Federalism Renewed

by

Tom Kent

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Federalism Modernised

Canada had to be created as a federation. Only as a federation can it continue. But federalism comes in various shapes. For most of the past, in a different Canada in a different world, our first version served well enough. It failed miserably in the 1930s. In the subsequent war it was suspended. After 1945 it was not restored but refashioned to a second version – a federalism in which the two orders of government were more mingled and collaborative.

For some 30 years that served well. It gave us a quality of government admired around the world. Canadian society was transformed to fit new times. But the second federalism jibed with the politics of only one generation. Over the last 30 years it has faded into an incoherent confusion of responsibilities, encouraging a politics of the moment, painfully weak in framing the policies on which a successful national future depends.

Canada could rank among the world’s successful countries at least as firmly in the 21st century as it did for some of the 20th. The obstacle is not in the stars, not in our resources or our people. It is in our institutions of government.

The twin bases of those institutions are parliamentary democracy and federalism. Both need modernisation. Parliament requires the invigoration of electoral reform, the democratic liveliness of parties freed from being centralised machines, the accountability of a cabinet instead of a prime-ministerial dictatorship. Those changes will come more easily the sooner Ottawa remolds its role, to do more of what is truly national, less of what is not.

This paper is about that third version of federalism.

In sum

The distinctive instrument of the second federalism was national subsidisation of some provincial services. It isn’t working now. It needs to be replaced by vigorous use of the federal spending power directly for people. Globalisation makes young people, in particular, our prime asset. Economic success as much as social justice requires policies to finance, effectively and nation-wide, their health and education, their opportunities and work skills. This can be the basis of a new federal-provincial collaboration, provided that Ottawa concentrates on a national framework within which provincial programs can operate coherently. Specific measures are suggested against the background of how federalism has worked in the past and why it cannot work in the same way now.
How we are

Geography has given us an economy, history has given us a society, especially open to the world. It is now a world of closely interdependent economies driven by rapid technological advance, technology that makes a country’s production and income less dependent on its own physical resources, much more dependent on the knowledge-based sophistication and inventiveness of its people.

Yet this is the time when more of our skilled industries are contracting than are expanding, when the buoyancy of the economy comes from squeezing oil out of sand. Not since the prairie soil was broken to grow grain has getting a primary product out of the ground been so much the driver of Canadian income. Then soil fertility had the merit of a renewable resource, provided there was rain; and the income was quite widely distributed. Now there are boasts of our becoming an “oil super-power” without apparent awareness that the role of Saudi Arabia of the North is the worst of fits with the geographic spread of Canada, with our regional and economic diversity as well as with our national, democratic independence.

There are other misfits. When production and trade are more widely spread than ever before, when China and India and others are the new leaders of growth, Canada’s trade has become more dependent than ever before on the politics and prosperity of one neighbouring country. Globalisation demands that we either diversify or fade. Yet further deepening of integration with the United States is as far as comes within the short sight of our business and financial chief executives.

Diplomacy in the public sector hardly shows longer sight. In the middle decades of the last century, Canada played an appropriately effective role in the collaboration of nations. But as the imperatives of collaboration have grown ever stronger, its importance to Canada even greater, our contribution has dwindled close to irrelevance.

These are all troubles that need not be. They are nevertheless likely to continue until we reform our parliament and our federalism, until we make them again the instruments of a stronger economy and a fairer society.

Ottawa has to lead, to act

Public affairs move in phases, periods of change often followed by pauses for consolidation, even retreat. Canada since 1867 has known two principal periods of constructive change. One coincided roughly with the first decade of the 20th century, when the Laurier policy of subsidising immigration was added to the Macdonald national policy of the tariff and the railway. The outcome was the peopling of the West, the creation of Saskatchewan and Alberta as provinces, the building of a national economy in defiance of geography. That phase ended with the 1914-18 war and was followed by standstill and worse during the interwar years that included the great depression.
The 1939-45 war, by contrast, was followed by a buoyant world in which Canada’s “expanding economy” was especially remarkable. American enterprise and investment were, as I wrote in The Economist in 1953, the “spearhead” for that expansion; but it was because “the guiding hand of Ottawa has been wise” that the lives of Canadians were being transformed.

In both these periods of change, in the beginning and in the middle of the 20th century, the active agent was the federal government. In the first period, no other was available; provinces were indeed still provincial. In the second, there was an alternative but it was lost to experience. Canadians had known federal-provincial paralysis in the depression years. In the war they had seen national leadership. They liked it. Their feelings were stronger than the constitution. The war had not only revived a national purpose and strengthened the sense of national identity. The centralisation necessary for war had created a new kind of government, a remarkably capable public service supporting the political leadership concentrated in Ottawa. The operation of federalism could be adjusted to fit public expectations. It was.

**The second, cooperative federalism**

The division between central and provincial powers was changed only for unemployment insurance and modified for pensions. But the division was bridged by a battery of program mechanisms. Practical politicians, provincial as well as federal, found effective, constitutionally proper ways to adapt public services to the public mood.

This cooperative federalism gave Ottawa a significant role in matters that, jurisdictionally, are primarily provincial but are the stuff of politics nation-wide because they are strong concerns of almost all Canadians save the most wealthy. Health care, pensions, social services and assistance, university education became much the same across the country. The federal government participated directly in the economy with major infrastructure projects, with financial aid to private investments, with enterprises of its own where private investment was lacking. Disparities in the opportunities open to Canadians were significantly reduced.

The upshot of it all was that economic advance blossomed, in the 1960s and early 1970s, to a time of social transformation, of national excitement dramatised in the 1967 centennial.

**Counter-reformation?**

Two things went wrong. Some of the principal program devices of the 1950s and 1960s proved to be politically unstable; they dissolved in confusion. At the same time, federal politics were regionalised. National parties faltered in their essential role of reconciling national policies with the aggregation of diverse interests and attitudes, urban and rural, east and west and centre, anglophone and francophone.
The outcome has been a second dark age in the evolution of Canadian federalism – not as dark as the 1930s, but much longer. While there have been important advances in some respects, the dominant feel of the past 30 years has been one of drift rather than direction; of events pressured from without, not driven by Canadian purpose; of mounting distrust in government and cynicism about politics. Much of public affairs has centred on a continual confrontation between provincial governments rooted in their particular constituencies and a federal government not so rooted in a national constituency. Cooperation has thereby been replaced by incoherence at the centre of national policy, by shifting expedients where there is need for firm direction. Provincial authorities have sought, in their various ways, to fill the void. The outcome is confused uncertainty.

So much so that a solution widely espoused, notably by Prime Minister Harper, is to cut and run. The substance of so-called “open” federalism is to scrap the federal role of the last 70 years, to “respect” the constitution by returning Ottawa to its knitting as it was before 1939.

In practice, of course, nothing so drastic will happen. Contemporary government cannot be run that way. The public will not stand for it. However much power and money are shifted to them, provincial politicians will not waste political capital on gratitude; they will not abandon the delights of running against Ottawa. The charm of decentralisation for federal politicians and officials will quickly diminish. The folding of Ottawa’s tents will be much less extensive than advertised.

It may nevertheless be a costly delay to the building of a third form of federalism.

**The nation that has to be**

How well the people of Canada are able to resume their interrupted progress depends on restoring democratic direction to the centre of our public affairs. That centre is the government of Canada, our national government.

There are two misunderstandings in need of removal. One is the idea that nation states are everywhere on the way out. The other is the special Canadian uncertainty as to what is a nation. While now formally extending the designation to Québécois, Parliament has fudged who they are. Interpretations vary. In some minds, the additional nation is all the residents of the province; for others, it is some of them; for others again, it is people of French race or culture wherever in Canada they live.

There is little value in a usage of such uncertain meaning. For convenience, not from ideology or political calculation, I shall continue to use nation in the sense of the nation state, of the kind of institution now qualified to belong in the United Nations or, in the clearer language of the past, the League of Nations. It is important to be precise about the usage. Otherwise, semantic confusion may reinforce another misunderstanding.
A generation ago, globalisation was greeted with eager proclamations of the impending euthanasia of “big government.” International markets would overwhelm the pretensions of national politicians to steer economies and redistribute wealth. The more hidden hands of high finance and transnational corporations would beneficently shape the world’s work. What would remain for the public sector would be more trivial concerns, local matters where meddling and muddling by politicians could do little harm to the assets of serious business.

In this fantasy, there was and is a small trace of reality. Individual national governments now have less autonomy in their economic policies than they exercised, with mixed consequences, for the 40-odd years between the collapse of the gold standard in 1931 and the rise of the electronic world market in money trading. But the shift of responsibility for the public interest is not downward to smaller governments or outward to private interests. It is upward, to the collaboration of nations.

Government is not withering away. On the contrary, more intrusive technologies will make us more and more interdependent. We will impinge more and more upon each other, in communications and in trade, in work and in leisure, in gratifications and in ideas, in village and in city, at home and across the world. And the more we interact, the more intensive and extensive are the necessary rules of the road, the more is living together dependent on the public framework of regulation and support.

The certainties are, first, that the functions of governments will not diminish but, second, that the discharge of those functions increasingly will require reliable collaboration among governments. In that sense, but that sense only, the sovereignties of nations will diminish. No country can now effectively serve its own interests alone. Even the United States cannot do so today, even the future China will be unable to do so tomorrow.

**Doing good in collaboration**

Genuine international collaboration is inevitably difficult and slow to build. Since 1945, a good deal has nevertheless been achieved, despite the cold war, despite other divergencies and some conspicuous failures. Progress has lately been diluted by the misconception that intervention with high-tech military might can wage effective war on terrorism or re-shape dictatorial societies. The days of the Bush and Blair crusaders, however, are ending and we can perhaps foresee a reversion to more measured procedures. In that case Canadian forces will again have their role, appropriate for our size, in international efforts to stabilise and refresh countries in conflict or in dissolution.

We will have larger roles where our interests are directly involved. Ours is the economy most exposed to the world. Ours are the politics of a nation at once the closest neighbour of the still predominant power and yet socially closer than the United States both to Europe and to Asia. In the collaboration of the world, we can have again an influence much greater than our share of people or wealth.
We need to have it. We are massive losers from international stalemate, or worse. No country has a stronger interest in collaboration, to open trade, to sustain the environment, to control disease world-wide, to undo nuclear proliferation, to reduce poverty, to protect all economies against monetary speculation: in short, to build the rules of law and procedure, and establish the institutions, necessary to living closely together in the global village.

International collaboration cannot be built by local governments with limited powers. The designers of the new order will necessarily be national governments with the authority, the public support and political strength, to take long views, work reliably together, honour the undertakings among them. The future of mankind and its planet turns on that collaboration.

