

THIRTY MILLION MUSKETEERS

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*One Canada,
For All Canadians*

Gordon Gibson



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DEDICATION

*To my children:
Michelle, Marc, Melissa, Paige, and Adrian.*

ACKNOWLEDGEMENTS

A word about acknowledgements: much as I owe to people who were kind enough to talk to me about the subject matter of this book, there is no list of names. The reason is straightforward — most of them are past or practising politicians and senior civil servants, who spoke to me on the condition of anonymity. The list includes several current and former premiers, the most important opposition leaders at both federal and provincial levels concerned with the unity issue, senior Privy Council and intergovernmental deputies and advisers, past and present at both levels, and many leaders in the private sector who have taken an interest in these matters. This book will have a degree of controversy, especially in Ottawa, and while some of these kind advisors would agree with my solution and some wouldn't, it would not be useful to attach their names even by implication. People in public life need room to manoeuvre.

I have had much-appreciated assistance from a number of academics as well. Many of their names appear in the text, and I thank all of them, and others, for many useful suggestions. I have also had the opportunity to bounce the ideas in this book off ordinary folks from one side of the country to the other. Their views will prevail in the end, but it should be sooner rather than later.

My family and children (to whom I dedicate this book), my colleagues at The Fraser Institute, and dozens of knowledgeable friends and advisors across the country — to all of them I owe a great debt, and to all of them I say, “thank you.”

Foreword

This book is part of The Fraser Institute's on-going program to investigate the economic and structural features of the Canadian federation. Earlier recent studies have examined the economic consequences of Quebec sovereignty, the public debt implications of separation, and, with the book *Plan B: The Future of the Rest of Canada*, Gordon Gibson began the systematic exploration of the alternative futures that Canada might face given Quebec's decision to leave the federation.

Thirty Million Musketeers takes an entirely different tack, one that assumes that Quebec will say “No” to separation and remain in Canada. However, as Gibson points out, saying “No” to separation does not, as it may seem, imply saying “Yes” to the status quo. Quebecers, like many others in Canada, are concerned about current governmental policy and the relationship between the federal government and the provinces. This book discusses the sort of Canada that would satisfy both those who live outside Quebec who have had concerns about the way Canada's system of government has been performing, and those inside Quebec who will vote “No” to separation, but can't say “Yes” to Canada as it has been.

The starting point for this book is not the Quebec referendum, although that will obviously play a role in how the future unfolds. The starting point is the current state of the country's finances and how the need to balance the federal budget will cause the federal government to engage in a program of spending cuts of a kind which will fundamentally change the fiscal relationship between the federal and provincial governments. By the end of the decade, Gibson predicts, not only will the federal government be forced to eliminate its cash transfers to the provinces — other than equalization — but it will also have to cut departmental spending dramatically. The result

will be a *de facto* decentralization and reengineering of government in Canada.

From this point of departure, Gibson leads us on an exploration of the sort of Canada that would both satisfy the aspirations and objectives that he perceives Canadians want to achieve, and at the same time be compatible with the nation's changed fiscal circumstances. In this pursuit, he considers the approaches that other countries have taken, and the extent to which these might be successful in a Canadian context. In the end, he proposes a uniquely Canadian solution and a way to get there.

Evidently, this is no easy task, and to understand the various issues that have to be addressed in rebuilding a national system of government, the reader should read the whole book — including the preface. Those who do not have the time to do so should read chapters 1 and 8, while those who are simply interested in the Quebec referendum should read chapter 8 and appendix 1.

Whether you read the entire book or only segments of it, I am certain that you will find it informative and useful. Gordon Gibson brings to his task not just his many years experience as an active politician, but also the collected wisdom of a vast array of experts across the country whom he sampled in the course of his research. Consequently, it represents, in my opinion, the best possible construction of an alternative future for Canada at this juncture.

The Fraser Institute is pleased to have supported the creation of this work and to have cooperated with Key Porter Books in its publication. However, the author has worked independently, and the views he expresses do not, therefore, necessarily reflect the views of the Members or the Trustees of The Fraser Institute.

— *Michael A. Walker,*
Executive Director, The Fraser Institute

About the author

Gordon F. Gibson was born in Vancouver in 1937. He attended the University of British Columbia (B.A., Honours, Mathematics and Physics '59) and Harvard Business School (MBA, Distinction '61), and subsequently did research work in political science at the London School of Economics.

He has been involved in a number of businesses, including pre-fabricated buildings, hotels, and real estate development, and has served on the boards of several public companies.

In politics, he served as Assistant to the Minister of Northern Affairs (1963-68), was Executive and later Special Assistant to the Prime Minister (1968-72), and ran in three federal elections. He was elected to the Legislature of B.C. in 1974, and served as both MLA and Leader of the B.C. Liberal Party (1975-79).

Since then, he has been active in both business and public affairs in western Canada, including 12 years on the Canada West Council. With Canada West, he co-authored *Regional Representation* (1981), authored *What if the Wheels fall off?: The Case for a Constituent Assembly* (1992), and served on the Task Force on National Unity (1991-93).

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Preface

I first went to Ottawa in 1963. I was a young man of 26; Jean Chretien was a wet-behind-the-ears junior minister not much older. He had not yet honed his language skills to their present degree, but he was already making a lot of friends.

My boss was Art Laing, a minister from my home province of B.C. A man of the greatest integrity, he taught me that you can be both honest and successful in politics. He had been Liberal Leader in the B.C. Legislature, but had not done well there. Ottawa, to him, was the Big Government — the provinces were subordinate. His federal post was his personal triumph over the legendary B.C. Premier W.A.C. Bennett, whom Laing could never beat on the hustings.

My Dad had been a provincial MLA (and later Member of the Northwest Territories Council). He called himself a Liberal as I used to do before becoming a writer. In truth we were both always mavericks. He was one of B.C.'s major colourful characters, and his *Bull of the Woods* (he was a lumberman) became a Canadian best seller. His approach to politics was simple: what is fair, what is practical?

My Uncle Jack had been an MP — a genuine Independent member of the House of Commons, from the riding of Comox-Alberni. This was by virtue of an agreement by the Liberals and Conservatives to keep out the NDP (who until the last election had won the riding ever since my uncle quit in 1953), but he really was an “independent” in all ways. He was a great drinking pal of Ross Thatcher (future Premier of Saskatchewan, then an MP) and Jimmy Sinclair. Sinclair, a brilliant man and eventually Fisheries minister is now mostly remembered as father of Margaret Trudeau. This is more proof that history doesn't always get it right.

Sinclair was a wise guy, in the older use of that phrase, and intellectually arrogant. He was a Rhodes scholar, and my uncle used that to get around the Speaker's rules of insult in the House. “Stupid as a

Rhodes Scholar” he used to say of Sinclair. This description would fit many clever politicians I have met since.

In Ottawa, I quickly absorbed the local attitude that this was the centre of the universe. Laing’s “Ottawa is the Big Government” philosophy may have had personal roots, but it was also the prevailing approach. Thirty years later, I don’t see a whole lot of difference, but the beginning of the end is under way.

I was about to leave Ottawa after four years, when the Trudeau era began. By chance I became the second anglophone on the campaign team. (Jim Davey, a lovely man who died in an accident at the height of his powers, was the other.) Trudeau’s then-assistant Eddie Rubin and I plunked down \$1,000 each for advance rent on a national campaign headquarters weeks before the man had finally decided to run. It all worked out in the end for Trudeau; we shall see about the larger matter of the country in due course.

So began four fascinating years as Trudeau’s aide, around Ottawa and around the world. By the time this was over, I *knew* that Ottawa was the centre of the universe. My age was 35. I was later to break with Trudeau over centralization, though I didn’t know it at the time.

I ran in Art Laing’s old federal seat in 1972, after he was elevated to the Senate. John Fraser (to become Speaker of the House of Commons) beat me by 3,000 votes. We have been friends ever since.

Again by accident, I was dragooned to run in a provincial by-election in 1974, winning by 57 votes. I was too inexperienced to demand a recount, but that started five wonderful years. I ended up Liberal Leader (of a caucus of one). Policy was pretty much what I decided each morning, but the public liked it, so it seemed.

I didn’t stay around the provincial scene to find out. My passion remained the constitution and parliamentary reform, so I ran again federally in 1979 and 1980. Having received the pink slip almost universally accorded Western Liberals by a grateful public, voting more wisely than was understood at the time, I became a businessman and a writer. I did not lose my love for public policy.

Gradually over this period, greater experience had convinced me that there is something out of joint in the way we run Canada. With the benefit that a lot of my old Ottawa friends have not had —

extensive time served on the provincial political scene and in the private sector — I can see a distinct need for shrinking government generally, and moving some of what is left closer to home.

My old Ottawa friends are in various places. Many are judges, Senators, and appointees of various kinds. I wish them well.

Some are still in power, at the very highest levels of Ottawa. I wish them well, too, from the viewpoint of a worried taxpayer. I want them to do the right thing. No doubt they want to do that too. I don't really know if people caught up in the Ottawa loop for so long can have the perspective.

By contrast with the Ottawa rulers of the moment, when I first visited there in 1952, Jean Lesage was a cabinet minister, and a very important Quebecer in Ottawa. But he returned to his province, became premier, and with Rene Levesque invented “Maîtres chez nous” (Masters in our own house). The rest of Canada either laughed at or reviled this pretension, but it was the way of the future — at least for the politics of Quebec — and I think now for all of us to a degree. Decentralization is the order of the day.

For the Chretiens, the Grays, and the Axworthys, like the Turners and McEachans and Lalondes before them though, nothing has changed. Ottawa still really is the centre of the universe, and always will be. It is hard to get outside of your own experience.

But the world is moving on. The “engines of change” that I talk about in this book ensure that this is so.

A word about one of those “engines,” the tensions of national unity. At the publication date of this book, the 1995 Quebec referendum will be two or three months in the future, if the present schedule is to be believed. I am convinced that it will “fail,” in the sense of not leading to the breakup of Canada. But if it also “fails” in the sense of giving aid and comfort to the proponents of the status quo, that would be a tragedy indeed. Canada needs improvement, and the aspirations of Quebec are part of making that happen.

The message of this book is not about the referendum. Indeed, it is not a book about Quebec at all, except incidentally. It is a book about re-inventing Canada, with Quebec as part of that.

But the referendum matters, now and for years to come. The sovereigntists of Quebec, whom I respect, have a plan, but it won't work.

The PQ plan for Canada has these characteristics: it is *involuntary* (as far as the rest of us are concerned), *revolutionary*, and *bipolar* (i.e., the new Quebec is tied into, and equal to, the old Canada.) Not one of these concepts is saleable in the rest of Canada.

The plan outlined in this book is quite the opposite: it is *voluntary*, *evolutionary*, and *multi-polar*, with equal provinces. It is also decentralist.

The bottom line is this: a voluntary, evolutionary, multi-polar plan will work. A *forced, revolutionary, bipolar* plan has no hope at all in the rest of Canada. It would be useful for Quebecers to understand this, especially since there is a better way. The appendix argues this case as a contribution to the referendum debate.

To ensure relevance *after* the referendum, this result is assumed: separation is defeated. So reads the main text of the book, which is about building for the future.

But the present must be dealt with as well, so the appendix is devoted to the referendum, and the importance of discussing the desirable new shape of Canada *in advance* of that vote. After the referendum, read the main text of this book if separation fails, or read *Plan B** if it succeeds. This present book makes happier reading for everyone. May it encourage that result.

* Gordon Gibson, *Plan B: The Future of the Rest of Canada*, Vancouver: The Fraser Institute, 1994.

Introduction

Now is our chance. Over the next two years we will have a time to fix Canada, an opportunity unparalleled in our history.

The propositions set out in this book can solve our endless unity problems and can respond to the coming dramatic shrinkage of the federal government. Moreover, they can lead to *better* government overall.

Today's huge pressures of debt and political upheaval provide an opportunity to reshape Canadian finance and federalism in wonderfully constructive ways. That is the great chance on offer.

But other outcomes are possible as well. We could also “hit the wall,” lose Quebec, or just suffer on with a soft dollar, high interest rates, and Jacques Parizeau's “never-ending visit to the dentist.”

We live in a dangerous, magical moment for Canada. We worry in the wake of a federal budget that foreshadows wrenching and irreversible change for the country. The dominant role of the federal government as we know it is over, in terms of most of our social programs and all non-core federal activities. People are only beginning to understand the impact this may have. It will be enormous.

By the year 2000, federal program expenditures must be cut back by over 20 per cent and, except for a form of equalization, cash transfers to the provinces will cease. Even then, over a third of our federal tax dollars will go to dead-weight debt servicing, and we won't be very happy with Ottawa.

Our other critical challenge is unity. The tensions with Quebec are not going to go away on their own. They must be dealt with, one way or another.

But the aspirations of the people of Quebec for a greater control over their affairs are no longer unique in Canada. The provinces of the West, especially Alberta and B.C., have gained a maturity and strength that leaves them chafing at the old relationship with Ot-

tawa. Even mighty Ontario, so accustomed to dominating and financing the country, has begun to object to the easy Ottawa diversion of provincial wealth to other regions.

HAPPY PILLS, OR HARD FACTS?

Our federal government tells us that everything is fine. Don't worry, be happy.

It isn't going to be that way. Our international lenders, who call the shots today, are telling us we should worry, and any intelligent reading of the Quebec situation says the same thing.

The resourceful people in the Parti Quebecois and the Bloc are determined to achieve major change, one way or another. The referendum is only a way station on this path. Their reading of history says that eventual separation is the only way to achieve that change. My view is that most Canadians ultimately want many things that most Quebecers want: less control by Ottawa and more local management of their affairs. There is a potential meeting of the minds here, and that, too, is the subject of this book.

The alternative to planned change? The result would be the turmoil of an unmanaged federal downsizing and continued, wasteful unity strains.

The downsizing is going to happen. As this book makes clear, the federal budget will be gutted by the year 2000, as the logical conclusion of the current process. It was no accident that the last budget forecasts were for only two years. The unmentioned subsequent three years will require a fiscal revolution, making things most uncomfortable for what is left of Ottawa.

This is not a book about the fine tuning of the federal finances. It accepts this problem as one of the engines of change. No more is this a book about Quebec, except as a member of our family. This is a book about making Canada better than it is today. If the impetus of Quebec or other provincial discontent advances that end, a better Canada, so much the better. That should be our starting point.

CHOICES

We have a choice. We can plan and achieve a decentralized Canada where all can be at home, and seize the chance we tragically missed in the aftermath of the last referendum of 1980 (where 40 per cent favoured separation). Alternatively, we can deny the forces of change, try to resist them, and end up paying the high price that will be exacted by a failure to recognize reality and plan for it.

The value of a quest for a better Canada can hardly be overstated. For a period exceeding the average age of Canadians, we have seen our leaders and best minds mired in tensions and posturings between Ottawa and the provinces, between Quebec and the rest. We are tired of this conflict — all of us, now, including the gladiators.

For a generation we have tried to solve problems in the public sector by mortgaging the future instead of skilfully mobilizing the present. That dreadful expedient has just about had its day, as government deficits simply must drop toward zero. The profligacy cannot end soon enough for the young people who will have to pay those bills from the past.

So our choices are clear. We can stumble on in a mindless way, taking the course of least resistance on any given day as we have for so many years. Or we can determine to reshape our political system so that we do things better — much better. This book argues that the only thing we require in order to succeed is the will to do so. The solutions are achievable. In that spirit, let us begin.

THE MYTH AND THE REALITY OF CANADA

Let us begin on a note of hope. We will get to the problems soon enough. Let us begin with our greatest strength, which is not in governments or constitutions, but in ordinary people.

As I have travelled across the country asking Canadians what binds us together, I have found a prevailing myth and a new reality.

The myth is that we are involved in a generous-spirited cross-Canada love affair. In our recent history, “looking after each other” has been one of the central themes. Many of us — young and old, east and west, English and French, and others — have really

wanted to do that. The key to this for the past two generations is that it has been easy to do in a growing economy. “Looking after each other” has made us feel good, without costing us much individually. However this situation is changing, for at least three reasons.

Two of these come from the hard truths of demographics. The first is age: the baby-boom generation has been working through the system, and is now well into the middle age of life. There are too many of them to be upwardly mobile, and many formerly well-paid semi-skilled and unskilled jobs have disappeared. Even skilled jobs are changing rapidly. Today many baby-boomers are worried about their own futures, which gives the whole group a harder edge.

The old and the young come into play here too. The costly senior contingent is growing very quickly, and so far they have mustered the political power to insist on ever-increasing support for their pensions and health care. As the ratio of workers to seniors drops, seniors worry, with reason, about that well-funded pattern ending.

Young people coming into the work force have another kind of worry. Unemployment among youth has always been high, but the beginning burden of debt young workers carry into their first jobs — some of it personal, but most of it government debt left by their parents — is very heavy. The federal debt alone is almost \$20,000 per person, but that is a nonsense number by itself, because only workers carry that debt. That is part of what we leave “Generation X.” Of course we will leave them many good things too, but it is human nature to focus on problems, and this age group, too, has reasons for concern.

The bottom line is that all age groups have new cause for personal financial worry, and that concern undermines abstract generosity — and the famous goal of “looking after each other.”

The second demographic factor is the shifting cultural makeup of Canada as a result of immigration. The face of Canada has changed over the past generation, especially in our major cities. That face, which was once overwhelmingly native-born or European, is now increasingly Asian.

Different cultures bring different attitudes to “looking after each other.” For example, Asian society puts a much stronger emphasis

on finding and giving this support within the family, rather than by way of the anonymous state. Thus, the “each other” to be looked after is a much smaller group. Moreover, traditional Canadian concerns such as that of two founding nations, guilt toward aboriginals, and interprovincial equalization find no resonance with these newcomers. This is not a criticism; indeed, this attitude really results from a degree of freedom from ties to a past that is becoming increasingly less relevant.

The third reason that “looking after each other” is losing some force as a political imperative is the changing attitude towards the state — arguably a world-wide shift, but certainly one that is evident in North America. There is markedly less enthusiasm about the ability of the state to right all wrongs and make the world a better place. To that extent, the concept of “looking after each other” is being challenged by the perceived necessity of “taking personal responsibility.”

The ongoing trade-offs between these two forces will define much of our politics in the decade to come.

The other theme I found on my Canadian journey is this: we want to preserve the good things we have. We believe our country to be the best in the world, and we don't want to lose that. For better or for worse, we are collectively a “small c” conservative people. We have our adventurers and our entrepreneurs in sufficient quantity to make for a dynamic economy if we don't put too many shackles on them. But as a political group, we are a very cautious bunch.

And so, among other things, we are resistant to change. However we are also getting a bit worried. There is an unravelling at the edges of our society today as family incomes have fallen a bit on average for five years, as government credit ratings are downgraded, the elderly grow more numerous, and newcomers test the system. But none of this has as yet given rise to any real wish to revolutionize our ways, and this is as true in Quebec as anywhere else in the land. Security remains the watchword in Canada — a “nation too good to lose” in the words of Joe Clark.

However, as any successful dinosaur knows, security can often be had only *through change* and adaptation. There is our dilemma. We fear change, but we need it.

So here we are, thirty million of us, bound together in a cautious and generous/selfish collective purpose. We have done well for a bit more than 125 years. Now caught up in a harsh and turbulent confluence of political, financial, and social forces, we may or may not keep it together. And thus we shift focus from the hope to the challenge.

We face three possible futures. First in probability is the ever-changing “status quo,” bent and twisted by the force of change afoot in our economic, cultural, and technological world. This is the mindless, day-at-a-time scenario for backing into the future. The result will be more of the same — more high interest rates, one-step-ahead-of-the-bailiff budgeting, and continued wasteful political tensions. The second possibility is “hitting the wall” financially, or some eventual variant of the unplanned, unmanaged, unpredictable, and largely unfortunate outcomes canvassed in *Plan B*. The third option is intelligent restructuring, the subject of this book.

In summary, our three possible futures look like this:

Where We Are Going

Drifting Status Quo	Increasing political tension Threats to portability, mobility, and national standards Unnecessarily high interest rates Lower-than-potential growth
Discontinuity	
Adverse referendum event at some point	In either case, major, rapid and unplanned restructuring
“Hitting the Wall”	Serious social and economic costs
Intelligent Restructuring	Significant decentralization Reduced political tensions Improvement of economic union Maintenance of social union

In this book, we ignore the “Discontinuity” possibility in the near term. We assume we will get through 1995 and have a bit of time to manage things before our international creditors cut us off, or pressures build for yet another referendum. But while we ignore the discontinuity possibility for now, we must not forget it. Canada remains fragile.

So that leaves us with two options. The first is to do nothing. Some say that things are fine today. Why change? Let us have a look.

THE EVER-CHANGING STATUS QUO?

The precise nature of the constitutional and governmental “status quo” is a matter of profound indifference to most Canadians. It is just part of the background — and, for most, not a very interesting part.

As is so often the case, Quebec is different. The status quo and its future flexibility are central points of engagement in the unity wars. The separatist forces maintain that the status quo is rigid and provably incapable of change. The federalist forces claim to see endless possibilities for supple accommodation to the needs of the nation without ever touching the constitution. Both exaggerate; truth is the first casualty in any war.

But both positions also contain a nugget of truth. The accommodation that Ottawa has had in mind for the past fifty years has clearly had a centralist tendency, with the exception of the Pearson years of “cooperative federalism.” But this position is not necessarily immutable.

For example, the ill-starred Charlottetown Accord did show some Ottawa flexibility in this regard, though it did not go nearly far enough for the needs of the country on decentralization. The Accord was so deeply flawed in other ways that it is not a particularly helpful example of anything positive.

The fiscal stance of Ottawa in converting the old Established Program Financing into block grants in the 1995 budget can certainly be described as flexibility in the status quo. The trouble is, one has the distinct impression that the main reason this was done was to find a way to cut spending without being blamed for inevitable re-

ductions in health care. Motives matter, and this motive was fairly clear, giving no reassurance at all to decentralists.

A more illuminating example can be found in the Ottawa attitude to manpower training. This has been a long bone of contention, not just with Quebec but also with several other provinces. In the run-up to the 1994 election that saw the Quebec Liberals replaced by the Parti Québécois, Liberal Leader Daniel Johnson badly needed a sign of federal flexibility, and manpower was exactly the key. Ottawa was adamant on the issue — no change in powers.

In retrospect, with the extreme closeness of the popular vote, one wonders if a couple of concrete evidences of flexibility of this sort might have led to a Premier Johnson instead of Parizeau. In any event, it is certainly considered by many within Quebec that Ottawa is indeed attached to the status quo, in so far as any real shifts in power are concerned. Everything is possible in words and in cosmetics. The perceived gap is in the reality.

There is no doubt that the status quo in governmental arrangements *has* changed gradually over the years. It will certainly continue to do so, given the force of the engines of change cited in this introduction. That is not the question, and it does not answer the concerns of those who are dissatisfied with the status quo.

It comes down to questions of *pace* and *intent*.

In terms of *pace*, the historic rate of change in governmental arrangements in Canada is now too slow to suit many of us — perhaps a majority of Quebecers, and certainly, at this point, a great many Westerners.

In terms of *intent*, the question is, do we have a design, a plan, or are we simply drifting into the future? The Ottawa insistence on the ability of the status quo to adapt over the years does not come with any plan attached and is the less believable as a consequence. In fact, the Ottawa position is no more credible from the point of view of a British Columbian than it is from that of a Quebecer. The only difference is in the degree of unrest in this year of 1995.

In any event, all of this relates to history, and we are in a new era, under a new timetable, because of financial circumstances.

THE DEBT'LL MAKE ME DO IT

The pressure from Quebec has long been one of the driving forces for restructuring Canada, but a new and even more powerful force has now made change imperative.

If we are prepared to accept a certain amount of tension, the issue of Quebec might conceivably be put off for yet another 15-year cycle between referendums, distasteful as such a re-run of history would be. The pressures of our lenders, however, cannot be put off at all. The almost unbelievable — a downgrade in our sovereign debt by a major rating agency, Moody's Investor Services — has now occurred. And even after the allegedly tough budget of February 1995, we have the federal Auditor General warning Ottawa to take serious fiscal measures or go the way of New Zealand or Mexico.

The financial pressures on the governments of Canada are well known. The provinces have reacted first, and reacted well. No gold stars for that: they are subject to harsher disciplines. The British North America Act neglected to supply them with licenses to print money, unlike more fortunate Ottawa.

Thus, in recent years as the pressure from lenders has worn down the ideological insulation from reality, first the Atlantic provinces, then the Prairies and British Columbia, and oh-so-gradually Ontario and Quebec, are getting a grip on things. Public sector unions are being tamed, even with wage roll-backs. Bleating interests are being told to get in line by politicians who love their votes but can't afford them any more.

The message has been slow to arrive in Ottawa. During 1994, Minister of Finance Paul Martin had to persuade the domestic financial markets to lend Ottawa about \$100 million per day, 365 days per year. The markets know that Canadian dollars can always be printed to repay the Canadian-dollar debt of the Government of Canada, and thus their only caution is to make sure that interest rates are high enough to compensate for inflation when the presses roll.

That is the easy part, at least with Canadian lenders. The consequences of doing nothing may be debasement of the currency and unpredictable debt loads for future generations, but at least the machine still runs.

The hard part comes from uncaring foreigners. Canada as a nation (not just the federal government) relies on the goodwill of *foreign* money markets every day. We need foreign loans to finance our current-account deficit, to the tune of about \$70 million per day in new money alone, 365 days per year. This money is necessary to finance our propensity to import oranges and VCRs, travel abroad, and look after the interest on the money we have collectively borrowed from foreigners in the past. (It's always there — one damned debt or another. And it was all such fun at the time)

That first \$70 million is just for new loans. We also need roughly the same amount every day of every year to roll over *old* loans that come due. It is quite true that we are fine on this front if the creditors simply renew the loans, but what if they get nervous? If there comes a general fright and a wish by foreigners to put their money anywhere but in Canada, our daily need for new money suddenly doubles. Of course, at that point the new money won't be there, on any terms, except from stern-faced central bankers. When this happens the International Monetary fund (IMF) surgeons will arrive, scalpels at the ready. These are not visitors we want.

To illustrate the size of the problem, consider our foreign-debt position. It is in total about \$340 billion, counting all public and private borrowers in Canada. Focus for a moment on the bond portion, which consists of longer-term obligations. The bond debt of Canada (again including all governments and the private sector) to foreigners is about \$280 billion — just under 40 per cent of our annual gross domestic product (GDP). Of that amount, 60 per cent is now payable in foreign currencies. Translation: we can't print Canadian dollars to pay off this particular aspect of the debt problem. We have to earn it from foreigners.

Now, how are we doing on earning foreign currency to service our foreign-denominated debt? The sum total of all of our receipts and payments from and to foreigners for goods and services is called our “current account” with the rest of the world. We have a large current account deficit — in excess of \$20 billion per year. We have to borrow even more money than we already owe, just to finance this deficit to foreigners. It is like our federal debt and deficit, except the

whole country is involved, and we have to deal with foreign currencies.

Even with our export surge of recent times, we are only treading water. While we have a respectable surplus in our regular trading account (\$17 billion in 1994), our total current account is in heavy deficit when “invisibles” (such as travel and transportation) are factored in, along with interest on our foreign debts. The current account deficit was almost \$25 billion in 1994.

Of particular concern, our required interest payments to foreigners, net of receipts, are so large (almost \$29 billion in 1994) that the net servicing burden is swamping our best efforts at improvement. An overwhelming share of this is due to debts incurred by governments. It puts us behind the eight-ball. “I’m dancing as fast as I can,” said the actress, Jill Clayburgh, in the movie of the same name. But the music is speeding up.

Alas, in these matters, when things go badly, they quickly get worse, and the foreign and domestic debts are closely interlinked. Failure to get the domestic deficit under control will lead to a lack of confidence in our bonds and other I.O.U.s. This in turn will lead not only to higher interest rates, but also to a lower dollar. (Foreigners want repayment in their own currencies, or in real goods like tons of ore or ounces of working software, not in the paper promises of a devaluing debtor's currency. So as our currency devalues, they insist on a lot more of it to repay their foreign currency loans.)

WHEN THE MUSIC STOPS

The federal government is raising about \$133 billion annually and is spending about \$163 billion. The gap is made up by borrowing. The borrowing has to stop. The program so far announced to move the deficit down to the Liberal *Red Book* target of three per cent of GDP, with no further promises, is patently crazy.

Three per cent of GDP is about \$25 billion. This *official target* would thus raise the national debt by a further \$100 billion every four years. This is considered progress, and we are to learn in due course what the new targets may be. Such “progress” is not good enough.

When the official plan is insanity, the only thing you know for sure is that some other result will emerge. Either the federal government will voluntarily cut the deficit more swiftly, or it will be forced to do so by outsiders, or something even worse will happen. The means and exact timing may be in question; the result is not.

There are only five theoretical ways of dealing with this problem. They are: tax increases, higher productivity, inflation, massive immigration, and cost cutting.

Tax increases of any size are simply not on. Taxes are already becoming uncollectible in many areas, as the underground economy expands.¹ For those trapped in the measured economy, the incentive-sapping results of existing taxes are starting to hurt. The government may try this route as part of a soft-option scenario, but the chances of a back-fire are very high, in terms of both reduced incentives and collectibility.

Higher productivity would be grand. It is the ultimate answer. It means harder work, smarter work, less regulation and lower taxes. It is all very un-Canadian. It may happen — indeed, it *must* if we are to emerge from this trap — but it won't happen quickly. Fortunately, the process is under way in the private sector, and it is starting to show up in the public sphere. The great economic challenge for Canada is to continue this drive for efficiency and productivity. However, this ultimate answer will not solve the short term problem.

Inflation? We are now so thoroughly under the control of international lenders that inflation, always a cruel tax on our own people here in Canada, is not a workable solution — not when international investors can leave any day or refuse to send new money. That doesn't mean inflation can't happen. Of course it can. It just means that inflation is not an answer, and would clearly only make things worse.

Massive immigration? It is the sovereign nation analogy to taking new equity into a corporation. If you bring in enough new partners to help pay the old debts, your firm may survive. You may also no longer recognize your firm. Never mind; survival is preferable. Beggars can't be choosers. But one other thing is certain: immigra-

1 A Financial Post/COMPAS poll taken in May 1995 found that 72 per cent of Canadians would evade taxes in the future if given the opportunity. Of the sample, 42 per cent said that they had already done so.

tion also takes time, and for the moment the politics of Canada is against expansion in this field. Moreover, it would work in a dramatic fashion only if we adopted a deliberate policy of “creaming” the immigrant pool, admitting only the wealthy, and young, educated persons with no elderly dependents.

For political reasons, this solution seems unlikely, even though we have an actual case example within Canada. The prosperity of British Columbia through Canada's last four hard economic years has been based totally on immigration (about half from the rest of Canada and half from abroad). But note well — while this experience sustained economic activity in British Columbia as a whole, it did not necessarily help *individuals*. B.C.'s per capita income fell from 1989 to 1993, much in line with the rest of the country, in spite of the massive in-migration.

It is clear, then, that the *only* short-term solution is cutting expenditures, and massively so. The process has just begun, and when the broad federal expenditure cuts start to bite, we are going to see a great change in the way Canada works. The federal government has had a major effect on the priorities of the provinces through financing cost-shared programs. It has had a major impact on culture and the environment through discretionary money. And it has done the same in “regional development” areas through the mostly foolish deployment of yet more money.

When the money-music stops, the spenders looking in vain for chairs will not be chosen by accident. The optional expenditures will be gone. Whatever its wishes, Ottawa will be forced by lack of money to retreat to its core business, which will comprise just a bit more than three-quarters of its present activity. Life will go on — joyously in some quarters, gloomily in others. Chapter 7 provides suggestions.

FORCED CHANGE — BUT MAYBE JUST PLAIN BETTER?

Now we get to the happy part. It is a truth of life that change is generally forced by the marketplace — of economics or ideas. In a regulated environment, change is neither welcomed nor required. But

when the grip of the regulator begins to fail, then opportunity shows its shining face.

Dig into the way we do business in just about any governmental area in Canada and ask the inmates if they know how to improve the system. The answer is pretty well always “Yes,” and usually by quite a lot. We will need every bit of this creativity.

The broad outline of where we are going to find ourselves, which chairs will be available to us when the music stops, is evident in table 1, which shows a simplified forecast version of the federal government's budget to the year 2000. This forecast builds on the two year figures provided in the 1995 budget, with the imposed constraint that the deficit must be brought to zero by end of the century. The results show a crunch of very serious dimensions for both Ottawa and the provinces. Moreover, this is something of a “best case.”

If anything, the assumptions are a bit optimistic. Those predictions related to the benign growth and interest-rate environment require that nothing go wrong — that the unity file remains reassuring as far as foreign lenders are concerned, that the federal government stays the course on deficit reduction, that we achieve a “soft landing” rather than a hard recession at the end of this business cycle, and that we gain better control of our large current-account deficit. There is plenty that can go wrong in that list, though there are some automatic stabilizers as well. For example, if the slowdown of the economy continues, interest rates may drop more quickly.

The major constraint in the forecast is that the deficit is required to drop to zero by the year 2000. Some may question the necessity of this, making one of two arguments. The first is that the year 2000 is too soon to get to zero. If you believe that, pick your preferred later year. The result will be much the same, if a bit delayed. The only difference will be that the magic of compound interest on the growing debt for the extra years will reduce sustainable program spending even more.

The other, more aggressive argument is that there is no need to reduce the deficit to zero. It is quite sufficient, according to this school of thought, to reduce the deficit to approximately the rate of

growth of the economy, so that the total debt no longer rises as a percentage of the GDP.

This is not a sustainable scenario. The matter will eventually be resolved by our lenders, and they have sent very strong signals already. Our current level of debt as a percentage of GDP leaves our financial structure vulnerable to any economic down-turn. We must get the debt-to-GDP-ratio *down*. It is not enough to keep it where it is — dangerously, unsustainably high. As things stand now, as a nation we are well and truly on the SIC² (Severely Indebted Countries) List, and we must get off.

That situation is reason enough to bring the deficit to zero, but there is more. Consider the following quote:

As the generation born during the 1952-1966 baby boom ages, Canada's population is being transformed. In 1966, there were 5.5 Canadians under the age of 20 for each Canadian over the age of 65. Today, there are 2.3. In 2030, there will be 1.1.

The number of senior citizens will increase dramatically: from 19.8% of the working-age population in 1995 to 38.9% of the working-age population in 2030.³

The simple message of this demographic data is that there will be far fewer workers to pay for each pensioner. But pensioners stand second in line, after the creditors to whom we owe the national debt. There is no chance that tomorrow's workers will be able to support the much higher proportion of tomorrow's pensioners, unless the burden of the national debt comes down. Indeed, by this argument getting the deficit to zero is just a start!

There is one other constraint of importance in table 1. As Ottawa goes about its forced budgetary surgery, it cuts non-core expenditures first and core objects last. In practice, this means cutting transfers to the provinces, except equalization where there is a constitutional factor to be considered, as well as extremely strong

2 Robin Richardson, *Inside Canada's Government Debt Problem and the Way Out*, The Fraser Institute, May 1994.

3 "Troubled Tomorrows—The Report of the Canadian Institute of Actuaries' Task Force on Retirement Savings," Ottawa, January 1995.

Table 1: The Federal Fiscal Plan to 1999-2000 (\$ billions)						
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Total Revenues	125.0	133.2	137.4	139.6	140.9	140.1
Plus deficit	37.9	32.7	24.3	16.3	8.3	0
Equals Total Spending	160.3	163.5	158.6	155.9	149.2	140.1
Minus Debt Interest	42.0	49.5	50.7	51.8	49.8	47.3
<i>Equals</i>						
Total Program Spending	118.3	114.0	107.9	104.1	99.4	92.8
Transfers to Persons	37.7	37.2	37.2	39.3	42.2	43.5
OAS/GIS	20.6	21.2	21.7	22.3	22.9	23.5
U.I.	15.3	14.3	13.7	15.3	17.6	18.3
Vets.	1.9	1.8	1.7	1.7	1.7	1.7
Cash Transfers to Provinces	26.9	26.3	23.2	20.4	15.8	11.2
Equalization	8.5	8.9	9.3	9.6	9.9	10.2
Program Financing	17.3	16.4	12.9	9.8	4.9	0
Other	1.2	1.0	1.0	1.0	1.0	1.0
Subsidies and Grants	17.3	15.4	13.8	13.8	13.8	10.8
Crown Corporations	4.8	4.5	4.2	4.0	3.5	3.0

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Defence	10.8	10.3	9.7	9.5	9.0	8.8
Federal Government Operations	20.6	19.2	17.9	15.1	13.0	13.5
Federal Departmental Spending	53.5	49.4	45.6	42.4	39.3	36.1
Other Departmental Requirements	.2	1.1	1.9	2.0	2.1	2.0

Assumptions:

1. Real GDP continues its growth, with a “soft landing” in 1998-99 and a slight recession in 1999-2000. This is not meant to be a forecast, but rather a simulation of a realistic set of outcomes.
2. The revenue rate gradually returns to its 1993-94 level of .16.
3. The effective interest rate gradually declines to its 1993-94 level.
4. OAS/GIS payments are increased by extrapolation of an ageing population.
5. UI repeats its business cycle pattern (on the assumption of no cuts in the program, *and* no consideration of the balancing factors of higher wages and larger labour force).

Assumptions	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
GDP (\$ billions)	746.4	787.1	821.3	845.9	867.1	875.8
Net Debt (\$ billions)	546.4	578.5	602.8	616.5	622.5	622.5
GDP Growth (%)		5.5	4.3	3.0	2.5	1.0
Total Revenue Rate (% of GDP)	16.7	16.9	16.7	16.5	16.3	16.0
Effective Interest Rate (%)	7.7	8.6	8.4	8.4	8.0	7.6

regional political considerations. Accordingly, the calculations accept the 1995 budget program forecasts through 1997-98 (the furthest-in-the-future provided), and look for the balance of the “zero-deficit” result through an elimination of remaining cash transfers to the provinces and a further cut of roughly 20 per cent in federal program expenditures.

The message of table 1 is that Ottawa absolutely must retrench. It will no longer be able to enforce “national standards” by cash grants to the provinces because it will not have the cash. It will not be able to engage in non-core governmental business — indeed it will have to severely cut its own core spending on matters such as defence and foreign affairs.

The result? Forced decentralization. This is no bad thing.

The basic concept here is “government closer to home.” Now “home” is where the heart is in our private lives perhaps, but in governmental terms, “home” is where the folks have the knowledge and resources to do the job. That single thought takes us a long way.

Too often however, the knowledge and financial resources haven't been in the same place. And this simple mismatch — of money and knowledge — has given rise to our convoluted structure of federalism, Canadian style. Ottawa has had the money, a shocking proportion of it borrowed, and has told the provinces what to do. Who pays the piper calls the tune, as we know. But, what if the mice out there in the field know more about the music? I think they do.

Thus, to end this introduction — we will be gently reinventing the country. The first reason is that the result will be better. The second is that we will save money. The third is that it will keep the country together. Any of the three would serve as a motivation by itself. Together, they define an absolute necessity.

1

Scarecrows and GFOs

Believe it or not, some people, including the prime minister, think that we don't have a problem worth considering.⁴ These well-meaning people invite us to focus on a whole range of other factors that would lead to a more relaxed approach to the urgent matters before us. This is no favour.

These diversionary tactics I call “scarecrows.” A scarecrow is a phoney threat put out in fields by farmers to fool the birds. A political scarecrow is a phoney threat put into debate by politicians to fool the people. Artful as their construction may be, all kinds of scarecrows may be identified as such by careful examination.

On the other hand, a GFO is a “Genuinely Fearsome Object.” GFOs really should scare anyone with a an instinct for self-preservation. For politicians, GFOs are things like elections, and voters paying close attention to pension plans and electoral redistributions. For the ordinary public, we should be scared more by such things as governmental secrecy and debt.

This chapter deals primarily with the scarecrows that are put out to divert our attention from the issue of meaningful restructuring of government. This is not surprising. It must be understood that such a change — restructuring — is of itself a genuine GFO for most politicians and senior bureaucrats. After all, they derive their status and power from the existing structure; therefore, long may it last.

4 This is what Mr. Chretien *says*, at least. He is too intelligent a man not to be quietly worried about both the debt and Quebec. Indeed, anecdotal evidence says that in private that is his preoccupation. That may be so, but we have to proceed on the basis of the public record, and the “ho hum” attitude this has engendered in many Canadians. That is the reason for this chapter.

This response is a very human one. The best of politicians and bureaucrats genuinely believe that *they personally* are an important part of the solution to whatever ails us. That being the case, clearly their powers for good must be preserved, and the system that does so must be maintained. As they say in Mr. Rogers' neighbourhood, "Do you believe that, boys and girls?"

A first line of establishment defence against most change, therefore, is to convince the public that the change would be dangerous. Let us examine some of the ways in which this is done.

SCARECROW #1

Canada is the best country in the world. The United Nations says so, and Canadians agree overwhelmingly in every province of the country. Why would we even talk about tampering with a proven formula?

This is the opening gambit of the status-quo folks. It is an effective one for two reasons. First, we are mostly proud of our country, and rightly so. There is enough bad news in this world. "Why look for more bad news where it obviously doesn't exist?" says this scarecrow.

Then too, challenging the basics of something that is "working so well" could be destabilizing. Therefore, there is a none-too-subtle suggestion inside this scarecrow that taking a hard look at the fundamentals of Canada is almost disloyal.

This argument would end the dialogue about change if it were true. It is not. Look at the facts that explain and underpin our fleeting good fortune.

Fact #1:

Our apparent prosperity has been financed by running up an enormous debt, most of it at the federal level. The result is that our social programs are now being cut back, and taxes will continue at a punishingly high level for the foreseeable future.

During the 1970s and 1980s, as the debt was running up, we became used to obtaining \$1.20 to \$1.30 worth of services from Ot-

tawa for every \$1.00 paid in current tax. The rest was paid for by new debt. This practice has not yet ended.

That money machine is now going into reverse, since our credit card is maxing out, and as soon as our annual deficit is at zero, we will be receiving only 70 cents worth of services from Ottawa for every \$1.00 of tax. (The rest will be required for merely *paying interest* on the outstanding debt, without any provision for reduction at all.)

The image of Canada as “the best country in the world” will begin to tarnish at that point. Any family head can impress the kids by mortgaging the house and the job to buy goodies. However, the kids get mad when the goodies stop and strangers move into the house to collect on the mortgage.

In addition, we have prospered through the harvesting of Canada's high-grade resources (of the forest, underground, and sea), which are becoming lower-grade or thinner over the years as exploitation proceeds.⁵

Fact #2:

Whether through misguided kindness or simple venal vote-seeking, successive federal governments have rigged the incentive system in this country against work and productivity. They have done this directly through the taxation system and the Unemployment Insurance (UI) system, and indirectly through the national standards forced on provinces to get cost-shared income-support dollars. They — and other governments — have led Canadians to believe the happy fable that a good life is a birthright of all Canadians, with little direct relationship to continued personal effort.

Of course, this fable is simply not true. The only wealth that can be consumed in any given year is what we produce in that year, plus what we can borrow, minus what we have to pay back. So we need work and productivity. Why rig incentives in the opposite direction?

We have enjoyed a current surge of prosperity in 1994-95, and this too was created by borrowing from future generations, in a

5 The Voisey Bay deposit in Labrador is a joyful exception to that trend, and a great example of the value of mineral exploration to this country.

value-of-currency sense. Our current growth is essentially all based on exports to the United States, which in turn have been greatly expanded by the nearly 20 per cent devaluation in our currency over the past two years.

A currency devaluation amounts to a drop in our standard of living in the world, as anyone who travels beyond our borders can tell you. A falling dollar literally cuts our wages in the world. Now, any fool can get more work by constantly taking a cut in wages, but pretending that a transient boom caused by this phenomenon equals permanent prosperity is just not honest.

Fact #3:

Governments in the Canadian system have continued to refine the federal-provincial contestation into an ever-more-perfect art form, pulling down the strong to prop up those with proven problems.

In particular, the Atlantic provinces have been reduced to client states, their economies so artificially distorted by the infusion of make-work, or (worse) non-work, money from Ottawa that were the national largesse to end, the region would have to depopulate by 30 to 40 per cent or take an equivalent hit in living standards.

For example, the Newfoundland GPP, the value of annual provincial economic activity, is about \$8.5 billion. Federal cash payments to the provincial government are about \$1.5 billion, and federal cash payments to persons (UI, TAGS, OAS, etc.) are about another \$2 billion. Compare that total of \$3.5 billion to a GPP of \$8.5 billion. What would happen without Ottawa?

In other words, Ottawa has not simply permitted, but has caused a variation from reality in this region so egregious, so wide, that when it stops — as it must, given the lack of funds at the centre — the people will be far worse off than they would have been had Ottawa never been heard from.

More generally, duplication and overlap are commonplace, inefficiencies in government the order of the day, and mismanagement of our resources a national scandal. For example, Iceland lands about the same tonnage and value of fish as does Canada, but with only 6,000 fishers; we have 65,000. Of course, ours work for the

government (i.e., they are on UI and now TAGS) most of the year. Moreover, Iceland has 200 civil servants to run its fishery resource; we get by with 6,000. Notwithstanding our longer coastline and more complex fishery habitat, that is a scandal by any measure.

