

Canada versus the Market

The balance of centralization and decentralization required in the Canadian community

By John Graham

It does not require much wisdom or understanding to see that regionalism and dualism are facts of life in Canada. Nor does it take much discernment to see that regionalism and dualism require some considerable degree of political and administrative decentralization to the provinces and to their municipalities, and through the institutions of the federal government.

What does require wisdom and understanding is determining the nature and degree of decentralization. Decentralization is not an end in itself, but the outcome of striking a balance between providing sufficient autonomy to the provinces and their municipalities, to enable them to pursue their particular interests, and ensuring the means of pursuing the common Canadian interests through the central government.

Ultimately, in considering decentralization, it is necessary to consider the specific allocation of jurisdiction between the federal and provincial governments and to do so in relation to Canadian regionalism and dualism. Since this matter has been much addressed in recent years, though by no means resolved, I shall concentrate on certain more general issues of decentralization that I believe must influence decisions on the allocation and exercise of powers.

In taking this approach, I wish to emphasize that I am not supporting the *status quo* and that I believe adjustments in powers are needed, constitutionally or otherwise, to accord with our present circumstances.

To talk about the question of decentralization in Canada at all, it is necessary to assume the continuation of a federal state. Otherwise there would be nothing to decentralize except *within*

the completely sovereign states that the provinces, or groupings of provinces, would then become. There would be nothing left to talk about.

This assumption implies that there is or can be sufficient commonality to sustain a federal nation and that commonality in turn requires the acceptance of a conception of justice that unites all the people.

It is not easy to discern the required degree of commonality. It is not even as though there is undivided loyalty within our provinces. The particularism of localities is very strong in all of the provinces. Even in a small and relatively old province like Nova Scotia, for example, local identity—in Cape Breton, the Annapolis Valley, the Eastern Shore—is often stronger than provincial loyalty. It is no wonder that in a federal country of disparate regions it is difficult to get agreement on a degree of centralization that will permit and reflect a united federal entity.

Moreover, many citizens have stronger attachments to other organizations—to professions, to unions, to clubs, to universities, to business firms—than they have to their municipality, their province or their country.

When we observe that even much older and apparently well established countries in Western Europe, most of them indeed with unitary systems of government, have powerful disintegrating regional factional forces, the problem is seen to be almost universal.

This is not to say that social coherence is incompatible with considerable political decentralization. Some degree of political as well as administrative decentralization is desirable in any state and is obviously inherent in a federal

state. It is necessary that a balance be found and maintained that will provide sufficient central authority and scope to nurture the commonality of the federal state as well as sufficient authority and scope to satisfy the particular aspirations of the provinces.

To hold the country together requires, however, more than a rational and technocratic division of responsibilities between the provinces and the central government. There has to be a basis for great national undertakings. Otherwise, to reiterate, decentralization is no longer really decentralization, but a separation into completely sovereign states.

Separatists will see the "national" undertakings in terms of separated independent provinces and will deny that there are great Canada-wide undertakings that citizens in all provinces share in common. If this is the prevailing view, there is obviously no basis for Canadian unity and there is no point in talking about decentralization or centralization.

Usually the central issue in federalism is seen in the division of powers and there is no denying the importance of getting this division right. But getting it right requires a recognition of the need for the kind of balance referred to. More than that, the success of the federal structure requires a sensitivity to regional circumstances in the policies of the central government and a preparedness of the provinces, in turn, to recognize country-wide concerns regarding the matters constitutionally under their jurisdiction.

If the division of powers and the exercise of these powers produces strong provinces (or regions), as would be expected under present circumstances in Canada, it is all the more necessary that

we have a strong central government through which we can protect and nurture these things we have in common.

Unfortunately, it is not easy to find a solid basis for a Canadian community in our society, dominated as it is by a market orientation combined with technological determinism. The focus is on the use of resources in the pursuit of individual self-interest. The idea of a community, in the sense of transcending and animating the individuals who comprise it and in the sense of there being a metaphysical bond that binds citizens together, is foreign.

