

in some detail, or affording considerable discretion to tribunals to interpret general guidelines. Given the political nature of the policies, this seems to be inappropriate. The third area where provincial agreement might be sought (and is being sought in the case of the CHST) might be on the funding formula itself. This could be counterproductive, given the redistributive and zero-sum game nature of spending power programs. It is instructive that the main selling point of the recent proposal the provinces and territories concocted for revising the fiscal arrangements was precisely that none of them would lose. This seems hardly a sensible principle on which to base federal fiscal arrangements aimed partly at goals of fairness.

Those who wish to harness the role of the federal spending power can offer two suggestions:

- *Regaining vertical imbalance.* The first suggestion is to re-establish the moral and political authority necessary to using the spending power by increasing the level of transfers to the provinces, transfers which took a highly disproportionate hit as part of the deficit reduction program. This will not only serve to recoup the legitimacy of the federal government's role in maintaining national standards in areas like health care, it will also have the secondary effect of halting the erosion that might otherwise occur in the income tax room that the federal government occupies, an erosion which can potentially threaten the integrity of the Tax Collection Agreements.

- *More transparent institutional decision making.* While requiring the assent of the provinces for the use of the spending power may be excessive, it must be recognized that its unfettered use by the federal government is subject to abuse. Much of the problem seems to stem from process, in particular, the enactment of changes of long-run importance through the secretive procedures of the budgetary process, which seem to leave little room for public consultation. Since the spending power involves spending, it is obvious that the budget will be involved. But it should be possible to put in place arm's-length consultative processes which serve both to open the decision-making process up and allow for the long-run interests of the federation to be given due weight. Other federations have institutions which serve an advisory and consultative role, and allow real input from the public and the provinces. The Australian Commonwealth Grants Commission comes to mind. We might do well to look to such examples as a model to help address shortcomings in the process currently used to determine fiscal arrangements.

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by John Richards

THE "UNHOLY ALLIANCE" VERSUS "SECURING OUR FUTURE TOGETHER"

Il est à-propos d'imposer de sérieuses limites au pouvoir de dépenser du gouvernement fédéral dans le domaine des programmes sociaux. La mise en place d'un mécanisme de règlement des litiges fédéraux-provinciaux est aussi une bonne idée. Il faudrait consacrer plus d'efforts à l'élimination des obstacles à la mobilité inter-provinciale et accorder plus d'importance à l'évaluation des politiques sociales, une transparence accrue pouvant conduire à de meilleurs résultats. L'auteur considère qu'Ottawa devrait résister aux revendications des provinces pour rétablir la générosité antérieure à 1995 en matière de transferts intergouvernementaux et utiliser davantage le programme de péréquation pour aider les provinces à offrir des services publics à un niveau de qualité et de fiscalité sensiblement comparables.

As their opening gambit in negotiating new rules for the conduct of social policy in Canada, the provinces have produced a "consensus document" to which all — Quebec included — subscribe, albeit with varying

degrees of conviction. Ottawa has countered.

For fear of being accused of pursuing old national unity debates, the Premiers have coyly refused to publish their demands. Ottawa has done likewise. The basic stance of both is however a *secret de Polichinelle*. Patently, the Premiers are returning to goals set out in former attempts at constitutional renewal. This time the initiative comes from provinces outside Quebec. But, as with the Quebec-inspired Meech Lake Accord, the Premiers are demanding an effective constraint on unilateral federal spending in what the provinces consider areas of provincial jurisdiction. To quote from the press release at their conference in Saskatoon:

Premiers emphasized that the flexibility afforded to provinces/territories through the ability to opt out of any new or modified Canada-wide social program in areas of provincial/territorial jurisdiction with full compensation, provided that the province/territory carries on a program or initiative that addresses the priority areas of the Canada-wide program, is an essential dimension of the provincial/territorial consensus negotiating position.

Premiers also agreed that new mechanisms to prevent and resolve disputes are an essential element of their negotiating position. Premiers emphasized that disputes between governments undermine Canada's social union and that new cooperative mechanisms that both prevent disputes, and resolve them fairly when they arise, would strengthen Canadians' confidence in the ability of their governments to work together on their behalf.

Predictably, the Liberal cabinet — and the senior bureaucracy in relevant ministries — oppose this attempt to delineate respective jurisdictions and constrain federal discretion. In its counter proposal, the Liberal cabinet proposes better collaboration with the provinces prior to launching new federal social programs, but wants the freedom to expand beyond its traditional role of funding transfers to individuals (Employment Insurance (EI) and old age security) and to the provinces (Equalization and the Canada Health and Social Transfer (CHST)). Furthermore, the cabinet does not intend to yield its symbolically important role as enforcer of national standards (*via*, for example, the *Canada Health Act*). In its proposal, Ottawa is also demanding reduced provincial barriers to interprovincial mobility, and better means to evaluate and publicize social program outcomes.

In this brief article, I pose two questions. First, what outcome to these negotiations would make for good social policy? It is futile to answer this first question without posing another. What are the ideological and partisan constraints that impinge on these negotiations?