The international imperative can be reconciled with the imperative of Canadian federalism. It was, not long ago. For roughly the third quarter of the 20th century, from the war to the early 1970s, governments in Ottawa exercised effective leadership within the federation. They showed that federal Canada could be, at the same time, a successful nation state taking its full part within the community of nations. For 30 years, that capacity has been ebbing away. It can and must be restored.

Legitimate by birth

Canada was not born to be a greatly decentralised federation. The politicians led by Sir John A. Macdonald gave their Dominion government all the responsibilities then understood to be inherently national: external affairs and defence, trade and tariffs, money and banking, mail, shipping and much else, along with primacy in agriculture and immigration. There was everything needed for the primary objective of building a continent-wide economy. A national society was intended to follow, and slowly it did.

Macdonald was clear in his purpose of confining the provinces to “local” concerns and subjecting them to Ottawa’s oversight. It was the law lords of the British Privy Council who frustrated his design. Their concern was not to protect provincial rights, which had no place in British law, so much as to restrain all government from interventions in the free economy of which Britain was then the champion. If Canada’s national government was kept out of health and welfare and the like, then as local matters they might continue to be left largely to churches and charities. It was for the sake of limited government as such, rather than of the provincial role in particular, that the national authority in Canada came to be so divorced from the public services that are now crucial to a successful economy and matter so much in the lives of all but the most fortunate of Canadians.

For a long time, the emasculation did not much matter. As long as government in total was small, jurisdiction could be divided without the two orders of government getting much in each other’s way. As long as government was small, taxation therefore light, different living standards from province to province were not of great political account. The federal government possessed all the instruments of intervention in the economy considered proper in the English-speaking world.
**Forty years onward**

But then came the 1930s. Economies crashed. Governments struggled to put broken societies back together. The United States, thanks to Roosevelt’s New Deal, was one of the more successful. Canada, next door, was conspicuously less so. That was not for lesser need, or from absence of ideas. Years before, Mackenzie King had begun his leadership of the Liberal party with a strongly interventionist view of national government. The 1921 party platform proposed, among other reforms, “insurance against unemployment, sickness, dependence in old age, and other disability.”

Nevertheless, Canada entered the depression completely unprepared with corrective measures. The provinces did not have the means, Ottawa did not have the constitutional authority, to lessen the miseries of lost incomes and lost jobs. The immoveable obstacle to action was the rigid form that had been given to federalism.

The depression stirred, however, a new public will. The war generated a new confidence and a greatly strengthened sense of national identity. It became natural to think that being a Canadian should mean much the same, should carry the same rights to social security, the same entitlements for the sick, the old, the unemployed, from province to province. And everyone could see that this would require more than the greatly diverse resources of the provinces. The costs of a nation-wide welfare state would require, as had the costs of war, taxes levied nation-wide by Ottawa.

It is important to remind federal politicians, challenged to action now, that 60 years ago their predecessors were capable of quick response. They tried to give the welfare state as early a birth in Canada as it had in most of Europe. In 1945, Mackenzie King proposed as Prime Minister what he had offered in 1921 as party leader. The federal government would in effect undertake the operation of social security in combination with management of the economy, provided the provinces would give up permanently most of the taxing power that had been only suspended during the war.

Inevitably in the politics of federalism, such a deal was rejected. Creation of the welfare state was not. It was too firmly what most Canadians wanted. But also inevitably in the politics of federalism, it took a long time, built gradually by a series of roundabout devices. It was 42 years afterwards that a government took office to implement, still with only grudging acceptance from some provinces, measures of the kind to which the 1921 manifesto aspired.

**Fiscal imbalance is a myth**

Constitutional amendment is the most direct way to change the operation of federalism but is at present of serious interest only to historians. To it we owe Unemployment Insurance, Old Age Security, the Canada Pension Plan. Today further amendments of the kind, transferring responsibilities to Ottawa, are unforeseeable. The only recent speculation has been about a very different amendment, to prohibit use of the federal spending power for future subventions to provincial
programs. Such entrenchment of limited government would fit with neoconservative ideology, and be at the same time seductive of Bloc Québecois support. Nevertheless, it is hard to imagine practical politicians plunging into the storms of controversy that an attempt at constitutional change would provoke. It is far simpler and safer to reject particular subsidy measures, as the present government has already done in the case of child care.

Such subsidies were, of course, the distinctive instrument of the second form of federalism. Thought about such transactions between government treasuries is not always clear enough for responsible politics. Transfers from Ottawa are subsidies to provincial governments, not people. For Canadians as a whole, the transaction is neutral. Albertans, more of whom are rich, pay more tax than would be needed from them if no federal revenue were passed to provincial governments. New Brunswickers, fewer of whom are rich, get better services than their taxation alone would finance.

That is all, financially. It means that some important provincial programs can be much the same across Canada. It does not mean that Ottawa has too much of the country’s tax revenue, the provinces too little. True, the BNA Act was intended to prohibit the provinces from imposing indirect taxes, but interpretation by the British law lords got around that. Except for tariffs, now of slight importance, all provinces have effectively the same access to fields of taxation as does the federal government, and some have a large extra in royalties from natural resources.

If Ottawa has a budget surplus when many provinces have deficits, it is not because the federal government is hogging tax room or revenue rightly belonging to the provinces. It is solely because they run their affairs differently, make different choices about the relation between taxing and spending. Ottawa’s transfers, in subsidies to provincial programs and for equalization, are made for the sake of equity among provinces: horizontal equity, as economists put it. All provinces are then free to balance their books as they choose. There is no inequity, no fiscal imbalance, between them and the federal government. There is only political gamesmanship.

The past glory of cost-sharing

Federal subsidies to provinces were for a time such successes that this type of finance still dominates the thinking of advocates of every kind of good cause. Whether the purpose is child care or life-long learning, pharmacare or protection of animals, calls for federal grants to the provinces are the common prescription for action. It is therefore still necessary to summarise how they went wrong and will not work now.

Subsidisation of provincial programs has gone through three stages. First, in the 1950s, came so-called “joint programs” for some categories of social assistance, for hospital insurance, briefly for technical and vocational training (TVT). The provinces ran the programs, but within tight rules monitored by Ottawa, which would then reimburse 50 percent (or, for some TVT programs, even more) of the provinces’ costs. This was at best a clumsy arrangement. It would not have been possible if provincial bureaucracies, quiescent during the war, had not for some time remained far less
organised than Ottawa’s. As they gained strength, they increasingly resented the tutelage. Politically, there was mounting resentment of Ottawa’s assertions of credit not only for its money but for the allegedly beneficent interference that went with it. By 1960, “jointing” could not have been replicated for major new programs even if Quebec’s quiet revolution had not made the objections of principle far more articulate.

That political change had, however, another dimension. With the Lesage government, Quebec entered a regime that, unlike its predecessors, was strongly in favour of social security and needed money for it. That made possible a second, more effective stage of subsidisation: federal legislation defining principles, not prescriptive details, for provincial programs whose costs Ottawa would share. Hence, in 1965-68, three major measures: Medicare; the Canada Assistance Plan for comprehensive social services and assistance according to need; and finance for a massive expansion of postsecondary education, in colleges as well as universities. These were the shared-cost programs that, along with the Canada/Quebec Pension Plan and direct federal measures such as earlier and better Old Age Security and the Guaranteed Income Supplement, transformed the lives of most Canadians.

Politically, they were cooperative federalism. Canada’s social union required a mingling of provincial and federal responsibilities. It was established on principles acceptable to both orders of government. Quebec had a leading role in its building. Briefly, it seemed that the foundation was stable, that the programs could be operated with the confidence necessary for their long-term viability.

It was not the provinces that blew the house down. Cost-sharing was a late product of Ottawa’s glory days. In the 1960s the federal government still had the glow of its outstanding management of the wartime and postwar economies, of Canada’s unaccustomed place in world affairs. Federal politicians remained confident that the public saw them as the leaders, that the new programs would continue to be recognised as made-in-Ottawa even though their delivery was in provincial hands. That confidence soon proved to be misplaced.

Public preoccupation with national politics, rather than local, peaked in the Trudeau mania of 1968, but subsided in the lacklustre performance that followed. In the changed atmosphere, Ottawa’s reimbursement of a fixed share of some provincial costs soon became a non-event in the media and in public opinion. Federal politicians might go on boasting about it, but they got no continuing gratitude for what their predecessors had arranged. The provinces, as deliverers of the services, got the credit for them. In Ottawa, cost-sharing came increasingly to be resented as levying taxes to make provincial politicians popular. The resentment rose as federal politicians became more subdued by economic woes. It contributed to the failure of both Liberal and Conservative governments, for 20 years, to tax as much as they spent.

For health care and postsecondary education, the tie of federal money to provincial costs was loosened as early as 1977. Federal authorities developed a Machiavellian rationalisation for reneging on their biggest commitment to the provinces: Medicare was so popular that the provinces were now locked into it. They would have to go on with it the same whether they got federal help or not.
The sugar-daddy time

Ottawa was not so bold as to eliminate its subsidies in one stroke. The process was more like the torture of a thousand cuts, extended over most of two decades. Finally the federal government, desperate to stop the mounting of its debt, seized on that reason to kill all cost-sharing. The Budget of 1995 not only reduced cash to the provinces more sharply than Ottawa’s own program spending. It became, in the block transfer of the CHST, an amount determined unilaterally according to the state of the federal treasury regardless of provincial needs. The cooperative federalism of the 1960s had long been attenuated. In 1995 the remnant was cast out.

The federal retreat from sharing was peremptory. A spirit of take-it-or-leave-it unilateralism spread to much of Ottawa’s relationship with the provinces. Cooperation was succeeded by combat, each side seeking to pin blame on the other. The advantage has been, and will probably stay, with the provinces. Three times in four years public opinion compelled the federal government to increase its contribution to Medicare. Each time it refused either to revert to cost-sharing or to move to any other committed principle of cooperation. The extra funding remains an arbitrary compromise between political pressure and the condition of federal finances.

It has nevertheless been accompanied by attempts to go back 50 years, to a pale copy of the original kind of joint program; how the extra money will be spent has been after a fashion prescribed, vaguely and ineffectively. Ottawa has thereby claimed to be at once restoring cooperation and using its money to “buy change” in provincial programs. It has done neither. Federal authorities may affect a sugar-daddy role, generously donating, but they will not gain a calm relationship. Everyone knows that each so-called accord is a temporary settlement in a continuing contest, not a firm act of program development. There will be more discontent, more demands, more confrontation, not the trust and confidence essential to sound public programs. Donation without rules is the third, and almost certainly final, stage of federal subsidisation for provincial programs. It is not the partnership, based on clear principles and procedures, that federalism requires.

