



Tuesday October 21st 2008

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The Americas

Canada's general election

Please have the decency to panic

Oct 9th 2008 | TORONTO

From *The Economist* print edition

Economic fears ambush Stephen Harper's hopes of a majority

Illustration by David Simonds



"IT WASN'T raining when Noah built the ark." With these words, Stephen Harper, Canada's prime minister, tried to explain to an audience of business people in Toronto, the country's financial capital, why he would not give in to mounting pressure for extraordinary measures to protect the economy. Even Mr Harper's friends would not call him a talented communicator. But what he meant was plain enough. His government had taken all the precautions necessary to shield Canada from the credit crunch a year ago when it announced tax cuts worth C\$60 billion (\$54 billion). Generic government intervention of the kind his political opponents are advocating in the campaign for a general election on October 14th would be just "panic", he said.

But even as Mr Harper was speaking on October 7th, the bankers and brokers in his audience were furtively checking their BlackBerrys as the Toronto stock-exchange index tumbled another 401 points—making for a cumulative drop of 3942 points or 28.6% since September 1st—prices for oil and other commodities softened, and the Canadian dollar dropped. Outside the hotel, unionists belonging to the Canadian Auto Workers mounted a New Orleans-style funeral march, complete with brass band and a coffin to symbolise the 67,000 manufacturing jobs lost in the past year.

It was in another, sunnier era back on September 7th when Mr Harper called the general election at which he hopes to win a parliamentary majority for his Conservative minority government. This decision was seen by some of his opponents as opportunistic, since he had earlier pushed through a law fixing the normal life of a parliament at four years. But almost three years in office was far above the average for a minority government in Canada. Mr Harper, who is an economist, has established a reputation as a cool and calculating tactician. The opinion polls suggested both that a majority was within the Conservatives' reach, and that Canadians were not troubled by any issue in particular.

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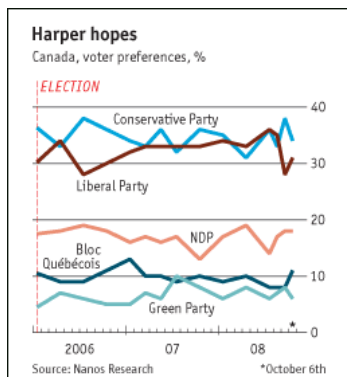
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Print The Lehman Brothers set the collapsing dominoes in motion on Wall Street. The atmosphere in Canada has changed to one of dark foreboding. The opposition parties have rounded on Mr Harper for being too stolidly complacent in the face of economic danger. The Conservatives' commanding lead in the polls is eroding (see chart). Unless he can stop that trend, all hope of a majority is gone. That will be not because of anything Mr Harper has said or done, but what he has omitted to say or do.



Is the economic angst warranted? The United States casts a long shadow in Canada. That is not just because it buys three-quarters of Canadian exports, but also because Canadians are exposed to the American media and their now daily drumbeat of dire economic news in a way few other people are. They tend to think that what happens south of the border will eventually come north, and often it does.

But much depends on where in Canada you live and work. In the industrial heartland of Ontario and Quebec, the American descent into recession is an additional worry on top of the pain in the car and lumber industries, which export to the United States and were already suffering from a strong Canadian dollar and weaker demand south of the

border. A spat earlier this year between Jim Flaherty, the federal finance minister, and the Liberal provincial government in Ontario, the most populous province, has not helped the Tories' chances. Mr Flaherty, himself an Ontarian, said that high taxes made the province "the last place" in Canada investors would go.

But in relative terms, Canada is doing rather better than most other rich countries. Its banks have declared some losses from dabbling in American sub-prime mortgages. But they remain in "considerably better shape than their international peers", according to Mark Carney, the governor of the Bank of Canada, the central bank. Banks continue to borrow and lend money. Late last month, Teck Cominco, a mining firm, managed to borrow \$9.8 billion to take over Fording Canadian Coal.

The carnage on Wall Street has not threatened institutions, but it has rattled nerves. For most borrowers, credit has tightened. That has prompted Mr Carney to inject liquidity. On October 8th the Bank of Canada cut its benchmark interest rate by 50 basis points (to 2.5%) in a co-ordinated move with the other main central banks around the world.

