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**THE MOTIVE IS THE MEANS:
THE ENHANCED ROLE OF THE PROVINCES IN
PRESERVING PRINCIPLES OF INTERREGIONAL EQUITY
IN THE CANADIAN FEDERATION**

by
Amanda C. Aizlewood, B.A. (Hon.)

A thesis submitted to
the Faculty of Graduate Studies
in partial fulfillment of
the requirements for the degree of

Master of Arts

Carleton University
Ottawa, Ontario
September 10, 1998
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**THE MOTIVE IS THE MEANS:
THE ENHANCED ROLE OF THE PROVINCES IN PRESERVING PRINCIPLES OF
INTERREGIONAL EQUITY IN THE CANADIAN FEDERATION**

submitted by

Amanda C. Aizlewood, B.A. Hons.

in partial fulfilment of the requirements
for the degree of Master of Arts

Chair, Department of Political Science

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ABSTRACT

This study examines the pursuit of interprovincial equity objectives in the Canadian federation as it relates to recent changes in fiscal arrangements and to re-balances of power in favour of provincial governments. It outlines the way in which interprovincial equity objectives have traditionally been pursued in the federation, with the assumption of a strong federal role and centralized fiscal authority, and explores why these traditional approaches are now threatened. In the absence of a dominant federal government, few observers have expressed faith in the viability of an enhanced role and responsibility for provinces in upholding these goals. Using three examples of recent provincial initiatives, this study suggests that provincial governments appear motivated to preserve the integrity of the Canadian 'sharing community'. The conclusion reached is that while federal participation and the development of effective intergovernmental mechanisms are necessary elements of a renewed national commitment to redistributive equity objectives, the ability of the provinces to act as proactive participants in this renewal has been underestimated.

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CHAPTER 1: INTRODUCTION AND STATEMENT OF RESEARCH OBJECTIVES

Canadians strongly value their commitment to a sharing and caring society. In 1995, a comprehensive study of Canadians' social and political values entitled *Exploring Canadian Values* found that substantial support exists to uphold and strengthen the nation's social fabric and maintain a cohesive and compassionate society.¹ Throughout the study's findings, the desire to define the nature of commitments among citizens and their governments formed a dominant theme, in which all would work together to "retain the social capital of this country, enhance social cohesion, and strengthen the social fabric" (Peters, 1995: 1). The redistribution of wealth among provinces and regions was a key element of this theme: in a 1995 poll, 60% agreed that Canadians have a right to expect minimum levels of social services wherever they live, while in 1994 nearly 7 in 10 believed in the broad goal that the federal government had a role to play to "redistribute wealth in order to maintain social equality" (Peters, 1995: 45). While these views indicated a motivation to share among provinces and regions, Canadians' preferences were not clear as to how to accomplish this task in the federal context. Nor were they clear in stating which government or governments were best suited to pursue these goals. When asked what kinds of relationships and responsibilities governments might assume in pursuing such objectives, Canadians seemed more concerned with outcome than process, "lacking a clear sense of jurisdictional issues...and knowing relatively little about the machinery of government" (Peters, 1995: 67).

This lack of understanding is hardly surprising given the level of complexity inherent to any discussion of federal-provincial relations in Canada. Jurisdictional issues, particularly in the realm of social policy, are capable of inciting heated debate among most political, sociological, and economic specialists. Central to this conflict is the fact that while provincial governments possess constitutional responsibility for matters of

¹ The study by Suzanne Peters of the Canadian Policy Research Network *Exploring Canadian Values: Foundations for Well-Being* (Ottawa: 1995), consisted of an examination of existing public opinion survey data sets from a variety of sources: 18 public opinion databases consisting of over 50 polls conducted between 1979 and 1995, as well as 25 focus/discussion groups. Data dealt with such issues as federal and provincial roles, as well as social, educational, economic and health issues.

health, education, and social assistance policy, they have not always played a central role in their design. Since the Second World War, the federal government has enjoyed a primary role in the creation and design of the Canadian welfare state. With a creative set of fiscal and political tools, Ottawa has exerted substantial power over key social policy areas outside its own jurisdiction. It has done so in the name of the ‘political project’ of Canada; to ensure national oversight in the preservation of the national interest (Banting, 1987; Simeon and Robinson, 1990). Figuring largely in this ‘project’ was the building of the ‘sharing community’: both the purposeful redistribution of wealth among Canada’s provinces and regions and a notion founded and strengthened by a sense of shared political, economic and social unity that both united diverse communities and symbolically transcended internal political boundaries (Usher, 1991; Leslie, 1993; Osberg, 1992; Courchene, 1994).

The rationale for the ‘sharing community’ is straightforward. While Canadians are residents of provinces, they are ultimately citizens of a nation, and the accident of birth should not alter the treatment or ‘equality of opportunity’ that individuals receive on behalf of the state. Citizens should be entitled to receive a minimum standard of social services regardless of province of residence. As such, provincial governments must possess the fiscal resources necessary to provide social programs to their constituencies at reasonably comparable levels. However, not all provincial governments possess an adequate fiscal base to fulfill their mandates. Thus, because important social policy powers are assigned to sub-national governments, focused attempts to smoothen jurisdictional fiscal imbalances form an essential element of the federation. The redistribution of resources between rich and poor provinces to uphold standards and equity goals forms the essence of the Canadian sharing community.

BACKGROUND TO THE STUDY

The federal government has long assumed a primary role in the management of the sharing community. Financial strains, however, have forced Ottawa’s leadership role in the social policy sphere to change substantially. Fiscal austerity stemming from a growing debt and deficit burden has prompted the federal government to take drastic

action, including a weakening of its commitments to preserving the national character of the sharing community (Leslie, 1993). In 1995, important changes to the structure of the federation's fiscal arrangements initiated a new era: one in which the provinces assume an enhanced role in the management of national social policy (Boadway, 1995). While the changes to the fiscal arrangements have served to address the fiscal problems of the federal government, they have also patterned a move toward decentralization of the federation and its social policy commitments. The federal government has lost much of its financial leverage over provincial participation in the sharing community, as well as legitimacy and authority with respect to the design of social policy outcomes and principles of national equity (Banting, 1995). Many fear that these changes and their symbolic impact will have serious repercussions for the preservation of the redistributive elements of the Canadian federation. Under the new regime, provincial governments will have increased responsibilities to uphold national standards and equity principles: a task few believe provincial governments are capable of performing well (Gibbins, 1997; Kent, 1997). Provinces are viewed as possessing only narrow parochial interests, largely since they are responsible only to their own electorate and not to the nation as a whole. There is also much concern that in the absence of an assertive federal presence, intergovernmental mechanisms cannot succeed in bringing about the degree of convergence necessary to uphold and preserve core principles. Little optimism is expressed in the capacity of provincial governments, through means or motive, to replace federal oversight in preserving the sharing community.

Recent research has questioned this conclusion on the basis that while federal oversight was necessary for the construction of the Canadian social network, exclusively federal participation in the design of national principles is "ill-suited in terms of forging the needed national or interprovincial integration of this 'second round' of social program design" (Courchene, 1996a: 6). The "unprecedented decentralization" of the social sphere commands that the provinces be brought more formally into the social policy fray. The top-down federal enforcement of the sharing community is no longer sufficient; the federation requires participation and cooperation among provincial governments themselves to bring about renewal. Recent provincial initiatives in the social policy

realm seem to support this emergence of the 'interdependent' federation. The formation of the *Ministerial Council on Social Policy Reform and Renewal* in 1996 marked the official entrance of the provinces into the federation's social policy arena. The release of the Council's *Report to Premiers* and other provincial 'vision' documents have revealed the character of the provincial stance on the renewal process. Provinces seek a central role in the design and implementation of principles and standards to oversee the pursuit of equity goals. They call for a reformed federation in which unifying goals of equity are pursued while provincial jurisdictions are respected.

STATEMENT OF THE PROBLEM

On this basis, provincial participation in the preservation and renewal of the sharing community forms the focus for this study. The role of the provinces has been elevated, but are provincial governments capable of acting as positive participants in the face of federal retreat? Most theoretical accounts in the area of equity goals in a federation are written with the assumption of a sizable amount of centralized federal dominance. Traditional arguments in favour of strong federal authority over interprovincial equity goals are based on two separate yet related assumptions. One, that as the national government and therefore the government representative of all Canadians, the federal government alone possesses the legitimate responsibility to seek equality of treatment for its citizenry. Second, that as natural competitors and with governments responsible only to their own provincial constituencies, provinces cannot be expected to prioritize broader national concerns. There is also a widely-accepted understanding that only a national-level government can act in the national interest, thereby placing the locus of moral authority in the federation solely in the hands of the federal government. When this centralized authority responsible for enforcing interprovincial equity goals is removed, it is believed that a commitment on the part of provinces will disappear. The national commitment to the sharing community, as this line of argumentation would suggest, is 'artificial' -- imposed on the provincial governments against their will. Decentralization of social policy authority to provincial governments would spell the demise of the pursuit of national goals of interprovincial equity. This would occur, presumably, with little

regard for the wishes of the Canadian population, for whom national goals of equity form a integral aspect of national identity. Framed in this context, the question becomes one of the fate of interprovincial equity objectives in a decentralized federation. If a strong ‘top-down’ federal authority with demonstrated leadership is presumed necessary for the effective pursuit of an equitable federal arrangement, can the federal system maintain the integrity of the sharing community in the face of decentralization and increased provincial autonomy in the social realm?

PURPOSE AND RESEARCH OBJECTIVES

The purpose of the study was to explore the implications of a decentralized federal structure for the pursuit of national goals of equity among regions and provinces. By examining the context and content of recent provincial initiatives in the social policy and redistributive realm, this study suggests that provincial governments recognize the importance of principles central to the pursuit of equity goals in the Canadian federal system. Provincial governments also appear motivated to preserve the integrity of the Canadian sharing community.

The following objectives were examined in the study:

1. To demonstrate that important interdependencies exist among the concepts of federalism, decentralization, fiscal arrangements and equity among provinces and regions, and that these interdependencies must be taken into account when assessing new provincial initiatives;
2. To demonstrate that, in general, analysts continue to champion a ‘top-down’ federal authority over provincial and/or intergovernmental means in pursuit of national goals of equity, and have expressed little confidence in the motivation and ability of provincial governments to act in the interest of the national community;
3. To demonstrate that provinces have acknowledged key principles underlying interregional equity, and on this basis to suggest that the ability of the provinces to act as proactive participants in the pursuit of equity objectives has been underestimated.

DELIMITATIONS

This scope of the study has been delimited in two ways. First, while the general topic area is that of ‘social policy’, this study has been restricted to an exploration of equity

objectives among provinces and regions, that is, redistribution between ‘have’ and ‘have-not’ provinces in the federation rather than among individual Canadians. While in the aggregate this may be an abstract delineation, this was done to focus the analysis on the *federal* implications of pursuing equity objectives. It is expected that a commitment to sharing among provincial governments is an important gauge to measure the impact of decentralized federal and fiscal arrangements.

Second, some elements of the study has been delimited to an examination of English-speaking Canada.² The current separatist government of Quebec did not officially participate in any of the recent province-led initiatives examined in this study. Despite this fact, it cannot with any confidence be concluded that the Quebec government did not participate because it did not support the basic equity principles espoused in these initiatives. Rather, participation in these forums would assign legitimacy to a federal role in areas of provincial jurisdiction - violating a basic tenet of the separatist platform. Therefore, conclusions cannot be drawn with respect to the motivations and behaviour of the province of Quebec on these specific proposals. Analysis concerning the province of Quebec is instead centred on its key role in the historical development of the decentralizing dynamic in the federation, influencing in particular the nature of recent federal actions and provincial proposals.

STUDY OVERVIEW

As has been previously stated, the purpose of this study was to examine the implications of decentralization in the Canadian federation as they relate to provincial support for principles of interregional equity and the sharing community. Chapter 2 presents the historical and theoretical context from which this discussion is drawn. The historical material explores the rise of national equity concerns in the Canadian federation, describing (1) the way in which equity goals have been pursued and (2) recent changes to these approaches. The theoretical material explores the linkages between the principles of federalism, the concept of common social and economic citizenship, and the pursuit of

² As such, references to ‘Canada’ and ‘Canadians’ refers only to English-speaking Canadians and (dominantly) English-speaking provincial governments.

equity objectives in a federal context. Chapter 3 provides a review of the supporting literature relevant to this topic, exploring the way in which the relationship between decentralization and interregional redistribution has been characterized in existing studies. This chapter includes a discussion of the structural obstacles inherent to intergovernmental agreements. Chapter 4 explores three case studies in support of the proactive stance of provincial governments in support of equity goals. The final chapter is concerned with a summary of the study's findings, their implications, and makes suggestions for further research.

DEFINITION OF PRINCIPLE TERMS

For clarification, the following terms are defined:

Interregional Equity (also, Interprovincial Equity) - In the Canadian context, this principle refers to the idea that members of a federation, both citizens and governments, are entitled to the same economic and social rights and should expect fair and equitable treatment relative to other members (Osberg, 1992: 18). At the individual level, this implies the existence of national social and economic rights for all Canadians (Leslie, 1993). At the federal level, this implies that provincial governments should expect comparable ability and fiscal capacities to provide for their citizens (Courchene, 1986). In this way, interregional and interprovincial equity are closely tied to issues of redistribution. Redistribution among provinces, either through the formal Equalization program or through equalizing elements of the C.H.S.T. is the principle means through which interregional equity goals are expressed and achieved.

Sharing Community - Term first used by Daniel Usher (1991) and popularized by Peter Leslie (1993) to describe the relationships among people and governments with respect to redistribution of wealth among the regions and provinces of Canada. Leslie (1993: 7) describes a sharing community as "a society encompassing several recognizable political entities whose members have agreed to construct a regionally balanced economy and to redistribute among themselves, in a more equitable manner than the market would automatically do, what that economy produces." A sharing community

also implies "a commitment that internal political boundaries do not impede or diminish the extent of redistribution" (Leslie, 1993: 8). Thus, the sharing community encompasses the concepts of the social and economic unions, and forms a framework for the principles of interregional and interprovincial equity.

Decentralization - Political decentralization refers to the formal capacity for independent decision-making in recognized jurisdictions (Rocher and Rouillard, 1996). Dion (1995) notes that on a basic level, if the formal, constitutional distribution of powers favours the provincial level of government through the assignment of important policy areas, the federation may be said to be formally decentralized. Watts (1996) defines the concept as one extending beyond *de jure* division of powers. He argues that decentralization refers more so to the combination of the scope and degree of autonomy actually enjoyed by provinces within their assigned jurisdictions. Courchene (1986) argues that the degree of decentralization may be measured as proportionate to the percentage of autonomous fiscal resources in provincial coffers. As the proportion of autonomous revenues increases, so too does the degree of decentralization.³ For the purposes of this study, decentralization will refer to the degree of autonomy actually enjoyed by the provinces in their spheres of jurisdiction. The dominant focus will be the role of fiscal transfers in influencing degree of provincial autonomy.

Social Union - This term is the most recent incarnation of what many have described as the 'postwar social contract', the 'social covenant' or, simply the 'welfare state' in Canada.⁴ Biggs (1996) defines the term as "the web of rights and obligations between Canadian citizens and governments that give effect and meaning to our shared social purpose...[and] embodies our sense of collective responsibility (among citizens), our federalism pact (between and across regions), and our governance contract (between citizens and governments)." The goal of Biggs' definition is to stress the importance of

³ Autonomous funds in this sense refer to those resulting from own-source revenues (i.e. through own-source taxation), and from unconditional federal transfers.

⁴ The Charlottetown Accord proposed a constitutional provision on the social union, thus bringing the term into common usage.

the underlying pact between citizens and governments and among governments themselves within the federal framework in support of the Canadian social union and its components (O'Hara, 1997).

Economic Union - An agreement among political units to establish an area of economic cooperation, featuring in particular the free movement of persons, goods, services and capital, access to sizable markets and economies of scale, protection of economic interests and insurance against economic instabilities (Schwanen, 1996). An important element of the economic union is the presence of common economic rights entitlements for citizens. For this reason, the concept of the economic union is closely tied with that of the social union.

Executive Federalism - A means of characterizing the nature of relationships, both cooperative and conflictual, between levels of government in Canada. Smiley (1976: 54) was the first to explore this concept, defining it as "the relations between elected and appointed officials of the two levels of government." In the context of the present study, the term is used to distinguish the period of intergovernmental relations of the 1960s and 1970s, when increasing interdependence between levels of government was accompanied by increasing provincial demands for autonomy and fiscal resources (Vipond, 1991: 73).

Federal Spending Power - "The power of Parliament to make payments to people or institutions or governments for purposes which it (Parliament) does not necessarily have the power to legislate" (Trudeau, 1969: 4). The ability of the federal government to spend in jurisdictions which are not its own, either directly or through shared-cost mechanisms in which federally-imposed conditions are attached to transferred funds.

E.P.F. - Established Programs Financing - Introduced in 1977 and lasting until the creation of the C.H.S.T. in 1995, E.P.F. was a federal block fund for Medicare, hospital insurance, and post-secondary education distributed on an equal per capita basis, and

consisting of a combination of cash and tax transfer points with associated equalization for poorer provinces.

C.A.P. - Canada Assistance Plan - The federal '50-50' cost-sharing program for financing social assistance benefits and social services from 1966 to 1995. 1990 saw the imposition of the 'cap on C.A.P.' in which the growth in transfers to the three wealthiest provinces were limited to 5% annually.

C.H.S.T. - The Canada Health and Social Transfer - The fiscal transfer created in by the federal government in 1995 which combined the former E.P.F. and C.A.P. transfer into one 'super' block transfer.

**CHAPTER 2: PURSUING INTERREGIONAL EQUITY IN THE CANADIAN
FEDERATION**

As described in Chapter 1, the purpose of this study was to examine the relationship between a decentralized federal structure and a commitment to interregional equity goals, with a view to evaluating recent provincial initiatives in the social policy sphere and their implications for the pursuit of these goals. The purpose of this chapter is to provide the relevant historical and theoretical background to this area, and is divided into three sections. The first section provides a historical overview of the way in which the Canadian federation has traditionally pursued interregional equity goals. As the primary tool employed by governments in pursuit of these goals, the exploration of the structure and evolution of the country's fiscal arrangements forms the focus of this section. The second section deals with the theoretical 'first principles' -- key concepts, issues and arguments -- of the topic area which are necessary to provide a view of the political and economic assumptions and influences antecedent to the relationship in question. A final section provides a review and summary of the chapter's key elements.

I. HISTORICAL OVERVIEW: THE PURSUIT OF INTERREGIONAL EQUITY GOALS

The history of the pursuit of interregional equity goals in the Canadian federation may be summarized as the search for an efficient and effective balance between federal and provincial roles and responsibilities in the social sphere. It is also one shaped by evolutionary forces, in which economic and social pressures have brought about important adaptations and innovations in the design and functioning of the sharing community. Among the key elements in the growth of the welfare state are the changing social attitudes and citizen expectations of the role of the state brought about by war and economic hardship. Also important have been changing conceptions of the proper roles of the federal and provincial governments in pursuing national goals, both in terms of the relationship between governments and citizens, and between governments themselves. These relationships have been both tempered and inflamed by political, fiscal and financial circumstances which have influenced the behaviour of governments in the social field. What follows is a brief survey of the historical evolution of the social sphere in

Canada, with particular emphasis on the pursuit of interregional/interprovincial equity and the influence of the fiscal arrangements in this endeavour.

CLASSICAL FEDERALISM: THE PRE-WELFARE ERA

In its original form, the British North America Act (1867) assigned little importance to the principles of national equity in a federal context. Reflecting nineteenth century assumptions and philosophies of the appropriate role of government in matters of 'private' concern, the key elements of the modern welfare state -- health care, education, and social assistance -- were assigned to the provincial level.¹ Prior to 1930, the economic and social roles of the state remained strongly demarcated, with little need nor consideration given to the importance of balancing national social concerns within the federal-provincial framework. The regional and ethnic tensions and the 'dualist' conception of Canada formed the dominant paradigm of 'national' discussions, assigning little direct concern to the nature of relationships between citizens and governments. There was also little attention assigned to government participation in areas of local and private concern. As a result, the social forces demanding an extended role for the state were weak, limiting the growth of intervention (Banting, 1987: 47). As a result, there was little jurisdictional overlap and policy interdependence between the federal and provincial governments. The "watertight" compartments between federal and provincial powers remained largely intact, and there was little need for the development of new intergovernmental mechanisms (Simeon and Robinson, 1990: 46). Rather, of primary importance to governments during these formative years was the stimulation of economic growth and expansion, pursued in large part by the development of economic infrastructure by both levels (Simeon and Robinson, 1990: 47). Conflict between governments, while common, was restricted mainly to matters of ethnic and class conflict under the guise of regionalization, rather than to concerns of a social nature.

¹ Sections 91 and 92 specify the division of powers between the federal and provincial governments. Sec. 92 of the *B.N.A. Act* states "hospitals, asylums, charities, and eleemosynary institutions", "municipal institutions", and "all matters of a merely local or private nature in the province" thereby assigning primary provincial jurisdiction in most areas of social policy.

The First World War had a significant impact on the role of the federal government in the economy and on its perceived role as a 'national' government. The War Measures Act of 1914 and the wide scope of powers granted to the federal government with its passage resulted in solidifying a superior status and authority for the federal government in the federation. The nationalizing forces of war played an important political role in this early centralization, while social forces were also emerging as influences on the power spectrum. Growing out the war experience were perceptions of a positive role for governments in what were traditionally private and community affairs:

people saw how government could mould their lives and civil servants learned how to do it. ...The belief grew that governments could and should use their powers to improve social conditions. The War-time experience with the regulation and direction of enterprise was an important factor in bringing on the wide extension of government control... (*Rowell-Sirois Report*, 1940, p.123).

Following the war, however, the federal government was slow to respond to these challenges. While Ottawa continued to enhance its ability to manage a national economy, projecting this power into the social sphere remained an obstacle it was not willing to tackle. One major exception to this stance was the Old Age Pension Act of 1927, representing the first attempt at a national system of redistribution. However, while national in scope, the Act did not possess a strong centralizing thrust (Simeon and Robinson, 1990). Using conditional grants largely due to pressure from the Quebec government, the Act deferred much control to the provinces, including the ability to opt out of participation in the program. Thus, while the near absence of the federal government in the social sphere remained in line with the constitutional division of powers, it conflicted with the government's expanded national economic presence. Simeon and Robinson have observed that this dichotomy of economic and social leadership proved to be an important instigating factor in the rise of early social demands in the federation. As they argue, "federal inaction or retreat" awakened provincial governments to "lead the response to demands for social justice", bringing provincial governments closer to their citizens and enhancing their social importance and political prestige (Simeon and Robinson, 1990: 48).

Particularly with respect to matters of social policy, this era of classical federalism was decentralized by today's standards. The absence of concerns aligning federal and provincial interest meant little policy interdependence. In the political realm, the growth and strength of provincial identities and communities yielded little progress in any federal nation-building attempts. The legal decisions of the Judicial Committee of the Privy Council reinforced this federal-provincial distance by playing a key role in determining the legal, constitutional status of the provinces in the federation. Decisions made in the first quarter-century reinforced the view that provincial governments enjoyed a co-ordinate status with the federal government in the federation, and possessed sovereignty in their areas of exclusive jurisdiction.² Federal attempts to invoke a spirit of national loyalty were largely unsuccessful, countered by the strength of provincial communities and the federal recognition of a "sphere of provincial autonomy, within which provincial governments would exercise considerable powers free from federal intervention" (Simeon and Robinson, 1990: 2). As the *Rowell-Sirois Commission* observed, in matters of national concern, "it was not clear whether room could be found for the free play of provincial aspirations without denying to the Dominion the confidence and loyalty it needed for the advancement of common national purposes" (Rowell-Sirois Report, 1940: 90).

DEPRESSION AND WAR: ASCENDANCY OF THE FEDERAL GOVERNMENT

The events of the 1930s forever changed this view of the federal-provincial relationship. The Great Depression produced an economic and social crisis that altered conceptions of the appropriate roles of government -- in particular that of the federal government -- in Canadian society. The extent of economic collapse and its societal consequences provoked a new understanding of the social responsibilities of government (Banting, 1987; Simeon and Robinson, 1990; Smiley, 1967). Unprecedented levels of unemployment coupled with the transition of Canada to a primarily urban and industrial society revealed the inability of provincial and municipal governments to meet the new

² *Hodge vs. the Queen* (1883) found that "the local legislature is supreme and has the same authority as the Imperial Parliament or the Parliament of the Dominion, would have under like circumstances" (cited in Simeon and Robinson, 1990., p. 52.)

demands of public welfare. A crisis of intergovernmental fiscal arrangements compounded this problem: by 1937, government relief expenditures had increased almost tenfold, rising from \$18.4 million in 1929 to over \$165 million less than a decade later (Simeon and Robinson, 1990: 76). The federal government assumed much of the cost for provincial relief and welfare services, providing approximately 46 percent of total expenditures between 1930 and 1937 (Simeon and Robinson, 1990: 76).

The Depression served to undermine the stature of the provinces vis-à-vis the federal government. In direct question were the financial capacities of the provinces in fulfilling their constitutionally-mandated social responsibilities. Smiley (1967: 38) observed that “the events of the Depression demonstrated that provincial autonomy had little substance unless the provinces had adequate financial resources at their disposal to discharge their responsibilities under the constitution.” As such, with social matters contained in distinctly provincial jurisdiction, confronting the social chaos of the 1930s posed a significant constitutional dilemma for Canada. As Banting (1987: 47) has observed, the new question became not one of federal-provincial competition over citizen loyalties, but one of “which level of government had the legislative authority, and hence the often unwanted political responsibility, of responding to the social problems of an industrial society.” Unlike in the pre-Depression era, conflict over national and provincial visions of the federation now centred on the economic and social roles of government in the society, demonstrating that “more than ever before, the legitimacy of federalism itself...turned on its perceived capacity to respond effectively to economic crisis in a fashion consistent with social justice” (Simeon and Robinson, 1990: 86).

