The Adversarial Politics of Fiscal Federalism: Tax Policy and the Conservative Ascendancy in Canada, 1988–2008

Aaron Major and Josh McCabe

When and how do tax regimes become sites of social protest and support broader movements of social policy reform? This question has drawn increasing interest from political sociologists and political scientists who have looked at the ways in which tax regimes create political cleavages that create the foundations for major shifts in state policy making or become the focal points of collective identity formation, leading to "tax protests." In this paper we seek to contribute to this line of inquiry through an examination of the politics of Canadian tax policy from 1988 through 2008. What makes this case so compelling is that during these years the debates over tax policy raged over, first, the implementation and, later, the reduction of a federal value-added tax (VAT). However, rather than fueling a broad-based tax protest, debates over the VAT heightened interprovincial political cleavages that allowed the Conservatives to tie the question of the VAT to a broader economic program of typically "neoliberal" reforms: improving private-sector competitiveness and shrinking the size of the state. Drawing on a statistical analysis of the Canadian Election Study and an historical analysis of the conflict over taxation, we show how the federal structure of the Canadian state, and its policies of revenue equalization across the provinces, created an interprovincial adversarial politics that made sales tax reduction a key issue for Canadian voters. Our findings show how recognizing the historically contingent and institutionally specific context of struggles over tax policy helps to explain cross-national variation in the politics of taxation.

An emerging question in political science and sociology is how, and when, different kinds of tax policies and tax regimes become sites of social protest and support broader movements of social policy reform (Campbell and Morgan 2005; Kato 2003; Martin and Gabay 2013; Prasad 2006; Wilensky 2002). Systems of taxation, after all, are more than means of generating revenue to fund the state. Tax systems "formalize the social contract," institutionalizing the needs of the polity, tolerable levels of inequality, and acceptable means of redistribution. Tax systems define and demarcate lines of social cleavage, pitting the polity against the state and dividing the polity against itself (Martin et al. 2009). As such, tax systems have historically served as powerful sites of social protest and social change.

Moreover, taxation is the lifeblood of the welfare state. Much of the literature on welfare states attributes countries' ability to sustain their large welfare states in the face of conservative efforts at retrenchment to their reliance on broad-based consumption taxes (Ganghof 2006; Hays 2003; Lindert 2004; Kato 2003; Prasad 2006; Prasad and Deng 2009; Wilensky 2002). Consumption tax revenues range from about 10 percent of gross domestic product (GDP) in social democratic regimes such as Sweden and Denmark to the conspicuous absence of a federal consumption tax in the liberal

Social Science History 38, Fall 2014, pp. 333–358

doi:10.1017/ssh.2015.28

United States. According to these accounts, consumption taxes have the ability to raise incredible amounts of revenue but, once introduced, are rarely the target of the kind of political opposition that has led to neoliberal policy changes nor have they led to capital flight in the face of globalization.

A recent and perhaps one of the most compelling arguments about the political consequences of the structure of tax regimes is Monica Prasad's (2006) claim that one of the keys to understanding the neoliberal transitions in the United States and United Kingdom in the 1980s was these countries' "adversarial" tax structures. American and British tax structures pitted the wealthy against the poor in the form of highly progressive personal income taxes. As a result, political elites in the United States and Britain were able to capitalize on the shifting alignment of interests across the "adversarial divide" in order to push through a package of neoliberal policy reforms. In contrast France and Germany, which saw only limited neoliberal reforms in this period, relied heavily on value-added taxes (VAT), which affect nearly all members of society equally and thus do not heighten, or realign, existing class relations.

Wilensky (2002: 234–35) makes similar observations about the relationship between "visible" taxes and what he called the "backlash" against welfare states. When leftist parties came to power in the postwar period they tried to place the tax burden for burgeoning welfare states on the wealthy in the form of highly progressive personal income and corporate income taxes. Realizing the political dangers of relying on highly visible and unpopular taxes, leftist parties in corporatist democracies soon learned that they could shift to more regressive consumption and payroll taxes in order to increase the revenue base without drawing attention to such actions. Wilensky (2002: 381–85) shows that the extent to which countries relied on highly visible progressive income and property taxes correlated highly with their "tax-welfare backlash score" in the 1970s and 1980s.

The logic behind such arguments is that at key historical moments visible, adversarial taxes can aggravate, or reform, lines of class conflict by placing the middle class on the same side of the wealthy as high tax payers for social programs that support only the poor, who pay less. There is good evidence that class plays a significant role in people's views of tax fairness. MacManus (1995) and Mayer (1993) both found that middle-age workers in the United States, presumably at the height of their earning power, have much more negative attitudes about the federal income tax than do the elderly or low-wage earners who pay little or no income tax. Sears and Citrin (1985) found that wealthy homeowners were more likely to support Proposition 13 in California while Lo (1990) shows how a coalition of broadly middle-class homeowners and small businesses were able to utilize a variety of political and organizational resources in order to get Proposition 13 passed.

A key insight of both Prasad's and Wilensky's arguments is that it is not tax rates per se that create conditions for a neoliberal policy turn, but rather that the distributional effects of particular tax regimes can generate an adversarial politics against the welfare state. Such taxes will objectively define categories of payees in opposition to each other—high payers that do not use social welfare systems, and low payers who rely on social welfare—and will structure information flows to reinforce these categories

(Prasad 2006: 35). In other words, what makes income taxes adversarial is not just that they create economic redistribution, but do so in a highly visible way. Following this logic Prasad goes on to claim that consumption taxes cannot generate an adversarial politics, and therefore cannot serve as a fulcrum on which to leverage a broader package of neoliberal policy reforms. The reason is that while consumption taxes may produce some economic redistribution, their collection is often piecemeal, spread out across several economic transactions that may not be visible to the final purchaser.

Whereas Prasad and Wilensky put material interests at the center of their arguments, Lieberman (2003) advanced what he calls a "political community model" of income tax compliance.[1] He looks at tax compliance in South Africa, where it has historically been high, and Brazil, where it has historically been low. He argues that racial exclusivity closed class cleavages by creating an identity based on whiteness in South Africa. A lack of officially racial exclusivity in Brazil resulted in class and regional cleavages. He attributes the high compliance rate of upper income South Africans to the country's political structure which set up a unitary state and granted citizenship only to whites. In contrast, the Brazilian constitution sets up a racially inclusive federal state where region became the most salient political boundary.

In contrast to Prasad's model, material interests play a less rigid role. Lieberman argues that the salient nonmaterial characteristics of the target population, such as race and region, can play a large role in determining whether the wealthy push back against the high progressive income taxes levied on them. Brazil had an "adversarial" tax structure because the wealthy believed that their tax money was going to other poorer, racially different regions of the country. South Africa, by contrast, had a "cooperative" tax structure because race, not class, became the defining social cleavage. Collective group identity was based on whiteness, and because blacks were excluded from receiving social benefits from the state, redistribution from wealthy whites to poor white was unproblematic. Redistribution only becomes problematic when it is perceived as benefiting an "out-group" at the expense of the "in-group."

Although we believe that Lieberman's emphasis successfully challenges the centrality of class in Prasad's work, his argument is still limited because he only examines progressive income taxes. In fact, he dismisses the idea that consumption taxes could be open to the relevant social cleavages for many of the same reasons as Prasad. While income taxes may or may not be adversarial per se, consumption taxes are nonadversarial almost by definition. This conclusion is unwarranted though. Other studies, using a variety of measures, have found that consumption taxes have often been the target of political contestation. Landon and Ryan (1997), looking at the Canadian provinces, find that increasing sales or income taxes increase incumbents' probability of losing the next election between 1961 and 1990. Kone and Winters (1993) find similar evidence from the American states—raising sales tax rates

1. Registering dissatisfaction with tax regimes can take many forms including opposition voting (Martin 2008; Prasad 2006), protest (Martin and Gabay 2013), and noncompliance (Lieberman 2003). We are less concerned with the form it takes than its effect on policy making.

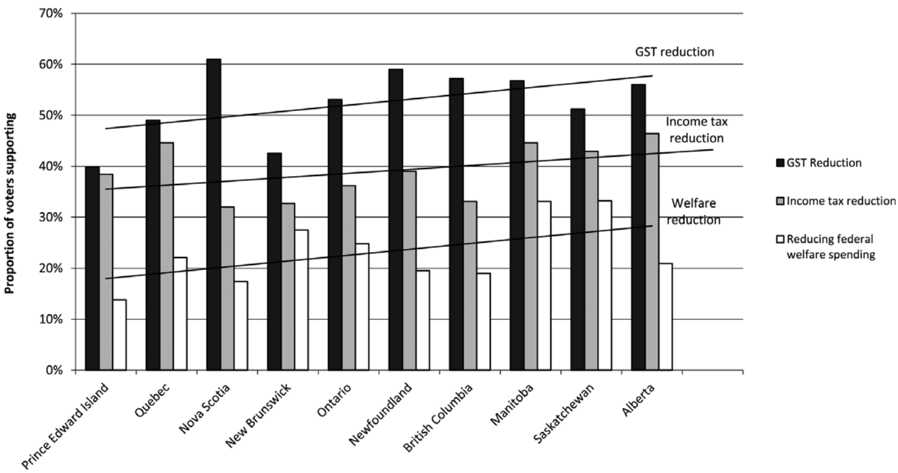

FIGURE 1. *Support for cutting the GST relative to other issues.*

increases the probability of the incumbent party losing the next gubernatorial election between 1957 and 1985 (although there is no reward for lowering sales taxes). Most recently, Martin and Gabay (2013) find that consumption taxes were often the target of antitax protests in Europe during the post-1980s neoliberal era.