But surely the crowning achievement on the inter-governmental side is this: a combination of federal government action and inaction over the past thirty years has brought our country from a position where virtually *nobody* questioned its continuity, to a position where we saw our first referendum on Quebec splitting from Canada in 1980, and the second planned in this year of 1995. When you combine the very large number of Quebecers who want to leave Canada-as-presently-organized with those in the increasingly restive West, what more telling commentary could there be on our political situation today?

Scarecrow #1 is so very seductive. It says things are so good we don't need to talk about them. On the contrary: things *could* be so good that we *must* talk about them.

With all that we have going for us, Canada should be:
 the happiest,
 the greatest provider of opportunity for young people,
 the most productive,
 the least challenged by current strains in other countries,
 the most cooperative, and
 the most prosperous land *in the world*

Again, as any traveller will tell you, we are none of the above — by a considerable margin. During 1995 conditions will deteriorate further on any index tied to support from discretionary government money.

In short, our current quiet and pleasant standard of living has a short shelf life, having been achieved by an unsustainable accumulation of debt, a draw-down of high-grade natural resources, and the import of foreign capital. We can no longer rely on a single one of these crutches, and the path grows more treacherous.

SCARECROW #2

A bit of folk wisdom: “If it ain’t broke, don’t fix it.”

See above.

SCARECROW # 3

You talk about national unity problems and possible separation as a reason to re-examine the structure of the country. That is silly. Everything turns on debt and economics. Quebec is not a viable entity in economic terms at anything like its current standard of living and simply can't support its share of the debt. Quebecers are sensible people. We may have other problems, but separation isn't ever going to be one of them, and the other problems are simply economic, not governmental.

There are several responses to this multilayered line of defence. The first truth is that Quebecers' aspirations, now and in the future, will be influenced by many considerations beyond economics. The brief 60 per cent pro-sovereignty spike in the public opinion polls just after Meech Lake had nothing to do with dollars, but everything to do with a sense of rejection.

The second truth is that *even on the basis of the debt issue*, an ongoing case for separation can be made. It only requires the assumption that Ottawa will continue its profligate ways until the nation's credit card runs out and the IMF has to be called in. If you believe this as a Quebecer, it makes sense to freeze ongoing exposure to the federal debt as soon as possible by exiting, especially if the exit can be done on favourable terms with regard to share of the debt, ultimate responsibility for its payment, and amortization scheduling.

With the 1995 budget, Ottawa has taken the first steps towards challenging this separatist position. However, there is some distance to go, as Jacques Parizeau's continuing use of the argument shows.

The third truth is that depressing talk (true or not) about potential poor economic performance could back-fire with some Quebecers. After all, the citizens of the province have been told for years to be proud of their world-class firms, by Ottawa as well as by

Quebec City. Separatists go further by describing the surge of national pride and productivity that would come to an independent nation. You can't take a sentiment like that to the bank, but it has helped elect politicians in the past, and will do so again in the future.

In addition, of course, the Montreal area — Quebec's economic engine — has shown surprising comeback signs from the recession, generating some 67,000 jobs over 1994 (compared to 28,000 in the Toronto area), though unemployment is still very high.⁶

The final truth is related to the very last line of Scarecrow #3, which suggests that our economic problems don't lie with government. Not so: our problems are very definitely governmental as well as economic — indeed, more so the former, as our major economic problems are *caused by government*.

This Scarecrow #3 says essentially that you don't have to care what Quebecers think because they have no options. This is not true. Quebecers do have options. The most advantageous involve remaining inside Canada, but even with that constraint it matters a great deal what Quebecers think.

SCARECROW #4

Canadians are just not prepared to talk about unity and government structure, and especially the constitution — and even more especially, with Quebec. We have had it with all that.

And indeed, so say all the polls. This reaction is a response to a number of things in our recent history, above all to the painful constitutional experiences of the Mulroney years, not just in terms of results, but in terms of process. Because Canadians don't know of any better way to tackle these problems, it is understandable they would want to stay away from proven swampland.

(This book identifies ways of getting to where we need to go by skirting around the constitutional swamp.)

And what of the special antipathy (in constitutional terms) to Quebec? There is absolutely no question that there is a very

6 Statistics Canada, *The Labour Force*, March 1995.

hard-line sentiment in the rest of Canada that says, in effect, “We are sick and tired of hearing demands from Quebec. No more! Take the existing deal or take a hike!”

Politicians in Ottawa and the various provincial capitals know how to read polls, and they know this is a hot potato. So they become an echo: “Yes sir, no more talk about the constitution.” The press believes this party line, and so it becomes conventional wisdom.

But things can change very quickly. So the Panjandrums of Canadian Culture at the CRTC and their client cable companies found at the beginning of 1995. They tried to force us to pay for a bundle of new cable channels on the grounds of forcing support for Canadian culture, as we had always done submissively. But the people had a new idea — consumer choice. The old blackmail marketing technique dissolved.

My guess is that the attitude towards talking about changing the shape of government could turn positive with the same kind of abrupt shift, if such change comes to be seen as a genuine part of the solution.

Moreover — and this will be a true test of political and media leadership — people may possibly come to see a lot of sense in the decentralist ideas coming from Quebec, and now increasingly from the West. It is a lot easier to be supportive of a reorganization that you think might do you some good, and, as later chapters will show, there is much good to be done.

In short, Scarecrow #4 is real and it is scary to politicians, but the winds of reality could blow it away very quickly.

SCARECROW # 5

Talking about any governmental restructuring, especially the constitution, just plays into the hands of the separatists. Later, if you like. Not now!

I address this point but briefly here. As noted earlier, the intention of this book is to improve Canada within its *existing* boundaries, and I assume for this purpose that any referendum leading to sovereignty will fail.

The subtleties and details of the argument on Scarecrow #5 are therefore included in appendix 1, to be consulted as a useful guide before the referendum, and of academic interest thereafter.

But we must say one thing about this Scarecrow #5: reject it! All surveys show that the option clearly most preferred by Quebecers is renewed federalism. A federal government poll obtained by the Canadian Press and widely reported on June 19 reaffirmed this once again. Sixty-three per cent of Quebecers would choose to stay in a Canada with a renewed federalism. No other option drew such high support.

In that circumstance, it is madness to bow to a Scarecrow that says, “Don’t talk about a renewed federalism in specific, understandable terms.”

Given that virtually all serious options for constitutional reform for the past twenty years from sources outside of Ottawa call for very considerable decentralization of power,⁷ the status-quo people — Ottawa folk who gain their power and livelihood from the status quo — and “Charter Canadians”⁸ turn to two further Scarecrows. The first is political.

SCARECROW #6

The vast majority of Canadians outside of Quebec show support for a *strong central government* every time they are asked by pollsters. Ignore this at your peril.

The surface reading of the polls is entirely correct. The conclusion is not.

Ordinary people are in favour of a “strong central government” for the very good reason that they think such an entity is the guaran-

7 Pepin-Robarts, 1978; Quebec Liberal Party Beige Paper, 1980; The Government of British Columbia’s Constitutional Position paper, 1980 and Mel Smith’s own paper on the subject, 1991; Group of 22, 1991, for example.

8 A phrase for which I am indebted to Alan Cairns of the University of British Columbia, which denotes centralists who tend to have come together on Charter issues but, beyond that, generally see Ottawa as the solution rather than the problem.

tor of the benefits they hold dear. These are, above all, medicare, and income security for seniors and the unemployed. They do not know that the Canada and Quebec Pension Plans have a combined accrued liability of over \$600 billion, which is almost as large as the total debt of governments in Canada. They do not yet appreciate that the former financial ability of the “strong central government” to be their guarantor has now been dissipated and squandered by the Ottawa administrations of the past generation.

In other words, most Canadians are in favour of a “strong central government” for the same reason that young children are in favour of Santa Claus. This romance will soon be over. Indeed, the likelihood is that the sentiment will turn to anger, as the magnitude of the breach of financial faith unfolds over the next couple of years. (A major federal study of seniors' pensions is to be released in the fall of 1995, which will give much impetus to this worry. The challenges to the medicare system are now part of the daily news.)

So, for most Canadians, that scarecrow is losing its stuffing.

A much smaller number of *activist* Canadians, for whatever worthy cause, want a strong central government because it is a good source of money, and also because it is a one-stop policy shop. For many causes of the past generation, from the women's movement through to environmentalism, and for anyone looking for the setting of standards in social welfare or matching funds in culture, Ottawa was the place to go. It is so tiresome having to lobby and convince ten provinces on any given policy topic if you can get Ottawa to fund and/or mandate the result you want nation-wide.

Alas, times will turn tougher for this group, for this reason: its love of a strong central government is founded on the old financial power of Ottawa, and therefore will not last.

Put another way, when the shortage of funds makes the government in Ottawa just “central” but no longer “strong,” much of the alleged charm of a “strong central government” will disappear.

SCARECROW #7

Canada is already the most decentralized country in the world. If you even start down that road, you very quickly reach a point where there is not enough left at the centre to be viable, and we will lose our country, not to Quebec, but to our own foolishness.

The point is dealt with at length in chapter 4. Suffice it to say that Canada is not the most decentralized country in the world, by a long shot. Switzerland, that paragon of fiscal and political stability over the centuries, is much more decentralized, and other federations (Australia, Germany) have lessons to give us as well.

Even the European Community — *far* more decentralized than is Canada — is showing resilience and continuity, and indeed is expanding its membership and moving into a continually closer association. There is just no evidence that at some point soon we will fall over a decentralization cliff and disintegrate into little competitive fragments. Even if the *only* motivation we had going as a country were the need to preserve our common market and our status as “not-Americans,” that alone would likely hold the show together. In fact, we will have much, much more useful work than that for the central government after the reasonable reorganization that is proposed in this book.

If you are not sure about the applicability of foreign examples, one has but to study our own history. Canada began as a highly centralized state, deliberately so constructed by the framers of our constitution. Over the years, the powers of the provinces grew immensely, right up until the Depression of the 1930s and World War II. During this time of ascendent provincial power Canada did not fall apart. In fact, it grew as a nation of consequence, at home and abroad.

After World War II the federal government retained the large taxation powers it had acquired and re-invigorated the centralization process through the use of spending power to control the provinces. That brings us to the centralized government familiar to most of us today, but it is only one phase of our history. We have organized in other ways, and no doubt we will change again in the future.

REALLY SCARY THINGS

Concurrently with putting scarecrows in proper, irrelevant perspective, one should also wonder about the things that really *are* scary. These are what I call GFOs: Genuinely Fearsome Objects. Governments generally don't like us to look at such things, since concerned voters usually help oppositions more than governments. Here are a few things to be concerned about.

GFO #1

The debt and the deficit could bring us down.

In the January 9, 1995 issue of *Business Week* we find the following forecast for the year:

A major First World debt crisis will hit three nations facing out-of-control budgets and political paralysis: Italy, Canada and Sweden. The World Bank and International Monetary Fund will have to move in to restructure the debt of these industrialized countries.

The forecaster is humble enough to admit that only 40 per cent of his 1994 prognostications came true, so let us hope we are on the 60 per cent side. The scary thing is that anyone associated with a serious business publication could even imagine such a fate for Canada on a one-year time horizon. Further, the “political paralysis” part is an observable fact. As to whether the “out-of-control” budget remains so, we will see how the 1995-96 federal budget flies over the year. The likelihood is that the government will pretend to control the deficit, and we will pretend to believe it, at least for a while. Let us hope the pretence becomes reality; it will be the reaction of foreigners that counts.

In the hope that, for once, we bite the bullet instead of merely gumming it, thereby avoiding the IMF scenario, that is surely not the end of the pain. Our federal interest payments and deficit were roughly equal in 1994 — around \$40 billion a year. This year and next interest payments will be near \$50 billion. The waste and future suffering caused by such an immense burden have to be brought home to be believed.

For example, in Vancouver we have a signature structure called the Lion's Gate Bridge. Built as an act of breathtaking real estate speculation in the Dirty Thirties by Britain's brewing Guinness family for about \$6 million⁹ it connects Stanley Park with West Vancouver in a spectacular and graceful swoop of steel. Alas, it is worn out and must be replaced or rebuilt.

Our community doesn't know how we are going to finance this, because it will be at least a \$200 million bill. Thus, there are schemes for new tolls, for artificial islands and condominiums off Stanley Park, and so on. No one knows how to solve this problem, yet eventually we must. Now, put this on the federal scale of expenditure.

This problem, which seems very big to Vancouver, is equivalent to no more than *forty hours'* worth of interest on the federal debt (which runs to over \$5.5 million per hour). Try this fun arithmetic for your community projects. Or apply the potential of this \$5 million per hour number to your favourite good cause, were it not required for interest payments: the proper support of children of single parents, for example. One wants to weep. And yet, that is where we are. No opprobrium can be too great for those who got us into this bind, but it is our collective problem now, and since we didn't squawk when the debt-financed good times were rolling, we deserve it.

Deserve it or not, this is a genuine GFO.

GFO #2

We presently have the most popular federal government in at least 25 years.

Why should this be scary? First of all, it gives the government a sense of being both “right” (correct, that is, but definitely not right-wing) and invulnerable. Government members have taken to referring to popularity polls in response to critical questions. “If we are so popular, we must be right,” goes the logic.

9 Sold to the provincial government for about the same amount in 1954, after seventeen years of toll receipts, and after making possible the development of the very successful “British Properties,” of which some 2,400 acres of the initial 4,000 remain.

Jean Chretien is being referred to as the “Teflon prime minister,” and the Opposition is ineffective. The Bloc Quebecois is skilled but is written off (outside of Quebec) as a bunch of marginal separatists. Reform is new and unskilled, and is finding that earnest, serious questions get them two column inches back on page 57 with the acne ads, if they are lucky.

Add to this a press that is at best servile, and at worst worshiping, plus the inevitable ego boost of government jets and squadrons of “Yes Sir!” assistants. What you end up with could convince even the most rational politicians that they are pretty smart people, no longer the very ordinary folks who got elected. This is a recipe for a cabinet and caucus that are able to deny reality for quite a while.

The principal government antidote to date for the undeniable financial and unity problems that beset our country has been a constant prescription of happy pills: “Canada is the best country in the world” (see Scarecrow #1), “Three per cent of GDP is our deficit target” (that adds \$100 billion to the debt every four years), and “Nine billion dollars in contracts signed in China” (which may or may not materialize over several years and in any event comprise a drop in the bucket compared to trade with the rest of the world). Indeed, by any standard, the main economic achievement of the current government has been to validate the NAFTA accord of the Mulroney government, an accord it had sworn to kill failing (unachieved) major amendments.

The tough problems of social, health, aboriginal, cultural and immigration policies have hardly been touched. There is a sense of drift. We have lived with this “don't worry, be happy” attitude in Ottawa since the 1993 election. That attitude has now become a GFO, more fearsome by the debt-ridden day.

GFO #3

What about POGG?

This question has never occurred to many people, I admit. Few kitchen or sporting conversations refer to POGG, the acronym for “Peace, Order, and Good Government.” When I mention it to my

kids, they think it is a drink or a game, but in fact POGG is the very first power assigned to the federal government in the constitution.

Our founding fathers meant Ottawa to be very much in charge of everything of importance in the country. That was another day, and in the interim Canada has changed beyond recognition. That course is traced in later chapters, but for now the GFO is that POGG sits on the books as a potential danger to the federal-provincial balance.

Ottawa is indeed assigned the general power of “Peace, Order and Good Government” in our constitution, though the meaning of this phrase has not been fully tested in the courts. The power is certainly sufficient for the central government to use emergency powers to maintain or restore civil order, should that break down, and the Emergency Powers Act relies on this in part. But how far does such a general mandate go?

No one knows. However one can say with a high degree of confidence that were Ottawa to try to use the POGG power to pass laws to control provinces by fiat in the areas Ottawa used to control with dollars — health, social security, and (partially) higher education — we would move to a serious constitutional crisis.

You will recall that in the introduction I forecast that Ottawa will have no more money for most transfers to the provinces within a very few years. This fact is starting to sink in and it is alarming people who think that Big Brother is the foundation of the social policy of Canada. Will national standards for medicare end? Will welfare policy head for the lowest common denominator and dollar? The cry is raised: “Something must be done!”

Well, perhaps — but not by Ottawa through any attempt to use POGG to interfere in provincial and local responsibilities. Attempts to enforce, say, the five conditions of the Canada Health Act, not by cost-sharing as at present, but via a takeover of provincial constitutional powers by way of POGG would put us into a legal and political firestorm in this country.

There have been some fairly clear statements by Ottawa ministers that the directive capacity of Ottawa in social matters will be retained *in extremis*, one way or another. At some point, in some meeting, some centralizing zealot will bring up POGG. They will remind their colleagues that in 1976 the Supreme Court narrowly up-

held the federal legislation imposing wage and price controls, in an area normally thought to be provincial, using POGG arguments. With the right question,¹⁰ some opinion polls might even support this kind of federalization of provincial responsibilities.

This approach would be a terrible mistake in the Canada of 1995, for reasons of both politics and efficiency. The politics are obvious. The outrage in Quebec, Alberta, and B.C. (at least) would be huge. As to efficiency, it is crystal clear that the old system is collapsing under its own weight. To try to resist the lower cost and better service available through local and/or private administration would be a tragedy. And there will be those who counsel this route.

The Quebec government fascination with POGG is palpable. They hate the very idea of it; they love the issue it would present at the next election. Elsewhere in Canada, centralists will rather like the idea. It is the old Santa Claus at work. But if Santa Claus now has no money, why pay any attention? Would it not be better to listen to the local voters? Most certainly it would, by any objective standard.

But no one gives up power easily. If Ottawa cannot wield its accustomed clout in this or that area by the force of dollars, there will be arguments to try to use the force of law. That is why POGG is a genuine GFO.

TO RECAP

This chapter has been about illusions and danger — scarecrows and GFOs. These include the alleged reasons why we shouldn't talk about the most serious problems confronting Canada. Here is a review table:

10 Such as, “Do you think the federal government should maintain medicare for all Canadians by passing laws the provinces must follow?”

What the Scarecrow Proclaims**What the Wise Bird Sees***Scarecrow #1*

Canada is the best country in the world. Leave well-enough alone.

Our fortune is unsustainable on our present course. Debt and unity are real threats.

Scarecrow #2

If it ain't broke, don't fix it.

See above.

Scarecrow #3

Quebec can't ever afford to separate.

People can afford to do whatever they decide they must.

Scarecrow #4

Canadians don't want to talk about unity and government structure.
whatever is necessary for solutions.

Of course they don't. They don't want to talk about the debt either. But we'll do

Scarecrow #5

Talking about restructuring Canada helps the separatists. to show another way out that works for all of us.

The best way to undermine the separatist position is

Scarecrow #6

Don't even talk about decentralization. People want a strong central government. effective government.

This will change now that Santa Claus is out of money. People want affordable,

Scarecrow #7

Much more decentralization and we will fall apart.

That is not the lesson of the rest of the world.

Then, finally, we have the GFOs:

GFO #1

The debt and deficit could bring us down.

GFO #2

We have a very popular federal government.

GFO #3

That popular government might try to over-reach in trying to hold on to power.

THE BRIGHT SIDE

That is enough of the bleak side of things. Assets remain, and they are considerable.

The federal government has a very strong mandate if it can find the political will to do the things that need doing. We are riding a tide of export-driven economic growth that can continue if we can put our domestic problems in order.

We have a vigorous private sector, great universities, an educated and productive work force, and a magnificent land base. We have a strong democratic tradition and enough of the work ethic left to get us through some pretty tough times. But we must be honest enough to recognize that some difficult “getting through” will be required.

The purpose of this chapter has not been to say that things are so bad we might as well go out into the streets and cut our wrists. The purpose is rather to awaken those who say that there are no problems, or that if there are, we must not discuss them.

There *are* problems, and we must discuss them and find solutions. That is the purpose of the rest of this book.

2

Goals and the Political Marketplace

In the end, we must be practical; the things we do to reform government in Canada must be prudent and workable. They must be politically achievable, over the million vested interests that exist today. Change must be of minimal risk, for we are playing here with people's lives. And yet, in assessing that risk of change, we must not ignore the real risk of *not* reforming the status quo — perhaps significantly. The price of resisting needed change for too long can also be very high.

Change must be affordable. Indeed, in today's reality, change must *save* money. And voluntary change must fit with reasonable comfort into our existing traditions and beliefs, or else it just won't happen in any reasonable time frame. And yet, change must somehow make things better — a lot better if possible — since the room for improvement is there. So that is what we must do in the end.

But, at the beginning of the process of reform we have to try another approach. We have to get “outside the box” and look at things in a new way. We should let our imaginations carry us over the million obstacles to give us a glimpse of the place we want to end up. That is the purpose of this chapter.

The key is starting with a set of goals — “I want to be healthy, wealthy and wise,” or whatever. From those goals one can intelligently work back to the necessary paths to follow. Of course, as one gets older and wiser, those goals may well shift with consequential adjustments to the routing, but the thing is to always have a guiding star. Nobody says you *have* to; indeed, some say that's not the way to

best enjoy life. But it clearly is the best way to achieve such boring things as predictability, order, and prosperity.

The principles are the same for a nation or state, with the difference that the consequences of doing well or badly are a good deal more serious than they are for individual mistakes. So governmental systems need goals. (They need many other things as well, not the least of which are control and containment against trying to do too much.) One must start by asking what we want our governments to do.

Around the world and across the years, different communities have provided different answers. The first and most fundamental variation is the determination as to whether the state is to embody, sustain, and promote a set of values, or if it is to be value-free. For example, we might (and do) have religious states — Islamic and Christian, in particular. We might have ideological states, of which the communist model has been the most familiar of recent times. We might have states based on values related to ethnicity and/or to culture, wherein the protection of ethnic and/or cultural integrity stands as the highest goal.

A value-based state is by definition activist and intrusive. Since it knows what is right (not just in process, but in result) it must intervene as required to make sure things work out that way. This is simply a matter of fact and logic. And most of us in the western world do not view the intrusive state as a pleasant thing. (We shall see if such arrangements survive the impact of globalization and technology in those parts of the Eastern world ruled by religion or ideology.)

The general trend in the Western world has been towards the secular state,¹¹ which takes no position at all on the values of its citizens. This is what Canada has become, and I think we can assume that is the way most of its citizens believe it should continue.

11 As Conrad Winn of the COMPAS polling group points out, no state is wholly value free. We began as a predominantly Christian society, and many of our laws and customs (including our calendar) reflect this. In addition, the Charter of Rights and Freedoms is an official statement of values. However, they are largely *process* rules, rather than ends to which we must bend our efforts, like it or not.

I do not mean to present this as a non-controversial position. Indeed, it is central to the arguments of many *independantistes* and aboriginals that the kind of state *they* want would in fact be a value-based entity. This kind of state would then become the embodiment, the essence of the French-Canadian nation or the Mohawk nation, for example.

In a value-based state, everything is subordinate to the maintenance of the values concerned. Such subordination can include even such high-level operating principles as elements of the Charter and the general provisions of democracy. There is an inherent conflict between the value-based state and the concepts of individual rights, freedom, and democracy.

Those who advocate value-based states have to deal with this conundrum. They may not intend the inevitable conflict. Sometimes that is the case though, and the position then becomes much harder to sell to the wider world. Indeed, when Quebec overrode the Charter to produce its language laws, or the Assembly of First Nations pronounced a need for exclusions from the Charter for a third order of government in pursuit of what the decision makers judged to be a greater good, the usual liberally-minded allies of minorities dissolved into a tangle of confusion. (The most frequent politically correct resolution of this dilemma tended to be that it's okay for the natives, but not for Quebec — double-standardism, and racist, at that.)

Now, an important distinction arises at this point. If what one wants is the freedom to maintain, promote, and practise religious customs, or economic arrangements, or ethnic groupings and cultures, then this can be achieved perfectly well within the arms of a secular state, particularly a decentralized federal one, where each unit has a large degree of freedom.

Indeed, the example of the Quebec language laws illustrates this perfectly. The “notwithstanding” clause in the Charter provided precisely the flexibility required, while maintaining the more fundamental Charter rules. Whatever people outside of Quebec may have thought of the language laws (and they were very controversial, contributing mightily to the turn in sentiment that defeated Meech

Lake) the experience stands as a dramatic example of the great flexibility of federalism.

On the other hand, if what one wants is a whole panoply of coercive powers of the state to enforce a particular world-view, that is something else. Clearly, if you want to have this latter kind of arrangement, you need your own piece of turf.

Of course, isolation from the currents of history is impossible today. Full independence in this modern world is just not on. In the field of culture, direct-to-home television, with pizza-sized satellite dishes that can be hidden under a bed, will make a mockery of the control attempts of even the most repressive regimes. Patterns of world trade and communications and the growth of the knowledge industry are increasingly forcing existing national states to assign their powers upward to international organizations, or even to simply abandon those powers to the marketplace. (Look at what is happening to the power to levy quotas and tariffs, for example.)

When even a very rich nation-state, as ethnically and linguistically homogeneous as Japan, is gradually seeing its culture changed by world forces, what chance have smaller, poorer groups to maintain value-based states in the twenty-first century? That doesn't mean that some would not like to try.

Here in Canada, we return to our best-known and longest-running value contest that has played out in Quebec over the years. On one side are those who see the individual as the ultimate repository of values, to be interfered with as little as possible. Others stand for the collectivity, the French-Canadian nation, which (from this viewpoint) must be preserved, even at some cost to individual rights, for the greater good of its members.

The argument is not simple, for many would hold (as we did collectively in the Charter of Rights and Freedoms) that it may sometimes be necessary to circumscribe individual rights in the greater interests of a "free and democratic society." The good of the individual is the ultimate goal in each case; the power to be given to the state in achieving that end is the issue. This is an issue we should be able to manage if we are practical, and it is totally different from that arising in the sort of value-based society where the highest end sought is

not the individual good, but rather some religious or ideological good.

In Canada, my guess is that the overwhelming majority of us believe in the secular state — the state as servant. The flip side of that operational statement is the implicit *first goal*, namely, that the object of value is the individual, and that collective arrangements, including the powers of the state, must be justified by reference to the interests of the individual.

Now, simple as this observation may seem, the consequences are immense. If it is not the business of the state to promote and embody values, then it loses any sacred character. It becomes simply an instrument, a public utility.

This concept of *the state as a public utility* cannot be emphasized too strongly. Only by viewing things in this way can we really begin to consider whether the state serves our interests as individuals, and, if we can maintain this point of view, we will feel very free to require changes to improve the level of service.

That is not to say that a community, a nation, a country like Canada will not have a wider sharing of values. Of course, Canadians do have values as individuals, and we may find it convenient to express some of them through the machinery of the state. This is part of what defines us as a country. But these values are not a built-in part of the state. They can and do change over time.

Take the example of medicare, perhaps the most revered of our social programs. Medicare is now undergoing a rethinking. That has to do with changing abilities of taxpayers to pay, all over the country, and with shifting definitions of what medicare ought to mean, in some parts of the country. Governments are responding to these citizen pressures, with no “built-in” state values to impede the process.¹²

The state is simply a piece of machinery. The machinery may be complex and elegant or it may be old and rusty. In any given manifestation it may be relatively useless, or essential for life. In either case, it is still just machinery.

12 To repeat the apparent exception, there are indeed some “built-in” values in the Charter of Rights and Freedoms. These are process- rather than goal-oriented: democracy, free speech, etc.

The effect of all this is that the state is a service organization. It is paid for by its customers — is it ever! — and its job is to serve its customers, according to their means and desires. The actual task of doing this — of sorting out the millions of customer preferences, resolving conflicts and contradictions, and responding efficiently — is an enormously complex assignment, but the theory is simple.

THE STATE AS A PUBLIC UTILITY

Of course, the state is not just any service organization. In its most important aspects it is a *monopoly*, and that has important implications for how we need to regulate it.

Viewing the state as a utility — “like a gasworks,” in a phrase attributed to Arnold Toynbee — brings a different attitude to the deferential, accepting approach we are taught in our schools. This is demystifying; this is healthy. This approach also underlines the fact of our joint ownership of this public utility, and the right to make changes, as required.

At the same time, viewing the state as a utility underlines its importance. Whatever we may think of the hydro company, just let the power go off and we realize very quickly how important this resource is to our lives. At all other times we take it for granted, except when we complain about rates.

With government, it is unfortunate in some ways that we never have a “power outage,” except during a rare public service strike that still leaves us with essential services. The net result is that most of us have no concept of how much impact the state has on our lives. We tend to assume that the way things are is the way that they ought to be, or at least that the existing order of things makes sense.

The trouble is, there is no guarantee that just because we do things in such-and-such a way, that way makes sense. That is the whole idea behind the concept of *zero-based budgeting* — going back to first principles, and building back up to what makes sense.

The earliest roles of government are easy to understand and justify — the maintenance of order, the protection of property, the se-

curing of predictability and liberty through “negative rights,”¹³ and the rule of law. These things and other matters like the setting of standards (e.g. weights and measures) are all *enabling*, in the sense of making it possible for individuals to do things.

Later the concept evolved that governments should do some things themselves because they are inherently better at it, or even because governments were the only authority able to efficiently do the particular task. The institution of state currencies to replace the private fiat money of banks was an important example, as was the concept of a monopoly on the exercise of force to secure the performance of private contracts.

Until a couple of hundred years ago, all of these things had something to do with freedoms (or their lack) but little to do with democracy.¹⁴ Then a revolution began.

With the spread of the idea that governments ought to be selected not by elites but by the whole citizenry came the reciprocal thought that governments ought to do things that their voters think desirable. Thus arrived the historically very recent, and truly revolutionary, notion that individual ends (such as health or education or income security) can be achieved through the collective instrument of government.

Previously, individual ends had been secured individually, or through informal relationships of family and friends, or through the developing economic marketplace. But here was a way to make things happen by wishing it so! Let us call this new machinery the “political marketplace.”

This enjoyable game (for the winners) of achieving personal ends through democratic politics naturally expanded quite quickly.

13 “Negative rights” are the freedoms to be left alone by the state: to speak, to peaceably assemble, to practise a religion, and so on. “Positive rights” require affirmative action of the state: “rights” to an education, or health care, and so on. Positive rights also involve taking from some to give to others, whereas negative rights impose no direct cost on others.

14 Freedom and democracy are two very different concepts. Freedom is a measure of the ability to govern one’s self to a greater or lesser degree. Democracy is a system for the collective governance of others. It is entirely possible for democracy to undermine freedoms, and vice versa. They co-exist in a healthy tension.

But the game also created a lot of losers — those regulated or taxed without commensurate benefit.

The political marketplace — that part of our lives regulated by the state — rapidly grew to rival the free marketplace in size, until we more or less arrived at the situation today. But one other thing has happened along the way. Government has become so huge, so complicated, so apparently difficult to change, that most of us just ignore it. It is like the electrical company and the phone company rolled into one and multiplied by ten. Nothing can be done about anything; that's just the way it is, even though government is doing things that many wish it wouldn't, and its cost is extremely onerous.

The frustration many have with government today leads to a second general goal. If the first was to see the state as servant, the second is that, from that servant, we want *customer satisfaction*. This is only an interim goal of course, because we comprise many “customers” wanting different and often contradictory “satisfactions.” But it does at least provide the beginning of a testing benchmark.

WHAT DO CANADIANS WANT?

This question directed at the person on the street would reveal priorities depending upon needs. Older people would worry about income security and health care. Younger people would worry about jobs and enjoyable leisure time. Polling data show that we all worried about the environment a few years ago, but less so now. (We are gaining a certain confidence that the issue is being addressed, to the financial remorse of Greenpeace.)

Parents want a good education and a secure future for their kids. All of us want access to entertainment, but we also do *not* want a lot of change in our lives. Unfortunately for most societies, open access to what is becoming a kind of electronic “world culture” implies a

lot of change. Every elite from the mullahs of Iran to the CanCult class of Toronto has that concern.¹⁵

All of us want to be left alone to live our lives (requiring low taxes) and to be looked after when we have needs (requiring high expenditures).

In truth, we aren't much different from most people of the world in our basic wants. Probably our biggest difference is our level of expectations. We have been a very fortunate people. Our goals and expectations are high.

At the same time, our abilities to meet these expectations are beginning to worry us. We have turned into a people concerned with hanging on. The Ford Motor Company had its famous advertising campaign about “Job One” (quality). Hanging on is now Goal One for many Canadians.

Public opinion polls tell us over and over that we are convinced that Canada is the best country in the world. But that statement arguably says much more than it appears to. It may also denote a complacency, saying that we aren't really looking for improvement in the way that, say, a Taiwanese or a Brazilian might seek it. If you're already the best in a tough world, it's hard to improve. And the sentiment also validates that hanging on.

So thus far, we have as goals and approaches:

a secular state,
the individual as the “customer,”
hanging on to what we have, and
a list of individual priorities.

We need to put some order into the last category. Here is my version. As goals *to be addressed by government*, we Canadians generally would include:

15 There is a repeated thread running through federal pronouncements, from the Liberal *Red Book* to speeches by our ambassador in Washington: Canadian identity is defined by Canadian culture. To the extent that this is true, given the usual meaning of “culture,” we are talking about a small subset of Canadians. What really defines us is our *political* culture — a fortunate thing, because it is all ours, and much easier to shape and protect.

1. Peace, order, and physical security (a universal human desire).
2. Predictability in our lives.
3. Support systems for income and health.
4. Minimal restrictions on private activities.
5. Opportunity.
6. A reference framework for distinctive personal and cultural identity.

A couple of things should be noted about this list. The first is that there are internal contradictions. Indeed, the “minimal restrictions” goal is, in a sense, anti-governmental. What this goal says is that there is an important trade-off between a desire for government services and a limited willingness to accept government intrusion in the forms of taxation and regulation.

The second point is that there is no reason why government should supply all, or even most, of each need. The first need on the list has a strong logical connection with government because in our society government has a monopoly on the use of force. However, the rest of the goals could be obtained in a variety of market ways. There will be a trade-off between the political and the private marketplaces as the ideal provider, depending on one's philosophy and situation.

The equilibrium of this trade-off varies from individual to individual, depending upon circumstance and temperament.¹⁶ It also varies for an entire society over time, and during the second half of the 1990s it seems to be moving in the direction of less government.

The third observation has to do with the ranking, which is intentional and important. As others have observed, it is no accident that

16 There is an important corollary to this fact in a democracy. Individuals of greater private means and/or abilities will see much less need for an activist government. It is in the interest of such people to support measures to keep the average means and abilities in their society at a high standard. Otherwise the voting numbers may be there for a democratic majority that seeks to help the weak by penalizing the strong.

Put another way, in a democracy, a far-sighted conservative wants an egalitarian society. Of course, he or she wants to achieve this by trading up — by strengthening the weak rather than weakening the strong. The socialist instinct operates in the opposite direction.

the first duty of government in the Canadian constitution is “Peace, Order, and Good Government,” while the U.S. Declaration of Independence has as its overarching goal the very different, more adventurous and less cautious “Life, Liberty and the Pursuit of Happiness.” The difference between the two highlights a genuine national characteristic of Canada.

Michael Adams, president of Environics Research, put it this way:

Canada and the United States are each affluent, pluralistic nations dedicated to the twin democratic ideals of freedom and equality. Canada has chosen to emphasize equality and has constructed a modern welfare state. The United States has chosen to emphasize freedom and a greater dedication to the market economy.¹⁷

The Americans, for example, might have much lower expectations of government than those implied in the list of priorities provided here. We think our list is good and they like theirs — that is one very good reason why we are happy as separate countries. We Canadians are mostly inarticulate about our distinctiveness, but we claim some deep-seated difference from Americans. It is curious that we do not spend more time on who we *are*, as distinct from who we are *not*.

Listen to Robert Reich, the current Secretary of Labor for the United States: “Unlike the citizens of most other nations, Americans have always been united less by a shared past than by shared dreams of a better future. If we lose that common future, we lose the glue that holds our nation together.”¹⁸

Now, most Canadians would no doubt like a better future as well, but in recent times the actions of our politicians suggest that we are far more interested in the present. We are more security conscious, more risk-averse, and more “conservative” in the sense of wanting to preserve what we have. That may lead to less wealth but more happiness — who can say? In any event, we are what we are, and our government structure must take this into account.

17 Premier's Summit, Victoria, British Columbia, January 19, 1995.

18 *New York Times*, August 31, 1994.

Are all Canadians alike in this? Certainly not. For example, does the wish of some Quebecers for a separate country indicate a fundamentally different list of goals in that province? If we think about this for a moment — the separate country thought — is there anything in this list that would distinguish any part of Canada from Quebec?

Quebecers want very much the same things as all Canadians, but they want one thing more. Many Quebecers might wish to give item 6, related to cultural and personal identity, rather higher priority — certainly not above security and health, but perhaps ahead of items 4 and 5 (minimal restrictions by government, and personal opportunity). So too might other Canadians, such as aboriginals or recently-arrived immigrants. This does not amount to a value-based state as discussed earlier, but it does reflect a difference in priorities.

This variation in priorities no doubt goes with being a distinct society. To quote Michael Adams again, “Like all Canadian minorities, Quebecers are both tribal and post-modern. Their motivation to defend their language or assert themselves politically is balanced by a pragmatic need and desire to maintain their current posture of material hedonism.”¹⁹

One way or another, whoever you believe, Quebecers and other minorities have one more set of trade-offs to make, beyond the major one of state power versus economic freedom. To the extent that state power may be used to secure that sixth (or higher) goal of a reference framework for distinctive personal and cultural identity, the additional trade-off becomes state power versus cultural freedom. This is the drive behind movements for an independent Quebec or for aboriginal governments — movements which argue for state power in favour of collective ends.

The differences do not end here, and it is most important that we all understand this, for the tide of immigration over the past generation has changed not only the face of Canada, but also the balance of its goals as well. To explain: Canada has received over four million immigrants in the past 25 years. They have had children and have

19 “The Public Perspective,” *Roper Centre Review of Public Opinion and Polling*, November/December 1994.

grown in numbers, so this is a significant component of our population.

These new Canadian people are not concerned with conserving what they have. They are overwhelmingly concerned with *improving* their positions. They care little about the history of Canada — two founding nations, aboriginals, and so on — and indeed, why should they? They care about the future, and in this way they are closer to “Americans” as described by Robert Reich.

So we have different strains here, with different goals. We have a conservative mainstream, a nationalistic Quebec, and an ambitious group of newcomers concentrated in Toronto, Vancouver, and Montreal. The lesson of this observation? It is this: the traditional regional differences of Canada based on history and differing economies have now been exacerbated by demographic shifts, originating inside and outside of Canada. Our goal variations are more regional than ever, in a cultural sense, just as they are being homogenized on another axis by the global economy and the Americanization of world culture.

The *organizational* lesson of all of this is that federalism and decentralization are more necessary than ever to respond to these variations within Canada.

FROM THE INDIVIDUAL POINT OF VIEW

So there is one “macro” version of our goals as Canadians. But what does it all mean to the individual?

We want to get on with our lives in peace and quiet and security, able to plan, free to be different, able to prosper — modest goals perhaps, but they suit us. Moreover, they are eminently achievable.

Put another way, I think back to the words of former B.C. (federal) Cabinet minister Art Laing, my first boss in the business of politics. He thought the business of government was simple: “To allow each individual to make the most of his or her individual life.” Being a partisan, he used to add, “And that’s Liberalism!” I think in fact that every Canadian party would buy into that idea.

What are the daily implications of all of this? There are several.

The desire for security and predictability has traditionally required an increasingly activist state. The state responded, and now people think their taxes are too high. The safety-net requirements have also escalated that trend.

But as previously noted, these two requirements, when pushed very far, begin to contradict another goal.

The “minimal restrictions on private activity” requirement means that there is at the same time a pretty loose pattern of achieving the first two goals. This, in turn, implies a light-handed, decentralized state, quite the opposite of one-size-fits-all.

The requirement for opportunity implies some sort of equalization of beginnings, which are inherently unequal in the natural order of nature and society. This, in turn, implies the state appropriating the property of some in order to equalize the opportunities of others. As argued earlier, a conservative should be comfortable on a self-interest basis with this appropriation, in so far as it is concerned with equality of opportunity. A socialist would push further, for equality of results.

The wish, though, for a distinctive identity in a very large world (the least of the major goals in English Canada; more important in francophone, aboriginal, and immigrant communities) lays a further duty on the state — one which will inevitably result in some friction with the “minimal restrictions” goal. At the same time, this distinctiveness goal is much more easily achieved in francophone and aboriginal communities. It is English Canada (or at least some of its elites) that really agonizes about “Canadian culture.”

THE LOTTERY OF LIFE

There is another useful perspective on the interplay of these goals, and that comes from the amorphous concept of “fairness.” One is little concerned with fairness in the jungle; rather, one is concerned with survival. Get as distant from the jungle as we have been fortu-

nate to do in Canada, and some people start thinking about such things. (But do not be misled: many care not at all.)

The citizen's motives in this regard can be generosity, or guilt at one's own good fortune, or a shrewd insight that fairness contributes to civic order; the rationale matters not for most politicians. "Fairness" is a concept that sells at the polls. Alas, it is a very complex bundle of ideas.

For some, the essence of fairness is equality of opportunity. Life is a lottery, especially in the terms of our arrival on this planet and such matters as family circumstances, access to education, and health. There is nothing we can do about luck, says this view, but we can, as a society, do everything possible to equalize the start in life for each young Canadian. Further, we should do that collectively, since that is the only way we can be sure it will get well and truly done.

For others, fairness goes beyond opportunity and extends to actual result. Thus, no matter how good a start any of us may have had, if we fail on our own we will not be allowed to go cold and hungry or be otherwise seriously disadvantaged in our northern climate.

For a third group, fairness is more closely aligned with justice, and what is fair is to reward effort and merit, not profligacy and incompetence.

In another view, fairness is *process*. Those who take this position believe that, given the proper rules and the proper machinery, the result, rich or poor, will be accepted. (One way of distinguishing between the categories of "left" and "right" is by whether their definitions of the "proper machinery" mean the economic marketplace or the political marketplace. Both the NDP and the Tories have "process" people, but their definitions of the word are quite different.)

For most Canadians, fairness is a mixture of the elements noted above. The important thing is that, as in any mixture, the proportion of each ingredient can change. Except for the first dimension (positive attitude towards equality of opportunity) that change is clearly under way. To wit:

The "equality of results" dimension is shrinking. The idea of a basic safety net is still there of course, but we seem to be

moving towards the idea of a continuously adjustable minimum — which may go down as well as up — based on the ability of society to pay.

The “fairness as justice” dimension is expanding. Beyond the continuously adjustable minimum, we seem to be moving more to a concept of proportional rewards based on effort.

In the “process” dimension, there is a distinct tilt away from the political marketplace to the private side. Moreover, there is a strong wish for reform of the political marketplace itself.

The main message that emerges from this discussion of goals is this: *We are no longer the Canada of political myth.* That Canada has covered most of our lifetimes, if we were born here. It was characterized by ever-rising standards of living, “caring and sharing,” because it was good and took nothing away from others in a growing pie, and a homogeneity of cultural, economic, and social standards.

The evolving Canada is different. For demographic and economic reasons, our goals are no longer so uniform. We have to expect trade-offs. Moreover, we no longer have the financial resources to avoid hard choices. The squidgy, feel-good, liberal, all-things-to-all-people days are over.

Choices require decision-making machinery. Broadly shared goals and lots of money meant that machinery could be concentrated in Ottawa. The goals are now much more diverse, and the money much less ready. The decisions will have to move to the diversities. That is a profound mandate for, and pressure towards, a renewed federalism. In other words, the change in our goals and resources requires a change in machinery, in a more efficient, responsive-to-diversity, decentralized direction.

It is up to the Canadian people to make their own choices. What we need to do here is to provide the machinery to reconcile the diverse elements of democracy, freedom, order, and incentives on an ongoing basis, so that, as choices shift and lessons are learned, timely adjustments can be made.

3

Change, Equilibrium, and Sustainability

An opening word on the title of this chapter: change may be inevitable, but equilibrium and sustainability are rarer attributes, and are absolutely essential to political order. The trick is to blend the three characteristics into something good. In this sense, change is nothing to be feared, but, much as the ever-changing equilibrium of a human being in a continuous forward fall (otherwise known as walking), it can lead to progress.

The next comment is about “change” as it is approached in this book. We Canadians are deeply conservative in our feelings about our basic security blankets, and this very much applies to politics. We are more likely to adopt changes to the system that are seen as minimal and clearly related to the problems that need to be solved. The bias of proposed solutions elaborated in later chapters is conservative in that sense.

But that does not mean that the recommended changes will be small and cursory! It is a measure of the fix we have gotten ourselves into that they will be substantial — and must be so, just to do the minimum that needs to be done. Much of the remainder of this book is devoted to demonstrating what is necessary and, very importantly, that what is necessary is also prudent and safe.

