

# THE LIBERALS' INTERGOVERNMENTAL AGENDA

by Douglas Brown

In its first year of power, the Liberal federal government has pursued low-profile relations with the provinces. But as the second year of the Liberal mandate begins, the calm will not last. Not only is there the upcoming referendum in Quebec, many of the key policy challenges now facing the Liberals depend on intergovernmental negotiation. The Liberal agenda will be a test of the Chrétien government's intergovernmental style, if not of the survivability of the federation itself.

In the past — despite the election to Parliament of two strong regional parties with opposing viewpoints — the Liberal majority has had a stabilizing influence on federal-provincial relations. The Liberals do not hold the strongly centralist positions of Pierre Trudeau and appear to have a more pragmatic approach to many issues as compared with the more ideological and constitutional agenda of their Conservative predecessors.

The Liberal government pledged itself to cooperative, pragmatic federalism and the avoidance of constitutional politics. But the intergovernmental agenda may be as daunting as the issues of constitutional reform: managing the burgeoning federal debt; making more sustainable transfers to the provinces; implementing aboriginal self-government; harmonizing the GST with provincial sales taxes; conducting a long overdue review of social programs; improving the economic union; and, in general, reaching agreement with the provinces on a more "efficient federalism."

## EFFICIENT FEDERALISM

Current intergovernmental relations are responding to a broad and fundamental challenge to the very

practice of governance. Due in large part to debt-ridden public finances, governments seek to harmonize policies and rationalize programs, to bring greater efficiencies to public spending and regulation and to remove obstacles to the restructuring of the private economy. Not all governments share the same view on the urgency, scope, and nature of the reforms required to meet this agenda. But there is sufficient common ground for a broad initiative on "efficient federalism." Four significant thrusts of this agenda are the review of fiscal arrangements, the closely linked review of social programs, the internal trade negotiations and measures to reduce overlap and duplication. Let us look more closely at the first two.

There seems to be a broad consensus that the current set of fiscal arrangements are unsustainable and will self-destruct in this decade if unreformed. The system no longer delivers what it was designed for — whether the output is measured in terms of redistribution, national standards, or economic efficiency. Nor does it respond to the current demands for revised social programs and balanced federal and provincial budgets. The following problems have developed: the richer provinces, led by Ontario, have been emphatic in saying that the Liberal government needs to lift the unfair cap on Canada Assistance Program (CAP) payments; the poorer provinces were alarmed at projected cuts in equalization announced in the last days of the Conservative government; and social policy activists and provincial governments alike have been worried about the trend toward zero in federal cash infusions to health care and education. And yet,

to respond to any one of these problems is potentially to reduce the resources available to satisfy the others.

Since its election, the Liberal government has bought time to negotiate the details of fiscal arrangements with the provinces and to launch a far-reaching review of social programs. In the February 1994 budget, the Liberals froze all major transfers except equalization (which is to increase by five percent for five years), sustained the cap on CAP, and signalled that budget deficit reduction over the next three fiscal years will demand a dividend of \$2 billion from the review of social programs (a figure that could rise significantly by the 1995 budget).

The social security review is linked to fiscal arrangements, given that major aspects of social programs are currently funded by federal-provincial transfers. It seems that the federal government accepts the logic of making social policy and program delivery choices first and sorting out fiscal arrangements second. (The reverse was the case in the past five years — incremental fiscal transfer changes made for budgetary reasons drove social policy outcomes.)

The federal Minister of Human Resource Development, Lloyd Axworthy, has launched a review of all federal and federal-provincial social programs (with the notable exception of seniors' benefits and health care). On the table are such federal programs as unemployment insurance, child tax benefits, and job creation and training, and such provincial programs with major federal funding as social assistance and

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post-secondary education, among others, for a total of 26 percent of total federal program expenditures.

While the green paper, *Improving Social Security in Canada*, released last month, is short on firm proposals, it provides much fodder for intergovernmental negotiations. The list of issues to be resolved is long, and includes the regional allocation of training funds provided by unemployment insurance reform; the nature of agreements on labour force development (including the prospect of transferring to provinces the entire responsibility — with cash? — for labour training); new incentives for provincial welfare recipients to get job training; incentives for more provincial day care spaces; the reduction of payments to the provinces for post-secondary education in favour of student loans; and changes to CAP, including less money and more conditions, or both.

Compared with the relative calm on this front before the Quebec election, these issues promise to be hot — not only in the intergovernmental arena, but also among business, labour, and social advocacy interests as well. They will test the Liberals' commitment to pragmatic solutions and the suspicion in Quebec and elsewhere that a centralist agenda underlies the Liberal proposals. In the meantime, various provincial efforts to reform welfare and to proceed with pilot projects for training and related programs continue with the possibility that progress on these fronts will forestall more comprehensive reforms coming from Ottawa. The challenge will be to devise social policy and program changes and to reinvent intergovernmental transfers for their own sakes, before the federal finance minister feels obliged to slash regardless of the progress on reform.

The two other initiatives noted above have been less controversial and conflictual, and thus have shown earlier results. After months of intense effort, the first ministers signed a comprehensive agreement on internal trade on July 18, 1994, to come fully into effect on July 1, 1995. Despite the cynicism of the media about the announced agreement on the eve of the Quebec election campaign, the agreement is a significant and long overdue achievement. It is a domestic accord that recognizes that many internal trade barriers are in place for good social and cultural reasons, but that the main goal is to improve, over time, what is already a highly integrated economic union. Its enduring achievement may not be the substance of specific commitments for liberalization, but the foundation of interprovincial trade on a rules-based regime with a clear process for building more free trade in the future.

The other initiative where progress is being made is on "overlap and duplication." Governments have jumped on a bandwagon to rationalize programs and to improve citizen access and client service where more than one government is involved. Despite inconclusive evidence of the effects and extent of such duplication, governments are determined to be seen to be doing something and it is not surprising that such efforts are well advanced in Alberta and New Brunswick where broader public sector reforms are also high on the public agenda (and in Ottawa where they are tied to its broader program review). The results to date from federal-provincial negotiations are modest: the "Action Plans" for "Improving the Efficiency of the Federation" announced at the first ministers meeting in July. The then Liberal government of Quebec did not sign, probably in the knowledge that such an

agreement would have been attacked as too little. In any case, the content of the plans is not dramatic, but covers a host of service and regulatory programs in the environmental, wildlife, fisheries, agricultural, housing, justice and business development fields, among others. If the action plans are fully implemented as advertised, however, many daily interactions between governments and citizens will be improved with potential results in terms of governmental efficiency, cost effectiveness and legitimacy to the federal system.

This leads us back to the overall challenge of the Liberals' intergovernmental agenda: to show that the federal system can adapt to new circumstances and can change without constitutional reform. It is too early to tell whether sufficient progress can be demonstrated before the Quebec referendum, expected in 1995, although evidence of movement will help the federalist cause. More difficult will be the inevitable regional differences emerging from the social program review and the renegotiation of fiscal arrangements. The new Quebec government will argue that the system does not work, and at the same time resist any departure from the status quo that is not wholly in its interests. When other provincial interests are considered, Canadians can expect more intergovernmental heat in the coming months. What remains to be seen is whether the result will be more light on an efficient and legitimate federal system that will last past the current Liberal mandate.

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