Permissive Federal Spending Power Post-SUFA: As Good As It Gets?

Paul Kershaw
Assistant Professor
Faculty of Graduate Studies
University of British Columbia
Human Early Learning Partnership
320 – 2206 East Mall
Vancouver, BC  Canada
V6T 1Z3

paul.kershaw@ubc.ca
http://www.earlylearning.ubc.ca/PaulKershaw.htm
phone:  604 827 5393
fax: 604 822 0640
The Social Union Framework Agreement (SUFA 1999: s. 5) reaffirms the value of federal spending in provincial jurisdiction by characterizing it as “essential to the development of Canada's social union” because it enabled “governments to introduce new and innovative social programs, such as Medicare... that... are available to all Canadians.” This intergovernmental affirmation of federal spending (other than by the government of Quebec) is tempered by the concession that federal expenditure planning “should proceed in a cooperative manner that is respectful of the provincial and territorial governments and their priorities.” SUFA expands on this concession by devoting an entire section to “Working in partnership for Canadians,” which emphasizes joint planning and collaboration, as well as reciprocal notification and consultation between the levels of government. Commitment to cooperation and partnership in SUFA reflected the onset of a new discourse of “collaborative federalism” that has since rhetorically characterized intergovernmentalism. The collaborative modifier implies increased reliance on sector-specific agreements that are accompanied by Ministerial councils or secretariats responsible for fulfilling the logistical and reporting requirements related to program implementation and review.

Despite rhetorical flourishes about "collaborative federalism," much of the literature about federal-provincial-territorial (FPT) relations in Canada since 1999 describes a pattern of federal unilateralism in the exercise of its spending power. Ottawa has largely set the timing, terms and funding levels for reinvestments in health care that have dominated intergovernmental transfers in the period. Outside of health care, the federal government increasingly circumvents the provinces and territories by relying on direct transfers to individuals or institutions. This pattern is evident in the series of “boutique programmes supporting research, innovation or higher education” that include the Millennium Scholarship Fund and the Canada Research Chairs (Noël 2000: 46); expenditures to address homelessness through the Supporting Community Partnerships Initiatives; and the extension of parental leave by six months through Employment Insurance. Most recently, Ottawa responded to the Romanow Commission by dividing the Canada Health
and Social Transfer (CHST) into two parts, unilaterally deciding in the face of opposition from some premiers to earmark nearly two-thirds of CHST funds for health (McIntosh 2004).

Given this pattern of federal unilateralism, Noël (2001: 15) concludes that genuine intergovernmental collaboration occurred irregularly, and only in “areas where the federal spending power previously had been less significant and where there were fewer pre-existing patterns of hierarchy, standards and control.” Intergovernmental negotiation and agreements about children’s policy, disability benefits and, to some extent, job training represent examples of collaboration post-SUFA.

In this article I focus on the less common pattern of intergovernmental collaboration that is more likely to evolve in policy areas in which Ottawa does not enjoy a legacy. This focus is important in order to resist the assumption that the defining features of Canada’s social safety net are in place and simply need restructuring over time to respond to evolving economic and social needs, as has been articulated by prominent policy commentators such as Courchene (1997: 81) and Richards (1997: 250). I presume instead that the essential characteristics of Canada’s social policy blueprint are incomplete or in flux: that in addition to health care, education, and social security, further systems of social programming may need to be developed or radically expanded. The pan-Canadian system of early learning and care presently under negotiation between the federal Social Development Minister and his provincial/territorial counterparts is evidence of this position.

A national system of early learning and care (or child care) has long been a goal of the feminist movement in Canada, and has more recently been recommended by scholars of early child development (Kohen et al. 2002; Norrie McCain and Mustard 1999). Substantial investment in child care is now even heard among influential domestic and international policy commentators who identify human capital as the engine of economic prosperity for affluent democracies in the coming decades (for example Courchene 2001; Esping-Andersen 2002). For those who find some or all of this evidence compelling, a national system of early learning and care is a defining feature of Canada’s social policy blueprint that remains
missing. Despite several federal child care promises that date as far back as the Mulroney government, Canada has no national vision, framework or program for early learning and care. The OECD recently observed that Canada stands out internationally for lagging behind most other member countries in this respect (2004: 6).