Which matter brings us to “equilibrium.” Recall that one of our “scarecrows” in chapter 1 is the matter of whether a country like Canada could stay together were it much further decentralized — i.e., whether our equilibrium, in this case between the whole and its parts, could be maintained. In this chapter I argue that case and seek

to identify limits — both upper and lower — for viable degrees of concentration and dispersion of political power.

I refer to walking as a continuous falling forward — an equilibrium to be sure, but an equilibrium constantly put to the test. So it is with all human arrangements, and thus the final word in this chapter's title is “sustainability.” Every organization, from the largest to the smallest (including the family unit), is under unprecedented pressures these days from huge global forces. These include the usual suspects, technology and population growth, but reach beyond to such intangibles as culture, the environment writ large, and even human spirituality.

The net effect of all of this is that we can no longer design a superb governmental system for today and expect that it will still be functioning well at all a generation hence — unless it is based on realities more enduring than the old “no-change” stand-bys of inertia, the-state-knows-best, and deference to authority. New governmental structures have to be based, not just on the persons and forces that are powers today, but on the gradual and sometimes unpredictable shifts in these forces. The private sector has largely come to terms with this new reality, and it has done so by shifting its guiding star from the views of owners and managers and workers to the views of the customers. This mini-revolution in business is now required of the state.

There is nothing surprising about this. The state as servant to the “customer” is becoming a normal concept, as is discussed in the popular American book *Reinventing Government*.²⁰ But most Canadians will also note that so far we aren't being treated much like “customers” if prompt, efficient, imaginative, and caring service is the benchmark. Our system is in fact still overwhelmingly based on that terrible trio mentioned above — inertia, the-state-knows-best, and deference. Thus, our governments are out of sync with the customer service world of today.

The general Canadian concern about and impatience with government are based on a vague sense of exactly this dissonance between the foundations of the government we do get and the

20 By Osborne and Gaebler, published by Addison Wesley, Reading, Mass.

expectations we have in a new age. So we keep turning out one government in search of a better, always seeking the new. In fact, we are not seeking the “new” at all, in the sense of merely new faces. Rather, we are seeking renewal. This is why merely being new, as is the case with the existing Chretien government, is no more than a short-term answer, popular as it may be for now.

To truly succeed and endure these days, governments must change and adapt their ways of doing things, as have Premiers McKenna, Wells, Klein, and Romanow, albeit in very different ways. These premiers are groping their ways to sustainability, while Ottawa remains in a transient equilibrium.

DIMENSIONS OF GOVERNMENTAL CHANGE

The four major determinants of the performance of any service organization (and we will return repeatedly to this image of government as a servant of the people or a public utility) are *attitude*, *incentives*, *resources*, and *structure*. I will have more to say about the first two when we consider design of a renewed system. Here, I focus on the machinery and plumbing — the resources and the structure. Let us begin with the truly irresistible force that is making it all happen.

1. The fiscal imperatives

Along with national unity, fiscal imperatives are the force that will drive essentially all short-term government reform.

This applies at the federal level above all. It is true that not all of the provinces are “out of the glue” yet in fiscal terms, but they have at least all made the decision that deficits must be ended — that they have no choice. Their tasks will only become tougher as Ottawa unloads its own problems to lower levels of government, but the provinces and their creatures, the municipalities, really have no choice. Since unlike Ottawa they do not have a license to print money, they have daily appointments with their lenders and they will do whatever they have to do to stay on good terms.

We have just seen the introduction of what is widely considered to be a “slashing” federal budget. Even so, we have been given no

hints of how the deficit will be brought down from the planned 1996-97 level of \$24 billion to zero.

This must come. Any half-way solution such as simply keeping the deficit at a size that will maintain the debt-to-GDP ratio is not good enough. That ratio is already far too high. It not only acts as a burden on our growth, it also stands as a constant source of vulnerability for our very fiscal survival in inevitable times of economic down-turn. It is exactly such fears that led Moody's to downgrade our sovereign debt.

Moreover, as our demographic time-bomb, the aging population, puts ever greater pressure on our public pension system, we must either stop the debt growth now, or pay much lower pensions in the future. Every additional \$100 billion in debt requires that about \$8 billion per year dead-weight interest payments (at current rates), and not, for example, to pensions and health.

There may be an attempt to put off the inevitable, as we approach the next federal election or as a downturn in the business cycle puts downward pressure on revenues. A truly determined government might just keep cutting; we won't know until we see another couple of budgets.

In the end, things will be much the same, which is to say that federal expenditures will be reduced to about the level of federal revenues. Given current trends, this looks like a further program spending reduction of something like \$22 billion per annum²¹ from the current 1995-96 fiscal year, depending on how interest rates and growth unfold.

This amounts to a cut of about 20 per cent of federal program spending (i.e., other than debt servicing), in the face of a population that is both growing and ageing. Since Ottawa will, for the first time in memory, actually be shrinking, this means a very marked change in federalism as we know it, even if there were no other pressures on

21 These are necessarily broad-brush numbers, because no one can know the course of economic growth, though it seems safe to say that the torrid pace of the past two years is not likely to continue. The trend of interest rates is the other crucial variable. The one thing that is certain is that the debt continues to grow for now at \$20 billion-plus per year, and the added interest charges on that have to be taken care of, as well as the forecast \$24 billion deficit. Thus the broad brush.

the system. This cutback will almost surely be achieved within the next five years.

Table 2, an expanded version of the spending estimates in table 1, offers some sample numbers. Note again these are relatively optimistic assumptions. In particular, real economic growth (the numbers include an assumed two per cent rate of inflation) does not go into recession until 1999-2000, which is a relatively "soft landing." At the same time, the effective interest rates are assumed to trend down over this long period of growth.

In addition, in this version of the table, I present one approach to which of the federal operations are "core" and which can be trimmed. Obviously the exact cuts are debatable; equally obviously, only general magnitudes are important for this current purpose.

To even *begin* to understand the enormity of these cuts and how far they go beyond what has been seriously considered so far, remember that the senior bureaucracy was involved in a program review throughout 1994. This exercise has generally been held to be the most difficult and genuine of its kind ever attempted, but what did it yield? The result was about \$5 billion in cuts in 1996-97, not counting higher fees for service. The number is certainly not insignificant, but it is still barely a beginning.

The guidelines for the operation²² made sense. They were six:

Does the program serve a public interest?

Is there a legitimate and necessary role for government in this area?

Is the current role of the federal government appropriate, or should the program be devolved to the provinces?

Which programs could be transferred to the private sector?

If the program is to continue, how could its efficiency be improved?

Is the program affordable in light of the current fiscal situation?

Now obviously there is a lot of room for judgment within these parameters. And the judgments are clearly going to have to become much tougher than they have been so far.

22 *Creating a Healthy Fiscal Climate*, Department of Finance, October 1994.

	1995/96 Federal Budget Documents				Author's Scenario	
	1994/95	1995/96	1996/97	1997/98	1998-99	1999-2000
Agriculture	2,073	1,938	1,890	1,628	1,328	1,028
Fisheries and Oceans	775	864	603	515	465	415
Natural Resources	1,262	1,087	753	638	488	338
Environment	737	630	553	503	453	403
Transportation	2,851	2,098	1,647	1,404	1,204	1,004
Industry Canada	1,301	1,291	793	742	742	692
Space	316	302	212	148	148	108
Granting Councils (NSERC, SSHRC)	595	563	531	518	518	518
National Research Council	449	409	384	373	373	373
Regional Development	1,138	1,313	798	576	576	0
Justice	757	737	717	693	693	693
Solicitor General	2,541	2,564	2,536	2,439	2,439	2,439
Heritage Canada	2,897	2,677	2,421	2,221	2,021	1,621
Foreign Affairs	1,488	1,343	1,289	1,231	1,131	1,031
International Assistance	2,594	2,220	2,220	2,061	1,761	1,061

	1995/96 Federal Budget Documents				Author's Scenario	
	1994/95	1995/96	1996/97	1997/98	1998-99	1999-2000
Citizenship and Immigration	663	670	665	601	601	501
Health	1,815	1,907	1,879	1,746	1,746	1,746
Human Resources	2,544	2,383	1,755	1,660	1,560	1,460
Indian Affairs and Northern Development	3,761	4,046	4,114	4,208	4,408	4,808
Central Mortgage and Housing	2,131	2,026	1,968	1,942	1,892	1,842
Veterans Affairs	2,088	1,966	1,901	1,857	1,857	1,857
Defence	11,574	11,027	10,495	9,925	9,425	8,325
PWS	1,907	1,767	1,617	1,509	1,409	1,259
Revenue	2,207	2,127	2,073	1,977	1,977	1,977
PCO/Fin/TB	385	303	254	236	236	236
PSC/AG/StatsCan	469	464	571	414	414	414
Total Departmental Operations	51,318	48,722	44,639	41,765	39,865	36,149

Assumptions:

The departmental spending totals do not exactly equal the main expenditure totals in this category as they were taken from different sections of the budget papers, and a full reconciliation is not available. The differences include treatment of lapsing and allotted funds and contingencies, and other accounting conventions, as well as the fact that departmental budgets include some effect of revenue measures.

Others have suggested exactly how the budget might be quickly balanced in our current circumstances, but that is not our purpose here. The main point is that circumstances shaped by previous governments and beyond the control of anyone in office today will bring about dramatic and wrenching change to federal expenditures, and in that process will require a major (and uncomfortable) step in the direction of constitutional change.

The danger is that change brought about in this way may be guided by a number of precepts that will bring longer-term problems. For example:

A major priority will be to achieve fast results *now*. The tendency in such circumstances is always to beggar the future to serve the present. Children are not educated, potholes are not filled, and research is not done. In other words longer pay-back investment and all but the most urgent maintenance is deferred. This will prove costly down the road.

The squeaky wheels will be greased. In operational terms, when trade-offs are made, the elderly (who have votes aplenty) will be favoured over children. Natives (who have media and guilt going for them) will be favoured over welfare mothers. People who we need, who are mobile, and who could leave for the United States or elsewhere — the richer, better educated, and those with better jobs — will be favoured over the immobile — the poor, the unskilled, the uneducated, and those generally without alternatives.

By contrast, richer provinces (which cannot “leave” geographically, but could, *in extremis*, do so politically) will be pressed to the limit in favour of the poorer provinces. This makes political and (perhaps) short-term social sense, but makes no long-term sense in any regard. We should boost our winners. Even in the short term this will be *fiscal* (as opposed to political) madness, because productivity and the stronger provinces are our only hope. They should be *helped*, not burdened.

The powerful will do relatively better than the powerless, which is an inevitable result of trying to pull out of a deep rut. You've got to mobilize your strongest horses to pull you

back up. But the unfortunate result of this will be an opening up of the already widening gap between the richest and poorest in our society. This will severely test that “collectivist” sharing spirit that we identified as part of the essence of Canada. The politics of greed and envy are not pretty, and feed one upon the other.

There is nothing “right” or “wrong” about any of this in an emergency situation. In an emergency, there is just survival and you do what you have to do. But this is no way to reorganize the structure of government in the long term. It will just leave one more legacy that the future will have to grapple with.

This is not a cheery picture, but all is not lost. We will remain a great country through all of this, if we can see where we are going and know that it makes sense. There are at least three specific things to keep in mind while contemplating the fiscal imperatives.

First, the wrenching adjustments will come to “only” 4 per cent of our GDP (i.e., the approximate size of our deficit). This is not an impossible task, as long as we can make the transition at least somewhat bearable to those for whom the impact is greatest. As discussed at length later, a major concern in making renewal work is to ensure that it is a win-win exercise, at least in comparison with the alternatives.

Second, in a nation with the resources and residual inefficiencies of Canada, very large productivity gains in the short run are quite possible, if we can find a way to pull together. Much of the private sector has shown the way. Improvement remains to be made there, and the efficiency quest in the huge public sector has only just begun. This means of course declaring a challenge, finding a consensus on how to meet it, and motivating people to act on that. Not easy? True. But it is not impossible either.

The third encouragement is this: throughout this exercise the federal government will certainly have been forced back into what it considers to be a “core” set of programs or activities. No doubt many babies will have gone out with the bath water and no doubt some pork will still remain in the barrel. Still, an initial flushing-out of the federal system, however involuntary and painful, will make restruc-

turing simpler. This will be little comfort at the time, but we will take what we can get.

To summarize Point 1: *Change will be forced by our financial situation.*

And this may be a very good thing. I don't ask unreconstructed centralists to make a voluntary U-turn quite yet, but try to think of this situation as an opportunity as well as a problem.

2. Representation and governance

There are numerous ways to reform our existing democratic institutions to make them more responsive and accountable. This obviously is one of the dimensions of change that could be part of a renewed Canada. Because it is a “stand-alone” change, in the sense it can be done without altering anything structural, it is not examined in detail here. Structural change can unfold without a reform of the governance system, and vice versa.

That does not mean that these types of changes are totally independent of each other. Consider this: people would rather consign the exercise of power to an authority they trust. At the same time, there is an innate bias in favour of smaller, “closer to home” authorities: the provinces, the municipalities, the communities.

In light of those two facts, suppose people were voting today on where to assign various tasks of government. Is it not clear that the more the central authority in Ottawa were trusted because of better, more sensitive, responsive, and accountable representation, the more likely a power might be left or assigned there, all other things being equal?

Yes, indeed, and that is why it is deeply in the self-interest of the Ottawa establishment to push hard for reform of the governance system as the “reinventing of Canada”²³ proceeds. This is true even of the machinery for provincial influence over Ottawa that is recommended later in this book.

23 With a deep bow to Tony Westell, author of *Reinventing Canada* (Toronto: Dundurn Press, 1994). This slender and highly readable volume contains more constitutional wisdom than do most professorial colloquia.

In short, while improvement of representation and governance at the centre is not essential for the renewal of Canada, it is worth working for. True, the desired improvements in responsiveness and accountability can be achieved through the ultimate means of pushing responsibility down the ladder to smaller, more local governments. On the other hand, to the extent that such a shift represents a choice against the centre in relation to a function that would be better performed at the centre, and that choice is made simply because of the perceived governance inadequacies, then it also represents a penalty paid by us all.

To summarize Point 2: *Better control systems make even existing machinery work better, with no other changes at all.*

3. The private and public sectors — trade-offs and tests

Political fashions change as surely as do the width of ties and the length of skirts. The life of societies being so much longer than those of individuals, and lacking the mercurial leadership of the Paris couturiers, political fashions are more glacial. Indeed, to be seen to move at all is to admit a mistake, so the movements are slow (except when a Ralph “Calvin” Klein takes over the fashion runway, and flair and personality rule for a bit).

For the currency of the lives of most us, the fashion in the business of the state has been to expand farther and farther into every nook and cranny, seeking the welfare of every crook and nanny. In the western world, the crest of this wave topped out sometime in the last decade, and the water is dropping fast.

As every mariner knows, waves are caused by constant winds, and the wind had blown from the left for half a century. It started with the Great Depression, little remembered now by those under seventy and known mostly from books and hearsay, if at all. This terrible time, which destroyed the order of lives without even the cruel justification of a war, led to demands that “something be done,” though no one really knew what. One thing was certain: the only actor available to do whatever was needed — that “something” — was government.

With the arrival of the Second World War, governments expanded hugely, rapidly, and naturally. None questioned the need; few wondered why the postwar retrenchment did not reinstate the old and much smaller list of government duties. Victory filled the air, the twin evils of inflation and unemployment were simultaneously feared, and governments switched their mobilization mode from making war to promoting full employment.

A golden age began, both in North America and, for somewhat different reasons, in wartorn Europe. Governments were popular. Big was beautiful in those days, and the bigger the government, the better. The feds outshone the provinces and states every time in the public eye.

In Canada, wartime financial agreements had given the feds all the money, and the paymaster of the piper called the tune. The grateful provinces, save Quebec, danced, delighted to spend tax revenues raised by somebody else, in return for only the low-cost burden of following “national standards.”

The golden 1950s became the restless 1960s and new challenges were discovered, to be tackled — of course — by government. A “war on poverty” was declared on both sides of the Canada-U.S. border, with some success and some cynicism. (“I’ll go out and do my bit — shoot a beggar,” said one deputy minister of my acquaintance.)

The 1970s came, and with that decade, Vietnam, and the United States started to realize that governments had limits. Canada did not receive that dreadful education, and it spent the decade trying to do things like control wages and prices by law, and isolate our energy market from the world oil shocks.

The sharp recession of 1981-82, and the adverse reaction to that year’s highly interventionist MacEachan federal budget, broke that wave in Canada, and the new Reagan and Thatcher governments in the United States and Britain gave clear signals that governments had over-reached; negative feedback was alive and well.

So the fashion gradually changed to privatization and government working with the private sector. This was more show and tell than reality however; governments and bureaucrats continued to control by regulation what they once guided through expenditure or

direct ownership. The CRTC protected us from too much wicked foreign culture that might wilt our tender Canadian cultural flowers. (These, strangely, grow almost exclusively in Toronto and Montreal, as far as government cash fertilizer is concerned.)

Businesses had to restructure themselves in the face of the recessions of the early 1980s and 1990s, and increasingly they could no longer live with the rules and the tax burdens. Government fashions had to change again. This time, though, in the mid-1990s, we have seen an actual reverse. Government is retrenching — holding or cutting public sector-wages, laying off employees, loosening or repealing regulations, and, most importantly, opening Canada to world competition.

The world is cooperating by competing with us more vigorously than ever in history, and the Canadian private sector is keeping up — with the help of a markedly declining Canadian dollar, it must be added, a decline that cannot go on unless we want to cut our relative standard of living in this world without limit.

It now falls to the public sector to match the private restructuring. The easiest way to do this, of course, is to have the private sector take over as much as makes sense of what the public sector does today.

The up-side of such privatization (where it does make sense) is lower prices, lower taxes, and higher efficiency. The other side (for not all is down-side by any means) is fewer public servants, fewer union members (because the public sector is almost 100 per cent unionized and the private sector hardly at all these days), lesser job security for workers doing what was formerly public-sector work, and much more difficulty for social engineers to adapt the system to their theories.

The fashion and fact is that increasing use of the private sector (including non-profit agencies) to do work formerly done by governments is a part of the change we are seeing across the world, and one that will accelerate in Canada.

To summarize Point 3: *Any change that can be managed by way of a shift from the political marketplace to the private side solves a lot of problems in that given area.*

4. *Disentanglement*

“Disentanglement” is a very fine word that can be applied to a simple concern of the general public, which tends to think of waste, overlap, and duplication. In fact, the concept goes farther than that, looking at *competition* among governments (for example, in supporting the culture industry), *policy norms* (for example, national standards), and *tax interaction* (GST and sales taxes and different income tax concepts as they affect the same taxpayer).

As another potential dimension of change, disentanglement says that government should be in watertight compartments. Each level should have its responsibilities clearly delineated, should not interfere with others, and should raise whatever money it spends. This way offers the maximum incentive for efficiency, the maximum freedom to adapt local practices to local needs, and the maximum accountability to the electorate, because there is no one else to take the blame or credit.

Total disentanglement is clearly impossible. Even in a highly compartmentalized division of powers, there are huge factual overlaps. Let us take a very simple example, not too far from current reality.

Imagine the federal government is totally in charge of immigration, and the provincial government totally in charge of the education of the children of immigrants when they arrive. These governments really ought to work together on such things as how much ESL (English as a Second Language) training may be required and how to pay for it. (They don't.) You can't “disentangle” these interrelated issues. You have to manage the overlap.

Consider the federal responsibility for Native populations, and the huge dividends that should be available if the provinces exercised their usual responsibilities on health, education, and welfare services. There is some coordination, but true disentanglement doesn't work on this issue, as long as Ottawa claims (or is forced into claiming, by provincial reluctance) a special responsibility for Natives.

Consider the fact that the provinces have responsibility for income support generally, but Ottawa makes large, direct payments to

seniors. This particular division of labour is going to lead to bad consequences for the young and the poor, as we see in chapter 5.

Consider the fact that the federal government has chosen to be active in the fields of the environment, housing, and culture. These are disentanglements we may be able to pursue, but there are many interprovincial and international overlaps.

There are always going to be “entanglements,” but that does not mean there cannot be useful change. I have three comments here, the first being arithmetical.

The more evenly jurisdictions are split between levels of government, the more chances there are of entanglement. Conversely, if a preponderance shifts to one side or the other, entanglement declines, rapidly and mathematically. If each level has twenty jurisdictions, the interaction will be frequent. If one has thirty nine-jurisdictions and the other only one, there will not be much interplay. A federal/provincial, fishery/economic development example shows that there is entanglement with current jurisdictions. On the other hand, if the province controlled the fishery as well as economic development (as is perfectly feasible on the Pacific, but less so on the Atlantic) the jurisdictional entanglement disappears. (Of course, one still needs coordination *inside* a single level of government, and that is not always forthcoming either.)

The second comment is that any time it makes sense to move an activity from either level of government to the private sector, we get rid of entanglement immediately. The marketplace looks after the relationships, and no political frictions remain. (As an example, if employment training were largely done by industry to meet its needs, this flash-point of constitutional friction would be of no importance.)

The other observation is that, while entanglements between governments may be unavoidable, conflicts are not. Indeed, there is no reason in principle why the interactions should not be positive rather than negative. All that is required is machinery to provide the right coordination, and incentives to help the machinery work.

To summarize Point 4: *We need much better systems to motivate, structure, monitor, and control intergovernmental relations.*

5. *Devolution and Decentralization*

“Decentralization” has two common meanings. In the political usage of today the most common is *devolution*, or the outright conferring of authority and responsibility to a lower level.²⁴ That is the meaning intended in this book.

The other, more technical meaning of “decentralization” is, broadly, the administration and exercise of some powers by a lower level, subject to the ultimate authority of the higher level.

For example: employment training, as mentioned above, is an object of contention between Ottawa and the provinces. Giving the provinces the constitutional power to look after such training would be an example of devolution. They could proceed as they choose, as they do in education or the exercise of any other provincial power.

On the other hand, if the federal government entered into an agreement with the provinces to administer employment training programs under jointly-developed policies, with the ultimate authority lying in Ottawa but the ordinary decisions being made in the provinces, that would be a form of the second meaning of decentralization.

An even more common model occurs strictly within the federal public service itself, whereby federal public servants in, say, Newfoundland, would make many of the decisions relating to the Coast Guard, for example, again under Ottawa's guidelines.

There are many variations on this theme. The important idea is that some decisions are better made at one level, and some at another. Take a large national bank as an example: small loans might be authorized in a branch, medium loans in a regional headquarters, and very large loans and treasury services out of head office. This is decentralization in the business context, and again, the degree can vary considerably.

The general concept of decentralization, however, undoubtedly implies a downward delegation of authority. The variations have to do with closeness of monitoring, permitted variation from centrally

²⁴ There is no reason why devolution can't be *upward* as well, though it doesn't fit with the root of the word. We will be making use of that fact later on. By contrast, decentralization can only be downward, or towards the smaller unit.

imposed norms, and the ability to take back the delegated authority or to overrule the decisions made thereunder.

An unusual example of this sort of arrangement in Canadian federalism is the criminal law — formulated in Ottawa, implemented and managed by the provinces (almost completely), and guided by a judiciary that is itself guided by the Supreme Court of Canada.

The unique element in this example, and the reason it works so well, is the continuous involvement of the judiciary as arbitrator of the rights and powers of all concerned. One cannot rely on this pattern in other areas.²⁵

To summarize Point 5: *There are a variety of means of moving authority and responsibility to the most “appropriate” level of government or to the private sector, once we have decided that is what we want to do. Disentanglement alone is not a panacea.*

Where there is cooperative (or competitive) action in the same jurisdictional or operational sphere without an arbitrator, one normally finds that one or the other party is dominant, or that friction occurs. This leads us naturally to the final entry in this list of “dimensions of change”: institutionalized shared jurisdictions.

6. Concurrency, paramountcy, and co-government

This potential dimension of change is generally overlooked, and yet, along with the devolution/decentralization axis, it is probably the greatest source of relief for our pains. We explore it briefly here in order to define the concepts, and we return to it in chapters 6 and 7.

The idea of *concurrency* is that two levels of government²⁶ both have jurisdiction in a given area. Indeed, our constitution already has two very old examples of this, and one relatively new one. The

25 Of course it all depends on the system. In Germany, the pattern of central policy-making and regional government administration is very common. That country has the instrument of a state- (Länder-) dominated upper house (the Bundesrat) to help manage the relationship.

26 We normally think of federal and provincial as the two levels, but there is no reason why many of the concepts of this book should not apply to the provincial/local relationship as well.

old examples are immigration and agriculture, which have been concurrent powers since Canada's beginning. We are more familiar with the agriculture side, since both levels of government have agriculture departments. (Note that this is different from justice, where both levels have departments of the same name as well. In fact, they are different. Their functions do not overlap in justice; one makes the criminal law, the other administers it. Civil law is wholly provincial.)

The sharing of power over immigration is a mystery to most of us, since in most provinces the matter is wholly federal. However this federal dominance has occurred only because the provinces — other than Quebec — have chosen not to move in this area in any significant way. One might ask what provincial immigration power could mean in any case, given free mobility of persons within Canada. Even where there is complete mobility, the concurrent power has some meaning, as Quebec has shown. With residency requirements for certain social services for non-citizens, it could gain a great deal more.

The third concurrent power is related to pensions and came as a result of amendments to the constitution enacted in the 1950s and 1960s in order that the federal government could institute, first, old age security (OAS), and later, the Canada Pension Plan.

Now, if you think about it for a minute, untrammelled concurrency could obviously lead to chaos. Someone has to have the final word in case of conflicts, or we could have directly opposite laws on the same matter. What would the citizen and courts do with that? The parents of Confederation were mindful of this and came up with the idea of *paramountcy*.

What paramountcy means is that someone has the last word. In the case of agriculture and immigration, that belongs to the federal government. If Ottawa passes any laws or otherwise takes charge in some part of these jurisdictions, the provinces are frozen out, to that extent. In the case of pensions, the provinces are boss, and thus we have the Quebec Pension Plan, that province having exercised its paramountcy in this area of pensions and having frozen Ottawa out.

Obviously even paramountcy doesn't end all overlap questions: for example, what happens when people who have been contribut-

ing to the CPP for years move to Quebec and start on the QPP? Must they start all over again? No — the two plans have rules for working this out, and the split power works quite smoothly.

These two concepts will turn out to give us quite a lot of help in squaring some jurisdictional circles in a restructuring plan for Canada. I am indebted to Gordon Robertson, former Clerk of the Privy Council for Canada, for valuable insights in this regard. The concept is touched on all too briefly in a recent book by Robertson, with Donald G. Lenihan and Roger Tasse.²⁷

Co-government is quite a different kettle of fish, but one we shall also find useful for our constitutional stew. The idea here is that, in some matters, both levels of government should have a firm grip on the wheel of the ship of state so that it cannot turn other than by mutual consent. The particular class of subject for which such an apparently difficult decision policy might be useful centres on actions that, for one reason or another, might be best undertaken by the one level of government, and yet the formal powers or major impacts lie within the responsibilities of the other level.

In these cases, joint action is, in effect, the only good action, due to inefficiencies or conflicts caused by attempting to proceed in any other way. Classic examples are the use of the federal spending power²⁸ or of the various override or emergency powers granted to Ottawa under the constitution.

27 *Reclaiming the Middle Ground* (Montreal: IRPP, 1994). In addition, the opening chapters contain a very fine discussion of the tensions between the concepts of individual and collective rights in the Canadian context.

28 The *spending power* is a term used to refer to the federal exercise of power or influence by its simple ability to raise and spend money in any way it wishes, particularly in so-called shared cost programs. The idea is that the feds say to the provinces, “If you will do such-and-such that lies within your jurisdiction, we will pay for some portion of it.” The portion is usually half, and such a carrot of “free” money is very hard to overlook, especially for the poorer provinces.

The taxpayer is the same person, of course, as long as all of the provinces sign on. However, if any province refuses, it could find its people paying for programs elsewhere in Canada, but not getting any benefit at home. Provinces over the years have railed at this practice as an unacceptable pressure on their own priorities. Saskatchewan CCF Premier Tommy C. Douglas was one of the leaders, though his party (now the NDP) later changed its tune. However, no province but Quebec has made a major stand on the matter. Quebec has succeeded in

The most recent important program candidate for the use of the spending power was the concept of a national day-care system. It has not gone anywhere because of lack of dollars and political will, and resistance from provinces that want to determine their own priorities without 50-cent dollars from Ottawa distorting the decisions. Under a system of co-government, Ottawa could not even *offer* such a scheme without prior provincial approval.

Gun control and the criminal code provide another worrisome contemporary example. What would happen if some of the provincial authorities that strongly resist this measure declined to enforce a (constitutionally) valid federal law? No one knows.

Co-government mechanisms could be used for other federal decisions that impinge on the provinces as well. For example, it has often been suggested that some kind of joint provincial body should have a voice in the approval of federal officials like the Governor of the Bank of Canada, who clearly has a major impact on the business and opportunities of the provinces.

The idea of co-government is not new; it has just never gone anywhere in any formal sense, though First Ministers' conferences have often debated these matters in an informal and non-binding way. Specific proposals for co-government machinery over recent years have included the House of the Provinces idea, put forward by British Columbia in 1978, the Federal Council, advanced by the Quebec Liberals in 1980, and a Council of the Federation, bandied about by the federal Tories in the pre-Charlottetown manoeuvrings.

Co-government has both merit and necessity in the new Canada, and we employ the concept later on.

To summarize Point 6: *There are many known (but so far little used) ways for all eleven senior governments²⁹ to work together in*

several matters in “opting out”: refusing to take part in the program, and getting money instead.

Most of the co-called national standards and many of our social programs have been built over the years via the spending power. The resistance to the practice has grown much stronger in recent years and it is probably on its way out, even without constitutional change.

29 The very phrase “eleven senior governments” shows how gradually things change. When I first went to Ottawa in the early 1960s, there was only one senior

coherent ways.

THE ROOM TO MANOEUVRE

The areas discussed here define the space for movement in restructuring our governments. Specifying where given powers lie and how their exercise shall be constrained between governments (and constrained as well by the Charter, a whole different issue) defines the room we have in our search for a third option that leads to something workable and durable. It is to the latter question, durability, that we now turn. Here we address the concerns of those who feel that decentralization and provincial control of the centre can go only so far, without so fatally weakening what is left that it falls apart under any stress.

In other words, our room to manoeuvre may be large in theory, but is it constrained by practical limits to a much smaller range?

EXAMINING EQUILIBRIUM — PART I

A “default” equilibrium is the situation one would expect if “nature takes its course.” In constitutional terms, this almost always means simply more of the same, since constitutions are so very hard to change. (Of course, actual intergovernmental arrangements do change over the years, much as a river meanders back and forth between its long-term banks. Constitutions in effect form the “river-banks” of governmental activity.)

If we assume a continuing impasse in the willingness among the eleven senior governments to work in positive ways towards restructuring, the default equilibrium would remain within the “river-banks” but would be driven to the extreme of decentralization possible in that context.

government. I can remember my own shock when I first saw the new description of the intergovernmental collective, but the intent then was only cosmetic. Most of Ottawa still hasn't accepted the reality behind the words.

Two forces would guarantee this. The first is the fiscal force, as previously described. There is no way that any federal budget for the foreseeable future will be able to avoid major continuing cutbacks in discretionary federal activity. Almost all resources will be devoted to dealing with absolute core activities and the consequences of the past — the debt, the unfunded (but promised) commitments of the CPP, other payments to seniors, and Native land claims and entitlements, the fastest growing component of federal responsibilities.

Minimal “core” activities will include a small defence establishment, a reduced foreign department, border controls, weights and measures, transportation safety, and so on. Almost all funds beyond that will be required to provide for even a limited contribution to the Canadian concept of “equalization.”

Some federal control would be retained by virtue of regulation of “user pay” successors to present activities — the already planned privatization of air-traffic control, crown corporations to run the fishery resource, continued regulation of a privatized CN Rail, and perhaps the ports.

For those who remember the much-maligned Allaire Report,³⁰ there is an irony in noting that a lack of money in Ottawa could force a realignment similar to that proposal, albeit in an unplanned way.

Political forces would reinforce the fiscal realities. Only some of these come from Quebec, but it goes without saying that Quebec has a powerful dissatisfaction with the status quo. Indeed, according to surveys of the years, at least half of those *opposing* separation are dissatisfied with the status quo as well, and the dissatisfaction calls for more powers for the province of Quebec. This is an enduring political reality.³¹

30 Report adopted by the Liberal Party of Quebec in its 1991 annual convention by an 87 per cent vote.

31 A Quebec manager recently put it in corporate terms. Noting that 40 to 45 per cent of Quebecers have told pollsters for twenty years that they would prefer to live in another country, he commented, “If that many of my employees wanted to leave, I would ask myself if there was something wrong with my firm. I would do something to accommodate those people.” *Globe & Mail*, March 9, 1995

On the other hand, if there is one sentiment on these matters in the rest of Canada that is “ROC-solid,”³² it is that there should be no special status for Quebec. The only way to square that circle is to offer every element of decentralization to every one of the provinces, whether they take up the offer or not.

And what would be the uptake? It would depend on the financial terms, of course, but there is not much question about what these would be. Ottawa would be decentralizing because it had no money. Only miserly financial transfers would be offered, along with any given responsibility. These would be calculated so as to save a lot of money for Ottawa. At the same time, any province choosing not to accept a proffered devolution of power and responsibility in any particular area might just have to forget about that service, or, if truly essential, continue to receive it from Ottawa at a considerably scaled back level.

In practice, B.C., Alberta, Ontario, and Quebec would certainly buy the full menu of decentralization. The other six provinces would have to pick and choose components as affordable.

What a curious business we would have here! Consider the result: a Canada decentralized helter-skelter for the wrong reasons, simply because of a failed referendum and a failed financial plan (if “plan” is not too generous a word for a generation of profligacy). As always, we shall have to work with reality, and the decentralist pressure is at least one silver lining to the financial troubles.

But under this equilibrium Ottawa would have no way of preserving national standards (which, after all, have really only been federal standards up until now), and no way of even guaranteeing such basic aspects of mobility as portability of government benefits. One province might or might not choose to honour the promises of another in respect to health or social services as far as a newcomer is concerned, and that would be that.

Any thought of regional-development subsidies from Ottawa would be out the window. Regional development would consist of provinces following their own advantages, as is natural. If this involved measures to attract employable people and environmentally

32 ROC is the acronym for the “Rest of Canada.”

good jobs, while discouraging the in-migration of unemployable people and leaving the poorer provinces the dirty industries as well, this would also be natural.

Moreover, it would no doubt also work, for we have a model south of the border that not only works, but works *well* in an economic sense, though there are aspects that make some Canadians uncomfortable.

EXAMINING EQUILIBRIUM — PART II: HOW LITTLE IS ENOUGH?

A great concern with respect to the unplanned default scenario discussed above, or indeed any planned decentralization scheme that is deep and serious, is whether such an arrangement has enough remaining force pulling towards the centre for any kind of a central government to continue. It is time to examine that question.

A minimum condition for the continuity of some redefined Canadian state is that the component parts, capable of behaving as independent actors, must find it in their self-interests to be members, and to continue as such.

And what are the component parts? By virtue of history, inertia, economic ties, and bureaucratic and financial capabilities (in the sense of being able to raise money by taxation or debt), the component parts are the provinces. Some are stronger than others, to be sure, and some (especially the Maritimes) would work closely together in recognition of that, but the components for the purposes of this exercise — the independent actors — are clearly the provinces and their governments. No city or region has what it takes at the moment to be an independent actor.

Consider ten unconnected provinces north of the U.S. border. What comprises their set of mutual advantages today, as compared with that of the colonies of 1867?

For one, the matter of defence is of much less importance. Whether we are together as provinces or separate, the United States is our defence against any really serious threat, and, unlike the situation in 1867, we aren't much worried about the territorial ambitions of that great power.

In a similar way, self-rule is less of an issue. It was possible to make a case that a united Canada in 1867 would be more independent of Britain. With the large number of micro-states in the United Nations today, that is no longer a consideration.

But some realities remain. The first is trade. It is quite true that our trade patterns are naturally north-south, but we do have very considerable east-west flows still, not just of goods and services, but of major capital as well.³³ Moreover, even with NAFTA, we have ongoing negotiations with our giant trading partner to the south in many areas. We can do better in these by dealing as a group.

The next matter is identity. There is indeed a distinctive Canadian identity, as discussed in chapter 2. But an additional and enduring definition is that we are *not Americans*. Now, if there were to be an independent British Columbia, I would still be “not American,” but somehow not as impressively as I would be if B.C. were still a part of Canada.

Next, pooling of risk is an important mutual advantage, as long as each party sees the pooling rules as being fair. There is no doubt that life and the economic cycle have their ups and downs, and a more broadly-based economy may have smaller ups, but it will have smaller downs as well. Risk-averse people like Canadians value that.

We value size and real estate as well. There is a considerable psychic income in knowing that one travels or even *could* travel without let or hindrance from St. John's to Victoria. It may be silly —

33 See *The Extraordinary Trade Generating Powers of the Canadian Economic Union*, John McCallum, Royal Bank of Canada, and John Helliwell, University of British Columbia, May 1995.

This brief study demonstrates on the basis of 1989 data that trade between the Canadian provinces was *twenty times* as likely as was similar trade between provinces and the United States, for a given size and distance of market. In other words, the Canadian border has made an immense difference to our trade patterns, far larger than the general impression. This indicates both the potential for dislocation in a sudden fracture of the Canadian economic union, and also the probable efficiencies available in a gradual shift to a “borderless” market under the influence of NAFTA, easier transportation and communications, and “globalization.” The authors note that more recent data may indicate that the strong effect of the border is shrinking.

one could certainly make the same trip were we different countries — but the sentiment remains.

There are economies of scale in performing certain functions of a national state on a pooled basis. Defence, border control, and external affairs are the most obvious, but such matters as integrated financial institutions and transport systems may be even more important.

The matter of the Canadian currency is central. If we were ten little countries, we would all use the U.S. dollar. To the extent that a separate currency is useful to us, we simply need to stick together. This matter of currency is a very big item. (There are arguments that we would be better off using the U.S. dollar in any case, but there is no doubt that to the extent an economy wants to preserve its distinctiveness, its currency unit is important. This is behind the great European monetary union debate in Britain right now.)

Let us then recap these very simple items of mutual advantage:

- trade,
- identity assistance,
- pooling of risks,
- access to real estate,
- economies of scale in central government functions, and
- currency.

It is clear that a central government that did only these very minimal things — far fewer powers than the most radical decentralist has suggested — would serve the mutual advantage of its member provinces, without any important down-side for those provinces. I therefore conclude that it would indeed be a system in stable equilibrium, and it might even be pared down further.³⁴ To the extent that this theoretical Pan-Canadian equilibrium *would be* unstable, I sug-

34 One condition that is an absolute requirement for this equilibrium is *symmetry*, with legal equality of all of the provinces. In an unbalanced relationship such as the “sovereignty-association” plans of Rene Levesque in the past and of others today, the equilibrium would not exist. It is the general consensus of political analysts that this form would be unstable.

One reason is because it would be bipolar. In such arrangements, both the weaker and stronger parties tend to think the other “wins” too often. It is interesting that the peaceful break-up comparisons given by Robert Young in his definitive and monumental *The Secession of Quebec and the Future of Canada*

gest that the tendencies would not be towards break-up, but toward closer integration! We have a working model of exactly this in the European Union: fifteen (for the moment) states with far greater differences than we have, with the momentum clearly towards closer integration. Indeed, they are now moving to add the “currency” dimension already included in our minimal model.

The only area remaining to be investigated before certifying the stability of this model is the following: even given this mutual advantage, this community of interest, is there some other external alliance that would pull the partners away from this “weak” Canadian union?

The only possible threat of this kind would be the attraction of the United States. Most Canadians rejoice in who we have for neighbours, not wishing any other. However, we see many problems in the American way of life that concern us. Consider the general perception in Canada of America's problems: crime, racism, guns and violence, lack of medical care for many and desperate poverty for some, an allegedly uncaring society, and so on. Whether these are inner-city stereotypes or they are truly reflective of American society is almost beside the point in political terms. Support for the idea of joining the United States is quite low in every poll, in every part of Canada.

In sum, it is unlikely that the existence of our huge southern neighbour could pose a threat to even a minimal Canadian structure. The only plausible motive would be serious economic pressures that might somehow be cured by union with the United States. The only place such economic pressures and potential cures might conceivably bite with enough force to change things would be in the Atlantic region.

And even if a generous American suitor and blushing Atlantic bride were to find common cause and happiness thereafter, what reaction would this cause in the other six provinces but to wish the At-

(Montreal and Kingston: McGill-Queen's University Press, 1995) were mostly bi-polar unions: Austria-Hungary, Sweden-Norway, Iceland-Denmark, Singapore-Malaysia (in effect if not in theory), and the Czech Republic and Slovakia. The second reason for instability would be a continuing resentment by other provinces of the new “special status” of Quebec.

lantic well? With the four provinces at the eastern periphery of our geography holding but 8 per cent of our population and less of the GDP, we should not consider such an action by the Atlantic region to be any threat to the equilibrium of the remaining contiguous provinces.

This is all so unlikely as to border on fantasy, but determined centralists do raise such straw men, so they must be dealt with.

In short, after this excursion into the logic and comparative experience elsewhere, the bottom line is this: the maximum degree of decentralization that any serious proponent has put forward to date — including even the Allaire proposal — is well within the equilibrium band as long as equality among the provinces is observed.

EQUILIBRIUM — PART III: MIDDLE WAYS THAT WOULD WORK

We started this chapter with the irresistible force of federal cut-backs caused by the debt and deficit. The great problem with a fiscally driven decentralization is that it loses the main advantage of a centre, which is coordination. For example, in speaking of “disentanglement,” the point was made that this is really an impossible goal. Governments will always have an impact on each other, and what we really need to do is to ensure that we have machinery to see that they work in concert, rather than at cross purposes.

Decentralization that comes about from a shedding of responsibilities by an impoverished centre does quite the opposite. It disbands old mechanisms of coordination (achieved through the power of “paying the piper and calling the tune”). To a point, this is good. It gets rid of the old examples of the federal government imposing inappropriate rules in Newfoundland, just because they work in Toronto, and vice versa. This is the “worst common denominator” effect.

But other elements of coordination are worth saving, having to do with national standards (*not* to be confused with federal standards), portability, and the like.

What we need then is to find our way to a decentralization that is “win-win” (for the citizens — it will never be considered a win by

Ottawa). The alternatives are a partial win through decentralization, and half a loss through failing to work together in an intelligent way.

This is the business of chapters 6 and 7. The point of this chapter is that *we are going to change and decentralize whether we want to or not*. Our constitutional and fiscal strait-jackets ensure that. *But that does not threaten our integrity as a nation*. Given that fact, we turn to an examination of models that other parts of the world have found useful (or not).

4

Options

There are various models we might use for a restructured Canada, and we should look at them, mostly for the purpose of information. Even though they do not suit our needs, there is merit in novel ideas, and there are useful elements that we can borrow.

For example, a surprising number of people think that the solution lies in the abolition of provinces in favour of city-states. For these people (and not a few others), the provincial capitals are as unpopular as is Ottawa.

There is no doubt that our great cities are engines of intellectual, cultural and economic achievement. But that does not mean that a nation of city-states would be the right way to go. Much of Canada is small-town or rural, and the resources of the hinterland are essential to the city. The city contains services the countryside must have, but it is easier to imagine the rest of British Columbia living without Vancouver, Ontario without Toronto, or Quebec without Montreal, than vice versa.

As well, all of our real choices are constrained by history. Just as in the matter of governance, it would be quite feasible in theory for us to move from the parliamentary to the U.S. congressional system. However, that is just not a real option, short of a complete collapse of the existing Canada. We can learn from watching others, and we can adapt and adopt bits and pieces, but we are not a people about to make a revolutionary break with our past without very strong reasons.

What are the choices we do have? In truth, our choices must be found in Canada, but far-away fields having their customary allure, let us look, first, at the mother countries of England and France.

THE UNITARY STATE

Should any New Agers happen into this text, the unitary state is not oneness with the universe, alas. It is a central government arrangement whereby there is only one head office, as in both Britain and France. There are administrative units — towns, cities, counties, departments — but all of these run on delegated powers and are always subject to the ultimate authority and continued guidance of the central government. (This arrangement is in direct contrast to the one we have in Canada, where the federal and provincial governments are their own masters, neither ruling the other.)

The advantage of a unitary state is that there are never any power struggles of consequence in a legal sense (though there may be political contests between, say, a city and the centre) because one government has all of the ultimate power. Several years ago the British Government simply wiped out the enormous and powerful Greater London Council and its huge bureaucracy by means of a simple law passed by the central government. This focus of power eliminates confusion and generally gives rise to greater consistency in government rules and operations.

On the other hand, “consistency” may be also one of the *disadvantages* of a unitary state. In a large and diverse country like Canada, there is a general view that both distance and differing local requirements make local decision making on many matters a necessity.

Indeed, some parts of the United Kingdom feel the same way. The Welsh nationalistic movement is weak, but a significant percentage of Scottish voters favour Scotland having its own legislature to deal with local questions. Some Scots favour complete independence.