Cost-sharing was designed for that purpose. It depended, however, on national politics better rooted in public confidence than we have now or can soon anticipate. It is too tarnished, by broken promises and distrust, to be restored. Another way to make federalism work must be found. The way that was found in the 1960s built a better society. Today a new way is essential also for the Canadian economy.

Equalization is not enough

Federal subsidies do not have to be tied to particular provincial programs. Indeed, since 1982 there has been an obligation to provide some provinces with a general subsidy to use as they choose. The federal government is constitutionally committed to the “principle” of transferring enough money
to ensure that provincial governments can provide “reasonably comparable levels of public services at reasonably comparable levels of taxation.”

The enunciation of principle has not produced improvement of practice. “Equalization” was introduced in federal legislation 50 years ago, as a general subsidy to counter regional disparities. There was then a simplistic formula to determine which provinces received how much. It had the merit of being understandable. It has been amended many times, to provide a more sophisticated measure of differing revenue capacities. But the benefit has been consistently diluted by lowering the standard to which lower revenues are adjusted. Finally, in 2005 the federal government abandoned all pretense of an equalization principle, adjusting the subsidy total by an arbitrary amount and then adding special deals with some provinces. Equalization has been torn into an improvisation determined by electoral calculations of the moment.

The glaring need to start over is recognised on all sides. There are several suggestions from which to choose. However, while they have considerable merits, all fall far short of the principle of equalizing the capacities of provincial governments to serve their residents. In practical politics, the deficiency is unavoidable.

In theory, subsidies to particular programs could be replaced entirely by a single payment, graduated according to need, for all provinces except the one able to raise the highest revenue per resident. However big the fiscal disparities, they could be overcome by a sufficiently large equalization program, providing block grants that each province could use to support whatever levels and mix of public services its electorate favoured.

Equalization on the scale requisite for such a decentralized federation is, however, a myth entertainable only in think tanks and lobby groups. It has no political substance. Not only would it drive Alberta and Ontario politicians mad, along with many conservatives elsewhere. It is insupportable by federal politicians of any stripe. Firm cost-sharing has proved to be a use of tax dollars too electorally unrewarding to endure, even though medicare, welfare and postsecondary education were at least identifiable as the activities federal money supported. To think that any federal politicians would now devote massively more dollars to the amorphous process of equalization is to dream. To think that the richer provinces would stand for a lot more equalization is to live in a different Canada.

However it is attempted, the urge for further decentralization, strong as it is in some provincial thinking as well as in much business opinion, ignores the economic structure of Canada. Not only does revenue from natural resources, from oil and gas, from trees and minerals and hydro power, vary greatly and increasingly. The headquarters of banks, major businesses, professional services, are located increasingly in a few cities in a few provinces; both the corporate and the personal income in those provinces derives from activity across the country as a whole. The tax on it does not belong to its home province alone.
Inequalities of provincial revenues are inherent in the nature of the economy. But now as in the beginning, Canada is a nation thanks to defiance of some economic considerations and thereby under all the more necessity to get other economic policies right. Significant differences in the public services available and the taxes payable in different provinces are not only unfair citizenship. They impede the mobility and adaptability that are imperative for the efficiency of a national economy.

In sum, we need to restore as robust an equalization program as Ottawa and the provinces can agree to. It will not be enough either for social justice or for economic strength. It cannot any longer be supplemented by subsidies for particular provincial programs; the terms for those that now fit federal politics are incompatible with both program efficiencies and collaborative federal-provincial relations. We have to turn to a third way. It is not new. Built from experience, it must be refined and expanded.

**How to spend**

There is a way for the two orders of government to work together without the tensions and uncertainties of money transfers between them. That the way has as yet been little taken is a tribute to how much was achieved in the honeymoon phase of cost-sharing. Even policy practitioners and advocates have come to identify the federal spending power almost exclusively with transfers to provincial governments.

In fact, of course, it is a general authority. The constitution defines, at least vaguely, things that federal officials cannot do, public services that are in provincial jurisdiction and federal officials therefore cannot provide. There is no constitutional limit as to whom or for what purpose Parliament may provide the money for things to be done by others.

For example, the federal government cannot operate universities (outside its armed forces). It can and does subsidise people to go to university.

The spending power gives federal authority to provide money to institutions, communities, corporations. Most importantly, it is authority to make payments directly to people. The first social program that changed the lives of millions of Canadians was not provincial. It was family allowances, federal cheques paid directly to all mothers of school-age children. Today Old Age Security, the Guaranteed Income Supplement, Canada Child Tax Benefit, GST credit are income tested, but they are all personal payments to those who qualify.

In such cases, recipients spend the money as they think best. A different technique may be used to enable people to meet particular needs. The federal government can buy the necessary services for them. The purchase may be from provincial governments or from private institutions. Such a procurement technique was used on a large scale when Ottawa recognised the national importance of occupational training. This paper will suggest how it could be used for child health.
Alternatively, Ottawa can reimburse people, in whole or in part, for fees they pay to obtain necessary services, again from public or from private institutions. One long-standing example is the tax arrangement for medical expenses incurred outside medicare. Another is the tax deduction allowed to people who buy child care. In its present form, this is indefensibly regressive; people whose incomes attract top tax rates recover much of the expense, people with lower incomes do not. The method of reimbursement could, however, be changed so that its extent is adjusted to need. The principle of social justice would then be the same as for a refundable tax credit. A suitable scheme will be outlined later.

The reimbursement technique can also be used to encourage people to action in the public interest. Tax concessions for charitable donations are the familiar example. In recent years this method of subsidising retirement savings has been carried to highly regressive extremes, and further mistakes of the kind are in prospect. The procedure is however open to wider, and fair, use – for example, to encourage various ways of reducing pollution.

**People’s federalism is next**

The cooperative federalism of cost-sharing was essential to building the Canadian social union. But its degeneration into the expediencies of donation federalism has gravely impaired our representative democracy. Programs of the greatest public interest are shaped by tussled deals between Prime Minister and Premiers. Parliament and provincial legislatures can only say yes to the deals when they have been done. “Executive federalism” as it is termed, all too accurately, has contributed significantly to the public disillusion with political parties and all their works.

The alternative may be summarised as “people’s federalism.” Transfers to provinces can be replaced largely by payments directly to people. This is the main way in which reliable cooperation can be restored to our federalism. Shifting power to people locks competing federal and provincial politicians into a common interest to serve their voters. Once involved, Ottawa will not renege on payments to people as it did on its commitments to provinces. Their politicians will gain the assurance that has been so long lost. By the same token Ottawa, delivering the proceeds of its taxes directly to people, will gain the public recognition that its role in cost-sharing did not give.

The rivalries of politicians in federal-provincial confusion have become a deeply destructive factor in public policy. Better cooperation would be, in itself, a major gain. Redirection of the spending power to people instead of provinces has, however, an even more important merit. It will clarify accountability. The public will better know who is doing what, who is responsible for failures, who for improvements. And that awareness of responsibility can help significantly to lessen the public disillusion with politics, to regenerate public engagement in the public business.

Accountability, if it can be made genuine, is now among the strongest of public wishes. Moving money directly to people would do more than anything to make it genuine.
This is not to suggest that all will suddenly be sweetness and light. Some of the innovations will require tough negotiations on procedures and payment rules. They will not be the same for all provinces. In some respects, there will have to be acceptance of more asymmetry in our federalism. The natural tensions among provinces and between federal and provincial politicians will not end. What will be new, however, is that people power will create compelling incentives to come to genuine agreements and stick with them. Blame-the-other-guys will rarely be the credible technique that in the past it has usually been for one side or the other.

The provinces are on side

Nevertheless, people’s federalism will not quickly be an easy sell. Despite many particular precedents, the idea as a whole is unfamiliar. Many who may recognise its merits will dismiss it as impracticable. They cannot, however, rely on what is usually the last defence of federal inertia: “The provinces will never agree.” The Social Union Framework Agreement (SUFA) is evidence otherwise.

It originated in a constructive attempt by all the provinces to undo the worst of the damage to federal-provincial relations wrought by the 1995 federal budget. They pushed Ottawa into signing the agreement in 1999. Quebec alone stood formally aside from signing but, in this as in many matters, it has not been in practice an awkward dissident.

A quarter of the SUFA text is devoted to “The Federal Spending Power: Improving Social Programs for Canadians.” It begins: “The use of the federal spending power under the Constitution has been essential to the development of Canada’s social union.” It bears, however, the marks of provincial disillusionment with programs on which Ottawa had reneged. For “any new Canada-wide initiatives . . . that are funded through intergovernmental transfers, whether block-funded or cost-shared,” the agreement stipulates conditions that would make them even less politically rewarding for Ottawa than it had come to regard the old programs. Reformers who continue to propose them are indeed impractical.

SUFA’s provision for “direct federal spending” stands in stark contrast. “Another use of the federal spending power is making transfers to individuals and to organizations in order to promote equality of opportunity, mobility and other Canada-wide objectives. When the federal government introduces new Canada-wide incentives funded through direct transfers to individuals or organizations . . . it will, prior to implementation, give at least three months notice and offer to consult.” This is the only condition for people’s federalism stipulated by the provinces.

Moving two ways

“Direct transfers to individuals or organizations” have become the basis for a collaboration in which each government would have its clearly accountable responsibility and working together would
have plain political merit for both sides. Provided, however, that Ottawa does not make them a cover for an unnecessary elevation of the federal role in Canada’s public business.

The constraints are, as always, financial, constitutional and, especially, political. The considerations governing federal finance do not change. They should always be its economic effects and its fairness while leaving, in cooperative federalism, sufficient room for provincial taxation within the level that the electorate will tolerate. While transfers to people may make a heavier call on federal funds than transfers to provinces, they permit a corresponding reduction in provincial taxes.

The constitutional considerations are more complex. There is no doubt, for example, that the federal government can provide financial assistance to postsecondary students, whether through the provinces or directly. It has been doing so for decades. Who are postsecondary students is determined by the diverse admission and continuation requirements of universities and colleges. Providing its aid directly to students in no way exempts Ottawa from respecting that identification. To impose its own conditions, such as a level of marks the students must attain, would be interference with provincial responsibility for education. A valid federal program must provide assistance on uniform terms to all students who are accepted by provincially designated postsecondary institutions.

This illustrates a principle of first importance. Direct federal financing of people is now a necessity. But necessity does not remove the constitutional and political requirement. Direct finance of people must be arranged in ways that do not interfere with regulatory functions in provincial jurisdiction. Legal niceties apart, that is crucial to constructive collaboration. What needs to be national, what not, changes. But which is which always needs definition and respect.