These findings call into question the idea that collective group identities matter in the politics of progressive income taxes but not when it comes to the consumption taxes, which contemporary welfare states increasingly rely upon for revenue. What impact, if any, might identities such as class, race, ethnicity, or region play in the politics of consumption taxes? Moreover, how might these politics connect to recent neoliberal policy changes?

In this paper we seek to contribute to this discussion through an examination of the politics of Canadian tax policy from 1988 through 2008. In the 2006 general election the Conservative Party made reduction of the federal VAT, known as the Goods and Services Tax (GST), the central plank of its campaign of neoliberal policy reform—further tax reductions on businesses, caps on government spending, and decentralizing aspects of the health care and child care programs (Conservative Party of Canada 2006).

Figure 1 reports data from the Canada Election Study of 2006 showing that support for cutting the GST was quite strong across Canada, receiving more support than income tax reduction and reductions to welfare state spending. In addition, support for GST reduction was strongest among the more conservative provinces. Support was lowest in Prince Edward Island, where no seats were won by Conservatives, and highest in Alberta where conservatives won all seats.

On the surface this may not seem all that surprising—conservatives, after all, traditionally favor tax reduction. But one would not expect a broad-based tax, applied uniformly to all Canadians, to be so clearly politicized along party lines. In addition, the fact that conservative voters supported GST reduction more than income tax reduction is particularly surprising given that Canada has one of the most steeply progressive income tax codes among Western industrialized democracies (OECD 2009: figure 5.5; Prasad and Deng 2009). Finally, it is surprising that conservative voters seemed more concerned about GST reduction than more traditional neoliberal causes such as reducing the welfare state. The Conservatives' proposal was for a 2 percent reduction in the GST rate phased in over two years—a change that would not have a significant impact on most Canadians' material well-being. Why, then, did GST reduction become such an important issue for Canadian voters? Why were voters so keen to reduce the GST, much more so than they were to enact other neoliberal reforms? We argue that the answer to these questions lies with the fiscal structure of the Canadian state and the way in which funding for social services is distributed to the provinces from federal revenues.

Our method and choice of case is designed to achieve a further refinement and elaboration of the adversarialism thesis through the analysis of a deviant or anomalous case policy change (Bennett and Elman 2006: 462; Paige 1999). The adversarialism thesis, as elaborated by Prasad (2006) would not expect to find a case of neoliberal policy reform driven by a politics of consumption tax reduction. The power of deviant case analysis, as noted by George and Bennett (2005), is that it allows us to develop and refine existing theoretical frameworks by identifying new concepts and causal mechanisms that may then be applied to the study of a broader set of cases. The findings of such single, deviant case studies can be quite powerful as the careful scrutiny of anomalous outcomes can lead to the refutation, or at least questioning, of existing theories and provide space for new alternative explanations to emerge (e.g., see Rhomberg 2010).

In this paper our goal is a bit more modest. We do not interpret this case as a complete refutation of the adversarialism thesis espoused by Prasad. Rather, we argue that this case shows the need for a more expansive concept of adversarialism, one that includes adversarial relations that emerge as a function of political structures that shape collective group identity, not just class structure. Specifically, we show how the federal structure of the Canadian state, and its policies of revenue equalization across the provinces, created an interprovincial adversarial politics that made consumption tax reduction a key issue for Canadian voters.

This case also provides means of linking the scholarly debate on taxes and policy change that has so far been largely confined to the "new fiscal sociology" (Martin et al. 2009) to broader discussions in the fields of political sociology and political science that explore the relationship between social fragmentation and policy reform. Social fragmentation, whether it takes the form of racial-ethnic divides, class divides, or the decentralization of political authority is often seen to stand in the way of significant policy reform as state elites struggle to form consensus and take hold of sufficient policy levers. The adversarialism thesis questions this interpretation, suggesting that significant policy reform since the 1980s, reforms captured by the term *neoliberalism*, have proceeded furthest and fastest in national context where social fragmentation and social conflict were highest. Adversarialism can thus be understood as a particular form of social fragmentation, one that fosters political change by organizing and mobilizing disunity.

Our findings generally support the claim that social fragmentation, when it takes an adversarial form, provides opportunities for significant policy change and policy innovation. The case of the Conservative Party's ascendancy in Canada after 2006 also shows that the particular form of social adversarialism places heavy constraints on the kinds of policies that political leaders and other policy entrepreneurs can use to leverage more wide-scale policy change. Canada's federal system of taxation, which became adversarial at the interprovincial level in the early 1990s, provided Conservative Party leaders an opportunity to win significant support from voters by pledging to reduce the federal GST, but that same federal system made it very difficult for the Conservatives to try and bolster their support through targeted spending measures.

We support this argument with both statistical and historical analysis. We analyze data from the Canadian Election Study of 2006 which comes from a nationally representative preelection and postelection survey of Canadian voters. Our results show that variation in provincial-level support correlated with provinces' fiscal position—specifically whether the province took more from the federal government than it contributed, or vice versa. Our historical analysis of the politics of Canadian consumption tax reform from 1988 to 2006 focuses on the Liberal and Conservative parties' attempts to build a political agenda around taxation in an evolving fiscal environment. We give special attention to the analysis of two provinces, Ontario and Quebec, and their position in the political drama that was the election of 2006. While electoral success in both provinces was seen as key to the Conservative Party's broader success leading up to the 2006 election, the party was only able to register strong gains in Ontario, and quickly lost what limited gains were made in Quebec in subsequent elections. This divergent outcome is explained by the two provinces' different positions across the "fiscal divide," and by constraints against the Harper administration's ability to use targeted spending to gain political support.

Fiscal Federalism and the Politics of Regions

Fiscal federalism, found in the United States, Switzerland, and Canada is characterized by high autonomy for subnational regions (states, cantons, provinces) in both the programmatic and fiscal arenas (Sorens 2011). A recurring argument found in both political science and political sociology is that such autonomy reduces the likelihood that significant policy reforms will be instituted at the national level. Among political scientists, public choice theorists expect federal states to be "smaller" states with low levels of expenditure and weak systems of regulation. In one of his lesser-known essays Hayek (1948: 260) argued that in a federal union with free movement of labor and capital, subnational regions would be limited in their ability to impose regulation and taxation on people. National states would retain the freedom to do so but are restrained by the fact that any excessive regulation or taxation might drive capital and labor elsewhere. Others have followed Hayek on this point, arguing that the low cost of migration between regions ensures that subnational regions make a credible commitment to respecting political and economic rights, tempering the growth of Brennen and Buchanan's (1980) "leviathan" state (Rodden 2003; Weingast 1995).

In contrast to public choice theory's emphasis on labor and capital mobility as a check on states' proclivity to tax and spend, political sociologists have argued that patterns of state formation affect state elites' political capacity to undertake significant reform efforts. Studies of the effects of variations in patterns of state formation typically compare the fairly speedy enactment of national social services in Western Europe with the slow, and often incomplete, development of comparable programs in the United States. Whereas many European states developed centralized executive powers and strong bureaucratic traditions early in their modernization processes, the United States built up its state through a decentralized constitutionalism with limited powers given to a central executive and local patronage systems substituting for rationalized bureaucracies. As a result, European political elites were able to push through national programs, unlike in the United States where national political reform has frequently been stymied by a multitude of subnational political roadblocks and the mobilization of small minorities whose voice is magnified by elected legislators (Amenta 1998; Skocpol 1986).

In addition, state decentralization can give expression to other forms of social fragmentation, heightening social conflict and thus preventing the formation of a strong consensus on the need for, and best means to achieve, policy reform. Wilensky (2002), for example, found that social heterogeneity and minority-group conflict slowed welfare state development in decentralized political systems. Social cleavages were muted in centralized countries like the Netherlands and Belgium while active cleavages along racialized linguistic lines formed in the highly decentralized United States, Canada, and Switzerland. While the former had low backlash scores, the latter had very high ones. Similarly social programs in the United States that are structured along universalist lines, such as Social Security and Medicare, have been much more resilient to retrenchment (Pierson 1994, 1995).

As Lieberman (2003) suggests, willingness to comply with state policies, or at least perceiving them as fair and just, often depends on states being able to make credible claims that such policies serve a collective benefit. By providing disparate groups in a fragmented polity a multitude of political venues through which particularistic interests can be expressed, collective identity formation in federal political systems will be stunted.

We show that the GST became a pivot around a broader process of neoliberal policy reform in Canada not because the tax burden was so great but rather because it became the focal point of a deeper set of questions about economic redistribution across the provinces, igniting a regional politics of fairness. The politics of GST in Canada thus shows that broad-based consumption taxes can serve as powerful fulcrums on which to leverage significant policy reform.