Arguably, it is precisely in regards to developing this sort of program that fiscal federal relations in Canada are most important because they can either facilitate or obstruct its evolution. Health care, education and social security programs are established. All benefit from institutional forces and interest groups which collectively ensure programmatic refinement over time remains a political priority regardless of FPT arrangements. Since the same is not true for nascent programs like child care, fiscal federal mechanisms grow more important for directing child care’s place on the pan-Canadian stage. It is therefore valuable to examine what role post-SUFA fiscal federal relations play in fostering the expansion of new pan-Canadian programs like child care.

My analysis takes at face value the SUFA claim that federal spending power has been responsible for enabling “governments to introduce new and innovative social programs… that… are available to all Canadians.” The pertinent question is: does this claim remain true today? I will argue that the answer is no, if FPT arrangements implemented by the Early Childhood Development Agreement (ECDA 2000) and the Multilateral Framework on Early Learning and Child Care (2003) are representative of the status quo. Federal spending toward new pan-Canadian programs since 1999 is permissive in character and does not hold provinces or territories to account for using transfers for the purposes negotiated in intergovernmental agreements. The result is that the federal government may have power to set intergovernmental agenda, but lacks influence to see the agenda through once it transfers dollars to the provinces and territories.

The primary reason for permissive federal spending, I suggest, is that collaborative federalism has come to mean that partners to intergovernmental agreements report only to their citizens, and not to one another. The SUFA era envisions citizens as policy watchdogs that will hold federal and
provincial/territorial governments to account. While I acknowledge that effectively funded and legislatively supported reporting to citizens has genuine potential to address the so-called democratic deficit, citizen reporting of the sort practiced by senior governments in the six years since SUFA actually undermines this goal. It further weakens accountability measures in Canadian intergovernmentalism and makes it harder than ever for citizens to track government spending, let alone evaluate its efficacy. Weakened accountability within a political context attuned to the Gomery inquiry and modest influence over provincial/territorial use of federal transfers motivates the question: what’s the point of permissive federal spending?

The article starts by reviewing briefly the objectives and accountability measures of the ECDA. The efficacy of the accountability measures are examined in the light of several provincial reports that document some PT governments did not allocate ECDA funding for agreed upon purposes. Ottawa’s response to these PT reports is considered, as are the challenges that citizens confront in auditing provincial and territorial accounts. I suggest a new child care experiment in citizenship engagement funded by the federal government may be a partial solution to these challenges. But if this sort of experiment does not soon pave the way for citizens to function as effective accountability watchdogs, then I argue that the contemporary value of federal spending authority merits careful review given the costs that accompany it, including costs to national unity, policy innovation and substantive debates about equality. For those inclined to believe that the costs of permissive spending power outweigh the benefits, I suggest that the division of the CHST into two separate transfers presents a new opportunity to reconsider the current division of tax room between federal and provincial governments.

The Early Childhood Development Agreement

Excluding Quebec, FPT governments committed to the ECDA in 2000. Ottawa began to transfer $2.2 billion over five years to the provinces and territories, including Quebec, in the following year on the condition that recipient governments use the funds to invest in one or more of four mutually agreed-upon priority
areas: 1) promote healthy pregnancy, birth and infancy; 2) improve parenting and family supports; 3) strengthen early childhood development, learning and care; and/or 4) strengthen community supports.

The very broad scope of the four areas is noteworthy. It invites provinces to pursue a tremendously wide range of early child development policy trajectories such that any program with the word ‘child’, ‘parent’, ‘family’ or ‘community’ in its title is likely to qualify. Whereas the Mulroney government in Bill C-144 and the Chrétien/Axworthy Red Book promise of the mid-1990s promoted a child care system specifically, the ECDA envisioned this policy direction as one option among many that provinces and territories could pursue according to local government priorities.

In addition to the four priority expenditure areas, the ECDA includes a commitment to develop a shared public accountability framework by which all governments party to the Agreement report on progress in improving early childhood development programs. The framework accommodated different starting points and reporting capacities evident across the country by inviting each PT government to submit a baseline report that documented extant early childhood development expenditures in the province or territory. Provincial and territorial allocation of federal ECDA transfers would henceforth be judged annually according to this baseline. In addition, the framework included a set of jointly agreed upon indicators of child well-being by which the impact of ECDA investments in each province and territory may be assessed.