There has to be national action in matters that were, in Victorian times, local and provincial. In present times, effective action requires vigorous use of the spending power directly for people. The shift is politically practicable. But it is not practicable by federal aggrandisement, period. The third form of federalism cannot be centralising in the way the second form turned out, at times, to be. It cannot permit the federal authority to be as arbitrary, in matters impinging on provincial interests, as in recent decades it has often been. The provinces must be able to trust the mechanisms of consultation and finance, to rely on federal consistency as they do the planning necessary for effective programs.

Now, as often, the art of politics is to move in two ways at once. The creative compromise is to enlarge federal action where the national interest is compelling, to withdraw from federal action where it is not.

MPs do not win many votes by saying sorry, you need to talk to your MLA, but that is at present true of most of the matters of greatest concern to their constituents. The compensation often sought is to be a prolific getter of federal dollars for local projects and do-good causes, from downtown air service for Toronto business people to every kind of cultural endeavour, from roads in the Maritimes to museums in Winnipeg. Such parochialism of MPs, including Cabinet Ministers, is a principal item in Eddie Goldenberg’s recent treatise on The Way It Works in Ottawa. Federal governments lacking clear purposes are especially liable to seek consolation by putting their fingers into all kinds of pies.
Federalism calls on politicians at the centre to focus on national purposes. Today’s world necessitates an increasing central role to secure a strong economy with equality of opportunity for Canadians. The offset that good federalism requires is retrenchment in Ottawa’s more local activities, an end to federal politicking in matters provincial. Both sides of this equation depend on political wisdom in Ottawa. For both, wisdom could be greatly fostered by electoral reforms promoting the democratic participation of which our political parties are now so short. But we cannot wait on that. Policy change is urgent anyway.

**The public sector economy**

The barrier to a modern economy is an old prejudice, cultivated by some interests, plentifully indulged in the media. It masquerades as the neoconservative wave of the North American present. In fact, it is a reversion to the British 19th century. It is the belief that social services are by their nature a charge on the economy, period, because the taxes they require discourage the work of individuals and the enterprise of corporations.

There are, indeed, government expenditures that do nothing directly for the economy. They are social programs motivated, simply and proudly, by the ethic of human solidarity, the age-old obligation of the fortunate to those in need. That is true of care for the fully disabled, of care for everyone in the late years of life. It would be similarly true, if we had such a program, of free education for retirees. But education as we know it, from childhood to college and university, to adult learning and occupational training, is society’s obligation not to the disadvantaged but to all its members, to enhance the society’s work and well-being. So, equally, are health services before retirement, to treat sickness and to attack its causes.

To think of health and education and their related programs as social, in a sense opposed to economic, is to live in a past long gone. Today they are also at the centre of economic policy, necessities in an agenda to strengthen Canada’s production, employment and income within the global economy.

This has not come upon us suddenly. The significance of sophisticated technology in an interdependent world was foreseeable early in the postwar period, was in fact widely seen and written about then. It was plain that the success of a national economy would in future depend on the wide spread of sophisticated abilities among its people. The 1960s saw a good deal of action. Postsecondary education, in particular, was greatly expanded and diversified. And while the priority for health policy was necessarily to insure the treatment of sickness, medicare was meant to move on soon to positive, comprehensive programs for health.

Many expectations have been disappointed. For a generation, universities and colleges have been under siege, with students paying more for less teaching. The federal thrust for extensive
employment counselling and occupational training soon ebbed away. Attention to early childhood care and education has increased, but is far short of the rising needs of a society of many working mothers and single parents. Scientific advances have lengthened life, but access to timely treatment is erratic, and preventive care, removing the causes of avoidable sickness, remains limited and uncertain.

None of this has happened by deliberation. It is the outcome of confusion in our national politics. To that several factors have contributed, but two are major. One is the hollowing of political parties. The other, closely related, is rigidity in federalism, the failure to adapt its operation to new circumstances.

**The young are where to invest**

Modernisation will not be achieved for its own sake. Hard though politicians and officials try to hide vacancy of policy by changing organisation and procedure, few votes are won that way. Improved federalism will come when a government needs it to implement sound policies with strong public appeal.

The arrival of Stéphane Dion as Liberal leader, along with Elizabeth May as leader of a Green party capable of becoming a serious challenge to the NDP, ensures that environmental policy will henceforth have prominent place on the public agenda. However, its instruments – regulations, taxes, incentives – are for the most part already in federal hands. The main federal-provincial tension is specific to Alberta: how to restrain the fury of the tar sands without driving the province out of any collaboration in national policy. That will require a rare combination of firmness and concession, but not new mechanisms.

To slow global warming is not, in any event, sufficient alone for a political platform. It has to be wedded with closer economic and social objectives. There are natural fits. Restraints to pollution will quickly improve some people’s health. But the big beneficiaries, the people who may be saved from disaster by what we do now, are our children and generations following. Similarly, the economy can be strengthened soon by raising the skills, by improving the literacy and numeracy, of present workers. But the pay-off from educational improvement is greater the younger the age at which it takes effect. Again, preventive health care is more effective the earlier in life comprehensive measures are begun.

There is, in short, a unifying principle to focus the public business of this generation, the basis for a new national policy. The driving purpose is the health and education, the productivity and creativity, of our youth. Babies have become Canada’s scarce resource. Our future prosperity depends, nevertheless, on developing the array of skills that will command good incomes in a sophisticated economy and thereby provide the resources to sustain a Canadian role in the world.
Onward, from the old to the young

Public opinion seems to sense major changes sooner than the supposed elites of business and politics. In the 1950s, people knew who was being left out. Workers were doing better than ever before. It was their parents and grandparents, who had known depression and war, who had had no means to save for retirement, who had become the outsiders. The principal poverty of the time was the poverty of the elderly. By the 1960s, public opinion would tolerate it no longer. This was the driving force that led, despite the opposition of much business opinion and the reluctance of many politicians, to the social reforms of public pensions and medicare.

Complacency followed. Despite inflation and some recessions, both working adults and retirees felt secure in rising living standards. Young people were generally confident of getting jobs. The last quarter of the 20th century was the time of the consumer society, of a generation that had little use for government. Neoconservatism all but resurrected laissez-faire.

There are manifold signs that this counter-reformation has almost run its course. Multiple threats of disasters, from global warming to terrorism and worse, have shaken confidence. The growth of new economies makes uncertain the prosperity of older economies. Few young people are likely to have stable employment. As the ways of work change, experience becomes a diminished asset. The law-breaking of some executives, and the greed of many, have destroyed respect for business corporations. The cry that government is the problem now rings as hollow as in the 1930s.

But the reviving social concerns have a new emphasis. This time they centre not on the old but on the uncertain futures of the young. And this time remedies for social ills coincide with the investment in people that economic policy demands. The nature of a reform agenda has taken shape. A new national policy is waiting to be articulated politically. It will be, however, no more than words and false promises unless it is joined with a modernised federalism through which the democratic will of Canadians can be implemented.

Equal opportunity

Equality of opportunity is the social value to which lip-service is almost universal, even among fervent libertarians. That it is also now an economic value is winning some recognition, even among those who rejoice in great inequality of outcomes, of income and wealth.

Investment in people was brought into the language of economics as investment in human capital. As such it was seized by delighted academics, as well as by business and political pundits, as a call for more money to universities and more aid to their students. Those are needed. But to make them the priority policy requirement is not only socially elitist. It is unsound economics and poor politics.
The technology-driven economy demands a great array of talents. It requires literacy and numeracy in straightforward tasks as well as creativity in those that are complex. The level of income the economy can generate is determined by the excellence of all its work. The individual capabilities of all its people are worth development.

In western Europe, the political democracy of the 20th century combined with industrialisation to undo much inherited privilege. In North America, there was for a time the additional liberation of frontier settlement. It became possible to talk as if equality of opportunity was more than a desirable goal of democratic society. It could even be claimed – in the view from some political platforms, with people black or Aboriginal kept out of mind – as the established characteristic of societies north of the Rio Grande.

It is not. Opportunity remains greatly governed by parentage and circumstance. The advantages of the privileged and the well-to-do enhance the opportunities of their dependants; in poorer families, the disadvantages of mothers and fathers are visited upon the children. The worst waste of our human capital comes from deprivations, physical or mental or both, in childhood. Qualifications to the disparity, by the interventions of private charity, churches, increasingly of government, have in the past been made in the name of social justice. What has changed chiefly is the significance of inequality. Opportunity for everyone has become an economic imperative. Our future production and income depend on the talents of those who are now and will be our youth, on a resource diminishing in numbers, too valuable for any to be lost to strangled opportunities.

This is not to say that equal opportunity necessitates a great levelling down. True, the presently widening gulf in incomes and wealth is not only socially irresponsible. It works to the detriment, not advantage, of the economy. But practicable corrections will not remove the advantages enjoyed by the offspring of parents who are rich and responsible.

The public economy can, however, provide reasonably comparable advantages to others. By comprehensive, preventive care we can foster good health in all our youth. We can make early childhood learning, postsecondary education, occupational training generally available. Putting the programs in place will take some time, but no more than a few years if the political will is firm. At practicable speed, the cost of the necessary investment is well affordable. The political art is to do it nation-wide within our federalism.

What we can pay for

The third federalism proposed here will require a considerable increase in government spending. Always the first question to consider, before such programs can be more than gleams in the eye, is whether the Canadian economy can afford more taxation.

The answer, for the most conspicuous of taxes, is No.
Existing tax on personal earnings from work, on wages and salaries and the proceeds of small business, is a significant, unfair discouragement to effort and enterprise. One of the proposals that follows is to replace the present basic tax allowance by a higher, and partially refundable, credit. It would reduce the tax on most low and middle incomes.

The present tax on personal earnings is, however, the exception. Vast areas of both personal and corporate wealth and income are taxed little or not at all. Almost alone among democracies, Canada has no taxation on intergenerational largesse by inheritance and gift. We tax consumption, especially extravagant and polluting consumption, far more lightly than is general in advanced economies. Our way of encouraging savings greatly reduces tax on high incomes in favour not of investment but of consumption in retirement. Government turns a virtually blind eye to the billions of dollars annually transferred to tax havens by both individuals and corporations. Our corporate tax regime encourages speculative money trading ahead of productive innovation, mergers and acquisitions, monopoly and oligopoly, ahead of competitive enterprise.

And so on and so on. From the Carter Royal Commission onward, many people have shown how smarter taxation could raise substantially more revenue with benefit, not harm, to the Canadian economy [Kent 2003]. Hitherto, public policy has been dominated by the established interests that have shaped the present system. But, slow as old attitudes and habits are to die, it can hardly be much longer before politicians wake to their new freedom, their independence from the corporate and large personal donations that were made illegal by the 2003 legislation reinforced in 2006. The awakening should be helped by growing public awareness that the existing tax system is anyway falling apart under the mounting weight of avoidance and evasion.