Canadian Federalism and the Politics of Redistribution

The Canadian state is a highly decentralized, federal state. While tax revenues are collected at both the national and provincial level, a significant proportion of revenues collected at the federal level are redistributed to the provinces. Determining how much of federal revenue goes to each province has long been determined, in part, by an "equalization" formula. The idea behind equalization is a fairly straightforward one: provinces with a low "fiscal capacity" (i.e., with insufficient provincial revenues to meet provincial spending demands) receive equalization payments to cover the gap. Such payments come out of federal revenues, of which GST payments have made up about 20 percent of the total since 1991.[2] While other countries also use something akin to equalization payments as a way of reducing the gap between low-income and high-income regions, Canada's level of redistribution is quite high in comparison (Rodden 2010; Sorens 2011).

Canada's equalization program, as we know it today, had its origin in World War II. It began as a *quid pro quo* between the provinces that temporarily gave up their right to levy personal and corporate income taxes during the war, in return for cash transfers from the federal government. Cash transfers continued after the war and, in 1947, were set on a per capita basis. This system has commonly been described as a transfer from "have" to "have not" provinces as funds would be redistributed to provinces who contributed less to the federal government (Krelove et al. 1997: 206). Reforms to the program in 1957 adopted a "fiscal capacity" approach to determine which provinces would receive transfer payments, and how much those payments would be, based on the difference between the revenue that the province could generate and the revenue generated by the two richest provinces (Marchildon 2005: 422). The reform also gave substantial power to the prime minister to determine the formula for equalization and make exceptions for particular provinces.

The equalization program went through a series of incremental changes over the next twenty-five years (Lecours and Béland 2010: 271–72) and was substantially reformed again with the passage of the Constitution Act of 1982. The act put on firm constitutional footing, and contained a new equalization formula that laid bare the politically contested nature of the program. Changes to the equalization formula were driven by the energy crisis of the 1970s. The rise in oil prices increased revenues from natural resource taxes (mostly in Alberta), which increased the gap between high fiscal capacity and low fiscal capacity provinces, in turn increasing equalization payments to the poorer Atlantic provinces of New Brunswick, Nova Scotia, Newfoundland-Labrador, and Prince Edward Island (Lecours and Béland 2010). More significantly, Ontario was entitled to equalization payments for the first time. Despite the fact that this increased the progressivity of the program, the idea that Ontario would be classified as a "have not" province was politically unacceptable to most Canadians.

The shape that the program took stems from Canada's unique state structure, combining Westminster-style parliamentary democracy with federalism. Steinmo (1993)

2. Department of Finance Canada, Federal Government Public Accounts 2010, table 5.

demonstrates that Westminster-style parliamentary democracy can account for the British tax system, which is unstable and inefficient with a constantly changing tax burden because strong party government discourages long-term coalitions and inter-party compromises. The same logic applies to Canada but combines a federal system with distinct federal and provincial parties. Because of regional inequities, we see a similar process take place through federal grants and the equalization program in particular. This particular combination of Westminster-style parliamentary democracy and fiscal federalism set the stage for interregional conflicts over the relationship between the federal government and the provinces in the 1990s and 2000s, resulting in the rise of GST reduction as a popular political issue.

The Politics of Deficit Reduction and the Rise of a Federal VAT 1988–98

The Progressive Conservative Party, under Brian Mulroney, won its first major federal election in 1984 after almost two decades of nearly continuous liberal rule. While Mulroney began reforming the tax code following American tax reforms in 1986 and just before the 1988 Canadian election, it was in his second term, starting in 1988, that he set out a more ambitious overhaul of the tax system to prepare Canada for the global economy. In order to move forward on free trade agreements with the United States and Mexico, Mulroney needed to deal with deep, structural budget deficits (Hale 2002: 182–98). Because of the unpopularity of spending cuts, Mulroney instead chose to look for ways to expand the tax base. It was in this context that the Mulroney government made the establishment of a national VAT, known as the GST, central to its legislative agenda.

The goal was to replace the Manufacturers' Sales Tax (MST), which had a much smaller tax base and hurt Canadian manufacturers' ability to compete internationally. While the idea of introducing a national VAT had been raised since 1956 (Kato 2003: 115–18), it faced several hurdles. First, it would have to make up for the 10 to 20 percent of total federal revenue that the MST provided. Second, because it hit all consumers and not just manufacturers, it faced widespread public opposition (Eccleston 2007: 90–91). In addition, although business groups generally supported doing away with the MST, they could come to no agreement that a VAT was a preferable alternative. The Canadian Manufacturers Association as well as the Canadian Chamber of Commerce supported the idea of a GST, but restaurant owners and retailers opposed it. Business support also waned when manufacturers realized that compliance costs would go up if they had to deal with two different sales taxes. Trade unions and social welfare advocates also opposed a GST on the grounds that it would be regressive (Eccleston 2007; Hale 2002). Finally, the provinces already collected their own provincial sales taxes and did not want the addition of the GST to erode support for local revenues.

Despite this opposition, the Progressive Conservatives used their control over the House of Commons to push the GST through, and Mulroney used an obscure constitutional measure to temporarily appoint several additional senators who would support the GST in the senate. On January 1, 1991, the GST went into effect replacing the MST. The final legislation taxed goods and services at a rate of 7 percent with a list of exemptions (groceries, prescription drugs, medical devices, residential rent, health, education, day care, and financial services) tempering the regressive nature of the burden. Unlike national consumption taxes in most other countries, the cost of the GST is not hidden in the price of the goods and services thus making it more salient (see Chetty et al. 2009 on the importance of consumption tax salience). The western provinces of Alberta, British Columbia, and Ontario challenged the constitutionality of the GST but the lawsuits failed.

Mulroney won a huge political battle with the GST but the Progressive Conservatives paid for it in the next election. Resentment toward the GST combined with a recession in the early 1990s led to the trouncing of the party in the 1993 election where they lost all but two seats in parliament.

The Liberals and the Stubborn GST

Jean Chrétien and the Liberal Party rode into power promising voters that they would scrap the GST. While an easy position for the Liberals to take while in opposition, once elected they soon found that the problem of growing structural deficits made such actions untenable.

Chrétien could not find a reasonable alternative that would generate the same revenue. In addition, though opposition to the GST remained strong in the west, eliminating the GST became a low priority among voters elsewhere (Cernetig and Laghi 1996; Hale 2002).

In this new political climate the Liberals changed tactics, focusing instead on harmonizing the GST with the various provincial sales taxes in order to lessen the administrative costs imposed on businesses that had to collect two separate taxes with different tax bases. Provincial governments resisted it fearing the political backlash that might result from imposing a harmonized VAT on previously exempt goods and services. By 1996, only Quebec, New Brunswick, Nova Scotia, and Newfoundland had agreed to harmonization (Hale 2002).

Martin and Gabay (2013) have recently shown that tax protests are more likely to occur when governments are facing structural budget deficits because dealing with structural deficits requires significant changes to the tax code that, in turn, redistributes the costs of revenue generation. Unable to achieve real tax reform the Liberals dealt with the problem of structural deficits through one-off personal income tax surcharges levied on wealthier Canadians and passively allowing "bracket creep" to push individuals into higher income tax brackets. They also slowly cut social transfers to the provinces. In 1994, the federal government put a cap on funds from the Canadian Assistance Program, which helps fund all social programs at the provincial level, going to the wealthier western provinces. Two years later, the Canadian Assistance Program was eliminated and replaced with the Canadian Health and Social Transfer. As a result, total government spending fell from 52.2 percent of GDP in 1993 to 44.8 percent in

1998 (OECD 2011). Additionally, government spending was substantially decentralized. Between 1980 and 1995 federal transfers for health care as a percentage of provincial health expenditures dropped from 43.7 percent to 32.1 percent.

The equalization program proved to be the only exception to state retrenchment. At the same time they were cutting back all other federal programs, the federal government ramped up equalization payments to the seven "have not" provinces (Lecours and Béland 2010). In 1994, the Liberal government announced that equalization payments to the provinces would increase 5 percent a year for the next five years. Total payouts jumped from $7.3 billion in 1992–93 to $10.8 billion in 1998–99 (Canadian Tax Foundation 2002).

The increased equalization payments to the seven "have not" provinces followed by the harmonization subsidy to the Atlantic provinces revived old worries about preferential treatment for the eastern provinces and feelings of "western alienation." The perception was that the western provinces, which were struggling just the same under the deficit reduction program, were being asked to subsidize the rest of the country. Alberta Finance Minister James Dinning asked "What other alternatives are there in this country than the federal government taking money out of B.C., Alberta and Ontario to provide it to another region to buy down their GST rate?" While Thomas Courchane, a leading expert on equalization, remarked, "The entire redistributive ethic that Ottawa has pushed in the last couple of decades is finally coming home to roost, particularly by the three have provinces [Alberta, British Colombia, and Ontario] … I think it's the first time since the postwar period that they are standing united against the federal government. We're in for a really, really major power fight and I think Ottawa is going to lose" (Greenspon 1996). Courchane's prediction, made in 1996, was still premature. Both the federal and provincial governments were more worried about tackling their still significant structural deficits than playing politics with interregional conflicts.