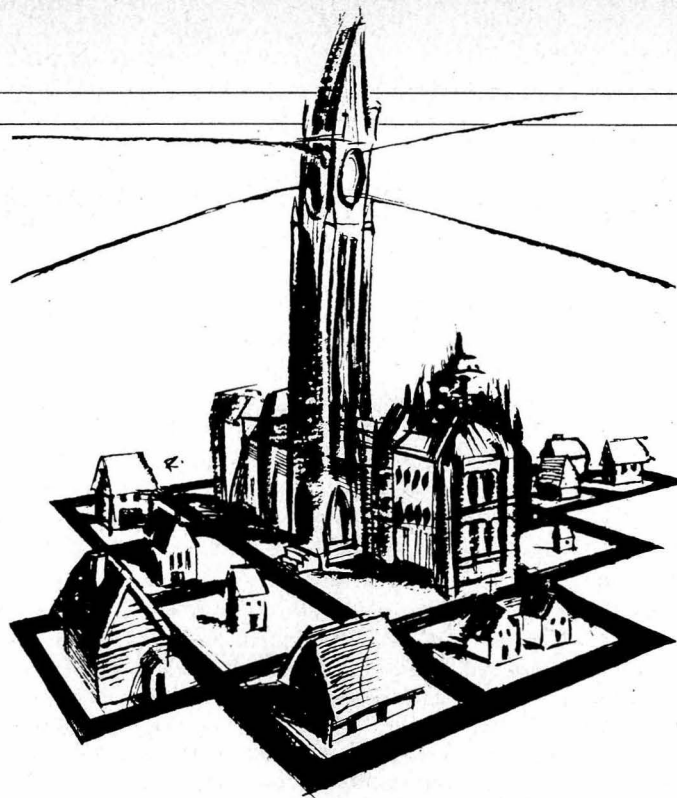
It is the ownership of property and free use of it for private interest that largely shape our public and private lives. This view typically dominates the actions of our politicians. There are no longer strong countervailing unifying forces in other parts of our culture—in religion or in the family or in our universities. Language, the principal unifying force in Quebec, is disunifying federally.

There is much disintegration to overcome and, it would seem, there is not much to overcome it with.

The market is, politically, a powerful decentralizing force in itself. Combined with the also powerful regional and dualistic forces for decentralization, the market makes it difficult to establish what de Gaulle called "the spectacle of order" that must be present in a country's "political, social and moral realms" to give it the independence, influence and understanding that will enable it to engage in great national undertakings.

The basis of justice on which our society rests consists essentially of the contractual relations associated with the market, tempered and modified by governmentally provided public goods, including regulation.

The commonality on which the cohesion of our society depends can be related to the place of social responsibility in society: that is, to the moral obligation of, or at least acceptance of a duty by, the individual to contribute to the well-



being of other members of society in general.

In the unregulated market of *laissez-faire*, there is no element of individual social responsibility, although there is a kind of concern for the public interest; it is deemed to be promoted by the efficiency of the unregulated market in providing goods and services for the populace.

However, our society, like others, has through government greatly modified the functioning and consequences of the unregulated market: by limiting monopolistic practices deemed not to be in the public interest, altering the distribution of income through progressive income taxes and social security measures, providing a wide range of public services that would not be provided by the market, combatting the inherent instability of the unregulated market through monetary and fiscal policy and direct controls, engaging in a wide range of developmental projects and policies, and pursuing regulatory activities such as stipulating conditions of work, imposing pure food and drug laws, and passing minimum wage legislation.

All of these interventions rest on a view of social responsibility that is opposed to *laissez-faire*. The promotion of the public interest is not now solely an outcome of individuals acting in their own private interest, but has to a considerable extent become a matter of deliber-

ate social policy, formulated and implemented collectively by members of society through their governments.

Nevertheless, even with all the modifications, the market remains the primary regulating force in our economy and in our society. Moreover, the economic growth and capital accumulation and technological innovation that characterize modern capitalism, and on which it apparently depends for its continuation, are also the main source of the means of amelioration of its unacceptable biases. It is significant that modern public goods theory in public finance explains public provision of goods and services as a

consequence of market failure.

There are two related categories of goods provided through the government.

The first are pure public goods, which are goods that once supplied to one are jointly supplied to all, with no possibility of exclusion of citizens from their consumption—for example, defence and other protective services such as police and pure food and drug regulations, and parks. Such goods cannot be supplied by the market because no prices can be exacted from individuals for them.

The second are merit goods. Because of external benefits, there are social benefits beyond the private ones that accrue to the individuals who consume these goods: for example, education and health services. Individuals will buy less of them than it is the general social interest to have. Merit goods can be supplied by the market, but will not be supplied by it in the correct amounts; government must intervene to try to ensure that they are so supplied.