Social union wish list

In brutal summary, here is my answer to the first question:

- *A tough constraint on the federal spending power in the domain of social programs is a good idea.* Ottawa has a comparative advantage over the provinces in delivery

of programs that redistribute income *via* relatively straightforward rules. On the other hand, the provinces have a comparative advantage in delivery of programs (including most programs in the domain of health, education and welfare) that entail complex administration. The provincial advantage with respect to administratively complex programs is to encourage experimentation, reduce administrative scope (relative to Ottawa-directed programs), lower the cost of determining public preferences, and constrain the ability of interest groups to seek inefficient local benefits paid *via* taxes levied on non-beneficiaries elsewhere in Canada. The provinces' position (see above) requires Ottawa to allow opting out with compensation. The proposal introduces good incentives all round. Ottawa will have to secure broad nationwide support for any new social program it wants to undertake. Provinces will be reluctant to opt out of programs (such as the new child tax benefit) where such national support exists and, if they do, must "carr[y] on a program or initiative that addresses the priority areas of the Canada-wide program." Opting out with compensation will constrain Ottawa from introducing what the Premiers have described as "boutique programs" (such as the Millennium Scholarship Fund) that enjoy interest group support in Ottawa, but are almost certainly inefficient add-ons to the social union.

- *Adding a federal-provincial dispute settlement mechanism also makes sense.* National standards (such as the five principles of the *Canada Health Act*) serve as a noble set of goals to which most Canadians subscribe. If a senior government — provincial or federal — is blatantly gutting a major program, then imposing a sanction may be the right response. However, Canada is a federation and such intrusions by one government in another's turf should require some formal intergovernmental mechanism; it should not be undertaken unilaterally. Official Ottawa has a penchant to exaggerate the value of national standards, and to avoid discussing their untoward consequences. Standards are usually of little help in making the administratively painful decisions required to run good social programs — and unilateral interpretation of them by Ottawa is an ongoing invitation to aggrieved interest groups seeking to sidestep provincial policy decisions and budgetary constraints. Given unsustainable senior government deficits, the provinces this decade made significant cuts to their respective social program budgets. What they did was controversial but, by and large, it was necessary. It is time to end a naive and often hypocritical discourse in which too many in Ottawa have indulged. Put crudely, it runs as follows: given its deficit, Ottawa's spending cuts — including large unilateral cuts in transfers to the provinces — were legitimate; it is the provinces that are gutting the Canadian social union; hence, Ottawa must be ever vigilant and free to invoke national standards on conservative provincial governments.

- *Removing barriers to interprovincial mobility deserves attention.* Take the example of education and

training. The provinces have the comparative advantage here in what is a crucial set of programs, and accordingly they should take the lead. Ottawa is right, however, to fear that interest groups exploit provincial accreditation as a means to limit interprovincial mobility of skilled workers. (Ottawa too impedes interprovincial mobility, e.g. regionally variable access to unemployment insurance.) The already existing secretariat set up under the Agreement on Internal Trade could expand its scope to rule on such matters. A modest solution would allow any senior government to launch a complaint alleging that a particular program should be disallowed because it serves primarily to abet local protectionism. A more radical solution would allow individuals to trigger review by the secretariat.

- *We should give a much higher profile to social policy evaluations.* Information is, in the jargon of economics, a “public good,” one that private agents and provincial governments almost always undersupply. Ottawa could substantially contribute to the quality of Canadian social programs by insisting that this function be performed better. Providing high-quality, easily accessible, timely information on the outcome of federal and provincial social programs is a complex task. Performing it well is crucial if governments are to make wise decisions, and if electorates are to hold their respective governments accountable.

- *Ottawa should resist pleas from the provinces to restore the pre-1995 generosity of intergovernmental transfers.* Excessively large intergovernmental transfers distorted provincial — and federal — budgeting over the last quarter century, and are a major reason why senior Canadian treasuries had some “near-death experiences” earlier this decade. Respect for comparative advantage entails each level of government paying for its programs *via* own-source taxation. By ending most aspects of conditionality and lowering the cash involved in intergovernmental transfers, Ottawa has improved budgeting incentives. Provincial cabinets now face more realistic tradeoffs between program expenditures and the taxes required to pay for them: no more 50¢ dollars. Equalization — not the CHST — should be the major exception to all this. Equalization is a crucial social program “to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation” (*Constitution Act*, s.36(2)). However, as constructed, Equalization contains some perverse incentives and would benefit from review. If Ottawa wants to spend somewhat more on social programs, it is the ideal mechanism to use.

This is a long enough wish list. Let us turn to the second question.

Ideological and partisan constraints on desired outcome

Some time in late 1940, Charles de Gaulle commented that he, a conservative and a practising Catholic in exile in London, headed a ragtag army of socialists

and Jews. (At the time, his conservative countrymen supported Pétain, and French communists were in league with the Nazis.) Roy Romanow chairs the Premiers conference this year — Quebec’s premier is next! — and could say something similar. Romanow, a practising social democrat living in a humble out-of-the-way provincial capital, heads what many in official Ottawa have dubbed an “unholy alliance.”