Northern Ireland had its own legislature to deal with local matters for many years, until “the troubles” required its suspension. Ireland (the country), sought and finally obtained complete independence in 1921.

Still and all, the unitary state continues to hold sway in Britain, and even more so in France. In both countries, there is a complex

network of influence at the centre, by local representatives, directly elected, or influential for other reasons.

There can be no question but that the founders of our country sought to emulate the British model. They had to pay attention to inconvenient local facts, such as the strong sentiments about identity held in the Maritimes and Lower Canada (Quebec), but the underlying intent was to produce a very strong central government. That this scheme would be cloaked in the garb of federalism was seen more as a convenience and a concession, rather than as a long run reality.

History failed to accommodate that plan, and we evolved into a true federation, through a mixture of unexpected court rulings and political pressures. However unexpected, these developments clearly reflected the mood of the country. Canada is not a unitary state.

FEDERALISM

The unitary state was the natural outgrowth of one-owner kingdoms or dictatorships. These lands knew nothing but centralization of powers under the old rule; it was natural that the successors would simply continue this pattern.

Federalism has now spread around the world in many different shapes and forms, from its North American genesis in the United States and its European basis in Switzerland. The Swiss heritage is much older, dating back to 1291, but it did not reach its modern federal incarnation until 1847. The Americans of course had adopted their revolutionary (in both senses) structure earlier, and that country remains the oldest, and arguably most vigorous, of the federal states.

The format of federalism now comes in many guises, though few would meet our needs.³⁵ Indeed, the United States and Switzerland will do for us here, as will the European Union experience, a

35 In *Options for a New Canada*, University of Toronto Press, 1991, Ronald L. Watts and Douglas M. Brown, eds., Alain G. Gagnon lists eighteen such, from Argentina through Yugoslavia. The latter, the USSR, and Czechoslovakia have since disappeared, and Gagnon in his useful comparison deals only with those relevant to Canada.

bit about the new Belgium, and a word on the phantom idea of “dualism.”

There are two great ideas behind federalism. One is the concept that liberty, the progress of the citizen, and the control of governments are best secured through choice and competition among governments, rather than through one monolithic state. The division of power is the limitation of power.

The other concept is that local governments can better meet local conditions in matters that vary by locality, within a wider union, to serve common purposes. Such a division of responsibilities makes perfect sense, and the idea is no stranger to humble and more private experience. Most familiar and common as a smaller unit of “government” is the idea of the family, which regulates most of our time when we are young, within the larger community that shapes our lives.

Most formal concepts of federalism in the Canadian context discuss only two levels: federal and provincial. Yet a bit of thought will show that more gradations are not only possible but extant, both above and below the national state level. The gradual constraints imposed on sovereignty through membership in supranational authorities such as the World Trade Organization and the International Monetary Fund are examples. (These arrangements are somewhat different from bilateral international arrangements flowing from international treaties, in the sense that both the WTO and the IMF are structures with lives and initiatives of their own, independent of any one or two signatory states. The United Nations is, bit by bit, approaching this supranational status, but for the moment all of these arrangements remain the captives of the constituent states, especially the larger ones.)

At the other end of the scale, and below the provincial level, are regional and municipal governments — wards of the provinces in law, to be sure, but important actors with independent actions. And in the interstices of federalism, one finds other curious and sometimes frightening creatures on the loose: intergovernmental committees, crown corporations, and other entities, all with the (alleged) purpose of better serving specific government objectives.

The particular genius of federalism done well is that it allows a large number of diverse elements of a national state to “do their own thing” in areas of difference and diversity, while working together for the common good in areas of common agreement. The problems of federalism arise, simply put, when the centre tries to get into the business of the diversities, or the diversities try to deny the proper role of the centre. This is a vague recipe indeed, but every experienced Canadian politician will know what it means.

The usual problems with all of this are caused by a characteristic of organizations that is even more basic than those inspiring federalism, namely, the urge to expand power to the limits of the possible.

This expansionist tendency is generally fostered by laudable motives. To wit, every government, every group of bureaucrats and politicians, finds reason to believe that they are pretty good organizations, even remarkable ones, in an otherwise troubled world. What could be more natural than expanding in such a way as to solve yet more problems, and surely men and women of good will could but welcome this? To make the case is to chuckle, perhaps ruefully, in recognition of a nigh universal human conceit.

Therefore, federations require checks and restrictions on government which unitary states need fully as much and more, but are less suited to implement. The checks put on governments in a federation fall into three categories: absolute restrictions, division of powers, and reciprocal controls.

ABSOLUTE RESTRICTIONS ON GOVERNMENTS IN A FEDERATION

This kind of rule is generally contained in some document of basic law. In Canada, we call it the constitution, and we think in particular of that part called the Charter of Rights and Freedoms. No government can contravene or even change this supreme law by itself. Even where governments may agree to act together as specified in our amending formula, there is now a convention in Canada (though not yet a law) that suggests that any basic amendment to the constitution has to be put to a referendum of the people.

Broadly speaking, governments do not like charters, exactly because such documents set limits. Even the public can be surprised by the effect of such basic law, as, for example, when the rights of horrible criminals are protected in ways that may allow them to go free. All in all, we tend to accept such anomalies as a fair bargain for the greater good of freedom for all, but some of the Charter rulings to date have revived an appreciation of the “Law of Unintended Consequences”: no law of humans, of course, but a statement of how complexity can lead to unforeseen results that we may not like.

When we get mixed results with ordinary laws, we can simply change them, fine-tuning them as required. Since constitutions are deliberately made very difficult to change, that simple remedy does not apply to a charter. That is why the famous “notwithstanding” clause was inserted into our Charter, and it remains a matter of debate thirteen years later.

If rigidity is one characteristic of a charter, a subtraction of power from politicians (whom we elect) and an addition to the power of the courts (which we do not elect) are other inevitable results. The great principles of a charter must be interpreted to apply them to the grubby details of day-to-day life, and this task is performed by the courts. So far so good, but what happens when the principles of the Charter conflict? When that happens, the courts have to pick and choose — in effect, to make law, a duty for which they were not selected in the first place.

Clearly then, the more we put in a charter, the more rigidity we put in our society, the more we invite litigation, and the more the courts make law. This, in my opinion, is a bad thing. However much you may like the new law a court has made on any given day, others will dislike it equally. This is true of any decision, but when decisions are made by politicians, you can change those decision makers! Not so with courts.

For now, the Charter as it stands is a source of great pride and trust for most Canadians, though their attachment to it is based more on a distrust of governments than on a detailed knowledge of its contents. It is an untouchable icon in current Canadian federalism.

The Division of Powers

The division of powers is the central question of any federation, and is one of the two main potential “dimensions of change” cited in chapter 3.

On the surface, the aim is an easy one: to define the job of each level of government, and then to give each the powers and financial resources to get on with that job.

Alas, in reality that task is not so easy. The first reality is this: finances are limited, demands on governments are not. Since the same taxpayer funds however many levels of government, there is bound to be a competition in picking that one pocket.

As a solution, the first instinct is to divide the pocket into sections, with each part earmarked for a particular level of government. One level gets wealth taxes, another income taxes, another sales taxes, and so on. Regrettably, this approach just does not work.³⁶ Tax sources are not related in any useful way to any sensible assignment of responsibilities. So we have painful taxation overlap, whatever we do with powers. About the best we can hope for here is to try to make sure that we know which level is taking how much for what purpose, and to employ specific user fees when it is proper to identify them with specific services.

The second reality is that powers don't divide much more conveniently than do taxes. It is easy to specify matters by objects: “the economy,” for example, or “health,” or “communications.” After that, one must get to the nitty-gritty. Take health, a responsibility assigned to the provincial level of government. We have drugs (federal), hospitals (provincial), Native health (federal), poverty relief (provincial, partly federally financed), deductibility of health expenses (federal), licensing of doctors (provincial) — and so it goes. It turns out that powers, like taxation, are caught up with each other in practical exercise, and the best we can do is to try to make partial sense of the division of responsibility.

³⁶ However, partial earmarking can have its uses. For example, the income tax “points” ceded to the provinces under the Established Programs Financing arrangement have effectively increased the financial flexibility of the provinces. This technique can be used to buttress transfers of responsibility, even if they are not cast in constitutional concrete.

Of course — and this is important enough to bear repeating — the more you assign a major share of powers to one level, the more you reduce overlaps. In a country like Canada, where powers are about evenly divided at the moment, *decentralization* reduces overlap and confusion in both taxes and spending. Of course, *centralization* logically could have the same overlap-reduction effect, which is fine if you believe that big is beautiful.

Reciprocal Controls on Governments

“Who pulls the strings?” This is the nub of the issue for Canada. Is it to be predominantly the federal government, the pattern set by Confederation in 1867 and then revived during the Second World War and its aftermath?

Is it to be the 10 provincial governments acting individually in their own interests?

Is it to be the courts, acting pursuant to an expanded Charter?

Or is it to be individual citizens, acting through some expanded version of direct democracy, a concept familiar to Switzerland but relatively untried in Canada?

With some certainty, we can say it will be some combination of the first three, because that is what we all expect. Adding the fourth would be adding a novelty, which we will consider later.

The inevitable overlaps described above in the discussion of division of powers make it highly desirable that both the federal and the provincial levels of government have some strings on each other. In addition — and this would be a further novelty — some federal voice in provincial activity (shared-cost programs, for example) could in theory be traded off in favour of coordination among provinces, as long as this arrangement could be monitored and enforced. (Voluntary relationships between governments work just fine — as long as the essential relationships of self-interest are backed up by an enforcement mechanism for the inevitable day when people see their self-interests shifting somewhere else.)

This subject of reciprocal influence and controls is the wasteland of Canadian federalism. Our system was not designed with this in mind. Provinces were not supposed to be important, and the fed-

eral government was given Draconian powers (for disallowance of provincial laws and seizure of “works” by simple declaration, a power actually used to take over the grain trade) that were supposed to keep the provinces squarely in line.

These powers have lapsed into disuse, for political reasons. Since there was a vacuum in their wake, something tried to fill it, and that something is what political scientists call *executive federalism*.

“Executive federalism” is a polite way of saying that governments started cutting deals at closed-door meetings among themselves, and then used their majorities in their respective legislatures to back those deals up with law, as required.

Sometimes these deals were reached at Ministers' or First Ministers' conferences; more usually they have been reached quietly among bureaucrats. In all cases, however, the real dealing has taken place out of the public view. For this reason the federal-provincial interface has become known as the “invisible level of government,” unseen, and therefore largely unaccountable. It meets in no place where it may be questioned by any Opposition.

Moreover, governments have consistently taken the position that once an intergovernmental deal has been made (on health care, social policy, transportation policy, or whatever) in the back rooms of the capitals, these deals are not subject to modification.³⁷ Thus, the public has no voice.

Of course, in our system ordinary government policy is made much the same way — by bureaucrats and Cabinets in secret — and is unchangeable once announced, for all practical purposes. However, at least we can throw that government out. In addition, the daily Question Period and committee study are preludes to definitive action. The “invisible government” can't be attacked or questioned or even tracked in this way, because it doesn't exist anywhere you can get a handle on it.

The Europeans are fond of talking about their “democratic deficit” which arises from the fact that policy for the European Union (EU) is made by the Council of Ministers (appointed by govern-

³⁷ You will recall the infamous and unchangeable “seamless web” as a characteristic of Meech Lake and Charlottetown. Once the deal was done (in secret), there were to be absolutely no changes.

ments) and by the Commission (appointed by the Council, and merely ratified by the European Parliament). The elected European Parliament does not have much control over the policy of the EU, hence, the perceived “democratic deficit.”

We have a similar situation in Canada in the shadowy system that has evolved to look after the necessary, large, and growing area of intergovernmental policy and law. It should be suspect for the reason that it is in the shadows, if none other. When one considers that, beyond the democratic consideration, it has not worked all that well either, the case for reform is conclusive.

A new system of intergovernmental control should be more visible and more accountable. It can be direct or indirect: some version of the Triple-E Senate idea, or some version of the House of the Provinces. The choice depends upon whether one wishes to tilt power towards the provinces or towards the centre. But it must meet two conditions: visibility and accountability.

For do we not come back to the basic fact that there is only one taxpayer, one customer?

Ten Spoiled Provinces?

Whenever I talk to audiences about federalism and the advantages of decentralization, I like to invite questions from the floor. Almost invariably, one of the questions is something like this: “Do you really want to give a lot of extra powers to those 10 spoiled provinces?”

I am not quite sure why the word “spoiled” is usually included. It may have something to do with cash transfers from Ottawa to the provinces, or the old idea of “big” and “little” governments. In any event the question does come up — usually in Ontario, in Quebec from anglophones (never francophones), and hardly at all in the Atlantic region where provincial governments are more humble.

In Manitoba and Saskatchewan, this question will be heard. It is very rare in Alberta, the closest province to Quebec in this regard, and quite usual in British Columbia, which, with all its money and success, has not yet found the kind of confidence that says it can do whatever it needs to do.

The question presupposes that the “big government” is not just *a* necessary part of our public lives, but *the* necessary part. The provincial units are seen as threats to this, or as less adequate administrations, or as inherently less competent as governments by reason of size or scope of powers.

Yet ask that questioner, “If the provincial governments were far more powerful, would you pay more attention to ensuring their excellence?” and the question answers itself.

More fundamentally, what about municipalities? These are by far smaller governments, and by far the best trusted (because it is possible to both know and have an impact on the players at this level). If 10 provinces are bad, mustn't hundreds of municipalities be even worse? Again, to ask the question is to answer it. Smaller governments do indeed have a place, and if that place becomes somewhat larger, the voters will pay more attention.

The question about “ten little provinces” having all that power is that of a centralist, not someone tuned in to successful organizational practice.

For proof, let us look first at the United States (one big government with subsidiaries), and then at the very successful Switzerland, where the 26 “little governments” are the important ones.

SOME MODELS OF INTEREST

When we consider how to reform our system, the model of greatest interest, of course, is the one we already have, for most of the lessons we need are found right here in Canada. We know what works and what doesn't work. We also have some pretty good ideas about what might work better. Still, a short survey of four other real examples along with a phantom one will be helpful.

The United States

Our neighbour is the most powerful country in the world and the largest real federation. (Russia and India are federations in name, but are so centralized as to be almost unitary states, for the moment at least.)

In spite of the “melting pot” myth, America remains a land of diversity. Blacks, Hispanics, unreconstructed Southerners, Hawaiian Japanese, and Maine fishers — there are many different cultures in the United States. Indeed, the Americans have really only steam-rolled one main area of diversity — diversity in government.

When the United States began, the thirteen founding states were sovereign. They gave form and certain powers to the central government, reserving the rest for themselves. Time passed, and the nation grew to the colossus of today, meaning even mighty California is but 10 per cent of the nation in population, and one of fifty in the Senate. (Contrast this with our largest province of Ontario, by itself almost 40 per cent of Canada.)

The states also gave three institutions to the central government, an act that became the downfall of state ascendancy in the end. These were the Constitution, the Supreme Court to interpret it, and the United States Senate. Over the years, the Supreme Court found sweeping, overwhelming central powers in the Constitution, and these interpretations became law. For example, the interpretation of the so-called Commerce Clause in effect gave Washington control over the nation's business affairs. In other words, the legal tide ran in exactly the opposite direction in the United States, both from that in Canada, and from the direction intended by the authors of the Constitution.

But it was the U.S. Senate that proved to be the big prize. Designed merely to monitor the centre and represent States' rights and appointed by the State legislatures until the first decade of this century, the Senate was a powerful body, but of indirect legitimacy only. Furthermore, being appointed by the legislatures, the Senate paid a lot of attention to the needs and prerogatives of State governments.

Then in a move started in Oregon in 1903 (via the direct-democracy “initiative” process incidentally), the Senate became directly

elected, and was confirmed as such by a constitutional amendment in 1912. The powerful Upper House now had full democratic credentials, and was no longer beholden to State legislatures.

Through two world wars and the Great Depression, the same forces that led to the expansion of federal powers in Ottawa acted upon Washington as well. The differences were two: there were so many individual states that there was no effective counterforce of the kind that Quebec provided in Canada, and there was the U.S. Senate.

The Senate effectively captured the regional and emotional power of States' rights and embodied them at the centre. The combination of the Senate and the House gave every American a direct ownership of a piece of Washington that we have never had in Canada. And remember, each Senator, each Congressional representative works for his or her *region*, not for his or her party. Add to that the enormously powerful symbolism of a direct vote for the president, and you have a central government that has great legitimacy in the regions, unlike the situation under our system.

The effects show today. The United States is a very centralized federation compared to Canada. Washington reaches into the smallest minutiae of daily life — hot lunches in school, oil tanks in back yards, handicapped-accessible washrooms in ski resorts, and food stamps for the poor. Any trade that crosses state boundaries (i.e., most) is regulated by Washington. The environment is a federal fief, and as is health care to the extent that it is under control at all. Most natural resources not in private hands are federal. Research and science are vastly influenced by Washington one way or another, much of this through the military.

The purpose of this list is not to say this situation is right or wrong; whatever works for the Americans is their business. (However, change is in the air. It is interesting that the central theme of the current “Republican revolution” is a return of responsibilities to local governments.) Rather, the purpose is to say that this is a model that works, and as such, we can learn from it.

There are costs, of course. For example, notwithstanding the diversity cited earlier, America has but one mainstream culture. Notwithstanding the power and the wealth, America has a spread of

incomes from very rich to very poor that most Canadians don't like. Notwithstanding individual freedoms, America spends an immense amount of time paying lawyers to fight other lawyers on a range of matters that we Canadians often manage to work out in less costly ways.

But, in the end, this is a route that Canada could follow, were we prepared to do the necessary things. These “necessary things” would include a “Triple-E Senate” and a directly elected president to properly legitimate Ottawa. Add to that a replacement of the party system with a Parliament of about 300 free agents,³⁸ and a few small constitutional amendments in the powers department, and we too could have our own Washington.

Switzerland

From superpower to Cuckoo-Clock land — a joke surely? Not so. Tiny (six million people, and about three-quarters the size of Nova Scotia) Switzerland is arguably the world's most successful federation. Indeed it is perhaps the most successful country of any governmental style, if measured by such prosaic standards as peace and prosperity. Hollywood will never celebrate Switzerland, save perhaps as a spoof. Nothing about the country is outrageous enough.

Indeed, even events of incipient separation (as of the Jura region in the 1970s) are handled with calm and order and common sense (a new canton was created). The government is in its proper place. I shall never forget sitting next to the head of one of the unions in Switzerland (one of the government services, 28,000 members strong at the time) at a luncheon and his explaining with some chagrin that the problem with Switzerland was that the government was poor but the people were rich. “What a wonderful problem!” I thought. I did not tell him that we had developed a cure for this in Canada.

On the surface, how could Switzerland have any lessons for us? That country is so compact; Canada is so huge and diverse. They are an ancient, settled society; we are relatively new, and changing rap-

38 The U.S. representative or senator really is a kind of political entrepreneur. Our MPs are more like faithful corporate men and women.

idly in our demography. But things are not always as they first appear.

For example, where we have two official languages, the Swiss have four (German, French, Italian, and Romansh). Where we have 10 provinces and two (soon three) territories of greatly varying size and economic capacity, the Swiss have 26 full and half cantons, with similar variation.

Religious cleavages cut across political and geographic boundaries; so too do the familiar rural/urban splits.

The basic unit of organization is the canton. An official publication (*Switzerland — State and Politics*) describes the country as “composed of 26 sovereign states subject to federal law.” This is the case in politics as well — the power base of the parties is cantonal, not national. This is an important difference from Canada, reflecting the more collegial, decentralized, and “states' rights” structure of Switzerland.

The federal government structure is fascinating. The two chambers, one representation-by-population and the other representation-by-canton are elected every four years by a system of proportional representation, which tends, of course, to proliferate parties and represent more sensitively regions and/or points of view. The concept of “majority government” is utterly foreign to the Swiss — no party is close to a majority and all parties are expected to get along. The sharing of power is the theory. Since the executive branch does not need to rely on a parliamentary majority for its stability, this system of smaller parties is no problem.

The seven-person executive branch, the Federal Council, is elected for a four-year term by the two legislatures sitting together. By longstanding agreement, the positions are divided among the four main parties on a 2:2:2:1 ratio, considering also complicated geographic, linguistic, and other considerations. Again, the concept is a sharing of power among minorities.

The Federal Council makes its decisions by majority vote, and then supports them unanimously. The presidency of the Council rotates among the members, and the chair is the president of the country. It is a common joke that no one knows the president's name. The

system is “hostile to the notion of personal leadership at the federal level,” to quote one of the textbooks.

In the same vein, the federal level is looked to for responsibility, agreement, and progress, rather than for contestation and political theatre. The Swiss tend to disapprove of such things. Perhaps this is a national characteristic, but clearly the system encourages such behaviour.

The other pillars of the constitution are the cantons (provinces) and communes (cities and towns) of the land and the people, acting via instruments of direct democracy.

The local governments have their own constitutions, their own politics, and their own executive authorities. While the national and cantonal constitutions assign responsibilities among the three levels, as a practical matter the administrative powers and machinery of local governments give them strong voices in all policy matters.

As to formal divisions of power, the federal level oversees international and military matters, transportation, social policy, and the environment. The cantons look after school education, religious and language matters, and welfare. They share authority over culture, police, higher education, health, housing, planning, energy, roads, resources, industry, and trade.

For the people, the constitution provides for individual rights (including the right to property, missing in our Canadian Charter), and the Swiss trademark, the power of direct democracy.

The people, acting through various instruments, can initiate laws, revise the constitution, reject laws of the legislature, and in general exercise a very vigorous role in the political marketplace. Interestingly, the average turnout for referenda has been falling, from over 50 per cent in the 1950s to around 40 per cent today. There is little agreement on the reasons for this. It could be, for example, that as matters become more complex, people voluntarily leave the issues to those who have studied them. In any event, the machinery is regularly used by those who wish to do so.

The federal government is relatively smaller than that in Canada. On a gross basis (including transfers to other levels), its expen-

ditures run around 30 per cent of the total public spending,³⁹ and just a bit over 20 per cent on a net basis. The federal public service runs about 30 per cent of the total public service, but this includes such items as the postal service.

We in Canada have something to learn from this most peaceable and prosperous of states. We are very different countries, of course. No one would argue otherwise. But we are also, like Switzerland, a federation whose greatest challenge comes from the fears of permanent minorities — in our case, francophones largely situated in Quebec, Westerners vis à vis central Canada, and from other (if lesser) tensions.

In Switzerland, the instruments of accommodation at the federal level, the decentralization of effective power, and the ultimate political decentralization of direct democracy all contribute to a harmonious system. They seem, as well, to contribute to a culture of politics as cooperative work, rather than as adversarial theatre. We could use a bit of this.

We cannot import the Swiss model to Canada. We can examine it, and wonder how we could achieve some of the good results, in our own way. Amendments to our system of governance would be a beginning. I will recommend structural changes in chapter 7 that would help as well, again, in a Canadian way.

The European Union Model

Over a space of about 40 years, the European Union (EU) has grown from a loose economic association into a community of states with a closely integrated market, fully reciprocal citizenship, a common foreign policy, a (weak) Parliament, a central government, and centrally-run policies in the agriculture and labour markets.

Some powers of member states have been gradually ceded to the centre in important respects, and the centre itself no longer affords a veto on some matters to even the largest member states. A “qualified majority” voting process — about two-thirds, with number of votes based roughly on population — now overrides national law on selected topics.

39 The comparable Canadian measure is about 45 per cent.

The EU is moving towards a monetary union, and is at the same time expanding. The expansion is much slower than the supplicants would like; it has become a much-sought-after club.

The EU has an elected Parliament, though as yet one with few powers. Real power is wielded by the Council of Ministers, an appointed body of representatives of state governments. To the extent that the EU is a democracy, it must be said to be only indirectly so, though each of the member states is a democracy.

The bureaucracy is the European Commission, working under policies set by the Council. Like all bureaucracies, it is expansionist and sometimes foolish. In a serious vein, the Common Agricultural Policy has been a famous and expensive tax on consumers and a distorter of agricultural trade; in a silly vein, it has transformed snails into fish in order to attract aquaculture subsidies, and has classified carrots as fruit to regularize Portugal's carrot jam. In short, it seems well on its way to acting like a federal government.

The EU is in most respects a much looser agglomeration of states than is Canada. It is true that in some areas where member states have delegated a portion of their sovereignties upward, rules made at the centre can override national law. The *quid pro quo* is that every member state has a vote on the matter in the EU Council. This would be analogous to Canadian provinces ceding authority to a council of education ministers, let us say, which would then have the right to set provincial testing standards.

This, indeed, is the very area where we may have things to learn from the EU in terms of restructuring Canada. In an excellent 1991 commentary prepared for the run-up to the Charlottetown Accord,⁴⁰ Peter Leslie of Queen's University sets out some lessons that we can take from the EU, and just as importantly, sets out where we have basic differences. Again in 1994, in a collection published by the Institute for Research on Public Policy,⁴¹ Leslie turns even more specifically to the potential rearrangements of Canada and the ROC based on the EU experience. The results are fascinating.

40 *The European Community: A Political Model for Canada?* (Ottawa: Ministry of Supply and Services Canada, 1991).

41 *Seeking a New Canadian Partnership: Asymmetrical and Confederal Options*, F. Leslie Seidle, ed. (Montreal: IRPP, 1994).

He deals particularly with the concept of *asymmetry*, i.e., whether any kind of restructured Canada could handle very different powers in the hands of one of its components: Quebec, as the sovereigntists would have it, but any province in principle. Leslie deals here with a hypothetical post-referendum situation after a “Yes” vote, and discusses rebuilding a Canadian association, but this is no different in principle from rebuilding a Canada after a “No” vote. Indeed, the latter should be easier, involving less emotion.

Leslie concludes in examining the EU experience that “asymmetry will not be tolerated in the EU ... where it confers privilege on one state relative to others.” This is true across the range of government powers that deal with the economy. He concludes that “[i]f Quebec claimed exemption from some of the rules of a reconstituted economic union, and its exemption conferred upon it an economic advantage or risked imposing an economic cost on the others, that clearly would be unacceptable.”

He generalizes this to “flanking issues” such as environmental standards and “social dumping,”⁴² (part of the NAFTA concern in dealing with Mexico) but he also notes that, in the European Union, the member states have allowed Britain to opt out of the Social Protocol of Maastricht, and it is also quite prepared to contemplate different levels of adherence to an eventual European Monetary Union.

The interesting thing for a Canadian is this: the area in which the EU requires the highest degree of conformity is in economic issues. Now, virtually everyone in Canada, including most separatists, is in favour of a Canadian “economic space” at least as integrated as it is now.

On the other hand in the EU, the greatest flexibility is in “softer” areas such as culture and social policy. This is hopeful, because it is exactly these softer areas that give rise to the most emotion when we talk about rebuilding our Canadian deal. We have in the EU a working model of how these emotional areas can be dealt with — by simply leaving them to the member states, with no fatal impact on the

42 This refers to member states gaining a trade advantage by keeping costs low as a result of low environmental, labour, or social support standards.

impulse towards unity. Could this work in the context of a Canada that is increasingly *defined* by its social policy, as suggested in Thomas Courchene's monumental work *Social Canada in the Millennium* (Toronto: C.D. Howe Institute, 1994)? Certainly with the decline of Ottawa, new machinery would be required.

The other potential lesson Canada can learn from the EU is even more exciting, and that is the matter of the machinery for the direction of a central “government” by the member states through a Council of Ministers. In this arrangement, the main policy-making body at the centre is the council, made up of appointees from the member states. The council votes on a “qualified majority” basis on most matters (a few spheres of unanimity remain), and the decisions supersede national law in those primarily economic areas where the EU holds sway.

On the other hand, we have nothing to learn from Europe in the matter of the strength of our central Parliament. We would find the EU set-up far too timid for a central government that has a degree of independence from the member states. However, we can learn something from the manner in which member states have a reasonable prospect of making the activities of the centre both consistent with and harmonious with their own needs, laws, and customs, by virtue of the Council of Ministers machinery.

One must not make too much of any of this. For example, the EU disposes of only about 1 per cent of the GDP of its members. Our federal government is over 20 per cent. That said, we clearly have an even *greater* need for coordination because our central institution is much larger.

Belgium — The “Stealth” Decentralist

Most people are generally familiar with the serious linguistic and cultural tensions in Belgium over its history, between the Dutch speaking Flanders, the French speaking Wallonia, and the mixture that is Brussels. Yet the story of the transformation of Belgium from a unitary state to an extremely decentralized one over the past twenty-five years, virtually as a condition of national survival, has hardly been noted in Canada. This is curious, since it could well

serve as a template for federalist Quebecers interested in decentralization. One might speculate that it has been ignored on the assumption that the provinces outside Quebec would reject the model. Today, I am not so sure, as long as symmetry were maintained among provinces.

The Belgian Constituent Assembly of 1831 put together what was called a “unitary decentralized state,” and so it remained until 1970. In that year there commenced a series of four reforms (1970-1980-1988-1993) that has transformed the country into a fully federal state.

The first step was recognition of cultural communities (Flemish and French) and three regions (Flanders, Wallonia, and Brussels). Ignoring the overlapping mandates of communities and regions and treating them as one, by 1980 these entities looked after language, culture, some social policy, the environment, rural development, and the economy. In 1988, powers were expanded to include transport, education, public works, science policy, and oversight of local government. A certain degree of fiscal autonomy was introduced.

1993 completed the transformation. The parliamentary bodies of the regions are now directly elected, treaty-making and foreign trade powers have been extended to the regions in their areas of jurisdiction, extensions of powers in social policy and agriculture have been completed, and fiscal autonomy has been further increased. Complex checks and balances among the communities have been introduced at the federal level. It is all quite startling to the deepest Canadian decentralist.

In grappling with the problems of federalism, Belgium has emulated Canada in some unfortunate ways. Its current account balance is as worrisome as is ours, and its debt situation is in the same league. One might speculate that national states that are in unity trouble respond by trying to buy their way out — or at least, try to buy time. They buy future trouble simultaneously.

The jury is still out on the Belgian experiment. Some of the old separatists have simply had their appetites whetted by the experience; others think a good balance has been found, especially within a federalizing Europe, of which they own the capital, Brussels.

There are no structural lessons here for Canada. The Belgian federation is essentially bipolar and is thus inherently unstable. It may or may not last. The lesson, if there is one, is procedural: a recognition and accommodation of great political forces gives some hope of survival. Without this, the jury might not just be out on Belgium. It might simply be gone.

The “Phantom” Option — Dualism

The 1995 version of sovereignty-association is part of the subject matter of the appendix 1, but the siren song of this concept has endured over many years. It has a demonstrated resonance with the Quebec voter, and why not? Combining the most attractive parts of contradictory propositions has always been an easy sell. The problem is to make the package work.

In this section I discuss briefly the concept of “dualism,” that has led many Quebec political thinkers to adopt sovereignty-association as a solution to Canada's problems. Non-Quebecers tend to get quite exercised about this, calling it “divorce with bedroom privileges” and other nasty comments.

But dualism can be skilfully woven into federalism, if one does not look too closely. The idea makes some sense, given a certain 1960s view of the makeup of Canada. The difficulty is, that certain view is obviously untenable in 1995. The logic was weak in 1965. Today, the idea is a non-starter.

Nevertheless, the concept of dualism is a very dangerous one for it appears to hold out an answer that is not possible in practice. Since that answer seems attractive to many Quebecers at first glance, some will always be tempted to head down that road unless warning signs are posted at the entrance.

The logic runs like this: Canada has two official languages and two founding “nations.”⁴³ The two nations are equal partners in Canada by virtue of history. By this view, in constitutional and other

43 Dualism can even accommodate the current politically correct notion of *three* founding nations with some degree of contortion. Most French Canadians detest this formulation and many other Canadians think the idea is silly or dangerous.

The “third order of government” was one of the elements of Charlottetown most

fundamental matters, the citizen participates in the country *indirectly*, through his or her national collective, French or English.

In this theory, and as a practical matter, the French “nation” is represented by the government of Quebec. And the English “nation?” Clearly one entity can only have one representative if there is to be equality, and that representative entity is therefore Ottawa.

These nations have their own interests and their own destinies, but they share many common interests as well. Clearly the sensible thing is to separate them to seek their own solutions in areas where they differ, thus ending current frictions, but to maintain an ongoing association in areas of common purpose. The ongoing association would logically be operated by some kind of a joint superstructure, chosen by the two partners.

The common areas are generally described as being economic in nature. Different variations might provide for overlapping citizenship, mobility rights, cooperation on international matters, and so on.

At the most basic level, the concept is of two states working closely together. Beyond this the details aren't important, because the very concept is irreparably flawed.

Canada is *not* two nations. That is not to deny the unique nature of Quebec; it may indeed be *one* nation, in the sovereign sense of the word, if it ultimately so chooses. Rather, it is to say that the ROC is not one nation. It is not monolithic today, if indeed it ever was. There is no single “other” for Quebec to relate to.⁴⁴

It is easy to understand how Quebecers could adopt this “dualism” point of view, for Ottawa has been encouraging precisely the same thing for at least the past thirty years. The Royal Commission on Bilingualism and Biculturalism, appointed by Lester Pearson in 1964, proceeded explicitly from this dualism theory of equal part-

roundly rejected in the referendum. The central Canadian media still think the idea is great.

44 For a wonderful exposition of this theme in a theoretical post-referendum bargaining context, see Alan C. Cairns, *Suppose the “Yes” Side Wins: Are we Ready?* (Calgary: Canada West Foundation, February 1995.)

nership in its terms of reference.⁴⁵ And Ottawa has pretended to speak for the ROC vis-à-vis Quebec ever since.

But this is not reality. Canada is an amalgam of thirty million individuals living in 10 million family units in 10 provinces, with multiple allegiances in many directions. Most aboriginal Canadians, most immigrants, most Westerners, and many in Ontario and the Atlantic region have no notion whatsoever of this idea of dualism, and many of those who *have* understood Ottawa's role in the dualism game have opposed it.

That being the case, the rest of Canada is not prepared to relate to Quebec in any monolithic sense, as imposed or mediated by Ottawa. And yet, this is the fundamental assumption of dualism!

I do not write this with any wish to be confrontational. There are ways around this problem. The essential routing is to make sure that any province of Canada that wishes to affirm and maintain its linguistic and cultural identity has the tools and powers to do so.

45 I have a vivid memory of my old boss, Arthur Laing of B.C., returning from the Cabinet meeting where those terms of reference were passed. His face was white; his voice was shaking. He was normally a phlegmatic man but thought this particular Pearson policy a terrible mistake.

Of course Cabinet meetings tend to be like that. I remember another minister of that day, many years later, telling me of the Pearson Cabinet meeting that approved the St. Lawrence Seaway settlement of 1967. It being almost thirty years ago, few will recall that, in those days, wage hikes were very modest, and inflation had been very low in Canada. Then the Seaway workers on the Canadian side went on strike. The issue was this: they thought they should be as well paid (in nominal-dollar terms) as were the Americans on the other side of the locks. Few reflected that there was a cost to the Canadian nation, with Medicare on the upside, and lower wages and productivity on the other.

Pearson appointed his old pal Norman A.M. (Larry) Mackenzie, former President of the University of British Columbia, to bring in a settlement. Mackenzie brought in the unbelievable figure of a 37 per cent increase. It had to be approved by Cabinet.

When it got to the Cabinet table and the PM consulted his ministers, everyone around the table was opposed. Then it got to Mr. Pearson. "I can't let old Larry down," he said, according to this minister. As Abraham Lincoln used to say to his Cabinet, "Around here we don't count votes, we *weigh* them."

This was the beginning of the worst inflationary period in Canadian history. If we ever had any chance of avoiding the destruction of currency value that was then beginning in the United States, this move scotched that hope.

That means, among other decentralist measures that make sense on their own economic merits, that the rest of Canada should simply accept that Quebec has the right to pass whatever laws it wishes in respect to language and culture. Anyone who doesn't like those laws in Quebec can leave, and go to some other part of Canada, just as can Albertans or Ontarians who oppose their government's reforms to the welfare system. That kind of discipline-of-mobility is a powerful force, and is an essential ingredient of federalism.

Yes, some in the rest of Canada will find this concept distressing. Perhaps it would be an idea just to take a Prozac. It is a good deal better than a broken country. After all, Quebec is a democracy just like Ontario. Ontario was free to elect a socialist government with only 37 per cent of the votes, which proceeded to offend the wishes of its *majority* for almost five years. Why should there be any less latitude for Quebec acting from a majority view consistent with the Charter? That is what federalism is all about.

The same tolerance should apply to the concept of “distinct society.” We are all distinct societies, as former B.C. Premier Bill Vander Zalm observed once. With that observation, we should all declare victory and go back to our gardens, leaving the government of Quebec to promote the distinctiveness of that province as its people may wish.

This is tolerance. This is decentralization, and federalism. However, it is *not* “dualism.” It is not “equal partnership.” It is just plain equality — the status Quebec would share with any of the other nations of the world in an independent status.

If equality won't do, then Canada won't last. But to be fair, many Quebecers (and others) do have a problem with equality of the provinces, for a perfectly good reason: the provinces *aren't* equal in most practical ways. That is why Quebec politicians like Robert Bourassa and Jean Chretien, and former B.C. Premier W.A.C. Bennett have mused about “five regions” (the Atlantic, Quebec, Ontario, the Prairies, and B.C.). “Ask us to be equal to Ontario? That is one thing. Ask us to be equal to Prince Edward Island? That is offensive!” (And the people of P.E.I. no doubt agree, finding their own province far superior.)

There are practical, intergovernmental reasons for this, relating mostly to Ottawa. In its aim of shaping the country's priorities, the federal government has a usual tactic of getting a few provinces on board, and pressuring the rest on that basis. The small and impoverished provinces can often be made willing accomplices at a small price; the large ones are then expected to fall in line, even against their better judgments or interests.

But this perverse balance of power is part of the past — in part because of financial realities bearing on Ottawa, and in part because the other large provinces now share the same concerns as does Quebec. Again, it is time to declare victory. We must simply find terms of relationship that suit all 10 provinces, whether Ottawa agrees or not.

Quebec can be a distinct society. It can be a free and equal society within the Canadian federation or outside, on its own, if it wishes. What it *cannot* be, inside of the federation or out, is more equal than others.

Finally, to conclude this options chapter. We have surveyed the field, and we have found some lessons. There are some intriguing hints, but much of the survey really shows us what we *don't* want to do. It is time to return to our own present-day backyard for that purpose.

5

Thirty Million Musketeers?? — and Other Questions

Sitting across from Clyde Wells in his eighth-floor office in St. John's Confederation Building (which, when Joey Smallwood built it, held *the whole* provincial public service), I asked him the same question I had put to other present and former premiers: “What is the essence of Canada? What connects all Canadians?”

He reflected, seeking a description for that intangible we all wonder about from time to time, and then it came: “It is like the expression in that old book, *The Three Musketeers*: ‘All for one, and one for all.’ That describes how Canadians feel about each other.”

From that delightful encounter came the title of this book. Clyde Wells knows his beloved Newfoundland completely. Moreover, what he said accords perfectly with the accepted wisdom of liberal Canadian politics, given lip-service from one end of the political spectrum to the other.

The question marks came later. As I reflected upon what has become of the conventional wisdom in this country, I think we mostly aren't Musketeers any more. It is no longer all for one and one for all. Whatever generosity we feel one for the other has now a greater degree of conditionality.

The history is there. There *was*, without doubt, a sense that we want to or should look after each other, and it is a sense that was strong not only in every region, but across the country.

Some of the “looking after each other” impulse resulted from an enlightened self-interest, articulated or not. Properly fed, sheltered, and educated people with a stake in their community are more likely to create a community that is agreeable to live in than are undernourished, ignorant people with nothing to lose. This intellectual motive remains as true as ever, but is less pressing today when so many people are worried about their own circumstances right now, rather than someone else's tomorrow.

And some of the impulse comes from a self-interest that is not particularly enlightened, but strong for all that: the notions of solidarity, reciprocity, hang together or separately, you scratch my back and I'll scratch yours, and so on. People want security for themselves. It is not a giant leap to understand that security for all does lead to security for one — one's self, to be specific.

We in Canada have gradually, instinctively, come to this sort of bargain over the years, lubricated by a relative abundance of cash. As the cash starts to run short, the sharing principle has without doubt come under pressure. In addition, the massive immigration of the past generation (some four million new Canadians in the past twenty-five years) has introduced new views into our political culture, which in some cases are more self-centred or family-centred than collectivist.

With these economic and demographic forces, we have also seen the rise of an intellectual force that stresses individualism, the family, reward for effort (rather than for just being alive), and (at its basest) the “I'm all right, Jack” approach to life.

And as far as “solidarity” is concerned, these sentiments tend to melt away when many people come to the conclusion that not everyone is working as hard as they are to produce, and indeed the system is encouraging this lack of industry.

In short, the traditional Canadian collectivist approach is under pressure.

There has been a paradigm shift — a fundamental change in the way that people look at things. The politicians still say (and no doubt sometimes believe) the old platitudes about “caring and sharing.” The public out there is of a harder mind today — “earning and learn-

ing” might be closer, as in, you earn your way, or you learn the consequences.

No doubt much remains of the generous impulse. There may yet be millions of full-blown Musketeers, ready to fund any social program at the drop of a tear, but they are getting harder to find.

The old generosity of family is still there, and perhaps even that of community. It is easier to care about those close by. The Pan-Canadian sharing philosophy has unquestionably taken the hardest hit.

These matters will certainly be the substance of a major debate about the future, once participants in the public dialogue feel free to talk about them. For the moment, only the Reform Party and a very few premiers are ready to even nibble at the edge of this subject. The need to make hard choices that affect real live people remains politically incorrect, which is why most professional politicians are so aghast at and troubled by the success of Ralph Klein in Alberta. By every maxim of liberal politics, Klein should be at the bottom of the polls; instead, he is at the top.

Mike Harris of Ontario has made a move in the same direction. We shall see if this approach remains popular in our largest province, as the details of his program unfold.

How can Premier Klein be at the top of the polls in one part of a country where Jean Chretien is at the top nationally? There are several answers, none of which gives any comfort to the liberal school of social policy. First of all, Jean Chretien is *not* Brian Mulroney, and that will be good for a certain popularity percentage for a few years yet.

Second, people very badly want Jean Chretien to succeed. Why? People know we have problems, and if Jean Chretien does *not* succeed, it will likely be because we are broke as a country, or broken up, or both. People want the financial problem and the unity problem solved, and they cheer the captain of the home team — except in Quebec of course, where Lucien Bouchard and Jacques Parizeau are the “home team” captains for now. And people do like Jean Chretien — it is hard not to like him, with his engaging and modest public persona.

But even Mr. Chretien is edging in the Klein direction, as he knows he must for fiscal reasons. The remarks about the need to trim

back medicare after the budget, and the clamp on Lloyd Axworthy's social-policy ambitions, these two things cut to the core of the “caring and sharing” myth. Back in the old American West, they used to say a Smith & Wesson beats four aces every time. The deficit is starting to beat up big spenders in the same way.

So, as we go about designing a plan to renew our federation, one thing is clear: that plan will start with the history of our collective desire to help each other over the rough spots of life, but it will surely be severely modified in terms of affordability and efficiency by the new reality described above, and in the conclusion of chapter 2.

The purpose of this chapter is to talk about three special issues that have arisen out of our history of “caring and sharing,” and how they will fare in the new world. The three are:

- so-called national standards,
- the tendency of our current system of federalism to develop a sort of “worst common denominator,” and
- the very Canadian form and practice of equalization.

In reference to national standards, the first thing to note is that the invariably used “national” is the wrong word, and is seriously misleading. What we really mean when we normally use this phrase (for government programs which apply across the country) is *federal* standards, because it is the federal government that makes them.

Such standards are therefore, crafted to meet the convenience and world-view of Ottawa, and may or may not be suitable for all parts of the country. It depends on the sort of prescription that is put in place.

For example, if standards were simply general goals, such as “Everyone should have a decent level of health care at a cost he or she can afford,” then this would cause no problems. However, when standards become detailed as to administration, or start to treat means as ends, problems arise. One starts to encounter debate on such topics as whether Ottawa should be able to prohibit user-fees for health care, for example.

On the other hand, there is evidence that Canadians have been prepared in the past to pay a premium in terms of both efficiency and

liberty⁴⁶ to achieve uniformity in social questions. Indeed we have been more prepared to do this than have many other countries, particularly our southern neighbour.

One can speculate on the reasons for this. For example, a desire for uniformity is consistent with our two basic goals of order and collective security. The first connection is obvious: order is more easily maintained and monitored in areas where the rules are the same for everyone.

The relationship to collective security — “looking after each other” — is a bit more complex. We do seem to feel instinctively that the more we are alike, the less likely we will be to have conflicts. At the same time, we will be better able to look after each other, and we will have similar positions, resources, and motives in life, with the result that the urge to look after each other will be stronger.