This article focuses on the question of who monitors federal transfers to ensure that they are used in the manner to which parties committed when signing the ECDA? Since governments enjoy direct control over this aspect of accountability, I assume that mismanagement on this front suggests that the more taxing chore of results measurement is even further beyond their administrative capacity.

The shared reporting framework of the ECDA includes an explicit answer to the above questions. It affirms that “the purpose of performance measurement is for all governments to be accountable to their publics, not to each other.” The implication is that no one level of government is more responsible than any
other for reporting on program results; all share responsibility for program outputs equally; and citizens (possibly represented by third parties) emerge as judge and jury over the issue of whether transfers were used for the agreed upon purposes.

The office of the Auditor General of Canada (1999: 6.30) reports that this approach to intergovernmental accountability emerged for the first time in the National Child Benefit (NCB), and it was quick to urge caution. According to the office, the NCB’s “Governance and Accountability Framework... distinguishes government-to-government accountability from government accountability to legislatures and from government accountability to the public.” While the NCB authors opted to prioritize the former, the Auditor General argues that “there is no need to emphasize one type of accountability over another. Accountability to the public for the NCB is consistent with, but different from accountability to other governments, or accountability to legislatures. ... These differences are important. Care will be required to ensure that all three types of accountability are maintained (1999: 6.56).

All three types of accountability are important, the Auditor General (2002: 9.63) adds because “partnering arrangements” between FPT governments “require more and not less accountability.” “Overall accountability can be achieved only through holding partners accountable for not only their own programs but also overall outcomes” (ibid.: 9.98). In particular, such arrangements require “clarity... on just how and by whom performance will be reviewed and adjustments made – how improvements will be made to performance and to the arrangement” (ibid.: 9.42).

No such process is specified in the ECDA reporting framework. In the following section, I consider the implications of this lacuna for provincial and territorial use of ECDA transfers and the response by the government of Canada.

**Provincial and Territorial ECDA Expenditures**

Reporting by provinces and territories about local deployment of ECDA transfers has been late, fractured and difficult to follow. By the end of 2004, well into the third year of the Agreement, expenditure
data from all jurisdictions was available only for 2001/02 – the first year of federal payments. Nova Scotia, PEI and the Yukon never issued a year one report, although all three governments included comparable information in year two reports the following year.

Excluding Quebec which did not sign the Agreement, six jurisdictions publicly reported that they did not fully invest ECDA transfers from Ottawa in the negotiated areas (see Table 1). This finding is somewhat startling because it takes provincial and territorial reports at face value, which have not been subject to any external audit. One might have expected that the rate of failure to comply with ECDA commitments would be high if one were to interrogate provincial or territorial figures by questioning the decision matrix and method by which governments assign budget figures to programs, something I explore in more detail below. But granting that PT governments have a vested interest in presenting their accounts favourably, there was good reason to expect that the considerable latitude administrations enjoy to ‘massage’ un-audited reports would have resulted in higher rates of apparent compliance with ECDA stipulations. Despite this, six of 12 PT parties to the Agreement acknowledge that some (or in the case of the Northwest Territories, all) of the federal transfer went to general revenue for purposes beyond the scope of the ECDA in year one of the Agreement. This fact is more surprising still when we recall that the four mutually negotiated target areas for ECDA spending are so broad that almost any provincial/territorial investment associated with children, parents, families or communities could be defended as a qualifying expenditure.

Table 1 about here

Despite receiving copies of all PT reports, federal publications about the ECDA make no mention that half of the provinces and territories claim not to have spent all of the federal transfer for agreed to purposes in year one (Government of Canada 2003). While Ottawa summarizes federal revenue transferred to provinces and territories annually, it is not accompanied by any summary of provincial and territorial re-investments. Instead, the reports only describe areas of investment in PT jurisdictions without
noting dollar figures, leaving the policy analyst and citizen to track down provincial and territorial budget figures separately.