The alliance includes powerful western premiers, Ralph Klein in particular, who want to constrain the discretion of the federal cabinet and Ottawa’s powerful bureaucracy. It includes Mike Harris, whose government is the closest thing in Canada to an intellectually consistent set of conservatives. Senior Queen’s Park leaders perceive themselves as saving Ontario from the fiscal profligacy and managerial incompetence of previous Liberal and NDP regimes. As shaky allies, the alliance includes the Atlantic Premiers whose budgets and economies depend so much on federal transfers that they are always reluctant to line up against their patron.

Since the Premiers’ August conference in Saskatoon, the alliance also includes Lucien Bouchard. Whether presenting himself as a federalist or sovereignist, Bouchard has been an articulate defender of traditional Quebec nationalist positions, a common denominator of which is a “watertight compartments” view of social policy jurisdiction. Bouchard has tactical reasons to join with the other Premiers. Doing so blunts Jean Charest’s argument in the forthcoming provincial election that the PQ are dogmatists unable to negotiate with the rest of Canada on practical matters. And, if the Premiers negotiate something approaching their “consensus document” demands, then Bouchard claims a victory for Quebec; if the Premiers fail, he once again denounces federalism as *une entrave aux Québécois*.

But joining up poses political risks for Bouchard. By doing so, he risks serious dissension among PQ militants. The gesture has alienated the powerful *purs et durs* faction of the party because, by implication, Bouchard has launched another *beau risque* on behalf of federalism. If these negotiations produce a result compatible with the Premiers “consensus document” — and if he can win re-election — how can he credibly call a third referendum on the need for secession?

On the other side of these negotiations are the federal Liberals. Most of them are highly critical that the Premiers have allowed Bouchard into their “unholy alliance.” To which I respond: why should they have kept him out? The nine ROC Premiers launched these social framework negotiations based on important frustrations shared by those outside the Ottawa-Quebec City axis. If Bouchard is prepared to join the other Premiers on the basis of a position that they independently concluded is for the betterment of the Canadian social union, why exclude him? Would Canada’s future be better served had they added some further codicil to their agreement designed explicitly to prevent Quebec participation?

Those who employ this “unholy alliance” image reveal a depressing truth: Ottawa Liberals harbour ideologies as opposed to renewing the Canadian federal compromise as are the PQ's *purs et durs*. The Liberals sought re-election in 1997 on the basis of an electoral platform entitled *Securing Our Future Together*. Ordinarily, election platforms are dismissed by “serious” policy analysts as mere propaganda. However, prior to both the 1993 and 1997 elections, senior Liberal strategists produced earnest 100-page documents that provide useful syntheses of conventional wisdom among senior party strategists. Two revealing examples from the 1997 document are the following:

“Medicare was introduced and developed by a succession of Liberal governments” (p.71). This passage is revisionist history. It discusses federal cost-sharing under the Pearson government in the 1960s. It ignores the fact that Ottawa thereby followed the recommendation of a royal commission established by John Diefenbaker, which had recommended extension across the country of the program that a provincial government (in Saskatchewan) had in place.

“While [Canadians] recognize and support provincial responsibility in the area of health service delivery, Canadians expect the federal government to play an active role in maintaining the basic principles and core values that will protect and sustain their health care system now and into the future” (p.71). Provincial “responsibility” presumably means a good deal less to the authors than “jurisdiction.” Ottawa has a crucial role in “maintaining the basic principles and core values.” Maintain them against whom? The next paragraph makes this clear by discussing the occasional need to withhold federal transfers to the provinces “to enforce compliance with these principles.”

Such passages reveal ideological dogmas, and do not portend success for these social framework negotiations. I give the final words to Guy Laforest who, earlier this year, in *Beyond the Impasse* (IRPP, 1998), summed up the core political problem as follows:

The Canada-Quebec conflict is, in part, a fratricidal struggle between two groups of Quebecers. The knights of Quebec independence and the musketeers of Canadian nationalism have been tearing each other to pieces on the political battlefield for a good 30 years.... The establishment of genuine dialogue between Lucien Bouchard and Jean Chrétien, between orthodox sovereignists and federalists, whose attachment to Canada is also extreme, is a necessary condition for getting beyond the impasse.

In their way, the Premiers are doing good work — both in advancing some by and large sensible social policy reforms, and in moving — however tentatively — “beyond the impasse” in Quebec-Ottawa relations.

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by Harvey Lazar

THE SOCIAL UNION: TAKING THE TIME TO DO IT RIGHT

L'auteur discute de trois questions soulevées par les récentes propositions en vue de renouveler l'union sociale canadienne. La nouvelle union permettra-t-elle de mettre en place une politique sociale plus efficace, capable d'offrir des programmes mieux intégrés et plus uniformes, pouvant être adaptés aux besoins et exigences d'une population en constante évolution ? Les propositions renforceront-elles ou affaibliront-elles la fédération canadienne au plan politique, selon que les Canadiens les jugeront ou non comme des mesures justes et raisonnables des deux ordres de gouvernement, conformes à leurs rôles respectifs prévus par la constitution ? Quelles seront les incidences d'une telle union sur nos institutions démocratiques ?