The Politics of Fiscal Dividends, 1998–2008

The spark that ultimately ignited interregional political conflict was the shift in country's overall fiscal position, as shown in figure 2. In 1998 the federal government produced its first budget surplus in decades and economists projected large surpluses in the years to come. This signaled the end of an era of deficit reduction and provincial leaders lined up to get their share of the fiscal dividend. Disappointing these hopes, the 1999 budget produced by the Liberal government contained smaller than expected tax cuts and spending increases and was battered with criticism from newspaper editors, business groups, and the general public (Campbell 1999).

Leading up to a new election, the Liberals attempted to regain political support by unveiling significant changes to the tax code in its 2000 budget. Hale (2002) argues that Chrétien's 2000 budget tried to strike a balance between the economic goal of restructuring the tax code in order to make it more competitive with the United States and the political goal of offering substantial tax relief to a populace whose posttax income stagnated for a decade despite years of strong economic growth. Following

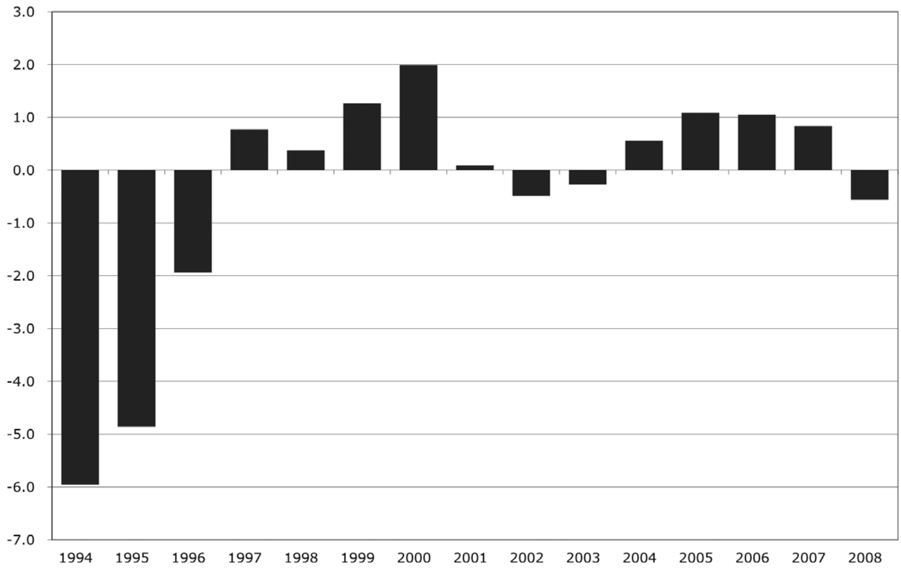

FIGURE 2. *Government surpluses (+) and deficits (−) as a percentage of GDP.*

the success of several conservative provincial governments in cutting personal and corporate income taxes, Chrétien tried to build a broad coalition of middle- and working-class voters by introducing a variety of changes to the tax structure with most gains going to those groups (Hale 2002).

Chrétien's tax proposals appeared to have their desired effect: they had broad appeal and, perhaps most importantly, by robbing the conservative parties of a key issue, kept the Liberals in power (Clarkson 2001). In the end, however, the Liberal's tax reduction program never addressed the real tensions that had built up between the provinces during the 1990s fiscal retrenchment. Shortly after the 2000 election, equalization and the larger issue of fiscal imbalance once again became major political topics. In early 2001, finance minister Paul Martin met with his Atlantic province counterparts who asked the federal government to change the way it calculates equalization payments in order to increase their take (Tutton 2001).

The Liberal government tried to avoid the subject but, as Lecours and Béland (2010: 575–77) document, two new circumstances arose that made equalization salient again. First, the global recession had hit industrial Ontario especially hard, reducing the province's fiscal capacity and adversely affecting the amount calculated for equalization for Atlantic Canada. Ontario premier Mike Harris accused the federal government of soaking Ontario workers through high premiums of the unemployment insurance program that was running a $20 billion surplus (Greenspon 1998; Little 1998; McCarthy 1998). In 2002–3, equalization payments to the "have not" provinces dropped to $8.9 billion from a high of almost $11 billion in 2000–1. Cash-strapped Ontarians saw subsequent demands by the Atlantic provinces for more equalization revenues as especially egregious.

TABLE 1. *Conservative ascendancy*

	Seats Held after Election					
Party Name	*1993*	*1997*	*2000*	*2004*	*2006*	*2008*
Liberal	177	155	172	135	103	77
Conservative Party[a]	52	60	66	99	124	143

[a]This category reflects the seats won by the main conservative party in Canada at the time of the election. In the 1993 and 1997 elections this was the Reform Party; in the 2000 election this was the Canadian Alliance; and in the 2004, 2006, and 2008 elections this was the Conservatives.

Second, resource-rich "have not" Atlantic provinces resented the revenue clawbacks that came with rising energy prices. The discovery offshore oil and gas increased provincial revenues from royalties for Newfoundland and Nova Scotia, but those same revenues worked against the provinces when imputed into the equalization formula, resulting in lower federal payments to the provinces. A drawn out public battle between the federal government and Newfoundland premier Danny Williams escalated to the point where Williams ordered all Canadian flags be taken down from provincial buildings (LeBlanc 2004).

In an attempt to garner votes in the Atlantic provinces, opposition leader Stephen Harper promised to put an end to such clawbacks (Laghi 2004). Not to be outflanked, Martin, who was now prime minister, called Williams promising to end clawbacks for Newfoundland (Simpson 2004). Martin followed up on his promise after the election by making special deals with Newfoundland and Nova Scotia that would allow them to keep $2.6 billion and $830 million, respectively, in offshore oil revenues through 2012 (Sallot 2005).

Politicizing the Regions and the Success of the Conservatives

Table 1 shows that throughout the 1990s and into the 2000 election the Liberals' political strategy allowed them to maintain a solid control over parliament. After the 2004 election, however, the Liberals lost thirty-seven parliamentary seats and, more importantly, lost their parliamentary majority for the first time since 1993. These losses were the Conservative's gains, as the sixty-six seats won by the Canadian Alliance in 2000 turned into ninety-nine seats for the Conservative Party—a merger of right-leaning western parties formed in 2003 under the leadership of Alberta-based Stephen Harper. From that election forward, the Conservatives' position continued to improve. What explains this sudden change in fortunes?

The answer is that the conservatives adopted a campaign strategy that addressed the regional cleavages that had been building in Canadian politics. As it did in the 2000 election, the Conservatives campaigned on a platform that included major personal income tax cuts targeted to the middle class. For their part the Liberals did not even make taxes an issue in their campaign. In addition, the Conservatives jumped on the issue of "fiscal imbalance"—the idea that the federal government took in more revenues than it needed while the provincial governments struggled—which was also ignored by the Liberals. The results proved devastating for the long-term success of the Liberal Party. Instead of forming a coalition government, they legislated on an ad hoc basis until losing a vote of confidence, prompting a general election.

This time the Conservatives made fiscal imbalance and equalization central to their campaign by focusing it around the GST, rather than income taxes. In early December, right before the busy holiday shopping season, Conservative Party leader Stephen Harper announced that a 2 percent reduction in the GST would be a central plank in the party's 2006 election platform (Conservative Party of Canada 2006). Harper reflected popular discontent with the federal government at the press conference, saying, "Government has money to waste, government has money to steal, government has money to spend on benefits for a few. It's time for benefits for mainstream Canadians" (Galloway and Clark 2005: A1).

It is important to note that while the GST cut received widespread popular support among voters, it was pilloried by most economists (El Akkad 2005; Ibbitson 2005; Taber 2005). In a survey of twenty economists from labor and business groups and from left- and right-leaning think tanks undertaken by the *Globe and Mail* immediately following Harper's announcement to cut the GST a second time, all of them expressed preference for cutting other taxes instead of the GST (Grant 2007). Whether they represent interest groups or ideologies, this sample shows widespread opposition to the proposed GST cuts leaving theories of interest groups, ideology, and the role of economists all unable to explain the GST cuts.

Ian Brodie, Harper's chief of staff and election architect, would later admit that the GST cut was a measured example of what Prasad (2006: 36) calls political entrepreneurship whereby the Conservatives mobilized support for an issue for which voters have not shown any spontaneous support. The Conservatives went on to win 124 out of 308 seats and formed the smallest minority government in the history of modern Canada. Despite being numerically outnumbered in parliament, the Conservatives were able to push through a budget in 2006 lowering the GST rate to 6 percent and again in the 2007 budget to 5 percent. The GST reduction was so popular that no party wanted to be on record as opposing it (Clark 2007).

The Provincial Politics of Taxation: Statistical and Historical Evidence

While it is clear that the Conservative's strategy of focusing on the GST was key to its 2006 victory, how do we know that the success of the Conservatives' strategy of building a political campaign around consumption tax cuts stems from the way in which GST cuts mapped onto the politics of interprovincial fiscal conflict and not simply the broad appeal of federal GST reduction? In this section we present statistical analysis of the Canadian Election Study of 2006 that suggests that it did.