Rather than publicize provincial and territorial deviation from ECDA commitments, Ottawa retreated to patterns of executive federalism behind closed-doors. As explained by bureaucrats in then HRDC, now Social Development, Ottawa pursued a two-part response to underinvestment. Federal bureaucrats contacted their provincial/territorial counterparts in underinvesting jurisdictions to urge their governments to re-commit to the ECDA by rolling over year one funds that were not spent to supplement year two expenditures. Then Minister Jane Stewart articulated a similar message to her PT Ministerial colleagues. The correspondence was often informal. It did not always (if ever) include written letters from Ottawa to the province or territory under consideration. If letters were drafted, they were deemed private documents not accessible to citizens or researchers.

The results of these executive federal tactics are not impressive (see Table 2). Of the six under-investing PT governments, only Nova Scotia rolled over the unutilized ECDA funds from year one into its year two budget for early child development programming. By contrast, BC, Saskatchewan, Newfoundland, and the Northwest Territories repeated their year one disregard for Agreement commitments by failing to allocate all of the year two ECDA transfer to the priority areas. The sixth jurisdiction, Nunavut, has yet to issue a report for 2002/03 so it is impossible to know the influence of executive federal suasion in this instance.

Just as federal reports make no mention of underinvestments in year one, so the Social Development Ministry documents are silent about underinvestments in year two (Government of Canada 2005). This pattern underscores the extent to which the Agreement operationalizes the new intergovernmental consensus in Canada that senior governments report only to constituents, not one another. As this vision of intergovernmentalism takes root, the effect is for the federal government to forgo
accountability both to its own legislature for ensuring that federal revenue is used for assigned purposes, and to the SUFA commitment by which each FPT signatory agreed to “use funds transferred from another order of government for the purposes agreed.”

Citizens: The New Accountability Watchdogs

By not reporting to each other, governments in the post-SUFA era of fiscal federalism intend citizens to ensure that first ministers live up to funding commitments through the power of public censure. The question of what SUFA means for citizen engagement has already been explored by Phillips (2001). She reports that the provinces first proposed enhancing the role of citizens in public accountability in their coordinated response to federal funding cuts instituted through the Canada Health and Social Transfer. As the federal government’s fiscal health improved in the late 1990s Ottawa in turn bargained hard for public accountability as a way of pressing the provinces to fulfil social policy obligations associated with renewed federal investment (ibid.: 17). Given intergovernmental convergence around this theme, the principles and structure of SUFA were organized to depict citizens as an emergent “third force in federalism – not so much as a means of creating a social union that truly addresses the democratic deficit that has been so widely deplored, but as a third-party barrier to the actions of one government against another” (ibid.: 9). In this spirit, section three of SUFA explicitly commits each signatory to “monitor and measure outcomes of its social programs and report regularly to its constituents on the performance of these programs;” “use third parties, as appropriate, to assist in assessing progress on social priorities;” and to “ensure effective mechanisms for Canadians to participate in developing social priorities and reviewing outcomes.”

SUFA language notwithstanding, Phillips (2001: 9) argued in 2001 that “both levels of government have failed miserably” to facilitate genuine citizen engagement. Four years hence, government reporting about the ECDA corroborates this conclusion. The research time and effort required to track down the expenditure data necessary to produce this paper is qualitatively informative about the challenges that citizens encounter when they seek to become engaged in reviewing FPT partnership programs.
In the absence of a single report from Ottawa that summarizes FPT expenditures, citizens must rely on their fingers to do a lot of walking by phone or internet. A phone call to Social Development, the one government Ministry where all of the ECDA reports are collected, will not always result in access to hard copies of each jurisdiction’s accounting. In my initial phone call to the Ministry, I was provided with information about Ottawa’s spending; but told to contact the provinces and territories directly to learn about their public reports. A research assistant subsequently made 10 phone calls to provincial governments, and dedicated roughly 10 hours of time to searching for documents on line, only to track down 3 reports. Given the poor results at the provincial level, I re-directed my effort to the federal Ministry and successfully convinced bureaucrats in the Children’s Policy branch to email a list of all of the provincial and territorial reports on line, with their corresponding URL. In the months that followed, FPT governments agreed to create a shared website where each jurisdiction would link URLs related (although often indirectly) to ECDA reporting. The joint Web portal became operational in November 2004.