World War Two and the second imposition of the War Measures Act served to more greatly tilt the federal balance of history in favour of the federal government. As with the first World War, the external threat of a common enemy once again served to increase Canadians’ identification with a national community as a whole. In addition to this re-balance of allegiances, wartime fiscal arrangements played an important role in achieving a new federal dominance. Constitutional amendment in 1940 allowed the federal government to assume jurisdiction over Unemployment Insurance, while 1941 saw the federal take-over and centralization of personal income and corporate taxes under

the new 'tax rental' system. The tabling of the *Report of the Rowell-Sirois Commission on Dominion-Provincial Relations* in May, 1940 marked the first official recognition of the new roles and responsibilities of governments in the social realm. It emphasized historical and theoretical connections between federal and provincial obligations, the interdependence of social and economic growth, and the pursuit of interregional equity goals. The Report suggested that in order to improve the equity and efficiency of federalism, the economic and social functions of government must be dispensed by the national government. Included in its recommendations was the formation of a system of National Adjustment Grants (the model, in principle, of today's Equalization program) as an equitable system of interregional redistribution based on the principle that all Canadian should have access to comparable standards of government services at comparable levels of taxation. This was a recommendation based on the promise of a 'national' approach to the Canadian federation, emphasizing the growing interdependence of the social and economic unions:

The quality of education and welfare services is no longer a matter of purely provincial and local concern. In Canada today, freedom of movement and equality of opportunity are more important than ever before... Not only national duty and decency, if Canada is to be a nation at all, but equity and national self-interest demand that residents...be given average services and equal opportunities. ...National self-interest demands it because the existence of areas of inferior educational and public health standards affects the whole population, and creates many grave and dangerous problems... (*Rowell-Sirois Commission*, 1940: (v.2) 128)

The notion of a "national self-interest" linked to the importance of interregional equity also marked the first official federal recognition of an issue that was to assume substantial prominence in the post war federal structure.

The remaining war years saw the federal government define a powerful role in economic policy and enhance its potential influence in designing post-war social Canada. The world-wide fascination with Keynesian economic policies ensured this new and powerful influence, attracting Canadian policy-makers in its purport to show how governments could take an effective role in sustaining economic stability without abandoning basic capitalist principles. Keynesianism however, was authoritarian and

unitary by design, with little or no provision for its application in a federal structure in which power is shared among governments. Smiley (1967: 36) observed that because “the implications of the Keynesian analysis were centralist” there were significant “difficulties of devising and implementing public policies in a political system where the authority to make decisions about economic matters was divided between two levels of government.” To the federal government, Keynesian theories appeared to present a means to satisfy growing social demands for an extended state regardless of its centralizing implications for the federation. By the end of the war, based in large part on the experiences of the Depression and the promise of Keynesian economic policies, the federal government had articulated its aims for the post-war era:

...a high and stable level of employment and income, and thereby higher standards of living [must be]...a major aim of government policy. The endeavour to achieve [that aim] must pervade all government policy. It must be wholeheartedly accepted by all economic groups...as a great national objective, transcending in importance all sectional and group interests” (Federal *White Paper*, 1945).

By the end of the war, the provincial governments remained weakened by their Depression experiences and offered little resistance to the centralizing forces articulated by the federal government (Smiley, 1967: 51). Wartime priorities and preoccupations also ensured an absence of debate over the legitimate role of the federal government in a broad range of political, economic and social functions. The path was seemingly cleared for the post-war achievement of national equity goals.

PURSuing NATIONAL GOALS: QUEBEC, EXECUTIVE FEDERALISM AND THE CONSTRUCTION OF THE WELFARE STATE

From Confederation to the Second World War, federalism evolved to adapt to the new demands placed upon it by economic and political events. The strength of provincial communities prior to the Depression and the near-absence of political or social demands for a national role in social matters meant that respective jurisdictions remained highly circumscribed. The economic and societal crisis of the Depression, however, forced governments at both levels into new, interdependent roles. This era saw the birth of new conceptions of the role of government in society, in particular the view that governments

possessed an important responsibility to pursue equitable living standards across the country (Banting, 1987: 59). Wartime 'nationalizing' sentiment coupled with the centralization of fiscal and economic control determined that the federal government formed a likely choice to pursue these goals. Smiley (1967: 40) observed that:

nationalist and egalitarian sentiments growing out of the Depression and war were a fertile ground for the development of the notion that Canadians as such had the right to minimum standards of material well-being, and that the federal government had the moral responsibility to ensure that these standards were established and maintained.

Simeon and Robinson's historical analysis concurs with the sentiment that the federal government possessed an essential role in the equity realm:

...only the federal government possessed the fiscal resources and technical expertise to implement progressive social and economic policies. These policies involved redistribution between individuals and regions which could only be achieved in accordance with national conceptions of collective welfare and fairness. Provincial governments, given their accountability to sub-national political communities, could not be expected to take a national perspective on such issues. Poorer provinces were hampered by inadequate resources and limited ability to assert claims on the rich... Accordingly, it was deemed essential that the federal government expand its jurisdiction (1990: 83).

The 1943 *Marsh Report* and the 1944 Speech from the Throne confirmed the federal government's intention to build a "cradle to grave" welfare state, regardless of constitutional division of powers. However, while key areas of responsibility for the social growth of the federation lay exclusively in provincial jurisdiction, no attempt was made by the federal government to claim these powers by formal constitutional amendment. Rather, the federal government chose to believe in the possibilities of federal-provincial cooperation, or 'executive federalism'³ to achieve their ends. They also trusted that following the war, the balance of public opinion favoured the national level of government. Aiding in this general post-war sentiment, the initial provincial

³ Executive federalism is defined as "the relations between elected and appointed officials of the two orders of government in federal-provincial interactions and among the executives of the provinces in interprovincial interactions" (Smiley, (1980): 91). In this context, it refers to the necessity in the Canadian federal system to coordinate and develop intergovernmental mechanisms to aid in the pursuit of the common goal of the construction of the welfare state.

response was generally favourable, with the exception of Quebec, to the fiscal centralization of the federation. Smiley observed that the English Canadian provinces “were for the most part disposed to acquiesce in federal dominance. Many of their elected and appointed officials had the same economic and social frame of reference as that of the federal leadership” (Smiley, 1967: 51). Federal financial assistance, particularly for expensive provincial functions, was welcomed and attached conditions were not seen to be burdensome “particularly when in respect to many joint programmes the provinces themselves had no clearly formulated priorities or directions” (Smiley, 1967: 52).

In order to properly exert the power required by Keynesian approaches, the federal government would need to extend its exercise of war-time emergency powers into the post-war era. The means lay in the ‘federal spending power’ and ‘cost-sharing’ agreements: the mechanisms through which the federal government was able to influence the character of social spending in areas of provincial jurisdiction and thus bring about a national social system across provincial jurisdictions. While not explicitly defined in the Constitution, the federal spending power was based on the assumed power of the federal Parliament to make payments to individuals or governments for purposes outside its own formal jurisdiction (Trudeau, 1969: 4).⁴ Practically speaking, this meant that the federal government could allocate funds to provincial governments for specific purposes by attaching conditions to the transfers. Since significant taxation and thus expenditure powers had been transferred to the federal government during the war, these ‘shared cost’ agreements based on the spending power were powerful tools in influencing provincial governments to follow national policy. On the whole, with the exception of Quebec, provincial outcry over this apparent intrusion into provincial jurisdiction was minimal. Simeon and Robinson (1990) offer several reasons for this amicable response: first, “power was not taken away from the provinces: they were free not to participate and still retain formal jurisdiction”; second “the federal conditions tended to be loose” and “were often developed in cooperation with provincial officials sharing common goals”; third,

⁴ The federal spending power is generally thought to be derived from the “Crown prerogative”, finding legal authority in the *Constitution Act, 1867* Sec. 91(a) (Public Debt and Property), and Sec. 102 (Consolidated Revenue Fund).

“far from weakening the provincial governments, shared cost programs strengthened them, allowing them to increase their revenues, expand their bureaucracies and deliver programs that their citizens wanted.” Finally, and most importantly, “even if there were disagreement on detail, there was fundamental agreement on the goals underlying these programs and in the legitimacy of federal leadership in promoting them” (Simeon and Robinson, 1990: 150).

From a federal perspective, cost-sharing agreements and the spending power allowed for the possibility of nation-wide policy in an area that was not constitutionally national. Sharing costs provided a powerful incentive to provincial governments to adopt programs that served both the provincial and the national interest. The purpose was to achieve a nation-wide policy for social programs, based on the assumption that “in the absence of some such vehicle, common priorities across Canada would be highly unlikely. ...[since] there is a real problem due to the differences between the interests of the provincial constituencies and those of the national constituency” (Trudeau, 1969: 16, 22). Benefits of national equity would be achieved when social services provided by provincial governments took into account both national and provincial interests. Conversely, costs would accrue to the national community when provinces failed to take into account ‘extra-provincial’ effects.⁵ Cost sharing began following the war, and by 1960, these agreements were providing more than a quarter of provincial revenues (Simeon and Robinson, 1990: 198). By 1965, provinces had convinced the federal government that the programs created under the auspices of cost-sharing had become sufficiently well established to warrant the federal government to change the fiscal arrangements. The *Established Programs (Interim Arrangements) Financing Act* was reached in 1965. The *Canada Assistance Plan* followed in 1966 as a ‘50-50’ shared-cost program for financing social assistance benefits and social services for Canadians.

While fiscal centralization and cost-sharing measures allowed the federal government to take on a leadership role in the post-war era, the primacy of this role

⁵ Refers to the economic concept of ‘spill-overs’, or externalities, in which the actions and policies of one jurisdiction will have an impact beyond that jurisdiction. These impacts are usually construed as negative, in which jurisdictions take actions which run counter to the interests of the larger union. These issues will be explored in greater detail later in this chapter.

should not be overstated. Following the initial post-war period, the move toward of 'cooperative' or 'executive' federalism, involving both conflictive and collaborative relationships between levels of government, played an important part in the construction of the welfare state. Despite fiscal centralization, provinces were active participants in the pursuit of social policy goals. The important innovative role of the provinces in the construction of the welfare state was particularly evident in the area of health care. The province of Saskatchewan is well-recognized for its position as the first to introduce legislation creating a universal, compulsory hospital care insurance in 1946. This legislation soon formed the model for other governments, with British Columbia, Alberta and Ontario adopting similar programs within a decade (Simeon and Robinson, 1990: 149). The spread of these innovations was greatly facilitated by shared cost agreements, culminating in the eventual 1957 passing of the *Hospital Insurance and Diagnostic Services Act* by the federal government. The Act, a conditional cost-sharing agreement, was designed to encourage provinces to provide benefits to citizens on a universal basis and regardless of age, sex, or physical condition (Simeon and Robinson, 1990: 149). By the early 1960s, the provinces had begun to regain their strength and to demand more control while the state as a whole grew rapidly (Brock, 1995: 97). To some extent, economic success facilitated cooperation between both orders of governments in the social sphere. Federal and provincial governments were able to expand during the post-war period of solid growth, and the use of cost-sharing aided the massive expansion of the welfare state. Similar social objectives also brought about greater interdependence between federal and provincial actions. However, unlike in the more 'top-down' period of federalism which had immediately followed the war, this time of interdependence also featured less cooperation and more confrontation (Brock, 1995: 92). The increasing reliance on executive federalism had been necessitated by the combined force of provincial expansion and the importance of the social policy powers that lay within provincial jurisdiction (Vipond, 1991). As Simeon and Robinson observed:

...the proliferation of new policies dramatically increased the level of policy interdependence which characterizes Canadian federalism. The interweaving of a growing number of policy areas meant that there was an increasing tendency for policies developed by one order of government to spill over into other

jurisdictions. This reduced Ottawa's ability to act unilaterally without impinging on the plans and policies of provincial governments. Similarly, provincial actions often had national ramifications. Increasingly, the federal government found itself in the position of having to consult, coordinate and, inevitably, compromise or face mounting federal-provincial conflict... (Simeon and Robinson, 1990: 126)

As such, the 1960s featured a rise in tensions between the federal and provincial governments offset only by the proliferation of mechanisms designed for negotiation and conflict resolution (Simeon, 1972). In advancing the construction of the welfare state, the federal government recognized the importance of cooperation among federal and provincial levels of government. It also recognized, however, that decentralizing forces were an aspect of the federal system that could not be ignored. Much of this push to decentralization occurred as a result of the changing demands of the province of Quebec, constraining the use of constitutional means for unilateral federal social and economic policy expansion, and necessitating improved *ad hoc* relationships among governments to achieve these ends. The result was a federal system in which both federal ambitions and powerful provincial governments influenced social policy formation through a network of cooperative and conflictive intergovernmental arrangements. Centralizing inertia conflicted with growing decentralization, such that "federal-provincial relations became an intensely political, as opposed to a largely technical and bureaucratic, process... Federalism had to adapt to these new demands and, in so doing, the era of 'executive federalism' was born" (Simeon and Robinson, 1990: 209).

The influence of Quebec in combating the centralizing dynamic during the period of welfare state construction was significant. While the motivations were unique, the implications for the evolution of the Canadian federation have been far-reaching. Since the 1960s, Quebec governments have been at the forefront of the provincial rights movement, "instrumental not only in expanding both the scope of provincial responsibility in most policy sectors and the provincial share of fiscal resources, but also in blocking or precluding federal intrusions into areas of provincial jurisdiction" (Gagnon and Montcalm, 1990: 169). Quebec governments have consistently attempted to achieve special arrangements in the fiscal and constitutional arena so as to safeguard the province's unique cultural and linguistic needs (Gagnon and Montcalm, 1990: 150). The

Lesage administration, which governed between 1960 and 1966, oversaw the first shift in Quebec's orientation toward the federation. Instead of continuing the more defensive stance of the former Duplessis era, Lesage became actively involved in the federation, seeking intergovernmental forums in which to negotiate the special powers, resources and roles necessary for the political, economic, cultural, and social development of the Quebec nation (Rocher, 1992: 25; Gagnon and Montcalm, 1990: 150). In the social sphere, the right to "opt out" of federal-provincial shared cost programs, the right to establish provincial welfare and development programs independently from the federal government, and the demand for increased fiscal autonomy formed the basis of Lesage's mission to maximize his province's autonomy relative to the federation. The establishment of the Quebec Pension Plan and the creation of legislation allowing all provinces the right to opt out of federally-designed social programs stand as testaments to these efforts.

Between 1966 and 1976, successive Quebec governments sought further changes to federal fiscal and social program arrangements so as to maximize the autonomy of the province.⁶ Also included in this era was the desire to establish for Quebec a 'special status' in the federation – a motive strongly opposed by the Trudeau government in Ottawa. In an effort to avoid granting such status, the federal government felt compelled to extend the same concessions to all other provinces, thus advancing the decentralist agenda. The arrival of the *Parti Québécois* in 1976 pushed the issue beyond the renewal of the federation to one of Quebec's right to self-determination. Demands for a decentralized federation and a maximized and distinct position for Quebec included a call for the provincial government as "the principle authority in social, linguistic, educational and health matters" and the "abolition of the federal government's powers of reservation and disallowance and placing severe limits on the scope of its spending power by making

⁶ While efforts were consistent, their results were not. The Bourassa government, comparatively federalist in nature, was not able to secure any major transfer of powers and resources from Ottawa to Quebec in the areas of the Constitution or social security (See McRoberts, 1988: 223-31). Attempts to forge a united provincial front against the federal government also failed. As McRoberts notes, "if at times other provinces embraced some of Quebec's demands they did so without the preoccupations with cultural survival and development that animated Quebec's demands; their commitment to the demands was not sufficient to withstand the strategies of an aggressive federal government" (1988: 227)

conditional grants subject to the will of the majority of provinces” (Gagnon and Montcalm: 1990: 162-3). Quebec’s 1985 *Draft Agreement on the Constitution* called for the recognition of Quebec as a distinct entity in the federation, with a provincial government enjoying principal authority in matters of culture, language, education, and health. Further, the *Draft Agreement* called for an end to federal unilateralism and the severe restriction on the scope and use of the federal spending power (Gagnon and Montcalm, 1990: 162-3). The five demands which underlay both the 1981 constitutional negotiations and Quebec’s later approach to the Meech Lake Accord reinforced and upheld traditional conditions for the province’s vision of the federal state, including a specific increase in provincial powers and the right of veto (Rocher, 1992: 34).

On the basis of this concise overview, Quebec’s *demandes traditionnelles* may be summarized as follows: first, Quebec governments have pushed for constitutional reform that would maximize the scope of jurisdiction of the Quebec state; second, Quebec has called for a division of federal-provincial revenues that better allow that province to deliver provincial programs while reducing the federal role, as well as an enhanced role overall for the development, delivery and financing of federal programs. Finally, Quebec has pushed for an enhanced role in the operation, design and composition of federal institutions and an increased presence for Quebec on the international stage (Gagnon and Montcalm, 1990: 150). The overarching objective of these demands has been the maximization of Quebec’s cultural, fiscal and political autonomy. Quebec’s historical agenda has also allowed for the unique demands of the province to become popular criticisms of the centralizing tendencies of the federal government. The call for a reduction in the use of the federal spending power in particular has become a familiar rallying cry for other provincial governments who seek to increase their relative autonomy in the social sphere.

The design of fiscal instruments was also central to the era of executive federalism. If provincial governments were to play a central role in the construction of the welfare state, they would also require sufficient fiscal resources to fulfill their constitutional responsibilities and help to bring about national goals. Tax sharing agreements in 1956 made necessary the introduction of the formal Equalization program in 1957. Under the

program, the federal government transferred unconditional funds to poor provinces in order to bring them up to the average of the two wealthiest provinces. The reasoning was simple: to ensure that each province was able to provide an “adequate level of public services without having to resort to rates of taxation substantially higher than those of the other provinces” (Courchene, 1984: 47). Equalization formed an essential tool in the achievement of at least nominal interprovincial equity, premised in economic theory on the grounds that national economic efficiency in a federal system is achieved through the pursuit of equity among provinces. In the context of executive federalism, the program was also politically attractive, possessing a unique ability to appease both nationalist and provincialist supporters. As Simeon and Robinson observed, the program “represented a striking blend of what seemed like opposites: on the one hand, the commitment to national equity..., on the other hand, an acceptance of a relatively high degree of decentralization. The Equalization program said, in effect, that lack of fiscal capacity should not prevent the provinces from pursuing the priorities which the federal constitution otherwise granted their citizens the right to determine” (Simeon and Robinson, 1990: 198). In addition to these economic and political benefits for governments, the program has also grown to become an important symbol for citizens in the achievement of interregional/interprovincial equity goals. As such, also underlying the political will of governments in supporting the Equalization program has been the assumption that citizens are willing to pay taxes to ensure equity in the provision of social services on the basis that interprovincial equity forms an essential element of ‘what it means to be a Canadian’ (Courchene, 1984). This political will is especially strong at the federal level. In 1982, the principles of equalization were formally entrenched in the Constitution, committing the federal government to make equalization payments to poor provinces in order to uphold principles of national equity. A commitment to equity principles and economic rights is found in Section 36. Section 36.1 sets out the goals of individual economic equity:

Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any one of them with respect to the exercise of their legislative authority, Parliament and the legislatures together with the Government of Canada and the provincial governments, are committed to:

- a) promoting equal opportunities for the well being of Canadians;
- b) furthering economic development to reduce disparity in opportunities; and
- c) providing essential public services of reasonable quality to all Canadians

Section 36.2 contains a formalized commitment on the part of the federal government to the principles of equalization:

Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

With this section, the Equalization program enjoys formal constitutional obligation on the part of the federal government.

Other fiscal arrangements continued to pursue the collaborative goal of a national sharing community in an increasingly conflictive federal-provincial context. Arrangements for the 1962-67 period took into account provincial calls for increased revenues commensurate with increased social demands and responsibilities. As part of the *Established Programs (Interim Arrangements) Financing Act* (E.P.F.), new social programs would also feature a new “opting out” mechanism, in which provinces could choose non-participation in shared-cost arrangements in return for compensation. This arrangement grew out of a larger agreement between the federal government and Quebec, and included hospital insurance, old age assistance, welfare programs, and training (Simeon and Robinson, 1990: 199). Only Quebec chose to exercise this option. In 1977, changes to the existing E.P.F. produced the *Established Programs Financing Act* (E.P.F.). E.P.F. was an equal per capita cash transfer coupled with 13.5% personal income tax points. In 1982, these arrangements were changed from the previously separate tax and cash component to a combined per capita transfer in which the cash portion was calculated as a residual. The result was less than favourable for the larger, wealthier provinces; provinces with richer tax bases received a transfer that was less than equal per capita (Courchene, 1994: 112; Boessenkool, 1996: 7). These inequities were worsened with subsequent changes to the transfer. Over the rest of the decade, Ottawa slowed the growth of entitlements by increasing them at less than GDP growth

(Boessenkool, 1996: 7). The most significant change came in 1990, when a ceiling was placed on per capita entitlements. Changes to the *Canada Assistance Plan* were also made in that year. Since C.A.P. was a 50-50 cost sharing program, it tended to reward provinces with generous welfare spending and high caseloads. In order to cut rising costs, Ottawa 'capped' the C.A.P. - placing a limit of 5% on the growth of the transfer to the three 'have' provinces of Alberta, Ontario, and British Columbia. The result was anger from the provinces, in particular Ontario, for whom most believe the cap was specifically intended (Courchene, 1994: 118). As Courchene has noted, "the cap on C.A.P. called into question the integrity of the entire transfer system" (1994: 121). These effects, coupled with the discriminatory E.P.F. entitlement system, continued until 1995.

Executive federalism was also a necessary means to handle the problems and conflict that fiscal arrangements tended to exacerbate in the federal-provincial arena. Since the development of the welfare state had been accomplished largely through the complex definition and redefinition of federal and provincial roles and the creative use of fiscal tools to overcome constitutional obstacles, changes to the fiscal arrangements highlighted the interdependence of governments in the social and economic spheres. Attention began to be paid to the importance of collaboration and cooperation in areas of national importance. The 1979 *Pépin-Robarts Commission* and the 1985 *Macdonald Commission* both called for the establishment of mechanisms to bring about increased cooperation and collaboration within the social spheres. The goal was to reduce dependence on federal unilateralism while simultaneously diminishing the degree of mistrust that was growing between the two levels of government (O'Hara, 1998: 6). The *Macdonald Commission* in particular recognized the need for collaboration in the social policy sphere, calling for the creation of "Councils" of Ministers to facilitate coordination in key areas (O'Hara: 1998: 6). In the context of the 'cap on CAP' and the gradual decrease in fiscal transfers, collaborative mechanisms were recognized as a necessary shield to avoid growing conflict between federal and provincial governments. Despite these recommendations, however, the creation of such mechanisms remained in the theoretical realm.

1995: FISCAL AND POLITICAL MOTIVES FOR AN ENHANCED PROVINCIAL ROLE

While the provinces lamented their fiscal entitlements, the mounting fiscal crisis of the early 1990s in Ottawa forced more changes to the federal-provincial fiscal arrangements. At the root of this crisis was the increasingly questionable financial position of the federal government, which, since the mid-1970s had been unable to run a surplus. The effects were enormous: in 1993, more than 35 cents of every federal dollar was used to pay interest on the national debt (Courchene, 1994: 42). Rising costs of services coupled with the need to attend debt-servicing requirements meant a paring down of federal expenditures. The federal government's answer came with the 1995 federal budget and the creation of the *Canada Health and Social Transfer* (C.H.S.T.). While the budget left the Equalization program intact and renewed a five year commitment to the program, the creation of the C.H.S.T. entailed the conversion of the C.A.P. from a matching conditional grant to a 'block' grant, and the rolling together of C.A.P. and the E.P.F. program. This creation of the block transfers for health, post-secondary education and social assistance marked a sea-change in fiscal arrangements. While national standards continued to apply in some areas, the transfer discarded the specialized conditions formerly attached to the E.P.F. and C.A.P. programs. The resulting grant was considered 'unconditional' in the sense that provinces were given full freedom to allocate funds among health care, post-secondary education and social assistance as they saw fit. Despite this label, however, the C.H.S.T. remained subject to the general conditions attached to the *Canada Health Act* and the required absence of residency requirements for social assistance. Therefore, while provinces were free to determine where funds were spent, they continued to be constrained by how it is spent within the sectors of health care and social assistance.⁷

In addition to the creation of an 'unconditional' block grant, the original C.H.S.T structure featured staggered cutbacks in the base cash allocations to the provinces, with an estimated \$2.5 billion to be cut in the 1996-97 fiscal and a further \$4.5 billion in 1997-

⁷ At present, Canada has six standards under the *Canada Health Act*: universality, accessibility, portability, comprehensiveness, and public administration of the health care system. Only one standard remains for social assistance, stating that provinces may not impose residency requirements on receipt of social assistance benefits.

98 (Courchene, 1995a: 10-14). The C.H.S.T. continued to use tax points in its formula, as transferred in the E.P.F. arrangements, with the cash portion of the transfer calculated as a residual. These cutbacks to transfers were a major weapon in the federal government's fight against the debt. The changes shocked the provinces. The federal government was unclear as to how the mechanics of the transfer would operate, leaving provincial governments uncertain as to how to structure their own budgets. Further, the C.H.S.T. had failed to address the discriminatory elements of the former C.A.P. and E.P.F. programs; in fact, the C.H.S.T. made no changes to these programs, choosing to leave the arrangements intact when the two programs were joined (Courchene, 1995a: 2; Boessenkool, 1996: 1).

The approach of the federal government to announce the C.H.S.T. appeared to mark a new era in fiscal relations, and in social policy relations in general. The 1995 Budget Speech stated that the new transfer would mean provinces would "now be able to design more innovative social programs - programs that respond to the needs of today rather than to inflexible rules." However, the invitation to innovation did not mean an abandonment of national goals, noting that "there are national goals and principles we believe must still apply, and which the vast majority of Canadians support. Our goal must be to combine greater flexibility with continued fidelity to those principles" (*Budget Speech*, 1995: Sec. 6: 1). One major change was made to the field of national standards; because the C.H.S.T. was deemed 'unconditional', with only the *Canada Health Act* and residency requirement applying to the cash component of the transfer, the federal government called upon the provinces to develop "through mutual consent, a set of shared principles and objectives" that could underlie the C.H.S.T. (*Budget Speech*, 1995. Sec 6: 2). They also stated a desire to review the system of fiscal arrangements: "With this budget, we are saying yes to the provinces' desire to sit down for a bottom-up review of the financing of both levels of government." (Sec. 6: 2). A new era had dawned on the social and fiscal policy sphere.

Following the shock of fiscal constraints, cutbacks, and eventual changes made in the 1995 budget, the federation entered a new phase in the pursuit of social equity goals. The response of the provinces to these changes initiated significant advancements in the

character of provincial participation in the reform and renewal process. Already by 1994, provincial governments had recognized the necessity of cooperation and coordination in areas of national importance. The 1994 Annual Premiers' Conference *Communiqué* stated that "it is time for the Provinces and Territories to collectively assume a more cooperative leadership and coordination role with respect to their common national agenda in their areas of responsibility (*Communiqué*, 1994: 1). On this basis, the new open and concessionary stance of the federal government on social policy issues was well received by the provinces. Provincial governments, with the exception of Quebec, appeared to seize this opportunity to participate in the pan-Canadian aspects of social policy. The 1995 Annual Premiers' Conference called on provinces and territories to "take on a leadership role" and to "speak with a common voice" with respect to national matters that affect areas of provincial and territorial jurisdiction (*Communiqué*, 1995). By the end of 1995, they had responded to the federal government's invitation to develop 'mutual consent principles' for the C.H.S.T., forming the interprovincial *Ministerial Council on Social Policy Reform and Renewal* and preparing a report for federal observation. Among several key recommendations, the report, entitled simply a '*Report to Premiers*' (1996), called for an increased provincial role in setting pan-Canadian standards and principles, a reduced use of the federal spending power and federal unilateralism in areas of provincial jurisdiction, and a move toward cooperative and collaborative relationships between the two levels of government in social policy. The report offered fifteen equity-oriented social policy principles for consideration, including a recognition of the need for comparable services across provinces and the importance of federal-provincial partnerships in achieving national social goals. It also outlined potential federal initiatives in the areas of children's policy and policy for persons with disabilities.