Figure 3 plots provincial level support for cutting the GST, as reported in the Canada Election Study, against each province's fiscal position. The results show some support for our underlying hypothesis, though there are three cases—the provinces of

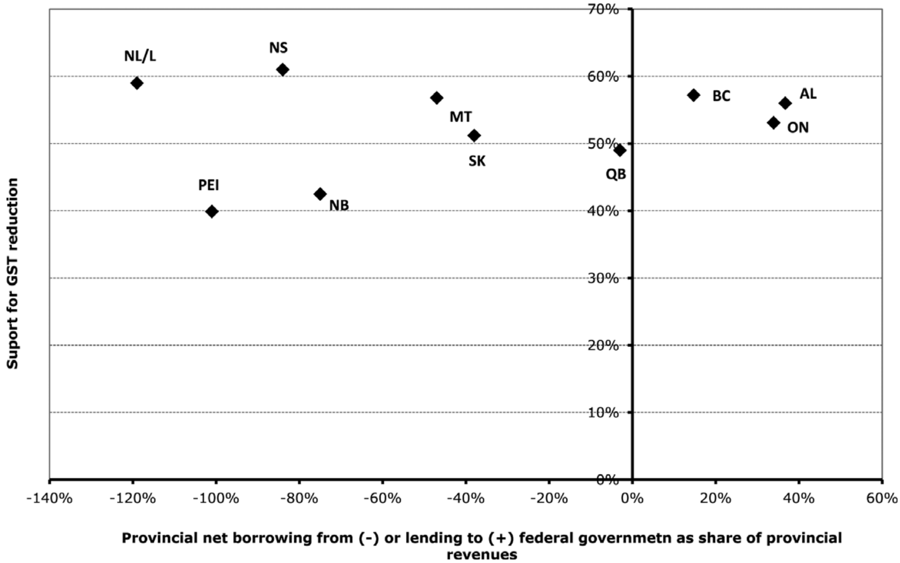

FIGURE 3. *Support for GST reduction and fiscal position.*

Manitoba, Newfoundland/Labrador, and Nova Scotia—that do not fit the hypothesized trend. There are good reasons for excluding Newfoundland/Labrador and Nova Scotia from the analysis (both of which are highlighted in the figure). Both Newfoundland/Labrador and Nova Scotia, along with New Brunswick, harmonized their provincial tax rates with the GST in 1996. While the harmonization did not change overall tax rates, and in fact did lower tax rates on some luxury items, it also broadened the tax base by subjecting many basic goods—fuel, electricity, clothing, and footwear—that were once tax free to the new tax rate. While the harmonization did not significantly alter the fiscal relationship between the provincial and federal government, it did raise prices on basic goods that formed a large part of poor and working-class "maritimer's" budgets. We suspect that this created significant resentment against the GST in Newfoundland/Labrador and Nova Scotia, but not in New Brunswick where provincial leaders in New Brunswick were much more aggressive in promoting the harmonization process and educating people about its net effects (Murrell and Yu 2000).

We analyzed responses to the Canada Election Study of 2006 to determine if Canadians' support for cutting the GST was related to the fiscal position of their province, specifically whether they lived in a "have" province that was a net contributor to federal revenues, or a "have not" province that was a net recipient of federal revenues. Our analysis looks for a relationship between a province's fiscal position with respect to the federal government, measured as net funds borrowed from (−) or lent to (+) the federal government as a share to total provincial revenue, and whether or not respondents to the 2006 Canada Election Survey said that they supported GST reduction. In addition, we control for respondent's gender, household income, whether or not they

https://doi.org/10.1017/ssh.2015.28 Published online by Cambridge University Press

TABLE 2. *Determinants of support for GST cut*

	Support for cutting the Goods and Services Tax			
	(1)[a]		*(2)[b]*	
	Coef.	*S.E.*	*Coef.*	*S.E.*
	-	-	-	-
Fiscal position of respondent's province of residence	.188	.159	.364**	.119
Household Income (<$20k - > $100k in $10k intervals)	− 0.030	.016	− .034*	.015
Gender (male = 1)	− .005	.098	.017	.096
Would vote P.C. if federal election held today (1 = yes)	.423***	.095	.625***	.057
Leans Conservative in federal elections (1 = yes)	.434*	.185	.050	.141
My province is treated worse by the federal government (1 = yes)	.367*	.163	.440*	.180
Less money should be spent on social welfare (1 = yes)	.363***	.060	.410***	.065
Taxes, in general, should be lowered (1 = yes)	1.32***	.106	1.31***	.104
How many days a week reads newspaper	.014	.013	.020	.015
Respondent's assessment of own interest in politics (1 = very low, 10 = very high)	− .003	.014	− .012	.013
N	2446	2318		
Psuedo R2	0.103	.102		

[a](1) All provinces.
[b](2) 8 of 10 provinces (Newfoundland/Labrador and Nova Scotia excluded).
* p < .05. ** p < .01. *** p < .001.

lean Conservative in federal politics, other policy views (whether or not they would like to see taxes cut in general and whether or not they would like to see spending on social welfare programs reduced), level of political awareness as measured by how many days a week they read a newspaper, and self-reported level of interest in politics.

Because we want to measure the effect of a province-level characteristic, the fiscal balance with respect to the federal government, while also allowing for unobserved province-level factors to influence the results, we calculate a multilevel regression model, with individual respondents nested within their province of residence, using the *gllamm* program in STATA. The results of our analysis are reported in table 2. Model 1 reports results for all provinces and model 2 reports results after excluding Newfoundland/Labrador and Nova Scotia.

The results show that respondents' party affiliation, political ideology and general policy views strongly predicted their position with regard to the GST. More significantly, the results support our hypothesis that provincial fiscal position significantly influenced voters' interests with respect to the GST. Fiscal position is significant at the .05 level in the first model, which includes respondents from all provinces, and once we exclude the cases of Newfoundland/Labrador and Nova Scotia provincial fiscal position becomes quite significant, even after controlling for respondents' conservative leanings and attitudes toward the federal government. Moreover, in model 2 both the level of significance and the strength of the effect from provincial fiscal position are greater than those of the respondent's income, lending support to our claim that the politics of taxation was interprovincial, and not class based.

https://doi.org/10.1017/ssh.2015.28 Published online by Cambridge University Press

TABLE 3. *Electoral changes in Ontario and Quebec*

	Seats Held by Parties after Election			
	2004	*2006*	*2008*	*2011*
Ontario:				
Liberal	75	54	38	11
Conservative	24	40	51	73
NDP	7	12	17	22
Quebec:				
Liberal	21	13	14	7
Conservative	0	10	10	5
NDP	0	0	1	59
Bloc Quebecois	54	51	49	4

These results support our contention that it was not the tax per se that anchored political action around GST reform, but rather the way in which the tax was tied to the federal system of revenue redistribution in a period of budget surplus and the way it created an interprovincial adversarial politics between provincial "haves" and provincial "have nots."

GST Cuts and the Politics of Fiscal Imbalance: A Tale of Two Provinces

In addition to the results from the analysis of the Canada Election Survey, further support for an interprovincial conflict interpretation comes from comparing the politics of GST reduction between two provinces: Ontario and Quebec. As far back as 1996, in what has become known as the "Winds of Change" speech, Stephen Harper argued that conservatives needed to unite the base in the Western provinces with conservative elements in Ontario and Quebec if they were going to retake control from the Liberals (Flanagan 2009; Johnson 2006: 263–65). Conservatives had registered significant electoral successes in Ontario and Quebec in 1984, but after Mulroney forced the GST through the parliament this support evaporated: Ontario voters returned to the Liberals and in Quebec the Bloc Québécois became the new major power in provincial politics.

Leading up to the 2006 election support for the Conservatives began to shift again, though the gains were limited largely to Ontario. As shown in table 3, before the 2004 general election, when the Conservatives began to focus on the politics of fiscal imbalance, conservative parties had no support in either province. However, after the 2004 general election support for the Conservatives grew substantially among Ontarians while support among the Quebecois, though growing slightly, remained very small. Why these two different trajectories?