CANADIANS AND UNIFORMITY

This approval of uniformity is consistent with the oft-remarked-upon tendency among Canadians not to glorify heroes or leaders. There are exceptions, of course — a Terry Fox can be glorified as a totally non-threatening one-of-a-kind who personifies our goal of sharing, and sports and entertainment figures can be glorified because they live in an unreal world that is patently not a part of ordinary life, and are therefore also non-threatening.

Very rarely do we glorify politicians. We did so with Pierre Trudeau — or at least many did, while the more conservative found this worrisome, and in the end the relationship turned sour. Brian Mulroney tried to achieve the same kind of adulation without the necessary star quality, and in the end this conceit was a major cause of his elevation to the stature of perhaps the most despised politician in Canadian history. He wanted to be better than us, with his fine

46 As to an efficiency example, note our denial and resolute blocking of market-place incentives that otherwise would require Canadians to move in search of jobs. Our whole “regional development” thrust is based on this.

For an example on the liberty side, note the roadblocks that education and health ministries invariably place in the way of alternative school and medical systems.

friends and Gucci shoes. This was not to be allowed. A large part of the current high popularity of Jean Chretien stems from the fact that he is (or at least is clever enough to seem to be) a very ordinary person.

We do not glorify the wealthy, as do the Americans, who hope to be rich themselves one day, notwithstanding the improbability. If anything, Canadians envy the wealthy and even want to pull them down. There is the old joke about how it is not necessary to put a lid on a boiling pot of Canadian lobsters because if one tries to escape, the others will just pull it back in.⁴⁷

Some say that such an attitude leads to mediocrity, and this has some plausibility in respect of individuals. With respect to societies, this is not so obvious. The Japanese are very conformist and have a saying that the nail that stands up must be driven down. This factor has certainly not impaired their economic achievements.

The debate on such things will never end. One side says you must have unbridled competition among individuals, and that it is the brilliant and successful who build the bridges for the future generations. Certainly, great art and science will not flower under rules of “national standards.”

The other side says that progress comes from working together and that even the brilliant need the base of a solid society upon which to build.

Be that as it may, there is simply no doubt that we get uncomfortable when other Canadians move too far away from the norm. We are allegedly a tolerant society, and in things that do not threaten our goals, so we are. On the other hand, push an idea like multiculturalism too far, or even bilingualism where it is not demonstrably required by local conditions, and you get a backlash.

This is the real reason behind the current backlash against immigration in the cities where it has made a difference in the local culture and environment. The backlash has little to do with race, though proponents of the immigration industry like to describe it that way. It

47 And there is the American restaurant-worker joke that Canadians are different from canoes because the latter often tip — a dour perspective indeed on our native frugality.

has everything to do with perceived threats to the Canadian order, which depends on a general acceptance of the rules of the game.

On the one hand, this sounds stultifying. On the other hand, when most people buy into this approach, the net result is an orderly, polite, and civil society.

And is the Canadian difference something real? Compare Toronto with New York or Boston, and the difference is there. There is indeed a racial, inner-city component to the difference, but there also is a harder-edged, “look after yourself” ethic down south, or so most Canadians believe. For another snapshot familiar to the West, compare orderly, polite Vancouver or Calgary with the hustle and jostle and competitiveness of Hong Kong.

The greater question is not exactly how Canada is different, but whether that difference should and can be preserved in the face of the pressures of growth and competition — and whether we are prepared to work hard enough to that end.

The orderly Canadian approach spans our attitude to government. The urge for uniformity shows up in schooling, with a horrified reaction to the voucher-system idea, and an opposition even to the idea of charter schools. Yes, some of this opposition is union-driven, as public sector teachers worry about jobs and control. And, curiously, much of the contrary trend to private or separate schools is in itself driven by the urge for uniformity — in this case, the deeper thrust to preserve religious or traditional values seen as endangered by the public system today.

Can the almost automatic acceptance of the public school system survive a new world where every Canadian kid is *not* guaranteed a “good job?” The logical response for a parent in a more competitive world is to want to give little Johnny and Sue a more competitive education. That has not been the traditional focus of the public schools, which are beginning to understand that they themselves will have to change to survive. Again, uniformity is being challenged.

The thrust towards uniformity has been even stronger in the area of income. With the general approval of the public, we have developed quite a redistributive system in Canada, in terms both of shaving peaks of income and underwriting a minimum standard. We do

this even at very large and obvious costs in terms of efficiency and incentives for productivity: to move, to look for work, to retrain. We have not been at all insistent on any of these productivity-enhancing behaviours.

This too is changing. The “taxpayer revolt” syndrome has frightened politicians and has swollen the rolls of such groups as the Canadian Taxpayers' Federation and the National Citizens' Coalition. The redistributive system is under attack, at both the income-shaving and minimum-standard-underwriting ends.

Our politicians have fought the fiscal imperatives that are telling us this inefficient system must change, through alterations to the regional and seasonal industry subsidies of UI, for example. On the surface, these policies seem to be economic madness. Why do we seriously disable incentives to productivity, when it is only productivity that can eliminate poverty in Canada and allow us to help the rest of the world? And why do we do this at a very high personal cost to those who are productive?

The answer is that economic madness has become the easiest (but not the best) public policy, given one view of our social goals. The basic goal of public policy over the past generation, presumably reflecting some perceived consensus by governments, has not been to maximize wealth; it has been to minimize individual risk.⁴⁸

It has also been to minimize conflict and disorder. Canadians are absolutely appalled at either, though sometimes they can't be minimized altogether, as the confrontation at Oka proved. (The conflict was avoided, but that softer option led to a lot of disorder, then and now. To govern is to choose, as the saying goes.)

48 Of course minimizing individual risk is not the same as minimizing risk to society as a whole. It is arguable that what many characterize as the “dog-eat-dog” U.S. society is in fact stronger and better able to resist economic and social shocks. Since societies are seldom pressed to the limit, this is a difficult case to prove one way or the other. Certainly the class-ridden society of Britain mobilized magnificently when put to the test during the Second World War. Who knows how the two North American allies might have done under such direct pressure?

In any event, we in Canada tend to be less concerned about our national state than are either the Americans or the British, and our focus on minimizing individual risk, even at a high cost to others, is perfectly consistent with that.

Nowhere is this urge for uniformity stronger than in the health-care system. There is nothing that Canadians care about more than medicare, and this is uniform across the country, totally independent of region, or language, or economic status. Here again the logic of productivity and efficiency is rejected in favour of minimized risk and conflict avoidance.

Many studies of the health-care system, including those of The Fraser Institute, demonstrate better total delivery of health care using a multitrack system, with some private funding and some private providers. (Of course, much of the health system is nothing *but* private funding and providers, notably dental care. Moreover, we already have a two-tier system. People of influence or with connections simply jump the queue, and of course there are those who go to the United States.)

Variations in economic incentives to treat the health system with respect — such as means-tested user-fees and private-sector medicine — would clearly reduce system costs to the public, and would thus increase sustainability. All of these ideas are stoutly resisted, not just by politically correct politicians, but often by the public.

Why should this be? We get back to the old Canadian fear: once very many people are allowed to become different in a basic dimension of our society — particularly if the *powerful* become different — the necessary public consensus for “looking after each other” might be eroded. The preservation of this ethic is therefore considered to be worth the inefficiencies in the system.

The depth of this concern in the Canadian political marketplace can hardly be overstated. That is why all of the economic arguments having to do with the improvement of the medical system have hardly been considered by the public to date, at least outside of Alberta. The burden of proof for anyone who would change the system is a very heavy one. It has to involve *guarantees* of adequate performance as far as the public is concerned, not just reasoned forecasts.

And yet it is clear that economic realities are going to require modification of our expectations in these areas of “national standards.” It is equally clear that the politicians' preferences for those modifications will tend to be along lines that trim at the edges —

“delisting” of some health services, for example — rather than attack core principles.

This is a book about the political process, not health care, and I make no attempt here to debate the merits of the issues. But it is clear that this will bring forth a major policy conflict over the next few years.

So, what has all of this to do with the redesign of federalism? It is simply this: once a “national standard” for a social program is dismantled, that particular program will be open to competition. The competition may be from the private sector (as is potentially the case in health care) or governments. For example, governments may compete as to which has the highest (or lowest) schedule of welfare payments, or the least comprehensive or least portable health program. There are already important differences in these areas across the country.

Just as no provincial price-rigging scheme devised for the purpose of making milk costly for children (a.k.a., milk marketing boards) could possibly exist if the federal government did not prohibit free interprovincial and international trade in milk, so, it is feared, would social programs key to our basic goals be eroded — and fairly quickly — if the restriction on interprovincial difference and experimentation imposed by national standards were gone.

Let us take the example of welfare, examining the current new policies of the government of Alberta. That province has dramatically cut welfare rolls by changing payment schedules, eligibility rules, and (most particularly) administrative practices. The details don't matter for this purpose, but the results do. Between January 1993 and March 1995, Alberta cut its welfare rolls from 96,000 to 52,000, a drop of over 45 per cent.

Anecdotal evidence says that people have been moving to B.C. and Ontario, where the pickings are better, but the hard evidence so far suggests this has not been happening. What is clear is a huge, almost unbelievable difference in proportional case-load, ranging from Alberta's current nineteen per thousand population to Ontario's sixty-five per thousand.

Extrapolating the Alberta experience slightly, the welfare industry finds it easy to imagine a situation where each province cuts

back welfare payments, eventually to a bare sustenance level as the game continues, to avoid becoming the most attractive supplier. The most attractive supplier presumably becomes the *chief* supplier of welfare. Ontario currently has that title, with by far the highest rates and 15 per cent of its population receiving welfare benefits. Such variations will not survive the new provincial government.

The important question is, what will be the equilibrium if provincial welfare plans (or any other “national” programs) are disconnected from the centre?

One way of examining this question is to look at education, which has never had anything remotely resembling “national standards” in any directive sense. Indeed, only now, and only gradually, have we advanced to the point where provinces have been prepared to allow comparable *measurements* of their systems. That means that we have little more than anecdotal evidence of comparability.

However, the Council of Ministers of Education recently authorized a survey of reading and writing skills across the country. The results showed that “Anglophone students in all provinces and their French-speaking counterparts in Quebec demonstrated remarkable similar proficiency in reading and writing, even though each province and territory has its own curriculum.”⁴⁹ (Francophone minority students outside of Quebec did not do so well.)

This result is remarkable. Reading and writing are the key skills for dealing with our modern society, along with numeracy.

In that other basic area, and based on testing results for sixteen-year olds in 1993,⁵⁰ the achievement levels in mathematical skills indicated that, again, students in most Canadian provinces are quite similar. There are the usual “outriders” — Quebec French-speaking students are well ahead of the average level (Quebec English-speaking students were a bit below average), and the Northern Territories did quite poorly, with P.E.I. only a bit better. The rest of the system was within one-and-one-half years learning progress (plus or minus) of the average, and the great bulk of the

49 *Globe & Mail*, December 11, 1994.

50 *School Achievement Indicators Program, Mathematics*, Council of Ministers of Education, 1993.

population represented by the provinces of Ontario, B.C., Alberta, and Nova Scotia was within one-half learning year of the average.

What would appear to be the case here, especially in light of the very different financial resources of the provinces, is that a “national” (not a *federal*) standard has in fact arisen through some sort of political or bureaucratic “marketplace.”

Can this result of a *de facto* national standard then be generalized to areas other than education? After all, education has always had something of a “marketplace,” in the sense that we have had separate school systems and private schools throughout our history. One could argue that this fact has brought a discipline into the education area that we would not find elsewhere.

But perhaps there has been a factor at work in the educational area that has also applied to every other part of government services, namely, the mobility of Canadians. In thinking of mobility, one thinks first of mobile consumers of education, but almost certainly the mobility of professionals, and of ideas, has been more important. It is likely that this latter mobility has indeed brought a *de facto* national standard to education in Canada — ragged and unenforceable, but there.

Now, to the extent that there is an “ideal” of education, there is also surely an “ideal” of health care. Once again, the flow of consumers, professionals, and ideas will pretty well ensure that the expectations of our health-care should be similar, wherever in Canada one might be located.⁵¹ (A major and important exception to this rule is health care in remote settlements.)

One would expect therefore that the service components and standards of the health-care industry would remain similar (or converge, as required) across the country, even in the absence of “national standards.” What might well come to vary — exactly as in education — is the financing of the service.

51 The annual survey of waiting time for selected hospital procedures, done by the Fraser Institute, is a case in point. While it does show significant differences by province, it also generates pressure for the under-performers to change their ways. This is an example of the “flow of ideas” that brings force to what one might call “political marketplace” national standards, in economic areas dominated by government suppliers.

Of course, there are already differences on this measure. Both B.C. and Alberta charge an annual premium for medicare, paid by the government in cases of financial difficulty. The further changes that might occur would be more profound.

For example, one would expect one or more provinces to extend the user-fees currently charged for some non-core services, like physiotherapy, to a broader class of services which, as at present, would be waived in cases of inability to pay. Politically correct health ministers are fond of saying that user-fees cost more to collect than they are worth, a statement that is patent nonsense in this age of computers. User-fees clearly make people think about the cost of the health system, at least up to the level of the fee.

Freeing the health-care industry from “national standards” would make possible private, for-profit medicine, resulting in the dreaded “two-tier” system, if a particular province so decided. This is the real concern of many. But why should this be? After all, proponents of “two-tier” as it is practised and to be expanded in Alberta say that this would actually *add* capacity to the system, so that people in the publicly-financed system would not have to wait as long, even if people in the private tier were to receive even better service. Surely, they say, this is win-win?

“No,” says the other side, the “Musketeer” side of us, if you like. “It would not be that way. When you remove the wealthy and the powerful from the system that the ordinary folks use, you guarantee that the ordinary folks’ system will gradually decline. It will become a second-class system, because ‘first-class’ people will no longer be there.”

These are strongly felt arguments. They may or may not be true. In education, for example, most people are still relatively content with the public system, even though “second-tier” private education systems have long existed, without undermining the public side. Voters (which category does not include children) feel more strongly about health than they do about education, because it affects them very directly. These arguments must be addressed.

How does all of this play with the third “national standard,” the one related to income support? Not, it should be noted, the largest and most politically charged income-support system, namely, that

which applies to seniors. No one has yet called this into question, though that will surely happen before this decade is out, and probably sooner. No, we speak only of the income support assisted by Ottawa but administered by the provinces: support for poor persons who are not seniors, like single parents, the differently-abled, and so on.

Here, the disappearance of “national standards” will almost certainly mean a reduction in relative payments to the poor. Why so? Because the poor have no clout.⁵² They have had a transient voice through a lobbying system keyed to a receptive Ottawa, when Ottawa had the money and could set the rules. That lobby will have no chance of maintaining a united front across ten provinces setting their own welfare rules.

Is all of this good or bad? Is it even inconsistent with the idea of “Thirty Million Musketeers?”

Well, it is unfortunate, in the sense that it involves rapid change in a social contract, an expectation of the world that Canadians have been led to believe is a way of life. But it is reality, because that contract is unsustainable in the light of our enormous debt and changing political views.

And does it fit with the “Musketeers?” The remark about “changing political views” says it all. The Musketeers have taken on a harder edge. The issue thus becomes twofold: transitional fairness in phasing out the old contract and then agree on what the shape of the new order should be.

SUMMING IT UP ON THE STANDARDS

In the end, there is only one reality: the new arrangements will be based on affordability and political will. This base will have little to do with the present distribution of powers between the federal centre and the provinces.

52 In The Fraser Institute's “Poverty in Canada—1994,” *Fraser Forum*, Christopher Sarlo measures fewer than one million Canadians as truly poor (1990 data), and another 3.7 million below a “social comfort line.” This total number is less than 15 per cent of the total population, and more importantly, in political terms, it is not at all an active group in the political process. The reasons are varied, from lack of education to lack of organization, but the fact is clear.

Affordability, in the long or even medium run, has no respect for jurisdiction. It is just a matter of fact. The equation is simple: total production minus necessary expenses equals total discretionary spending. One does everything possible to increase total production and to minimize necessary expenses. After that, it is just carving the pie that remains.

As to the “political will,” that depends on the particular day of discussion. The old order is clearly changing, day by day. The “taxpayer” is angry. Even more importantly, young people are gradually coming to realize that they have been set up by their elders.

The first measure of this is, of course, the enormous debt of governments. The associated interest costs are so high that by the time we eliminate the annual deficit, as taxpayers we will receive about only 70 cents of services for each \$1.00 of tax we pay, for the foreseeable future. Think about that. We dislike taxes at the best of times. From the year 2000 on (give or take a year or two), 30 cents of every dollar spent by Ottawa will vanish into the smoke of interest on debt from the past.

That has been the impact of the spending and taxing decisions of the past generation. It has been a horrible breach of faith with our children, and, given that over a third of this debt is now owned by foreigners, it is one that my older generation could not even cure by dying and passing on whatever debt we own, through pensions plans and so on.

A second measure of intergenerational stress is the state of the Canada Pension Plan. It is, of course, a pay-as-you-go plan, not a funded one, but the dimensions of the problem can be measured by the fact that, if it were funded, the funding shortfall would be about \$600 billion (including the Quebec Pension Plan). This approximates the level of all other government debt together.

In other words, the Canada Pension Plan is a promise to today's workers that simply cannot be kept except by raising contributions to prohibitive levels — up to 14 per cent by as early as 2015. The current payroll tax level is under 5 per cent. Get ready to see another 9 per cent gone or benefits cut.

We are thus left here with a set of constraints in the area of social policy “national standards”:

affordability,
unavoidable federal cutbacks,
expectations that sum to far more than 100 per cent, and
intergenerational equity.

In the matter of *affordability*, we are clearly at the edge of the tax envelope, in both political and economic terms. Reality will bias taxes down, not up.

In the matter of *unavoidable federal* cut-backs, refer to previous arithmetic and the “Economic and Fiscal Update” of the federal finance ministry of October 1994. Put simply (and though Finance does not say this, it is clear from the numbers), the federal government has to cut back its program expenditures by over 20 per cent over the next few years.⁵³

The implication of this is that the central government will no longer have the financial ability to impose federal standards, however much they may pretend to do so in the short term.

In the matter of *expectations*, everyone wants more. This is natural. What is unnatural is that people have been led to believe by most political parties, whether in or out of government, that they *can* have more and that someone else will pay.

This history has set up a dissonance between expectation and reality. It is always necessary to have hopes and dreams, for these help give meaning and direction to our lives. But hopes and dreams imply effort, or at least they used to, before our governments began spending so much on lottery advertising. Widespread expectations based not on reality but simply on some notion of entitlement constitute a political bomb in this country. Who will pay the pensions of the workers of today?

And in the matter of *intergenerational equity*, the selfish acts of the current generation of decision makers have polluted the financial future of younger Canadians fully as much as smokestacks have polluted any environment. The legacy is a mixture of hopelessness

53 There will be important variations, depending on economic growth and interest rates, but the trend and general magnitude are certain.

and anger among many young people. Life will go on — it always does — but the politics will be harder and meaner.

To someone who believes, as I do, that social policy represents an implied contract among citizens, mediated by governments, all of this is very unsatisfactory. The existing contract is flawed, unaffordable, and unfair, but that is not the end of the problem. The machinery to fix the situation — that of government — has lost its capacity for coordination, with the decline of the old federal leadership.

THE WORST COMMON DENOMINATORS

The concept of “lowest common denominator” is one thing. While less than “the best,” it does suggest at least a base upon which everyone can agree, and perhaps build.

A “*worst* common denominator” as we have developed the practice in Canada is something much worse. It is to take a program devised for one area or set of problems and transfer it, holus-bolus, to other areas or problems, strictly for reasons related to the Canadian system of politics.

To give an example: many years ago the federal government decided that it had a responsibility for regional economic development. The idea was always fuzzy, but the general concept was that the government should try to encourage a reasonably comparable level of economic activity in all the micro-regions of Canada. To this end, money was spent both on infrastructure and on individual projects.

The public explanation has always been as fuzzy as the programs. The concept has been that there is a sort of Canadian birth-right to live where you want to, whatever the economic prospects there, and that it is probably cheaper to have people work where they already live than it is to pay the costs in human and economic terms of moving them to cities. Of course, these things are very seldom subjected to objective measurement or cost/benefit analysis. We have taken the idea of regional development to be an automatic public good. It is not.

The *real* justification driving these programs has been quite different. It has had everything to do with votes and very little to do

with economics. The sad fact is that, while people are mobile within the country, constituency boundaries are not. Worse, votes are mobile among political parties! Thus, the MP for constituency “X” has no interest in seeing good people move out of his or her area, and is even more concerned with the sour whiff of economic decline in the nostrils of those who remain. “Something must be done!”

What must be done, it invariably turns out, is to take resources from a productive part of the country to try to jump-start a flagging part. The buzzwords are always the same: “jobs,” “investment in people,” “generating self-reliance,” and so on. The results too are always the same, namely, a reallocation of resources from a vote-getting perspective, which usually turns out to be a *misallocation* of resources from an economic point of view.

Clearly the overall economy suffers, and thus so does the average citizen. However, as in every purchase of votes with other people's money, the hope is that the payee will notice the benefit and the payer will not.

This tawdry little game has been a part of all political systems from time immemorial, but we have given it an added twist in Canada, which is this: “You can do whatever wasteful thing you want over there, but you must do it for *my* part of the country too!” Thus, we have economic foolishness loaded on the conveyor belt of federalism, for distribution to every part of a grateful country.

One of the most egregious examples in Canada has been the creation of the Western Economic Diversification (WED) fund, as a western counterpart of the Atlantic Canada Opportunities Agency (ACOA), and the federal Office of Regional Development — Quebec (FORDQ).

Now, the basic idea of regional development, that the wisdom of governments can detect economic opportunities invisible to the private sector, is wrong. But rather than take the time to argue that case here, look simply at the internal logic. Even if one buys into the basic idea of regional development, surely the thing to do is to focus limited resources on problem areas. That would explain the ACOA. But the WED and most of FORDQ can be explained *only* by politics and the worst common denominator.

After all, the West and Quebec may not have the same economic problems as does the Atlantic region, but they sure have a lot more votes. The “worst common denominator” of our system of federalism makes sure that this kind of error is replicated through the departments of government.

Public-service salaries that don't vary with local prevailing rates, defence installations driven by politics, and training programs in areas with no expectation of jobs and no expectation of mobility upon graduation are examples.

The point here is modest and simple: as we redesign federalism we should bear in mind these all-too-human tendencies. The most effective remedy, of course, is to make sure that, to the extent that interregional transfers of financial resources for regional development are undertaken, what should be transferred is *the money* only, with no strings, leaving the actual spending priorities to be set by those on the ground.

Such a rule would do two good things. First, the spending decisions would be made by people in the region, accountable to other local people. This doesn't guarantee the absence of waste and corruption in the use of public funds, but it does identify the perpetrators.

The second good thing is even more important. By denying specific project connection and credit to the central government, the “no strings” rule would remove a powerful incentive to waste money regionally in the pursuit of votes.

EQUALIZATION

Equalization has come to be such a Canadian icon that it has even been entrenched in Section 36 of our constitution.

There are two concepts embedded here. The first is *equality of opportunity*. In chapter 2 on Canadian goals, we referred to this as being fundamental to our political beliefs. Equality of results is a hotly debated idea; equality of *opportunity* is almost universally accepted. (That does not mean that we have agreed to do those things necessary to make it real, of course. To a considerable degree we have not.)

So this first concept is the philosophical statement of equalization, specifically addressed to individuals, or rather, conditions that affect individuals.

The second concept is more technical — a matter of means rather than ends. It says that one of the ways we may achieve our equality goals is by making sure that we equalize the capacity of governments to serve citizens.

Both constitutional statements are deliberately vague. Both are also non-justiciable, so that you or I cannot take a government to court to require their better behaviour on Section 36. But because this concept is so important to Canada and involves the expenditure of a great deal of public money, we might well spend a bit of time thinking about the core content of equalization, given a revised Canada with fewer dollars for governments to work with.

The generalized concept of equality of opportunity is so basic that it runs through the health, education, social, and economic areas of all governmental budgets. For now, I focus only on the technical concept: the transfer of funds from Ottawa to seven of ten provincial governments for the purposes of Section 36(2).

The funds involved are large. In the current fiscal year, the equalization component is about \$9 billion. About half goes to Quebec; the other recipients are the four Atlantic provinces (New Brunswick gets the most), Saskatchewan, and Manitoba. The net contributors are, therefore, Ontario, Alberta, and British Columbia.

The formulas on the contribution and need sides are terribly complicated — so much so that they can be rigged more or less as required for the purposes of the day. These purposes are, of course, invariably benign, as viewed through the lens of Ottawa advantage. The Golden Rule of politics is always that he who has the gold has the power to make the rules.

Now the Ottawa gold is running out, and we will have to rethink equalization. Either it will have to be carried out at lower dollar levels, or we will have to adjust another set of Ottawa payments, which go directly to *individuals*, not to *governments*.

Do We Equalize Governments or People?

If equalization payments sound like a big number, bigger ones are to come. The two largest program elements⁵⁴ in the federal budget are transfers to *persons* and transfers to *governments*. For the current fiscal year, the numbers are about \$41 billion and \$26 billion respectively.⁵⁵

It is not the purpose of this book to advise on the financing or shape of social programs, but the matter of balance as to the preferred route — directly to persons, or indirectly to governments — is one we should look at.

The transfers to *persons* are, more or less, \$23 billion for elderly and veteran benefits, \$14 billion for UI, and \$4 billion for Native and other categories.

The transfers to *governments* include the aforementioned equalization at \$9 billion, contributions nominally tied to health and post secondary education totalling about \$10 billion, and about \$7 billion in Canada Assistance Plan payments.⁵⁶ (There is an additional \$1 billion-plus transfer to the tiny governments of the northern territories.)

While some of the transfers to provincial governments are nominally earmarked (for health, education, or social assistance), as a practical matter they have become a part of the general revenue of the various provinces. There is still a tinge of “national standards” effect on the income-support side, and a bit more with respect to health. Alberta is in open disagreement with important aspects of the “national standards” in both these areas. Ontario and B.C. will likely join in that parade in due course, for their own fiscal reasons.

54 Interest on the debt is the major *non*-program item and the largest element overall, at \$50 billion — almost one dollar in every three spent.

55 There is a \$4 billion category problem here. Transfers with respect to Indians and Inuit are listed in the budget in the “subsidies and other transfers” category, not in either of transfers to persons, or to governments. This is arguable now, and even more so if we are moving to a “third order of (native) government.” For our purposes I have put the \$4 billion into the “persons” account.

56 There is another \$12 billion in “tax points” that Ottawa claims it should get credit for as well. Since these transfers of taxation were made long ago and are politically irreversible, no one pays the slightest attention when the tedious point is made once again.

The federal budget has denied any intention to loosen these controls further, as part of a general austerity drive. This is self-serving hogwash. The feds have insufficient money or legal authority to control these things for much longer. In short, *all* of the remaining main transfers from Ottawa to the provinces (since only equalization will be left) are on the way to becoming “unconditional.”

The politics that will drive Ottawa are clear: Why accept the opprobrium of raising money through taxes when others (the provinces) get the spending credit? As with most simple messages in the multibillion dollar range, this gets attention.

The transfers to persons are clearly direct and unconditional — the pensioner or UI recipient can do what he or she likes with the welcome federal cheques. However, Ottawa gets the credit too in this case.

So we arrive at this philosophical question: As we trim (and we surely must), should we trim more from the income stream to the provinces or from the income stream to persons? The question is important to all of us.

At a political level, it is important to Ottawa. Transfers to persons (OAP, GIS, UI) are far and away the most important relationship the federal government has with Canadians. This, plus the extremely important perception (but not the reality) that medicare and pensions are dependent on Ottawa, is one of the enduring political factors faced by Quebec sovereigntists.

So for today, what to do? The answer is simple for Ottawa, of course. It is this: hang on to the direct distribution of lolly (to seniors, and UI), and cut loose the indirect distribution (by way of transfers to provinces) as required. The bottom line? The federal government will retain its direct relationship (of largesse) with millions of Canadians. It will reduce the transfers to provinces as required.

Winners and Losers: The Old and the Young

The transfers discussed above will have indirect effects of consequence, the most important of which will be a shift of resources within society from the young to the old. That arises as follows.

First, we can assume that of the two large federal programs for persons, the UI side will be scaled down and will remain in approximate balance with the associated payroll tax.

We can also assume that transfers to seniors will be largely maintained. This will include the CPP, at least for a time. In due course the matter will have to be revisited to account for more retirees and proportionately fewer contributing workers.

Second, formal equalization payments will be the last transfer to the provinces to be cut, both because of the constitutional duty, and because such cuts would hurt the poorest provinces, not the rich ones.

Third, the federal cuts in transfers to the provinces will affect the social programs the provinces administer, though that will not be the stated intent. The three big provincial programs are health, education, and income support.

Of the three, health is the “untouchable.”⁵⁷ It is also, above all, a seniors' program. That leaves only two main places to absorb the cuts: educational services (which go primarily to the young) and social services (which go primarily to families with children.) These are the only large programs that the provinces can cut.

The conclusion is that as predicted, social resources will shift from the young to the old.

This is a gloomy sort of result. No society can afford to place its priority on its past (i.e., seniors). The priority, when choices have to be made, must always go to the present, and then to the future (which means young people, research, and so on). The forces in play now will stand this logic on its head, and the matter will have to be addressed. The politics will be very difficult.

57 This does not mean the health system will be unchanged. It will change to survive, but in political terms, it will not be disadvantaged as much as other programs.

EQUALIZATION REVIEWED

We have moved quickly over “formal” equalization (payments to provinces to maintain a standard level of services, given standard tax effort) and considered a sort of “equalization writ large.” This is appropriate because all federal payments to persons and provinces really do constitute a sort of equalization, in the sense that Ottawa raises taxes where the money is, and distributes it according to its version of need.

The key questions that emerge are as follow.

1. To what extent should we wish to modify the “natural” progression (i.e., that driven by the power and politics of the situation) of shifting a very major social-distribution decision away from the provinces and towards Ottawa? (This surprising result occurs because even though Ottawa will be spending less overall, the cuts will essentially all be in transfers to the provinces, which in turn will have to cut social programs for the young and poor. Ottawa will unilaterally be forcing a shift in emphasis to seniors.) In a time when we seek decentralization, does the reverse make sense?
2. To what extent should we wish to modify the same “natural” shift of resources from the young to the old?
3. When federal transfers do have to be cut, should the first cuts come from transfers to individuals or to governments?

The answers fall outside the scope of this book, but the questions are very important. They will have to be kept in mind when designing the best sort of decision making machinery for the reformed federalism.

After all, shouldn't the division of social spending among regions and ages be at least *debated* in one place, wherever the constitution puts responsibility for the actual decisions and administration? But the Parliament in Ottawa debates only its own budget, and the Legislatures only theirs. For now, there is no common forum. There should be one.

Surely Musketeers will be distressed by the discussion here. What can “all for one, and one for all” mean in these difficult days? One thing is sure: most Canadians want our social programs to be in

harmony, and that imperative will somehow find political expression. The next two chapters respond to that challenge.

6

Design Principles, and the Hard Questions

“If you don't know where you're going, you'll end up somewhere else,” Yogi Berra may have said. And as adds an ageless architectural alliteration, “Form follows function.”

To know where we are going, we will need design principles and reference points. Along the way we inevitably have to answer some of the hard questions of politics. (These are always about power.) To get some measure of the power shifts in the Canada-to-come, consider the ratio of federal to provincial/municipal funding of expenditures that we have been used to in recent years. For 1993-94 (the latest consolidation available), Ottawa provided about \$133 billion of government dollars spent and the provincial/municipal number was \$157 billion.⁵⁸ Thus, Ottawa's share was about 46 per cent.

By the time we get to the year 2000, increasing the provincial figures by only at 1 per cent per year to cover population, and using our earlier federal estimate of cutbacks, the Ottawa share will have gone to about 39 per cent. Note well: this is *before* the implementation of any of the specific decentralization proposals to be made in the next chapter, where a further calculation will be presented.

The direction of the power shift is therefore clear, based on financial considerations alone. The political pressures from Quebec and the West will only add to that thrust. We are moving towards a new kind of Canada. We can manage that change, or we can resist it.

⁵⁸ Statistics Canada, *Public Sector Finance*, cat. 68-212a. These accounts are not directly comparable to the federal budget data. These are *program* expenditures, net of interest.

This chapter suggests the appropriate considerations of a management plan.

There are four underlying design principles:

1. Reform must be *acceptable*. Change the system as little as possible to meet the needs. Make the changes saleable — indeed, welcome — today. Be more concerned about future adaptability than current drama.
2. Set as the fundamental target improving the functioning of democracy and the political marketplace. If the process is right, the system will fine-tune itself, over the years.
3. Recognize that human beings respond to incentives, and build in incentives that reward effective and efficient public service.
4. Reference everything to customer service. Institutional needs are important, but they must be of use to the customer.

ACCEPTABLE CHANGE

It's tough enough to get even kids to swallow bad tasting medicine solely on the grounds it is supposed to be good for them. It's a lot tougher when you are dealing with adults with entrenched political interests, public-sector unions, and the huge network of special interests throughout the country that relies on the existing system for its particular corner on prosperity.

Machiavelli said it centuries ago: change is always resisted fiercely by those who profit by the existing system, and but little supported by those who could benefit from a better way of doing things.

Accordingly, if it is to happen at all, change must be secured by stealth (of which gradualism is a large and respectable component), or by buying out the old order, or by beating them up, or through chaos. Revolutionaries have always preferred the latter two routes; democrats prefer the first two.

Moreover, the advantage of change must be obvious to all concerned. Quite apart from entrenched interests, we human beings are suspicious of change in the fundamentals of our lives, and rightly so.

Whatever the problems of the established order, as long as it *works* and is *predictable*, very few want the hassle of turmoil to achieve improvements that may be only marginal.

Free trade and NAFTA — the major positive legacy of the Mulroney government — are fine examples of this phenomenon. The 1988 election was as much about free trade as anything, and the Tories won it (with just 43 per cent of the vote) only because the opposition to free trade was split between the Liberals and the NDP. Most people in Canada were opposed to the free trade agreement then; many remain so today.⁵⁹

The point is that the less one tries to change, the fewer opponents one will have, or the less determined opponents will be, or both. In addition, the less one tries to change, the fewer the unknowns and the less guessing about future outcomes is involved. Humans being even harder to herd than cats, there is much to be said for reducing both opponents and unknowns.

Cushioning and Enlisting the Losers

Even when one has determined to change as little as possible, the fact is that there will still be opposition to *any change at all*. Since our “little as possible” is likely to be quite significant to the presently powerful (though of little moment to the vast majority of us), we will have to purchase their cooperation or see change frustrated through delay.

So the second item in this first principle is to make change comfortable to *the losers*. This is a general part of statecraft and a part of the maxim that one needs no casual or accidental enemies.

There is a fairness to this as well: people who have in good faith fallen in line with an old order ought not to be exceptionally penalized in the changing. Everyone, everything, has to change with the times, but governments have a special obligation to change in ways that do not breach implied contracts. For example, rightly or wrongly, governments over the past generation have given people

⁵⁹ Indeed, this is perfectly consistent with our hypothesis that Canadians want order and personal security above all. The FTA and NAFTA were about competition — the antithesis of predictable order — and a loss of personal security for many in protected industries.

strong reason to believe that when they become seniors they will have access to a relatively generous support package. People not unnaturally planned their lives on that basis.

When the time comes — as it has now — when financial circumstances won't allow that to work the same way, the trimming should be done carefully, with as much fine-tuning of impacts as possible.

This general philosophy applies to the specific matter of government reform. Suppose for example that everyone agreed that, as part of the package, the Senate should be abolished. Now, it just so happens that in the last constitutional round, the Senate was foolish enough to give up its legal ability to veto a change of that kind. They could be tossed out, cut off and many would applaud. The Senate is not a popular institution. But that would be wrong. Fair severance ought to be paid, even in such an unpopular case as this.

Federal public servants in general are only a little more highly regarded than senators, and it takes no imagination to understand that, whatever we do with the Red Chamber, any important decentralization will see tens of thousands (of the current 220,000) federal public servants lose their jobs, beyond the 45,000 claimed in the 1995 budget.

In many cases future federal downsizing will result in the work being taken over by the provinces, as well as many of the workers. Still, there would be large net losses, and fair severance, relocation assistance, and the like should be paid.

In part this is a moral obligation. The political structures we have all supported put these people where they are. It is not markets that have changed (which is why you get laid off or terminated at a car-parts plant). Rather, it is an arbitrary decision by the public to change the rules. We have to live with the consequences of previous governments.

For those who disagree with that stand — and there are many suffering taxpayers looking for straight-out chops in many places these days — there is another, very practical reason. It is this: reinventing the government of Canada is not going to be easy. It will require cooperation, not resistance. It will require willing assistance, not sabotage. Human beings are helpful or obstructive as a result of

incentives, and one of the most important incentives is the perception of fair treatment.

The bottom line of this design principle is to make change acceptable to most of the players.

Finally, another point is important here. While we may want change to be minimal for today, while we may want to cushion the transition, there is another thing we want. *We want to avoid getting into this kind of a box again.*

Accordingly, as we design a new system of government for Canada, we would like to build in machinery to keep the responses of government more in line with the needs of the public as they change over time. We need provision for continuous reform. This is clearly a good thing, and just what one wants in any organization.

For example, we might imagine the creation of a monitoring device, or provision for routine review of government structures every ten years. Several of the American states follow this practice, and I recommend a variation in chapter 7.

IMPROVING THE FUNCTIONING OF DEMOCRACY AND THE POLITICAL MARKETPLACE

Canada is a modern democratic state. What that means is that when we take collective decisions that bind us all, we do so on the theoretical basis that the voice and interests of every citizen are considered on an equal basis. When the decision is taken, it has the force of law and the enforcement of the state.

Our Canadian Version

All of this only *begins* the discussion on making democracy work. There are countless variations in the world. Ours is a direct descendant of a mixed marriage between federalism and the British parliamentary system. It is characterized by elitism, secrecy of basic decision making, and a pathological adversarial bent that obscures the truth as often as it reveals it. This is as true of relations among levels of government as it is of relations inside legislatures.

The incentives are perverse. For an opposition member, certain in the knowledge that his or her team could do a far better job in the public interest if it could only win the next election, it is logical to tear down the other side. As long as the other side is in charge, the opposition will have next to no influence.

The incentive is, therefore, to be as destructive as possible, while pretending to be the opposite. And while one must never admit it, the worse the news of the day is for the public, the better it is for the Opposition. Unemployment through the roof? The dollar through the floor? Interest rates at 20 per cent? It is time for a change! Vote for me!

Government and Opposition both distort public perception in favour of their own positions to the maximum extent they can get away with, and often a bit beyond. When the questions under consideration are as complex as today's are, and the claim on citizens' time from other directions so intense, this setup guarantees a high degree of public confusion and, in due course, cynicism, distrust, and apathy.

As usual, the remedies are well known. They boil down to an improvement in public information, relaxation of the adversarial system (though not too much, for we wish to maintain vigilant watchdogs), and better definition and representation of the public interest through direct and indirect means. It is not essential for reinventing government, but it is highly desirable, and should be a background consideration in every thought for redesign.

The “Political Marketplace”

What we are talking about here is a *political marketplace*. Scholars and practitioners have laboured for centuries to perfect the ordinary economic marketplace. We have seen the development of a body of theory and law directed to securing market efficiency, and while experts may argue as to their efficacy, the intent is clear.

We are only at the beginning in developing a like set of precepts for the political marketplace. Yet can anyone doubt the urgency, given the huge segment of our economy and our lives now influenced or directed by government and politics?

To give an example, the burden of debt now borne by our country is a direct result of market failure, in the political sense. The correct cost-and-benefit signals on the growing debt were not sent over the years by the politicians and bureaucrats who are our paid agents in the political marketplace. The public did not understand the choices and their consequences, and therefore the market did not work.

As a result the necessary corrective action was not taken until well past the time it should have been, in order to minimize pain for all concerned. Instead, the tax burden was shifted forward to future taxpayers via debt, and the intellectual warning signals from lenders and academics as to consequences were drowned out or were ignored. The consequences of this political market failure are awesome.

Many regulatory systems — tariffs, supply management, and most protectionist schemes, for example — result from a failure of the political market. The low-level pain of the people who actually pay for such schemes, the consumers, is not balanced against the high-level gain of a few beneficiaries. The tiny pain signals (enormous in the aggregate) don't get through.

They don't get through because our agents don't amplify them. Every citizen has a million things to worry about, and has no time for issues of public policy unless they are of some personal importance. For the political marketplace to function well, it requires more than the buyers and sellers of ideas, by analogy to the economic markets.

The problem is more fundamental. It requires someone to show up at the market in the first place, to be interested. People show up in the economic market out of self-interest. Where is the self-interest in the political marketplace? It is there, but it is complicated, and needs description and amplification.

And there is another problem: people show up in the private, economic marketplace because they believe they will be able to take part in it. They *don't* believe this of the political marketplace, which citizens generally consider to be out of their effective reach or control.

If no one shows up to pay attention, the market doesn't work well. For example, on any of the politically correct fields of debate

such as the environment, aboriginal issues, or sex and gender issues, the political marketplace does not provide for a weighing of costs and benefits. More precisely, benefits are presumed absolute and infinite; costs are ignored. Why? The ordinary people aren't in the debate, and the interest groups control the field, since they are the ones who *do* have an incentive to show up in the market. They show up and, having virtually no competition, they dominate. The phrase “silent majority” was invented to describe the people not heard in such debates. “Absent majority” might be a better description. They are absent from the political market.

In most public policy issues, as in the matter of the debt, things have to get a long way from common sense before any compensatory signals get through. Individual losses or disapproval with a given course quietly simmer and add up, until they either reach critical mass and explode (such as tax revolts) or fester and die away. The consequent errors either way are invariably expensive, and are almost never even acknowledged, let alone measured.

Improving this Political Market

The measures to assist with this problem, such as freedom of information laws, encouragement of neutral experts (like the auditor general, or independent think-tanks), and the simple, frank presentation of the facts and arguments by journalists and decision makers are beyond the scope of this book. There is, however, one governmental mechanism we can look at: competing bureaucracies.

One of the costs and one of the strengths of federalism is that we set up and pay for a number of governments. Many of their duties overlap and, for various reasons, their expertise overlaps even more. Most governments develop at least minimal competence in most issues of public policy. If we include *municipal* governments, as we should, the overlap becomes even greater.

In reinventing government in Canada, we should look for explicit ways to build on this potentially immense contributor to the political marketplace. The essence of a marketplace is competition and exchange. These many bureaucracies have the ability to compete with one another in an expert and public manner in order to

serve the interests of the public. The trick is to devise the machinery that will allow this kind of competition of public-policy expertise to take place openly.

It is not in our tradition to carry on intergovernmental debate in public. There is a kind of a code of silence here: “Don't embarrass and argue with me in public, I won't argue with you, and we'll make a deal.” But this silence has the same cost to the public as does any restriction of competition.

We have had a recent graphic example of the potential of the competition of bureaucracies in British Columbia. The provincial government was engaged in a highly secretive exercise in developing gambling policy, including major casinos. Public opinion was opposed, but it had no voice and no information. The City of Vancouver bureaucracy did a study on casino impacts that effectively killed the provincial plans in this area by an airing of facts and opinions. This is but the tip of an existing huge iceberg of federal-provincial and provincial-municipal dialogue that can and should be brought into the open and put to the service of the marketplace of ideas.

There are down-sides in this for the bureaucracy of course. Citizens would get to second-guess politicians and public servants during the policy-making process, if they had information as good as that of the insiders. This leads to awkward questions and a definite constraint on decision making. But can anyone doubt that timely, expert *public* debate before decisions are made could do anything but improve the operation of our democracy?

There are ways to put this improvement into effect. First, we need machinery to get those bureaucracies interacting in public. That design requirement is addressed in the next chapter.

Second, we need a system of *measurement*. Measurement is as fundamental to the political marketplace as it is to its economic counterpart. However, it is much more complex on the political side.

In the ordinary marketplace, we have a standard of value — dollars or whatever currency. With an appropriate recognition that money can't buy happiness, we have found a way of putting a dollar value on most of the things that are traded. In other words, we have a good economic standard of value.

In the political marketplace, the situation is quite different. We do have several standard units of measurement, but they are all less than satisfactory. In a democracy, the most revered currency is the vote. When the vote is for representatives at election time, this standard of value is very rough and imprecise. What is being measured here is performance in the past and a guess at the future, over many years and myriad issues.

When the vote is on a specific issue — as in a referendum — the measurement becomes much more precise, though even here there may be interpretive difficulties related to the formulation of the question, and so on.

Dollars can also serve as a measure in the political marketplace. Taxpayers know how many dollars are extracted (though part of the skill of the politician is to minimize the pain, through frequent, small extractions) and observers can tell how many dollars are spent on each policy target. There is a huge difficulty here though. The dollars spent are only measures of *input*. What we are much more interested in knowing about is *output*.

In the economic marketplace, we don't concern ourselves too much with this issue. If I spend a dollar for a cup of coffee, it is assumed that the cost is the proper measurement of the value to me. If the Los Angeles Kings spend thousands of dollars for an hour of Wayne Gretzky's time, perhaps a curious transaction to some, it is one in which buyer and seller are willing and informed.