Equity investment, not welfare

In the longer run, what we can afford is determined not by the tax system alone but by the evolution of the economy. To that, many other factors contribute. Health and education, skills and enterprise, are crucial and dependent on federal-provincial collaboration. There are others that require purely federal policies but gain from provincial involvement.

Corporate “welfare” has always been a joint concern with federal predominance. Countless billions of dollars, in grants, in tax remissions, in cheap loans that can turn into grants, have gone to promote this industry and that. Some of it has worked. More has gone into operations that have failed anyway. A good deal has added to the profits from operations that would have started or continued without it.

The federal government could not only improve on such haphazard industrial policy itself. It also could encourage provinces to cooperate.
Private capital, corporate and personal, is nowadays plentiful, but most is either resting safely or engaged in churning the ownership of existing assets. Risk finance to start and grow innovative Canadian enterprises is scarce. Public capital could supplement it, replacing give-aways by genuine investment. Ottawa could stand ready to subscribe to special shares that are fully equity in their claim to dividends but are non-voting. Such a form of public-private partnership would promote enterprising business without inserting government into management. It could also assist research and development within industry far more effectively than the grant and tax incentive schemes that have often been abused. In government accounting, it would replace budgetary expenditures.

Not least importantly, one condition for federal subscription to special shares could be absence from the undertaking of any of the grants, loans and tax incentives with which provinces compete against each other as havens for industry. This is one example of the many ways in which Ottawa could more actively facilitate closer cooperation among provinces. That has grown significantly in recent years, thanks not least to Quebec. In the new economy, it will bring increasing benefits in industrial affairs as well as in education and health and much else.

Most importantly of all, the provinces must be able to trust federal management of fiscal and monetary policies. Step one for a strong economy is the development of people’s abilities. It does not take us far unless there is a second step, unless almost everyone has, almost all the time, the opportunity to deploy those abilities. “Full employment” does not mean what it did when work was far less diverse and changing than now. But the importance of work has not changed. Its availability is crucial equally to the justice of the society and to the strength of the economy.

Of late the world economy has been kind to us, and Ottawa’s fiscal and monetary policies have been in salutory reaction from the economic mismanagement of the 1975-93 years. But the reaction has hardened into dangerously simple slogans: The budget must never be in deficit; monetary policy must be dedicated to the supreme purpose of keeping price inflation within a narrow range. Wise rules for good times can become prescriptions for disaster if they are continued into harder times. They won’t be, indefinitely. But meantime they make Ottawa ill-prepared, politically and bureaucratically, to act promptly when we encounter rising unemployment. And for the economy, as for the environment, corrective policies are more painful and slower to work when they are late starting.

This is not the place to discuss policy that is essentially in federal control. It is necessary to be aware that the best of federal-provincial relationships will founder for a time if Ottawa again founders in its basic responsibility for an economy of productive employment.

Family income comes first

Such disaster apart, the way ahead is clear. We can foster a more equitable and equable society in a stronger economy. The principal instrument is not in dispute. It is to invest in people, to grow their abilities and to enlarge their opportunities.
The sharpest obstacle is poverty. Some children overcome great adversity, but few can much make up for the slow start of going to school hungry. Those whose health is neglected, whose homes are crowded, who lack family stimulus and facilities to pursue their interests, physical or mental or both, are unlikely to develop their full abilities and make the contribution to society that they could have done.

Great wars and extreme economic failures may cause even worse wastes of human resources than children growing up in poverty. But that is the waste most easily corrected in a country as rich as Canada. And the correction is the clear responsibility of the national order of government. So clear, indeed, that partial correction has long been made, through Family Allowances beginning in the 1940s and, in recent years, through the Canada Child Tax Benefit whose introduction was the one important innovation in social policy during the later years of the 20th century. But while fine in principle, the original amount of the benefit was pitifully small and even now it is well below the minimum cost of raising a child in cities such as Toronto and Calgary. An immediate increase to $5,000 a year is needed, at least for each of the first two children in a family.

It is not, however, children who have low incomes. Teenagers on the streets are special cases. Otherwise, child poverty is the poverty of some kind of family unit. Our present taxation seems designed to ensure that the poor stay poor. At $8,839 this year, the basic allowance, after which federal income tax begins, is far below the poverty line (Statistics Canada’s low-income cutoff) in even the rural communities where living costs are lowest.

A higher allowance would increase the rewards of work for people on low and middle incomes. In itself, however, it would do little or nothing for the poorest of the poor. The essential reform is to convert much or all of a bigger allowance into a refundable credit; $10,000 would be a reasonable beginning. For a couple, the income before tax begins would be similarly increased. A refundable credit of $20,000, however, would be a leap out of line with what is presently practicable in policies generally. A coherent first move would be to provide, for an adult dependant, a refundable credit of $5,000, matching the amount of my proposed more generous child benefit.

The combined effect of the proposed refundable credit and the larger Canada Child Tax Benefit is that a single parent with one child and little income would have it increased to $15,000 a year; so would a couple without dependent children.

An income guarantee

Such figures are not presented as the product of careful analysis on my part. They are examples to illustrate what could soon be done, examples chosen with reference to the most authoritative proposal of guaranteed annual income (GAI) for Canadians that has yet been made.

The proposal came from the Macdonald Royal Commission, whose members included an eminent former Deputy Minister of Finance, the late Tommy Shoyama, and which was supported by a
star-studded bevy of researchers. Though it fought shy of using the label, the Commission recommended a modest GAI. The amount was calculated to require no net increase in government expenditures because it was to replace federal transfers through the Canada Assistance Plan as well as other programs then in operation. On that basis, the proposed guarantee was $3,825 for an adult and for the first child of a single parent. Those were 1984 dollars. The equivalent in current dollars is $6,885.

In other words, for a couple alone, or for a single parent with one child, the Commission plan would today raise low income to $13,770. The proposal of $15,000 made here is in the same ballpark. Indeed, if allowance is made for the increase in real national income since 1984, it is more affordable by taxpayers today than was the Macdonald Commission plan in its day.

There is, however, a big difference between the proposals for families of more than two people. For other children, Macdonald proposed $765 a head, or $1,377 in current dollars. The income of a couple with two children would be raised only to $16,524, much below the $25,000 suggested in this paper.

It was chiefly because so unrealistically little was offered for children that Macdonald’s thoughts on social policy were never given the attention accorded most notably to the Commission’s proposal for continental free trade. Now, most of the higher guarantee for families suggested here is already in place, through the Canada Child Tax Benefit at its existing rate. If we are at all serious about investing in human capital, the addition proposed is surely an affordable priority even before tax reform comes into play.

The income minima would still be below the poverty line in most communities, well below in big cities. They represent, however, a good beginning for the kind of base that in our federal system should be recognised as the nation-wide responsibility of central government. The local responsibility, which the makers of confederation assigned to provinces, is to build on the base to the extent necessary to meet variations in need. That can be done by measures such as housing allowances in the cities, as well as by the “welfare” that should be needed only as the income support of last resort. It is, in a modernised federalism, properly provincial business, provided that Ottawa discharges its prior function, creating a national foundation on which other needed measures can be built.

Learning before age 6

Contemporary science has confirmed common observation. It is in early childhood that contact with others, of all ages, does most to stimulate the capabilities of our brains, to develop cognitive power, personal confidence, sociability. Nurture works with nature. What is learned before age 6 does much to determine what can be learned in school and after.

In other words, the highest return on investment in people comes from investment in young children. It begins with what is most important of all, the personal love and work of parents. But that
naturally becomes quickly less exclusive. Mother at home, concentrated on bringing up the children at least until they have to go to school, has never been the commonest situation. The rich have usually delegated much child care to slaves, governesses, tutors, nannies. In the large families of the past, the wives of farmers and workers were far too busy to pay close attention to each child after its first year; much of the tending had to be left to grandparents, older siblings, neighbours. The present use of day care is much less different from the past than is commonly represented in reminiscences of good old days.

The sharper contrast is with preschool childhood in western Europe. In Canada outside Quebec, we lag badly in day care of educational quality. What is available and possibly affordable, by most parents, is generally little more than babysitting. Gradually, part-day kindergarten classes have been incorporated, to varying degrees, in some provincial educational systems. The logical next step would be expansion to the point of effectively lowering the starting age for school, but it will be years before that is uncontroversial enough to be seen as a priority in any province. The far higher and practicable priority is to make good care available from the second year of life, to children whose parents want it and are enabled to pay for it.

The need for early learning is urgent. It is fundamental to future economic and social well-being. It has long been given some national recognition, but in elitist fashion. Expenses of up to $7,000 a year, for care of a child to age 16, can be taken into account in the tax liability of working parents. This is regressive: a substantial benefit for people paying top rates of tax; of little or no help to those with lower incomes. It should be replaced by a fair provision for all preschool children.

It is not being. Instead, the previous government offered the provinces a donation towards the cost of creating some new child care places. This was commonly presented as reminiscent of past federal financing to start joint programs. In fact, the parallel was in style, not in substance. The offer in the past was a fixed share of the costs provinces would incur for universal programs providing the same benefit to people with the same need. The recent offer was a set amount of money that would have financed good day care for a severely limited number of children. The federal intervention would have resulted in discriminatory distribution of a public benefit in provincial jurisdiction.

The Harper government’s rejection of such a program is understandable. What has been presented as its replacement is, however, a meaningless gesture. The so-called Universal Child Care Benefit is too small, in relation to the cost of educational care, for there to be even a pretence that many parents will be able to use it for the national purpose it is supposed to serve.

Pay the fees

Both past and present governments have spurned for children in general what they now do to help some. If it is stripped of its elitism, reimbursement of expenses is the way to create a fair and firm framework for early childhood care and learning. Parents would pay the necessary fees. The federal government would reimburse them, on a scale related to income level and family size. The
reimbursement would be aimed at covering almost all of the expense at low income levels, flattening out to nothing for people with incomes well above average.

Full early learning calls for child centres open for much the same times as public schools. They should be available to children aged 1 to 5 inclusive. They need adequate staffs quite as trained for their tasks as school teachers. Such standards are, however, an urban concept. In rural areas, they would require small children to spend impossibly long hours in buses. Junior equivalents of defunct one-room schools, with a staff of one for children at greatly different stages, are the only communal facilities possible in some communities. And in towns and cities, there will be varied needs. There may be, for example, stay-at-home mothers who think their children should experience learning play with others of their age, but for considerably less than five full school days a week.