If governmental action is seen in this way, as compensation for market failure, it may represent a considerable degree of social responsibility but it is not necessarily evidence of the presence of community. There is no common purpose; there is only an atomistic view that is essentially empty of any vision or conception of a good society, or a good individual, that might bind us together as a people regardless of economic strains

that would be imposed by a cessation of economic growth. The exercise of social responsibility in this context is primarily patchwork governmental intervention to compensate for biases in, or failures of, the market and to make life more tolerable.

We are all aware of the shortcomings of economic analysis and policy even at this ameliorative level. We need not deny, however, the considerable accomplishment of the market society in achieving a high level of creature comfort for most of the population and more than a semblance of individual freedom that at least provides a potential for something better.

Given this lack of community, there is little to distinguish Canada from other western capitalist countries. For that matter, most socialist countries are not much different in their technological and consumer orientation and in their emphasis on economic growth and, with these attributes, in the view that there are no limits to what can be done to nature and that there is always a technological answer to any shortage or to any harmful effect of industrial development.

This generalization includes French Canadians. They are distinguished by their language and given a degree of coherence by that language and elements of culture related to it, reinforced by economic grievance. Nevertheless, they are as much North Americans, as much dominated by consumerism, as the rest of Canada.

If justice in our society is determined by a modified market system, it would seem that there is a very limited basis for commonality; the forces for radical decentralization are dominant, apart from the likely important but imprecisely measured economic advantages from political integration.

But the story does not stop here. It is not true to say that there is nothing holding Canadians together other than a tenuous interdependence of economic interests. It is not correct to regard Canada as being simply the sum of provincial interests.

There are, to begin with, strong feelings of attachment to the country for many Canadians wherever they live, engendered by its physical grandeur, its very geographical and cultural diversity, and

the high degree of political freedom we enjoy. There is also the element, not to be underestimated, of a shared history of having survived so far together as a single country for over a hundred years, through two world wars, a great depression, and rapid economic and social change.

More than that, there are important elements of social policy relating to education, health, income redistribution, economic stability and development, taxation, communication, immigration, etc., by which we pursue common interests through our governments. It is, of course, here that conflicts arise between country-wide interests expressed through the central government and regional interests expressed through our provincial (and municipal) governments; and it is also here that we are now desperately and anxiously seeking a balance that will satisfy both groupings of interests.

It is not my purpose to try to define this balance, but rather to point out, notwithstanding the strong impediments to unity, what I think are certain important elements of country-wide interests, even with respect to matters under provincial jurisdiction. I shall do this with respect to two elements: intergovernmental fiscal adjustment, particularly fiscal equalization; and economic development policy. I then want to refer to an area of great national undertaking that dwarfs even these two and that I think demonstrates the urgency of placing limits on decentralization and of maintaining a strong central government.

The Significance of Equalization

One of the advantages of a federal country like Canada is that we can have our cake and eat it too, providing certain principles are understood, accepted and applied. That is, we can have the economic and political advantage of belonging to a larger country, with its superior political and fiscal resources, and the social advantage of the provinces establishing their own priorities in many areas of fundamental concern in relation to their peculiar cultural circumstances.

Provincial autonomy means nothing without the fiscal resources to exercise that autonomy. The economic integration of all of Canada provides the

common advantage of more effective utilization of our collective resources and therefore greater means to pursue both our common and our separate interests than would be possible otherwise.

Inevitably, with or without integration, there will be substantial differences in fiscal capacity among the regions. With a single country, however, we can have the advantages of a high degree of economic integration and, at the same time, through fiscal equalization, can have comparable fiscal resources for all provinces that provide the opportunity and the means of effectively pursuing provincial social policies. The resulting provincial services can differ in character but still be at comparable levels. Citizens wherever they live in the country can thus receive comparable levels of public services with comparable tax burdens.

At the same time, in some areas of social policy primarily under provincial jurisdiction, there are elements of a country-wide interest where it should be readily agreed that the federal government should retain some influence, for example, the maintenance of portability and universality in health-care schemes.

Moreover, under a system of fiscal equalization, where there are linguistic or cultural impediments to mobility of people that might preclude taking full advantage of country-wide economic integration, the province concerned does not suffer the consequences of inferior fiscal capacity in providing public services and in pursuing its provincial social policies.

Unconditional equalization payments depend upon a strong central authority and, at the same time, they sustain decentralized activity by the provinces. This system of equalization is a strongly unifying element in asserting that citizens wherever they live in the country should have access to comparable public services with comparable tax burdens. Yet it sustains decentralized programmes arrived at in accordance with provincial priorities.

