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CANADA'S SOCIAL UNION: STAKING OUT THE FUTURE OF FEDERALISM

In response to constitutional deadlock and fiscal upheaval, a new approach to renewing the Canadian federation has been gathering steam of late. In the past year or so, the provinces have sought to engage the federal government in a series of discussions and meetings aimed at developing a framework agreement on Canada's Social Union. Their objectives in undertaking this initiative are of cardinal importance: to establish how governments can best work together to modernize and renew the social union, to improve accountability to the public for social programs and to ensure that programs are efficient, effective and adequately funded in the long term.

While ongoing developments in these negotiations have been duly reported in the media, it is fair to say that the Social Union has not been a topic of intense public debate. Despite the importance of this process for the future of Canada, it remains a rather obscure and remote concern for many Canadians. In devoting the November issue of *Policy Options* to the Social Union, IRPP hopes to catalyze a broader and more vigorous public debate.

As many of our contributors agree, intergovernmental fiscal arrangements are an integral part of the story. These arrangements have, for many years, greatly influenced the development of social policy in Canada and the nature of intergovernmental relations. This was abundantly clear after the Second World War, when Ottawa used the tax room that it had secured to fund the war effort — under the Tax Rental Agreements — to initiate and direct the development of national social programs in areas of provincial jurisdiction (*i.e.*, health, post-secondary education and welfare). For almost three decades thereafter, the federal government used its spending power to maintain a strong presence in the social policy arena.

But fiscal pressures over time have prompted the federal government to alter these arrangements unilaterally. As early as 1977, with the introduction of *Established Programs Financing* (EPF), the federal government moved to limit its contribution to the funding of social programs. In 1995, following almost 15 years of freezes and caps in transfers to the provinces, Ottawa introduced further cutbacks when it rolled its funding for social programs into a single block fund, the *Canada Health and Social Transfer* (CHST). As a result of these changes, the provincial share of funding for health, post-secondary education and social assistance has increased significantly and is now close to 85 percent.

Ottawa's reduced financial support has had major consequences. It has, for instance, impinged on its ability to demand provincial compliance with federally determined national standards. Provincial governments have been deeply affected too. Not only have they had to bear greater expenditure responsibilities, they also find themselves much more exposed to the fiscal effects of future recessions.

Now, with Ottawa's fiscal situation improving more rapidly than expected, there are indications that federal-provincial relations will be subject to a new set of dynamics. Rather than restoring social transfers to the provinces or reducing the tax room it occupies to reflect a diminished federal role in social policy, we see a definite trend toward highly visible and direct federal interventions in support of families, education and health care. The *Canada Millennium Scholarship Fund* and the *National Child Benefit* are but two examples.

It is, in large part, these dramatic changes in inter-governmental fiscal transfers that have made necessary a new agreement on the social union. However, the issues involved go well beyond the need to re-examine the foundations of fiscal federalism in this country. We are at a crossroads where the partnership principles that underpin our federation will potentially be redefined. If the provinces' proposal carries the day, any number of far-reaching reforms will be implemented, including: joint priority-setting for new or modified federal programs in areas of provincial jurisdiction; a formal requirement for majority approval from the provinces for any such programs; provisions for provincial opting out, with full financial compensation, provided the opting-out parties undertake programs or initiatives that address the same priority areas; and decision rules and institutions for dispute settlement.

This comprehensive set of proposals provides an unprecedented opportunity to renew federalism in Canada *via* non-constitutional means. The outcome of the provinces' negotiation efforts and the federal government's policy and budgetary choices in the coming months could well have as much impact on the future of the federation as any constitutional reform.

In view of these important developments and trends, IRPP is devoting this issue of *Policy Options* to Canada's Social Union and the future of fiscal federalism. Our contributors — who include provincial and federal min-

isters, along with several noted academic experts — address a number of critical issues:

- Are new institutions required to increase intergovernmental dialogue and co-operation on social policy issues? Has an overarching framework agreement on federal-provincial-territorial co-operation in social policy become a necessity?
- Is there a need to develop new guidelines on the specification of national standards and the use of the federal spending power? Should the provinces have a role in developing and interpreting such national standards?
- Is there an imbalance between the taxing powers and spending responsibilities of the two levels of government, and if so what should be done? What are the likely consequences of various options in terms of the roles of both levels of government in social policy?
- What are the broader implications of the Social Union negotiations for Canadian society? Is a reduced role for the federal government in social policy likely to weaken the shared national identity of Canadians?

Our contributors provide wide-ranging perspectives on these important questions. It is our hope that this exchange of views will be only the beginning of a broader public debate on the full range of issues at stake in the Social Union negotiations.

par Monique Jérôme-Forget

L'UNION SOCIALE CANADIENNE : ESQUISSE LE FÉDÉRALISME DE DEMAIN

Au cours de la dernière année, les provinces ont tenté de convaincre le gouvernement fédéral de la nécessité d'entreprendre des négociations pour définir une entente-cadre sur l'union sociale canadienne. Leurs objectifs sont primordiaux : améliorer la coordination intergouvernementale dans le processus de modernisation et de renouvellement de l'union sociale, renforcer l'imputabilité des gouvernements relativement aux programmes sociaux et assurer que ceux-ci soient efficaces, qu'il apportent une aide effective et qu'ils bénéficient d'un soutien financier adéquat et stable.

Bien que les événements liés à ce dossier aient été dûment rapportés par les médias, on peut déplorer le fait que l'opération entreprise par les gouvernements provinciaux et territoriaux n'ait pas encore fait l'objet d'un véritable débat public. Malgré leur importance, l'incidence des demandes et des propositions provinciales sur l'avenir du Canada a rarement été expliquée de sorte que l'union sociale demeure une question d'intérêt secondaire pour bon nombre de Canadiens. En consacrant ce numéro d'*Options politiques* à l'union sociale, l'IRPP espère susciter un débat public plus ouvert et plus vigoureux.