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## **More Decentralization Dangerous if not Well Managed**

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Decentralization has become a buzzword in Canada. Like most buzzwords, it means many things to many people. And in the current debate, it is very confusing for two reasons.

The first source of confusion is that decentralization has come to carry a lot of ideological baggage, as was displayed in the run up to the Premier's Conference last week. Decentralization is treated by many people as a panacea - it will clarify responsibilities; it will simplify government; it will improve service to citizens.

Frankly, it will do none of the above, unless it is accompanied by a new ways to manage interdependence. It will be dangerous to our health as a nation if we persist in decentralizing without being assured that new institutions are being created to bind the country together. As Margaret Biggs explained in a recent CPRN Working Paper called *Building Blocks for Canada's New Social Union*, even the confederal systems of government have created systems to manage interdependence. Canada is already a decentralized country, but, because we do not manage decentralization well, governments fall back on unilateralism.

The second source of confusion is that we use the word decentralization in the wrong situations. In health care, for example, where nine provinces either have or plan to regionalize their health systems, very little authority is being decentralized. In most cases, power is being centralized within a region, shifting from individual institutions - like hospitals - to regional authorities. Even these regional health authorities will not achieve the goals of responsiveness to citizens unless their operations are transparent. In short, how decisions are made and enforced matters a lot.

What I want to do this morning is to stand back from the pros and cons of decentralization and focus on the nexus between federalism, social programs, and the social contract. It is this nexus which constitutes the social union – the web of rights and obligations between Canadian citizens and governments that give effect to our shared sense of social purpose and common citizenship

I will argue that the decentralizing trend of recent years forces us to confront the weaknesses in our capacity to manage the federation. Hence the need for a transformation in governance, which is the theme of today's session.

## Constraints

There are three fundamental constraints that impinge on the decentralization of social policy in Canada:

- a) Interdependence - where the activities of one government impinge on the activities of another. Examples would be labour markets, financial markets, and tax policy. Whether the system is more or less decentralized, there is a fundamental need for co-decision-making in areas where there is interdependence.
- b) Expectations - that there should be a common base of services for all Canadians, no matter where they live, and that access to these services is portable from one region to another. The CPRN study, *Exploring Canadian Values*, shows that Canadians want a social union. [Peters]
- c) Social cohesion - in an era when globalization and technology tend to fragment a society, governments have a fundamental responsibility to foster social cohesion. The new growth theory and recent political science studies indicate that social cohesion (the trust and reciprocity that permits collaborative behaviour) creates the foundation for wealth creation. [Maxwell]

## Willingness to change

Most governments in Canada now recognize that the status quo is not working (Ministerial Council *Report to Premiers*, and the federal Speech from the Throne).

The status quo depends too much on formal or informal consensus. When consensus fails, which it does all too often, governments fall back on unilateralism. Provinces criticize Ottawa for unilateral cuts in transfers, and the unilateral nature of First Ministers' Conferences. But unilateralism exists on both sides. Provincial legislation is tabled and budget measures are announced, often with major consequences for federal activities.

Some of the CPRN case studies of federal-provincial decision-making in Canada — the Canada Health Act and the Canada Assistance Plan, for example — fall into this category. But recently new models of decision-making have begun to emerge in the Agreement on Internal Trade and the Environment Assessment Agreement. In contrast, the European Community has a robust rules-based system for making and enforcing decisions.

Courchene's report for the Government of Ontario (which was released by Ontario on August 16) argues strongly for a highly decentralized model, which calls for binding interprovincial agreements to sustain the social union. Courchene himself is an ardent defender of the social union. But Premiers Harris and Klein, in their comments on the report, have paid far more attention to the decentralization than they have to the binding agreements which hold the social union together. Their comments indicate that we all have a lot to learn about the Catch 22 of federalism — no matter who makes the decision, some agent has to be given the responsibility to monitor the results and enforce the rules.

I would like to highlight the array of models that illustrate the Catch 22.