The Ministry does not keep a public list of which provinces and territories fully re-invested the ECDA dollars, nor a list of those jurisdictions that did not. Ministry staff refused to identify in writing which provinces had not fully reinvested, leaving me to explore the PT reports individually. Only after several phone messages and conversations was I able to convince someone in the Ministry to tell me over the phone which provinces had under-spent the federal transfers. Subsequent analysis of provincial reports revealed that the Ministry information was inaccurate. When asked why the federal Ministry did not report publicly about which jurisdictions did not live up to the requirements of the ECDA, bureaucrats explained that their responsibility was to report federal expenditures alone. To compare federal transfer payments with provincial expenditures was to launch into analysis – not reporting.

Beyond the substantial time commitment and access to the internet that one needs to track down ECDA expenditure data from all parties to the Agreement, there are also serious questions to be asked
about the quality of expenditure data published in the provincial and territorial documents. In its 1999 audit of the NCB accountability framework, the Auditor General of Canada (1999: 6.57) emphasized that:

A key mechanism for demonstrating accountability is credible reporting. While mechanisms for reporting to the public tend to vary according to the nature of each program, arrangements for reporting to legislatures are well defined and involve auditors general and legislative committees. The partners in the NCB state that one advantage of accountability to the public is that it will “minimize administrative reporting.” However, accountability is unlikely to be served best by minimized administrative reporting. Administrative data are part of the accountability and operational relationship between partners. They are also necessary for reporting both outputs and performance outcomes. The goal, therefore, should be to report appropriately (Auditor General 1999: 6.57).

The shared reporting framework produced for the ECDA does not demand the level of vigilance to administrative detail that the Auditor General urges. Annual ECDA reports from British Columbia illustrate the point. At the most cursory level, the organization of its 2002/03 report is misleading. The bulk of the report includes brief textual descriptions of the province’s commitments to early childhood development under the four national priority areas. In terms of “Strengthening Early Childhood Development, Learning and Care,” the textual analysis claims that provincial ECDA investment in child care was $5.41 million (Government of British Columbia 2003: 7), plus another $1.53 million in Supported Child Care for children with disabilities (ibid.: 9). However, these budget figures are completely out of step with the “2002/03 Program Expenditure Summary” table that concludes the document. Rather than a $7 million increase, calculations based on the more thorough summary of provincial figures shows that child care spending in the province dropped by $16.6 million (ibid.: 20).

The analysis of provincial figures is more complex still because the annual report provides expenditure figures about programs for children age 0-6. Many child care programs, however, target children age 0-12 in the province. The reports provide no methodological discussion of how program expenditures are pro-rated to capture only the 0-6 age group. In the absence of this formula,
administrations enjoy considerable latitude to present budget figures in a very favourable light that is not subject to external verification.

There are also questions about what the province counts as a child care expenditure. In 2003, the province eliminated wage redress negotiated by child care providers in select, unionized child care centres as part of a mediated labour agreement for the social services sector in the province. The expenditure on child care wages in 2002/03 was $10 million. However, this funding stream is not included in the province’s calculation of operating expenses for child care programs in the ECDA report and, therefore, the funding reduction does not affect BC’s ECDA budget bottom-line. According to then Minister of State for Child Care, Lynn Stephens, rescinding this pay equity award does not mean her “government is … cutting funding to child care centres. What we have at play is a labour negotiation” (British Columbia, Legislative Assembly, Debates, November 7, 2002: 1420, hereinafter referred to as Debates). “It’s up to the centres to do those contract negotiations, and we are not interfering in any way with free collective bargaining” (Debates, November 5, 2002: 1410). The former Minister of State’s view on this matter merits careful scrutiny, however, since wages represent roughly 80 per cent of child care operating costs in the licensed sector in BC.

By raising questions about the quality of data reported in provincial ECDA documents, these examples illustrate the onerous task that the citizen must tackle if she is going to serve as the third force in federalism, as SUFA envisions. The resources, time, technical skill, and knowledge of the provincial policy contexts are not things we can reasonably expect of most citizens or citizenry groups. In effect, the main implication of ECDA accountability provisions is, as Phillips (2001: 20) concludes about SUFA more generally, to make “social scientists of us all.” This expectation is not reasonable.