While ostensibly a response to the C.H.S.T., fiscal constraints were not the sole impetus for the new decentralist federal stance. Nor was acceptance of cooperative arrangements and fiscal limitations the sole basis for the preparation of provincial proposals or the reason for the resultant vigour with which the provinces pursued these ends. A culmination of threats to national unity surrounding the 1995 Quebec sovereignty referendum also formed an important motivation to both federal and provincial

governments to demonstrate the inherent flexibility of the Canadian federal system. Both federal and provincial governments sensed a urgent need to respond to *les demandes traditionnelles* as described earlier, and provide a basis for a new stance vis-à-vis the Quebec issue. The 1996 federal Speech from the Throne fueled momentum in the renewal process by indicating the intention of the federal government to “not use its spending power to create new shared-cost programs in area of exclusive provincial jurisdiction without the consent of the majority of the provinces” (*Speech from the Throne*, 1996: 9). The united (English) provincial response was contained mainly in the *Report to Premiers*, including as it did several of the key demands made by Quebec over the last decade. The federal government also did little to discourage this rise of provincial leadership in the social policy arena on the basis of these demands, demonstrating a desire to display both a conciliatory and cooperative stance with respect to these traditional demands. The Provincial-Territorial Council and its report also set into motion a series of federal-provincial achievements, most notably the formation of the *Federal-Provincial-Territorial Council on Social Policy Renewal* designed to oversee the implementation of some key recommendations of the *Report to Premiers*. The success of the Report encouraged provinces to continue their ‘interprovincial’ and approach. Provinces produced, among others, similar reports and recommendations from of the Ministers of Health and the Ministers of Finance. These reports, the fiscal and political context in which they emerged, and the issues surrounding their contents, form the focus of Chapter 4.

II. THE CANADIAN SHARING COMMUNITY: KEY CONCEPTS

The purpose of this section is to review some of the key issues and concepts that provide a necessary theoretical background to the current study. Topics examined are: principles and conceptions of federalism, the nature and influence of shared values, social and economic citizenship and social and economic union, political and economic conceptions of national equity, redistribution, and issues relating to the achievement of interprovincial equity in a federal system (national standards and fiscal equalization).

PRINCIPLES AND CONCEPTIONS OF FEDERALISM

PRINCIPLES OF FEDERALISM

Canada has federal system of government. Federalism as an organizing principle for governments seeks to combine and maintain elements of unity and diversity in its polities and institutions of governance. Broadly defined, the federal principle refers to the existence of multi-tiered government which combines elements of shared rule and regional self-rule (Watts, 1996: 1). It relates to a distribution of legislative powers between a central, federal government and regional, provincial governments in which each level assumes responsibility for its own electorate within its own jurisdiction (Herperger, 1991: 1). In this way, a system of shared sovereignty is produced whereby each level of government possesses its own constitutionally-assigned powers. Federalism is thus a framework for uniting diverse parts to form a common whole. In Canada, this principle is characterized by its ability to balance competing and complementary forces within a single state, as well as to provide a substantial degree of political and institutional flexibility for its members in a spirit of cooperation and partnership.

The defining characteristic of a federation is its role in maintaining a balance of unity and diversity: to effectively balance the outward forces of sub-national diversities with the inward pressure of a workable and viable national community. Canadian federalism is thus a work in equilibrium. As Watts observes, the accommodating nature of the federal principle makes it not simply a positivist descriptive term of political and institutional organization, but a normative one, “based on the presumed value and validity of combining unity and diversity and of accommodating, preserving, and promoting

distinct identities within a larger political union” (Watts, 1996: 6). While part of a larger political and geographical entity, provinces in Canada differ in many important ways, specifically in geographic, demographic, ideological and economic respects. This fact has important implications for the unifying forces of the federal system. Gagnon (1995: 31) notes that “a central feature of federalism has been its ability to establish varying balances between centripetal and centrifugal forces.” Provinces possess different interests and are subject to differing needs. The diversity of these provincial needs and interests coupled with the capacity for autonomous action can produce potentially disintegrative forces which threaten the integrity of the ‘unity’ principle. Thus, in a normative sense, federalism as an organizing principle is designed to accommodate these diversities while maintaining a central government with sufficient strength to resist forces toward disintegration.

However positive this description of the federal principle, the competing strengths of both provincial and federal levels of governments, and therefore the existence of multiple communities of interest complicate this delicate balance. In this way, the federal structure must also act as a mechanism for bridging these communities, embodying a commitment to partnership, cooperation, and collaboration. Functioning mechanisms for cooperation are inherent to the federalist organizational structure, such that “Federalism may be conceived as a political device for establishing viable institutions and flexible relationships capable of facilitating interstate relations, intrastate linkages and inter-community cooperation” (Gagnon, 1995: 23). Elazar concurs, noting that “In a larger sense... federalism is more than an arrangement of governmental structures; it is a mode of political activity that requires the extension of certain kinds of cooperative relationships throughout any political system it animates” (Elazar, 1984: 2). Partnership in pursuit of common goals is fundamental to federalism, since shared political, geographic and economic space unites constituent members to jointly pursue goals of mutual interest. This notion of partnership and the motivations for cooperation and collaboration are particularly relevant to issues of redistribution. These issues will be explored in greater detail later in this study.

COMPETING VISIONS OF THE NATIONAL COMMUNITY

These principles of unity and diversity form the basis for competing views of the nature of the Canadian federation. These conceptions in turn form the basis for ongoing debate in the social policy and redistribution sphere. While some favour strict adherence to the principles of federalism outlined above, and prefer strong, autonomous provinces based on formal constitutional assignment of powers, others point to a strong national government as necessary for pursuing national goals, even if such a need supersedes provincial interests. Based in part on the latter 'national' orientation, others have looked to a more individualist 'rights-based' approach to the federal community. Each of these arguments go far beyond a mere discussion of the alignment of legislative powers between federal and provincial governments. As Rocher and Smith (1995: 47) observe, when visions of the Canadian federal structure are discussed, "it is the nature of the federation itself that has been debated." Three such visions are presented briefly here: one, a vision in which provincial status is championed vis-à-vis the federal government on the basis of the principles of federalism, the second, in which the national government is privileged on the basis of the interests of the national community (Vipond, 1991; Simeon, 1979; Rocher and Smith, 1996), and third, a view that intends to transcend territorial definitions of community on the basis of rights. These views conveniently encapsulate key issues at the root of this study since they possess significant implications for a discussion of redistributive mechanisms among provinces. Specifically in question is the preferred locus of responsibility for upholding national goals. Is this a responsibility that should be entrusted only to the national government, or can provinces enjoying considerable autonomy in social policy jurisdictions act in the interest of the national community? What of the interests of groups which are not territorially defined? What follows is a brief overview of their major features.

One vision of federalism sees the nation as a community of diverse units. This vision of the federation holds as its base the notion that both levels of government --the federal and the provincial -- are equal. Each level is sovereign, and each has the constitutional right and the legislative capacity to act independently of the other. A federal system is seen as a contractual arrangement among separate political and

geographic units. By stressing the constitutional status of the provinces, this conception appeals to respect the spirit of classical principles of federalism. It is not surprising that it is provincial politicians who have led the charge in championing this vision. These leaders have also tended to pursue provincial rights at the expense of the right of the federal government to speak and act for all Canadians. As Rocher and Smith observe:

The theory of the equality of the provinces is laden with consequences for the way the Canadian political community is perceived and, therefore, for the nature of the relations between the central government and the provinces. In this view, the provincial premiers have as much right to represent citizens as does the Canadian Prime Minister. In short, the total is not more or less than the sum of its parts. The first community of belonging is provincial. Thus, the central government is not in a position to speak for provincial interests (Rocher and Smith, 1995: 48)

The existence of sovereign political entities also implies the presence of separate communities of needs and interests which require the ability to pursue their own unique policy directions. This conception of federalism recognizes the importance of provincial governments as the guardians of regional identities (Vipond, 1991). Since recognition of diversity is the foundation for a federal structure of government, to deny this would derogate from the primary purpose of the political regime. All provinces are equally entitled to a degree of sovereignty that is constitutionally entrenched. Likewise, the federal government is entitled to its own sovereignty only within its own jurisdictions. Ottawa is viewed merely as one among eleven governments. It may enter areas of provincial jurisdiction only with the consent of the provinces.

The second vision is a 'nationalizing' one - one of a 'Canada for all Canadians'. The growth and popularization of this vision is generally attributed to the efforts of the Trudeau regime of the 1970s and 1980s as a strategy to offset the rise of Quebec nationalism and 'province-building' initiatives in general. In this vision, Canada is seen as a nation greater than the sum of its parts. In contrast to the notion of the equality of the provinces, in which the federation is seen as a partnership among sovereign units, this conception views the federal government as the primary authority. The provinces are seen to possess only narrow, regional interests, and are incapable by motive and means of acting in the interest of the national community. There exists a predominant national

interest that is distinct from the interests of the provinces or regions (Simeon, 1979). As such, the nationalizing vision possesses a centralizing thrust, built on the notion that only the federal government may speak and act for all citizens (Vipond, 1991; Rocher and Smith, 1996). This view employed the notion of common citizenship as a basis for federal growth and expansion, stressing “the symbolic dimension of the federal government’s role as the sole government of all Canadians and depicted the provinces as spoilers in the system [as] an attempt to undercut the provinces and to solidify citizen’s loyalty to the federal level of government” (Rocher and Smith, 1996: 59).

A third vision of the national community finds its formal origins in the 1982 *Charter of Rights and Freedoms*. This ‘rights-based’ vision is founded on the notion that Canadians are rights-bearers, either as individuals or as members of groups, and dates from the Second World War, when “rights consciousness led to pressure from interest groups and citizens for constitutional guarantees of individual rights against government, and statutory safeguards against discrimination both public and private” (Swinton, 1988: 281). The entrenchment of rights in the 1982 *Constitution Act* formed an important recognition of rights consciousness, and marked a turning point in conceptions of the Canadian federal state. Women, ethnic minorities and language groups, among others, now offered a unique view of the federal state. Given its link with a constitutional entrenchment of rights, the rights-based vision sought to avoid traditional notions of political identity, be they national or provincial, based on territorial interests, looking instead to a notion of common rights as a basis of citizenship (Rocher and Smith, 1995: 61). The dichotomy drawn between visions, however, is not a clear one; some overlap exists between the nationalizing vision and that based on constitutional rights. By providing a national framework for its discourse, the rights-based vision also encourages a nationalizing dimension. Group-based collective rights also possess strong ties to the bases of the nationalizing vision. As non-territorial political identities, entry of these groups into discourse on the national community signifies at once the importance of non-territorial cleavages, and the notion of non-territorial rights. As Rocher and Smith point out, the desire to create a “level playing field” for individuals as members of collective

groups presupposes a federal role, since “these new constitutional actors represent cleavages that are nation-wide and non-territorial” (Rocher and Smith, 1995: 62).

At the heart of these differing conceptions of the Canadian federal system is the question: what constitutes the national community? Simeon (1979) explored this issue in terms of the existence of a ‘national interest’. He observed that in the federal framework, there are three possible answers: (1) that there exists an overarching national community with its own distinct interests, as compared to the aggregated interests of the provinces and regions; (2) the federal government possesses its own interests while representing a national constituency and thus does not represent a predominant interest composed of the sum of provincial interests; or (3) the federal government possesses only federal interests, but can express or represent the interests of provinces and regions through institutions of representation and governance. While the two visions of the federal community presented above appear to be represented in these alternate definitions of the national interest, it is important to note that none of these possibilities suggest a role for provinces alone in representing the interests of the national community. National interest is clearly equated with a role for the national government. Few have challenged this assumption. Lougheed (1976) is noted for his contribution to the understanding of the provincial view in defining and pursuing a national interest. In his summation, the provinces and the federal government are truly “political and judicial equals”. Provincial governments represent the interests of their constituencies better than the federal government, and thus, the national interest is determined as the pooled interests of ten provincial governments. There is no higher claim to moral authority in the ‘national interest’ as compared to ‘provincial interest’. Lougheed favoured partnership to achieve this definition of the national interest; an interest that would be implemented by eleven governments acting collectively.

RATIONALES FOR THE SHARING COMMUNITY

Rationales for pursuing a sharing community in the Canadian federation fall into three basic categories: identity, equity, and efficiency. The following section provides a

discussion of these issues. Particular emphasis is placed on the influence of the federal structure and the pursuit of equity among provinces.

COMMON ECONOMIC AND SOCIAL CITIZENSHIP: SHARED CORE VALUES & IDENTITY

In assessing the definitions of the 'national interest', most Canadians would agree that as citizens, they are linked by key common social values. These values unite Canadians because they are national - they are social and economic interests expressed through collective investment in the infrastructure of socio-economic well-being, commonly identified as social programs and the Equalization program. At the core of this belief is the assumption that all Canadians are entitled to such 'well-being' regardless of province of residence. This notion of a Canadian 'social contract' - that Canadians and their governments possess commitments to social justice that transcend internal political boundaries - forms a well-established and well-recognized tenet of the Canadian political experience. In 1991, the Ontario government summarized the importance of a commitment to these values and principles, suggesting that social programs and the Equalization program have come to "represent and symbolize Canadians' sense of themselves as members of a community where solidarity and mutual responsibility are fundamental social norms" (Government of Ontario, 1991). This commitment goes beyond rhetoric; these are paramount objectives in a nation where citizens are willing to pay taxes to ensure equitable provision of public services on the basis that interprovincial sharing forms an essential element of 'what it means to be a Canadian' (Courchene, 1984). This emphasis on equity possesses an unmistakable national unity component. As Taylor has noted, the commitment to "collective provision" produces a sense of solidarity among Canadians (1991: 56). This 'solidarity through equity' archetype extends to unity among provincial communities, in which citizens, and thus their provincial governments, possess a common citizenship and common entitlements vis-à-vis the national community.

Given this apparent commitment to equity goals, Canadian citizenship has come to imply much more than a political right to suffrage and the associated rights and

freedoms of a democratic society. Article 22 of the *Universal Declaration of Human Rights* states that:

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality (*Universal Declaration Of Human Rights*, 1948).

This rise of a social elements of Canadian citizenship has also reflected a broader historical trend in the evolution of the citizenship concept and its association with the growth of the welfare state. T.H. Marshall's influential paper *Citizenship and Social Class* (1964) identified the development and expansion of citizenship rights from the political and civil rights in the 17th century to social rights in the 20th century. In Marshall's assessment, the rise of the welfare state has allowed citizenship and full membership in the community to move beyond legal and civil liberties and equality of opportunity to include equality in rights, obligations, and condition, as well as a right to a minimum standard of social well-being (Marshall, 1964). Canadian conceptions of citizenship and the role of the state appear to support this notion, as does the national scope of Canada's social structure. Marshall's addition of a social dimension to citizenship allowed a definition of social rights to emerge. In line with legal and civil rights, social rights transcended province or class to include all individuals by virtue of their common status as citizens.

SOCIAL AND ECONOMIC UNION

All Canadians, as citizens, are equally entitled to reap the benefits of a free society. Since benefits of Canadian citizenship include both economic freedoms and social rights, the linkage may be said to exist in the overlap of the economic, social and political unions. As noted in Chapter 1, the concept of the Canadian social union may be defined as "the web of rights and obligations between Canadian citizens and governments that give effect and meaning to our shared sense of social purpose" (Biggs, 1997: 1). Its existence is equally "an expression of shared values, a sense of social solidarity and common purpose that gives meaning to our citizenship" (O'Hara, 1997: 5). Since it is founded on a

recognition of mutual help and mutual benefit, social union also subsumes a degree of cooperation among its members. Similarly, economic union entails mutual interest and obligations among governments and citizens. The free movement of persons, goods, services and capital, access to sizable markets and economies of scale, protection of interests, and insurance against national and regional economic instabilities all require a level of cooperation preceded by social and political cohesion (Schwanen, 1996: 3). The latter also requires a degree of redistribution to ensure that citizens possess comparable levels of opportunity through access to these economic freedoms.

Akin to the 'nationalizing' vision presented earlier, the will to uphold an economic and social union featuring redistributive elements among its members depends also on a political recognition of the economic benefits to be gained from such an arrangement. A social union is believed to possess national economic benefits through its ability to produce a healthy, skilled, and mobile population. The converse argument is also true. Leslie (1993: 6) has noted that the decision among political units to create an economic union complemented by redistributive elements is consistent with the notion that the more far-reaching the terms of that association, the more likely it is for demands to arise for political intervention to ensure that expected benefits are distributed among members in an equitable manner. Reaping these gains implies cooperation and coordination among members of the social and economic union, driven by the assumption that collective means and social cooperation will bring about strong economic growth and potential for all. Thus, the social gains of redistribution form the essence of an economic community in which internal political boundaries do not impede the pursuit of national goals of equity (Leslie, 1993: 6).

As noted above, interdependencies existing among social, economic and political citizenship possess efficiency and equity arguments. Since a positive link between social and economic pursuits is measured in terms of both economic and political benefits, a dual commitment to social and economic union is doubly attractive: it combines the positive aspects of a common internal market for its members, while denoting the presence of common rights entitlements for its citizens (Schwanen 1996). Citizenship rights in this economic sense include mobility rights, equitable access to public goods

such as universal social policies, shared fiscal resources, and a shared physical and service infrastructure. Together these 'economic rights' are believed to provide superior access to economic advancement than would otherwise exist in the absence of a union. The economic union is therefore an important element in the level of economic well-being enjoyed by citizens (Schwanen, 1996). These common economic rights are not dissimilar from social rights in the sense that they are capable of producing sentiments of shared opportunity and responsibility. As all members expect to gain from the social and economic union, reciprocity exists between recognized national boundaries and the domestic benefits of economic equity (Osberg, 1992; Government of Ontario, 1992).

Since national political boundaries generally define a sense of shared political and social space, as well as national identity, an economic union in which equity goals are articulated and pursued provides member citizens with a greater sense of shared experience and solidarity (Osberg, 1992: 18). Conversely, given the reciprocal character of this relationship, if inequity exists or is perceived to exist among like individuals in the union, these grievances may cause discontent among sections of the polity. Usher argues that since members would expect a certain minimum combination of economic and social benefits, any behaviour should not act to subtract from conferred benefits for any other members in the union (1991: 99-100). This promise and principle of 'national treatment' is thus considered a basic right of citizenship, requiring that citizens of the social and economic union be treated equally with respect to local policies and standards irrespective of who they are or where they reside. This principle is also extended to provinces, who, as members of the sharing community and institutional representatives of their constituencies must attempt to fulfill the demands of social and economic citizenship rights.

POLITICAL AND ECONOMIC CONCEPTIONS OF EQUITY

The principle of 'national treatment' is thus founded and strengthened by a sense of shared political, economic and social unity that both unites communities and symbolically transcends internal political boundaries. Since 'economic citizenship' and the existence of an economic union are concepts closely tied to perceptions of national

citizenship, the existence of a common Canadian polity and a cohesive nation state are largely enhanced by a continued perception of economic and social equity across provinces and regions. In practice, this commitment is structured primarily as a relationship among governments, but also as a 'contract' between governments and citizens. Combined, the political and economic redistributive underpinnings of the federation are representative of the values contained within the Canadian social contract between government and the people, a relationship in turn influenced by the federal structure of government (Simeon and Janigan, 1991: 36-42). In Canada, an equity-oriented social contract has evolved that includes "expectations and understandings between governments and citizens and among governments, with respect to economic rights and responsibilities." (Norrie, Boadway, and Osberg, 1991: 226). Thus, it could be said that the 'implicit' Canadian social contract includes a national commitment to equity goals in the form of a combined commitment to the economic and social union.

Equity among regions or provinces is held as a fundamental element of the Canadian identity. As described in Chapter 1, in a political and social sense, equity within the federation may be defined as the 'fair and just' manner in which the federal and provincial governments should treat all citizens of Canada, regardless of province or region of residence. Canadians are ultimately citizens of a nation, and place of birth should not alter the treatment or equality of opportunity that individuals receive on behalf of the state. In an economic sense, equity may be defined as a judgement of the relative weight to be placed on the needs of different members in the society. Equity can be pursued at both the personal level through income redistribution to needy individuals, and at the federal level through interregional redistribution to needy governments. It follows that the principle of personal or individual equity is applicable at both the interpersonal and interprovincial levels, since the aggregated welfare of individuals will likely determine the welfare of the federation as a whole. The political benefits of interregional equity are found in the linkages such commitments share with concepts of national citizenship, unity and solidarity.

Ostensibly, there is little difference between the political and economic definitions of equity. Both definitions infer a relationship between notions of fairness and notions of

need, and both do so within a national context. Economic citizenship in many ways subsumes a political citizenship, and in this way, equity appears to transcend both the political and economic spheres. Further, as we have seen, given the specific interdependence of economic and social goals in the Canadian federation, equity is also an important element of social and political citizenship. However, despite the apparent linkages between political, economic and social equity, defining the term in principle is quite different from defining it in practice. This is because in a free-market economic system, the 'efficiency norm' in the economic sphere is believed to produce a system of trade-offs negatively associated with the equity norm, such that contrasting the two allows examination of the *economic costs* of the pursuit of equity and the *social costs* of the pursuit of efficiency (Norrie, 1991: 91). Further, the complexities inherent to a federal structure of government produce distortions that cloud efficiency-equity trade-offs. Poorer jurisdictions that are judged to benefit from equity-oriented, redistributive federal policies may be blamed by other jurisdictions for producing inefficiencies in the economic union. Conversely, competition and efficiency-oriented provincial or federal policies may be seen to detract from national equity goals, drawing potential political fire from social groups and the citizenry at large. Both scenarios possess significant political implications. Simply, economic efficiency and social equity are often viewed in zero-sum terms, in which either citizens or governments are seen to 'win' or 'lose' at the hand of government equity policies and priorities.

INTERREGIONAL REDISTRIBUTION: POLITICAL AND ECONOMIC RATIONALES

Why are governments and citizens motivated to share? As we have seen, the principle of a combined commitment among governments to social and economic union yields a greater potential for growth (efficiency) than would otherwise exist in the absence of such an arrangement. This motivation for governments is complex, and will be discussed later in this section. At the level of the individual, the motivation among citizens to 'share' reflects two different conceptions of social rights and responsibilities. One is self-interest - the desire to support redistributive social policies as a form of social insurance or 'safety net' if one or one's family should fall on hard times. The other is a recognition of equity

and societal need - the desire to recognize the interests and welfare of fellow citizens in the course economic and social decision-making (Economic Council of Canada, 1991: 57). These political rationales for redistribution in Canada are relatively simple to explain, based on the desire of citizens to support principles of interpersonal and interprovincial equity based on notions of equal political, economic and social citizenship. In comparison, the motivation of governments to redistribute wealth is not easily explained using economic theory, since in that context, any interference with the efficient functioning of the economy would be considered an anti-productive distortion which rational citizens and their governments would wish to avoid. The economic notion of 'empathy', that citizens possess certain rational ranges of preferences for combinations of income distribution in relation to their own, comes closest to political and social definitions (Hochman and Rodgers, 1973; Breton and Scott, 1978). This theory holds that redistributive actions by governments respond to a polity's desire to alter the social distribution of income, and in this way involves the economic function of government in the fulfillment of political wishes. This function is illustrative of the interaction of the social and economic roles of government, in that "it demonstrates that government is necessary" and that "even a world of philanthropic, but individualistic, citizens would depend on government to implement their generosity. ... voluntary action would not be adequate to bring about even small changes in the relative shares of social income enjoyed by various groups in society" (Breton and Scott, 1978: 113).

The institutionalization of fiscal and political generosity is redistribution, or the transfer of funds from richer to poorer segments of society. Possessing the redistributive power is therefore possession of the authority to design the means and character of these transfers. Thus, in Canada, the commitment to redistribution is affected by the federal structure of government. In a federal system, in which both national and constituent levels of government possess exclusive and overlapping power to affect distribution of income, there is no purely or exclusively redistributive power. There are instead a number of governmental functions that involve redistribution to a greater or lesser extent (Usher, 1980: 17). In this way, the specific assignment of the redistributive power in a federal system is a key question faced by political scientists and economists alike, since

the redistributive function depends not only on a jurisdiction's authority and responsibility, but its motive. As Breton and Scott explain, since governments make ultimate distributive decisions in economic and social policy, "...what must matter for the assignment of the redistribution function is not who should have the capacity, but who should have the will - or the motivation - to redistribute. When all can act, who should bear the responsibility?" (Breton and Scott, 1978: 111).

This question of responsibility commands an examination of the way in which commitments to equity are approached in the Canadian federation. In terms of allocation of powers and responsibilities, the two general 'visions' presented earlier in this chapter best explain alternative views on the locus of responsibility. In one vision, the broad interpretation of the federal arrangement attaches significant importance an redistributive power to federal government, in which national oversight and enforcement of equity goals ensures their protection in the interest of the national citizenry. This allocation promotes policies of 'sharing' by placing the interests of the national community above those of the individual provinces. It also actively enforces the mechanisms of redistribution by controlling the character of interregional fiscal arrangements. In the interest of national economic and social cohesion, federal oversight in the preservation of a common set of redistributive goals is deemed necessary to ensure basic rights of citizenship (Usher, 1980; Buchanan, 1974; Breit, 1974).

Conversely, in the 'communities' vision, the respective interests of the provincial polities are placed above those of the national population. In the extreme, this view sees the provinces assume total responsibility for and exclusive jurisdiction over equity-oriented redistributive policies, with no demand for a mechanism of national co-ordination. In a more moderate form, provincial participation in areas of social and equity concerns is seen to allow for greater diversity in the way individuals are treated across the nation, usually as a way to address unique local needs and interests. This view would fulfill the demand for provincial autonomy in areas of provincial jurisdiction while limiting the federal role in national objectives. By recognizing regional and provincial diversities and bringing control closer to the level of the citizen, provinces are better equipped to bring about equity objectives. Provincial assignment of equity goals would

eliminate overlap and duplication between levels of government, increase sources of innovation, and respond to problems through the most cost-efficient means (Breit, 1974; Schwanen, 1996). In Canada, this point is particularly salient since each province is subject to differing social and economic conditions and challenges. An economic union that does not allow public services to be tailored to local preferences, or to be subject to innovation or experimentation, may be detrimental to the overall economic well-being of constituent units. These arguments also differ ideologically from those with a nationalizing sentiment, in the sense that they tend to favour market forces in achieving equity goals over those that favour federal oversight. The general theme pervading this set of arguments is that certain things are better left to lower levels of government, or, in turn, to the market if such activities are not judged to require public intervention (Schwanen, 1996: 9). In sum, public interest is best served by the freer forces of local government and by market forces. Akin to Lougheed's view, the national interest is served by provinces acting the interests of their provincial constituencies.