## Archetypes

The five archetypes available for managing interdependence in social policy are the following. They are organized in a horseshoe on this slide because the two extremes require more centralization than the three middle options, although the agent holding the central power is very different in Confederation than it is in Unilateral Federalism. In her paper, Margaret Biggs lays out more of the details of the five models.

### *Confederalism*

This involves interprovincial governance similar to Courchene's ACCESS model. The prime existing example is the European Community where power is highly centralized in the European Commission, and member states have conceded a great deal of sovereignty - directives of the Commission are legally binding. Compliance is monitored by the Commission. The use of a neutral mechanism to monitor and enforce decisions is key.

### *Provincial federalism*

This is an intergovernmental approach, with the federal government playing a support role to provincial accords, sometimes using federal overarching legislation. It is based on horizontal coordination, and works best with weighted majority voting. Examples here in Canada are the Council of Ministers of Education of Canada, and the Agreement on Internal Trade. In Australia, there is the Mutual Recognition Agreement.

### *Collaborative federalism*

This model involves joint management and joint decision-making. The Council of Australian Governments (COAG) is a working example. It has a "whole of government" approach very much akin to our First Ministers Meetings, but it has a more ambitious policy-making and decision-making mandate, and the central government does not always call the shots. In this model, governments could use jointly mandated monitoring agencies and weighted majority voting to get the job done.

### *Cooperative federalism*

This is a kinder, gentler, more open federal role. An example would be the proposed mutual consent process proposed, but not yet acted upon, with respect to the principles of the Canada Health and Social Transfer. It could include a joint statement of principles, and outside monitoring. But the federal government is still the enforcer.

### *Unilateral federalism*

The fifth model is the status quo. It is being questioned by most participants, and eroded by the changing fiscal and political situation of the federal government.

Which model fits for Canada? Well, no one size fits all. We could end up using one model for health, another for labour markets, and yet another for children. The priority now is to get on with the task of defining which model fits for each situation.

None of the models is functional unless several provinces are prepared to be champions. Thus, Ontario's entry into the debate this month is a positive signal. It opens new possibilities and is a welcome sign that Ontario is prepared to play a leadership role.

CPRN's analysis of the experience from abroad offers several lessons:

We cannot transplant institutions directly into another country, but can certainly learn from successes and failures, strengths and weaknesses.

1. The EC has begun to work effectively for two reasons: it has created strong central institutions, and has adopted qualified majority voting.
2. The German system worked well for a long time, but more recently it has run into frequent policy deadlock.
3. Both Confederalism in the EC and federalism in Germany have democratic deficits because they have no direct accountability to or participation by citizens. That would be a critical weakness here in Canada, given the state of alienation of the public and the thirst for democratic engagement. [Peters]
4. Australia is a useful model for several reasons: their system, like ours, is a parliamentary democracy; no constitutional changes would be required; and they used the new model to turn around a situation poisoned by acrimony and mistrust.

The ten essential building blocks for the new Canadian model are set out in the Working Paper.

## Conclusion

Let me end with two points. First, the lack of machinery for managing interdependence in social policy has poisoned federalism in Canada, leading to mistrust and deadlock. Second, as Courchene himself has said repeatedly, we need more positive integration to sustain the social union and make Canada a competitive nation.

Finally, I cannot overemphasize how important the Social Union will be for the future of Canada. It has a vital role to play in the next few years, whether we are working on Plan A or Plan B.

If we are in Plan A: The objective is to demonstrate that federalism works. Such demonstration is needed for Québecers and for all Canadians fed up with jurisdictional bickering and deadlock, and deeply worried that the social safety net is at risk. We have an opportunity for nation-building, not through a paternalistic federal government, but by taking advantage of the leadership and problem-solving skills of many governments.

If we are in Plan B (and I pray that never happens): The objective is to create as much cohesion as possible in an extremely tenuous world, where no existing government would have the legitimacy to act on behalf of Canadians in the rest of Canada. It is essential that federal and provincial governments find a modus operandi for working together before a break up occurs. The alternative would be chaotic.

## References:

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