Therefore a national policy of early childhood learning cannot be based on the prescription of one standard. The firm base for it is the combined strength of opinions in favour of various measures and methods of early learning. Ottawa’s role is to enable parents’ wishes for their children to become attainable. The mechanics of doing so require provincial agreement, but there can be no bar to direct reimbursement of fees paid by parents. One possible problem is that education departments in some provinces might nevertheless wish to limit the range of available options. In that unlikely event, it must be plain that there would be no compensatory transfer to the province of money intended for individuals.

Again, the figures used here are simply illustrative of the proposal. Actual amounts would, of course, be set after careful consultation and negotiation. A reasonable start might be to offer reimbursement of fees to a maximum of $8,000, for a child attending a full-scale centre full-time. Appropriately less reimbursement would be available for lesser levels of service. The maximum might be payable to a couple with one child and an income below, say, $40,000. The income level would of course be adjusted to family size, and the reimbursement would gradually be scaled down for higher incomes. As in similar programs, the payment would be made according to the previous year’s family income, but it should be possible to make adjustments up or down when there are major changes in circumstances.

The present tax allowance for child care expenses would be scrapped. For school children to age 16, there could be instead a reimbursement of expense, with a cap appropriate for child-sitting rather than early developmental care, and scaled to low and moderate incomes of working parents or a single parent.

Parental responses to the reimbursement of fees for early childhood learning would no doubt build up over several years. School boards and other organizations would need time to assemble facilities and personnel. Provincial governments would have to arrange for registration and supervision. Some people fear, indeed, that care of good quality will not become widespread unless the federal government contributes to the capital costs of the facilities. That is, indeed, the situation today. But if parents are empowered to pay for the care and learning of their young children, provinces will have every incentive to respond to a public demand that will grow increasingly strong as more people see what the neighbours’ kids are getting.
It should be recognised, moreover, that federal reimbursement of fees will result in financial gains to provincial treasuries and municipalities that vary considerably with the extent to which they now subsidise some day care and provide kindergarten classes. The less fortunate might be encouraged to install new facilities sooner if Ottawa stood ready to make loans for their capital costs.

In any event, however, there will be, as is appropriate to our federalism, significant asymmetries both in the details of the facilities provided and in the degree and speed with which parents in various communities and circumstances warm to early learning for their children. This is inherent in the nature of our political system. It means that early learning is one of the things that cannot grow as fast as, ideally, is in the public interest. Some slowness is the price that must be paid, now as in the past, for the qualities of a society rooted in federal democracy. Though direct spending by the national government has its limitations, it is today the main way to fit the practice of our federalism to our democracy.

Empower the students

Postsecondary education is also a national need best met by direct federal financing of people. And since it is also a private benefit, usually resulting in higher income than its beneficiary would otherwise earn, a well-designed program need cost taxpayers very little.

In the second version of federalism, Ottawa shared in provincial grants that covered most of the costs of postsecondary teaching. The resulting low fees were a bonanza for well-to-do parents who would have sent their children to university anyway. All the beneficiaries of higher education had the state chiefly to thank. But the benefit was spread fairly wide, thanks to the low fees and fairly generous government loan programs for students.

Fees and other costs are much higher now. Few parents can pay them. Scholarships big enough to cover much of the cost remain few. Working one’s way through college is rarely a substitute; possible jobs, unless you are well connected, are too low paid and uncertain. The necessary recourse is student loans, now large loans.

For students with high abilities, a heavily indebted education still makes sense. They can be confident that it will pay off in higher earnings. For many, however, the risks are intimidating. After graduation, student loans have, on paper at least, conventional repayment schedules. While enforcement is increasingly qualified by a jumble of concessions, those are uncertain and require humiliating pleas of poverty. The people who are deterred include many whose personal futures and contributions to society could be much enhanced by higher education. They are absent from campus because uncertainties loom large in families without advantages. Those present on campus include students of lesser aptitude who are there because university is where, at the income level of their parents, they expect to spend their late teens and early twenties.
This is the perversity of many programs that are championed for the help they extend to the disadvantaged but, in fact, do much to reinforce advantages enjoyed by others. Yet the commonest economist’s prescription for investment in human capital is to compound the perversity. It is to pour money into the universities.

The issue is confused because universities have two purposes. They teach. They extend knowledge. In the second capacity, they are among the important locations for many areas of research. For that purpose, more public money is appropriate. In their teaching capacity, however, they exist to serve their students. The proper use of public money is to empower not the institutions but the students.

That cannot be entirely a federal decision. Provinces will decide, individually, how far to go on keeping down the fees of universities and colleges by giving them money. For 40 years, however, anything near general access has depended on student loans. That program has become increasingly inadequate and unfair, amended by bureaucratic improvisations that produce indefensible anomalies. It cannot be further patched. A complete re-make of student financing is long overdue.

Advances, then taxes

The essence of the reform is to replace loans through banks by advances through the tax system. That is fairer for everyone, more efficient, simpler, cheaper for the treasury.

The federal government would stand willing to make the advances to all qualified students at provincially-approved universities and colleges. The program would be available for diploma, undergraduate and graduate courses; doctoral studies are better treated as part of research financing. The amount of the advance would be based on the fees for the student’s chosen courses plus complete allowance for modest living costs. The student would decide what proportion of that amount he or she needed to have advanced, but the terms would deter choosing more than necessity. Whereas present student loans are free of interest prior to graduation, interest on the advances would accumulate from the day each instalment is taken up. It would be at least two percent above prime bank rate.

Postsecondary education is a critical national interest. That is the motive of public policy. It also has a strong personal motivation. It almost always results in income at least better than the national average. Its finances should be fitted to that double motivation. They should be sufficient to secure fair access to education by low-income families. They should be fairly but fully recovered from subsequent above-average income households.

Repayment should therefore begin as soon as the former student’s income for the year passes the average full-time earnings of Canadians as reported by Statistics Canada. A graduated surtax would then come into play. The rate would be low on, say, the first 25 percent of above-average
income, but be graduated sharply enough to secure full recovery within a few years from those who quickly move to upper-level incomes.

The manifold merits of this program are attainable, however, only if it is accompanied by legal reform. People must not be able to avoid or delay the repayment of advances by going to work in another country. That not only cheats the taxpayer. It frustrates the national return on investment in higher education. Such evasion occurs on present loans. Fortunately, its prevention becomes more practicable, as well as more important, when the funding is recovered through taxation.

While most public programs apply to all legal residents of Canada, postsecondary advances should be available only to Canadian citizens. And Canadian citizens should be legally required to pay Canadian income taxes regardless of where they reside (subject, of course, to deduction of taxes paid by treaty with the country of residence). This is the legal provision that the United States already has for its citizens. There are several strong reasons for it. Besides facilitating a better education program, it will help to combat widespread evasion of personal and corporate taxes, as well as to improve immigration policy.

A revolving fund

The proposed program is big. It is not, however, expensive for the taxpayer. Because they are interest-free until graduation, present student loans are relatively cheap money. The consequent incentive to borrow more than may be strictly necessary has to be countered by bureaucratic controls. Administration will be simpler when the interest clock starts to tick as soon as an advance is made. Moreover, the interest rate will be well above the federal government’s own cost of borrowing. The finance of student advances can therefore be treated as a revolving fund, separate from tax revenue. Unusually in public finance, it can properly be built up by government borrowing. The budgetary charge should be no more than is needed to cover the leakage from the fund caused by students who are incapacitated or die before they have earned much above an average income.

The form of financing is especially significant because provinces will want to take advantage of the federal program to reduce their grants to universities and let student fees rise. They may be restrained by public opinion and by students, far-sighted enough to think of their future taxes to repay advances, who shun universities in provinces where fees are high. Nevertheless, there seems little doubt that fees will gradually rise towards the true cost of postsecondary education. Advances will have to increase correspondingly, but Ottawa can breathe easily because they are not a budgetary expense; indeed, the bonds of the revolving fund will have merit as a better place than GICs for people to put their savings.

It is possible to hope for a further bonus from the direct financing of students. Their empowerment may pressure universities to pay more attention to teaching better. Canada is too big, geographically, for postsecondary education to be concentrated in a few large universities. It is too small, in population, for numerous universities to embrace high qualities of learning across a wide
range of subjects. Specialisation is necessary. Adequately financed students will vote with their feet. They will go where the particular courses they want are best taught. Their market pressure will do what direct government finance of universities, subject inevitably to political pressures, is unlikely to do. It will be a stronger influence towards natural “centres of excellence,” each specialising more in what it teaches best and thereby developing also the concentrations of research capacity that the economy requires.

Investment in students is not, however, enough. The economy from which people in due course retire will be vastly different, in structure and in technology, from the economy they enter. Some will be retrained, perhaps several times, in the course of their work. Many will require periods of further learning. Like college time, that serves both private and public interest.

In an economy dependent on enterprising flexibility in a wide range of skills, up-to-date technical qualifications are quite as important as university degrees. It is therefore appropriate that, for later as for early learning, the federal government stand ready to advance necessary fees, again recoverable from a graduated surtax on later earnings. Moreover, in cases where change results in a substantial period without pay, a retraining worker should not have to depend on Employment Insurance benefits or, as is nowadays more likely, social assistance. The contemporary economy calls for a national adjustment program on which displaced workers can rely for the maintenance of a basic family income while re-training.

A possible problem may be noted. Provincial departments of education and employment can be eager monopolists, seeking to provide in their own facilities all the later education and training they can. Students may think, and federal authorities may agree, that in many cases industrial firms or private training enterprises or nonprofit institutions can do the job better or as well at less cost. Such differences of opinion should not be beyond amicable resolution, but again it will have to be clear that, if a province should claim to forbid some training for which advances are available, there will be no compensatory transfer to a provincial program.

Communities in transition

Adjustment policy is needed not only for workers individually but also for one-industry towns. If the plant or mine closes, the shopkeepers are hit almost as hard as the employees; the whole community loses its income base. What, if anything, is done in such situations tends to depend on particular political pressures and calculations, federal or provincial. It should not.

Late in the Pearson period, I tried to develop a policy framework. It was lost in the broader ideas for federally-led regional development that came with the early Trudeau years. It is still needed.

The purpose is local. The vital first step is the local creation of some community development process. Its effectiveness depends, however, not only on that initiative but on bringing both provincial
and federal services into coordinated operation. The two governments could best be joint sponsors and provide joint funding for the third sector, nongovernment organisation.

The initial aim would be to find a new economic base for the community. It could be a modification of the old one. More probably, it would be found in new activities to which the community’s people and resources could be adapted, and for which market custom would be available. Realism would be enforced by the amount of funding, scaled according to the area’s population. It could be drawn on for, say, two to five years, determined according to the area’s remoteness or other characteristics.

The incentive would be firm. At the end of the period, no more money could be drawn for development. However, if that had failed, any money remaining in the fund would not be lost to the community. It could be adapted to easing the individual consequences of the community’s decline or even disappearance, to helping people to move.