But suppose a government spends dollars on a soldier, or a nurse, or a teacher. We know how to value what went into the equation, because we can spend money elsewhere. But how do we know how to value what comes out? How do we know the worth, or even the quantity, of the protection, or health care, or teaching service that has been purchased? This is a central question of the political marketplace.⁶⁰

Only by assessing the value of *outputs* can we really measure how well the system is working for us. A redesigned system of government should produce much more of this kind of information, as a

⁶⁰ A very important part of the answer, as noted elsewhere and worth repeating, is that wherever we can reasonably move these activities into the private marketplace, we should.

natural result of its functioning. Today we only get such measurements only if a bureaucracy really wants them (and they typically don't) or if an external organization works with the limited external data available, for example, the work of The Fraser Institute on selected surgical and diagnostic procedure waiting times by province.⁶¹

A scheme that produces a range of output measurements as a matter of course and agreement is a way to address this lack.

INCENTIVES AND CUSTOMER SERVICE

Incentives make things work. An incentive can be positive (you get a bonus) or negative (you're fired). Either one gets your attention. In today's world, we rely increasingly on positive incentives, for the simple reason that they work across a far broader range of issues.

People respond to incentives. This can bring pernicious results if the incentives are bad. As a public-sector example, if the rules governing a public-service job state that, if you follow the book, you are fine whatever happens, but if you stick your neck out to do a better job, your head might get cut off, what would *you* do?

In the principles for redesigning government, we need to pay close attention to incentives. The finest theoretical system will not function well if the people inside the system aren't motivated to make it work as intended. Therefore, as a general approach, we have to build in the kind of incentives that are consistent with our ends.

Our goal is customer service. Of course, politics has such a broad scope that we must be much more precise. For example, we probably mean “affordable” customer service, and we may mean “customer service consistent with good environmental practice.” So one of the problems is defining just what we mean by “service.” And beyond that, we must define the “customer.”

61 Cynthia Ramsay and Michael Walker, *Waiting Your Turn: Hospital Waiting Lists in Canada*, 5th ed. (Vancouver, B.C.: Fraser Institute, 1995.)

The “Customer”

A couple of problems exist here, both of them related to the fact that there is no single creature called “the customer” whom governments can phone up to request marching orders. Two kinds of variations make defining “the customer” difficult.

One sort of variation is endemic to the human condition. We are young, or middle-aged, or old. We are east, or central, or west. We are male or female, straight or gay. We speak English, or French, or Cantonese, or something else. We have chosen our parents wisely or poorly, as shows in our genes and upbringing and start in life. We have our differences. Fortunately, all of these differences can be bridged.

But then there is the other sort of variation, mostly created by ourselves, as individuals, as families, or as a society. We are hard-working or lazy. We are literate or illiterate, well educated or not. We are healthy or unhealthy, within a great range that is a matter of individual luck (nutrition and environment and upbringing) and individual choice (lifestyle). Increasingly, these variations are becoming a problem.

Let us look south for a moment. The Americans have invented one of the truly dreadful words in modern sociological language: “underclass.” The concept, the reality, is not new. For most of history, there has been a small upper class, a small middle class, and the ordinary masses. There was no particular opprobrium in being located at the bottom — most people were.

During the twentieth century, with its great revolutions in population size, science, the marketplace economy, race relations, the status of women, and international politics, one of the greatest phenomena has been the middle-classing of Western society. The same revolution is under way in the Eastern world.

North America has been the leader in all of this. International attention has always focused on the United States in this regard, but in fact, and in this specific sense, Canada really adopted the “American Dream.” We put together a society over the forty-year period from

the 1950s through the 1980s with a small upper class, a very broad middle class,⁶² and relatively few poor.

The ratios changed during this period. Seniors did progressively better. Single-parent families grew markedly as a percentage of the population and did relatively less well.

For about the first thirty years, the progress was financed by a booming economy based on resources, manufacturing, and a rapidly growing labour force. For about the last fifteen years, the “progress” has been more a matter of just hanging on, and the financing has depended increasingly on public debt. Moreover, there was a very important shift in incentives at the beginning of the 1970s away from productivity with the Mackasey changes to UI. Today, even before the real debt hangover has shown up in the income distribution statistics, things are starting to unravel a bit.

The New “Customer” — 1995

Real per capita income has been dropping since 1989, with just a tiny uptick (\$0.30 per day, before tax) in 1994. Like all averages, though, this conceals a trend to greater dispersion of income and class. This has had political consequences, and voters understand their circumstances long before the pollsters make their pronouncements.

The summary results of a major survey (2,400 random persons, focus groups, and 1,000 decision-makers) on attitudes toward government taken on behalf of ten federal departments and two provinces became available via press reports early this spring, and more details dribbled out in the early summer.⁶³ The press made the decision-maker/citizen group differences the story (the former was more realistic, the latter more idealistic, for a change), but the two groups are always out of sync.

More important, the results were consistent with the approach taken in these chapters, that is, a general Canadian expectation of

62 “Middle class” through this period was as much a state of mind as it was a state of income. It was characterized by gradual economic progress and, above all, a feeling of security, that Canadian icon. The actual statistics were less important. 63 *Globe & Mail*, February 25, 1995, and Ekos Research Associates Inc., June 1995.

and support for government services, along with a “deep-seated resentment and hostility about the way government functions.” I shall try to be of some help with that attitude, but for our immediate purpose the interesting aspect is the way the researchers divided the population into five groups.

The Insiders — 19 per cent of the population: “knowledge workers,” upper middle class, thriving in the new competitive world, sceptical of government.

The Secure Middle — 24 per cent of the population: comfortable remnants of the old order in areas not yet seriously eroded by new realities — teachers, public servants, white-collar workers, and unionized people with seniority.

The Insecure Middle — 16 per cent of the population: part of the old comfortable middle already hit hard by the new economy, whether through declining industries or regions, or “rationalization.”

Dependents — 22 per cent of the population: “one of two groupings in the economically distressed class,” made up of low-skilled, low-security jobholders, and pensioners, and exhibiting a high dependence on governments.

Outsiders — 19 per cent of the population: described as having “given up on the system — the expanding underclass of Canadian society. They are poorly educated and when working, have the lowest-paid, lowest-quality jobs.” They are sceptical of government, often a result of direct experience with programs directed at *them*. The entitlement society has not worked well for these targets.

This categorization is just one snapshot by one group of researchers, but it has a ring of truth for most of us. The daily stories of old industries and regions declining and new industries and regions rising tell tales of turmoil that cannot but have taken this kind of human toll. Moreover, this situation is bound to become a good deal worse, in the sense of the varying circumstances of Canadians. It will be exacerbated as elements of the “Secure Middle” find their lives upended by the inevitable application of rationalization forces to the government sector, insulated up until now.

This matters a lot to individuals caught at the bottom end; that is obvious. But this also matters a lot to the whole society. Until the early 1980s, we were used to a country where income variation, and poverty in particular, was (in popular belief) a transient, curable phenomenon. What if this is not so easy?

For example, when we see people too far outside this range, especially on the downside, we become uncomfortable. That is a major part of the unease that Canadians feel about the circumstances of much of the Native population. We just somehow think that this is *wrong*.

That doesn't mean that our society will blow up if income dispersion becomes much greater. Many societies endure in a stable fashion with many more rich and poor than we would dream of today. Nevertheless, my sense is that this is not what Canadians want, at least at the low (incipient underclass?) end of the spectrum.

Would most of us be prepared to pay a fairly high price to preserve the central “bunching” of incomes that characterized the “Musketeer” model? Maybe, but certainly only *if*— and this absolutely must be emphasized — only *if* there were a reciprocal assurance that everyone pull his or her weight. Without that, there could be dramatic change in the willingness to support the incomes of others, because there is now a more general intolerance of “free riders.” And maybe there will be dramatic change anyway, because our politicians are beginning to read the more conservative mood.

So for our purposes in redesigning government, “the customer” is in a state of flux. That is a reality to be taken into account by the redesign, and is of itself a huge argument for decentralization. When the customer is changing, you need a variety of new responses to the new questions, according to local conditions. The newly-shaped answers require adaptation of the old solutions and experimentation with new ones. A central, “one-size-fits-all” approach will not work.

Harking back to chapter 2 regarding goals, recall the goal of equality of opportunity. There may be a good deal of common ground for liberals and conservatives here. Doing the best we can as a society to provide equality of opportunity provides the chance, even the likelihood, that the customer base will remain reasonably uniform in socio-economic terms across the great majority of the

population. But how much do we wish our governments to attempt in this direction?

The question of whether it should be an explicit objective of our governments to support a “flat” income distribution, through an equality-of-opportunity spending and incentive regime (big dollars on early health and social care, primary education, and so on), is highly political. It is also one of the most important matters in public policy today, though no government or party is posing it directly as yet.

Again, the purpose of this book is not to attempt to answer these questions, but to recommend how to improve the decision-making machinery. On this particular question, it is absolutely clear that our new machinery must bring all levels of government into the same debating and accountability forum. If we fail to do that, not only will the policies never be clear or in harmony, but we won't even be able to hold anyone responsible! This has not been satisfactory in the past; it would be even less so in a tighter-money future.

The Incentives of Today

Let us look at the incentive structure and customer-service standards now in place.

For politicians, the first rule is to survive; otherwise, how can the good things they seek for the public be achieved? This means acting in such a way as to secure more votes than other candidates, every four years or so. In between elections, it means achieving maximum favourable publicity. This generally implies charges on the public purse, as small as franking privileges, or as massive as politically located public works.

But in our system, unfortunately, all of this is marginal. With only rare exceptions, most people vote for the party, not for the member. Therefore, to survive, the representative must support the party in every way and must seek to steer it in appropriate directions. However, as we have seen, when all is said and done the direction doesn't really matter — the party still must be supported because of other internal incentives.

In this brief description of incentives, nowhere has it been necessary to mention the words “public interest.” There is indeed a connection, but it is quite indirect. The ordinary MP has but little incentive to delve very deeply into the public interest, because that task is arduous and time consuming and time is at a premium. Investigating the public interest in most areas is also of marginal utility because the chance of doing anything about it are small, and often of little political use. Most questions touching the public interest are neither glamorous nor of any fascination to voters.

Those things that are of interest to voters do get the attention. Mention gun control, and your representative has done his or her homework. Mention the merits (or lack thereof) of shifting resources in the school system away from senior grades down to the earlier years — a *far* more important topic by any standard — and you will get a blank stare.

The incentive system that motivates our politicians is driven day to day by partisan considerations and by the media, which are a conduit to the voter. Saving a few million dollars or spending them more efficiently does not even appear as a wiggle on the political Richter scale.

None of this is unkindly meant. This is just the system, and a representative would have to be a giant to force a larger agenda. Most of our representatives just do the best they can. They deserve a better set of rules.

Providing these rules is by no means impossible. We need look no further than municipal government, where council members do have the systemic ability and the motivation to immerse themselves in the more understandable scale of local issues. The ability to do something as an individual provides a large incentive. Part of this difference between a council and Parliament is a matter of *scale*, and part is the system of *local government*. We can profit by both of these observations in our redesign.

And what about incentives for the public servant? This is a far more important question. Of course if you had to choose, the politicians are more important, since they have the power. On the other hand, the way things actually work, politicians are few in number compared to the public service, and generally lack the expertise. In

making their decisions, they tend to choose from options provided by the public service and make their choices based on information provided by the public service. The bureaucracy calls the shots most of the time.

In this situation, what can we do to improve incentives for the public servant in quest of better government? We can make sure there are noticeable carrots and sticks built into the system. We can require business plans from departments, as we would from any corporate subsidiary. Most of the answer comes out of management theory applicable to any large organization, and many of our bureaucracies are genuinely doing what they can to import such lessons from theory and the private sector. Such matters are beyond the scope of this book.

However, there is one element in this mix that is very much within the purview of basic government design, and that is the matter of defining acceptable performance by the public service. This is more than a business plan; this is setting and measuring a performance budget.

We make two kinds of mistakes here. One mistake is that our standards are sometimes too low. We roll our eyes while standing for twenty minutes in a government line to obtain a licence for something or other, and go away muttering. We should not settle for that.

The other mistake is where our standards are too high. Every time the public service makes a high-profile mistake — a parolee is let out and commits a murder, a child is left in a family situation that leads to abuse, too few or too many salmon are allowed up the river to spawn, an egregious example of welfare fraud is revealed — we overreact and raise the cry for a zero-defect system.

Now, we should have high standards, and we can often do better than we are doing. The classic example is what the Japanese automobile industry taught us about quality control. But even the Japanese don't go for zero defects, because such a stringent standard drives the costs out of control.

Making cars is very simple, compared to working with human beings. Furthermore, human beings are unpredictable in a way that metal and plastic are not. The only way you could theoretically get

zero defect results in human affairs would be to attempt 100 per cent control, and that is neither desirable nor achievable.

A “Government Standard”

So there is the dilemma: we expect too little in some areas of government performance and too much in others. A resolution can be found in the concept of a “government standard.”

The concept is this: in each area of government service, we should develop measurable performance standards in terms of outcomes, in terms of achieved customer service, to put it another way. This can range from the trivial (such as how long you have to wait in line for that licence before you get it for free, along with an apology from the minister), to the very serious (such as the allowable percentage of mistaken judgment calls that result in child abuse).

We can develop acceptable standards in most areas of government service. They will almost always be short of perfection. Achieving absolute certainty costs too much. It is like risk management in our daily lives. We all undertake risk management every time we cross the street. We don't ask for zero risk as a condition of leaving home — otherwise we would never leave. By the same approach, we can't ask for zero risk in the management of public affairs. What we can demand is a definition of what is acceptable and a system to measure performance against that standard.

The Fraser Institute is working on just such a concept in a “free advice” policy compendium for whichever party forms the next government in British Columbia.⁶⁴ The task is not simple, but the pay-offs will be great. Measurements and standards are an essential component of a functioning political marketplace.

This matter of incentives and measurements is of fundamental importance in system design. One must go beyond the cynic who suggests that the best incentive for politicians would be to take them off salary and put them on straight commission. It has been too much like that in the past.

⁶⁴ A series of papers entitled *Change and Choice: A Policy Vision for British Columbia*, is available from The Fraser Institute. They address various policy issues of importance to British Columbians.

Expenditure — of our money — has been the standard for rewarding the politicians, rather than the results of service. The primary reason is that we haven't been able to measure results, or else the inmates of the system have not wanted those measurements to happen. Holding government performance to a standard would be a true public-sector revolution.

Coordination

In the matter of incentives, we must not stop at the level of a single ministry or a single government. The touchstone is customer service, and any given service may be supplied by more than one government — acting together, or not, or at cross-purposes, as the case may be. Of particular note, the private sector may very well do a better job if given a chance.⁶⁵

At the level of high economic policy, students of the interaction of inflation and interest rates and government budgets will recall the late 1980s with particular horror. The Bank of Canada was determined, rightly, to bring down inflation in a lasting manner. The federal government was trying (insufficiently) hard to control its own deficit, and was actually cutting program expenditures. While this was going on, the government of the largest province, Ontario, was acting in an absolutely contrary way, pumping up an already hot economy with expanded expenditures.

The net result? Ontario, and especially Toronto, became the pace-setter for the country in pushing against capacity limits and increasing inflationary pressures. Since the Bank of Canada has no way of regionalizing the impact of interest rates, the actions they took to deal with the Ontario pressures hit that economy hard — but they hit the rest of the country hard too, particularly when that was not the right thing to do.

The outcome was unnecessarily high unemployment, real estate deflation, and other unpleasant consequences. The reason? There was just no mechanism to coordinate the policies of the federal and

65 The privatization of the air-traffic control sector of Transport Canada is proceeding apace, with every expectation from rest-of-world experience that we will save a lot of money, at the same or better safety level.

provincial governments effectively, *or even to talk about it in a public way*, with both levels of government being called to account in one forum. There was too much wiggle-room and finger-pointing without nailing down responsibilities. The public paid the price.

A similar cost arises in social policy, evidenced by the split of jurisdiction between OAS and unemployment insurance (both federal) and other income support (provincial), plus the strictures of the “national standards” of the Canada Assistance Plan (CAP). The CAP has prevented experimentation in the delivery of income support for the past twenty-eight years. Only recently has Ottawa agreed to waive some of the CAP standards on an experimental basis in some provinces. CAP has, in fact, set up a “welfare trap” in many cases (especially at Ontario rates), where any rational person would remain on welfare rather than take a low-income job.

Whether this makes sense for the individual is one question; for society as a whole it is clearly madness. Yet the political correctness of Ottawa kept this foolishness in place for a generation.

The off-loading games, from the provinces to UI (arranging for a few weeks of qualifying “work”) and from Ottawa's UI to the provinces (cutting benefit duration and raising qualifying times) have been played for years. Each jurisdiction has treated the expenditure of the other as a sort of “free good.” The taxpayer has paid.

Once again, there has not been any public forum to debate this in a public way with all of the players at the same table. Commentary has largely consisted of shots between federal and provincial ministers, invariably self-serving and neither constructive nor informative.

The need for some such public forum is clear, and proposals will be made. Note this for now: it is imperative that Ottawa and the provinces be called to account in the *same forum*. That forum does not now exist, and we must invent it.

DESIGN PRINCIPLES IN PRACTICE

A consultant friend, nameless here because he or she hopes to continue doing business with Ottawa, has a simple formula for the redesign of the federal government: “Take the 1965 Ottawa government telephone book, from a time when we were getting perfectly good government. Compare it with the 1995 government phone book. Fire every person whose position was not on the 1965 list.”

The comparison is apt. In constant dollars, the federal government spent 4.2 times as much in 1994 as it did in 1965, while the population rose by only about 50 per cent. The constant dollar federal expenditure per person almost tripled, in other words. Certainly the size of the federal public service is only a part of the problem, but it *is* a promising start.

We have more public servants for two reasons. The first is that they make work for each other. That part we can hope to do something about.

Modern society is an increasingly complex machine. The machine is exceedingly productive, but it is also prone to breakdown. In this context, public servants are machine tenders and maintenance people. You have to have them. Whether they should be paid as much as millwrights or diesel mechanics is another issue.

There are six operational principles for redesign:

- subsidiarity — government closer to home,
- decentralization — decisions closer to home;
- viability — making sure that government will work,
- diversification and reach — spreading the risk,
- K.I.S.S. (“Keep It Simple, Stupid”), and
- accountability — authority married to responsibility (for results).

Let us examine each of these, and then move on to the blueprint stage.

Subsidiarity — Government Closer to Home

“Subsidiarity” is a word that has gained much currency in the European Union debate on how to organize government. The idea is that any given task of government should be done by the smallest unit

able to do it (including the private sector, and local communities). In a magnificent article last year, Gilles Paquet of the University of Ottawa puts it this way: “This new governance system calls for decisions to be made at the lowest, most local level at which decisions can reasonably be made (starting with the citizen as such). The task of the larger unit is to assist and support the individual or local body in carrying out tasks.”⁶⁶

In putting the idea in a philosophical context, he says that subsidiarity is “a bottom-up process based on the notion that power originally rests with the citizens. It is the reverse of empowerment, which is a top-down process based on the notion that power originally rests with governments.”

How refreshing! How wonderfully dismissive of that dreadful word, “empowerment.” And how opposite to the founding concept of Canada.

As James Hurley has noted,⁶⁷ Canada was founded on the very opposite of subsidiarity, as is the British constitution. At our national birth, we continued the explicit recognition that in Canada as in Britain, sovereignty stems from on high — from the Crown. We rejected the dangerous notion, invented by the United States 100 years earlier, that sovereignty lies with the people. After all, such attitudes had already led to the bloodiest civil war in history, and to newfangled social innovations and notions of equality.

Now, a little over 125 years later, we may be coming full circle on this matter. This notion of power coming down from the Crown or up from the people is not a mere scholars' debate. This goes to the root of who is in charge, and who is serving whom. It is time to make our institutions conform to this new reality of power from below.

Canada is ready for this. We rejected the leadership of our entire elite class in the rejection of the Charlottetown Accord, and the elites know that a mighty force has awakened. People want more control over their governments. That has two inevitable consequences. One is an exploration of the possibilities of direct democ-

66 *Reinventing Governance*, “Opinion,” Vol. 2, No. 2, April 1994, Council for Canadian Unity.

67 Resident keeper of the constitution for the Privy Council Office.

racy. The other is a preference for doing things through smaller local governments, which are easier to understand and easier to control.

Of course, everything must be assessed on the yardstick of scale and efficiency as well. It makes no sense for local governments to have armies, or to negotiate trade pacts. But under the concept of subsidiarity, the bias is towards the small, and the devolution of power. The opening presumption in assessing any task is that we should do it and manage it as close as possible to the taxpayer and customer.

Decentralization

As the word is commonly used today in politics, “decentralization” has come to mean shifting of power to a lower level of government. That is not the right word — the correct word is *devolution*. Never mind, as for our purpose in this section at least, we talk about this other, technical meaning of “decentralization.”

To use a corporate example, if Giant Mega-Widget Corporation (GMWC) has offices around the world but makes all decisions in Toronto, it is said to be *centralized*. (The Toronto focus makes it also typically “Canadian,” as a westerner or Quebecer or Atlanticer would see it.) On the other hand, if GMWC only sets very broad policy in Toronto and leaves most actual decision making on production, sales, hiring and firing, finance, or research and development to the local units, then it would be said to be very *decentralized*.

The key here is that the centre does not cede any power at all, it only lends it. What it has given to the local units is the ability to make certain decisions in light of local circumstances, without reference to headquarters. The centre retains the right to audit what is going on and to reclaim the powers at any time.

From the point of view of subsidiarity, decentralization is less satisfactory than devolution. In a structure that is merely decentralized, local decision makers are constantly looking over their shoulders at their masters. When push comes to shove, it is the central priorities that prevail, if indeed they are ever questioned in the first place.

The way Ottawa runs the port system or the fishery serve as examples. In both cases, there is provision for local decision making. In both cases, retention of the central authority has led to very inappropriate policies, whether related to Atlantic cod, or aboriginal fishing in British Columbia, or the bleeding of successful ports and the cross-subsidization of losers for central, rather than local, objectives. Some will argue that this should be so. It is illustrative of the debate.

Viability

The concern here is that a government may be too small to do its job. For example, how can a place as small as Prince Edward Island find the resources to staff an entire provincial government? Well, the best answer is that it does — but this is only an answer in terms of human resources. It is probably off the bottom of the efficiency scale, as the territorial governments most certainly are, but that does mean they aren't viable, at least in the operational sense.⁶⁸

Financial viability is another matter, and is an important one. If a government needs cash transfusions from outside, then its viability is indeed in question. We have several situations like that at the provincial and territorial level, and many more at the municipal level. The latter case is less serious, for municipalities are creatures of the provinces, and the financial circle can be squared (preserving both accountability and responsibility) in the provincial capital. As to provinces and territories, financial viability is an ongoing challenge to design.

Briefly put, the tough financial times for Ottawa are going to require that the smaller provinces decide how much those provincial boundaries are worth. The crunch for the very highly subsidized northern territories will be, and should be, even tougher. The

68 And there are other considerations. To quote *Globe and Mail* columnist Robert Sheppard, “The value of having small provinces is that they are places where common sense can intrude on even the most high-minded of notions.” He was writing about a particular P.E.I. Supreme Court judgement, but it is a wider truth, as some of the common sense approaches of other Atlantic provinces have shown. Being too small for “sophistication” and too poor to waste money can bring good insights.

Mulroney guarantee of a full provincial panoply for Nunavut, containing a fulsome 22,000 souls, is just unsustainable.

None of these matters is what people mostly worry about under this heading. The greater concern for some is whether or not the federal government would remain viable with too rigorous an application of subsidiarity in the Canadian context.

No opinions can be reached in the abstract, and it is for everyone to draw his or her own conclusions on any proposal for redesign. However, in addition to the comments on sustainability in chapter 3, I would make three observations here.

The first is that the financial circumstances of the federal government are going to require that it retreat from many areas of activity, and devolve or abandon responsibilities. Since this is going to happen anyway, we should find ways to make it work.

The second observation is that any alarms raised about the centre no longer holding power should be considered with a cold eye fixed on the alarmist. There is an immense constituency among the lobbying and chattering classes of this country in favour of an all-powerful Ottawa. These groups have made huge investments in connections and knowledge of who is who and what is what, and they enjoy the enormous convenience of “one-stop shopping” for those with an agenda.

We may expect most national columnists and reporters to issue solemn warnings about the decline in the importance of the government they feed from — why wouldn't they? And we would certainly expect such knee-jerk resistance from the three old-line political parties of Ottawa. Few people can cheerfully address the changing of times, if it markedly reduces their stature.

The third observation is simple, and gives the definitive response. Even so weak a fledgling association as the European Union is displaying very marked unifying impulses and tendencies, with a line-up of supplicants to join. As discussed in chapter 1, I have no doubt that the continuity of Canada even with no other purpose than to remain different from the Americans and to maintain a mere common market would be assured. The most minimalist redesign would surely see us as a lot more than that!

Diversification and Reach

Any investment planner knows that the prudent investor maintains a balanced portfolio. Some investments do better from time to time, and some do worse. Then fortunes reverse, the wheel comes around, and so on. No part is strong all of the time, but neither are all parts weak.

Some economists⁶⁹ have analyzed Canada as a “portfolio” of provinces, and have assessed their economic strengths over the business cycle. They have concluded to their satisfaction that the country as constituted is a surprisingly good portfolio mix. For most of us, common sense tells us that strength and resilience lies in a broader union.

Even Quebec separatists are clear on this point: they very much wish the Canadian common market to continue. (Most scholars maintain that such would be impossible without an integrating and symmetrical political superstructure, so there is more than a bit of a problem there.)

For whatever reason, there is near unanimity on this point: Canadians in general want to see the most complete economic integration possible. This means an even greater emphasis on mobility rights, stronger policies in support of free trade across the country, and vigorous competition policy against trade restraints of every kind. This design feature, if adopted, clearly would lead to a strengthening of the central government's role as protector of individual rights in the economic area.

K.I.S.S.

“Keep It Simple, Stupid” is a wise piece of advice in a democracy. Most voters do not have Ph.D.s, and in addition they don't have the time or inclination to spend much of their lives on monitoring the government. It does no good to say that they *should* pay attention, that they get the kind of government they deserve if they fail in this

69 See, for example, Michael Goldberg and Maurice Levi, *Growing Together or Apart: The Risks and Returns of Alternative Constitutions of Canada*, Canadian Public Policy, December 1994.

task. One may feel better after making that point, but it changes nothing.

Almost nobody has a sense of the value of \$1 billion, let alone a GDP of over \$750 billion. Beyond a vague notion of who looks after the streets and garbage, most people know little about which government or ministry or agency is in charge of what. We may try to change this, we should change this, and perhaps we *can* change this by building a number of informational and democratic techniques into our redesign, but we will still be faced with the limits related to attention span.

The unfortunate other side of this story is that government is very complicated today. Self-serving adventures in the simplification of complex issues form the basis of the success of most demagogues.

So here we have a challenge. We are committed to a democratic system, and we must make it work, but most people don't want to spend much personal time on it. That requires occasional decisions from the electorate generally, and significant ongoing involvement by representative electors on specific subjects.

That requires, in turn, the most understandable government we can design. It is more important to have the democratic system work well through an understanding of the questions involved than it is to gain some theoretical efficiency at the cost of a confusing allocation of causes and effects. This trade-off must be kept in mind as we go about our work.

Accountability

It is an absolute organizational principle that you hold people accountable for what they can do — no more, and no less. Only if you can reward and punish those responsible do you have some chance of influencing results.

This feeds right back to the last democratic problem. If people can make a difference by holding someone accountable, they will have a lot more interest in the issue than if they perceived the matter as totally beyond their control. When did you last bother writing your MP about post office service or UI fraud, or your provincial

legislator about the situation in your local school? You know (and they know) that they cannot do anything about it.

We have let things get out of line here. We elect school boards and then give them virtually no control over education. We have transit authorities set up in such a way as to allot blame to local governments, but transit is actually run by the provinces. We have provinces spending money raised from the federal taxpayer as a long-term pattern, while the federal authorities now download responsibilities without sufficient cash. Each points the finger at the other. Which of them are we to cheer or blame?

Even within governments, responsibility is hard to pin down, and with more than one government in the act, we get meltdown. The interdepartmental, intergovernmental mix surrounding anything having to do with the environment or aboriginal affairs can be unbelievable.

As one of the classic examples in our history, we spent half a billion dollars building the Mirabel Airport outside of Montreal. (These were early 1970s dollars too, each one worth about \$3.00 measured in our 1995 dollars, so far and fast has inflation gone, and brought up to \$4 billion if you look at the accumulated interest costs.) I was in the Prime Minister's Office at the time and watched the drama unfold, including seeing the many farmers uprooted by totally unnecessary expropriations. It was an *enormous* mistake, a white elephant that would sink any entity except a major government or a General Motors. Yet no one ever lost his or her job over this. Why not? Because responsibility was successfully diffused and avoided.

The principle here is very simple: the spenders of the money, the wielders of the authority, must be directly and clearly identified with responsibility and accountability for what they do. Sometimes there will be more than one decision maker. Despite these complications every effort must be made to ascribe each specific responsibility to an actual human being, or a small group of them.

Improved accountability must be part of our design.

With this set of guidelines in mind, let us examine a possible solution to our Canadian challenge.

7

A Canadian Solution

It is time to weave together the lure of the desirable with the art of the possible. The solution presented in this chapter is intended to fit the design principles and to meet the problems set out previously. It must also be realistic and achievable, without requiring the motivation of a crisis. Chaos may in the end force us to reinvent our government if we do not voluntarily act sooner, but what a failure of statecraft that would be!

There is some reason to hope that we are pushing on a slightly open door. The federal government has now been sufficiently disabled by debt to see problems clearly and wants solutions. No one needs a continuation of the financial, unity, and federal-provincial uncertainty that have plagued us for so long. Moreover, if that mood is there, the existing federal government has between two and three years until the next election to be responsive to the new realities. So what should we do, in the most timely manner we can muster?

SPEAKING OF THE “C” WORD, DO WE NEED TO CHANGE THE CONSTITUTION?

This is the usual first choke point. The answer is “No, we do not need to change the constitution, at least, not right now.” That is a good thing. For the moment, changing the constitution is simply not possible, unless we get into a chaos scenario where all things become possible (most of them bad).

Constitutional change under our current rules requires a very high degree of trust and consensus. Neither is in place. Lacking both trust and consensus, there are too many pressure points for special

interests to derail any given constitutional change, or to bog it down in interminable debate ending in the “death of a thousand cuts.”

As a practical matter we cannot change our constitution now without referendum approval. This is not set out in law, other than in B.C. and Alberta, but it is a fact of life. No one knows just what approval level is required, but it would be unthinkable without affirmative votes in each of the four large provinces and a couple of the others.

But the public is sour on politicians, and on governments generally. Nothing proposed in the old way, even with a Charlotte-town-like unanimity of the elites, is likely to pass the muster of a referendum. We will need to find a better way. That speaks to the matter of the lack of trust.

As to the matter of consensus, we have none. We do not even have a plan to develop one. But we do have an unfolding set of circumstances that will press towards a coalition around some ideas for government, both closer to home and better supported nationally, as is set out below.

What we really need at this point is a blueprint for a new structure of government that we can work on in stages. We need a few successes to encourage and revitalize our weary body politic. If we can move along with an advance here and there, disconnected at first but gradually falling into a new pattern for better government — then we will be on our way!

The essence is to have a plan. It can be changed, debated, and fine-tuned, evolving and accommodating new positions and new ideas — but we need a plan to start. Even the tentative adoption of a general plan, with many reservations and all sorts of opportunities to back out by any of the parties involved, will be enough to get things going. The great thing is to start.

Practical work and debate on the plan will gradually develop consensus. Practical implementation of parts of the plan will gradually build trust. Both of these we will need, for eventually we will have to change the constitution.

There are two reasons. The first relates to law. There are some changes and additions to the way we do government business in this country that can be properly made only through constitutional

change. We can jury rig and improvise in the meantime, but a proper and enduring foundation needs some new constitutional concrete.

Many things in the meantime can be done by ad hoc cooperation among the governments of the day. However, recall that the Meech Lake Accord was also agreed to by all governments of that day. In the time between agreement and ratification, governments changed and support eroded for the new plans. While we can demonstrate the value of new arrangements on a voluntary and ad hoc basis, we cannot afford to build on that basis. Building requires permanence and commitment. Those can be achieved only by the force of law. The law of governments is called the constitution.

The second reason for eventual constitutional change relates to trust. We are a bit of a wounded country in that regard these days. A very large part of the West does not trust central Canada. The West will believe in a new deal only when it is cast in concrete.

Most of whatever percentage of Quebecers would vote in favour of separation are doing so because of a similar but more advanced failure of trust. Not only do they no longer trust, they no longer even hope. Any improvements will be regarded with suspicion until and unless they are put in the constitution. Everyone who has been burned once (as Quebecers believe they have been, thrice) knows at least this much: they can be burned again, unless they fire-proof the situation.

True, one could ignore this need for certainty. After all, administrative (and non-constitutional) governmental changes sufficient to seriously erode the separatist vote would allow the remaining disaffected folks to be ignored. They don't like it? They are in the minority. Too bad!

But why take such an attitude? If a revised constitution can add to our strength and happiness — as unlikely as such a scenario may seem post-Charlottetown — why not do it?

Ontario and the Atlantic provinces have less cause or ability to insist on codifying any improved arrangements we may achieve, as the former is large enough to have no particular need to trust anyone, while the latter must (for now) take what they can get. But stability will in due course suit the purposes of everyone. So we must in the end speak the “c”word.

There is a convenient moment. The constitutional amendment of 1982 provided that the subject of the amending formula be revisited in 1997. This effectively opens up the whole constitution. No one should ever scorn a useful excuse and the timing might be about right — or, it might be five or ten years early. There is no hurry here. These things are a matter of timing. The time might arrive soon, or not for many years.

In the meantime, we should proceed in less dramatic ways, for as a practical matter, we shall constitutionalize only those changes that have the force of satisfactory experience, or overwhelming political support. The latter could come about in certain circumstances, described in the next chapter. For now, and as the route of choice, let us seek the less dramatic and more certain progress of ordinary (and therefore reversible and less threatening) intergovernmental agreements.

So, on the question of administrative or constitutional change, why not both? Let us set our goals and move towards them, and see what evolves.

NEW ROLES — FIRST, THE PROVINCES

By a curious twist of fate, the greatest challenge for the provinces will be to prop up the old central order. With the decline in the power of the federal government for financial, technological,⁷⁰ and political reasons, there arises a vacuum that will no doubt be filled. It can be filled by a simple expansion of the powers of individual provinces, or it can be filled by the provinces acting together, at the centre. The latter is far better, for the provinces and for the citizenry.

In fact the provinces will have two rescue missions. The requirements are as follow:

the rescue and improvement of national standards in light of
the poverty of the federal government, and

⁷⁰ The literature on the decentralizing force of information and communication technology is extensive. The “Gingrich revolution” in U.S. federalism is based on that idea, as elaborated by Toffler and others.

the rescue of the general legitimacy of the centre, in an otherwise decentralizing world.

If there was any lingering doubt as to the continued ability of the federal government to enforce federal (not national) standards in social programs, the watershed budget of February 27, 1995 made it clear that time is over. That is not what the Minister of Finance said, of course. Indeed, he suggested the opposite, by reciting the five core rules of the Canada Health Act (universality, comprehensiveness, accessibility, portability, and public administration) and by stating that provinces would not be allowed to impose minimum residency requirements for welfare.

This is all good fun, and well within the bounds of political rhetoric, but it has little to do with reality. The realities are two.

The first is that health, education, and welfare are provincial responsibilities under the existing constitution, and Ottawa has no legal right to tell the provinces what they must do, simply by passing a law. If Ottawa wants to guide provincial actions in these fields, Ottawa can only do this by persuasion, or bribery. It has had little practice at the former, being more accustomed to giving orders. And it no longer has the funds for the latter.

The second reality is that the only cash lever Ottawa now possesses — what was recast and renamed in the budget as the Canada Health Social Transfer (CHST) — will fall from just over \$17 billion in this fiscal year to just over \$10 billion only three fiscal years later. Moreover, it will continue to head straight down.

Remember, the deficit in 1996-97 is still set at about \$24 billion, and that is not sustainable. It will have to be cut further. By then, there is every likelihood that the business cycle will have turned down, and revenues will again be squeezed. There will still be no political room (and little economic room) to raise taxes — people will gradually begin to understand how they are getting less and less service for the same federal tax bite, and they won't like that.

In other words, spending cuts will have to continue. There will be puts and takes, of course — for example, interest rates may be lower than forecast, if we are lucky. But in any feasible scenario, cuts will be required, and the remaining transfers to the provinces will be placed front and centre as targets.

Equalization is also a transfer to the provinces, but it has a “sacred” quality that the CHST does not. When all is said and done, the CHST will come down ever further. At the \$10 billion level it already comprises less than 10 per cent of provincial expenditures on health, education, and welfare, and the provinces are certainly not going to let this tiny CHST tail wag the social dog.

THE PRESSURES ON THE PROVINCES

At the same time, the provinces are going to have their own financial and political pressures, and will be looking for ways to cut costs. In doing this, they will look at precisely the five sacred cows of the Canada Health Act, as well as residency requirements for welfare. Use of the latter, among other things, will be seen as a defensive mechanism against other provinces off-loading their own welfare problems by cutting rates to encourage mobility. Some provinces in these circumstances will actually justify minimum residency requirements in order to *protect* their welfare plans from being overwhelmed and cut back.

A prior question for many is, “Should anything replace Ottawa?” There is a very respectable economic argument that says that the marketplace should be unfettered, and if the stronger provinces can afford better health, education, and welfare, and if people move there because of that, so be it. People should move to areas of economic strength, and we should not try to fight this, under this view.

If we believe in federalism, we must believe in the desirability of each province developing its own social policy rules, which are certain to vary in some particulars. Does this not guarantee “jurisdiction shopping?”

The first observation here is that mobility decisions take all circumstances into account — not just available levels of social service, but also the cost of living in a given area, moving costs, existing or prospective housing, climate, employment prospects, friends and relatives, and so on. In other words, moderately different levels of income support are only a small part of most mobility decisions.

The second observation is that different jurisdictions are aware of this issue. Thus, with respect to highly mobile groups, young singles, for example, we would expect either a greater convergence of standards or a higher rate of mobility. Conversely, low-income seniors are unlikely to chase a small extra monthly income supplement across the country from St. John's to Victoria, and provinces are therefore freer to differ in such categories.

The third observation is that no rational jurisdiction will voluntarily burden itself by deliberately setting an incentive climate to attract dependents. Such incentives have some potential political pay-back for the federal government and can thus be explained, if not justified. The political pay-back for any provincial government to follow such a path is just not worth the financial pain (save a highly ideological, and thereby short-term path as followed by the Ontario NDP).

The greater danger is one of deliberate offloading: systematically lowering social assistance rates and increasing mobility grants in order to decrease dependency ratios and to cut costs. At low levels of activity such things are simply ignored. When they can't be ignored, neighbouring provinces have options:

- residency requirements,⁷¹ and/or
- reciprocal cuts and more “bus tickets out of town,” or
- acceptance of the new equilibrium, meaning more welfare costs and increasing population, or
- actions to change the behaviour of the “offloading” province.

In practice, all four of these routes will be followed, but there are serious political and financial constraints on the first three. The greatest promise is in looking to interprovincial cooperation on the fourth point.

Before leaving this diversion, a word should be said about the worst fears of many social activists and centralists. They fear that a totally mobile, uncoordinated social-policy framework run entirely by the provinces with no federal funding (except for minor block funding) and no national standards of any kind, would lead to chaos.

71 “Reasonable” residency requirements are explicitly permitted by the Charter.

This is not a reasonable forecast (unlike the consequences-of-debt forecasts that those same persons have rejected for years.)

No province in Canada has a government prepared to see anyone go without adequate food, shelter, and medical care. There is no province that does not believe in proper education for all children, and all provinces throw a lot of money after that belief. The alternative to Ottawa's control over social programs is not a Canadian version of Rwanda.

Indeed, there is reason to believe that through interprovincial cooperation we can do a *better* job, on average. After all, many claim that if there is one thing that defines us, it is a sense that there is a “social Canada.” This social Canada, if it exists, has nothing to do with region or province, just as an American's “life, liberty and the pursuit of happiness” has nothing to do with state of residence.

So, how can we solve this apparent problem? The provinces have the jurisdiction, and the constitution is not going to be changed in that regard. The provinces increasingly have virtually all of the program money. How can we arrange for them to negotiate and abide by a certain common purpose in these old areas of “national standards?”

HARMONIZING THE PROVINCES

Obviously, the key is to proceed by way of agreement, but through what machinery? The days of Ottawa calling the provinces together to seek the ratification of some grand, central plan are over. That doesn't mean that Ottawa will not try. Anything else would be an admission of failure in one of the most treasured centralist myths. But the old way won't work. The provinces won't play.

Might the provinces simply convene their own ad hoc conferences on national standards, as required? They might, and there is every reason to encourage such activity. Provinces are going to have to work together a lot more in the future, and they might as well begin building now on the limited interprovincial (and mostly non-federal) experiments to date, such as the conferences of resource ministers, and of education ministers.

But there are obvious problems here. They relate to *comprehensiveness, coordination, transparency, and enforcement*.

As for *comprehensiveness*, the issue is that there are many areas where interprovincial cooperation is desirable. However, as long as the machinery is ad hoc, making progress one area at a time will be slow, and any province (most notably Quebec with its current government) will be able to find ways to stall progress, should that be in its interests.

As for *coordination*, it is obvious that no single field — welfare payments, for example — stands alone. The need to make welfare payments relates to economic development and the availability of jobs, training, environmental standards, resource exploitation, and other areas with interprovincial components.

Let us imagine that the provinces expand their competition for new job-creating investment by offering cash incentives (perhaps financed by lowering welfare payments), or a relaxation of labour and environmental rules. There will be differing views on whether this sort of competition should be allowed in Canada, but under our existing constitution it clearly is. We need a trading post to talk about such things.

On a more positive note, coordination among provinces that facilitates mobility — especially portability of skill certificates and social benefits — is a good thing for the economy.

Transparency is equally important. In the European Union, one talks of a “democratic deficit,” in the sense that the Council of Ministers, a body not directly elected, debates in private and reaches deals and conclusions not subject to the validation of any elected or otherwise accountable body. Private provincial meetings of the kind we have today fail the transparency test.

Transparency is important, but it will be resisted.

It is important because it is essential to the proper functioning of democracy. The citizens must know what is going on: what are the options, the possibilities, the trade-offs to be considered on any given issue? Secrecy in negotiating with foreign states is one thing, and is often questionable even then. Secrecy in dealing among ourselves is intolerable, even if it is the standard practice of existing federal-provincial and interprovincial arrangements. (Freedom of

information statutes routinely exclude intergovernmental documents, for example. The fact that the same taxpayers own both levels of government is apparently not of importance.)

And transparency will be resisted, because it opens the possibility of governmental embarrassment. Every report making intergovernmental comparisons, for example, cannot help but identify a “best” and a “worst” provincial government on the topic concerned. Every public debate will make it clear that no government gets all it wants, and some positions will simply lose, right out there in public! No one except the taxpayer wants that kind of information in the public domain.

There will be all kinds of reasons given as to why publicity would be a bad thing. “Leads to ‘posturing,’ you know, even grandstanding.” Or “Sensitive information might leak out — ahem — about our position.” Nonsense! But this is a bureaucratic fear we shall have to deal with.

Enforcement is equally a problem with interprovincial agreements on, say, national welfare standards. If Nova Scotia signs an agreement to pay welfare to newcomers from B.C. and then reneges, where is the recourse? There is none, as a practical matter. But can deals without enforcement be trusted?

A FEDERAL COUNCIL

The way around all of this, to rescue national standards no longer sustainable by a weakened federal government, and to deal with the four desiderata above, is to establish some sort of “Federal Council.” (I adopt here the language of the 1980 Quebec Beige Paper, but it could equally well be called “the Council of the Federation,” or “House of the Provinces.”)

The main roles of a Federal Council would be three:

- To set and enforce interprovincial standards in areas of provincial jurisdiction, according to agreed-upon rules;
- To develop and share comparative data on provincial governments; and

To validate actions of the federal government in areas touching defined provincial concerns.

Ideally, a Federal Council would be entrenched in the constitution at some point, but there is no need for it to start out that way, or with a full range of powers. We want here to set out a picture of what it might look like at maturity, but it could begin in far more humble and tentative ways.

A Federal Council would have membership from each province, with *ex officio*, non-voting representation from the federal government.⁷² The size of the delegations is relatively unimportant, though it would be useful to have a permanent representative from each province. Beyond that person, the composition of the delegations could easily vary as appropriate to the subject matter under discussion.

Another important question of representation arises here. Delegations to the Federal Council, of course, represent provinces, but of which manifestation: provincial *governments* or provincial *legislatures*? This matters, and the relevant issue is whether members of provincial oppositions should be included.