ADDRESSING HORIZONTAL AND VERTICAL INEQUITIES

There is a further dimension of the federal structure to consider: that of the fiscal capacities of the provinces to uphold equity principles. This dimension focuses on the existence of imbalances among the provinces and the implications of these imbalances combining the need to improve efficiency for the sake of equity, and vice versa. At the base of relationships between the federal structure and intergovernmental transfers is the field of fiscal federalism. Fiscal federalism, or the study of the linkages between fiscal arrangements and the federal system, possesses three principles which are themselves interrelated: (1) that each government enjoys sufficient access to fiscal resources that will enable it to fulfill its assigned responsibilities, (2) that the government that spends should also be the one that taxes, and (3) that fiscal arrangements should provide for harmonization of federal and provincial policies and priorities (*Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, 1981: 30). The literature on fiscal federalism, dominated by economists who attempt to invoke models of optimal design in allocation and decision-making, make several assumptions concerning the role of

governments in fiscal arrangements. They assume that a state consists of a “single, highly integrated political community” in which members “share equally in the obligations or burdens of citizenship and enjoy equal entitlement to public services - including income support for those in need” (Leslie, 1993: 10). This assumption of unity is countered by an admission that once a ‘least-cost’ assignment of governmental functions and responsibilities is achieved, implying an optimal allocation of those priorities, appropriate fiscal arrangements may be designed. These arrangements consist of the primary allocation of revenues between orders of government, and a secondary system of intergovernmental transfers. Ideally, secondary transfers are intended to supplement the differing fiscal capacities of provinces so that the federation may function effectively.

As such, there are two main principles of equity as described in a federal context (*Parliamentary Task Force on Federal-Provincial Fiscal Arrangements*, 1981). The first principle of equity is that every citizen is considered equal regardless of where he or she lives. This is known as ‘horizontal’ equity, or as the principle of anonymity, and refers to the precept that political equals should be treated equally. As described earlier, individuals are ultimately citizens of a nation, and this fact of national citizenship means that individuals have both rights and responsibilities regardless of their province or region of residence. It also means that because of this national citizenship dimension, equity objectives are necessarily national in scope. For this reason, it is commonly and traditionally assumed that the federal government has an important role to play in pursuing equity goals. Politically speaking, the potentially damaging perceptions of inequity among provinces and regions are powerful incentives to place equity objectives as high priorities on the federal government’s agenda. In terms of efficiency arguments, when imbalances exist between the relative fiscal capacities of the provinces, they may interfere with the smooth operation of the internal common market. They may cause economic inefficiencies and inequities between otherwise like individuals, in turn making social goals difficult to accomplish.

These ‘horizontal imbalances’, or differential fiscal capacities, are the imbalances which exist between the expenditure needs and revenue means among provincial governments despite equality of constitutional responsibilities. The second principle of

equity, therefore, is that in a federal system provincial governments should have access to financial resources in order that they may provide public services in the manner in which they are expected, and in a manner that will facilitate the creation of an equality of opportunity regardless of province of residence. As a basic premise, 'vertical' equity recognizes that individuals have basic social and economic rights. These rights must be respected in the public arena, and governments and the public sector as a whole must not act as barriers to these rights. Public services must be provided at a minimum level, and must be portable. As well, in the pursuit of equality of opportunity objectives, individuals must have access to basic education and training, health services and social assistance. When provincial governments have differential access to fiscal resources, this is known as vertical imbalance. Simply, though governments possess constitutionally-assigned responsibilities for the provision of services, they might not possess the financial resources necessary to fulfill those responsibilities. Federal redistributive transfers seek to reduce the extent of fiscal disparities in order to aid in the achievement of equity objectives.

Goals of equality of opportunity and mobility in pursuit of economic advancement are meant to be protected through recognition of these potential imbalances. Indeed, it is the question of vertical and horizontal equity that forms the basic rationale for federal-provincial transfers, as affected policy is meant to provide for a more equitable distribution of well-being among citizens regardless of division of powers in the federation (Courchene, 1986: 130; Phillips, 1995: 68). As economic efficiency and equity goals require a high degree of cooperation and coordination, there must also be a high degree of interdependence between levels of government.

ACHIEVING EQUITY IN THE FEDERATION: KEY ELEMENTS

The achievement of interregional equity in the Canadian federation is contingent upon two key elements: 1) *National standards* to guide the design and implementation of social services, and 2) the *equalization of fiscal capacities* of provincial governments (Economic Council of Canada, 1991; Parliamentary Task Force on Federal-Provincial

Fiscal Arrangements, 1981). These two elements are necessary for the effective pursuit of interregional equity in Canada. Each will be discussed in turn.

National Standards

National standards in Canada are generally understood to consist of a set of federally-enforced common rules to which provincial governments are bound in the way they provide certain social services to their residents. At present, Canada has six such standards: five are contained in the Canada Health Act governing Medicare provision in the provinces and consist of universality, accessibility, portability, comprehensiveness, and public administration of the health care system. The sixth standard applies to social assistance, stating that provinces may not impose residency requirements on receipt of social assistance benefits. These standards are enforced by a federal oversight which may impose fines or other punishments, such as withheld funds, on provinces which contravene them. Beyond these enforcement measures the term 'national standards' enjoys a large measure of symbolic political power. As a set of principles enforced by the federal government in the 'national interest', provincial governments are obliged to obey, or suffer fines or political backlash. The political power of the term lies in its promise of equality of treatment; the main equity argument made for national standards is that they establish a shared system of rules and benefits deemed as basic entitlements of citizenship. Residents of one province are entitled to the same minimum package of services as residents of another.

The rationale for national standards also possesses the somewhat unique honour of applying across the ideological spectrum, as equity and efficiency arguments not only coincide, but reinforce each other in this context. In both equity and efficiency terms, arguments for national standards hold that certain controls are necessary in order to preserve and promote the economic and social union. In terms of efficiency goals in the economic union, nationally enforced standards are intended to thwart the damaging effects of interprovincial 'beggar-thy-neighbour' policies, which could serve to degenerate the benefits of union and weaken its attractiveness to other provinces. These interprovincial externalities, or 'spill-overs', as they are known, are particularly

problematic when government and social services are provided by lower levels of government, as they are in Canada. In some cases, the residents of one jurisdiction may benefit from the services provided by another jurisdiction. The most common example of this type of negative externality or spill-over effect is that of post-secondary education or training.⁸ The resources invested in an individual may be deemed to have been lost if, upon completion, that individual leaves his or her home jurisdiction and transfers his or her knowledge and training to another province. Provinces may choose to reduce levels of education and training if they feel that resources are quickly leaving their borders and enhancing the economic productivity of another province. In order to avoid this type of behaviour, equity objectives of equality of opportunity may be placed at the federal level. Federal oversight is deemed essential in order to avoid activities that threaten the efficient and equitable functioning of the economic union. It is also important to avoid the degeneration of relations between provinces which could have a negative impact on perceptions of national solidarity and the collective pursuit of equity and efficiency goals.

An opposite negative spill-over scenario is also threatening to equity objectives: in an attempt to lower their spending or to lower its constituents' tax bill, provinces may seek to lower levels of social assistance in an attempt to 'dump' individuals into other, more generous, jurisdictions. Recipient provinces may then lower their own levels of assistance in an attempt to dissuade individuals from entering their jurisdiction, which in turn may lead to other provinces responding similarly. Long term cycles of this behaviour would result in minimal social services offered by provincial governments. This type of response, known as 'downward harmonization', is particularly threatening to the federation because it would infringe upon the principles of equity. Horizontal equity would not be respected since the province of residence factor would govern the treatment received by otherwise like individuals:

local governments in a federal system [would] tend to provide less income redistribution than a national government would. Each state government acts as if it prefers that welfare services should be provided by other governments and fears

⁸ It is important to note that national standards as such do not exist for post-secondary education/training in Canada, and that the federal government does not play a direct role in this area of provincial jurisdiction. As a result, the example is presented simply as rationale for federal oversight in areas of national importance lying in provincial jurisdiction.

that its state will become attractive to poor people if it provides generous benefits (Peterson and Rom, 1988: 82).

Redistribution controlled at lower levels would create incentives to migrate, thus distorting the internal common market. While richer individuals would choose to settle in less generous provinces, the poor would choose to live in more generous jurisdictions. The rational citizen would favour redistribution when it is nation-wide and would not if it was under the jurisdiction of the provinces. The reasoning is simple: that “voters in each province know that generosity would attract the poor and repel the rich, raising the cost of the redistribution to the taxpayers who remain behind” (Usher, 1991: 103) In this case, federally-imposed national standards would exist to provide assurance that equitable conditions remained across the country, and would prevent the ‘downward harmonization’ or ‘race to the bottom’ of assistance levels.

Federally-enforced national standards are meant to produce ‘positive externalities’ by avoiding negative spill-over effects. They are designed to enhance efficiency by preventing provincial discrimination against citizens of other jurisdictions. National standards are also efficiency-enhancing because they allow individuals to base decisions on market factors rather than on expected receipt of public services. Canadians are a highly mobile people, so much so that differing circumstances in provincial jurisdictions could have a large impact on migration decisions. These mobility rights are entrenched in Section 6 of the Charter of Rights and Freedoms and articulate that:

Every citizen of Canada and every person who has the status of a permanent resident of Canada has the right:

- a) to move and take up residence in any province; and
- b) to pursue the gaining of a livelihood in any province.

Section 6.3 establishes residency requirements for access to public services, and 6.4 allows for affirmative action programs in regions of high unemployment for economically or socially disadvantaged persons. These are important rights. National standards enhance the efficiency of high interprovincial mobility by establishing a pan-Canadian ‘floor’ social entitlements. By ensuring that equitable services exist in all parts

of the country, national standards prevent the distortions of excessive migrations and the impact of such migratory behaviour on provincial and national economic efficiency.

Achieving equality of opportunity is also a major objective of national standards. As an important dimension of equity, equality of opportunity is best understood in the context of national standards. The goal of government to provide adequate education, health care and social assistance to the young is consistent with its objectives to ensure a productive economy and an efficient economic union. If national standards can prevent provincial divergences in accessibility or quality of public services, then they can more effectively ensure that equality of opportunity exists on a national scale. To the extent that in Canada national standards exist in the area of health care and social assistance, they do theoretically mitigate the inequality of opportunity that exists between provinces (Osberg, 1992: 17).

Fiscal Equalization

In a federal state in which the sub-national governments possess significant expenditure responsibilities, some effort must be made to address the existence of uneven fiscal capacities, or, divergences in the ability of provincial governments to raise revenues for public service provision. In Canada, divergences which exist between provinces are due to structural differences in their economies, most significantly the industrial and demographic composition, and natural resource endowments enjoyed. These divergences produce significant disparities among the provinces.

The problem of uneven fiscal capacities in Canada is addressed in two ways. One way is through federal-provincial transfers tied to provincial activities in the areas of health, education and social assistance. Since these transfers are financed through redistribution of a nation-wide uniform federal tax effort, they reduce the need for provinces with lower fiscal capacities to raise the revenues for these services themselves. This 'implicit' form of equalization of fiscal capacities provides the theoretical possibility that uniform services may be provided at uniform tax burdens. The second and most significant attempt to address uneven fiscal capacities is in the form of the formal Equalization program.

Figure 2.1
Effect of Equalization 1997-98

This program redistributes funds from wealthy to less wealthy provinces, and by achieving an average provincial fiscal capacity across the nation seeks to ensure that a measure of equity in public service provision is available in all jurisdictions. The goals of the equalization program are straightforward. Under the system, the federal government provides ‘unconditional’ cash transfers to provincial governments whose revenue-raising fiscal capacities fall below a pre-defined ‘equalization standard’. Calculation of this standard is achieved through an assessment of 32 provincial revenue sources, including personal and corporate income taxes and sales tax, for five representative provinces: Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. Using this reference, each province’s equalization entitlement is assessed according to its revenue-generating potential, the corresponding equalization standard, and provincial population (Hobson and St. Hilaire, 1993: 21-22). Figure 2.1 above depicts the effect of equalization transfers. Provinces whose net entitlements are positive fall below the standard and thus receive an equalization payment. In Canada today, three ‘have’ provinces -- Ontario, British Columbia and Alberta -- possess negative entitlements, meaning that the equalization program ‘skims’ funds from these provincial coffers and transfers them to the remaining seven ‘have not’ provinces.⁹

⁹ As noted in Chapter 1, it is important not to confuse the goals of Equalization with other redistributive goals such as reduction in inequalities of personal income. Equalization is designed to allow all provinces to provide comparable standards of public services. It is not intended to bring the fiscal

This fiscal component of interprovincial or interregional equity consists of the redistribution of fiscal resources from the federal government to provincial governments, or between provincial governments themselves with the federal government acting as central arbiter, or middle man. In the latter case, it is the federal government that also determines the nature and extent of such transfers. Since interprovincial equity is a broad goal of the Canadian federal union founded in the same principles of equality of opportunity and vertical and horizontal equity discussed earlier, fiscal equalization composes a system of interprovincial fiscal transfers which allows the federal government to 'equalize' the per capita revenues of economically weaker provinces in the federation so that responsibility for the provision of public services can be maintained at reasonably comparable levels of taxation. Equity obligations are also subject to constitutional design and the division of economic powers within the federation. As described earlier, Sections 36(1) and 36(2) of the 1982 Constitution Act entrench equalization principles of the contains key aspects of equity obligations in the Canadian federation.

Broadly speaking, the goal of the equalization program has been to provide the financial independence necessary for the performance of provincial functions in the face of horizontal and vertical fiscal imbalances. While Canada is a federal state, many important publicly-administered services are most effectively provided at the provincial level. While it would seem to be more equitable for the federal government to carry out these tasks, it would not be efficient. It is generally agreed that lower levels of government are likely better positioned to recognize local needs and preferences and structure their services accordingly. By allowing provinces to administer services, innovation and experimentation are also encouraged in program design and delivery. Equalization is therefore strongly supported on efficiency grounds. Efficiency arguments are also persuasive with respect to the ability of equalization to maintain the integrity of

capacities of all provinces to the same level; rather, provincial fiscal capacities are designed to meet a national average. Also, Equalization is not designed to actively reduce regional disparities in economic activity or performance. Though it is often deficiencies in these areas that lead to the need for equalization, it is expected that sustained, adequate provision of public services in the areas of education and health care will properly contribute to these long term goals of regional development and horizontal equity.

the economic union. Similar to the objectives of national standards and the prevention of negative externalities, the effect of ‘evening out’ relative fiscal capacities helps to prevent inefficient migration and reduces the otherwise distorting effects of differing public services.

On equity grounds, the rationale is similar to that attached to national standards: the equalization of the fiscal capacities of the provinces ensures that, to some degree, individuals in the same circumstances but living in different provinces have the same access to public services under similar tax burdens. Further, provincial spending authority for public services must be accompanied by some measure of revenue-raising authority. However, due to certain factors such as demographics and economic output, all provinces differ in their relative tax capacities, in their income distribution, and in the need and associated cost of providing various services. Unassisted, governments would be forced to fulfill their constitutional and public obligations within varying fiscal limitations. The sum of these factors determines the level and characteristics of services provided in each province, known as “net fiscal benefits” (N.F.B.s). Economists are concerned with the consequences of imbalance in the provision of public services. If N.F.B.s differ across provinces, individuals may choose to migrate to a jurisdiction in which their net gain is higher, leading to possible economic distortion and violation of the principle of horizontal equity.

The design of the equalization program is unique in that it is a nationally-oriented redistributive program while the ‘unconditionality’ of its transfers allows for significant provincial autonomy. Redistribution is, of a matter of course, the essence of the welfare state, but the regional dimension incorporated by the equalization principle adds a further dimension: it brings provincial and regional actors directly into the process of redistribution, thereby elevating the goal of regionally-balanced development, and allowing provincial governments to play instrumental roles in that achievement (Leslie, 1993: 7). Despite the fact that equalization is a system controlled and administered from the centre (federal level), its structure requires an understanding of federal fiscal arrangements in which decentralized tax and expenditure authority exists at the provincial level. Given this complication, it may be tempting to question whether similar

achievements of net redistribution would occur if all revenue and expenditure functions were completely centralized. In a uniform tax structure, it would not be difficult to redistribute funds to provinces with low fiscal capacities. However, a decentralized approach is favoured if provincial governments tailor the use of funds to meet their own sets of priorities. In a fiscally decentralized system, transfers that are ‘unconditional’ are intended to “permit the attainment of the same standard of fiscal equity in a decentralized federation as would exist under a fully centralized system.” (Hobson and St. Hilaire, 1993: 20-21). Division of powers in a federal system, therefore, may allow for more effective use of transferred funds.

III. SUMMARY

The purpose of this chapter was to provide an overview of the major historical matter relevant to the topic area, as well as to provide an examination of the basic principles and relationships which form the underlying theoretical context for this study. The historical overview detailed the way in which the Canadian federation has pursued interregional equity goals. The overview revealed the extent of the federal role in the areas of social, economic and fiscal policy, but also revealed how fluctuations in federal-provincial cooperation and antagonism in these areas have regularly called into question the legitimacy of centralized arrangements. Evolving expectations of the role of government were explored, revealing how governments have attempted to respond to rising citizen demands for intervention and direction in the social sphere. The perceived authority of the federal government as a national voice social issues was emphasized, particularly with respect to the design and use of fiscal instruments in pursuing convergence in social policy.

The overview also focused on the influence of changes to the fiscal arrangements on the pursuit of interregional equity goals. It explored the use and rationales of ‘nationalizing’ principles of cost-sharing agreements and the federal spending power in provincial jurisdiction, concluding that these federal instruments proved largely effective in building a nation-wide policy in an area that was not federal jurisdiction. Growing fiscal problems proved damaging to this project, and resulting changes to shared costs

agreements proved politically detrimental. These changes also called into question federal responsibility to uphold and preserve important equity principles. The 1995 budget and the creation of the Canada Health and Social Transfer revealed the new federal stance: one in which the provinces would be granted greater autonomy in the social policy arena as well as an enhanced role in the design of equity principles. Beyond the urgency of fiscal constraints, this stance also emerged in the context of political turmoil. The threat and fallout of the 1995 Quebec referendum formed a major impetus for both federal and provincial governments to address many of Quebec's traditional demands. The historical overview concluded with a brief introduction of recent provincial participation in the pursuit of equity goals which form the focus of Chapter 4.

The second section of the chapter explored key theoretical concepts, issues and arguments of the topic area as a means to provide a view of the political and economic assumptions relevant to the study. The section defined the concept of federalism, highlighting its key characteristics as (1) the need to balance inward (unifying) and outward (diversifying) forces, and (2) the inherent, structural ability to facilitate partnerships among communities of interest. The struggle between unifying and a diversifying forces was then further explored through the presentation of three dominant and competing conceptions of the Canadian federal state: the nationalizing vision featuring a powerful federal government, the communities vision featuring strong provincial governments, and the rights-based, non-territorial vision based on individuals and collectivities as rights-bearers. These visions were also seen to be founded on differing conceptions of the Canadian 'national interest'.

Also explored were the political and economic rationales for the existence of the sharing community in Canada. Central to this rationale was the appeal of shared 'core' values: the widely-held belief that national social and economic rights form an essential element of Canadian identity. These principles were referred to as interregional equity and common economic and social citizenship, laying the political foundation for the existence of Canadian social and economic unions. These principles were then explored in the context of the federal structure, redistribution, and the pursuit of interregional equity goals. Arguments presented the problems of horizontal and vertical imbalances,

the threat of negative externalities, and explored the debate surrounding the proper roles of federal and provincial governments in pursuing national equity objectives. The final area of exploration presented the means through which such equity objectives have been pursued in the Canadian federation, through national standards and fiscal equalization.

The goal of the chapter was to present an in-depth background to the study, focusing on the dominant role -- both historically and theoretically -- assigned to the federal government. It has also attempted to reveal the powerful influence of the federal system of government on key principles of the sharing community, and the interdependencies within the political, social and economic domains which are linked by this system. The next chapter explores this theme further, reviewing the way in which analysts have portrayed the implications of a potentially declining role for the federal government on the pursuit of equity goals.

CHAPTER 3 - THE DECLINING ROLE OF THE FEDERAL GOVERNMENT: IMPLICATIONS FOR THE SHARING COMMUNITY

As previously stated, the purpose of this study was to examine the relationship between a decentralized federal structure and a commitment to interregional equity goals. This chapter builds on the historical and theoretical context presented in Chapter 2 and provides a review of research works and expert commentary relevant to the relationship in question. The purpose of the chapter is to demonstrate that, in general, analysts continue to champion a 'top-down' federal authority over provincial and/or intergovernmental means in pursuit of national goals of equity. These arguments equate the existence of a decentralized federal system with a diminished federal dominance, and thus speculate as to the fate of interregional equity goals in this new context. Implicit to these criticisms is skepticism over the potentially enhanced responsibility of provincial governments. Most analysts express little confidence in the motivation and ability of provincial governments to recognize the principles and benefits of a national sharing community in the absence of a dominant federal role.

The chapter is divided into five sections. The first section examines in greater detail the concepts of decentralization and provincial autonomy as theoretical and practical terms, and their relationships with the fiscal and social systems. The purpose of this descriptive section is to introduce the manner in which decentralization is defined and used in this study: one in which the authority of the federal government to enforce a national sharing community is reduced, and the role of the provinces in this pursuit is elevated. The remaining sections present the way in which implications for the changing relationships between decentralization and principles of interregional equity have been characterized in the existing literature. Building on the first section, focus is placed on the combined impact of changed fiscal arrangements on federal and provincial roles in pursuing national equity goals. The second section examines the practical and symbolic implications of the altered fiscal arrangements and the resulting diminishment of federal authority. The third section moves beyond the causes of decentralization and focuses on speculation surrounding the theoretical compatibility and longer term viability of

interregional equity goals in a decentralized federal system. The fourth section briefly examines perceptions of the provincial capacity -- in both a practical and theoretical sense -- to pursue and uphold the principles and mechanisms of the sharing community. This section also provides a brief discussion of the viability of interprovincial mechanisms to uphold national principles and standards in the federation. A final section provides a summary of the chapter's main findings.

DEFINING DECENTRALIZATION AND PROVINCIAL AUTONOMY

As noted in Chapter 1, defining the nature and extent of decentralization in a federation is a complex task. For the purposes of the study, decentralization is defined as the degree of autonomy enjoyed by the provinces vis-à-vis the federal government. While some definitions point to jurisdictional distributions of power and the mechanisms of governmental decision-making processes, others focus on the design and use of fiscal/financial tools to establish the extent of provincial autonomy as distinct from federal oversight. Simply defined, decentralization in a federation refers to a static balance of power in favour of the sub-national level of government. As a term implying a state of change in a federal system, decentralization refers to the increase in power assumed by sub-national units that is brought about by either a *de jure* transfer of power from central to peripheral governments, or by a *de facto* change in the extent to which these governments exercise power in their jurisdictional domains.

It is important to note the role that the formal, constitutional division and distribution of powers plays in these definitions. The former view, in which powers are determined or changed constitutionally and must be respected, form one popular school of thought. K.C. Wheare's classical view of a federation, in which "the general and regional governments are each, within a sphere, coordinate and independent" contributes much to this conception, which sees the degree of decentralization not as a dynamic adjustment in the hierarchy of powers flowing from national to sub-national units, but rather as a static, constitutionally-determined distribution of power that is pre-existing and supreme (Wheare, 1946: 10; Watts, 1996). In this view, the existence of "watertight" spheres of jurisdiction entails a strict separation of powers and responsibilities between

central and sub-national governments. The Quebec government's *Tremblay Report* (1953) provides an example of this view of the Canadian federation, proposing the specific separation and exclusive assignment of functions between the two levels of government.¹ Neither level of government is constitutionally nor politically subordinate to the other. Jurisdictions are exclusive, granting sovereignty to each level of government in each assigned area and the right to legislative capacity and control. The classic view favours each level of government with the ability to act independently within its own area of jurisdiction with external interference deemed illegitimate. The extent of decentralization may thus be primarily determined from the *de jure* assignment of powers. If key policy areas are assigned to provincial jurisdiction, the federation may be said to be structurally decentralized. Akin to Wheare's classical view of the federal state, decentralization in Canada may thus be said to exist when the division of powers enumerates a degree of provincial control larger, relative to the number of spheres controlled by the federal government, than that enjoyed by federal or shared jurisdiction.

This conclusion, however, fails to account for other important factors in the measurement of decentralization. Based on the written constitutional division of powers, the conception of the federal structure developed in the *Tremblay Report* has allowed many to associate the term decentralization with that of 'provincial autonomy' (Courchene, 1986): a view of exclusive 'sovereign domains' and the clear demarcation and separation of responsibilities which suggests a degree of independence over assigned powers ill-suited to a modern federation. The Report's view of 'unilateralism', or the assumed right of a province to manage its own affairs irrespective of other jurisdictions, may not be well suited to today's governance. As Courchene argues, "autonomy in this sense is giving way to interdependence. One level of government may still have the responsibility for action in a particular sphere, but given the interdependence of policies,

¹ This view is not exclusive to the *Tremblay Report*. Other documents, such as the *Livre Beige* (1980), the *Allaire Report* (1991) (both the products of the Quebec Liberal Party) and parts of the *Bélanger-Campeau Commission* call for similar considerations, in particular the extensive redistribution of powers in an attempt to eliminate overlaps and duplication and the elimination of the federal spending power.

there is now the presumption that actions of other governments will spill over into this policy sphere” (Courchene, 1986: 5).

With interdependence comes a need for enhanced cooperation among governments. Elazar (1984: 2) argues that a federal union is more appropriately characterized as a “partnership” in which there exists a “distribution of real power among several centres that must negotiate cooperative arrangements with one another in several centres in order to achieve common goals.” The interdependence of levels in the federation necessitates a degree of coordination and overlap between responsibilities that prevents a strict adherence to traditional notions of the distribution of powers. In this way, the implications of the extent of centralization or non-centralization are diminished in importance, as the interdependence and overlap of policy fields which necessitate cooperation and coordination among levels of government would reduce its overall significance. Recognition of the interdependence of policy spheres also refutes the classical view by accounting for the existence of *de facto* distributions of powers and the evolution and adaptation of these distributions over time. Here there are two important considerations. Watts (1996) notes that when assessing the extent of centralization or decentralization it is important to distinguish between a) the *scope of jurisdiction* exercised by each level of government and b) the *degree of actual autonomy* or freedom from control enjoyed by each level in these jurisdictions. The scope of decentralized jurisdiction is primarily determined by the formal, constitutional allocation of legislative powers to each level of government. Beyond this however, “account must be taken of the degree to which in practice constitutionally assigned powers are actually fully or only partially exercised by the governments to which they are assigned” (Watts, 1996: 66).