This was and is only a rough outline of a possible approach to fair and reasonable policy for communities in economic trouble. The point relevant to this paper is that it is an example of one of the kinds of collaboration sometimes appropriate to federalism. It would involve, not subsidisation of one order of government by the other, but joint support of a nongovernment organisation using both provincial and federal services.

**Can’t pay a doctor: it haunts us still**

Health care is the toughest issue in federal-provincial relations. The underlying reason is that public policy has not moved on from the motivation that got medicare started.

The haunting worry was the high cost of medical attention. Treatment of major sickness or injury could be financially ruinous for all but the most wealthy. Universal health insurance therefore quickly gained wider public appeal than other social programs. Medical attention when needed has rightly become, in principle, an entitlement. Ability to pay is irrelevant.

Important though it is, that is not a health policy. Being cured when sick is a poor second best to not being sick. While assurance of treatment was the necessary priority 40 years ago, most of us thought that it would be soon joined with prevention, with positive measures to combat sickness. The public purpose is the good health of Canadians. Not only is prevention better than cure for the individual. For society, it is the way to head off escalating treatment costs.

The advantage is not, however, immediate. A healthier child today will become an adult requiring fewer medical interventions over the next 70 years or more. But in the short run, preventive care is an additional demand on a system struggling to meet the urgent demands of the present sick.
It is a system that with inadequate resources still serves remarkably well in its initial purpose. Care is not denied because the sufferer cannot pay. And when care is given it is, for the most part, good care. It is, however, rationed by delay: for many people, delay in getting access to a doctor and, even more, to a specialist; and then frequent waits for treatment. Inevitably, such rationing creates a systemic bias. The well-off and well-educated, as well as the fuss-makers, get more attention than the less-articulate.

That inequity is, however, the lesser fault of our health care. The major fault is that deficiencies in care of the sick continue to dominate public concern, political attention, medical action. Too little money and too few people can be spared for the prevention of sickness. We have built a health industry machine for suppressing the consequences of poor health. It is not geared to combat the causes of poor health.

The rigidity of organisations can usually be traced back to their origins. The Saskatchewan doctors’ strike in 1962 did not only entrench fee-for-service compensation. It established the political strength of a conservatism that has sustained the practice of medicine as largely a cottage industry, standing aside from the information technology embraced by other consumer services. The efficiencies of group practice are still having to struggle to be born. The physician’s turf is still well guarded against nurse practitioners and other health workers, as well as immigrant professionals.

Organisational change could, and gradually will, improve service and reduce some costs. It will not remove the troubles of medicare. We will become more and more able to cure, or at least to alleviate, our ills. And if it can be, it should be done. The possible demand for medical interventions is limited only by their supply. The strain on our resources will grow as more retirees are supported by fewer workers.

Reasoned policy must recognise this reality. Trying to make it into a case for privatisation is utterly unreasonable. It may, however, call for more limits to the scale of interventions that are reasonable late in life. Medical progress does not create grounds for regressive user fees or flat-rate premiums. It may nevertheless strengthen the need (as I have long argued) to identify individual costs and require modest, income-related recovery of some of those incurred by adults.

**The sooner, the easier**

What is needed above all, however, is a wake-up call. The choice in health policy is eerily similar to the choice in environmental policy. The longer action to counter global warming is delayed, the greater will be the costs of preventing greater disruption. The longer we neglect preventive health care, the more unsatisfactory and expensive will be medicare concentrated on alleviating ills that need not be.
It is not, of course, health care alone that matters. Nothing works so much against good health as urban poverty. Pollutions of many kinds are becoming a close second. Good health is greatly helped by literacy and numeracy, by support and stimulation in family and other groups, by recreation, by workplace regulation, by exhortation and taxation to discourage unhealthy lifestyles. But all that may be done in all such areas in no way lessens the need for doctoring to be as effectively preventive as it is curative.

Care that is comprehensive in both respects will not come quickly. In the short run, it will increase costs. It will not be advanced by following the recent model for “buying” particular improvements by means of federal subsidies theoretically dedicated to defraying some of their costs. More such measures, partial funding for particular preventive programs, would add to the federal-provincial confusion of accounting and responsibility but make little difference to the actual extent of preventive care within the nation-wide medicare mix.

The system is now too frayed to be reshaped by incremental financial changes. It needs the invigoration of a new sense of direction, the impetus of an initiative that catches the public imagination and activates political and professional purpose.

There could be such an impetus. It would concentrate on modernising medicare where positive health reform will do most good. In that sense it would be a limited, financially practicable program. In a deeper sense, it would be the start of a national dedication, a dedication to the health and welfare of our children, to the nurture of young Canadians wherever they live, from the largest of cities to the smallest of first nation reserves.

It is in childhood that preventive care is supremely important. The early years are the most decisive for lifetime health, physical and mental. Elderly politicians naturally urge faster treatments for limbs and organs impaired by use, but the dollars that make the greatest contribution to a good society and successful economy will be those that make fully comprehensive care universally available to young people.

Such care would cover eyes and teeth and prescription drugs as fully as medical attention; provide regular check-ups; follow them as needed with nutritional supplements, immunisations, exercise programs, physiotherapy; include services and equipment for special needs; range from prenatal care and well-baby clinics to youth counselling. It would be, in short, a service comprehensively directed to good health.

In Utopia, that health service would be available from birth to death. In reality, we have to concentrate it where it will do most good, and there create as much of it as possible as quickly as possible. The priority people are preschoolers, followed soon by other preteens. Comprehensive care should later continue to move up the age scale as far as 18, to cover all the years when people are generally at school.

Canada will then be fulfilling its responsibility to its chief resource, the people on whom its future turns. The investment is not only in health. It is investment necessary for the strength of the
economy. It is investment necessary for a society of equal opportunity. Comprehensive health services for children are the principal way to control, with fairness, future social costs of many kinds. In particular, they will do more than anything to sustain, for the long run, the principles of medicare, the quality and promptness of the services that it delivers to adults.

For such a policy, competent politicians could win the strongest of popular endorsements. Short sight is the malady of politicians preoccupied with the next election, not of the public. We have recently seen how widely imaginations can be caught by the call to save the global environment. Yet, powerful and refreshing as that is, its appeal to the Canadian electorate pales beside the impact that surely could be made by a policy for the well-being of our children.

**Start it, this time stick to it**

Any national health policy is a collaboration of provincial and federal governments. Ottawa started nation-wide medicare by undertaking to pay half of the provinces’ costs. Its step-by-step withdrawal produced mounting deficiencies, uncertainties, conflicts. They have not been corrected by subsequent doses of subsidy.

Against this background, the provinces will not be led into comprehensive health care for children by an offer of cost-sharing. History cannot be undone. Provinces have learned that they cannot put their trust in such initiatives. Federal politicians have learned that, once a provincial program is established, they get no continuing political credit for their money and are not spared from blame for the program’s weaknesses.

Without federal money, however, the national need will go unmet for the foreseeable future. Alberta, notably, could well afford to do right by its children without any help, but probably will not. Certainly most provinces will be too strained by existing medicare, while keeping their taxes within bearable range of Alberta’s, to expand into additional care. Shorter wait times for services already expected by their adult voters are understandably a higher priority for provincial politicians.

But global change will increasingly pressure the Canadian economy. Investment in the health and education of our youth is urgent. The necessary response is already late. It will come only when the federal government takes a national initiative. It will come when the federal government recognises that the health of children is a national responsibility with a priority that makes it fully a charge on national taxation.

That would not be an entirely new idea. Ottawa would be catching up with the provinces in managing to think “outside the box.” In 2004, they collectively proposed that pharmacare should be separated off from other health care, made a national program for which the federal government was accorded full responsibility. The proposal promptly died not for lack of merit but because the then Prime Minister short-sightedly refused to admit it to the agenda of federal-provincial discussion.
In delivery, of course, pharmacare could not have been distinct from the rest of medicare. Doctors, in their offices and hospitals, prescribe the drugs. The federal responsibility would have been to define the national formulary, to prescribe an income-related scale of charges to patients, and otherwise to pay for the drugs and the margins of pharmacists. An essentially similar degree of separate financial responsibility could be applied to a comprehensive health service for children. In theory, Ottawa could do more. It could operate the program in any province wishing to make such a delegation of responsibility.

Under 18, Ottawa pays all

In practice, all or almost all provinces no doubt would opt for a simpler alternative. It is that the whole health program remains provincial in operation. But within it, care for people under 18 is comprehensive and Ottawa reimburses the province for all its cost.

For preventive care not now covered, this would be entirely new money. The provinces rightly would insist that it be a net gain, not taken out of the transfers already due until 2014. For the longer run, that rag-bag of improvisations could well be replaced by a simple commitment to 25 percent of provincial costs for adult medicare. In that one respect, and provided it is firmly legislated in conjunction with full financing for younger people, cost-sharing could be believably restored.

The detail of the financing for young people would, of course, require careful negotiation. This time the content of “comprehensive” has to be specified. There must be safeguards against federal money being used to raise compensation for some caregivers, notably pediatricians, above the level for equivalent workers in the service of adults. It must be clear that financing for youth cannot be the start of any kind of creeping aggrandisement of the federal role. Federal purchasing can never be extended to the rest of medicare. There would then be no standard for fair pricing. Ottawa must know that not only fees and salaries but charges for equipment and facilities are at the same rates for youth as the province incurs for its services to adults. Overheads and joint costs must be clearly allocated.

The technicalities are complex. Some will differ considerably among provinces. But with goodwill on both sides, they need not be difficult to settle by negotiation. And the reasons for goodwill are overwhelmingly strong.

For the provinces, federal purchase of care given to young people would be a large injection not simply of cash but of uniquely reliable cash. Experience has shown that Ottawa can get away with reneging on commitments to provincial treasuries. Commitment directed to people is another matter. Once the federal government has taken specific responsibility to pay for the health of young people, it is locked in. It cannot let down the kids. The money is as sure as any can ever be.
By the same token, federal politicians gain what cost-sharing has never given them. The federal tax money is identified with a specific benefit to specific people. A health program for kids will earn the kind of continuing political credit that comes with few of the things Ottawa can do.

Those are the narrower but strong considerations of political interest in federal and provincial cabinets. Above and beyond them is a more important and more compelling force. Canadian electorates, federal and provincial, are tired of the bitter controversies, the conflicts between their governments, that have so long raged round medicare. They want improvement, know that it involves both jurisdictions, want them to get on with it together. Clear national accountability for health in youth, clear provincial accountability for later ills, is the kind of break from confusion, the new beginning, to which public opinion will respond. It can regenerate the enthusiasm and confidence that have seeped away from both the providers and the recipients of Canadian health care.