Here, then, is an instance of major importance where decentralization to be effective is dependent on strong central powers. It would be a great sacrifice to give this up by insistence on complete provincial sovereignty.

I would add that the application of the principle of fiscal equity ultimately

has meaning only with respect to individual citizens, not to political units as such. Therefore this element of justice should be likewise implemented by the provinces with respect to their municipalities. What are required in a federal country are simultaneous fiscal adjustments in accordance with the principle of fiscal equity at both the federal-provincial and the provincial-municipal levels.

One way of effecting this at the provincial-municipal level is for the province to assume responsibility for those services of general, common, interest to all citizens in the province, such as education and health services, and, through equalization grants, enable their municipalities to provide their local services at comparable levels with comparable local tax burdens. Another way is through conditional equalization grants for general services combined with unconditional equalization grants for local services.

In this connection, it is of interest to observe an instance at the provincial level of the ever-recurring interrelation of decentralization and centralization. Offhand, it would seem that provincial assumption of financial and administrative responsibility for public school education would be a centralizing move; but, if this assumption is accompanied by the assignment of important responsibilities for developing and executing educational programmes at the local level, we see that what we have is centralization with respect to the establishment of aims and objectives and equality of access, combined with an even higher degree of decentralization in the implementation of those goals in accordance with local preferences than exists with the present local government responsibility.

Regional Development Redefined

Since Canada is a country of very diverse economic regions, we can have sensible economic policy only if there is decentralized thinking by a central government that is responsive to regional needs. This includes the many elements of economic policy: fiscal policy, monetary policy, development policy, immigration policy, transportation policy, energy policy, etc.

Development policy is an area

where both levels of government are bound to be active. There is a common country-wide interest in ensuring the most effective use of resources in the country as a whole, from which all can benefit. There is a coinciding interest of each province in ensuring the best use of its resources.

Development policy provides another illustration of the necessity of having strong central government if we are to have strong regions and of the interdependence of decentralization and centralization. Only with a strong central government can the collective resources of the country be marshalled in support of both the common Canadian interest and the particular interests of each region or province. Energy policy is an example.

Effectiveness in the pursuit of provincial objectives depends upon the effectiveness of the federal government in pursuing country-wide objectives such as full employment, price stability and favourable external economic relations as well as in industrial development policy. As we all know, the federal government has been less than successful in these areas. In particular, the needed regional sensitivity in fiscal policy has been lacking on both the expenditure and taxation sides. And the lack of a clear foreign investment policy that would protect Canada's integrity as a nation without sacrificing the development interests of the provinces is, to say the least, disappointing.

In recent years, the federal government has made major efforts in regional industrial development policy and, while there have been attempts to gear this policy to the particular circumstances of the provinces, there is, I believe, a fundamental flaw in the way the problem of regional development is viewed. This flaw lies in the avowed goal of eliminating or reducing regional disparities, usually measured in provincial personal income per capita.

This object, while noble enough in intent, is an illustration of the blind application of centralized thinking where decentralized thinking is called for. What is worse, it gives rise to unfulfillable expectations. Failure is inevitable.

There will always be differences in income per capita in any country and within any province stemming from such factors as differences in resource endow-

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ment, in location, and in occupational distribution. The differences will change from time to time as will the relative positions of the provinces. Alberta was once a low-income province. It is even possible that a successful regional development policy that led to the most effective use of resources in all provinces would be accompanied by *increased* disparities in provincial income per capita.

To avoid addressing the wrong target, it is necessary to redefine the regional development objectives as a commitment of the central government to contribute to the full and efficient use of resources in all provinces, in concert with the provinces and having due regard for the provinces' views of their own interests.

If this were done, it would be much easier to establish the correct balance between decentralization and centralization in regional development policy, with obvious benefits in the pursuit of other federal and provincial policies.

If we look upon the issue of decentralization and centralization as one of balance—of never neglecting regional interests when considering general country-wide interests and never neglecting unifying country-wide interests when considering regional (provincial) interests—it is evident that there must be some safeguards to ensure that the interests of the smaller, less politically powerful provinces are not swamped by the promotion of the interests of the large provinces.

For example, while I believe that the elimination of regional disparities *per se* is the wrong target for federal regional development policy, disparities that stem from federal policies that favour one part of the country over another *are* a source of discontent and are bound to lead to a desire for greater provincial autonomy. Tariff policy, transportation policy, monetary policy, fiscal pol-

icy, foreign investment policy, revisions of the financial arrangements for financing health services and post-secondary education are all cases in point.