While a constitution may assign sub-national governments few exclusive powers, these governments may enjoy substantial autonomy in their areas of jurisdictional responsibility. Alternately, in federations in which sub-national governments possess exclusive jurisdictions with national importance, autonomy within these areas may be reduced. The primary tool for such a reduction in autonomy is normally financial in nature. As described in Chapter 2, the concentration of revenue collection at the federal level and the use of the federal spending power to place federal conditions on funds for

expenditure in key areas plays a major role in determining the extent to which sub-national governments actually enjoy control over their own areas of responsibility. Alternately, increased provincial control over fiscal tools would yield greater possible control over affected jurisdictions. In this vein, Courchene defines decentralization as a primarily financial or fiscal dynamic, in which provincial powers are increased due to:

1. a transfer of additional constitutional responsibilities to the provinces,
2. an increase in the proportion of provincial revenues that arise from own-source taxation as distinct from federal transfers, or
3. an increase in the proportion of unconditional federal transfers to the provinces (Courchene, 1986: 5)

Centralization or decentralization of financial tools may determine the degree of dependency or autonomy enjoyed by a province. The degree of autonomy garnered from decentralization of financial tools is measured as the percentage of all government expenditures not coming from the transfer of federal government revenues (Watts, 1996; Courchene, 1986; Cameron, 1994). The character of these transfers is also important; intergovernmental grants, as noted in point (3) may be ‘conditional’ or ‘unconditional’, referring to the stipulations attached to transferred funds by the issuing government. The cost-sharing agreements described in Chapter 2 and thus the use of the federal spending power are primary examples of conditional transfers in the Canadian federation. Courchene (1986: 27) notes that this characteristic of intergovernmental grants is one important way in which the *de facto* distribution of powers can diverge from *de jure* distribution, such that “the magnitude and form of intergovernmental transfers can influence the power spectrum.” Unconditional transfers increase provincial revenues without implications for how the funds are spent, while conditional transfers for expenditure in exclusively provincial jurisdictions affect the degree of provincial autonomy in these areas. This dynamic is closely linked to the notion of decentralization. Fiscal decentralization may be observed through the proportion of autonomous revenues in provincial coffers and the magnitude of the sphere of autonomy enjoyed. Simply, the

smaller the portion controlled by the federal government, the greater the extent of decentralization (Rocher and Rouillard, 1996: 2).²

It would appear that while accounting for the effects of fiscal transfers on the power spectrum, such an analysis tends to omit the political implications of changes to the fiscal arrangements. There is little doubt that an intimate connection exists between the chosen fiscal arrangements and the basic goals of the federation. The structure of the fiscal arrangements possess a degree of symbolic and practical power which make their design much more than an economic issue. Courchene has argued that decisions and preferences in the area of fiscal arrangements represent the dominant concerns and goals of the country, such that “embedded in this federal-provincial system is an incredibly complex set of incentives and principles that reflect and articulate the political, economic, and redistributive underpinnings, and indeed, the values relating to the manner in which we Canadians have elected to approach not only our East-West social contract, but also the way we practice federalism (1994: 3). As described in the previous chapter, fiscal structures and practices which include commitments to equity and symmetry of public service provision are perceived to make possible a national community of minimum service levels and embody a principle of equity that supports provincial communities regardless of economic success. Fiscal arrangements thus act as a blueprint for the type of federation Canadians receive, and there is a large degree of interdependence between political priorities and the decision-making associated with fiscal structures (Courchene, 1994). Redistribution among provinces, particularly that achieved by the equalization program, is meant to represent some of the great ideals and the great values of Canadians, as well as to express the compassion of the nation. Problems emerge when changes to the

² Changes in the *de jure* division of powers need not always be characterized as a powerful government seizing control over other jurisdictions by means of financial pressure. Beyond the assignment of jurisdiction, decentralization may also refer to the extent of responsibility actually assumed by provinces for their own jurisdictions. This may occur when sub-national units in a federation enlarge their sphere of autonomy, such that they assume the capacity to take independent decisions in recognized policy sectors (Rocher and Rouillard, 1996). Decentralization is thus directly contrasted with centralization, such that where centralization is “an expansion of policy responsibilities assumed by the central government and toward contraction of policy responsibilities assumed by the provinces”, decentralization “calls upon a reverse dynamic.” See Leslie (1987: 101).

fiscal arrangements threaten to alter the established power structure. Since they are financial instruments, fiscal arrangements are easily subject to the instabilities of the federal, provincial, and indeed international financial environments. These dynamics also figure prominently in the relations between federal and provincial governments. Simeon (1994: 141) has observed that in Canada, cooperation between levels of government has more often been expressed in terms of financial rather than political instruments. Since the fiscal arrangements are also policy instruments, governments must decide upon the design and structure of the arrangements in the face of conflicting ideological viewpoints, fiscal constraints and political interests. The fiscal arrangements must simultaneously accommodate a federal-provincial power structure, economic necessity, and political and social will (Ip, 1993; Banting, Brown and Courchene, 1994). These interdependencies become important when one considers the linkages between decentralization and redistribution in the current fiscal and federal context.

In summary, the extent of decentralization (or non-centralization) in a federation is determined by a combination of three conditions as described above. Primarily, the design of the formal, constitutional distribution of powers and jurisdiction in the federation provides the starting point from which an assessment may be made. The basis for this assessment is the assumption that the constitutional assignment of key policy and legislative areas to sub-national governments denotes a pre-existing state of decentralization. This distribution may be tempered by another factor: the extent to which governments actually exercise autonomy in their own jurisdictions. Finally, it is necessary to examine the extent to which financial tools and fiscal arrangements contribute to or deter from adherence to formal divisions of power and hence, to the degree of decentralization in the federation. This latter factor is particularly important in the context of the current study. As will be described in the next section, it is the fiscal decentralization of the federation and the resulting diminishment of federal oversight authority which has provoked the greatest degree of pessimism regarding the future of national goals of equity.

FISCAL DECENTRALIZATION: THE FEDERAL GOVERNMENT RETREATS

Given the power that fiscal arrangements assume in the Canadian federation, several analysts have argued that the recent changes in the nation's fiscal structure will have significant implications for the way social and redistributive policy goals are pursued in the federation. Chapter 2 provided an introduction to these fiscal changes, detailing the creation of the C.H.S.T. as a federal response to mounting fiscal crisis. This section explores the symbolic and practical implications of these changes to the fiscal arrangements on the pursuit of interregional equity goals.

In the wake of the 1995 federal budget, much speculation has centred on the effect of the new fiscal arrangements on relations between Ottawa and the provinces and on the fate of national standards and social policy in general (Courchene and Wilson, 1995c). Analysts have warned that while the budget served to address the fiscal woes of the federal government, the creation of the C.H.S.T. block transfer created a new set of problems: it accelerated the trend of devolution of social policy powers to the provinces by weakening the federal government's legitimacy as a national voice in the social policy sphere (Banting, 1995; Phillips, 1995). At the root of these fears was the threat associated with the cash portion of the transfer. By "allowing the C.H.S.T. cash transfer to be determined as a residual after subtracting the tax transfer component", the federal government virtually "guaranteed that the cash component for E.P.F. and C.A.P. combined [would] automatically fall to zero sometime early in the twentieth century" (Boadway, 1995: 101). While the federal government has since elevated the cash portion of the transfer in both the 1997-98 and 1998-99 budgets, the symbolic threat is still significant. What are the implications of a dwindling cash portion? Boadway (1995: 10) highlights two reasons for concern. First and foremost, the loss of cash transfers would result in a decentralization of fiscal responsibility to the provinces that would be "essentially irreversible". With no cash transfer to which to attach spending conditions, the federal government would become effectively detached from meaningful supervision and participation in areas of provincial jurisdiction. Second, the federal government would no longer have adequate leverage to induce provinces to adhere to the criteria associated with health care and social assistance standards.

Since conditions are only attached to cash transfers and not to tax points, the federal government would gradually lose its financial leverage over the provinces (Boadway, 1995; Banting, 1995; Torjman, 1995; Gibbins, 1995). With the loss of conditional transfers, a key instrument in the achievement of interregional equity would be sacrificed. Ottawa would no longer be in a position to use the federal spending power to pursue its goals of interregional redistribution through traditional means - national standards and conditions attached to transfers. Nor would Ottawa be in a position to implement other national criteria for provincial programs, if demands for such criteria were to arise (Torjman, 1995). As a result of the altered fiscal arrangements, the federal government would stand to experience a growing lack of authority and legitimacy with respect to the design and enforcement of national standards and principles of national equity. The pursuit of an equitable national social system is portrayed as threatened, as it is assumed that accompanying principles require a strong federal government to define, preserve, and uphold them.

Banting (1995) and Boadway (1995) have argued that the federal government committed a grave error with the C.H.S.T., one that suggested a serious misunderstanding with respect to the longer term impact of the new fiscal arrangements and the weakened position of the federal government. Boadway contends that among powerful circles, a great misconception existed with respect to what the budget implied to the fundamental objectives of the fiscal arrangements, the mechanics of the fiscal system in general, and in turn the very nature of fiscal federalism in Canada (1995: 96). He argues that the manner in which the federal government dealt with its fiscal crisis -- through changes to the system of fiscal transfers -- was plagued with inconsistencies and demonstrated poor judgment and lack of foresight with respect to fundamental elements of the Canadian federation. As Banting has argued, if "...an important budget reflects a sense of the country, and of the people who live in it", then the social policy dimension of the 1995 budget raises questions as to the conception of Canada currently underlying federal fiscal policies (1995: 173). In his view, the C.H.S.T. called into question some fundamental tenets of Canadian social and redistributive policy: Is there a lasting role for national standards and objectives in social programs? What is the character of the political and

social community within which Canadians determine their obligations to one another? The sad truth, Banting argues, is that the C.H.S.T. envisions a very limited social role for the federal government in redistributive objectives (Banting, 1995: 177). Torjman agrees, noting that “Ottawa appears to have lost sight of its role - and purpose- as a national leader. ...the disappearing federal cash transfers render purely theoretical Ottawa’s ability to negotiate, let alone enforce, any conditions or standards” (Torjman, 1995: 1). These concrete fiscal changes were also reinforced by the promises of the 1996 Speech from the Throne, which announced federal intention to limit the use of the spending power in areas of exclusive provincial jurisdiction.

Implicit in the fears of federal retreat is the assumption that in the absence of federal enforcement, provinces will not uphold national goals. Boychuk has argued that as provincial governments gain autonomy they will likely begin to assert more strongly their respective policy preferences, particularly vis-à-vis a federal government that lacks both the apparent will and fiscal resources to mount a challenge to growing divergence:

...current federal policy is moving more explicitly towards accepting diversity in provincial program design and delivery if not actually encouraging provincial variation. ...under the C.H.S.T., it seem apparent that there will not even be federal pretensions of ensuring some minimum standards of uniformity... (Boychuk, 1995: 126-7)

If this occurs, there is a strong possibility that program standards will begin to diverge even more substantially among the provinces, since left to their own devices, “provinces will not voluntarily adopt the favoured model” of social service provision, and will seek to use growing asymmetry to their advantage (Boychuk, 1995: 127). Kent (1997: 187) agrees, noting that the erosion brought about by financial stringency “is bound to result in widening differences from place to place; Ottawa has no clout to maintain anything near a consistent national service.” Policy preferences and hence changes to social service provision would vary markedly from province to province. In this view, provinces are not expected to prioritize broader concerns about efficiency, equity and national unity.

This perceived inevitability of significant divergence among provincial social systems questions the extent to which arguments for national economic efficiency and equity remain convincing to provincial governments. Once again, emphasis is placed on

the implications of the weakened federal role: specifically, if the federal government expresses less interest in preserving important equity principles, the provinces will not seek to fill this leadership vacuum. Boychuk (1995: 135) argues that it cannot be expected that the federal government will be able to “meaningfully enforce” national standards in the provinces at a higher level than what is currently enjoyed “while simultaneously reducing its fiscal commitment.” Phillips (1995: 77) expresses similar concerns about the loss of federal political influence: “why should the provinces abide by national standards when the federal government has renounced its claim of a national interest”? Gibbins’ assessment of this threat to national standards is also decidedly pessimistic. He maintains that the forces which have at once compelled the federal government to accept the enhanced role of the provinces in maintaining the economic union have also raised the threat of what the provinces will do with their newly discovered powers. The combined threat of interprovincial competition, the potential of spill-over effects through downward harmonization or possible erosion of social support services jeopardizes the achievement of social policy coordination between jurisdictions which in turn could precipitate the gradual reduction of services to sub-standard levels (Gibbins, 1995: 9). The impact of these developments on national equity may be more a difference in kind than of their continued existence. As Gibbins suggests, the question is not one of whether national objectives should exist, or even whether they are capable of achieving the lofty goals commonly associated with them. Rather, “the heart of the matter rests with *who* should set national standards, how restrictive they should be, and how such standards should be enforced.” (Gibbins, 1997a: 8). The 1995 Budget Speech, which invited provinces to “work together on developing, through meaningful consent, a set of shared principles and objectives that could underlie the new transfer” opened a gateway for provincial interest in the pursuit of interregional equity. However, as weak fiscal commitments shrink federal legitimacy, the ability of the federal government to design and enforce standards is also reduced. The role of provinces in the pursuit of equity is thus elevated. Their ability to uphold these important principles is considered later in this chapter and again in Chapter 4.

There are obvious political implications associated with fiscal decentralization. The erosion of federal influence over the design and implementation of national objectives threatens to alter established power relationships within the federation. There is also some concern that a dangerous linkage exists between the design of the C.H.S.T. and the formal Equalization program. Pointing to flaws in the mechanics of the fiscal arrangements themselves, some analysts have argued that both political and fiscal support for redistributive goals have been sacrificed to federal debt control. Central to these arguments is the notion of 'fair share'. As described in Chapter 2, the creation of the C.H.S.T. entailed the rolling together of the former E.P.F. and C.A.P. programs. The new transfer maintained the design of these programs, including conditions in which wealthy provinces received less than equal per capita cash entitlements while have-not provinces received greater amounts. In an economic union in which provinces and regions possess very different economic structures, interests and fiscal capacities, federal economic policies will necessarily have an uneven impact. However, in the interests of federal stability, it is important that all members of the union feel that economic policy decisions are made in a fair and consistent manner. Since the rationale for redistributive transfers such as Equalization are well supported on equity and efficiency grounds, they have also long enjoyed generalized support and acceptance from all Canadian provinces, including the wealthy donor provinces. This acceptance is an important factor, suggesting that it is the comparative stability such transfers provide that is the main reason why payer provinces have accepted them. Norrie (1993) has argued that in Canada, where economic policy in the form of fiscal transfers among provinces and regions is an important condition for the maintenance of an economic and social union, significant changes to the terms of these transfers would likely cause members to question the legitimacy of the federal arrangements more generally. When the transfer system is seen to discriminate against some and not others, notions of 'fair share' have important implications for support for the sharing community.

Boessenkool (1996) has argued that discriminative transfers could destabilize a commitment to the sharing community if provincial governments believe that inequities in per capita entitlements reduce the efficiency of their provincial economies. He

contends that because former disparities in cash entitlements have persisted, federal reductions in the size of cash payments under the C.H.S.T. will have unequal impacts across the provinces. This is most threatening for provinces with the largest populations, which include the three donor provinces of the Equalization program (Alberta, Ontario and British Columbia). Boessenkool notes that under the original C.H.S.T. design, Ontario's cash payment would remain 12% below an equal per capita amount in the first five years, while Quebec would be allocated 23% more than its equal per capita share in 1996/97 (1996: 9). This pattern is repeated for other have and have-not provinces. He doubts that wealthy provinces will long tolerate the persisting inequities of the fiscal transfer system, since "as fiscal pies grow smaller, 'have' provinces increasingly will be looking for a fair deal from the federal government ...In light of, or in return for, their continued support for equalization, 'have' provinces are likely to understand 'fair' to mean 'equal'" (Boessenkool, 11-12). Norrie concurs, stating that his "most serious reservation about devolution" concerns the fate of interregional equity goals since "there is a gap between those who receive the benefits of government spending, and those who pay for it disproportionately" (1993: 122). If this continues, 'have' provinces will increasingly begin to discuss issues of 'fair share' in redistributive arrangements, posing a further threat to the commitment to equity objectives in the federation. There is a perceived risk that with increased autonomy, donor provinces and their constituents will retaliate against established principles of Equalization if such goals are seen to detract from the productivity and efficiency of the local provincial economy (Courchene, 1994).

Some analysts have also warned that since enhanced provincial autonomy due to altered fiscal arrangements allows 'have-not' governments to design programs outside of accepted objectives, regulations and guidelines, it may be unlikely that residents in donor provinces will be willing to finance their activities indefinitely. As Leslie argues, "Citizens may be willing to pay taxes to ensure the existence of 'what it means to be a Canadian' everywhere in the country, but widening interprovincial differences in program standards may reduce the legitimacy of a redistributive system (1993: 62). While it may be possible to suggest that if governments assume greater fiscal responsibility, in the sense that they are forced to raise taxes "commensurate with their program expenditures",

that such discipline will invoke an improved appreciation that any political benefit derived from the provision of social programs “will have to be set against the political prices associated with higher taxes” (Norrie, 1993: 167). It is not clear that the Equalization program as currently designed does not force governments to consider this problem; it is easier for recipient jurisdictions to spend money that is not their own, while it is increasingly questionable that donor governments will trust eroding national standards to bring about nominally predictable ends to their redistributed funds. Therefore, while the merits of provincial autonomy may be convincing, it is not clear that the asymmetrical redistributive purposes of equalization will bear greater weight than the counter-argument of increased fiscal accountability.

DECENTRALIZATION AND INTERPROVINCIAL REDISTRIBUTION

There is also some speculation that beyond the logistics of a provincial role in national equity goals, the principles of decentralization and the nationalizing rationale surrounding interregional redistributive goals are incompatible. This section presents arguments that question the theoretical compatibility and longer term viability of interregional equity goals in a decentralized federal system. These arguments are advanced on two main fronts. First, in addition to the more practical logistics just described, the underlying *logic* of the decentralization process is inconsistent with continued interregional equity as Canadians have come to understand it. This set of criticisms includes a view of the unique position of Quebec in the federation, and the way in which some analysts have described that province’s understanding of the decentralization/equity nexus. Second analysts have speculated that on the grounds of public and governmental support, changing fiscal, and hence political, arrangements will affect perceptions of the roles of the federal and provincial governments, which will in turn alter notions of ‘identity’ for Canadians. These altered perceptions of the national political, economic and social communities in favour of more local foci of identity may cause the level of support for federally-controlled equity objectives to decline. The greatest victim may be the Equalization program, for which support may decline in proportion to the degree to which provinces are capable of assuming their new responsibilities in the area of social policy.

Working at Cross-Purposes

To the extent that deteriorating national standards would facilitate the control over social policy outcomes to devolved to the provinces, there is an associated risk for maintaining and promoting national equity goals (Gibbins, 1996; Leslie, 1993). This is of particular importance to those 'have-not' provinces whose fiscal capacities do not meet levels required to achieve minimum standards of assistance and depend on the Equalization program as an interprovincial redistributive transfer to bring them about. As Gibbins (1996) and Courchene (1994) have noted, much of the resistance to decentralized social policy has come from these provinces that sit on the 'receiving end' of redistributive transfers. Since equalization exists for reasons of both equity and efficiency in the federation, it largely symbolizes and embodies federal fiscal support for social programs. However, notwithstanding post-1995 federal policy and its associated threats, the equation pits support for redistribution against decentralized federalism. Leslie has suggested that, generally speaking, there "appear to be limits to the extent to which the fiscal arrangements can be both decentralized and redistributive" and that "beyond a certain point, decentralization probably erodes support for redistribution ... [and] would mean backsliding on the principles of the sharing community" (1993: 59). In his view, the interaction of these two principles poses a significant dilemma to a federal government. On one hand the federal government has reason to be concerned with the loss of policy influence and ability to define and implement national objectives promised by the continued "snowballing" of decentralization. On the other it must contend with a growing discontent among the wealthier provincial governments, to which -- due to fiscal constraints -- the only response has been a renewed decentralist orientation (Leslie, 1993: 63). Neither option bodes well for redistributive goals. One erodes a national commitment to equity objectives by stealth, the other by a more visible stance clothed in the rhetoric of efficiency and fiscal responsibility. As Leslie describes, "the two objectives are, of course, largely antithetical" (1993: 49). Equalization made sense as part of an overall system of transfers that is now outdated, and if changes are made to that system, equalization would have to be adapted correspondingly. These views are shared

by Gibbins. As he suggests, “the logic of decentralization requires weakening the constraints of national programs and emphasizing the importance of provincial communities at the expense of the national community” (1997a: 15). As provincial autonomy in the social sphere grows, divergences among jurisdictions will increase. The structural balance between unity and diversity in the federal social system will become tilted in favour of the provinces. As such, national goals of equity may grow less important as they become both burdensome and less relevant.

Following Leslie’s logic, with the federal withdrawal from power over social policy since the 1995 budget, the system has indeed changed. With the apparent retrenchment of emphasis on achieving and supporting national objectives, the federal government has placed less importance on the principle of redistributive equity. With the pressure of fiscal changes and continuing decentralization of responsibility for upholding equity goals, Leslie concludes that “one cannot exclude the possibility that the political basis for interregional transfers will be whittled away” (1993: 3). Achieving symmetry of result in social services across provinces is a federal goal based on the benefits of an efficient and equitable economic union. This could be a goal incompatible with the principles and argument currently driving the move toward a decentralized federation, in which provincial goals are based on a desire to increase relative autonomy vis-à-vis the federal government and structure policy design and delivery according to local preferences. Courchene has argued that as the inevitable result of decentralization, greater divergences in social policy make sense if one recognizes that provinces are and should be significantly different with respect to social programs and economic management (1986: 145). Drawing on these assertions that increased asymmetry among social program design and delivery is not only inevitable but preferable, Gibbins (1997a) has warned that while constitutional symmetry might be possible, symmetry of result is not. While equalization attempts to standardize fiscal capacity across provinces, there is an incompatibility between this attempt at promoting provincial symmetry and the goals of decentralization. Just as Courchene contends that increased provincial asymmetry in public service provision is inevitable within the context of a shift to a decentralized federation, he also argues that it is in fact the *goal* of this shift. Gibbins agrees. At some

level, he concludes, the “logic of decentralization works against the logic of equalization: the former celebrates the interprovincial variation for which the latter tries to correct” (Gibbins, 1997a: 9).

A View from Quebec

The position of Quebec in the federation sheds a unique light on this discussion of the incompatibility of decentralization and equity objectives. Unlike English Canadian scholars who frame their arguments in terms of ‘national’ goals and ‘national’ interests, Quebec analysts have traditionally cast their arguments in terms of the historical basis for the 1867 Constitutional arrangements, in which a confederal option was chosen as a means not to promote national efficiency nor achieve a common identity, but to accommodate the distinct political and cultural demands of the nation’s two ‘founding peoples’ (Noël, 1998: 242). This notion of a federation designed for political expedience is easily contrasted with the vision of a nationalized and rights-based federation championed by English Canadians, and on which arguments in favour of interregional equity and notions of pan-Canadianism have been premised. In the former view, decentralization and equity objectives are not so much incompatible as they are distinct issues, since strict adherence to the logic of the federal principle commands that equity issues remain within provincial borders as the proper focus of ‘community’. The federal arrangement in Canada confers specific powers on both levels of government in order to enable the preservation of unique societies, while facilitating cooperation in areas of mutual interest. As Noël argues, however, the objective of such an arrangement is limited with respect to the treatment of individuals as compared to communities within the federation. The intention is “not to be efficient nor to guarantee that everyone be treated identically, but rather to allow the constituent parties to continue to do things each in their own manner” (Noël, 1998: 242). The federal principle does not therefore presuppose the existence of national interests cast in federal authority. As such, the benefits to a pan-Canadian notion of sharing do not flow from the ideas of a confederal arrangement on which the country was founded. The federal principle becomes the primary value upon which all other values must first be judged; the goals of national

social policy and equity objectives subsume a unitary form which negates the purpose of a federal state.

The argument forwarded by Noël paints a view of the federation in which the common contrast of ‘unity and diversity’ is not upheld in a manner in which it was originally intended. As Noël contends, the concepts of ‘subsidiarity and solidarity’³ – as he refers to these concepts – have come to mean different things in English- and French-speaking Canada. English Canadian conceptions of equity, and hence solidarity, refer to American-style individualism, while Quebec places paramount importance on the federal principle and the importance of preserving sub-national communities. This is particularly important in discussions based on the supposed merits of ‘national’ social policy objectives, such that the existence of a pan-Canadian ‘social union’ based on a measure of historical “consensus, unification and uniformity” has been largely overstated by English-speaking Canadians in the interest of individual equality of opportunity (See Noël, 1998: 245).⁴ However, despite this historical discrepancy, subsidiarity has long been promoted as a means to overcome Quebec’s desire for autonomy and the country’s desire to build a sense of solidarity (Burelle, 1995). A distinction must therefore also be drawn between the kind of equality sought among individuals and that sought between federal communities. As Burelle has argued, the reverence with which the notion of a social union and the Charter of Rights and Freedoms has been held by those favouring a nationalizing, rights-based vision of the federation has created a conception of the country markedly distanced from adherence to founding federal principles, and in which Quebec is incorrectly cast as “*une province comme les autres*” (Burelle, 1995: pp. 104, 106). In these views, goals of unity and solidarity are less a ‘national’ concern than a provincial one. The historical and contemporary position of Quebec and the intended

³ *Solidarity* as defined as a sense of common purpose, common belonging and common good. *Subsidiarity* as defined as the perceived benefit of passing responsibilities downward toward communities and persons.

⁴ Noël’s historical basis for this criticism is that “the development of social policy in Canada was not characterized by a search for a reasonable balance between democracy (autonomy) and efficiency (or interference justified by insufficient capabilities). Rather, it was shaped by the complex interplay between and institutional constraints, of which the division of powers established at the outset was a central element” (Noël, 1998: 245).

purpose of a federal system necessitates this view. In terms of the desire to promote interregional equity objectives as basis for nationalizing sentiment, respect for the federal principle commands that solidarity must be built on solidaristic practices within each 'society' (Noël, 1998: 264).