This question is worthy of debate, and the answer will, to a considerable degree, depend upon the defined purpose of the Federal Council. My view is that the task of the council should be to represent governments, not citizens. To confer a general mandate to represent citizens would be to set up a rival to the House of Commons with decent democratic credentials, but based on a wholly provincial electoral base. This would lead to confusion and to a dilution of the proper authority of the federal government in its own sphere.

In addition, the three basic tasks of the council, as outlined above, comprise coordinating matters among *governments*, and delegations to the council must therefore be able to speak and make commitments on behalf of their governments.

72 The federal government would not have a vote because the purpose of the council would be to do business within the provincial sphere of government. Nevertheless, the federal government should be at the table, to be informed and to provide comment. As will be noted later, we will be expecting some “leadership of ideas” from the central government, even in respect of wholly provincial responsibilities.

Accordingly, I draw the conclusion that however representation on the delegations is defined, they should speak and vote with only one voice, namely, that of the relevant provincial government.

At the same time, there would be nothing wrong — indeed there would be much good — with a practice of including an observer from each provincial opposition. This would serve two valuable purposes. First, it would give experience in intergovernmental affairs to the opposition in each province — a useful thing, because oppositions often eventually become governments.

In addition, it would assist both of our goals of accountability and transparency. One could be sure that even in an observer capacity, an opposition member would draw attention to any obvious departure from traditional provincial interests that might be developing in the corridors or back rooms.

A Federal Council would meet in public, preferably in Ottawa, with the same transparency rules as Parliament has — and no doubt with the same back-room bargaining to make things happen. Compared with the existing Federal-Provincial Conference atmosphere, a *continuous* deliberative and negotiating body would have a significant advantage. Sitting routinely for several days every month, dealing with ongoing provincial matters of national concern, there would be no need for a “win” or a “loss” on any given day, for the “conference” would not end.

Such a set-up would eliminate the crisis atmosphere that usually pervades First Ministers' conferences. There would always be a “tomorrow” to revisit issues, change positions, and consider new evidence. The public would become mightily educated on a range of matters of great importance that now see little sunlight.

With respect to interprovincial standards-setting, the voting rules are obviously crucial. The “seven and fifty”,⁷³ (the more flexible constitutional amending rule) is one possibility, but different rules might apply to different questions. In some cases one might want a 90 per cent rule (effectively requiring approval of every

73 The “seven and fifty” rule to pass any matter calls for approval by at least seven provinces making up at least 50 per cent of the population of the country.

“large” province,⁷⁴ as well as a couple of the smaller ones). In almost every case one would not want the ability to “opt out” — it would be better to have no agreement on any given matter than it would be to establish a pattern of partial Balkanization.

(This inability to opt out is an important EU practice, for reasons set out by Peter Leslie in his article in *Seeking a New Canadian Partnership*.⁷⁵ As he says, “The underlying principle here is that asymmetry will not be tolerated in the EU... where it confers privilege on one state relative to others.” The very controversial exception is Britain on labour-market policy.)

In practice, this would mean that agreements would be reached in areas where that were possible, and “national standards” would then obtain in those areas. Where it were not possible to reach an agreement, there would be no national standards, *pro tem*, and the matter would remain open for debate.

With respect to the council validating certain actions of the federal government, again, absent constitutional amendment, any such powers could be effected only with the agreement of the federal government. Such voluntary status, at the beginning, would be no bad thing. It would give the federal government some bargaining power, which it needs. The areas especially ripe for such cooperative validation include the following.

New exercise of the “spending power” — federal cost-sharing measures in provincial areas of responsibility. The federal treasury has little flexibility for great new adventures, but modest ones might be considered.

Validation of appointments to federal positions with particular regional importance. The Governor and directors of the Bank of Canada⁷⁶ and the president and directors of the CBC (if that august institution is to continue to be of impor-

74 Defined here as those with populations of over 2 million — Ontario, Quebec, B.C. and Alberta. The rest of the provinces are each less than half the size of Alberta, the smallest of the “large.”

75 Montreal: IRPP, December 1994, Leslie Seidle, ed.

76 In this and subsequent references to the Bank of Canada, the intention in every case is to preserve and strengthen the independence of the bank. This independence for central banks has been shown the world over to be essential to the maintenance of a sound currency.

tance) are examples, as are certain agencies with responsibility in matters such as transport and foreign trade. The idea here is not that the central authority should be undermined, but rather that the central moral authority be enhanced by a provincial voice in the staffing. (The Americans use a similar practice in a *partisan* sense by explicitly providing for bipartisan panels in many areas.) Validation of proposed federal legislation purporting to regulate matters wholly or partially within provincial legislative jurisdiction. Whether this consent would often be given may well be questioned in the charged atmosphere of today, but constitutions last for a long time, and some matters — particularly commercial standards and interprovincial trade — could use this kind of coordination.

Exercise of “unusual” powers — the declaratory, reservation, and disallowance powers. As a practical matter, these powers are not exercisable today without such sanction in any event.

Continuation of “emergency powers” after a given period, say, 90 days.

In addition, a Federal Council could and should discuss the budgets and economic plans of every province and the federal government, taking them together and exposing inconsistencies, contradictions, and useful acts of cooperation. An annual discussion should be held in the spring, after the introduction of all or most of the federal and provincial budgets.

This is but one example of routine and sensible cooperation where none exists now due to lack of a routine forum. Canadians *do* want their governments to work together — they feel strongly about this. Would it not be a treat to have a forum where this could be tested?

Not a Provincial Takeover

What this Federal Council would *not* be is a bunch of provincial politicians running the central government from a provincial point of view. The Federal Council would have no voice in ordinary federal

legislation. It would consist of provincial politicians taking the responsibility to coordinate *provincial* responsibilities from a national point of view, out in the open where we can watch them.

This would be undertaken on an ongoing and routine basis at the political centre of Canada, thereby adding to the legitimacy of a centre otherwise weakened by the financial, political, and technological developments of recent times.

NEW ROLES FOR OTTAWA

While Ottawa is finally being forced to withdraw to its own constitutional core activities by the financial pressures of the debt, that does not mean that we no longer need the centre. Indeed, while the provinces will inevitably take over even more management of the operations of government that most affect the daily lives of citizens, there remain four essential fields for Ottawa (besides transfers to persons, of which more below). One of them is new, and one is expanded. These fields are *traditional central functions*, *economic management*, *equalization*, and *monitoring and balance*.

Restructuring Ottawa

On the main agenda of continuing central government responsibilities, *traditional central core functions* will continue, as they must. These include management of the public debt (above all other tasks, unfortunately), national security, and foreign affairs. In most of these matters the only controversy is whether we do more than a basic minimum.

Economic management is rather more interesting. In a globalizing world, Canada is a small player. When we are in areas where we have to negotiate with foreigners, we are better to do so collectively. That is why we have given trade policy to the central government (though many of its aspects have to be implemented by the provinces).

Since every provincial government has its own budget, and often its own economic development strategy, we have tended to present multiple faces to the world in matters of borrowing,

credit-worthiness, revenue and expenditure policy, procurement policy, and measures to attract new business. Some of this may be wise and some unwise; that is not the issue for the moment. The point is that governments work independently on many things. On at least some of these, they would be better to work together.

Monetary and fiscal policy are good examples. Ottawa even has problems working with *itself* (as between Finance and the Bank of Canada), and historically monetary policy has been called upon to do too many things. When larger provinces have the muscle to work at cross purposes to the overall financial interest, this can be costly. Recall the previously cited example of Ontario in the late 1980s.

It would be a good thing if we could increase coordination here. It would give confidence to our lenders and potentially reduce interest rates. It would give more confidence to business and investors to know that governments were at least looking at economic questions in a cooperative way.

Given the fundamental importance of budgets to every government, there can be no question of allowing one level to control the budget of another. That would gut federalism of any real meaning. But would it be too much to require governments to consult over budgets, through the Federal Council machinery?

Would it be too much to ask every government to use a consistent accounting basis, or, failing that, to have the Federal Council prepare consolidated budgetary statements on a consistent basis? Think of the discipline that this one step would impose on the shell games so routinely played by finance ministers. With accounting tricks stripped away in an official compilation, the comparisons would be interesting and useful to the taxpayer.

We are already establishing a pattern. Even though finance ministers are able to continue their game of surprising us with budget secrecy every given year, they are at the same time presenting a forecast for (at least) the following year. We can thus look at the potential financial position of the country as a whole a year in advance, albeit in a somewhat fuzzy format. We can build on this.

What about working together closely on borrowing and credit-worthiness? No government wants to be responsible for the debts of another, but in a very real sense, what each government

does affect all of the rest through the specific factor of the Canadian dollar and the general operation of the markets. Why don't we formalize this a bit more?

Again, the Federal Council could be the key. There is no way that the provinces would ever accept the federal Finance Department telling them what to do, or even getting too snoopy about their plans. On the other hand, a provincially controlled instrument like the Federal Council might have a better chance.

While Ottawa would not *control* this machinery — nor should it — this would, for the first time, give the federal finance ministry and the Bank of Canada a place to trade ideas and information with all of the governmental players on a routine basis. The leadership of ideas over time can be a powerful thing.

We might even hope for an annual economic statement out of the Federal Council, commenting on matters in general and on the activities of the various governments in particular. Doubtless there would be differences and minority reports; so much the better. No one has to agree with this economic statement, but any government on a radically different track would feel an obligation to comment on the actions of itself and others. (Think what fun Ralph Klein could have!)

So there is a first “new power” for Ottawa. It would not run the machinery of economic coordination, but without question the central government would find its economic influence extended through such machinery. And of course it would still control the powerful forces of its own budget and, through the independent Bank of Canada, exert influence over money supply and exchange rates.

The second new power for Ottawa might be a bit more direct. I refer to the *measurement of public outputs*. Back in chapter 6, I spoke both of the critical role of output measurement as a part of effective democratic control of governments, and of the natural resistance of line departments to such output measures.

It would be a natural extension of the role of Statistics Canada to venture into this area with great vigour. For the sake of both form and effectiveness, these reports should be made both to the Federal Council and to Parliament. Responsibilities overlap, and both levels

of government should be concerned with progress in education, say, or the effectiveness of trade promotion expenditures.

Both Parliament and the Federal Council (via the legislatures) have a specific role here, in the gathering of information. Each group must take the necessary steps to make sure that all line departments cooperate in the gathering process. More than one study has been frustrated by stonewalling over the years.

It must be understood that this kind of output measurement is not in any way non-controversial. When you start assessing how teachers, doctors, social workers, and administrators are doing their work on a value-for-money and scale-of-one-to-ten basis all over the country, there will be all kinds of screams. Indeed, screams in the early years will be evidence of effectiveness.

Naturally, both Parliament and the Federal Council should have the right to comment publicly to Statistics Canada on how each is doing its work. Moreover, it would seem reasonable to put Statistics Canada into a category where both levels of government have an appointment role. It is without question one of our most important central agencies; it should become even more so. In fact, it may be time to consider the same sort of formal independence for Statistics Canada that we now have for the central bank.

This business of the measurement of public outputs is no small thing, no trivial new responsibility to place upon Ottawa. One of the virtues of a federation is that it takes a multilaboratory approach to government issues. This benefit is realized if, and only if, we define and measure the “research” that is being done.

Moreover, there is no more powerful adjunct to democracy than information. If the residents of province “X” note that province “Y” is delivering a better educational product for fewer dollars, the politicians and bureaucrats in “X” are on the spot.

Of course, there are other democratic “laboratories” outside of Canada as well, and monitoring, and, indeed, participating with, the work of other nations in fields of concern to us is another thing that Ottawa should be doing.

When all is said and done, the concept of “national standards” should have as much to do with excellence as it does with minimums. A federal government that becomes active in this way is in a

position to argue to the provinces, even if they are doing most of the work — that in a particular field, “country X” is the standard for the world, and why aren’t Canadians getting it?

As a monitor and an auditor of performance by governments at all levels, compared with the rest of the country and the rest of the world, there is a huge and exciting job to do. As a transmitter of “best practice” results from elsewhere, Ottawa can contribute immensely in this regard.

Ottawa is also the logical “*keeper of subsidiarity*.” At first thought, this would be like making Colonel Sanders keeper of the chickens, but we are in a changing world. In the new world, most of the governmental tasks will be done by the provinces. This is not a matter of doctrine; it is a matter of finance on the one hand, and the existing constitution on the other.

Once we have concluded the current round of reshaping, the major subsidiarity dialogues in the future will not be between Ottawa and the provinces. Rather, they will be between the provinces and others: municipalities, communities, and the private sector. It will be useful to have an agency on top of this file, to monitor and comment. Provinces are surely no less prone to the concentration of power in their capitals than was imperial Ottawa in its heyday. This is a human characteristic, which should be both harnessed and watched. In the Canada of tomorrow, the useful (and expert) watcher could be the old centre.

Thus, we are arriving at a view of Ottawa as being in many ways the repository of the common Canadian essence. It will still do specific things, of course, and we will propose adding and subtracting a few of these in the next section, “Who Does What?” But, in moving a bit out of the immediate action, it will be better qualified to do a job that has been resisted in the past: that of acting as a national conscience, or assessor, on the things that we hold in common as Canadians.

In concluding this section, here is a word about *equalization*. This is not a new role for Ottawa, but it requires a new approach.

A New Approach to Equalization

Let us go back to our basic goals of Canadians. There is nothing there about equality of *results*. We believe in equality of *opportunity*, but that is very different. The current concept of equalization (which gives money to provincial governments, not to people) is closer to the “results” end of the scale, because the subsidized government services apply to everyone. Indeed, as Dan Usher of Queen's University has pointed out in several papers, some of the main beneficiaries of equalization are rich people in poor provinces. Poor people in rich provinces are, in effect, net payers.

This issue is ripe for debate. The triggers will be the federal cash crunch and the squeeze on money for investment in young people. The huge economic issue lurking in the background is mobility.

To greatly simplify, there are three stages of life: developing, producing and harvesting — the young, the middle and the old.

Now, where should equality of opportunity apply? Notionally, it should be across the board, but clearly it is weighted towards the young end of the scale. That is where opportunity lies. It is a concept oriented to the future.

Think about it another way, as it relates to mobility. Neither children nor the old are mobile. For the middle years, mobility and productive work are not only a personal option, but an economic desirability. No one lives on this earth to serve economic realities, but neither should anyone who is healthy, potentially productive, and mobile be insulated from those realities, at least not on the taxpayer's nickel.

That means, to me, that equalization should not be targeted to the middle years. The people in this fortunate time — educated and reared by a past generation, heirs to the cultural and technological legacy of history — should get on with their work. To those who say there is not enough work the response surely is to change things! Those in the middle years are in charge of our society, and they must both shape and adjust to reality.

To the extent that government programs inhibit adjustment to these realities, this is a bad thing. However, to the extent that government programs accommodate the needs of those outside of the mo-

bility and work imperative — the young and the old — then we tend to be more supportive.

The old are looked after by different sorts of programs, in plentitude compared with those targeted to the young. The old have OAS, CAP, GIS, RRSPs, RIFFs, housing programs, medicare, Pharmacare, and so on. Good for them. That brings us to the young.

That children represent our future is obvious. The level of need may be less so. For perspective, consider figures produced by Christopher Sarlo, of Nipissing University, whose “basic needs” approach provides our best measure of severe poverty. His poor are not relatively so; they are much worse. They live below the threshold necessary to support long-term physical well-being. Sarlo writes: “In 1990, there were about 300,000 poor children under the age of 16 in Canada. This means that 300,000 children lived in families whose parents' reported income was below the basic needs poverty line. Other things equal, these are the hungry children, the one who are vulnerable to long-term health problems.” He adds that there were in that year another million “near poor” children, with very basic needs covered, but “deprived of some social amenities.”⁷⁷

Relative poverty lines developed by other groups such as the Canadian Council for Social Development indicate much larger numbers, but the pattern is the same: many children, particularly those in single-parent families, are not getting an equal start.

Every program needs a touchstone, a guiding star. Maybe we should re-examine the touchstone of equalization. And if we really mean what we tell the pollsters about equality of opportunity, maybe equalization should be redefined towards the young, with exactly that equality of opportunity target.

Given the responsibility of governments to give time for adaptation where possible, change in such a major program will be slow. But there *is* a hurry to do our thinking, because such major commitments change slowly in the nature of things. The language of the constitution (on equalization) is sufficiently supple to deal with this

77 “Poverty in Canada — 1994, *Fraser Forum Critical Issues Bulletin*, (Vancouver: The Fraser Institute, 1994).

for years to come, but since changing the constitution takes years, we should look at that too.

(In the meantime, there is no reason why we should not immediately eliminate the ageist anomaly by which we claw back child tax credits on a family basis, and OAS payments only on an *individual* basis, effectively discriminating against children.)

The idea is that what should really be equalized in this country is the chance of every newborn child. If that is what we want to do, we will have to do it through the provinces and the private sector, and through such programs as daycare, kindergarten, education, and early health care. Maybe this comprises the ultimate “national” program, the idea that kids are kids wherever they are, and should have an equal start.

If that is what we want the idea of equalization to mean — not equal services for people who drive cars and need roads, or lose jobs and need training, without moving away from home — if we want it to mean *equality of opportunity*, then the focus must be on children, and the federal government has a role. The role is *not* as provider. That is the provincial and private job. The federal role is that of underwriter.

People with other agendas will rightly say, “What about our cause? What about more for the poor, the disabled, the illiterate, and so on?” But maybe children come first. They are our future. We need a debate on this issue. Depending on the result, it could lead to a major change in the role of the federal government in financing our future.

WHO DOES WHAT?

And so we come to the old story of the division of powers. Since current trends are moving in a useful decentralist direction, what is needed most is a little nudge here and there, and a process of intelligent accommodation. But it is not all easy.

The relationship between Ottawa and the provinces is so charged with politics and so difficult to change that it will be our sole focus here. Local responsibilities can be changed as the need be-

comes evident. Federal-provincial relationships can only be changed in a planned way, on the basis of setting a target and working determinedly in that direction.

This does not mean that federal-provincial relations have not been changing over recent years. Certainly they have, and this year's federal budget was the most important example of that. Ottawa simply has to pull back in some areas for straight financial reasons. But one should not ignore the voluntary explorations as well; the willingness of the Ministry of Transport to offload much of the air services field to localities or the private sector, and the willingness of Fisheries to discuss an important degree of cooperation with provinces on the east and west coasts are examples.

Moreover, much work is going on away from the limelight. In December 1993, Ottawa and the provinces signed an "Efficiency of the Federation" agreement, which has as its object "collective efforts to reduce duplication and overlap," and as its *modus operandi* an approach that is "evolutionary in nature and (will be) adjusted over time." This is a so-called bottom-up exercise, which as of mid-1995 had some 200 areas under discussion, from wildlife management, to student aid, to shared support services (e.g., vehicle fleet maintenance), to business information, to trade promotion. This initiative is small in monetary terms, but it is extremely important as a template for cooperation.

Thus, to say that we need a "planned way" is not to be critical, but rather, it is to say we need a considerable enlargement of what is being done now. This new spirit is a good beginning. The important thing to note is that there is a willingness to talk, and now we do need a larger plan.

Rubber on the Road

Now to the specifics of "Who does what?" Revisiting the design principles, subsidiarity is foremost in this plan. Concurrency is an important aspect in enough of the areas to deserve its own listing. (The third feature, co-government, is really the task of the Federal Council).

In considering where to place every responsibility, it is assumed that the growing trend to privatization will be encouraged. The private marketplace is better developed and more efficient than the political marketplace. Thus, anything that can be moved there should be moved there. What we deal with in the political marketplace is what is left.

The job then becomes to apportion responsibilities between governments. What follows is a reasoned list, based on subsidiarity, with commentary on selected issues. Note that this list, or any other,⁷⁸ comprises a longer term target, because full implementation would require some constitutional amendments. Leading up to that, however, a great deal could be implemented by simple agreement.

Here is one formulation, with the designators (P) or (F) in the “concurrent” column indicating paramountcy, or who is in charge if there are differing views.

In the main, these lists reflect the division of powers of today, assuming the continued withdrawal of Ottawa from activity in areas of provincial responsibility via the spending power. This withdrawal is in itself a very major change, but it is on its way, brought about by financial pressures, and, one suspects, by the Quebec situation, as well as a less centralist fixation in the current Liberal administration. (Whether the last issue is simply driven by finance or by actual preference is yet to be seen.)

The list differs in some important ways from the present situation.

Fisheries would become provincial in essence, with the option to allow Ottawa to continue control, if the provinces so chose.

78 The proper way to develop a revised division of powers for our federal system must involve insiders, with detailed knowledge both of the innumerable activities of governments and of the interrelation of the various levels. The purpose of this list is simply to point directions and to indicate that, while the needed changes do not amount to a revolution, they are significant.

Provincial	Concurrent	Federal
Health	Fisheries (P)	International relations
Housing	Economic development (P)	Provincial externalities ¹
Mining	Culture (P)	National security
Tourism	Corrections	Transportation safety
Youth	Aboriginal affairs ²	National statistics
Sport	Transportation (P)	Border control
Parks	Coast Guard (P)	Trade policy ³
Education	Science/R&D (P)	Competition policy
Income support (including UI)	Financial institutions (F)	Criminal law
Energy	Immigration (F)	Citizenship
Labour (except transport)	Agriculture (P)	Labour (transport)
Justice (administration)	Pensions (P)	Currency
Environment		Higher courts
Local government		Economic policy
Employment training		Equalization
		Performance auditing
		“Spending power” ⁴
<p>Notes: ¹ Certain rights of citizens, for example, mobility, can give rise to interprovincial inequities. Suppose all Canadian seniors retired to Prince Edward Island at age 65. P.E.I. would be stuck with a major health care cost not of its making nor within reasonable forecast. The federal government should have the power to assist, paid for by taxpayers all across the country. ² Paramountcy is not the right concept here. See the separate discussion. ³ Including interprovincial trade. ⁴ Federal Council control.</p>		

This immediately raises the issue of money. Suppose, as is likely, that B.C. wished to take control of its fishery (with Ottawa giving its traditional assistance on international matters), while the Atlantic provinces wished to take only parts of the fishery responsibility, leaving most of it to Ottawa. What would be the equity here?

B.C. would bear its fishery costs and would reap the revenues. These revenues are currently far less than the costs, but this industry is going to have to shift to a user-pay system, so that gap may be bridged.⁷⁹

But what about the east coast? Here we would have the continued role of Ottawa, no doubt an expensive one, the circumstances of the industry precluding full cost recovery at the moment. Why should the taxpayers of other provinces see their federal taxes go to an expenditure that could benefit four provinces with only eight per cent of the population?

Well, of course, the same question can be asked today, but since we want to improve things, we must give a better answer than that! The answer surely is that federal activity in areas of provincial paramountcy would have to be approved by the Federal Council. The implicit fiscal transfers would then be worked into the overall trade-offs among regions.

The other provinces would without doubt cast a far tougher eye on this sort of trade-off than do federal ministers today. Since there would be more of a sense of taking from one area to assist another (as opposed to the federal Cabinet's perspective of taking money from all Canadians to buy votes in the Atlantic region), the "What's in it for my people?" questions would be asked far more directly.

We begin to get a glimpse of how a Federal Council would do in public what the federal Cabinet now does in private — but in a far more accountable way. This is extremely important.

79 Very possibly the fishery in B.C. might be largely turned over to a Quango (quasi-autonomous non-governmental organization) for most of the administration, leaving government in direct charge of only conservation rules, which the resource owner can never delegate. The Quango could well be run by a board appointed in part by government and in part by industry interests (including the sport side of the industry, where the value per fish is far larger).

In this year of the Turbot Wars, we cannot overlook the continuing and important role of Ottawa in international negotiation and enforcement. This is a natural part of the federal responsibilities for Foreign Affairs and Defence.

Provincial externalities is a clear name for an old concept. When the ordinary life of one province is significantly affected by the actions of governments or citizens from elsewhere, as such actions are protected by the constitution, then some means of redress should be possible. Mobility is a prime example. Residency restrictions are not suitable for citizens (though quite proper for non-citizens desiring government services in some circumstances where a contract has been breached), so some other means should be found.

Externalities may also arise through the exercise of federal powers — for example, major language training costs for immigrants who tend to settle mostly in our three largest cities. In each case there should be a power and a duty for the federal government to address these situations, as well as an ability in their regions to apply for such consideration.

Culture is and should remain a shared responsibility, but only inasmuch as the federal interest in this area should be limited to the support of truly “national” cultural projects. Since this is always a debatable field, the Federal Council should have a voice here as well.

This double approval process should not make it any easier to spend money. It is not designed to do so. Money should be as hard to get for the recipients as it is for the taxpayers who provide it. The double approval process should assist in dealing with the standard pressure used by applicants who say to one level of government, “The other level has committed, and this worthy project will fail unless *your* level comes through.” To such whipsaw tactics a Federal Council (with both levels at the table, trading information) presumably would just say “No,” unless there is a truly national dimension.

Corrections should be purely provincial, but there are imbalances in the sources and locations of criminal convictions and incarcerations. It is in the interest of the country to have a major (i.e., long-term) deterrent in place, and so the continued federal operation

of long-term incarceration facilities makes sense. (The two-year division point might well be reconsidered and raised, however.)

Responsibility for *aboriginals* is a very important matter, laden with emotion. I take the position that the constitutional powers of the federal government to make laws in respect of “Indians and lands reserved for Indians” has in fact made possible the entire racist and failed system that we have seen to date. Most would agree, at least to that point.

Where many part company is on the proposition held by most governments currently in power: they say we need *more* of this racial distinction, and the establishment of entire orders of aboriginal government based on it. My contention is that Natives should become Canadians like any others,⁸⁰ entitled to whatever may be the strictly interpreted legal entitlements they may have (which are small compared to the current proposals of governments).

In my view, therefore, Ottawa should simply vacate the field of jurisdiction over “Indians” except as the courts may order a fiduciary responsibility. This would make Natives ordinary Canadians in law, and they would look to their own responsibility or to the provinces in most matters, just like the rest of us.⁸¹

Should this view prevail, aboriginal questions would only be technically concurrent. Ottawa would have major powers, but they would be unused except as ordered by the courts. (The existence of a power in no way requires its exercise.)

The inclusion of *employment training* in the general provincial area of education is just a simple extension of “lifelong learning.” This constitutional power has been a major irritant, as an example of the wish of Ottawa to hold on to direct relationships with voters, whether common sense is involved or not. To those who feel there is a relationship with Unemployment Insurance here, there may be, but it is manageable. The better answer is to change UI (see below).

80 In law and opportunity, that is, not in culture or result. Those things are up to individual choice, not up to the state.

81 Mel Smith, Q.C., *Our Home or Native Land?* (Victoria, B.C.: Crown West Publishing, 1995).

Science and R&D is much like culture, in the sense that there is some merit in the provision for possible “national” initiatives. As in the cultural field, supervision by the Federal Council is appropriate.

Income support and social programs are clearly provincial responsibilities in our existing arrangements, in spite of the phasing out of federal cash and standards-setting intrusions. The transfer of responsibility for UI to the provinces would be a change of importance, however.

The transfer of UI responsibility would *not* necessarily require a constitutional amendment, even though UI belongs to Ottawa under a 1940 constitutional amendment. There is no reason why Ottawa could not arrange with the provinces to administer UI programs locally, even if the funds were collected by Ottawa in each province, on a province to province basis. Nor is there any reason why provincial pay-out rules should be the same across the country. These changes, if agreed to, would make UI a program run by the provinces.

As well, it is now time for UI to become a provincial program. As a federal program, it now has far more to do with regional financial transfers than with insurance. Quite simply, it has become a device for transferring money from Ontario and the West to Quebec and the Atlantic provinces. If we wish as a country to make that particular regional transfer, then we should do it in a straightforward manner that does not undermine work incentives and human dignity.

UI is a part of the social safety net, and it should be viewed as such. The social safety net is the responsibility of the provinces. The provinces should run UI.

Objections will be raised. The first is that those provinces with high UI pay-outs will not be able to afford them from their own resources. What they should then do is to change the rates, the assessments by industry, and the pay-outs until they *can* afford them. The new rules will send all kinds of useful signals about the true job cost structure.

This is important. Our wealth is not created by gnomes inside the Bank of Canada. It is created by productive men and women. Incentives must run to productivity, not the reverse.

The second objection is that employable people (by definition a requirement for receiving UI) will feel pressure to change jobs or to relocate if their industries are declining. The answer to this objection is simply, “Yes, that is true.”

This cannot be done overnight. I return to an earlier maxim: we cannot create instant losers of people who played by the old rules, however foolish those rules may have been. The transition must be fair, but the ultimate target must be clear.

The third objection is this, that if you force people to move to find jobs, you will have to build new housing and roads and schools for them — things that already exist where they live now. Again, the answer is “Yes, but that does not matter.” You can afford new infrastructure for productive people. Infrastructure is a minor cost, compared with the cash cost of maintaining people in a state of non-productivity, let alone the spiritual cost to human beings of a soul-destroying dependence.

Immigration is listed as a concurrent responsibility, which it is today. If we wish to give more reality to this concurrency, in favour of the provinces, we shall have to look at specific agreements with immigrants. The presumption with mobility has always been that, once people are inside Canada, what can any provincial power mean?

Quebec has been the exception, on the theory that by exercising advance influence on the *selection* of immigrants, it could bias the stream of immigrants coming to Quebec in the direction of a mix of language and skills that would make it likely that they would *stay* in Quebec. They have had some success in this.

For the rest of the country, the experience has been different. Despite the indicated or imagined place of settlement, the actual place is almost always Toronto or Vancouver. The effects on the finances, make-up, neighbourhoods, and politics of Toronto and Vancouver have been mostly unexpected by the other people living there.

This is not necessarily good or bad. Canada has no special responsibility to resettle the world. But equally, we would lose an important component of renewal and dynamism if we chose to insulate

ourselves from the rest of the world, via the contribution available from newcomers.

So, immigration is good for us. However, it is *better* for us if it is on our terms. Those terms are fairly simple: accepting our fair share of genuine refugees, and thereafter creaming the crop of others who would wish to apply, according to the most favourable terms of entry we can arrange.

The most important matter related to “terms of entry,” once we have established job and language skills and economic criteria, is place of intended residence. This is where provinces could have a voice if they wished — but only (in a meaningful sense) if there is some means available to enforce taking up residence in the agreed-upon province. The way to do that is for other provinces to have the ability to deny provincial programs (other than immediately essential ones) if residency is shifted contrary to agreement.⁸² Whether the people of Ontario and British Columbia (for these are the only two provinces truly affected) would wish to do that is a political choice.

In larger terms, the key question is whether one is granted full Canadian rights immediately upon landing, or not until meeting the requirements for citizenship. At the moment, the only right withheld pending citizenship is that of voting, a matter apparently small enough that many of us already overlook.

We would be doing something important in adding a specific interprovincial trade power for Ottawa to the *trade policy* heading. The existing constitution has a section (Sec. 121) that speaks to this, but it has never been effective against myriad interprovincial trade barriers. Giving Ottawa the ability to effectively prohibit such barriers would be a significant addition to central powers. It should be done with care: the very broad sweep given to Washington, D.C., by judicial interpretation of the U.S. constitution's “commerce clause” is a cautionary tale. A similar approach in Canada would lead to a great centralization of power. The intent is not to give Ottawa new

82 There is a Charter question the provinces would have to address here as well, namely, whether such an agreement would be enforceable. The immigration bar would certainly raise this question.

affirmative powers, but rather new *negative* powers to prevent provinces from restraining trade.

The matter of *performance auditing* is a brand-new one, and is most exciting. A federal government mandated to measure performance outputs across the complete range of governmental activity would have an immense capacity for good. As argued before, the “leadership of ideas” may not be a “command-and-control” system, but ideas govern all human activity in the long run.

A Parliament that could debate these performance-auditing results could indeed reflect and shape the highest expectations of national performance, even if it did not change a single line of provincial expenditure in the short term. Anyone who has been in the political process knows the power of pointing to the views of a prestigious and impartial commission of inquiry. Governments squirm at the least; more often they modify policy. Parliament could become an ongoing “Commission on Canada.”

The rest of the list is pretty straightforward. As footnoted, the “spending power” would be made explicit (it is not now provided for in the constitution), but would be controlled by the Federal Council.

Most of these changes could be handled in rather simple ways by agreements among governments, if the will existed. As such, the dreaded “c” word is not spoken. But if we do initially want to go a complete “non-constitutional” route, there are problems as well. These arise above all in the matter of the Federal Council, which is important both in its own right and in smoothing the new division of powers. We discuss that in the next chapter.

The Financial Impact of Decentralization

Harking back to our list of powers, just suppose that it came true, as written. What would be the financial impact?

There are two ways of looking at this. In terms of macro-economics and overall spending in the economy, the impact would be small, based on our model. The simulation to the year 2000 presented in this book says that the federal government will cut back as required to balance its budget.

But that exercise does not deal with *who* is spending the money. After Ottawa cuts back, say, Fisheries, there will be “X” dollars left. From the short-term macro-economic view, it doesn't matter whether “X” is spent on fisheries by Ottawa or Newfoundland.

For our decentralist purposes, that will matter, and we must look at the existing expenditures to see how they might change. They will vary, by department. For example, Ottawa is currently spending about \$2 billion annually on housing, through CMHC. Does a shift of “housing” to the provinces move that money? Not a cent! These dollars are virtually all committed to service past housing investments, and they will gradually dwindle away. There is no shift.

On the other hand, should UI move to the provinces, the shift would be in the \$15 billion range. The only way to deal with this is to run through the departments at our notional year 2000 date, to see what our political change-in-responsibility might yield in financial results. The numbers that follow are highly speculative, and are entirely dependent upon political decisions that can hardly be guessed at. The purpose is simply to indicate how things might change should our federalism become less centralized. Some guesstimates of spending shifts follow.⁸³

This amounts to about 22 per cent of the program spending otherwise remaining in Ottawa by the end of the century. Unlike the other cutbacks, these expenditures and jobs don't go up in smoke; they go to the provinces.

The cumulative program cuts would therefore approach 35 per cent of the current levels. Ottawa would then account for about one-third of total government spending in Canada, which is starting to approach the spending percentage of the Swiss federal government. Perhaps the currency strength and interest rate would follow to Swiss levels?

83 Based on year 2000 forecasts as presented in this book, adjusted according to the author's estimate of potential intergovernmental expenditure shift.

	<u>\$ Million per year</u>
Agriculture	200
Fisheries and Oceans	200
Natural Resources	100
Environment	100
Transportation	100
Industry	0
Space	0
Granting Council	0
NRC	0
Regional Development	0
Justice	100
Solicitor General	400
Heritage Canada	0
Foreign Affairs	0
International Assistance	0
Citizenship and Immigration	100
Health	1500
Human Resources	1000
Indian Affairs	4000
CMHC	0
Veterans' Affairs	0
Defence	0
PWS	100
Revenue	0
Central Agencies	<u>0</u>
Total	7900

Note, however that by far the larger part of the decentralizing transfer arises from the assumption that ways will be agreed to for provinces to accept responsibilities in respect of ordinary social programs currently delivered through federal Indian Affairs and Health.

In addition, if the UI responsibility were to go to the provinces this would (by our assumptions) transfer another \$18 billion. This is

largely an in-and-out account; the major impacts are on income support patterns and incentives.

The figures confirm what the words have argued: the proposed reform of Ottawa is important, but a very considerable responsibility would remain. Ottawa would still be doing that which it does best including, of course, the collection of taxes.

ONGOING REVIEW

We spoke in chapter 6 of not getting into this box again, of not again letting our governmental structure get so out of line with our needs.

Of course, that does not mean we want to change things frequently. We do need to rely on the stability of our public sector, and the “rules of the game.”

The trade-off is a bit like the science of plate tectonics, the modern explanation for earthquakes. The earth is going to move from time to time. If we could control such things, we would want to arrange things so that we wouldn't have any great destructive quakes. We would arrange for the earth to move a bit at a time — no more often than necessary, but frequently enough to keep the jumps small.

Ordinary law in our legislatures perfectly accommodate this rule. When a government sees the need for a change, it ponders, consults (ideally), and goes ahead and makes the move. The changes are rarely revolutionary.

Structural issues between governments, however, cannot be so easily changed. There is no unilateral decision maker here. Both sides must agree, and since the protection of turf is so fundamental in human affairs, they rarely do. That is how we got to the structural problems of 1995.

The reasonable response to this conundrum is to set up some kind of outside group charged with studying the matter and making recommendations. This group could be continuing, or periodic. What is important is that it should be knowledgeable about government, but not beholden to it.

Several American states have ten-year constitutional reviews (of their own state constitutions, of which they are master). Sometimes these review bodies are directly elected for the purpose, to the

great consternation of professional politicians. Why so? Because the commissions typically have the right to put their proposed amendments to a referendum, and who knows what might happen? America has survived this quite nicely.

We need something like this in Canada. Our twin crises of national unity and the deficit demonstrate conclusively that things have gotten much too far out of line. The price for regaining our balance has been and will be horribly high.

Some such device for continuing structural review is an important part of our reforms as we gradually make them. It is not urgent, for we are going about restructuring in more painful, less orderly ways already. But it is important, not for today, but for twenty years hence. We should do our children that small favour.

AND IF GOVERNMENTS RESIST REFORM?

A proper cynic would not have put a question mark to this query. He or she would forecast with great confidence that, of course, governments will resist reform. And so it may be.

One of the great lost opportunities in Canadian history came at the time of the Trudeau amendments to the constitution adopted in 1982. In the run-up to the final version, Trudeau had included an amendment process that would have provided for a citizen voice — a means of bypassing recalcitrant governments by a direct constitutional referendum. This advanced proposal, like the proposal to entrench private property rights, was ultimately killed by the provinces. In each case, they feared threats to their powers.

I well remember my own disappointment at the time. Indeed, the loss of this hoped-for process of direct democracy, combined with the unilateral and confrontational repatriation approach initially adopted by Trudeau, led me to write to every Liberal senator (with carbon copies to Liberal MPs) urging them to respect their duties as regional representatives and to hold up the legislation until it had been put to a popular vote. Perhaps because I had once been Mr. Trudeau's assistant and thrice a federal candidate, he did not appreciate this rather public disagreement. I regretted the difference as

well, but my time as provincial Liberal leader and MLA had changed the centralist orientation I learned in Ottawa.

In due course, the Supreme Court found the unilateral route to be inappropriate, and the 1982 constitution was crafted in different ways,⁸⁴ which have left scars in Quebec to this day.

The point is this: if we had the possibility of a citizen-driven amendment process, we might be more hopeful for voluntary governmental reform. We do not have this particular tool, and therefore we may have to seek to obtain and improve other machinery of direct democracy.

How can this needed change happen? That is the key. To that we now turn.

84 Interestingly, Trudeau included the threat to hold his own referendum over the heads of the premiers, to pressure them to move in his direction. The voice of the people, even as apprehended, has great power.

8

Getting from Here to There

Our twin pressures of debt and unity mean that Canada is already in a process of change far more rapid than our normal, leisurely evolution since Confederation. Add in the worldwide forces of globalization and technology, and there is a definite need to think about where we are going.

But granted that we need to change our way of doing business, making that happen is always difficult. Most of us are either unconcerned with such things or innately conservative. Moreover, those in charge of the power structure often fear change, and resist it, even against their better interests.

Thus, it is insufficient to propose a vision of a better system. One must also suggest a practical way of getting there.

REVIEWING THE VISION — WHERE IS “THERE”?

Let us now recap the main arguments of this book.

1. There are two main reasons why our country must change, and soon. One is the federal debt, which has crippled that level of government and has vastly reduced its scope for non-core activities. The simple arithmetic of the situation requires the retrenchment to continue.

The second reason is in the political arena. Quebecers, and many westerners, want changes in our country, broadly in a decentralist direction, while preserving the essence of Canada.

These two pressures make the case for restructuring.

2. In redesigning structures, we should learn from the private sector, which has made the needs of the customer the touchstone of change. For governments, we are the customer.
3. Shifts from the public to the private sector are the first and best choice in redesign, when feasible.
4. The existing constitution defines the “riverbanks” between which the actual stream of government can meander. If and when there is a “No” vote in Quebec, in combination with current financial circumstances, the stream will be pushed hard to the decentralization side. We may not like the unplanned result.

On the other hand, from the point of view of stability, both a listing of common advantages and lessons from abroad suggest we could be far more decentralized than we are today and still maintain the integrity of the national state.

However, a key condition is *symmetry*, or legal equality of the provinces. Sovereignty-association would not make for a stable configuration.

5. Sovereignty-association is a “phantom option.” There are historical reasons, peculiar to Canada and the actions of Ottawa over the years, as to why the idea has some currency in Quebec. But when confronted with international experience over the years, we see that bipolar arrangements are unstable, and that asymmetrical arrangements contribute to instability in perfectly foreseeable ways. To this must be added the historical and emotional climate that would militate against the formation of such a union.
6. The area of reciprocal influence and controls among multiple governments is the wasteland of Canadian federalism. Relationships between governments are essential, but our *ad hoc* system of executive federalism — consisting of deals cut in private between governments — is not satisfactory. The system fails the tests of transparency, accountability, responsiveness, and (often) efficiency. We have a significant “democratic deficit” in this area, to use a description employed in the European Union.

7. The financial circumstances of the federal government will essentially end its ability to impose national (actually, federal) standards within a few years. The result is likely to be significant variation in provincial approaches to social policy and health, just as always has been the case in education.
8. The chief sufferers will be the young and the poor, as transfers to provincial governments are cut back. Seniors will be better protected both by their political clout and by a determination by Ottawa for reasons of political relevance to stay active in this social-policy field. The net result will be a relative underfunding of the nation's future (the young) and an overfunding of the past (the old).
9. Without a new kind of intergovernmental machinery, we shall be hard-pressed to deal with these changes in a balanced and rational way, because the political interests of the two levels of government are very different, and no serious coordination machinery exists among the provinces.
10. Measurement of public-service *outputs* (such as quality of education, and quality of health care) should be much expanded. We focus almost entirely on *inputs* like dollars and hours of labour spent. The public needs to be able to relate the two. Output measurements are scarce, and very often resisted by bureaucracies.
11. Restructuring should be based on the ideas of *incentives* for good performance and the concept of customer service.
12. The key reorganization principle is *subsidiarity*, which means that any given task should be performed by the smallest unit able to do it, starting with individuals and the private sector. This links up with the modern idea that sovereignty should flow from the bottom up. The organizational implications suggest devolution of power to smaller governments and to the private sector, but there will also be cases of shifting responsibility up.
13. The greatest task will be to prop up the old central virtues of mobility, portability, and coordination, through cooperation among the provinces, as Ottawa is weakened by a combination of financial and political forces. The machinery to

do this should be comprehensive, and provide for coordination and enforcement of agreements in a transparent process that includes accountability.

14. The proposed vehicle is a new Federal Council, for the twin purposes of setting and enforcing national and interprovincial standards in areas of provincial jurisdiction, and validating actions of the federal government in fields touching defined provincial concerns.

The Federal Council would have the power to bind its members (the provinces) on the basis of agreed-upon voting rules, which could vary by subject. Opting out would not be normally permitted.

In respect of the federal government, the Federal Council would have a voice in certain appointments, approval of any “spending power” initiatives, validation of federal legislation regulating any agreed-upon areas partially within provincial competence, and the exercise of unusual (declaratory, disallowance) or emergency powers.

15. The retention of payments to seniors, while Ottawa fairly quickly abandons the CHST and the population grows older, will present major problems of public choice, future strength of the country, and intergenerational equity. As the social jurisdictions overlap, a Federal Council could provide the indispensable forum for sorting this out.

Equally, a Federal Council could be a vehicle for economic coordination in the publication and comparison of budgets on a consistent basis. This would present a stronger and more credit-worthy face to the world in matters of trade, borrowing, procurement, and revenue and expenditure policy.

The federal government should be encouraged to accept a major new role in measuring public-policy outputs — performance auditing, in effect — across all government activities, federal and provincial, and to report to both Parliament and the Federal Council in this regard.

16. It may be time for a new approach to equalization. This approach would say that the truly important thing to equalize in Canada is *opportunity*, and this means equalizing the

chances of children and young people. This would lead to a fundamental reform of the equalization concept.

17. In the division of powers area, I present a list based on an approach employing the twin concepts of subsidiarity and concurrency. The list proposes changes in responsibilities for fisheries, UI, environment, transport, interprovincial trade jurisdiction, aboriginal policy, employment training, certain aspects of agriculture, and performance auditing.
18. Many powers are best made concurrent. Where provincial paramountcy applies, the Federal Council would need an approval role on federal activity to control “free rider” problems.
19. Experimentation with direct democracy, especially at local levels, is encouraged as a promising instrument of better government.

That, in sum, is where we ought to be headed. Now, how do we get there?

Versions of Change

These days we have virtual reality, and we have real reality. So it is with governmental change. The first we need is *virtual* change, which is to say, a clear picture in the imagination of where we may be going.

What that requires is people drawing plans. It requires books like this, whatever proposals one may wish to put in them. It requires a genuine discussion across this country among citizens and their governments as to where we might be going.