The economy is still growing, albeit slowly. The growth is mainly in the resource-rich western provinces. The fall in commodity prices will certainly slow things down. The plunge in the oil price means that some of the \$110 billion of projected investment in Alberta's oil sands may be postponed. But Alberta's government still ran a half-page ad in the *New York Times* earlier this month to try to lure American workers north. Brad Wall, Saskatchewan's premier, was in Toronto last month attempting to persuade new immigrants, who usually gravitate to the big cities, to head for his sparsely populated province. Nationally, the unemployment rate remains near a three-decade low, the federal government still has a budget surplus and over the past three months consumer confidence has risen, according to the Conference Board, a business lobby.

And yet Mr Harper's frequent assertion that "Canada is not the United States" and that the country's economy is "sound" rings hollow with voters. In part this is because the opposition, led by the Liberals, has seized upon the international financial meltdown as a game-changing event that requires government intervention in Canada. Stéphane Dion, the Liberal leader, began the campaign promoting a carbon tax, which he said would be made revenue-neutral with offsetting cuts in income tax and special payments to those hardest hit. His plan also includes incentives for business to invest in green technology. He gained little traction with this proposal, which Mr Harper has ridiculed.

Mr Dion has had more success with his improvised idea for an emergency meeting of federal and provincial leaders to come up with a government plan for the economy. He has yet to spell out much of what this might involve, apart from possibly raising the C\$100,000 cap on bank deposits covered by insurance and a measure to suspend mandatory withdrawals from pension schemes to avoid having to cash in shares when prices are low.

This activism, rather than Mr Harper's standpat response, resonates with the average Canadian, says Nik Nanos, a pollster. Canadians expect their government to be more interventionist than that of the United States, and so have watched in surprise as George Bush's Republican administration has nationalised banks and put together a \$700 billion Wall Street bail-out. "In the long term, [Mr Harper] may be on the right track, but in the short term, he could be portrayed as being insensitive," says Mr Nanos.

These criticisms have been amplified because they come from all four of the opposition parties. The format of the two televised campaign debates, which have included the Green Party for the first time as well as the socialist New Democrats and the separatist Bloc Québécois, has had the effect of making Mr Harper look isolated. He dismissed the opposition platforms as "economic fantasyland... where money grows on trees, debts don't have to be paid back and taxes are good for the

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economy”.

On the only occasions on which Conservative leaders have won majorities in the past half century, in the 1950s and 1980s, they have done so by forging a coalition of Quebecers, westerners and suburban Ontarians. Mr Harper, with a strong western base, has tried to woo Quebec with extra cash and much political flattery, hoping to raise his party's current haul of 11 of the province's 75 seats in the 308-member House of Commons.

But the prime minister, a risk-averse politician, made one of his rare political mistakes when he clumsily trimmed arts funding, likening recipients of arts grants to corporate fat cats. Many Quebecers see their culture as central to preserving their identity in an English-speaking world. Angry Quebec artists responded with a slickly produced video [posted on YouTube](#) (“Culture en péril” or “Culture in danger”) that cast the Tories as bible-thumping homophobes who did not understand French Canadians. This helped to revive support for the separatist Bloc, which had seemed to be floundering. Indeed, it has become a running joke among journalists covering its campaign that Gilles Duceppe, the Bloc leader, rarely even mentions the topic of Quebec independence, supposedly his party's *raison d'être*.

Still, it is outside events, more than his own mistakes, that have sent Mr Harper's plans awry over the campaign's first four weeks. Unless matters change dramatically in its final four days, it seemed as if the make-up of the new House of Commons might look remarkably like that of the outgoing one, though the NDP and the Greens may pick up a few seats at the expense of the Liberals. That would look like a defeat for Mr Harper. But it would be an accurate reflection of the curious political stasis of a largely contented country.

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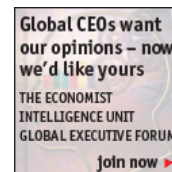
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