The Threat to 'Shared Identity'

There is also some argument that the decentralization of key elements of social policy control may be triggering a change in how Canadians, rather than their governments, view provincial and federal roles in the federation. In this view, as provinces assume greater roles in the area of social policy, citizens may look less to the 'centre', or federal government, in constructing their social and political identities. Canadians may come to associate equity goals with their provincial rather than federal government. These changing conceptions are akin to the competing visions introduced in Chapter 2. In this case, the slow collapse of the 'nationalizing' vision will give way to the 'communities' vision, thus paving the way for a diminished commitment to the sharing community. Courchene (1995b) has forwarded the hypothesis that decentralization of key areas of social policy "may be triggering a fundamental change in English Canada's view of its relationship to Ottawa, and therefore, to the federation." (1995b: 4). He points to the dual roles of decentralization and globalization in creating this phenomenon, suggesting that Canadians have entered an "identity warp" as Ottawa increasingly diminishes its role on the social policy front. He argues that as a result of this trend, "loyalties and identities are becoming dispersed, multiplied and perhaps even fragmented" (1995b: 65). Courchene does not limit his arguments to the immediate effects of fiscal pressures. He suggests that the effects of decentralization are changing Canadians' views of themselves in a much more fundamental and long-term sense. As further adjustments are made to fiscal arrangements that continue to feature decentralizing practices, the "degree of adjustment that it will necessarily entail at the provincial level has changed long-standing conceptions of the roles of Ottawa and the provinces" such that "English Canada is beginning to realize that the federal government may no longer be the embodiment of both nation and state" (1995b: 65). The core social values that have traditionally been

perceived as English-speaking Canada's vision of 'nation' have been passed unceremoniously from federal to provincial hands. As Canadians have only ever looked to the federal government as the key player in the social and economic union, and as this role is bound to be diminished, there is a danger that Canadians will identify more closely with provincial governments and thereby lose their sense of national identity on a truly national scale.

This fragmentation of identities may have a decidedly negative impact on support for national redistribution. Where the notion of an equitable Canadian federation embodies what Canadians perceive as "nation", and the governments which provide these symbols are perceived as "state", changes to the locus of control and influence of these key symbols will influence how Canadians perceive their positions vis-à-vis their governments and their fellow Canadians. These views are echoed elsewhere. Phillips has argued that in the wake of the 1995 federal budget, the repositioning of the federal government toward intervention in social programs is "likely to force a redefinition of ourselves as a political community and contribute to making Canada a leaner and meaner nation" (1995: 66). This "forced redefinition of core values" has been aided by the new fiscal arrangements which "appears to set the federation on a one-way street of decentralization, involving limited use of the federal spending power and reduced opportunities for renewed federal government activism" (Phillips, 1995: 66). Gibbins (1997a) has also emphasized the impact of weakened federal influence on notions of identity by pointing to the inevitable loss of federal visibility as provinces assume a greater role in key policy areas. He questions whether ties may be sustained between citizens and the federal government, or whether Canadians will "come to see the federal government and the national community for which it speaks as less relevant for their lives" (Gibbins, 1997a: 23). Likewise, Norrie expresses pessimism when he argues that since in Canada "the political will to redistribute is tied closely to perceptions of shared citizenship...Canada is likely to lose it as it becomes ever more regionalized" (Norrie, 151). Perceptions of identity are seen to be linked to national unity concerns. As Boychuk has noted, equity goals become married to social and economic citizenship issues when provincial autonomy in social service provision threatens to bring about a

“patchwork of provincial safety nets” which in turns threatens to erode a sense of national community (1995: 127). As described in the previous chapter, such an assessment assumes that national standards encourage perceptions of national citizenship. This is particularly true in low-income provinces, a fact that makes the goals of interregional equity and redistribution difficult to distinguish from more rhetorical notions of the national community. In wealthy provinces, the motivation to share with ‘have-not’ provinces is also at stake since a reduced identification with citizens in other jurisdictions would bring about a concomitant reduction in willingness to support social equity goals. Further, as Usher (1991) has argued, identification with provincial governments as champions of social equity issues may create communities of interest at the provincial level by driving a “wedge of self-interest between all residents of one provinces and all residents of another” thereby elevating the status of provincial governments at the expense of the national community (1991: 106).

As a greater proportion of political space is filled by provincial programs and priorities, citizens commitments to the national community may weaken as federal influence becomes filtered through the mechanisms of the intergovernmental process. The gradual federal downloading of responsibility for social service provision, particularly while fiscal constraints remain significant, would act to erode its political legitimacy with the electorate. In this scenario, provincial priorities would gain greater viability and visibility as compared to federal efficiency and equity objectives. In turn, transformed government roles may be altering established perceptions of identity vis-à-vis the state. As ‘reconfigured’ identities threaten support for national equity objectives, the victims are those of the poorer regions and provinces, who become decreasingly a part of a ‘sharing’ society.

THE CAPACITY OF THE PROVINCES TO PRESERVE THE SHARING COMMUNITY

In the context of a weakened federal government, analysts are decidedly skeptical of the ability of the provinces to preserve and uphold national goals of equity. As described earlier in this chapter, of particular concern is the ability of provinces to recognize and uphold national standards and principles in order to avoid the detriments of negative spill-

overs and uphold the benefits of an efficient and equitable national community. Provinces are viewed as parochial units, capable of acting only in the interests of their respective jurisdictions. Provinces are viewed as 'reactive' and opportunistic, using a weakened federal fiscal position to mount self-serving policy initiatives. There is also concern that if the federal government places visibly lower priority on equity goals, federal leadership cannot be replaced by provincial governments. A federal abdication of responsibility for national equity signals a general devaluation of these goals, leaving little incentive for leadership from provincial governments.

Recent views have provided a more optimistic view of the potential role of provincial governments in preserving equity goals. Courchene's "A.C.C.E.S.S." paper (A Convention on the Canadian Economic and Social Systems), commissioned by the Ontario government in 1996, provides the most comprehensive view of a new potential provincial role. Courchene argues that a combination of economic and political forces have resulted in "substantial, indeed unprecedented decentralization of Ottawa's powers in the social policy arena." (1996a: 2). As a result, the federal government is losing both its moral authority and its financial capacity to bring about a secure social union. He points out that since the construction of a social union featuring strong elements of interregional equity was a task largely pursued by Ottawa, analysts have viewed the federal government's diminished role as a threat to established principles. Courchene, however, provides a different view. Basing his argument on the assumption that (1) economic and political forces command that the process of decentralization will continue, and (2) federal 'top-down' enforcement to bring about national equity goals is now outdated, he concludes that "the provinces have to be brought more fully and formally into the key societal goal of preserving and promoting social Canada" (1996a: pp. 2-4). Vertical 'top-down' integration must give way to horizontal 'bottom-up' involvement of the provinces. This kind of horizontal approach has never been attempted since the provinces have never been brought "meaningfully into the operational workings of our internal union" (1996a: 7). In Courchene's view, the federation is compelled to embrace a more active stance from the provinces, arguing that "we really have no choice but to forge a federal-provincial partnership and in some cases an interprovincial accord in order

to deliver an effective internal union” (1996a: 2). In return, provinces are compelled to act in the interest of the national community. They “must rise to the citizen and societal challenge by accepting a larger responsibility for preserving and promoting social Canada” (1996a: 6-7). The view is once again one of ‘reactive’ provincial governments; provinces are pulled into the national equity pursuit as a means to fill the vacuum of leadership left by the federal government.

Courchene proposes a new partnership among federal and provincial governments in this pursuit, based on pan-Canadian principles of citizen rights in the social sphere. Central to the partnership is the notion that ‘national’ goals need not be ‘federal’: cooperation and collaboration among governments can bring about similar ends if sufficient political support exists to uphold these goals. This conception of national as contrasted with federal goals is extended to a discussion of national standards in the social sphere. As Courchene argues, Canadians and their governments must find a way of integrating important shared principles and guarantees “in a manner that generates a set of operational pan-Canadian norms or standards or equivalencies” (1996a: 19). This goal must be pursued since “a pan-Canadian social safety net is a core Canadian value. And, increasingly, it is only with support of the provinces that Canada can fully deliver on this goal” (1996a: 18-19). Underlying these goals is the recognition that a pan-Canadian social union, while necessary among governments, is “first and foremost about the rights and privileges of citizens” (1996a: 4). The report of the *Group of 22* (1996) forms another example of this type partnership approach which features an enhanced role for the provinces. They define partnership as “an end to unilateral behaviour by federal and provincial governments... a concerted and coordinated effort by all levels of government to preserve and promote our social and economic union and to manage interdependence.” (*Group of 22*: 20). They propose a ‘pact on the social and economic union’⁵ as a means to “maintain social and economic cohesion at a time when responsibilities, on balance, are shifting towards provincial governments” (*Group of 22*: 20). The goals of a recognized role for provincial governments are straightforward: “to establish a stronger

⁵ Term adopted from André Burelle (1996).

and more legitimate Canadian social union” (*Group of 22*: 20). Again, the bases for the recommendation are to be found in the political support of the public and through shared values. These elements are believed to “create a successful vision of our future that will forge commitment and solidarity among Canadians” (*Group of 22*: 3).

There are, however, several obstacles to cooperation and collaboration among provinces. Swinton points to structural limitations as obstacles to interprovincial agreement, stating that since “intergovernmental agreements...are executive acts...they cannot change existing laws without some type of implementing legislation...governments can also legislate to override contracts” (Swinton, 1997: 22). Provincial governments would not be legally bound to such agreements should they change their minds or refuse to comply with specified obligations (1997: 22). Kennett (1998) notes that even if economic and political incentives exist for provincial governments to preserve and uphold key principles and national standards of the union, disincentives in the ‘collective action’ process are also powerful barriers against an effective system. Collective action theory holds that in multi-party bargaining, the complexity of the political setting will impede the achievement and enforcement of agreements. In the Canadian federation, political imperatives, differential provincial interests, a competitive and adversarial intergovernmental system, and the difficulty in “focusing provincial decision-makers on national issues” are obstacles to success (Kennett, 1998: 26). There are dangers that weak enforcement mechanisms under a provincial system would allow for undercutting of standards and principles, such that infractions of established principles may go unnoticed if they are not sufficiently ‘policed’ by the enforcing body (Kennett, 1998: 21). An associated threat is that provinces may feel tempted to minimize adherence to standards and principles if they feel agreements are not being respected by other jurisdictions. This mistrust could lead to other problems. Kennett suggests that the threat of ‘free-riders’ (those who gain from positive externalities) may extend to provincial agreements: “Incentives to free ride may prevent negotiation to address collective problems from even beginning if every party adopts a ‘wait and see’ approach, hoping that others will take the initiative in providing leadership or laying the groundwork for collaboration” (1998: 21). Further, ‘downward

harmonization' is made more threatening since a "mutually agreed common standards – which would put a stop to the downward pressure – may be difficult to achieve where such a standard would not be enforceable and individual jurisdictions would face incentives to cheat in order to obtain short-term advantage" (1998: 21).

Problems may also emerge under a collective action approach between wealthy and poor jurisdictions. Kennett suggests that in Canada these issues are particularly salient given the economic and demographic discrepancies among the 'have' and 'have-not' provinces. Intergovernmental bargaining may initiate a forum in which interests articulated by some provinces differ considerably from others. When enforcement of national principles and standards is subjected to this form of negotiation, "governments that are most vulnerable to external pressures would tend to be most supportive of a bargaining approach that offers some protection", while "larger and more self-sufficient jurisdictions will, all things being equal, be less likely to seek cooperation or will be better able to dictate terms and conditions for any cooperative arrangement." (Kennett, 1998: 24). Have and have-not provinces differ in their vulnerability to positive and negative externalities. Wealthy governments with large tax bases are more capable of maintaining a degree of autonomy in their policy spheres, even if these spheres are subject to collective standards and principles.

While a decentralized approach to securing the social union should therefore be sensitive to these disincentives, the belief that provinces will naturally diverge in the absence of federal presence also extends to a skepticism that alternative agreements among provincial governments can effectively achieve acceptable levels of national social standards. The recent provincial and intergovernmental initiatives outlined earlier and which form the basis for the next chapter are examples of these kinds of initiatives. If provincial leadership in the preservation of national standards and principles in support of equity goals were to be attempted, there is little confidence in the feasibility of these standards. Gibbins (1997a) has questioned the provincial capacity for such leadership: how strict would standards be if they were set by a primarily provincial body? Would loose standards be able to bring about meaningful and positive results, particularly with respect to equity across provinces and regions? Would provincial governments accept

some form of interprovincial enforcement of standards over federal enforcement? At worst, Gibbins concludes, provincial premiers need not worry about national standards. The destructive notion of provincially-designed and enforced standards is made resolute by the fact that provinces have no imperative to represent the national interest, being answerable only to their respective constituencies (Gibbins, 1997a: 8). These criticisms are echoed by other analysts. Kent (1997) points to a history of self-serving “parochialism” of provincial governments as an obstacle to achieving meaningful agreements in the interest national equity goals. In his view, provinces “will sign on to broad agreements in the national interest, but their constituencies are not national. When it comes to detailed implementation, to differences among provinces, to any enforcement of the agreements, it is their provincial electorates, and particularly to the views and interests of their own supporters within those electorates, that will dominate” (Kent, 1997: 188). Mendelson (1995) also doubts the viability of provincially-set standards:

First, the provinces will not agree to national standards with any meaning or substance. ...If so-called ‘national’ standards are developed by provincial consensus, they will almost certainly be vacuous generalities. ... Second, even in the extraordinarily unlikely event that all provinces did agree to substantive national standards, they could not be enforced. If one province broke the standard, what could be done about it? National standards implemented by the provinces are perfectly useless because they can be in effect only so long as everyone agrees to them; they will cease to be national standards whenever any provinces wants to break the standards (1995: 8-9)

These views appear to be supported to some extent by recent provincial behaviour. The recent attempt by British Columbia to ignore the non-residency requirement standard in social assistance in retaliation to the paring down of Albertan welfare rolls indicated at once the threat of negative spill-overs to the federation and the possible weakness of supposedly national incentives for cooperation. The fact that the B.C. government attempted such a breach of a national standard with full knowledge of punishment and despite possibility of public outcry may demonstrate the weakness of these standards in a system in which enforcement and compliance is difficult. Alberta’s short-lived attempt to establish a formal two-tier health system, while met with public outcry, also demonstrated the willingness of that provincial government to break with the provisions

of the *Canada Health Act* regardless of implications for its treasured principles. Quebec's policy of higher tuition fees for out-of-province students, while not a breach of any formal national standard, appears to question the integrity of the social and economic union in the face of reduced enforcement. The fact that British Columbia, Alberta, Saskatchewan and Quebec have also taken steps in the area of post-secondary education by placing restrictions on loans available to students planning or pursuing study in other provinces further supports these concerns.

These examples move the abstract issues of monitoring, enforcement and compliance of provincial agreements to a more practical level. Since the achievement of enforcement has been a task largely controlled by the federal government, a decentralized approach in which provincial governments enjoy a substantial increase in autonomy presents a new view of responsibility. Interprovincial enforcement would require an underlying confidence that national principles and standards are widely accepted not only because of the penalties threatened for non-compliance, but because they possess legitimate appeal among governments. This view is supported by Courchene, who also notes the proviso that effective enforcement mechanisms are necessary such that "interprovincial mechanisms for securing the internal union are binding on all parties" (Courchene, 1996: 17). Kennett notes the problems inherent to interprovincial agreements by drawing parallels to the international experience. Citing the work of Moravcsik (1993), he argues that once negotiated, the willingness of parties to comply with the system is determined by the existence of a "substantive commitment to the achievement of broad goals" (Kennett, 1998: 57-58).

Other criticisms of an enhanced provincial role in setting national standards and principles centre on normative issues of governance. Gibbins (1997b) has argued that the move to intergovernmentalism and 'executive federalism' to achieve national objectives would have negative repercussions for the goals of democratic accountability and transparency in Canada. An agreement among provincial leaders would "further erode the importance of legislative institutions, and the importance of politicians serving in federal and provincial legislatures", calling into question the democratic legitimacy of such an arrangement. (Gibbins, 1997b: 41). It is also possible that "institutionalizing an

interprovincial approach to developing and enforcing national social policy may involve not simply reinventing the federal wheel, but replacing it with a less democratic variant” (Kennett, 1998: 49). It is not clear whether either the federal or provincial legislatures could be held accountable for agreements made in intergovernmental forums.

Criticisms of the implications of decentralization and an increased provincial role have also come from those favouring nationalizing rights-based conceptions of the national community which transcend limited internal territorial definitions. In these views, decentralization and the augmented strength of provincial governments is seen as a reinforcement of territorial conceptions of the federal state, in which identities and interests are defined in terms of provincial communities of interest instead of individual identities such as gender, ethnicity, linguistic group and class. Of primary concern is the possibility of a “patchwork” of social services appearing across the country, such that programs of primary benefit for specific groups, such as women, would vary among provinces. Such a situation would reduce the potential mobility of such groups, as well as threaten a reduced standard for those who may be less mobile than other segments of society. Programs may become inconsistent in their goals, form and adequacy, as well as more vulnerable to the varying political and ideological temper of provincial governments (Day and Brodsky, 1998: 1). There is also some concern with the increased use of executive federalism as a form of interprovincial and intergovernmental negotiation under a decentralized system. The opaque character of this form of governance calls into question the legitimacy of the decision-making process. It heightens the importance of the interests of provincial governments, obstructs democratic participation of affected groups, and fails to subject decisions to elected Parliament or provincial legislatures (Day and Brodsky: 1998: 25).

SUMMARY

This chapter presented literature which explored the relationship between a decentralized federal structure, the design of the fiscal arrangements, and the fate of a commitment to interregional redistributive principles and goals. The purpose of the chapter was to demonstrate the ways in which analysts have portrayed decentralization and the potential

decline in federal dominance as a threat to the preservation of equity goals. The chapter found that the reduced dominance and legitimacy of the federal government as overseer and enforcer of important interregional principles is viewed as a largely negative development. Analysts generally expressed little confidence in the possibility of positive provincial participation in preserving national goals.

The first section defined the concepts of decentralization and provincial autonomy. The literature indicated that while these terms have several definitions based on differing notions of the locus of power and authority in the federation, the design of the fiscal arrangements is a particularly powerful determinant of the extent of decentralization and provincial autonomy. Building on this finding, the second section of the chapter presented a review of the linkages drawn between fiscal decentralization and equity goals. The literature indicated that the degree of fiscal decentralization and resultant provincial autonomy and federal weakness in key social policy areas is closely connected with the fate of the principles of the sharing community. The post-1995 fiscal arrangements accelerated the trend of devolution of social policy powers to the provinces by weakening the federal government's authority as a national voice in the social policy sphere. The symbolic weight of these changes implies a growing lack of legitimacy with respect to the design and enforcement of national standards and principles of national equity. Pre-existing flaws in federal-provincial fiscal arrangements also threaten the integrity of the sharing community; perceived discrimination against rich provinces with respect to less-than-equal per capita cash entitlements calls into question the long-term viability of a provincial commitment to interprovincial transfers.

Some speculation was also raised with respect to the theoretical and practical compatibility of a commitment to interregional equity principles and a decentralized federal system. In the third section, analysts questioned the viability of long-term support for such principles when a decentralizing trend could erode a commitment to the social objectives underlying the national community. Viewed to be in particular danger was the Equalization program, which as the embodiment of a commitment to interregional equity goals would likely suffer a reduced commitment in direct proportion to increased support for provincial autonomy in social equity matters. The position of two Quebec analysts on

these issues indicated that a discussion of the incompatibility of decentralization and equity objectives is less relevant since the federation was primarily designed to accommodate differences – including social policy diversity – at the sub-state level. In this view, seeking unifying pan-Canadian principles to promote solidarity negates the primary intention of the federal principle and forms an erroneous basis on which to define the federal community.

Arguments also included issues of and implications for shared national identity. In these views, the notion of ‘shared citizenship’ is closely tied to fiscal sharing. If the federal government withdraws its role in the social sphere, Canadians may come to associate equity goals with their provincial rather than federal government, thereby eroding an integral element for national support of interregional sharing. Implicit in these fears is the assumption that in the absence of federal enforcement, provinces will neither recognize nor prioritize broader concerns about efficiency, equity and national citizenship. Further, if the federal government expresses little interest in the preserving equity principles, provinces are not compelled to fill the leadership vacuum. When analysts do recognize the positive aspects of a provincial role, they tend to focus only on the implications of federal behaviour, with provinces as ‘reactive’ participants. Analysts who favour a potential provincial role qualify their arguments by pointing to the necessity of a partnership arrangement between federal and provincial governments. A brief overview of the critiques of these optimists revealed that beyond the issue of leadership, other obstacles will likely prevent a meaningful provincial role. These included structural obstacles, as well as limitations inherent to the process of ‘collective action.’ Successful collective action was seen to weigh on the strength of the provincial incentive structure, such that inducements to comply with intergovernmental agreements were contingent on the degree to which parties perceived potential gains from such compliance.

What emerges from this chapter is this latter issue of ‘incentives’. If the goal of interregional equity is to be upheld in the absence of a dominant federal enforcement role, do provinces possess a sufficient degree of motivation to bring about these ends? What has not been adequately explored are provincial initiatives in this realm and the nature of underlying provincial motivations for upholding redistributive mechanisms and

supporting equity principles. Thus, while the literature provides initial support for the thesis of this study that a connection exists between federal behaviour and a continued commitment to the sharing community, this connection fails to adequately account for proactive province-led initiatives expressing implicit and explicit support for interregional equity objectives. A consideration of these issues forms the focus of the next chapter.

CHAPTER 4: THE PROVINCES' POSITION: IMPLICATIONS FOR THE SHARING COMMUNITY

The purpose of this study was to examine the pursuit of interregional equity goals in the federation in light of recent province-led initiatives in the social policy sphere. The literature presented in the previous chapter revealed the dominant view of this topic - that the federal government alone is capable of securing the sharing community in the interests of an equitable national community. This is based on the corollaries that (1) only the federal government is capable of recognizing the benefits of upholding principles of interregional equity, and (2) only federal enforcement of these principles can bring about the necessary degree of convergence to maintain an equitable national sharing community. Some analysts presented arguments favouring greater responsibility for provincial governments in upholding equity goals. These arguments presented a provincial role as 'reactive', contending that if the federal government has effectively abdicated its predominant role as unquestioned authority and overseer of national equity goals, the provinces must seek to fill the 'vacuum' of leadership in the equity realm. This view pointed to a new partnership among federal and provincial governments as a means to secure the Canadian social network and uphold citizen rights in the social arena.

Focusing on interregional equity and support for the sharing community, the purpose of this chapter is to present the content of recent provincial initiatives as evidence of an emerging 'proactive' role of the provinces. The three cases to be examined are the (1) *Report to Premiers of the Ministerial Council on Social Policy Reform and Renewal*, (2) *A Renewed Vision of Canada's Health System*, and (3) *Reforming Federal-Provincial Fiscal Arrangements: Towards a National Consensus*.¹ While this chapter explores three separate provincial initiatives, it is arranged thematically rather than by case. This route was chosen as a means to reduce overlap and to facilitate the examination of principles and arguments previously introduced in this study. The goal is to demonstrate the

¹ It should be noted that the province of Quebec did not actively participate in the preparation of these initiatives. Further, the provinces of Newfoundland and Nova Scotia have expressed concern with some elements of the third case dealing with the fiscal arrangements. For this reason, analysis of this initiative has been limited to a discussion of the underlying principles for reform articulated in the report, rather than of the report's concrete proposals.

existence of a proactive provincial position in support of the sharing community. The first section provides an overview of the events leading up to the preparation of the three documents in question. The subsequent sections explore the cases in the context of the chosen themes and assesses these findings with respect to the arguments raised in Chapter 3. The analysis then further considers issues raised in the previous chapter concerning the viability of intergovernmental mechanisms in the pursuit of equity goals. A final section provides a summary of the chapter's findings.

BACKGROUND TO THE CASE STUDIES

“In the Canadian federation, some of the most important responsibilities are conferred upon Provinces and Territories. Premiers have agreed that closer cooperation among Provinces and Territories, with respect to sectors within their jurisdiction, is essential in order to achieve greater efficiency and effectiveness within the federation. It is time for the Provinces and the Territories to collectively assume a more cooperative leadership and coordination role with respect to their common national agenda in their areas of responsibility.” (1994 Annual Premiers Conference *Communiqué*)

Following the February, 1995 Budget Speech, in which the federal government invited the provinces to develop “mutual consent” principles to underlie the new C.H.S.T., the provinces and territories (with the exception of Quebec) responded promptly. In late summer, the provinces elected to “improve cooperation and take on a leadership role with respect to national matters that affect areas of provincial and territorial jurisdiction, and ...speak with a common voice on the essential elements in the national debate on social policy reform” (1995 Annual Premiers Conference *Communiqué*). They formed the *Ministerial Council on Social Policy Reform and Renewal*: a body which aimed to unite provinces in their response to the federal request. Each participating province assigned a representative to the new organization. The Council was mandated to “formulate common positions on national social policy issues” and “draft a set of guiding principles and underlying values for social policy reform and renewal” (*Communiqué*, 36th Annual Premiers' Conference 1995: 2-3). The Report was completed in December of 1995, when the Council put the finishing touches on the document and marked it for release.

Following a short delay (required to brief the new government in British Columbia), the Council's *Report to Premiers* was finally made public in March of 1996 when it was forwarded to the Prime Minister. From most viewpoints, the document was quite a remarkable and historic achievement (Courchene, 1997; Biggs, 1996; O'Hara, 1997; Mendelson, 1996). It contained concrete and constructive proposals for reform, expressed explicit support for core principles of the social and economic union, and invited further discussion for cooperative efforts in the social policy sphere. Specifically, the Report responded to the 1995 federal invitation by calling for a greater provincial role in setting pan-Canadian standards within a context of federal-provincial cooperation. It introduced fifteen 'overarching principles' chosen to embody the provincial view of the Canadian social network. These fifteen principles are presented in Figure 4.1 on page 98.

Reaction to the report was varied. The federal government, initially shocked that the provinces had even responded to their 1995 invitation, reacted negatively (Courchene, 1998; Mendelson, 1996). As Courchene (1998) observed, the *Report to Premiers* "threw the ball back into Ottawa's court", but the federal government was ill-prepared for its reception. It "either fumbled or ignored it, in the sense that the 1995 commitment to develop shared principles of the C.H.S.T. received little or no recognition in the 1996 federal budget" (Courchene, 1998: 241). Most significant was the recognition that the provinces had taken their task seriously. On one level, there was "a good deal of simple astonishment that the provinces and territories were able to agree on anything at all, let alone a substantive document with some real policy proposals" (Mendelson, 1996: 1). The Report also signified a new kind of commitment to pan-Canadianism: one endorsed by an interprovincial body rather than by the federal government (Courchene, 1997: 89). As Mendelson observed, "perhaps the Report's greatest strength is what it is not - it is not simply a self-serving grab for more provincial powers from a weakened central government... the Report demonstrates provincial openness to new ideas. These fresh approaches could be the basis for meaningful discussion between Ottawa and the provinces and give renewed life to the social security reform process" (1996: 1). Further, the Report "could have a significant and lasting impact on the shape of security in Canada. As one of the only substantive documents on social policy ever agreed to by all

the provinces (except Quebec), it could be a touchstone for reform over the next several years” (1996: 1).