Provinces will have, however, a financial concern. While they will be relieved of the costs of care for children, the comprehensiveness of that care will strengthen calls that medicare for adults should also be extended to full dental and eye treatments, as well as to pharmacare. In time partial responses at least are likely to become, should become, unavoidable. They will be made more easily the sooner the present, hurriedly improvised and muddled arrangements are replaced by a simple federal commitment to 25 percent sharing of all costs for adult care, and to repeat my long-standing argument, the sooner there is modest, income-related recovery of some individual adult costs; and the sooner also there is frank recognition of the limits to public financing of elaborate treatments that only briefly sustain old people.

First and late comers

The most fraught issue in Canadian public affairs is Aboriginal policy. Redress for past injustices is primarily a federal responsibility, though provinces have both some involvement and an interest in the processes, as yet miserably slow, of restoring or compensating for land wrongly taken and rights improperly suppressed.

The extent to which we can alter the consequences of the past is, however, limited. For Canada’s first people, even more than for the rest of us, it is through programs enhancing health, education and employment that governments can most directly serve present communities. But again even more for them than for the rest, service now is of limited benefit to many of the adults who grew up with the old poverty, in the old houses, at the old schools, with equally cramped opportunities either to sustain a traditional livelihood or to make a new one.

The darkest mark on Canadian society is the long disrespect for our first people. The best redress is the respect we now accord to their young. And what we owe to them will have its firmest political base if we make it an essential part of the national commitment to equal opportunities for all Canadians, a determination that henceforth Aboriginal children should have as good access as others
to effective health services and education, to full opportunity to develop their capacities for the way of living they want. That, not the separatism of purely Aboriginal programs, is the spirit in which we can all do most to put past deprivations behind us. If it is the spirit, sorting out operational and financial responsibilities among Ottawa, the provinces and the first nations themselves will be a relatively easy collaboration.

No federal government can deny the primacy of its responsibility to the Aboriginal population. It can contrive to shuffle off its responsibilities for immigrants.

The jurisdiction is partially joint but clear. Ottawa is legally responsible for admitting people to residence in Canada. It claims to select, in varied consultation with provinces, the applicants best able to settle into living and working in Canada. In some periods, the federal public service has been organised to aid in the settlement. In some periods, most immigrants have quite soon been in appropriate work, both achieving the personal purpose for which they came and contributing to Canada.

The present is a rougher period. No jobs and bad jobs are common. Ottawa’s response so far has been to close its eyes, to go on selecting much the same people, to wash its hands of them when they have landed in Canada. Voluntary agencies, municipalities, provinces provide such aid to get settled as is available, with minimal financial help from Ottawa.

**Bring in the young**

This could be seen as the kind of administrative failing that is usually though slowly corrected. It might be of limited concern if immigration as we have it were set in a stable world. It is not. Political consciousness is rising everywhere. Poorer countries are becoming fully aware that development depends on their investment in human resources. It is wasted investment when rich countries cherry-pick their scarce doctors and information technologists and the like as the immigrants they will accept. Insult is added to injury when, in Canada, we fail to use skills taken from countries where they are desperately needed.

This is not a situation that will last. A changing world will bring a new balance of power and with it rules that will require us, as good international citizens, to change some of our policies.

Meantime, underemployment means that recent and present immigrants are becoming less integrated into Canadian life. They depend more and longer on their ethnic support groups. That, in turn, is lessening community acceptance of diverse immigration, and will rapidly lessen it more whenever there is any significant rise in unemployment. Especially if globalisation continues to eat into existing good jobs in some Canadian cities, we cannot complacently assume that we will be entirely immune to troubles of the kind experienced in previously tolerant European countries.
This is in no way a doomsday scenario. It does mean that foresight requires a change in immigration that can be made more gradually and effectively the sooner it begins. The Canadian economy will continue to need immigrants, but (as I have argued elsewhere) our low fertility and international circumstances combine to make youthfulness an increasingly significant criterion in their selection [Kent 2006].

And, as is inherent in the nature of Canada, such changes call for an adjustment in the operation of our federalism. The younger the immigrants, the stronger is Ottawa’s obligation to ease their settlement into Canadian communities. That role cannot be left mainly to the provinces and their municipalities. Ottawa admits people because the contribution they are capable of making to Canada is a national need. Having chosen the people, it is Ottawa’s business either to supply itself or to purchase, from the public or private sectors as appropriate, any services necessary to realise the national purpose for which we have immigration.

City limits

It is easy to identify other purposes for which financing of people might be better than the subsidisation of provinces that distinguished the second half of the 20th century, and for which reformers most often continue to call. A present example is the campaign for funding for cities.

The case is strong. It is made here in order to say that it should be heeded: by provincial governments. It is not a case for federal action.

Politically, big cities carry less than their due weight in provincial legislatures. They are chronically underfunded. Neglect of their burgeoning infrastructure and service needs has become an obvious hindrance to economic change and growth – so much so that there is now plenty of steam behind the efforts of city mayors to summon Ottawa to their rescue. The responses have been, inevitably, inefficient improvisations failing to use public money where it could do most good.

Nothing in the Canadian constitution is clearer than provincial jurisdiction over municipal business. There is nevertheless some evasion. Relatively small federal cheques get to Winnipeg or wherever, on the excuse that they are for special, experimental, short-term projects. For regular funding of any size, the law has to be respected. Federal dollars can penetrate to the third order of government only through the intermediary of a provincial treasury.

They therefore have to be spread widely among municipalities. Provincial politics rule in that respect. But federal politics rule the amount to be spread. It is rarely a lot or assured for the long term. The combined consequence is that, while over the years there have been many federal interventions in municipal activities, they have not added up to great improvements in urban living. And they have been at the cost of confused accountability in a stream of postures and arguments.
Nevertheless, eliminating them will not be easy. Too many MPs are too set on being local heroes. A substitute might help. Instead of meddling in a great variety of local affairs, Ottawa could concentrate on one definite purpose. Affordable housing is often suggested. Its shortage is not only central to the deprivations of families in severe poverty. So many people are now concentrated in the great urban agglomerations that people with around average and better incomes cannot find housing within their financial reach that is at all near their work. Their commuting is at great cost in personal time, energy and impaired family life, as well as in the pollution and congestion that disfigure city living and help to impoverish municipal government. And the economy is made less flexible. People short of work in more remote areas often have better housing at much less cost than city dwellers. Their reasonable reluctance to move, or to stay moved, is not the least of the market economy’s imperfections requiring offset by the public economy.

The need is for a variety of accommodations in a variety of inner-city locations at a range of low to moderate rents. The efficient role for government is not to subsidise the building or renovation of such housing. It should be let at market rents covering capital and maintenance costs. The efficient and equitable role for government is to make the accommodation affordable for a variety of tenants by reimbursing them for some of the rent, on a scale related to family income. Such action would better serve the public interest in a manner with more public appeal than another confusion of responsibilities.

Again, the case is strong. But it is not a case for federal action now. The time might come. If the provinces do not do more, in particular do not give their major cities a better deal, the time will come. But it should not. Federalism will not be well modernised, will not be made stable for the early part of this century, if Ottawa rushes to take on functions that are, in the language of the BNA Act, “local” in the sense that the need for them is heavily concentrated in particular communities.

The national government’s responsibility is for the nation-wide needs of Canadians everywhere. The contemporary world makes it a bigger agenda. The priorities that have been identified in this paper are fully enough for action now. Great good as more affordable housing would be, wisdom requires it to be seen as a leading example of a good for provincial governments to do.

On to the rails

Affordable housing is one example of many. Across Canada, it is easy to point to deficiencies in infrastructure that handicap the economy and limit the well-being of citizens. Water, sewage, roads, power supply, parks, public buildings and all: in older communities they are crumbling; in others they limit growth. The big cities have both problems at once. The demands for federal subventions are endless. The ingenuity of the calls for national programs is impressive. The incentive for politicians to respond is intense.

The fact is still that each such project is local, whether to Montreal or to Moose Jaw, whether for Torontonians escaping to cottages or Calgarians to ski runs. The multitude of the needs does not mean that they add up, in a federation, to a national cause. They are, in Canada, provincial business.
Provinces have the authority for it. With equalisation supplementing national programs for the economy and for people, provinces also have the necessary finance. A case can be made for reducing their capital costs by enabling them to borrow, as the smaller ones might wish, through Ottawa rather than going directly to the bond market themselves. For federal subventions there is no reason. There is only the inherent tendency, in public even more than in private organisations, to shuffle responsibility and confuse accountability.

The political pleasure of sharing in ribbon-cutting ceremonies for local projects has a price. It takes money from genuinely national purposes. Research, now of first importance among infrastructures, has been chronically underfunded. Responsive policy, providing money for projects submitted, is not in itself adequate. Its success depends on the range and quality of the submissions. A creative policy requires the federal government to play also its necessary role as the primary source of core funding for research and development institutes.

There are other examples. No country is more in need of a coast-guarding service. Climate change will make the consequences of its neglect increasingly severe. Again, Ottawa has been slow to build the infrastructure for alternative energy sources and efficiencies, slow to take advantage of the information and communications technologies that can help to protect against epidemics and other disasters, natural or man-made.

Perhaps most striking of all, given the role of the railroads in the building of Canada, is their latter-day neglect by the federal government. It has persisted in a tax and expenditure structure that has massively encouraged freight to shift to long-distance trucking, passengers to cars and planes. Again, pollution intensifies the need for a new industrial policy. A greenly progressive government would see equity investment in the railroads, in their equipment and tracking, among its priorities.

The general point is clear. Both orders of government have heavy responsibilities for the modernising of economic and social infrastructures. Ottawa would be well occupied in doing its share well. It does not need the political aggrandisement of involving itself in the provincial share.

**The choice: change or retreat**

Canada is in one of the periods, as much of the world was 60 years ago, when individual policy decisions are made in the context, whether at the time recognised or not, of a central choice of national direction.

Few people are happy with the way Canadian federalism is now operating. Prime Minister Harper and others talk of tidying it up by scaling down Ottawa’s responsibilities to those of Victorian times. If it were feasible in the contemporary world, that would be a retreat from nationhood to a sovereignty-association of regions. It won’t happen. The neo-con time is over. The only appeal of retreat is that at its beginning its course is clear. The only alternative as yet in political prospect is to continue to muddle through with the mechanisms for economic and social policy that have given us
such confused conflicts between federal and provincial politicians, such absence of democratic accountability, such debilitating slowness of decision and action on the issues that will determine our future.

Retreat into the past will not do but nor will our governmental system as it is. Canadian federalism must be urgently refashioned to its third shape, to a people’s federalism.

References