The precursor of planned change is a developing consensus that it is wanted and/or needed. But one has to know what destinations are available. We need travel agents for these voyages of constitutional discovery.

There has been no shortage of advice, much of it far-sighted and wise. Aside from scholars, few have paid attention. The questions always seemed too theoretical. Hopefully that era is coming to an end, because major change (through the last federal budget) has already begun.

So now it is time for those with ideas to come forth. The fastest response, as always, will come from the private sector. Individuals, think-tanks, and organizations should make their thoughts known. Many will, as they come to understand the stakes.

The next level of musing will come from politicians, and this is where it becomes tough and risky for the participants. The up-side for engaging in this kind of discussion certainly exists, but there are down-sides for the politician. What if the voters don't like your vision? What if you are too far out in front and your constituents think you foolish or disloyal for even considering change to Canada?

Opposition politicians will find an easier time with this than will governments. Of course, the Bloc Quebecois' vision is already known. It will not change its tune until a referendum is lost, at which time a new flexibility toward renewed federalism may become apparent.

The Reform Party of Canada, through its leader Preston Manning, has begun to paint a constitutional future, beginning at the party's 1994 fall convention. Jean Charest of the Conservatives has offered only snippets of his vision; he will become more specific without doubt, having much to gain and little to lose. The NDP seems to have lost its way on this, as it has on so many other issues.

The provincial opposition parties may provide some energy to this discussion, depending on their knowledge and how they see their interests. Foremost are the Quebec Liberals, who also must be the most cautious. In the 1980 referendum they provided the alternatives to separation in the outstanding and visionary Beige Paper. There is no sign of anything like that this time around; time will tell. (And it may be that Quebecers will believe only voices from the ROC at this point, as to what the ROC should or will do.)

And what about the federal government? Our earlier analysis of the pressures on Ottawa stands. It is most unlikely it will step up with any virtual visions in advance of the Quebec referendum. But immediately after, they *should* be ready to go. That means that Ottawa should, as of now, be developing its own version of how we should change the way we govern Canada, to make it consistent with the new financial, political, and technological facts of life.

They will want to be careful, of course. Only vague directions will be suggested at the outset; the emphasis will be on process. That is fine. Positive attitude and process blessing is all we can expect from Ottawa at the beginning. They have so much to lose that even this will be a major concession, no doubt camouflaged in rhetoric.

The provincial governments may hold more promise. Premiers Wells, McKenna, Filmon, and Romanow of the poorer provinces are old and expert hands at the constitutional game, and they understand very clearly how much their people have to lose if these great currents of history cannot be guided into safe and productive channels. They also know that their powers are slight, relying more on intellect than on force, and that kind of power is always best deployed early in the game. The pressure of time weighs heavily on them, as federal transfer payments fall. One or more of them may make a move to influence the debate.

For the three rich provinces it is different. Premier Harcourt of B.C. is little interested in such things, and is preoccupied by seemingly endless local political disasters. Premier Harris of Ontario has his hands full with his far-reaching election promises. In any event, there is little evidence that Ontarians are yet sufficiently worried about the future of the country to bring this to the top of the province's agenda.

Ralph Klein of Alberta just might be different. Totally secure in his provincial base, comfortable in his skin, and well advised by Alberta constitutionalists, who are among the best in the country, Klein is a wild card. It is almost a contradiction in terms to predict from whom to expect a surprise, but Ralph Klein is the likely person.

So these are the big-picture players who may set out a version of the future that we can discuss. This is virtual reality. What about *real* reality? The players change, because the risks and pay-offs change. We move from big picture to smaller snapshots. But we also move from theory to fact, from possibility to actuality, from idea to experiment.

“Real” Change

The first thing is to draw a picture of the destination, in its broadest outlines. The picture won't be really clear until we get much closer, but it is time to take that single step that starts the long journey. We will be travelling in four dimensions:

Conceptual — What is the new mood of Canada in our changing demographic, financial, trade, and technological circumstances?

Governance — What can we do to make our political marketplace more responsive?

Responsibilities — In our federal arrangements, who is responsible for what?

Institutional — How can we improve intergovernmental performance?

In the *conceptual* area, this book identifies a number of subjects of concern. The first and most important of these is equality of opportunity, and whether or not we wish to increase our commitment to this goal.

A second and related issue is intergenerational equity, and the fairness and incentive effects of state-directed income transfers over a lifetime.

The third conceptual issue is the shift in roles between the private and public sector, in the provision of services to people.

All of these are profoundly political questions, and the debate will be ongoing. The most urgent matter is to address the shift in state resources from young to old. It is a highly charged debate, and the default (no debate, no change to the present course) situation will lead to trouble of various kinds, including a starving of necessary investment in the future.

On the *governance* side, the decisions rest almost entirely in the hands of the politicians in place. Parliamentary or legislative reform is laughably simple to secure. A legislature simply changes its rules, and it is done.

That is not to say that there are not many policy and technical questions to be addressed in the process, for indeed there are. But all that is needed from a “getting-it-done” point of view is a simple de-

cision to act to inject more responsiveness and accountability into the system.

Moving on the division of power

Our main focus in this book is neither concept nor governance, but rather, structural reform. In terms of *assigning responsibilities* or dividing powers, governments can simply build on present foundations. The challenge is to convince them that they *should* do this.

The people with the best knowledge base for the discussions of subsidiarity, the marriage of accountability and responsibility, and the other desiderata of restructuring are inside governments. These are the people who work day to day with the various problems and opportunities of extracting taxes and delivering services.

At the same time, these departmental public servants are often not the best people to assess whether a given service should be performed by government at all, and if so, at which level. It is only natural to develop an opinion that the way things *are* is the way they *ought to be*. Moreover, loyalty to one's organization can make a serious rethinking difficult, for the process may result in painful change. Indeed, the pain may well be personal.

The federal government faced such a problem in applying the tests for the process of program review. The solution adopted was to bring together a special-purpose group of bureaucrats, working with a similar group of ministers at the political level. People inside the process report that it has been arduous and sometimes emotional, but that it has worked reasonably well.

The first major public unveiling of their work was the landmark budget of February 1995. The process continues, and it will no doubt become more arduous and emotional, for there are billions of dollars of expenditure reductions yet to be found.

While guided by principles that include a version of subsidiarity, the driving force of the federal exercise has been one of financial necessity rather than principled reorganization. This is not a criticism; Ottawa controls only some of the governmental machinery that has to be restructured, and the one thing it can do unilaterally is cut. But a true restructuring will require cooperation across the

government sector, from the largest federal agency to the smallest rural municipality. Moreover, it will have to be principled, driven by the basic questions of customer service, efficiency, and incentives.

Anything less would be a waste of time. We have had all kinds of reviews of government efficiency in this country, from the Glassco Commission of the 1960s to the Neilsen report of the mid-1980s. All gave wise advice, mostly ignored. The results have not been zero, but they have not been adequate either, as evidenced by the financial and political fix we are in today.

So two additional contributions are required. The first is that the other levels of government — including municipalities — should establish dedicated working groups of their own, to ask the zero-based-budgeting types of questions of the Ottawa review. Since the questions will be examined by bureaucrats and politicians with very different points of view, it would be surprising if we didn't get different answers.

In other cases, with respect to other programs, there may be much more agreement. The certain thing is that, as long as transparency is built into the process, the public will have the ability to compare the views developed by the various levels.

The essential transparency will not be easy to achieve. Fundamental review of this kind has to scrutinize every sacred cow of government organization and service. Each sacred cow has its constituency of bureaucrats and clients. The principles that must be observed to minimize these difficulties include involving all major interest groups, and making it clear that people caught up in ensuing change will be fairly treated.

This kind of massive involvement is lengthy, labour-intensive, and complicated. It would be much easier to strike a committee of philosopher kings and queens, reach conclusions, and impose the results with the force and certainty of a budget. In a way, that is exactly what both the Chretien and the Klein governments did in their respective watershed budgets.

The difference is that, within any single government, one group can call the shots. The restructuring exercise we are looking at here should range across all governments, and the process must be cooperative and open.

The second thing that must be done — and this will be tougher — is that governments will have to work together, not simply to agree on desirable change, but to agree as well on desirable transition and implementation procedures, and on the rearrangement of financial resources.

This is a very large and important task. Clearly, there will be work to do *within* provinces as well as between provincial and local governments. At the federal-provincial level, formal machinery will be required for this purpose, building on the informal relationships that have always existed between these governments. The reason the machinery must be formal is for transparency — both so that the public can see what is being considered, and so that we can see whether, in fact, progress is being made at a sufficient rate. And it must be *government* machinery, not another commission to be ignored.

This would be a job for a Federal Council. Since there is nothing like it yet, we will need *ad hoc* machinery.

As governments work away on this restructuring exercise, they will need help and encouragement from the private sector. There are many scholars and organizations with very detailed and knowledgeable thoughts on how government could do a better job. If governments are wise, they will invite these people into the process. Failing this, the knowledgeable private sector should find ways to be heard without an invitation.

The total work to be done is obviously massive. However, it need not be intimidating, because much of the work comes in bite-sized chunks. Specialists can work in specialized areas — agriculture, training, corrections, fisheries, and transportation, for example — for integration into the larger picture as required.

Much of the task of integration will fall to the finance ministries of the land, who are used to doing this kind of work, though never on such a scale. And the finance ministries understand better than anyone the fiscal urgency.

The progress made in the fisheries relationship between Ottawa and the provinces is a good example of how the process can begin. Ministers met in Victoria at the beginning of November 1994 and put together an agreement in principle on how governments should

work together to restructure management of this resource. The communique talks about the importance of working together, of the possibility in changes in the federal and provincial roles, the possibility of co-management with stakeholders, and the need to get moving. Interestingly, the Quebec minister took part in this meeting and consensus document.

As another small step, First Ministers signed an agreement in July 1994 committing their governments to work together on the elimination of duplication and overlap in stipulated areas including environmental assessment, shared government support services (warehousing, for example), food inspection, and international business services.

There is not as much duplication and overlap among governments as the public would like to believe, because the elimination of these wastes is always the easy first choice given to pollsters as to how people want to cut expenditure. These items, even if all were resolved, would hardly begin to solve the deficit problem.

Nevertheless, the process does represent another kind of beginning. There is more and more evidence that governments know what has to be done. It is time to go ahead and do it.

So, what can the ordinary citizen do? The key is to achieve the formal set-up of structure review committees in provincial governments (and at least some cities) to work in a transparent way on the restructuring of the nation's business. Politicians must be encouraged to get on with this.

Moreover, at least for politicians at the provincial level, getting on with this is in their own best interests, as the restructuring exercise will clearly have a decentralist bias. This is so for reasons of declining federal financial capacity, quite apart from the lessons of subsidiarity.

There will be some fear by provincial politicians that an exercise of this kind could be misrepresented as an attack on Ottawa, an attack on the unity and integrity of the country at a time when the centre is weakened by both debt and Quebec separatism. Nothing could be farther from the truth.

First, the initial examination in this direction is already well underway, in the central government itself. Establishing a provincial

counterpart to this exercise simply makes sense. Second, the whole purpose of the exercise is to improve how our overall system of government works. Third, a properly undertaken restructuring will leave the central government *stronger* in some ways, and the country stronger in many more. Fourth, we have a serious debt problem, and like all debtors we must be concerned with what our creditors think of us. Measures to improve governmental efficiency and improve intergovernmental relations assist with this. Finally, what better news could there be for Quebecers than evidence that a genuine examination based on decentralization and subsidiarity was actually under way? From a national unity point of view, this exercise cannot be started too soon.

The simple key is for the provinces — or even *one* of them — to formally structure a governmental working group to review the assignment of duties among levels of government in our federation, and to have that group hear from the public and report to the public on a regular basis.

Interprovincial Cooperation

We started this section by listing four dimensions in which we must make progress. We have talked about how to get moving in the first three: concepts of Canada, governance machinery, and division of powers and responsibilities. That leaves us to talk only of what may prove to be the easiest — institutional improvement of intergovernmental relations.

My answer, outlined in detail in the last chapter, is the institution of a Federal Council. It would serve the twin purposes of having the provinces work together on matters of national standards and coordination, and with the federal government in areas of joint provincial concern. At maturity, this would be a major institution of the federation. It would have great political power and importance. Surely such a thing would be difficult to establish?

Not at all. Many of the provinces have permanent representatives in Ottawa.⁸⁵ Why should they not simply start meeting on a

85 Ontario, Quebec, B.C., Alberta, and Manitoba are all represented in Ottawa. Saskatchewan maintains a procurement office.

regular basis, say, weekly to start with — to talk about matters of mutual interest. Provinces without permanent offices in Ottawa would be encouraged to establish one, and would be invited to send representatives to the regular meeting in the meantime.

At the beginning, it is likely that no one would want this meeting to be open to the public. It would be testing a new idea, after all. But the meetings should be known, and a statement of matters discussed should be released. Perhaps there should be a rotating chair, to brief the press. This would get things going. It would be a precursor to the Federal Council.

However, the meetings should be opened at a very early date, to establish the practice and habit of transparency. When people become accustomed to talking in secret, they soon come to think that secrecy is necessary to get their business done. Exactly the reverse is the case here; one of the most important jobs of an eventual Federal Council will be to bring intergovernmental dealings into the open.

And the beginning is the right time to set this habit, for at that point this nascent council would have no powers, other than to talk. So why should others not listen?

The meeting should not be a forum for criticism or even discussion of the manner in which the federal government goes about its own business. The purpose is not to hold the federal government to account. That is the job of the House of Commons. The eventual purpose of the Federal Council would be to hold *the provinces* to account, in areas where they can find mutual agreement, and to seek such agreement across their jurisdictions, wherever the activities of one province have an impact on others.

In due course, a level of comfort with the new body would be reached, sufficient to institutionalize it by establishing a permanent meeting place, with a secretariat and open meetings. The more boring and practical that matters could be kept, the better. This institution would not be a place to make great policy; rather it would be a place to solve problems, and identify where the great policy decisions are required by the premiers, along with the options available.

The federal government should be invited to send a representative relatively early on in the process. The federal government will have a general interest in much of the business, as well as wisdom to

contribute. And like the other participants, it will need experience with the operations of a precursor council to accept the concept in actual practice.

There will be plenty to talk about at meetings. One obvious subject of an ongoing nature would be to track the subsidiarity and program-review exercise at the provincial level. Another would be the ongoing dialogue over provincial restrictions on interprovincial trade.⁸⁶ Developing a standardized financial accounts presentation for provincial budgets should be a priority. Expansion of educational measurements across the provinces, and comparative work on educational experiments, is a natural topic. Even though it is a federal program, the operation of the equalization system is an appropriate topic, as it is targeted at provincial governments.

National standards in provincial areas of social policy and health would be a prime topic, along with the measurement techniques required for proper comparison. Reporting on and comparing provincial activities in culture, the environment, and resource management would be useful information items.

These few examples give a ready appreciation of the wealth of subject matter. All of these things are presently discussed, but not in an ongoing, regularized, public way, where people can keep track of progress and provinces can be tracked.

The beauty of the forum developing in this way is that it would be non-threatening and incremental. Until formalized (which could not happen except by agreement of all participants), it would be a totally voluntary club. It would have no decision-making authority, but agreements reached as a result of its process would simply be regularized in the usual way by interprovincial documentation or legislation.

Once formally constituted, the council would need rules for its decision making, with an understanding that decisions would be binding, as long as any province remained a member of the council. The decision-making rules would undoubtedly provide for a high

86 As Jean-Luc Migué notes in *Provincial Trade Wars: Why the Blockade Must End*, ed. Filip Palda, (Vancouver, B.C.: The Fraser Institute, 1994), it is the federal government that in fact most distorts interprovincial trade, through such programs as UI, regional development, and federal marketing board legislation.

level of consensus. Only if and when the council were constitutionalized would membership and jurisdiction be mandatory. This might never happen, but we would still have a useful instrument. (The constitution says nothing about some of our most important institutions, including political parties, the notion of resignation for want of confidence, or the routine federal-provincial conferences.)

The advantage is that the council could become a long-term, routine, and transparent trading post for governments. As useful as it would be to governments, this instrument would be of even greater use to the public, which would have a place to look to for intergovernmental cooperation and interprovincial comparative data.

As for the relationship of the federal government with this new entity, no constitutional action of any kind would be required, until and unless the parties think it useful to bind each other irrevocably to the process. Until then, the only necessary relationships could be embodied in acts of Parliament. If the parties agreed that the federal spending power should be limited to areas sanctioned by the Federal Council, Parliament could pass a law saying so.

The important part of developing something like this is to make a beginning. Let some provincial representative in Ottawa invite his or her colleagues for dinner and see what happens. After all, as the saying goes, it is easier to seek forgiveness than permission.

Let intergovernmental affairs ministries buzz the idea about. Maybe the prime minister would see fit to express some support for the idea. (When it is no longer possible to organize the provinces by divide-and-rule or financial bribery as has been the tradition, surely there is much merit in a new system that would allow another sort of order to be brought to the relationship.)

But let us make that beginning. Let a few premiers have a conference call, or an off-the-record chat at the next premiers' conference. The idea of a Federal Council has been bruited about for years now. It is ripe for trial.

CONCLUSION TO THIS PART

So it all comes down to political will. Reinventing Canada does not depend upon the constitution. It simply depends on a relatively few people, mostly politicians, deciding to take simple steps that are wholly within their power, with every expectation of being well received by the public.

But let us not be naïve. Canada has been around now for about 128 years in its present form. Apart from the concept of Canada, we have discussed three dimensions of change: governance, powers, and central institutions to represent regions. What has actually been the experience?

Over that 128 years, there have been no profound changes to our system of governance. First Ministers remain able to operate four-year elected dictatorships. The ordinary member (the only person you and I get to vote for) is unimportant.

The major change in the powers of governments has been an enormous expansion into taxation and regulation of the private sector. The ebb and flow of responsibilities between federal and provincial governments has been the result of financial power and judicial decisions, not great and generous leadership.⁸⁷

The institution that was intended to represent the provinces at the centre, which took more time in the confederation debates than any other topic, the Senate, is a bad joke. And no one talks about calling in a new joke-writer.

Given this track record, why should anyone dream that there will be voluntary change in any of these dimensions?

There will be *involuntary* change, however. The exigencies of the federal financial plight guarantee that. Those changes may not be pleasant for many Canadians, depending on provincial wisdom.

As to any change that might have been inspired by the people of Quebec, we have a lesson of history here as well, of which we have been reminded by Claude Forget, guiding genius behind the 1980 Beige Paper. This document was the carefully constructed Quebec federalist alternative to the sovereignty-association of Rene

⁸⁷ The constitutional amendments relating to old age pensions are an arguable exception to this statement.

Levesque. The intention of the paper was to give the people of Quebec a real federalist choice, which did not rely on the status quo.

We now know that a decision on the Beige Paper was made by then provincial Liberal Leader, and official leader of the “No” forces, Claude Ryan, bolstered by an understanding with the just-re-elected prime minister Pierre Trudeau. The essence of the decision was that the Beige Paper proposals would be down-played in the referendum debate, in order not to divide the federalist forces.

The Beige Paper was anathema to official Ottawa. The fact it was not pressed as part of obtaining the “No” vote result meant that it was not a part of the mandate of that vote — and it disappeared. Once he had his “No,” Trudeau was in effect free to do with the constitution as he wished, subject to agreement from a sufficient number of premiers, though he threatened a unilateral patriation first.

In particular, there was no impetus coming out of the 1980 referendum towards a more decentralized Canada. A magical moment was lost. We have ended up fifteen years later with a centre that is virtually bankrupt in financial terms, and a federation that has serious, untreated political tensions in the West and in Quebec.

And this unhappy situation is the basis of the alleged historical inevitability of sovereignty. Why should anyone believe there is a third door out of this box? The lessons of history all lead the other way. Can we answer that?

SUPPOSE NOTHING HAPPENS?

What if we get the default option, the “surprise free” scenario, defined here as lack of proactive leadership on either the governance or restructuring files. What will the future look like then?

On the finance-driven front, the federal government will be forced back to its core activities, losing its ability to impose federal standards on provincial activities. It will, however, not lose or abandon its ability to subsidize weak-economy provinces and elderly Canadians, by extracting resources from economically strong provinces and from working-age Canadians. Interprovincial competition will escalate. Some of this will be healthy, some not. Relative invest-

ment in strong areas and in young people will be at a clearly suboptimal level.

Quebec will continue to have a separatist government that will not give up, though the present generation of leaders may move on. The government of Quebec will frustrate federal-provincial cooperation at every opportunity. The Ottawa Liberals will not get tough on this, hoping to elect more Quebec MPs next time around.

If there is no decentralization mandate as a part of a winning “No” vote, Ottawa will have the same freedom Pierre Trudeau had after the disappearance of the Beige Paper, that is, the freedom to do nothing inconvenient to Ottawa, on either the power (i.e., decentralization) or the electoral front (i.e., the risk of losing votes in or out of Quebec). If this is the reaction, it will be seen as yet another betrayal of Quebec by Ottawa.

The rest of the country will become even more fed up with Quebec, as the separatists fail to go away. The “no deals” pressure on Ottawa vis-à-vis Quebec will increase.

An economic turndown will be on us soon, and creditor pressures will increase.

The situation will be ripe for something to happen.

AND THEN WHAT?

Quebec need not hold another election until 1999. The only reason it would go before 1998 would be to secure a mandate to hold another referendum. This seems unlikely today, but it would depend on unfolding circumstances.

By the time of the next election, if the Parti Quebecois is able to hold the allegiance of the “Yes” voters, it will likely win the election. In a province-wide referendum, the geography of the votes does not matter in a legal sense. In an election, with 125 constituencies, the geographic distribution of these votes matters a great deal, and the anglophone/allophone “No” voters are highly concentrated, and are thus “inefficient” in electoral terms.

The re-election of a PQ government would continue the uncertainties that help give us the highest real interest rates in the G-7, as

well as continue to focus the energy and attention of our leaders on political strife rather than on more productive areas.

The federal government must hold another election by 1998, although it is more likely to be held in 1997. With a loss of the referendum, the future of the Bloc will be in question. Separatists could either decide to boycott the Ottawa process and not run candidates, or to opt for the Irish separatists' successful strategy of running candidates with a mandate to systematically obstruct the business of the federal government. The hope would be to develop a "please go away" mentality in the rest of the country, as the Irish separatists did in Britain.

By the time of a 1997 election, the full consequences of federal budget cuts will be sinking in, the Quebec problems will not have gone away, and the next economic downturn will have arrived. At this stage, Reform may be articulating a decentralist version of the country as *the* election issue. It will continue its advocacy of governance reforms.

It is impossible to see how all of this might play out. An important variable will be whether the Ottawa Liberals make a major policy U-turn on decentralization, as they did on the deficit. However, the unilateral action that was available on the debt and deficit will not be possible on the constitutional file, and there will be little time to build trust or consensus with the provinces.

Or Ottawa might go the other way. In a frustrated reaction to disappearing fiscal power to maintain "national standards" and/or a heating up of the Quebec file, Ottawa might even try further centralization to "save the country" through "strong central government."

None of the above scenarios lead to stability. This continuation of uncertainty is not a very satisfactory future. It is the most likely one however, absent positive leadership. Picture Ottawa as an exhausted boxer, going alternate rounds with Pugilist Parizeau and the Gnomes of Zurich, neither opponent able or prepared to give the knock-out punch, or to change the rules and settle the fight. A big round has already gone to the Gnomes on points — several interest rate points, in fact. Will this battle never end?

WHAT CAN NON-POLITICIANS DO?

Politicians truly do react to the public in our system. However, reaction may be slow, and it may require threats. For example, Ottawa's reaction on the debt and deficit problem came far too late. Even the late timing was made possible only by the threat and consciousness raising provided by the Reform Party. This, along with the warnings of many financial commentators and creditors, finally created a climate of public opinion wherein action made political sense, and inaction became dangerous.

Might we reach such a changed environment through uncoordinated agitation on the governance and restructuring issues? Absent real leadership, this will be the only way.

Citizens' movements could have some effect. The redoubtable Bert and Alice Brown, the moving energies behind the very successful Committee for a Triple-E Senate, have now turned their time to promoting the province-by-province formation of constituent assemblies. One strategy would be to get two or three provinces to agree that the structure of our government needs a ground-up re-examination by a group of people elected for this purpose, in the hopes that others would join, forcing a reluctant Ottawa to take part.

Alternatively, Ottawa might see some use in throwing the ball to citizens with another sort of Spicer study commission, mandated to make recommendations about the reform process.

But these are long shots. The main thing citizens can do is to pressure their representatives. There are all sorts of groups in this land with influence of one kind or another — town councils that pass resolutions, union or business associations that make statements and lobby, people who are concerned about education, poverty, or national standards, who work through their own organizations. Their actions can make a difference.

But is anyone interested? The voices worried about debt and the deficit went unheard for years. The voices most threatened, organizations concerned with social issues, spent most of their energies denying that any problem existed.

Another route would be to get behind federal or provincial political parties prepared to take stands on these matters. Nothing so impresses politicians as dramatic moves in polls.

The starting point is to believe the issue is important. Then the ways and means can be sought out.

British Columbia, as the only province with initiative legislation, could play an important role if its citizens were prepared to pass an initiative requiring the province to cause the election of delegates to a constituent assembly, and to call on other provinces to do the same.

Other direct democracy forces might arise. One of the strongest growing movements in the country today is that of the irate taxpayer. We saw something of the potential in the “no new taxes” rallies leading up to the February budget. The anger of taxpayers is going to get worse in the years to come, because even if taxes don't go up, government services to people will go down.

An angry taxpayer is an organizable constituency. The activities of such highly successful groups as the Canadian Taxpayers' Federation and the National Citizens Coalition could be turned to the field of government restructuring, via tools of direct democracy or more traditional pressures on politicians.

As an even wilder card after a lost referendum, the Parti Quebecois government in Quebec could itself make the first move on a national Constituent Assembly, inviting other provinces to join in one last try. If the result were a new constitution suitable to Quebecers, well and good. If the exercise failed, they could use it as proof that they had gone the extra mile, to no avail.

Politics is so pregnant with possibilities, moves and counter-moves, that just about anything could happen. The trouble is, “just about anything” can be good or bad, and we pay our leaders to be more than players of power games.

A FINAL THOUGHT

Of the people who read this book, there will be those who believe that everything will work out in the natural order of events, and that we need not bestir ourselves to manage change. There will, I hope, be a much larger number who see that we have both a problem and an opportunity, requiring our urgent and vigorous attention.

The first thing is to agree that there is a problem, without necessarily agreeing on all its aspects.

The next thing is to agree that there is an opportunity, again without necessarily agreeing on the specifics.

Finally, we need to agree on a process to get us from here to there.

Far and away the simplest route is the step-by-step experimentation open to governments, across the fields of governance, jurisdictional and institutional reform, and creativity. The issue is not just to take the first step (some tentative discussions have been held already on jurisdictional matters), but to take it in a way that says this is not just a step; it is a beginning of a new look for Canada.

Is the politician out there who will answer that opportunity?

There are thirty million Canadians who want this done. We are fed up with the interminable bickering, the government policies clearly opposed by the public, and the appropriation of such a major portion of our incomes in a political marketplace that doesn't work well. We don't like the fact that the country is already broke in financial terms, and is breaking in our politics.

We want this fixed. The details are complicated, but the direction and the need for a start are very simple. Let us deal with the greatest danger in our history, and get on with the greatest opportunity that we have had in Canada since Confederation.

It is time to make or break.

Appendix I: The Referendum

This is a book about an improved Canada, better than it is today, and better than it would be under any separation alternatives. Through the book I have assumed that the country will have the opportunity and the time to make the necessary adjustments. Two things could prevent that.

The first, and most likely, would be a refusal by our political leaders to both accept the realities of our situation and the possibilities for our future. In short, nothing might happen until financial or political problems forced the pace.

The second thing that could prevent an improved Canada would be an independence or sovereignty-association “Yes” vote in a referendum. That development would lead to the very unpleasant transition chaos described both in *Plan B*⁸⁸ and “In Cold or Hot Blood?”⁸⁹

As this book appears at the end of summer 1995, a referendum is promised by the Quebec government, by the end of the year. This appendix presents some thoughts for both Quebec and the ROC, as we lead up to that vote. When the referendum is over, this appendix will be of academic interest only; the rest of the book will stand.

On the referendum, I will discuss *attitude*, *scenarios*, and *strategies*.

With regards to *attitude*, there is a tendency in the ROC to demonize Quebec separatists. This is understandable and unwise.

88 Gordon Gibson, *Plan B: The Future of the Rest of Canada*, (Vancouver: The Fraser Institute, 1994).

89 Gordon Gibson, “In Cold or Hot Blood? A Response to the C.D. Howe Forecast of the Post-Referendum World,” *Fraser Forum*, February 1995, pp. 5-20. Both of these publications are available from The Fraser Institute. To order either or both, call toll-free 1-800-665-3558.

The “understandable” part is clear: people of this persuasion want to break up our country.

The “unwise” part is less obvious and is more important. From a purely rational point of view, Quebec is our neighbour and always will be. It is far better to get along with neighbours, and this is very difficult if you think they are devils.

But it is the human side of things that really needs our attention. It is important to remember that separatists are not engaged on their course because they want to hurt the rest of us. They take their position because they believe it to be the best thing for their definition of Quebec.

Moreover, at least among the leadership, this position has generally evolved over a long period of time, through much experience. There is a conviction that Canada is not meeting the needs of Quebec, and that it can never change to accommodate those needs. Therefore, they say, a separate country is the answer — virtually always adding that we must remain close friends.

Most Quebecers, however they vote, have a respect and affection for Canada. We must remember that.

On the other hand, there is something Quebecers should remember, as they go to the polls. The ROC is not monolithic, and is not wedded to the status quo. There are people all over Canada — even in Ottawa — who believe firmly that we can and should change things. This book gives one person's approach. I have found in my discussions that the approach has broad support; the challenge is to marshal the political will. A majority vote for separation or sovereignty-association would end that chance.

This must be understood. A “Yes” vote would not just be another milestone on the path of the evolution of Canada. Whether the rest of Canada could hang together is an open question, but there is little uncertainty about the impact of a “Yes” vote on the ROC-Quebec relationship. The financial chaos and political passions stemming from such a result would be exceedingly painful, and would almost certainly lead to an irreversible breakup, with no re-association.

As to *scenarios*, we have the question to consider, as well as the timing. The conventional wisdom of today is that the referendum

will take place in late fall, and the question will relate to sovereignty, with a firm offer of close and defined association with Canada, or simple independence if an association cannot be negotiated. I will return to this most-likely case, but first there are a couple of other possibilities.

As to timing, we must plan for the late fall, but we must realize that it is not common to voluntarily call for a vote when you expect to lose. If the polls do not look good, postponement is always an option, and if that happens we have a problem and an opportunity.

The problem is a continuation of the uncertainty hanging over our country, which has real costs. The opportunity lies in the additional time made available to get on with the practical steps to reform. The more we collectively demonstrate a determination for reform, the less is the force of the separatist argument. With proper management, postponement could mean a happy solution.

As to the question, while we may be quite sure that additional thought will not make the question “harder” (i.e., straight independence), it may yet make it softer.

Continued polling may convince the Parti Quebecois government that *no* question that includes the possibility of breaking up Canada has any chance of getting a majority. This would pose a real dilemma, both for ideological reasons, and for political ones. A referendum has been promised. If one is not held, the PQ would have to expect electoral backlash, as well as seriously reduced bargaining clout for Quebec-in-Canada. This would be a big double loss.

The fallback position could then become a question asking for a mandate to negotiate a renewed federalism. It is inconceivable that a government headed by Jacques Parizeau could bring itself to this position, but reality could force it on a successor. What an irony this would be. The question would no doubt win — as it might win in British Columbia or Alberta! (Indeed, other provinces might ask the same question on the same day.)

The separatist reasoning for this path would be that any attempt at a truly reformed Canada would be stonewalled by Ottawa, with plenty of opportunity to irritate Quebecers, thereby making a “mandate to negotiate” referendum a way-station to the real goal of sepa-

ration. A failure to achieve a new federalism would be held as the last necessary proof that Canada cannot work.

This is far-fetched, even fantastic. So are many of the things that actually do happen in politics. But for now, let us return to the main scenario, and the sovereignty-association question in the fall.

Assuming this, on *strategy*, Quebec referendum voters have to forecast the future. They have to imagine what the world will be like after a “Yes” vote on the one hand, or a “No” vote on the other. They have to decide which they like better.

The more sophisticated voters will go one step further, and guess which side will win. If they think it fairly certain that the winner will be their choice, they may vote the opposite way for strategic reasons. In particular, if it seems that the “No” side will win, many Quebecers will feel able to vote “Yes” for the simple purpose of strengthening the bargaining position of Quebec-in-Canada.

While the sophisticated voter makes his or her calculations, the markets will be making other assessments based on the probability of which side might win. Since the market reaction to sovereignty-association will be very similar to the reaction to plain-vanilla separation — both possibilities would give rise to financial instability and high uncertainty, which credit markets hate — we will see a similar response to the polls, whatever the exact wording of the question. If it looks like a “Yes” vote is likely, interest rates and the dollar will come under heavy pressure. This will (properly) worry Quebec voters as the referendum date approaches.

So we have two interesting feedback systems operating here, the one pushing the “Yes” vote up, the other pushing it down. Within these parameters, the players will work to shape the voters' guess as to the future consequences of their votes.

PLAYERS AND STRATEGIES

The basic considerations are simple. Premier Jacques Parizeau's first choice is to constrain the population of Quebec in a solid box with only two exits. One is labelled “sovereignty-association”; the other is called “rigid status quo.” Polling has consistently demon-

strated that the people of Quebec do not like the constitutional status quo, to the extent that the question is understood, which is an important qualification. On the other hand, they are also very worried about the unknowns of independence, so a very large part of the battle will turn on whether the ongoing “association” is possible. (It is not, and the realities in that regard are canvassed below.) The sovereigntists will argue that association is not only possible, it is inevitable. This is one of the defining elements.

The other is this: whatever the exact wording of the ultimate question, winning the sovereigntist game requires convincing Quebecers that Canada can't adapt to their needs.

The game is therefore one of making the “rigid status quo” look ever more impossible, ridiculous, and insupportable for a self-respecting people, while making the “sovereignty-association” door look safer — indeed, making it look like the only way to maintain the good things about Quebec. At the appropriate time, i.e., when the status quo has been made to look awful and the alternative is relatively safe, the whistle will be blown, and the referendum will be called, forcing the electorate through one door or the other.

An indispensable link in this chain of logic is that there are only these two choices, which presumes that the federal structure is not capable of voluntary evolution to better adapt to present circumstances and to the needs of Quebec. The ultimate “proof” cited in this regard is that in spite of the enormous time and energy spent on the Charlottetown Accord, with the ultimate unanimous approval of *all* governments in the land, the exercise failed. No greater effort than this could possibly be brought to bear, so goes the argument, and therefore even minimal reform is impossible.⁹⁰

Secondary evidence is presented in the clear statements of Prime Minister Chretien and most of the premiers that the constitu-

90 When the history books are written on Charlottetown, it will be found to have failed for reasons of both substance and process. The substance relates to the insanity of an undefined third order of government based on race, a new distortion of “rep by pop” in the House of Commons (the 25% guarantee for Quebec), and the chokehold of unanimity for future amendments. The process was so tainted by a despised personality, secrecy, and raw political leverage that the Ten Commandments could have hardly come out smelling clean. Charlottetown was not a rejection of Quebec, which province of course rejected the deal itself.

tion is absolutely not up for discussion. The proponents of independence seldom believe the claim of the above politicians that federalism can be reformed very considerably without touching the constitution. Many would say that this oversight makes no difference; the claim would not be believed in any event, given the constitutional history of the Trudeau/Mulroney years as perceived in Quebec. Other Quebecers would say that since Daniel Johnson couldn't even get jurisdiction over employment training to help win an election over the separatists, we shouldn't even listen to this flexible federalism malarkey.

There are two steps to countering this very plausible strategy of denying the possibility of federal reform. The first is to convince Quebecers that change is indeed possible. Of course, this will not be believed unless there is credible sentiment to that effect from people in the rest of Canada. And make no mistake: getting such credibility will be very, very tough. Quebecers have been around this mulberry bush three times in the last decade — the unfulfilled promises after the 1980 referendum, Meech Lake, and Charlottetown.

The natural attitude is summarized by this proverb: “Fool me once, shame on you. Fool me twice, shame on me.” As many Quebecers see it, they've been fooled thrice.

The second countermove is to define exactly what change is possible. Interestingly, the two steps inter-relate in the following sense: if it can be demonstrated that the status quo changes are highly desirable for reasons that have nothing to do uniquely with Quebec, but simply with the self-interest of all Canadians, the potential change will be a lot more believable.

More than that, any proposals for change that are not clearly in the general self-interest would be rejected by the ROC in today's bloody-minded atmosphere vis-à-vis Quebec. Proposals seen as catering, pandering, toadying, caving in, sucking up, buying, giving in to blackmail (all of these words are used), to Quebec, or even just sensibly accommodating that province are just not on these days.

In other words, just as Mr. Parizeau would like to put Quebecers in a box, politicians in the rest of Canada are in a box of their own. They currently dare not propose any changes to Canada, however

useful, if Quebec is involved, especially since they would not be believed in Quebec in any event.

In the weird world of Canadian politics, all of this makes perfect sense, and works together. The solution we need to find for Canada must not be designed for Quebec. If it were so, it would not be believed in that province, and would not be accepted in the ROC.

IS THERE ANYTHING THE REST OF US CAN DO?

Some say that options for the structural reform of Canada should be held out to Quebecers before the referendum. Others say that it would only exacerbate the problem. Both are respectable arguments. The latter is well put by Stephane Dion of the University of Montreal.

In order to keep Quebecers from being seduced by secession, federalist forces will be tempted to promise them constitutional reform. In my opinion, it would be a mistake for them to yield to that temptation.... From a strategic standpoint, the promise of constitutional reform would be a mistake because many Quebecers would not believe it. Two failed rounds of negotiation have bred pessimism — moreover, well-founded pessimism.⁹¹

Dion goes on to elaborate the hurdles any constitutional change must surmount, and returns to the strategic argument.

Not only would the promise of constitutional reform not be credible, it would keep Francophones believing that the status quo is a threat to them and is “the worst possible solution.” What defenders of Confederation need to do is to induce Quebecers to look more equably on the status quo... The Canadian Constitution is flexible, and numerous reforms can be made without any constitutional amendment.

91 Updated version of a paper delivered at a McMaster University colloquium May 3, 1994.

But in October 1994, Jean Charest, leader of the Progressive Conservative Party and, in spite of the low estate of that group, the second most popular politician in Quebec (after Lucien Bouchard) stated:

Between separation and status quo, there is another way: Let us keep what works, change what does not work, eliminate what is no longer useful, and acquire the tools we need to succeed.⁹²

So there are two different points of view. One thing is sure: while the Dion injunction (to stay away from the constitutional issue) may apply to the federal government, I would argue that it has far less force for other provincial governments, and has no application whatsoever to the planning and communications of private citizens.

The essential Dion point, in so far as government is concerned, is *credibility* and he is quite right. On constitutional promises Ottawa has no credibility in Quebec. The promise of Trudeau in the 1980 referendum to change things turned out to be a change over and against the protests of the Quebec government. And the constitutional promises of Mulroney came to nothing, after he put the country through an exhausting emotional wringer, which will not soon be forgotten.

I would argue, however, that whatever the problems of Ottawa, the premiers and private citizens are quite free — and usefully so — to discuss how our country might be improved. Indeed, it is time for premiers to join talk with action, in beginning the process of restructuring. Few things could make as great a contribution to a favourable referendum result.

92 Laval Chamber of Commerce and Industry, Oct. 3, 1994.

BUT WHAT IF SOVEREIGNTY-ASSOCIATION WINS?

If we are indeed all calm and orderly after a “Yes” vote, as the sovereigntists insist will be the case, does sovereignty-association make sense? Let us imagine working our way through an attempted deal. Here are the problems.

1. It is most unlikely that a deal providing for any kind of ongoing common superstructure would be made in the first place. The matter could not even be broached until and unless Quebec had made a decision to separate. At that point, the pressures of finance, time, and emotion would be so strong that the goodwill and cooperation necessary to agree on a superstructure for common purposes would simply not be there. Indeed, as I have written elsewhere, it would be a major achievement to simply maintain rational relationships between neighbouring states, and the ROC's energy would be totally absorbed by the questions around its own future.
2. Even with time and rationality, the only way a sovereignty-association deal could be made would be on a basis of *asymmetry*, compared to the old rules. Quebec would be a state; the ROC would be a state, and the other nine provinces would just be provinces.

From the citizen's point of view, so what? In the ROC, with the combined access to the central and provincial governments, the citizen would have access to as much service, and as much sovereignty as a Quebec citizen working through a single government.

Alas, logic has always been an uneasy partner with politics, and the actual perception would be that of *another special deal for Quebec*, the ultimate special deal, in fact. “No way! We can't stop them going, but they sure aren't staying in a superior status.”

The idea of provincial equality (in a formal, legal sense, as the provinces obviously aren't equal in size and importance) is now firmly embedded in the minds of Canadians after the constitutional agonies of the past generation. Voluntarily entering into a new association where one former province would be better than equal is just

not going to happen. It would clearly take a constitutional change for the ROC to agree, which in this case would mean the unanimity of the other provinces, and that is not on.

It is no good to protest that rationality would require some association. So it may, but this association would be one of trade and neighbourliness only, not a structural association. The proposed structural addition of sovereignty-association might well be of some use to Quebec. It would be of little use to the much larger ROC (assuming even that the ROC stayed together) and would not be worth the emotional cost.

3. Even assuming that a sovereignty-association deal could be put together, it would be most unlikely to last. This would be a bipolar association, and such two-party arrangements are notoriously unstable. As footnoted earlier, Robert Young's study of peaceful national breakups shows that the examples have all been bipolar.⁹³

The arrangement will always be unstable. One party will come to dominate, which will anger the other. Concessions will be made to the weaker partner in the name of unity, which will anger partisans of the dominant side. These tensions are difficult to contain in a balanced, wealthy, and orderly federation like Canada. It is easy to imagine how they could spin out of control in a weak, asymmetrical association of the sort foreseen by sovereignty-associationists. It should be recalled that an absolute condition for equilibrium of an association of interests within an enduring arrangement is exactly that of symmetry.

Some political scientists will argue, correctly, that Canada itself has a number of minor asymmetries in its current makeup. That is quite true. And they mostly increase tensions. So far, these have been controllable. In a sovereignty-association structure, they

93 Austria-Hungary, Iceland-Denmark, Sweden-Norway, Czech Republic-Slovakia, and Singapore-Malaysia. The latter was nominally a multi-member federation, but ethnic considerations made it effectively bipolar. A similar description could be made of Quebec-ROC. Less peaceful splits such as Ireland-Great Britain have effectively been bipolar as well.

would not be so. The enormous difficulties of the bipolar Belgium even with symmetry should be all the proof needed.⁹⁴

In sum, sovereignty-association is a dangerous, impossible dream. It is worrisome that at the time of this writing, it is becoming the dream of choice for Quebec separatists, the polls not supporting plain-vanilla independence. A vote in favour of an unstable deal with a residual country that couldn't and wouldn't make the deal in the first place would be a sad irony indeed.

It cannot be said too strongly. Our premiers must shout it from the rooftops, for Quebec won't believe Ottawa on this: “*Sovereignty-association will not be accepted by the other provinces! Do not go down this road, for on that way lies disaster!*” To repeat, sovereignty-association would require a unanimous amendment to the existing constitution of Canada. Such unanimity absolutely would not be available.

Quebec may hold a vote on sovereignty with an offer of association, and the government of Quebec can ask that question if it wishes. The other provinces will never, ever agree. They want *association* — very much so — but on equal terms.

It would be a tragedy for the voters of Quebec to choose an impossible option. This message must get through.

A MANDATE FOR THE “NO”

If a “Yes” vote would be a disaster, a “No” vote that carried no mandate or consequence would also be extremely unfortunate. To go through all of this upheaval and uncertainty for no better result than to carry on with more of the same — a federal system that has carried us to the brink of financial ruin and continuing unity tensions — would be a bad thing.

We will certainly solve the financial problem one way or another (or others will do it for us), but we do not need these recurring bouts of national unity navel-gazing. We do not need a continuation of federal-provincial tensions and inefficiencies.

94 On the other hand, the experience of Belgium can give us hope, in the context of quiet but major devolution.

We need some such message to come out of the referendum, if it is held — a message that says, “No, but,” a message that says Canada is a valuable thing and it must be preserved, but it must be reformed as well.

At the moment it is not clear how that message is to be articulated. Recall the lack of a mandate for the “No” side in 1980. The decentralist proposals of the Beige Paper were effectively smothered. We began another 15 year cycle of unity tensions, as well as an explosion of debt as the old regional-bribery game played on.

A “No” vote this time around must be seen as an instruction to move ahead with governmental reform, and not as a licence to stand still with more of the same. We seem condemned to the pain and suffering of a unity referendum. May it at least bring something good in its wake.