It is also essential to consider the political climate in which these events took place. The failed 1992 referendum on the Constitution had formed a culture of disdain and fatigue in Ottawa and in many provincial capitals for constitutional solutions to the country’s problems (Lazar, 1998: pp. 3, 5). The Liberals were elected in 1993 on a platform based largely on a desire to push constitutional issues to the back burner while promoting non-constitutional routes to improve the Canadian federation. This strategy had been based on the assumption that the Canadian federal system was flexible: capable of adapting to changing needs and circumstances. Ottawa had several motivations to pursue this option. Primarily, it felt that the potentially damaging effect of constitutional ‘ennui’ would provoke anger in English Canada over the desire to recognize the distinctiveness of Quebec, while indicating to Quebecois that the rest of the country felt little inclination to respond positively to its demands. It was necessary to act in a way that would take account of Quebec politics. It was for these reasons that the provinces also appeared to back this strategy, coupled with their desire to advance their own agendas (See Lazar, 1998: 11-12).² The 1995 Quebec sovereignty referendum formed a wake-up call to both the federal government and the provinces. In Ottawa, last ditch efforts included a promise to respond (within the non-constitutional realm) to some of Quebec’s traditional demands, recognizing Quebec’s distinctiveness and assuring the province a *de facto* veto over future constitutional amendments (Lazar, 1998: 6). For the provinces, a commitment to renewing the federation through non-constitutional means formed the focus of the 1995 and 1996 Annual Premiers’ Conference. The 1996 Speech from the Throne had also revealed an intention to appease Quebec in a post-referendum environment. The promise to “not use its spending power to create new shared-cost programs in area of exclusive provincial jurisdiction without the consent of the majority of the provinces”, the promise to put an end to federal involvement in several areas of

² As Lazar notes, provincial leaders were also interested in advancing their own interests. In addition to sensing a period of federal political weakness, they also “may have judged as well that a period of federal fiscal weakness was a good time to roll back perceived federal intrusions into their areas of jurisdiction” (Lazar, 1998: 11-12).

jurisdiction (notably manpower training, forestry, mining, recreation, and urban affairs), and the desire to collaborate with provincial governments in a new partnership demonstrated a federal stance aware of the need to address the demands of Quebec even if such efforts would remain non-constitutional for the time being (*Speech from the Throne*, 1996: 9). The united (English) provincial response was contained mainly in the *Report to Premiers*, including as it did several of the key demands made by Quebec over the last decade, including in particular, calls for restrictions on the federal spending power, and increases in provincial autonomy. The federal government also did little to discourage this rise of provincial leadership in the social policy arena on the basis of these demands, demonstrating a desire to display both a conciliatory and cooperative stance with respect to these traditional demands.

However jumbled the initial impact had been on political circles in Ottawa, the federal government chose to respond positively to the challenge set forth in the provinces' *Report to Premiers*. At the June 1996 First Ministers Meeting, the Prime Minister agreed to work with the provinces and territories on the recommendations of the Council Report. He identified the Minister of Human Resources and the Minister of Health as federal representatives to the project. All participating First Ministers made a commitment to work together to "put into practice" the recommendations of the report. They established the *Federal-Provincial-Territorial Council on Social Policy Renewal*, set to meet in November of 1996. This progression to include both levels of government in the renewal of the social policy commitments advanced the renewal process to a new stage. Key elements of the report - the recommendations to take action on children's policy and for persons with disabilities - were set into motion. Meanwhile, the provinces continued their own independent efforts to advance social policy renewal. By the August 1996 Annual Premiers' Conference, a second provincial-territorial report was issued, echoing the principles of provincial leadership initially expressed in the *Report to Premiers*. In the *Issues Paper on Social Policy Reform and Renewal: Next Steps*, the Premiers officially mandated the Provincial-Territorial Council to expand its forum to include a partnership with the federal government, and prepared for the inaugural meeting. The *Issues Paper* built on the Report's recommendations and called for a

continued commitment from provincial governments to ensure that primary leadership remained at the provincial level. In November 1996, the first official meeting of the Federal-Provincial-Territorial Council was held. The Council agreed that “a spirit of trust, openness and mutual respect exist, and partnership is the key to work together” and committed themselves to “work together on social policy renewal, building on the work of the Ministerial Council Report to Premiers” (*Communiqué*, November 27, 1996).

Progress since this first meeting has been impressive. The approval of the National Child Benefit and progress in the area of persons with disabilities - both original recommendations of the provincial *Report to Premiers* - have demonstrated the early success of this new province-led round of social policy renewal. Further, the success and momentum of the Report has spawned other provincial initiatives in various key sectors. The Provincial and Territorial Ministers of Health have since produced their own report, entitled *A Renewed Vision for Canada's Health System* (1997). Commissioned at the 1996 Annual Premiers' Conference, this report was presented to the Federal-Provincial-Territorial Council in January, 1997. The tone of the report is reflective of the provincial leadership role, with Ministers of Health indicating that “their Premiers have taken the initiative in focusing much-needed national discussion on social policy” and that “work on the vision for Canada's future health system is a significant element in the Premiers' wish to examine how to maintain our social safety net” (*Canada NewsWire*, Jan 29, 1997). The report, while focusing on the health care system, also reveals an underlying set of assumptions and principles relevant to this study. A summary of these recommendations is found in Figure 4.2 on page 100.

Provincial/Territorial Ministers of Finance, with the exception of Quebec, Newfoundland and Nova Scotia, have also articulated their own set of visions and concerns with the recently released *Reforming Federal-Provincial Fiscal Arrangements: Towards a National Consensus*. The report was released in June, 1998, and discussions related to it are ongoing. Like the report of the Ministers of Health, this report grew out of the momentum of the *Report to Premiers*. Agreeing that a key element in the renewal of the Canadian social union is reform of the fiscal arrangements, the Premiers suggested that “Finance Ministers should negotiate ways in which provinces, territories, and the

federal government can work more cooperatively on how Ottawa spends on social policy (Provincial/Territorial Ministers of Finance *Joint Communiqué*, August 8th, 1997). The report calls on the federal government to reform the fiscal arrangements to better serve the needs of the provinces by (1) restoring the cash funding removed from the C.H.S.T., (2) correcting the discriminatory elements of the transfer by moving it to an equal per capita basis, and (3) compensating for the loss of revenues for have-not provinces by raising the level of Equalization from its current five province standard to a national average. It is not surprising that reception of this report from have-not provinces has thus far has been decidedly negative. Despite these objections, however, the report's view of necessary fiscal reforms provides a unique and important contribution to the current discussion. As previously noted, the absence of consensus on the proposals contained in this report limits its analysis to that of underlying principles. A summary of these principles are found in Figure 4.3 on page 111.

THE PROVINCES' POSITION: EXPLORING THE REPORTS

From this brief synopsis it is clear that the significance of the *Report to Premiers*, and the series of events that it initiated, has been profound. What is more profound is that despite the pessimism surrounding the role of the provinces in upholding social policy objectives, the Report, along with the reports of the Ministers of Health and Finance, were entirely provincial affairs. In addition to demonstrating initiative, these documents indicate a recognition of incentives -- core values and principles -- necessary for the effective functioning of the sharing community. To illustrate this argument, three themes are examined: (1) recognition of core principles and values in support of interregional equity, (2) respect and value of the principles of federalism, and (3) principles to guide the reform of the fiscal arrangements. As introduced in Chapter 2, these themes are representative of key elements and principles in the pursuit of interregional equity in the federation. It is argued that provinces recognizing these principles are demonstrating a willingness to act constructively and proactively in the pursuit of national goals. Each theme will be examined in turn, relating evidence from the case studies where necessary.

CORE VALUES AND PRINCIPLES

A Sharing and Caring Society

In order to properly uphold the sharing community, provincial governments must recognize both the political power of the core values and principles of Canadian citizenship, and the social and economic benefits to be gained from a commitment to such principles. As described in Chapter 2, perceived national ‘entitlements to well-being’ possess significant practical and symbolic strength among Canadians. The notion of the social contract, which links citizens with their governments, is also a powerful mechanism through which interests and needs are articulated in the federation. This social contract includes a commitment to the pursuit of equity among provinces. As Osberg (1992) and Taylor (1991) observed, the expression of equity goals unites citizens across regions and provides them with a greater sense of shared experience and solidarity. These sentiments of shared citizenship encompass both the social and economic spheres to create a sense of social and economic unity. Shared economic space gives way to shared social space, and both infer a degree of cooperation and solidarity among members (O’Hara, 1998). These sentiments are also powerful in the context of a federal structure of government: the social and economic gains of sharing and solidarity among provinces and regions forms the essence of a national community in which internal political boundaries do not impede the pursuit of national goals of equity (Leslie, 1993).

The recent provincial initiatives outlined earlier indicate a recognition of these sentiments and their interdependencies in the federal context. The *Report to Premiers* identifies respect for these principles as underlying rationale for reform and renewal. As the Report observes, “Canadians value self-reliance, and collectively share compassion for others. ...core values such as freedom, equality, fiscal responsibility, and a democratic approach are strongly held by Canadians” (*Report to Premiers*: 4). Further, Canadians are seen to “care about each other’s well-being. This sense of caring helps define our national character. Governments, through the policies and programs they administer on behalf of Canadians, must reflect and promote this sense of caring.” (*Report to Premiers*: 5).

FIGURE 4.1
PRINCIPLES TO GUIDE SOCIAL POLICY REFORM AND RENEWAL

Social Programs Must be Accessible and Serve the Basic Needs of All Canadians

1. Social Policy must assure reasonable access to health, education and training, income support, and social services that meet Canadians' basic needs.
2. Social policy must support and protect Canadians most in need.
3. Social policy must promote social and economic conditions which enhance self-sufficiency and well-being, to assist all Canadians to actively participate in economic and social life.
4. Social policy must promote active development of an individuals' skills and capabilities as the foundation for social and economic development.
5. Social policy must promote the well-being of children and families, as children are our future. It must ensure the protection and development of children and youth in a healthy, safe, and nurturing environment.

Social Programs Must Reflect Our Individual and Collective Responsibility

6. Social policy must reflect our individual and collective responsibility for health, education, and social security, and reinforce the commitment of Canadians to the dignity and independence of the individual.
7. Partnerships among governments, communities, social organizations, business, labour, families, and individuals are essential to the continued strength of our social system.
8. There is a continuing and important role, to be defined, for both orders of government in the establishment, maintenance, and interpretation of national principles for social programs.

Social Programs Must be Affordable, Effective, and Accountable

9. The ability to fund social programs must be protected. Social programs must be affordable, sustainable, and designed to achieve intended and measurable results.
10. The long-term benefits of prevention and early intervention must be reflected in the design of social programs.
11. Federal constitutional, fiduciary, treaty, and other historic responsibilities for assurance of Aboriginal health, income support, social services, housing, training, and educational opportunities must be fulfilled. The federal government must recognize its financial responsibilities for Aboriginal Canadians, both on and off the reserve.
12. Governments must coordinate and integrate social programming and funding in order to ensure efficient and effective program delivery, and to reduce waste and duplication.

Social Programs Must be Flexible, Responsive, and Reasonably Comparable Across Canada

13. Social policy must be flexible and responsive to changing social and economic conditions, regional/local priorities, and individual circumstance.
14. Governments must ensure that all Canadians have access to reasonably comparable basic social programming throughout Canada, and ensure that Canadians are treated with fairness and equity.
15. Social policy must recognize and take into account the differential impact social programming can have on men and women.

Source: Ministerial Council, Report to Premiers, 1995-6

The Report of the Ministers of Health also acknowledges that shared solidarity in social well-being is a convincing rationale for renewal, stating that a nation-wide social system “is cherished by Canadians” and “lies at the centre of our social and cultural fabric” (*A Renewed Vision*: 1). Ministers identified that “maintaining health as a shared responsibility of individuals, communities and society” is also a means to “recogniz[e] our commitment to caring for each other” (*A Renewed Vision*: 2). These excerpts reveal a recognition of shared values and their influence on a perceived need to strengthen the Canadian social network.

These findings would suggest that on the surface, ‘provincialization’ of the federation, (that is, the increase in provincial participation in the design and preservation of core values) does not pose a overwhelming threat to the basic values underlying the sharing community. Provinces appear capable of recognizing the importance of these values to the national polity. A link may be drawn between a recognition of these shared values and a governmental commitment to interregional equity goals. O’Hara (1998) has stressed the importance of these ‘sharing and caring’ sentiments on maintained governmental support for equity objectives. She identifies an essential criterion for provincial contribution to renewal as a “consistency with the purpose, values, and principles of the social union” such that a cohesive society is formed by promoting sharing as an element of shared citizenship (O’Hara, 1998: 6, 12). Likewise, Kennett (1998) has argued that a commitment to respect core values of ‘sharing’ remains strongly persuasive to all governments in their policy decisions. He suggests that to governments, an attempt “to establish certain core social policy entitlements is a worthwhile undertaking given the importance of these entitlements to individual Canadians and their economic and political role in unifying and defining Canadian society” (1998: 6). These motivations apply to both federal and provincial governments. Biggs (1996) has argued that the establishment of common goals and the “charting of a collective course” are necessary to provide a framework within which federal and provincial roles can best be defined. These goals include a commitment to “basic social objectives” like “reasonable and equitable access to services that meet basic needs and are reasonably comparable across the country” (Biggs, 1996: 35).

FIGURE 4.2
A RENEWED VISION FOR THE HEALTH SYSTEM

THREE PRIMARY GOALS

1. To preserve, protect and improve the health of Canadians
2. To ensure that Canadians have reasonable access to an appropriate and effective range of health benefits anywhere in Canada, based on their needs, not their ability to pay; and
3. To ensure the long term sustainability of the health system

GUIDELINES

1. Maintaining health as a shared responsibility of individuals, communities and society, recognizing our commitment to caring for each other;
2. Health policy should be based on collaboration and consultation with people of Canada, service providers and federal/provincial/territorial governments.

KEY ELEMENTS

1. Provincial ministers of Health are committed to maintain and protect the integrity of the national health system.
2. A partnership in which the federal government would provide its fair share of resources in the form of adequate, predictable and stable cash transfers at levels high enough to protect and preserve the national health system. For their part, the provinces and territories provide their share of cash, management, and resources to maintain a national health system with a reasonably comparable range of services across Canada based on the five principles of the Canada Health Act.

Source: Provincial/Territorial Ministers of Health, A Renewed Vision for Canada's Health System, January, 1997

Arguments raised in Chapter 3 cast some doubt on the ability of nationally-shared values to counteract the disintegrative effects of structural and political decentralization. In these views, the continued provincialization of the pursuit of national equity goals ensured a reduced commitment to the national community and an increased identification with provincial governments as foci of equity-oriented policy commitments. These concerns flowed from a larger perspective that questioned the long term viability of support for interregional equity in the context of a decentralized federation, such that "the logic of decentralization require[d] weakening the constraints of national programs and emphasizing the importance of provincial communities at the expense of the national community" (Gibbins, 1997a: 15). This perspective however, cannot account for the

implications of a united provincial (non-federal) recognition of the national principles and values which underpin national programs as indicated above. An explicit public recognition of values underlying principles may instead suggest that provincial governments are prepared to uphold and preserve these values. Such an observation also indicates that the desire to protect core values normally associated with the federal government is also articulated by provincial governments. While this finding is not evidence that the actual implementation and achievement of national equity objectives is capable under provincial leadership, it is an important element in the argument that the role of the provinces in this pursuit has been underestimated.

Efficiency and Effectiveness of the Federation: Provincial Incentives

An expressed desire to preserve and respect shared values may be a necessary yet insufficient instrument to bring about positive provincial participation in the preservation of broader goals of interregional equity. In the absence of federal enforcement there is also a need for adequate ‘inducements’ or ‘incentives’ to persuade provincial governments that a continued commitment to these goals is in their individual and collective economic interest. Leslie (1997) argues that an important exercise in evaluating the potential of a provincial role in upholding interregional equity objectives is to consider “what might induce provincial governments to establish common or similar standards, and to uphold them over time” (Leslie, 1997: 28). Kennett takes up this exploration of incentives, predicating that governments will agree to principles only “when they obtain clearly identifiable benefits by doing so” (Kennett, 1998: 17). He forms his argument from a discussion of the economic principles and their interdependencies in an economic union. These concepts were examined in Chapter 2, and include positive and negative externalities (spill-overs), mobility, downward harmonization, and net fiscal benefits. Recall that externalities are what result from provincial policy effects which flow over jurisdictional boundaries. The effects of externalities are usually negative; provincial policies may confer benefits on residents of their own jurisdiction while imposing costs on other jurisdictions in the union. In the social policy realm the threat of externalities is significant, since costs imposed on

socially generous jurisdictions may instigate a ‘race to the bottom’ to avoid undue advantage to competing governments.

The issue of externalities goes to the root of arguments in favour of interregional/interprovincial equity objectives. The pursuit of a social and economic union in which all members may expect economic rights and a reasonably comparable package of social entitlements necessitates a commitment that such rights and entitlements will be respected across the nation. The *Report to Premiers* notes that governments “recognize the current and emerging realities of Canadian society. Studies have shown that social and economic priorities are interrelated...a strong safety net contributes to economic prosperity” (*Report to Premiers*, 1996: 3). National equity in these terms is believed to provide economic, social and political benefits to all members of the union. In the absence of a dominant federal authority to enforce these ends, it would seem necessary that provincial governments recognize the economic, social and political benefits to be gained from avoiding negative externalities. Kennett argues that “particularly when negative externalities are reciprocal, governments have strong incentives to cooperate. ...governments may cooperate in order to avoid bearing the costs of their neighbours’ policies” (1998: 17). The collective costs of externalities are also convincing incentives for provincial governments to uphold national equity standards. Given the positive aspects a strong social union provides to the economic union, the effects of long term inter-jurisdictional competition may be to diminish overall success.³ Recognition of these incentives also appears to indicate a degree of ‘maturity’ on the part of the provinces with respect to their responsibilities within the federation - that is, a recognition of the benefits of social and economic union even in the absence of federal oversight and enforcement. The tone of the proposals indicates that provinces recognize the benefits they accrue from membership in the social and economic union. Concern is also expressed by provincial governments that federal withdrawal may undermine the maintenance of reasonably comparable services across the country, indicating a

³ Recall that a strong social union is believed to provide national economic benefits by ensuring a healthy, skilled and mobile population.

recognition of the economic importance of interregional equity goals (*Report to Premiers*, 1996: 9).

These arguments suggest that there is much to be said for the political power public expectations hold over provincial governments. Courchene has argued that provincial governments may be bound to act in the interest of the national community because of the potential political damage associated with a derogation from national norms. Further, he suggests that since violation from such norms “could involve expulsion from the internal union”, consequent economic and social damage to the provincial populace would mean political backlash. Hence, public pressure for provincial governments to uphold equity principles forms a powerful incentive to prevent significant divergence among provinces. The *Report to Premiers* contains a specific recommendation to assure “the public of the continuing priority that provinces/territories attach to maintaining viable and effective social programs that meet the needs and aspirations of all Canadians.” (*Report to Premiers*: 13). The Report suggests that “Canadians need reassurance from their governments that the social services system will be preserved” (1996: 4). This view presents evidence challenging the conclusions concerning provincial motivations presented in Chapter 3. These analysts argued that in the absence of federal enforcement, provinces will not uphold national goals, since they are unable to recognize or prioritize broader concerns about efficiency, equity and national unity. Arguments were framed in terms of federal behaviour, in which a weakened federal government becomes unable to enforce national goals. The assumption was that not only do provinces lack the imperative to represent the national interest, but that they are unable to identify the benefits that policies designed in the national interest provide for their constituencies. As noted earlier, the political power contained in conceptions of the sharing and caring society are significant. From these proposals, it appears that provinces recognize the existence of these conceptions. Indeed, their proposals are framed in the context of citizen rights and expectations.

RESPECTING AND VALUING PRINCIPLES OF FEDERALISM

Preserving Unity and Diversity

The proposals and principles expressed in the provincial reports appear to envision a federation true to the spirit of federalism and a conception of Canada as a federation of equal provinces. Recall that a federal system of government is designed to combine elements of shared rule and regional self-rule (Watts, 1990). It is also a system of shared sovereignty, in which each level of government assumes responsibility for its own electorate within its own jurisdiction. Sovereignty is shared when diverse parts (provinces) unite to form a common whole (nation). The arrangements are designed to accommodate diversity, and are therefore also designed to be flexible. Two characteristics often describe a federal arrangement: (1) the ability to balance unity and diversity, and (2) a joint commitment by both levels of government to cooperation, collaboration and partnership. These two elements are particularly relevant to social policy and provincial roles in preserving interregional equity. As described in Chapter 2, the desire to balance unity and diversity in the federation is a need to pursue common goals as a national community while accommodating the needs and interests of communities at the provincial level. The *Report to Premiers* recognizes this “unique challenge” of the Canadian federal system as one of:

maintaining a common and unifying dimension in social policy across the nation, while ensuring adequate flexibility to enable Canadians (and their governments) to respond to their differing economic, social and fiscal circumstances. Achieving an appropriate balance between the need for flexibility and this common vision is the key to ensuring a comprehensive, effective and affordable social safety system (*Report to Premiers*, 1996: 4).

Ministers of Health also state their commitment “to working together to preserve and protect not only unique features of each provincial and territorial system but also to build a common national system.” (*A Renewed Vision*: 3) There is a recognition of the benefits to be gained from the diversity of provincial communities within a larger state, with provinces noting that by “drawing on the creativity and innovation of both orders of government in the development and promotion of national principles or standards” there is “greater provincial/territorial flexibility to reform and operate programs to meet the

unique needs of their citizens” (*Report to Premiers*: 10) There is explicit recognition of the efficiency to be gained from encouraging diversity and autonomy in a national system. The *Report to Premiers* argues that “within the current constitutional framework, roles and responsibilities should be based on which order of government can best deliver the service in a manner consistent with the principles stated above.” (1996: 7)

There is also an expressed vision of the roles to be played by both levels of government in pursuing common goals: on one hand, the national government is seen to possess responsibilities for the national constituency, while provinces are best situated to provide those services efficiently. There is also an awareness that while provinces must exercise autonomy within their jurisdictions, they must also respect that their actions and policies have national repercussions. It follows that both levels of government possess responsibility for the national community. Since provinces respect the wishes of their electorate they also respect the core values of the national citizenry. However, by also respecting the principles of federalism, governments allow for a degree of divergence in the way provincial governments meet the needs and interests of their constituencies. This perceived merit of achieving a re-balance in federal-provincial social policy relations is also reflected in other literature. Burelle has argued that the need to rebalance the federation is based on one hand on the “...right of all provinces to local autonomy, with the effective decentralization of powers and responsibilities needed to exercise those rights” and on the other “the obligation of all partners of our federation to decide jointly...the common objectives and common constraints they must abide by in the exercise of their respective sovereign powers (Burelle, 1997: 16). Likewise, O’Hara identifies joint governmental respect for principles of federalism as a core value and essential element in national support for national principles, stating that a federal system “provides for collective action to pursue [shared] values and for flexibility to respond to local priorities and circumstances” (O’Hara, 1998: 55). She emphasizes the importance of accommodating diversities within a national framework through “respecting autonomous action by governments to achieve pan-Canadian objectives and to reflect local preference” (1998: 55).

This recognition are also noteworthy for its close relationship with *les demandes traditionnelles* of Quebec. Given the political context in which these reports were issued, this relationship is an important one to consider. Basic demands in the area of respect for the federal principle may be found throughout the historical record of Quebec's attempts at constitutional reform. Most recently, the Liberal Party of Quebec's (P.L.Q.) 1991 *Allaire Report* noted that "the achievement of political autonomy must remain at the heart of our political mission ... it is important that Quebec take full control of the powers needed for its growth" (P.L.Q., 1991: 26). The P.L.Q.'s 1996 report *Recognition and Interdependence* further stresses these demands in light of recent provincial activity, noting that provincial reports recognize that "each government is sovereign in its domain, and will therefore not be subordinated to the other in the exercise of its powers", and that "two governments, dealing with the same population, are in an inevitable relation of interdependence" (P.L.Q., 1996: 36). The P.L.Q. report further endorsed provincial demands in the areas of a) restricting the activity of the federal government in areas of sole provincial responsibility and allowing for such activity only after provincial agreement is reached on how to use federal funding; b) the redefinition of responsibilities in federation with the appropriate reallocation of needed funds; c) the minimization of areas of joint federal-provincial responsibility to those only in which such collaboration would improve the effectiveness of the program; and d) the use of the federal spending power in areas of sole provincial jurisdiction or areas of joint jurisdiction should not allow the federal government to "unilaterally dictate program design" (As related in P.L.Q., 1996: 71).

Embracing Cooperation and Collaboration

Balancing factors of unity and diversity commands a high degree of interdependence in the federation. The need for cooperation and collaboration among levels of government thus forms another important characteristic of the federation. Provinces have also highlighted 'unifying' elements in their initiatives, describing the approach as one with a 'whole of government' perspective. Cooperation and collaboration are mentioned in some form a total of four times in the first page of the *Report to Premiers*. The Report in

particular places great emphasis on the need for intergovernmental collaboration in the social policy field. It argues that “if genuine cooperation and partnership between governments in the social policy sphere is ever to be achieved, the existing process of intergovernmental dialogue on social policy and fiscal matters must also be considerably strengthened. Building a new national vision will require a commitment by all governments” (1996: 14) Health Ministers have noted that “policy should be based on collaboration and consultation with the people of Canada, service providers and federal/provincial/territorial governments” (*A Renewed Vision*: 3). Provinces appear willing to enter into constructive, cooperative agreements with the federal government to address matters of national concern.

Leading from this recognized need for accommodation and cooperation, provinces have also called on the federal government to respect constitutional jurisdictions, particularly those in the area of social policy. Championing the need for autonomy and ‘diversity’ in social policy, they have recommended that Ottawa put an end to federal enforcement by entering into cooperative agreements and consultations with provincial governments. In particular, provinces have questioned the use of the federal spending power as a means to secure national objectives, arguing that

the use of federal spending power in areas of sole provincial/territorial or joint federal-provincial/territorial responsibility should not allow the federal government to unilaterally dictate program design...federal activity in areas of sole provincial responsibility should occur only after federal/provincial-territorial consultation, and provincial/territorial agreement on how spending can be effectively applied (*Report to Premiers*: 2).