While it is not realistic to expect in any country that there can be a precise political equality of regional interests, it is necessary that the institutions of the central government reflect decentralized thinking to ensure that the interests of the smaller provinces are not overridden by the larger. For example, a federal policy of restricting foreign ownership of Canadian industry should be accompanied by safeguards against depriving regions with high chronic unemployment of capital needed for development of their economies.

As Professor Donald Smiley (*Canada in Question: Federalism in the Seventies*) puts it: "... the central government can commit the country to important objectives only if these territorial particularisms are effectively represented within the national Canadian government itself. When this condition is not met, those interests find an almost exclusive outlet through the provinces."

Coping with the Future Together

I shall now refer to issues that affect the very future of our common Canadian society, and indeed of other societies. They involve great undertakings which are not possible if decentralization is carried to the point of federal disintegration.

I referred earlier to some of the consequences of living in a market-dominated society. The dominance of the market, with its emphasis on individual self-interest, is inimical to developing the sense of community on which unity must ultimately rest. It is in large part the modification of market forces to offset undesirable biases that provides what sense of community we have. This amelioration consists of our social and economic policy as reflected in the provision of public goods, including regulatory activities.

Even with all the modifications the market remains the primary regulating force in our economy and in our society. At the same time, it is the economic growth and capital accumulation and technological innovation, that characterize modern capitalism as we know it in

Canada and on which its continuation depends, that are also the source of the means of amelioration of its unacceptable biases.

We now, however, face the prospect in the not very distant future of very low, zero, or even negative rates of economic growth resulting from a combination of exhaustion of natural resources and suicidal environmental damage. We could put our faith in the market and technology to deal with shortages of resources and with serious environmental threats, but there is little to encourage us to believe that the market society can survive in a no-growth situation. There is little basis for confidence in a faith that rests on the aimlessness of the liberal-technological, self-regulating perception of society.

The present energy crisis, with its many manifestations, is a warning of a general malaise.

What is to happen when the conditions required by the present system—particularly continued growth in total real income per capita—no longer exist, when we no longer have the means of moderating the biases of this system? Growth is not only the engine that drives the system; growth provides the cushion that makes the system tolerable.

Given a market society inherently dominated by a concentration on individual accretion, in which it is no longer possible for the less privileged to get more without the more privileged getting less, it does not take much imagination to see the bitterness and nastiness that are bound to ensue if we continue our present course. While important elements of the market might be advantageously retained, we shall be compelled to undergo fundamental changes in our economic and political institutions.

It will take great wisdom and unprecedented collective effort to conceive of and to accomplish these changes and retain the individual freedom most of us cherish. It will require a clarity about the implications of economic institutions and about social justice that we can no longer afford the luxury of ignoring.

This is a common problem that will face all Canadians. It is not peculiar to Canadians, but we have only the political resources of Canada at our immediate command with which to face it. It

requires greater strength than could be mustered by any of our separate provinces or groups of provinces acting independently.

It constitutes a great national undertaking if there ever was one. This is certainly no time to allow our common hard-won federal state to disintegrate through a misplaced preoccupation with excessive particularist decentralization.

In Conclusion: United Strength

The cultural and economic diversity of Canada requires considerable decentralization both through the exercise of powers assigned to the provinces and through regional sensitivity to the exercise of federal powers. The distribution of powers requires review from time to time to ensure that our constitution is suited to the times.

It would be faulty vision, however, to see Canada as a loose collection of disparate regions whose interests are simply the sum of regional interests. The interdependence of our provinces and people is inherent and inescapable in the modern world. Our common allegiance to Canada enables us best to express this interdependence, to the extent it is internal, and effectively to uphold our common interests to the extent it is international.

While the free market orientation of Canada and our cultural dualism are impediments to unity that require extraordinary efforts to overcome, we have the means to overcome them. We are bound together by a common history, by extensive mutual interest and by the prospect of a great undertaking to establish a worthwhile society in the face of the horrendous difficulties that lie ahead—an undertaking that requires Canada's united strength.

Seen in this context, decentralization, while a necessary element, must be balanced by a commitment to a strong central government to represent our common interests. Indeed, if we are to have strong regions, it is all the more necessary that we have a strong central government. It would be disastrous retrogression if, by excessive decentralization, we failed to reconcile our particular with our common interests. ☐