The answer has to do with the way in which the politics of fiscal imbalance resonated in the two provinces. As figure 4 shows, with the exception of the two years 2000 and 2001, the provincial governments of both Quebec and Ontario struggled to find

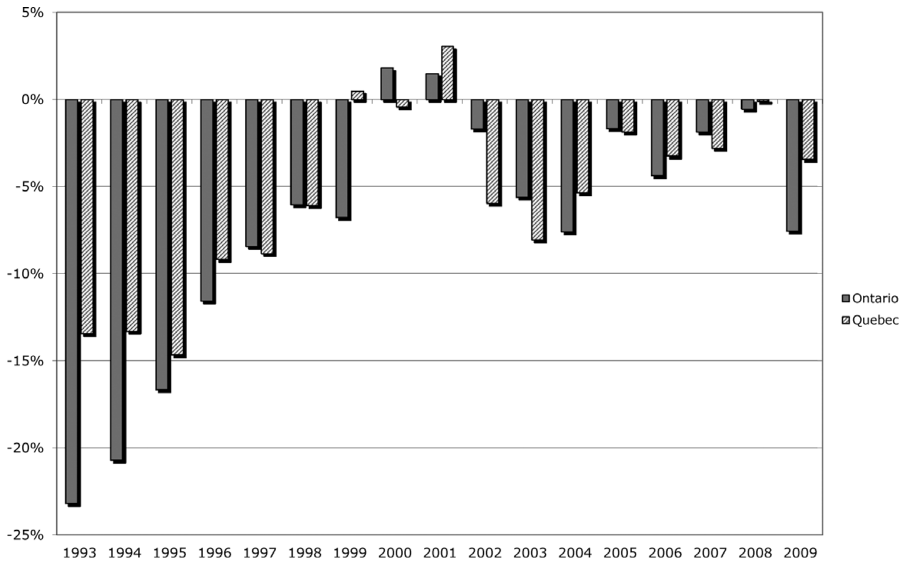

FIGURE 4. *Surplus (+) and deficit (−) as share of total provincial revenues.*

sufficient revenues throughout the 1990s and the 2000s. In the 1990s, the federal government in Ottawa was also struggling with budget deficits but by the late 1990s the federal budget was back into surplus. As figure 5 shows, revenues generated from taxpayers in Ontario helped the government in Ottawa meet its obligations to the provinces in this period. In the ten years between 1998 and 2008 Ontario was sending some twenty to thirty billion dollars more in revenue back to Ottawa than it was receiving from the federal government. In stark contrast, Quebec continued to take more from federal coffers than it contributed in taxes.

In short, both provinces occupied the same position when it came to managing their provincial budgets, but occupied opposite positions in Canada's broader system of fiscal federalism. For voters in Ontario the issue was fairly straightforward: money that was being raised by federal taxes, like the GST, was leaving the province at a faster rate than funds were coming in. For example, Ontario received $851 per capita from the Canadian Health Transfer and Canadian Social Transfer in 2005—6 while Quebec received $935 per capita from these two federal transfer programs (Advisory Panel on Fiscal Imbalance 2006: 68). From the standpoint of political leaders and voters in Ontario, the system of federal revenue generation and redistribution was making it harder, not easier, for the province to meet its own fiscal demands. Lowering the GST would have a net positive effect for the province: true, total federal revenues may drop but Ontario was always going to get back less from Ottawa than it put in, so why not at least let Ontarians keep more of their money? In addition, lowering the GST would give local governments some space to expand their provincial tax base, which was not subject to federal redistribution.

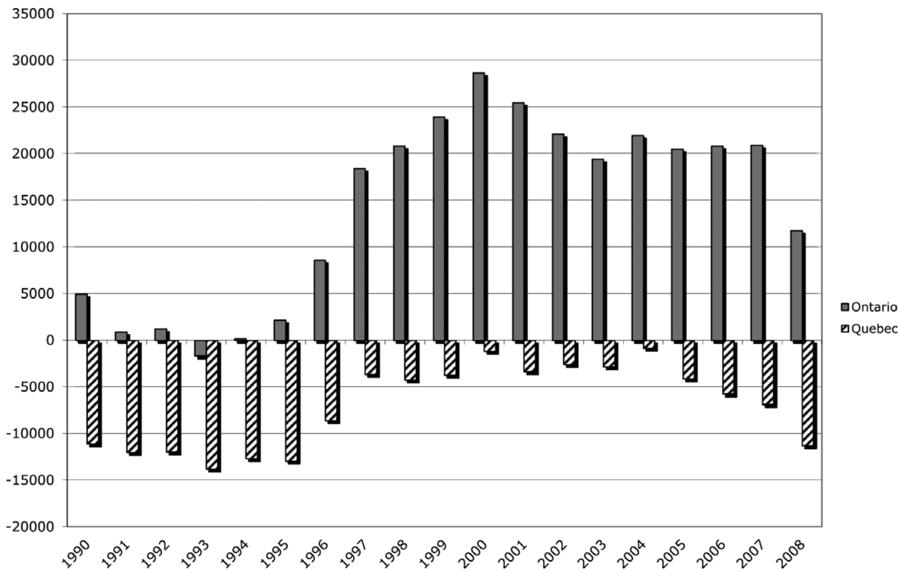

FIGURE 5. *Net lending (+) or borrowing (−), province to/from federal government (CAD million).*

Quebec was on the other side of this fiscal divide and so provincial political leaders and voters had no real interest in seeing the GST reduced. Rather, the biggest concern for political leaders in Quebec City after the return of federal surpluses in the late 1990s was to see federal transfers to the provinces restored to their predeficit years' levels. This would seem to auger a strong shift in support toward the Conservatives as Harper was the only candidate to recognize the growing fiscal imbalance between a federal government in surplus and provincial governments in deficit. But figuring out how to navigate the politics of fiscal imbalance was another issue. Another implication of Canada's adversarial federalism is that different forms of federal expenditure become politicized in different ways. Increases of federal spending to not support national programs, but rather manifest as transfers from the federal government to the provincial governments, where social programs are actually administered. A prime minister wanting to increase federal transfers to the provinces can choose between increasing equalization payments, which only benefits the "have not" provinces, and increasing payments to the Canadian Health Transfer and Canadian Social Transfer, which are calculated on a per-capita basis and thus tend to primarily benefit the more populous "have" provinces.

Once elected, Harper went the equalization route in an effort to shore up his weak political support in Quebec by continuously courting Quebec Premier Jean Charest while snubbing Ontario Premier Dalton McGuinty. As part of the 2007 budget, Harper changed the equalization program so that it was now calculated using revenues, including 50 percent of resource revenues which had previously been excluded, from all ten provinces (Treff and Ort 2009). The budget, backed by the Bloc Québécois, was most beneficial to Quebec that, containing 24 percent of the total population, received 40 percent of all increases in transfers (Chase 2007).

Yet, despite these efforts to win over the Quebecois with greater transfer payments, the Conservatives only registered small gains in the province that were eventually wiped out in the 2011 general election. Why did Harper's concentrated provincial transfer payment strategy fail to generate the electoral gains that his tax-cut strategy had produced? The reason highlights the importance of Martin and Gabay's (2007) insight that whether, and how, state policies will become politically actionable depends not just on the way in which policies fall along lines of competing social interests, but also on the way in which the policy structures intersubjective flows of information between citizens and political elites. One of the key intersubjective elements of a policy is its traceability: the path along which those subject to a policy trace the policy's origins back to the actions and intentions of particular state officials. An important point that is implicit in this notion of traceability is that policies may work in such a way that they foster, or at least open space for, intersubjective understandings of who is responsible for what that diverge from actual flows of power and responsibility in the political system.

In the case of Harper's attempt to woo the Quebecois with higher equalization payments, the problem of traceability emerged in a different way as the structure of provincial-federal relations led Quebec's voters to trace increased spending on provincial services back to provincial officials, not federal officials. While it was the federal government in Ottawa that changed the equalization formula to the benefit of the Quebecois, voters instead traced this influx of funds back to Quebec Premier Jean Charest. Charest played this up to his own political advantage such that in the same week he secured an additional $730 in transfer payments from the federal government, he announced $700 million in provincial income tax cuts for the Quebecois and then turned around and told voters that Quebec's deficit was a result of the federal government's stinginess (Yakabuski 2008). In short, provincial political leaders and voters in Quebec benefited politically and materially from increased federal spending, and increased federal spending was easier to come by if more money was flowing into the federal treasury.

Discussion: Explaining the Popularity of Harper's GST Cuts

Support for cutting the GST in the 2006 general election in Canada was driven by the politics of interprovincial revenue distribution. While the measure was popular with voters across Canada, the "have" provinces like Alberta, British Columbia, and Ontario were keenly interested in reducing federal revenues that supported equalization payments to the "have not" provinces of the east. The politics of the GST, in other words, was adversarial along regional fractures defined by Canada's particularly strong degree of fiscal federalism.

Our discussion highlights the historically contingent and structural circumstances that steered the Conservative Party away making income tax reduction central to its campaign strategy in 2006. This explains why the politics of tax reduction focused on the GST, rather than income tax reduction despite the fact that income taxes are steeply progressive in Canada and make up a much greater portion of Canadians' overall tax burden and of the federal government's tax revenue. The GST was already very politically salient given the fact that tax payments were clearly labeled on purchase receipts and two decades of repeated efforts by Liberal governments to eliminate the GST continued to breathe life into the issue. If the Conservatives were looking for an issue that would resonate with voters the GST was low-hanging fruit—a fact clearly recognized by the Conservatives. As Ian Brodie, former chief of staff to Stephen Harper, noted in a recent McGill University panel discussion on the use of evidence in public policy making,[3] Canadian voters had not responded to recent changes in the income tax code that lowered their taxes. In other words, it lacked salience. Much of this stems from the particular way in which taxes were lowered. In contrast to the American emphasis on marginal tax rates, Canadian political discourse on taxation had been much too technocratic. According to Brodie, "we promised a comprehensive system of moving brackets around, cutting bracket rates, multi-year this, multi-year that." In contrast, there was the GST "with a simple, clear value proposition to voters, 7 to 6 to 5 fit the bill. It was something that Canadians would see every day and that they could hold us to account for if we did not deliver" (Brodie 2009).[4]

In addition, as political economist and advisor to the 2006 Conservative campaign Thomas Flanagan pointed out, the Conservatives needed a tax-cutting agenda that could not be usurped by competing parties (Flanagan 2009: 225; see also Martin 2005). During the 2000 election, pollsters for the Liberals presented the party with data showing that voters strongly supported a GST cut. However, fearing that making the GST central to their campaign would remind voters of the Liberals' broken promise to scrap the GST in 1993, the party ignored this advice and instead made income tax cuts the central point of their fiscal agenda in the 2006 agenda. This left the GST available for the Conservatives to run with, and they did with great success as voters who supported a GST cut were 14 percent more likely to vote Conservative in the 2006 election (Clark et al. 2006).