Provincial acknowledgement of these principles of federalism - that the federation requires both a unifying force and a degree of diversity and autonomy - is not a new phenomenon. However, the way in which the specific summary of goals and principles is presented by the provinces in these documents appears to introduce a new theme: one which unites the benefits of decentralization and provincial diversity with a recognition of core social values. Also, the way in which the provinces contextualize this concern reflects a more moderate tone expressing citizen interest as a primary motive. From these documents, it is apparent that provinces believe that these concepts and visions are

compatible. This belief contrasts with those presented in Chapter 3, in which increased reduced federal authority and increased provincial autonomy were expected to erode provincial support for national social goals. The arguments provided in these documents suggest that provinces feel that recognizing diversity and allowing for innovation and attention to local needs and interests are in the best interests of the sharing community. This is an important finding. As Courchene observes, the conception of federalism contained in the *Report to Premiers* “represents both a structural (decentralization) and a process (intergovernmentalism) evolution that allows for a rethinking and a reworking of the federal system” (1998: 248).

The vision presented in the documents reveals a view of the federal system as a mechanism for balancing unity and diversity in a spirit of cooperation and collaboration. Provincial proposals stress the need for intergovernmental collaboration in social pursuits, pointing to interdependence and mutual responsibility as motivations for cooperative approaches. From the tone of these documents, this suggestion appears to possess significant promise for upholding national goals. A move to a collaborative stance entails a move to a balanced federation. In the provinces’ view, collaboration would bring the federation more in line with classical federal processes: respecting formal constitutional structures while appreciating federal motivations for involvement and the importance of the national dimension in social programming. As Battle (1997:35) observes “federal and provincial governments must build a new collaborative federalism based on national social programs - not federal, not provincial, but *national* in spirit and substance.” There are other benefits to collaboration. As Courchene notes, the call for ‘intergovernmentalism’ implies a move to improve interprovincial cooperation, a development which may allow for further progress in social pursuits: “intergovernmentalism at the provincial level has the potential for generating pan-Canadian standards/principles without Ottawa. This is especially important in areas where there is no federal presence, but it may have much wider application” (1997: 91).

REFORMING FISCAL FEDERALISM

These provincial calls for cooperation among governments combined with a recognition of important principles and values appear to indicate a willingness to uphold and preserve equity goals in the federation. However, beyond support for ethereal principles, there are also provincial requests and recommendations for tangible reform to the fiscal arrangements. Fiscal arrangements are widely acknowledged as the key instrument in achieving equity goals. Due largely to the power that the fiscal arrangements possess in the federation, the review of literature contained in Chapter 3 assigned substantial weight to the impact of their design. Much of the skepticism and pessimism raised by analysts with respect to a continued commitment to interregional equity goals flowed from recent changes to the fiscal arrangements. These concerns stemmed from a perception that the federal government had symbolically abdicated its dominant, enforcing role in the social policy field, thus calling into question the longer-term viability of national equity standards and principles. Other concerns centred on the design of the fiscal arrangements, arguing that discriminatory flaws in the calculation of cash entitlements would reduce overall provincial support for redistributive elements of the transfer system.

Analysis of the provincial proposals indicate that provincial governments differ from these analysts in their principal concerns. The documents indicate provincial concern for two elements of the fiscal system: (1) the ability of the fiscal arrangements to ensure an efficient and effective federation, and (2) the need for fairness in the redistributive design of the fiscal system. Primarily, in contrast to the concerns expressed in the previous chapter concerning the cash portion of the C.H.S.T., there is a clear demand for an increased financial commitment from the federal government. This recommendation is strongly tempered, however, by proposed provincial participation in the establishment of national standards and principles, as well as by requests to halt the use of the federal spending power and its accompanying conditions. Provincial proposals express concern over the adequacy of funding and the fairness and stability of transfer/revenue arrangements, indicating a desire to prevent the events of the early 1990s, in which transfers were slowed or capped by the federal government with no warning.

Efficiency and Effectiveness of the Federation

Provinces have expressed that reform of the fiscal arrangements is an essential element of renewing the social system. Key to this reform is a recognition of the principles of fiscal federalism and the dangers of vertical and horizontal imbalances. As described in Chapter 2, fiscal imbalance occurs when expenditure needs and revenues differ among provinces. Horizontal imbalance – when politically equal members of a federation are not treated equally with respect to fiscal arrangements -- may be detrimental to the effective functioning of the federation. On a political level, this imbalance can cause potentially damaging perceptions of inequity among provinces and regions. Economically, horizontal imbalance may interfere with the efficient functioning of the internal economic union. Horizontal equity is achieved when provinces possess comparable abilities to make comparable expenditures in key policy areas. Vertical imbalance occurs when provincial expenditure needs are not met by sufficient revenues. In practical terms, vertical equity is achieved when fiscal transfers to provinces are not adequate to meet constitutional responsibilities. Achieving equity in this sense is premised on the need to preserve common social rights in the federation. Conflict over the mechanics of federal-provincial fiscal arrangements should not act as a barrier to these rights.

Figure 4.3 presents a summary of guiding principles used by premiers in their document *Reforming Federal-Provincial Fiscal Arrangements: Towards a National Consensus*. Participating premiers assigned weight to the need for vertical and horizontal balance in the reform of fiscal arrangements. To address vertical imbalance, the Ministers of Finance argue that “any new fiscal arrangements [should] be designed in such a way as to ensure that all provinces and territories are better able to meet the health, education and other social programming priorities of Canadians, taking both the C.H.S.T. and Equalization into account” (*Reforming Fiscal Arrangements*, 1998: 3). They also call for an adequacy in that funding as a necessary instrument with which governments may fulfill their responsibilities under the constitution (1998: 2). The *Report to Premiers* also argues for adequacy and stability of funding, stating that “Fiscal federalism must

ensure that the order of government charged with the responsibility of delivering services has the authority and *resources* to do the job” (1996: 7).

FIGURE 4.3
REFORMING FISCAL FEDERALISM

PRINCIPLES TO ADDRESS VERTICAL IMBALANCE
(CANADA HEALTH AND SOCIAL TRANSFER)

- **Accountability** of governments in Canada
- **Efficiency** in the provision of public services
- **Comparability** of basic social programming throughout Canada
- **Adequacy** and long term balance of both federal and provincial revenue sources with spending responsibilities
- **Flexibility** in program funding and delivery
- **Partnership** between governments
- **Constitutionality** so that any arrangements respect the existing constitution

PRINCIPLES TO ADDRESS HORIZONTAL IMBALANCE
(FISCAL EQUALIZATION)

- **Equity** - Ensuring provinces can provide reasonably comparable levels of public services at reasonably comparable levels of taxation
- Equalization should contribute to the overall economic **efficiency** of the federation
- Financial **sustainability** of the Equalization program
- **Stability** of transfers
- Program **simplicity**
- **Responsiveness** to changes in provincial fiscal capacity
- Program **comprehensiveness** in terms of coverage

Source: Provincial and Territorial Finance Ministers, *Redesigning Fiscal Federalism—Issues and Options*, 1998.

Support for horizontal equity is also present. The Ministerial Council’s 1996 *Issues Paper* suggests that “social policy reform must be accompanied by a redesign of Canada’s system of fiscal arrangements to ensure that provincial and territorial expenditure responsibilities and revenue capacities are balanced, government accountability is improved, and governments can provide social programs that are reasonably comparable across Canada” (1996: 8). Reform should be comprehensive, taking all principles of fiscal federalism into account. There is a recognized need to “reconfigure revenues so that provinces/territories have the fiscal resources to provide the

services for which they are responsible. Renewed fiscal arrangements must be included as a first priority in attempts to restructure and renew the country. It is important that all federal-provincial transfers be included” (*Report to Premiers*: 13). These calls for restored funding based on the needs of provincial jurisdictions are also supported in the literature. O’Hara has noted that “the funding arrangements...should be regularly reviewed to ensure that they reflect the roles and responsibilities of governments and the needs for adequate resources to fulfill them” (O’Hara, 1997: 8). Correcting vertical and horizontal imbalances is seen as a primary means to create an efficient and effective sharing community while restoring important federalism principles. These views are articulated in the framework citizen rights, shared values, and jurisdictional realities.

Achieving Fairness and Integrity in the Transfer System

These provincial recommendations also refer to the adequacy of funding and the stability of transfer/revenue arrangements as a means to restore faith in the fiscal system. Provinces do not, however, agree on specific changes to the fiscal arrangements. By demanding a degree of stability and predictability in the transfer system, provinces are indicating desire to prevent the events of the early 1990s, in which transfers were slowed or capped by the federal government with no warning. As Boessenkool (1996) argued, a degree of stability would possess significant power in restoring faith in the overall system of interregional sharing. These demands are particularly relevant to a discussion of interregional equity in a decentralized federal context. While provinces address the importance of fiscal arrangements in the context of national equity goals, an explicit link to a continued support for the Equalization program in particular is noticeably absent. Ministers of Finance express a desire to increase the size of the equalization transfers, yet this is only in the context of a move to equal per capita transfers in the C.H.S.T. - a move which would remove the equalizing aspects of this transfer, making the equalization program even more essential in upholding equity objectives among provinces. Since equalization is a federal program, the only threat to its demise would be a reduced commitment to it in principle. This effect would imply a reduced commitment to the concept of a sharing community. Therefore, while provinces do not explicitly express an

commitment to equalization, they express a commitment to the principles which underlie it. It is also evident that provinces view the structure of the fiscal arrangements as a barrier to the efficient pursuit of horizontal and vertical equity. Proposed changes to the fiscal arrangements would theoretically bring about a more equitable arrangement for all provinces, with equalization forming an integral aspect of the renewed arrangements. Support for interprovincial sharing is implied by provincial proposals because of the nature of the linkages among important fiscal and social principles.

STRUCTURAL OBSTACLES TO PROVINCIAL PARTICIPATION

The overview of the content of the proposals provided above reveals several motivations underlying the proactive provincial stance: specifically, provinces cite preservation and respect for core Canadian principles as justification for efficient and equitable renewal, and look largely to federal-provincial collaboration and reform of the fiscal arrangements as the means to achieve necessary changes. Recommendations are made with the interest of the national community as the underlying justification. While provinces stress the need to provide autonomy at the provincial level, this suggestion is grounded by the same language - equity and efficiency -- which normally underlies pro-federal arguments. The importance of these principles to the effective and efficient functioning of the federation may act as potential incentives and motivations for provincial governments to preserve and uphold national equity objectives. Therefore, what is most significant is the perspective on social renewal these documents provide. Provincial proposals and the overall tone of the documents offer a new look at social pursuits in the federation - one in which decentralized structures and provincial autonomy in social policy are portrayed as *normative* elements in the call for preservation of national equity goals. Provinces offer a vision of the federation in which provinces enjoy autonomy in their jurisdictions yet can be trusted with national responsibilities in key policy areas.

While the preceding sections demonstrated that a potential exists for a proactive provincial role in renewing social pursuits, exploration of the cases could not adequately address many concerns raised in Chapter 3. Specifically, examination of these documents cannot account for the viability of the enhanced provincial role, particularly if such a role

was to involve implementation of mechanisms for interprovincial collaboration. Institutionalizing a provincial role on the national social stage would be the ultimate goal of this process. If the objective of such initiatives is to achieve a functional set of mechanisms and institutional arrangements capable of securing the social union, are provincial position papers of this kind relevant if they cannot be implemented? Governance concerns, particularly those involving structural and institutional obstacles, revealed that provincial initiatives are limited in their capacity to bring about meaningful change. Agreements among provinces were viewed as transitory: unenforceable and easily overruled by provincial legislatures. Agreements and initiatives were also seen to possess democratic limitations since they are largely formulated by executive branches of government beyond the scope of provincial and federal legislatures. Issues of enforcement and compliance were also raised, with analysts noting the difficulties inherent to agreements which are formulated in the absence of a 'supra-provincial' body. These concerns are made more pressing since, as Kennett has argued "social and economic unions require institutions for common governance, as opposed to mechanisms designed simply for policy coordination and policing rules of common behaviour." (Kennett, 1998: 48).

In light of these concerns, it seems prudent to be cautious when forming conclusions, since analysis of the content of the case studies cannot predict how successful these arrangements would be in reality. An obvious criticism is that the documents provide simply words; it is possible that provinces are paying 'lip service' to these principles as an attempt to draw a rebalance of power in the national social arena. The analysis of content that has been undertaken can, however, reveal some important clues concerning the emerging proactive stance of the provinces. On one hand, public recognition by provinces of important underlying principles may signal an understanding of the core issues essential to achievement of national equity goals. However, it is difficult to predict to what extent provincial governments will be motivated to uphold these objectives. Such a prediction would require an in-depth analysis of the incentives system beyond that discussed in this paper.

INTERGOVERNMENTAL COOPERATION AND THE SHARING COMMUNITY

While the viability of province-led reform has been called into question, some hope must be drawn from the positive and proactive stance articulated by the provinces in these initiatives. Courchene notes that since the rise of provincial participation, “the political landscape underpinning social policy is shifting in fascinating and hitherto completely unexpected ways” (1997: 91). Further, as Biggs has argued, “elaborate procedures and machinery will not ensure productive collaboration unless there is a strong foundation of positive motives on the part of all jurisdictions” (Biggs, 1996: 7). As long as conditions remain attached to federal fiscal transfers, the federal government remains the enforcer of equity principles and standards. However, the ability of Ottawa to fund and direct the sharing community has brought about conditions of decentralization, in which provinces possess greater relative autonomy in matters of national social policy. A provincial position which embraces the salience of national goals and cooperative and collaborative elements of intergovernmentalism could thus be encouraging to the federal government. Recommendations for reform in which provinces would take on a greater role in the design of national principles would be facilitated by this ‘common ground’. Agreement on basic principles provides for a point of consensus and thus a point of departure for both government to work together for social and fiscal reform. A proactive provincial position with respect to federal-provincial relations in the social sphere would facilitate collaborative achievements with federal involvement.

Such initiatives would produce national, as opposed to solely federal or provincial, approaches. As Battle (1997: 63-4) has suggested, the federal government would be loathe to ignore the positive aspects of provincial initiatives:

The fact that the provincial and territorial governments have come forward with some promising ideas for new national social programs is encouraging and significant, demonstrating a willingness to move past the uncooperative federalism of recent years. The federal government should respond positively to this welcome overture, not only for the sake of strengthening social policy, but also to demonstrate through deeds rather than just words the continued viability of Canada as a federal state.

Given the importance of federal-provincial coordination in the successful design and implementation of the sharing community (national standards and a system of fiscal equalization), collaboration in the social policy field appears to be a prerequisite for its reform and renewal. Support for sharing among provinces and regions, based as it is on the citizen and governmental commitment to equity principles presented in this study, is a key motivation for such cooperation. It is also, however, the focus for renewal. As Leslie suggests, cooperation would involve governments to “undertake together to rebuild the sharing community: to review and reform the relevant...policies at both levels and to refinance social programs” (Leslie, 1993: 77). A federal presence is necessary because, as argued above, structural obstacles and other governance issues may make solely provincial initiatives unsuccessful in the absence of a national government. The degree of policy coordination needed to bring about an unwavering commitment to interregional equity goals will require mutual understanding based on shared values and interests.

SUMMARY OF THE FINDINGS

Analysts have expressed little confidence in the ability of provincial governments to act in the interest of the national community. These views are predicated on the belief that provinces do not recognize the benefits of their membership in the social and economic union. Differing interests, competitiveness and the adversarial structure of the intergovernmental system prevent positive provincial participation. Increased provincial autonomy in nationally-important policy areas will lead to a fiscally and politically decentralized federation: a result incompatible with long-term support for equity goals and sharing among provinces. The purpose of this chapter was to examine the content of recent provincial initiatives in an attempt to cast some doubt on these assumptions. The analysis focused on three themes: core principles and shared values, respect for federal principles, and reform of the fiscal arrangements. These themes were chosen to summarize the assumptions made by provincial governments in the preparation of these reports, as well as to group concerns and recommendations expressed by these parties. The analysis found that on the whole, the provincial position articulated in these reports

represented a positive and proactive attempt to initiate constructive reform in the social policy system.

The analysis of the reports found evidence of a broad provincial recognition of the importance of shared core values to the national citizenry. Provinces articulated a desire to uphold shared values, including a commitment to preserve principles and mechanisms of interprovincial sharing. The reports indicated a perceived need to sustain principles of equalization and interregional equity, such that all Canadians may expect reasonably comparable levels of social services regardless of province of residence. These findings suggested a consistency with federal motives for national standards and principles which underlie a commitment to interregional equity objectives. Provinces also articulated support for these core values on the basis that equity achievements promote efficiency objectives of the economic union. The analysis found that economic incentives appeared persuasive to provincial governments, insofar as the avoidance of externalities ensured a more efficient federation. Political incentives were also identified, in which provincial governments recognized the threat of public disapproval if they were seen to be derogating cherished national values.

The reports also indicated a desire to respect and value principles of federalism. These included a need to rebalance the federation to better reflect the dual pursuit of unity and diversity. Provinces recognized a need to maintain a common and unifying dimension in social policy while ensuring that provincial governments possessed adequate flexibility to respond to differing economic, social and fiscal circumstances (*Report to Premiers*, 1996: 4). Respect for unity and diversity was framed in a normative light; allowing provinces to better serve the needs of their constituencies while preserving broader national goals was viewed as an arrangement superior to federal intervention in provincial jurisdictions. Provinces also recognized that the interdependence of social and economic policy necessitated a high degree of cooperation and coordination among governments. In turn, improved mechanisms for social policy collaboration would produce a more balanced federation.

Beyond theoretical principles and appeals to shared values, provinces also expressed concern over the design and functioning of the fiscal arrangements. Analysis

of the reports found that provincial governments questioned the adequacy and stability of federal transfers, observing that reform in these areas is an essential element in renewing the social system. These views support those raised in Chapter 3, in which analysts expressed concern over the long term support for equity goals under the current fiscal design. Provinces framed their concerns in terms of horizontal and vertical imbalances, suggesting that an underlying motive for reform is to properly equip governments to fulfill their duties under the Constitution and uphold principles of interregional equity. There was also tacit agreement among the reports that a commitment to the formal Equalization program is a necessary element in the achievement of interregional equity goals. Support for sharing among provinces was implied by the proposals both by their support for the principles which underlie the program, and by their desire to strengthen the effectiveness of the overall fiscal system.

Analysis of the content of the reports found that several positive motivations underlie the emerging provincial stance on the social policy front. The proposals demonstrate a high degree of thoughtfulness, and indicate a desire to seek common solutions for social policy renewal in the interests of the social and economic union. The analysis also found, however, that examination of the content of these proposals could not adequately allay several of the criticisms raised in Chapter 3. These criticisms centred on issues of incentives, obstacles to collective action, and structural limitations on a meaningful provincial role in bringing about concrete achievements. It was unclear whether provincial initiatives in support of the social union were relevant if they could not, by their own merits, bring about actual change. Nor was it clear that stated support for collective action and cooperation would preclude incentives to 'free ride', cheat, or otherwise undermine the goals of a social and economic union. On these issues, it was concluded that while providing evidence for support and agreement on key issues, the reports themselves could not predict nor suggest the likelihood of success of any of their recommendations. For this reason, a degree of caution must be accepted with respect to the possible implementation of the reports' proposals.

Finally, the analysis suggested that the positive and proactive stance taken by the provinces should be embraced by the federal government in the interests of interregional

equity goals. This conclusion was based on the notion that agreement on basic principles provides for both a point of consensus and a point of departure for federal and provincial relationships in the social arena. A consensus on the motivations for pursuing an equitable federation would facilitate collaborative approaches to renewal at a time when the federal government has lost a notable degree of legitimacy as the lone overseer of national equity goals. The proposals also form a point of departure for the pursuit of equity goals. By recommending cooperative approaches based on the shared incentives of common values and federal-provincial flexibility, provinces provide a view of the federation in which accommodation of diversity does not impede the pursuit of national equity objectives.

CHAPTER 5: CONCLUSION

The pursuit of a federation based on social principles of equity and fairness is an undertaking highly prized by Canadians. The task of achieving the goal of an equitable federal system is a difficult and complex one, a fact evident in the attention and concern this issue receives both in the popular media and in public policy circles. The importance of the goal should not be underestimated; the belief that all Canadians possess basic social and economic rights forms a fundamental element of national identity. The impact of fiscal constraints which has altered traditional notions of responsibility for the pursuit of equity has also raised questions as to the preservation of equity goals in the absence of a strong federal authority. Many fear that a decentralized federal structure in which provinces possess increased autonomy in areas of national importance will undermine a national commitment to principles of the sharing community. The ability of the federation to uphold these rights in the face of decentralization will have broad implications for the strength and endurance of shared values.

This study explored the implications of a decentralized federal structure for national goals of equity among regions and provinces in Canada. It examined the content of recent provincial initiatives in the social policy and redistributive realm, suggesting that provinces recognize key principles deemed necessary for the preservation of interregional equity in the federation. The objectives of the study were threefold: (1) to demonstrate that differing conceptions of federalism, the nature of decentralization, the design of the fiscal arrangements, the obstacles of the intergovernmental process, and incentives to pursue equity among provinces and regions are interdependent and must be taken into account when examining new provincial initiatives; (2) to demonstrate that traditional conceptions of the federal role continue to dominate analysis in this field, such that a 'top-down' federal authority is favoured over provincial and/or intergovernmental means in pursuit of national goals of equity, and that these conceptions generate little confidence in the motivation and ability of provincial governments to act in the interest of the national community; and (3) to demonstrate that provincial governments have recognized key principles underlying interregional equity, and on this basis to suggest

that the ability of the provinces to act as proactive participants in the pursuit of national equity objectives has been underestimated.

The examination of the literature relevant to the study area presented an overview of the issues and concerns in the national equity realm which have emerged since 1990. In general, the linkages made between the process of decentralization and the pursuit of equity goals revealed a persisting pessimism, particularly concerning the diminishment of federal authority and oversight in the equity realm. The structure of the fiscal arrangements following the 1995 federal budget were seen to possess a significant degree of influence over this changing balance of power. The loss of federal fiscal control was seen to extend to a loss of influence over how funds are spent in areas of provincial jurisdiction. Fears were expressed that this loss of federal influence would result in a deterioration of national standards, and therefore of accompanying principles of interregional equity. Increased provincial autonomy was seen as threatening to national principles. Provinces were described as parochial units incapable of appreciating rationale for nationally-oriented federal equity objectives. As a result, little confidence was expressed in the ability of provinces to act in the interest of the national community.

Some support was seen to exist for a favourable role for provinces in pursuit of a national social union. Arguments in this area pointed to the implications of federal behaviour as motivation for provinces to 'step up to bat' and preserve the national social network. These arguments flowed from the assumption that the federal government had effectively abdicated its role as unquestioned authority and overseer of national equity goals, and pointed to a new partnership among federal and provincial governments as a means to secure and uphold citizen rights in the social arena. Provinces were seen as reactive rather than proactive participants in this new regime. An overview of the main critiques of these pro-provincial views revealed that other obstacles will likely prevent a meaningful interprovincial role. Enforcement and compliance mechanisms would not be politically binding, nor are intergovernmental structures sufficiently developed as to bring about the degree of convergence and compliance possible under a federally-enforced system. Further, obstacles to collective action and the influence of political and

economic ‘incentives’ were shown to possess significant power over provincial behaviour in a decentralized federation.

Analysis of the content of provincial initiatives revealed an acknowledgement of key principles relevant to the study. Provinces recognized the importance of core Canadian social values, identifying the benefits of interregional equity pursuits in the context of common citizenship. They expressed support for key elements in the pursuit of interregional equity goals, suggesting means to approach national standards and principles to underlie fiscal transfers, and acknowledging the necessity of upholding principles of fiscal equalization. The documents examined appeared to attempt a balance between a respect for the federal structure and the needs and wishes of the national community. Provinces embraced the invitation of the federal government to pursue a collaborative and cooperative role in social policy, but offered a new framework within which to pursue these goals: one in which a decentralized federation was viewed as better suited to pursue the interests of the national citizenry.

Overall, analysis of the proposals in the context of key principles suggested a proactive and constructive stance in the pursuit of national equity objectives. This conclusion, however, was found to be limited in two respects. First, it was found that analysis of the content of these proposals cannot predict how successful provincial participation will be in reality. Structural obstacles inherent to a decentralized federation will make enhanced provincial participation difficult to implement. Second, expressed support for key principles cannot preclude competition-based obstacles to collective action such as the incentive to cheat, undermine standards, or ‘free-ride’. As a result of these findings, a degree of caution was recommended with respect to the possible implementation of the reports’ proposals. On this point, two general recommendations are made. The first is that while provinces express support for key principles and values, structural limitations and the threats of competitive behaviour necessitate a continued federal role. The federal government should embrace the positive aspects of the provincial position, in particular the calls for a cooperative and collaborative process in the reform and renewal of social policy, and maintain its presence as a national voice accountable to all Canadians. Second, the issue of motivations, or incentives, should not

be underestimated. Efficiency arguments related to membership in the economic and social union must remain persuasive to provincial governments, as must the perceived political benefits of commitment to a national orientation in social policy. In the latter respect, continued citizen support for interregional equity goals will likely form an important impetus for a proven provincial commitment to the sharing community. This recommendation highlights an area of study worthy of further investigation. If citizen support for national equity objectives is seen to possess significant persuasive power for provincial governments -- including the province of Quebec -- a formal role for the public in the renewal process takes on increased importance. Within the political incentives framework, an examination of public perceptions and attitudes with regards to appropriate roles and objectives for governments would yield an alternative view of this discussion: one in which citizen expectations and visions of the national community would bear greater weight on the outcome of the debate.

Canadian federalism is a work in equilibrium. On one hand, provincial communities, diverse in their demographic and economic characteristics, must be ensured a degree of political and financial freedom in order to pursue their own unique interests and needs. On the other, the existence of a cohesive national community that is committed to common social, political and economic goals is essential for the effective functioning of the federation. Federalism is thus a tool for accommodating diversities in pursuit of common goals. This study has shown that there is a role for provinces and for effective intergovernmental processes to draw both levels of government into the pursuit of these national objectives. A commitment to an economic and social union that upholds principles of interregional equity is based on the assumption that all members of the union will benefit from this covenant. These benefits are economic, such as those derived from the maintenance of an efficient and effective internal market. Benefits are also political, however, as a commitment to 'sharing the wealth' among regions and provinces embodies a key facet of social cohesion and possesses significant symbolic nationalizing and unifying power. Beyond the will of citizens, the process of decentralization must

involve a determination and commitment on the part of governments to uphold the principles of the sharing community -- a prospect with broad implications for the basis of national unity.

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