members of Parliament will vote in most cases. And, as Prime Minister Turner discovered in 1984, where the party has practised patronage, the public will hold it accountable.

In principle, what is at stake is a conception of democratic participation. How can citizen participation be viewed as undemocratic, and are democratic values better served by legislation that effectively enables the parties and their candidates to control election debate? Alternatively, would those values be promoted by permitting citizens and groups outside the party structure to comment, independently and without inhibition, on the issues, the candidates, and their policies?

To answer those questions, remember the open debate of the referendum campaign and be reminded that Mr. Justice MacLeod invalidated Bill C-114's spending limits, in part, because the government failed to demonstrate that third-party advertising does influence election results.

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ECONOMIC REPORT

Federal-Provincial Fiscal Negotiations Will Define the Public Agenda Well into the Next Century

by Fred Lazar

Shortly after the fall election, the new prime minister will sit down with her or his provincial counterparts for the first of many meetings to work out a cooperative framework for tackling the deficit problem and, more important, to negotiate a new set of federal and provincial agreements on the allocation of spending and taxing powers. Indeed, this and the many follow-up meetings will become *de facto* the next round of constitutional negotiations. However, unlike the preceding two rounds that produced the Meech Lake and Charlottetown accords, the negotiations of fiscal responsibilities are more likely to succeed. There will be much at stake for all the participants. Money will be on the table and this should facilitate compromises. Ratification of the agreements will not require a complex procedure.

The federal-provincial first ministers' and finance ministers' meetings, which will commence in earnest in the fall, will be driven by four events: large deficits at the federal and provincial levels, the continuing high rates of unemployment, the expiration of the established programs funding and equalization agreements, and the failure of the Charlottetown accord. Although the primary focus of the negotiations will be the deficits, the allocation of fiscal responsibilities and the reduction of duplication in government activities should share centre stage. The negotiations should set the framework for governing Canada as well as the social and economic agendas well into the next century.

Deficits, Revenues and Spending of the Three Levels of Government

A look at the Statistics Canada data for the government sector will highlight some of the issues and problems that the federal-provincial meetings will have to address. The aggregate net borrowing requirements of all levels of government in Canada more than doubled, from \$19.7 billion in 1989 to \$43.9 billion in 1992. Net borrowing requirements (a good measure of the financial market impact of government deficits) have increased further thus far into 1993.

Much of the deterioration of the fiscal position of governments has occurred at the provincial level where net borrowing has risen from \$1.5 billion in 1989 to \$22.8 billion in 1992. The increase in the net borrowing requirements of the federal government has been more moderate during this period — from \$21.2 billion to \$25.7 billion. Obviously, the provincial governments have good reason for being concerned with deficits.

An examination of the data for 1992 begins to reveal why a new fiscal arrangement should share centre stage during the negotiations and why the role, responsibilities, and fiscal capacities of local levels of government will also have to be given a high priority. Excluding investment income, the federal government received about 50 percent of all government tax revenues in 1992. Provincial governments received 38.8 percent of the total revenues and local governments received 11.2 percent, primarily from property taxes. On the other hand, in

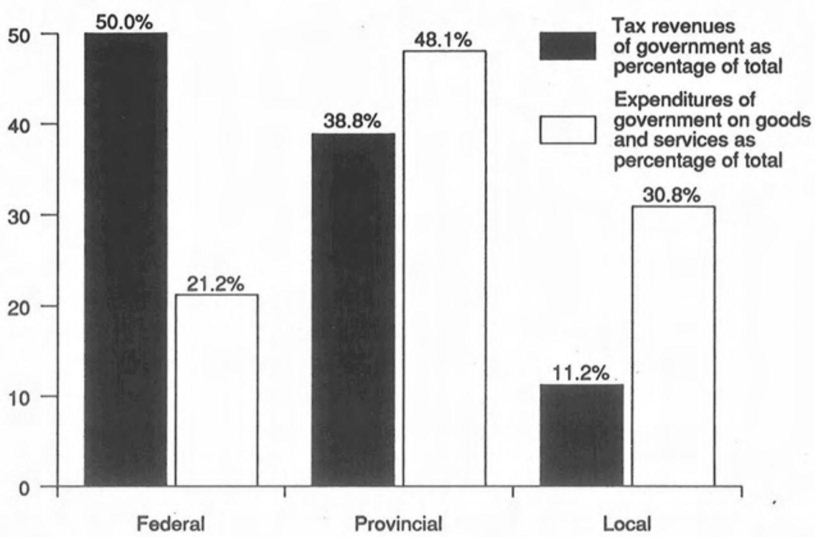
1992, the federal government accounted for only 21.2 percent of total government expenditures on goods and services. The provincial governments were responsible for 33.1 percent directly and another 15 percent indirectly through the hospitals. Local governments accounted for the remaining 30.8 percent.

Intergovernmental transfers of revenues play an important role in balancing revenues and expenditures at the various levels of government. The federal government transferred $29.5 billion (23.8 percent of its tax revenues and 18.3 percent of its total expenditures in 1992) to provincial and local governments. Provincial governments, in turn, transferred $52 billion to local governments and hospitals (31.7 percent of their total spending). These transfers are determined, in part, by formal agreements, and in part by the discretionary actions of the government transferring the funds. The federal and provincial negotiators will have to question the efficacy of the present system, which entails this significant intergovernmental transfer of funds and risks for junior levels of government because of the possibility for discretionary actions by the senior levels of government.

A system that more closely and automatically matches the fiscal capacities of the various levels of government with their spending responsibilities may be preferable to the current system of fiscal arrangements and responsibilities. However, any changes in this direction will require a more precise demarcation of the spending and taxing responsibilities of each of the levels of government. Hence, fundamental constitutional issues will arise.

Moreover, to ensure a consistent aim for aggregate fiscal policy, a trilateral arrangement for setting and enforcing the broad parameters and goals of fiscal policy each year will have to be formalized. The federal government did try to include such an arrangement in the last round of amending the constitution.

Revenues and Expenditures of Federal, Provincial and Local Governments, 1992



Transfer Payments and the Social Agenda

Transfers to persons comprise the largest component of spending for the federal government. In 1992, the federal government transferred $52.6 billion (32.5 percent of its total spending) directly to persons through unemployment insurance, family allowances, tax credits, and old age security benefits. Provincial governments transferred an additional $34 billion (20.7 percent of their total spending) to persons through workers' compensation, social assistance, and other programs. In total, these direct transfers accounted for 14 percent of total personal income.

Transfers by the federal and provincial governments to support education, colleges, universities, and health care provide an indirect form of income transfer to persons. Consequently, the fiscal negotiations will have significant impacts on income distributions, social programs, and the scale and scope of the social safety net. In targeting deficits and considering the allocation of fiscal responsibilities, the government negotiators will have to consider the appropriate objectives for social programs in today's economic and fiscal climate and ensure a minimum of duplication in the provision of social services and income support.

The negotiations should provide the impetus for an overhaul of the social assistance programs across Canada. They will be able to consider the entire system of social assistance and ensure that any subsequent reforms establish adequate levels of support and that incentives encourage participation in the labour market.

The fiscal negotiations between the federal and provincial governments are likely to be the most important initiative of the next federal government. They should result in fundamental changes in the allocation of spending and taxing powers. And by encouraging harmonization and cooperation and minimizing the degree of duplication, they should produce a strategy for reducing government deficits without impeding economic recovery and renewal.

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