers. Peter Milliken, the Speaker of the House of Commons who arbitrates debates and procedure, has said he felt there has been a decline in decorum in the legislature and that such a loss of manners isn't "uncommon" in minority governments.

"In modern times, minority governments can and do work," said Dan McTeague, a Liberal lawmaker who's been in Parliament since 1993 and has experienced as many majority situations as minority ones. "The best advice is: resist the temptation to hit the election-at-any-moment confidence button, because it really does undermine the public's confidence in the institution."