While this kind of political entrepreneurship is key to the story, to attribute the centrality of the GST to the politics of the 2006 election entirely to political opportunism would be a mistake. The nature of Canadian fiscal federalism, with its high level of redistribution across subnational units makes it difficult for politicians to use the politics of income taxes as a means of building electoral coalitions. Income taxes, as Prasad (2006) observed, structure adversarial politics in terms of class-based "haves" and "have nots"—the poor and the middle class against the rich or, in the neoliberal turn, the middle class and the rich against the poor. Engaging in this kind of politics

3. Video footage of the panel discussion can be found on the CPAC website: http://www.cpac.ca/forms/index.asp?dsp=template&act=view3&pagetype=vod&lang=e&clipID=2587

4. A recording of Brodie's speech can be found on the MISC Conference website, http://bcooltv.mcgill.ca/ListRecordings.aspx?CourseID=2129

in a fiscally federal system like Canada would introduce an additional line of social fragmentation that does not necessarily map onto regional fragmentation.

While all Albertans benefit from a cut in the GST, only rich Albertans would benefit from a cut in the federal income tax rates, dividing provincial interest in tax reform along class lines. At the same time, the equalization program prevents such class-based divides from coalescing across provincial boundaries making it difficult for political parties to form class-based electoral coalitions. Poor Albertans still live in a "have" province and see their tax revenue going to poor Newfoundlanders and poor Quebecois. This same federal structure of revenue redistribution in Canada also helps to explain why neither the Liberals nor the Conservatives tried to gain political advantage by pledging to spend away surpluses. While fiscal surpluses were accruing to the federal government, spending down those surpluses would have taken the form of increased payments to the provinces. Thus, it would have been provincial political leaders, not federal political leaders, that would have received credit for greater spending on social services.

Conclusion: Tax Regimes, Protest, and Policy Change

What can this study tell us about the broader question of the relationship between tax regimes and policy change? First, it affirms one of the foundational insights of fiscal sociology: in collecting revenues states redefine the body politic, dividing and shaping political coalitions and influencing the strategies of politicians. With respect to the debate over which specific tax regimes are more likely to produce which kinds of political cleavages and strategies, our findings here lend some subtle refinement to this question. Clearly the stronger saliency of federal consumption taxes and the adversarial nature of income taxes are important to understanding why GST reform was central to the Conservatives 2006 election campaign. How and when these "tax effects" manifested themselves, however, was powerfully determined by the revenue side of the equation, the institutions and processes through which the receipts of the tax regime are dispersed.

This is not to state the perhaps obvious point that expenditure matters when analyzing the impact of taxes. Rather, the point is to draw attention to the fact that the adversarialism of tax regimes, or taxes' particular salience, is in part determined by the way in which tax regimes intersect with specific institutional configurations, at specific historical moments, and help to explain the varieties of politics of fiscal federalism. Our findings suggest a more nuanced take on the politics of taxation and welfare states, as called for by Campbell and Morgan (2005), which helps to explain significant cross-national variation in the politics surrounding VATs. Discontent over regional redistribution through federal equalization programs led to mobilization against the GST in Canada but no such "tax revolt" took place in either Australia or Germany, both of which have highly redistributive equalization programs that are even more closely tied to national VAT revenues than they are in Canada. This is not for lack of discontent. In Australia, the "have" states of New South Wales and Victoria regularly complain that they receive less than their fair share of GST revenues (Hancock and Smith 2001). In Germany, the "have" states of Baden-Wuerttemberg, Bavaria, and Hesse are leading voices questioning equalization payments they see as subsidizing the east to the detriment of the west. Yet calls to cut the GST have fallen on deaf ears in Australia while Germany's VAT rate actually jumped from 16 percent to 19 percent in 2006. The popular resentment toward VATs in all three countries and the divergence in policy responses highlight the limits of Kato's (2003) argument that the late institutionalization of VATs in some countries explains continued resistance to them in those countries. To account for this variation, we need to recognize the way that blunted the adversarial nature of the equalization programs.

In Australia, the formula for determining equalization payments is in the hands of an independent board of technical bureaucrats called the Commonwealth Grant Commission (CGC) (Lecours and Béland 2010). Attempts by individual states to push the federal government into reshaping the formula or cutting the GST and thereby undercut equalization's revenue source have been met with responses that emphasize the need to respect the independence of the CGC. The political independence of the CGC depoliticizes the process of revenue collection and redistribution among Australian states. In Canada, attempts to establish a similarly independent commission have repeatedly failed (Lecours and Béland 2010).

In Germany, individual states lack the power to tax. States receive transfers from the federal government through a complex system of revenue sharing. Unlike like Canadian provinces, which bargain individually for increased transfers, German states are given a voice through federal representation in the Bundesrat, the upper chamber of parliament (Campbell and Morgan 2005). States must bargain collectively for their share of VAT revenues. This is an example of what Sorens (2011) calls *coordinative federalism*. This has led to the situation in which 75 percent of VAT revenues are returned to the states based on a per capita basis. The remaining 25 percent goes to equalization payments to the fiscally weaker states. In 1999, Baden-Wuerttemberg, Bavaria, and Hesse filed lawsuits over the equalization law in Germany's Constitutional Court. They won their case, which led to 2001 "Solidarity Pact II" reforms that took effect in 2005 and will last until 2019. Because of the coordinative nature of Germany's federalism though, the reforms did little to change the previous formula except to take a higher proportion of municipal revenues into account (Spahn and Werner 2007). The Bundesrat, which represents states and not voters or taxpayers, voted accordingly. Any tax cuts for VAT payers would have implied revenue cuts for even the wealthy states that have no other source of revenue (Prasad 2006: 176). Despite the dissatisfaction of the wealthier western states with equalization, VAT rates were actually increased in 2006 for this reason (Pitlik et al. 2006; Spahn and Werner 2007).

As the Australian and German cases demonstrate, not all equalization programs create the adversarial politics necessary for popular mobilization against broad-based consumption taxes. While the underlying resentment against regional redistribution is present in all three cases, the federal systems that utilize independent or coordinative institutions cannot channel this discontent into tax policy change.

References

Advisory Panel on Fiscal Imbalance (2006) Reconciling the Irreconcilable: Addressing Canada's Fiscal Imbalance. Ottawa: The Council of the Federation.

Amenta, E. (1998) Bold Relief: Institutional Politics and the Origins of Modern American Social Policy. Princeton, NJ: Princeton University Press.

Bennett, A., and C. Elman (2006) "Qualitative research: Recent developments in case study methods." Annual Review of Political Science 9: 455–76.

Brennan, G., and J. Buchanan (1980) The Power to Tax: Analytical Foundations of a Fiscal Constitution. Cambridge: Cambridge University Press.

Brodie, I. (2009) "Does Evidence Matter in Policy-Making?" Speech presented at Public Policy in Crisis? Understanding Policy-Making in Canada, McGill Institute for the Study of Canada, Montreal, Canada, March 26.

Buchanan, J. (2001) "Fiscal equalization revisited." Paper presented at the Montreal Economic Institute, Montreal, October 25.

Campbell, A. L., and K. J. Morgan (2005) "Federalism and the politics of old-age care in Germany and the United States." Comparative Political Studies 38 (8): 887–914.

Campbell, R. M. (1999) "The fourth fiscal era: Can there be a 'post-neo-conservative' fiscal policy?" in Leslie A. Pal (ed.) How Ottawa Spends, 1999–2000. Oxford: Oxford University Press: 113–50.

Canadian Tax Foundation (2002) Finances of the Nation, 2002. Toronto: Canadian Tax Foundation.

Cernetig, M., and B. Laghi (1996) "GST row hobbles Grits in west liberals were hoping for breakthrough, but 1993 promises have come back to haunt them." The Globe and Mail, December 18, A4.

Chase, S. (2007) "What the Tory budget buys; 1 FAMILIES Parents with children under 18 get tax credit worth $310 per child 2 SENIORS Flaherty allows couples to split incomes on individual tax filings 3 THE BLOC Duceppe support ensures budget will pass through the Commons." The Globe and Mail, March 20, A1.

Chetty, R., A. Looney, and K. Kroft (2009) "Salience and taxation: Theory and evidence." American Economic Review 99 (4): 1145–77.

Clarkson, S. (2001) "The liberal threepeat: The multi-system party in the multi-party system," in Christopher Dornan and Jon H. Pammett (eds.) The Canadian General Election of 2000. Toronto: Dundurn Press: 13–59.

Clark, Campbell (2007) "GST cut won't trigger an election, Dion says; Canadians still in no mood for trip to polls, Liberal Leader believes, setting bar higher for defeating government." The Globe and Mail, October 25, A4.

Clarke, H., A. Kornberg, T. Scotto, and J. Twyman (2006) "Flawless Campaign, Fragile Victory: Voting in Canada's 2006 Federal Election." PS: Political Science and Politics 39 (4): 815–19.

Conservative Party of Canada (2006) Stand Up for Canada: Conservative Party of Canada Federal Election Platform 2006. Ottawa: Conservative Party of Canada.

Eccleston, R. (2007) Taxing Reforms: The Politics of the Consumption Tax in Japan, the United States, Canada and Australia. Northampton, MA: Edward Elgar Publishing.

El Akkad, O. (2005) "Harper's GST vow receives mixed reviews; Productivity won't improve: Analysts." The Globe and Mail, December 2, B1.

Flanagan, T. (2009) Harper's Team. 2nd ed. Montreal: McGill-Queen's University Press.

Galloway, G., and C. Clark (2005) "Harper pledges GST cut." The Globe and Mail, December 2, A1.

Ganghof, S. (2006) "Tax mixes and the size of the welfare state: Causal mechanisms and policy implications." Journal of European Social Policy 16 (4): 360–73.

George, A. L., and A. Bennett (2005) Case Studies and Theory Development in the Social Sciences. Cambridge, MA: Harvard University.

Grant, T. (2007) "Plan to cut GST blasted." The Globe and Mail, October 24, A2.

Greenspon, E. (1996) "Discord over GST on agenda for talks finance ministers not in harmony." The Globe and Mail, June 17, A1.

——— (1998) "Provinces to ask for $6-billion finance ministers ask Ottawa to restore slashed health and social payments." The Globe and Mail, June 15, A1.

Hale, G. (2002) The Politics of Taxation in Canada. Toronto: Broadview Press.

Hancock, J., and J. Smith (2001) Financing the Federation. Adelaide: The South Australian Centre for Economic Studies.

Hayek, F. A. (1948) Individualism and Economic Order. Chicago: University of Chicago Press.

Hays, J. C. (2003) "Globalization and capital taxation in consensus and majoritarian democracies." World Politics 56 (1): 79–113.

Ibbitson, J. (2005) "Brilliant ploy gives Tories an emphatic upper hand." The Globe and Mail, December 2, A1.

Johnson, W. (2006) Stephen Harper and the Future of Canada. Toronto: McClelland and Stewart.

Kato, J. (2003) Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion. New York: Cambridge University Press.

Kone, S. L., and R. F. Winters (1993) "Taxes and voting: Electoral retribution in the American states." The Journal of Politics 55 (1): 22–40.

Krelove, R., J. G. Stotsky, and C. L. Vehorn (1997) "Chapter nine: Canada," in Teresa Ter-Minassian (ed.) Fiscal Federalism in Theory and Practice. Washington, DC: International Monetary Fund: 201–26.

Laghi, Brian (2004) "Harper offers a plum to Atlantic Canada." The Globe and Mail, May 27, A1.

Landon, S., and D. L. Ryan (1997) "The political costs of taxes and government spending." The Canadian Journal of Economics 30 (1): 85–111.

LeBlanc, Daniel (2004) "Williams declares flag war over equalization payments; Newfoundland Premier angry at Ottawa over lack of deal on oil and gas revenues." The Globe and Mail, December 24, A1.

Lecours, A., and D. Béland (2010) "Federalism and fiscal policy: The politics of equalization in Canada." Publius: The Journal of Federalism 40 (4): 569–96.

Lieberman, E. S. (2003) Race and Regionalism in the Politics of Taxation in Brazil and South Africa. Cambridge: Cambridge University Press.

Lindert, P. (2004) Growing Public: Social Spending and Economic Growth since the Eighteenth Century. New York: Cambridge University Press.

Little, B. (1998) "Tax cut battles loom surpluses spark calls for reductions in UI premiums, personal and corporate taxes, GST." The Globe and Mail, June 1, B1.

Lo, C. (1990) Small Property versus Big Government: Social Origins of the Property Tax Revolt. Berkeley: University of California Press.

MacManus, S. A. (1995) "Taxing and spending politics: A generational perspective." The Journal of Politics 57 (3): 607–29.

Marchildon, G. P. (2005) "Understanding equalization: Is it possible?" Canadian Public Administration 48 (3): 420–28.

Martin, I. (2008) The Permanent Tax Revolt: How the Property Transformed American Politics. Stanford: Stanford University Press.

Martin, I., and N. Gabay (2007) "Do visible taxes cause protest? Tax institutions and tax protest in 13 OECD countries." Unpublished working paper, U.C. San Diego Department of Sociology.

——— (2013) "Fiscal protest in thirteen welfare states." Socio-economic Review 11 (1): 107–30.

Martin, I., A. K. Mehrotra, and M. Prasad (2009) The New Fiscal Sociology: Taxation in Comparative and Historical Perspective. Cambridge: Cambridge University Press.

Martin, L. (2005) "Harper should hit the Grits where it hurts—in the GST." The Globe and Mail, September 8, A27.

Mayer, W. G. (1993) The Changing American Mind: How and Why American Public Opinion Changed between 1960 and 1988. Ann Arbor: University of Michigan Press.

McCarthy, S. (1998) "Chrétien rejects provinces' plea for money finance ministers 'ask for something and offer nothing.'" The Globe and Mail, June 16, A1.

Murrell, D., and W. Yu (2000) "The effect of the harmonized sales tax on consumer prices in Atlantic Canada." Canadian Public Policy 26 (4): 451–60.

Organization for Economic Cooperation and Development (2009) Economic Policy Reforms 2009: Going for Growth. OECD Publishing: Paris.
——— (2011) OECD Economic Outlook, Vol. 2011/2. OECD Publishing: Paris.
Paige, J. M. (1999) "Conjecture, comparison and conditional theory in macrosocial inquiry." American Journal of Sociology 105 (3): 781–800.
Pierson, P. (1994) Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment. Cambridge: Cambridge University Press.
——— (1995) "Fragmented welfare states: Federal institutions and the development of social policy." Governance 8 (4): 449–78.
Pitlik, H., Friedrich G. Schneider, and H. Strotmann (2006) "Legislative malapportionment and the politicization of Germany's intergovernmental transfer system." Public Finance Review 34 (6): 637–62.
Prasad, M. (2006) The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, & the United States. Chicago: University of Chicago Press.
Prasad, M., and Y. Deng (2009) "Taxation and the worlds of welfare." Socio-economic Review 7 (3): 431–57.
Rhomberg, C. (2010) "A signal juncture: The Detroit newspaper strike and post-accord labor relations in the United States." American Journal of Sociology 115 (6): 1853–94.
Rodden, J. (2002) "The dilemma of fiscal federalism: Grants and fiscal performance around the world." American Journal of Political Science 46 (3): 670–87.
——— (2003) "Reviving leviathan: Fiscal federalism and the growth of government." International Organization 57 (4): 695–729.
——— (2010) "Federalism and inter-regional redistribution," in Nuria Bosch, Marta Espasa, and Albert Sole Olle (eds.) The Political Economy of Inter-Regional Fiscal Flows. Northampton, MA: Edward Elgar Publishing: 191–220.
Sallot, Jeff (2005) "Deal reached on offshore oil revenue; $2.6-billion to Newfoundland, $830-million to Nova Scotia pleases respective premiers." The Globe and Mail, January 29, A7.
Sears, D. O., and J. Citrin (1985) Tax Revolt: Something for Nothing in California. Cambridge, MA: Harvard University Press.
Simpson, Jeffrey (2004) "The right thing for the wrong reason." The Globe and Mail, October 26, A21.
Skocpol, T. (1986) "States and Social Policies." Annual Review of Sociology 12: 131–57.
Sorens, J. (2011) "The institutions of fiscal federalism." Publius: The Journal of Federalism 41 (2): 207–31.
Spahn, P., and J. Werner (2007) "Germany at the junction between solidarity and subsidiary," in Richard M. Bird and Robert D. Ebel (eds.) Fiscal Fragmentation in Decentralized Countries. London: Edward Elgar: 89–113.
Steinmo, S. (1993) Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State. New Haven, CT: Yale University Press.
Taber, J. (2005) "GST plan called 'magic bullet'; Ex-Liberal pollster pushed party in '96 to target the tax as campaign plank." The Globe and Mail, December 2, A10.
Tutton, Michael (2001) "Atlantic ministers will urge Martin to boost transfer payments." The Globe and Mail, February 26, A4.
Treff, K., and D. Ort (2009) Finances of the Nation, 2009. Toronto: Canadian Tax Foundation.
Weingast, B. (1995) "The economic role of political institutions: Market-preserving federalism and economic development." Journal of Law, Economics, and Organization 11 (1): 1–31.
Wilensky, H. L. (2002) Rich Democracies: Political Economy, Public Policy, and Performance. Los Angeles: University of California Press.
Yakabuski, Konrad (2008) "Billions of dollars more - and he's still not happy." The Globe and Mail, September 25, B2.