The Multilateral Framework: Accountability in Action?

Disinvestment in child care of the sort witnessed in BC was not what former HRDC Minister Jane Stewart had in mind, especially when it was echoed by the province of Ontario’s decision not to invest any
ECDA funding in regulated child care in the first year of the Agreement. In response she negotiated with provincial and territorial leaders a second agreement, called the Multilateral Framework on Early Learning and Care. Under this Framework, Ottawa started in 2003/04 to invest another $1.05 billion over five years “in provincially/territorially regulated early learning and child care programs for children under six. In the context of this framework, regulated programs are defined as programs that meet quality standards that are established and monitored by provincial/territorial governments.” Eligible programs are those that “primarily provide direct care and early learning for children in settings such as child care centres, family child care homes, preschools, and nursery schools” (2003).

The federal government’s determination to negotiate the Multilateral Framework may appear to be a counterexample to any claim that Ottawa has resigned itself to becoming a permissive spending authority in areas of provincial jurisdiction where it does not enjoy a policy legacy. Some provinces and territories were not living up to the spirit of the first ECD intergovernmental agreement, so Ottawa forged a new compromise with the provinces to advance the child care agenda specifically.

Analysts should be cautious, however, before accepting this interpretation. It is not obvious that the Multilateral Framework will result in reluctant provinces like BC investing in the child care settings that Ottawa envisions. For instance, since the announcement of the Framework, BC is changing administrative practices regarding regulation of child care services. The local child care sector includes a class of “regulated License-not-required” service providers that are exempt from meeting formal licensing standards enforced by provincial Ministry of Health Services officers. Historically, the province has maintained that this cluster of services remains ‘regulated’ because providers are subject to a home inspection by representatives of provincially funded Child Care Resource and Referral programs before being listed on public directories available for parent consultation. But in 2004, provincial practice changed. Resource and Referral program directors indicate that provincial administrators urged them to add License-not-required providers to public lists of regulated services in advance of conducting any home inspection. Such child
care services are now eligible to benefit from Multilateral Framework dollars, despite the fact that the Framework defines “regulated programs” as those that meet quality standards established by the PT government. The trend in BC ignores this expectation by entirely decoupling regulation from any inspection of quality for a significant share of the provincial child care sector.

**Making the Connections: Meaningful Experimentation with Citizenship Engagement**

Enhancing citizenry involvement in policy debates and review is not only urged by FPT governments as they strategize about how to hold one another accountable. Despite waning voter turnout, studies by the Canadian Policy Research Networks (CPRN) indicate that “Canadians still rank political rights near the top of their list of quality of life indicators. This suggests that Canadians are looking for new and different ways to participate in the political life of their country including calls for a stronger voice in public policy debates” (Abelson and Gauvin 2004: 17-18). On this view, improved government accountability is seen as a way to facilitate citizens’ desires “to understand more about what governments do so that they can contribute more tangibly to public policy decisions” (ibid.: 16). Greater engagement has potential to renew public trust in government institutions by directly involving citizens in policy debates and decisions on a more routine basis between elections.

By assuming that citizens can serve as social scientists, ECDA government reporting treats public involvement in policy review as an afterthought without considering the time and resources auditing requires even of experts, let alone the general public. So long as ECDA-like patterns persist, public involvement will not emerge as an integral part of the policy process, improve policy outcomes, nor buttress democratic citizenship in Canada. As Phillips and Orsini (2002: 29) remark, “If new techniques, technologies or institutions are to facilitate more deliberative forms of citizen involvement, senior and front-line managers, as well as elected officials, must come to value citizen involvement as a central component of governance. This means that citizen involvement must be viewed not only as a means of information gathering, but as a way to expand the boundaries of citizenship in a diverse society, enhance the skills of
citizenship, and invest in community capacity building.” “Tinkering with existing institutions,” they add, “is unlikely to be radical enough to bring about sustained interaction between governments and citizens, and to encourage participation in ways that truly enhance citizenship” (ibid.: 26).

To the credit of the federal government, the Social Development Ministry has recently committed funds to a child care project that has potential to become the cutting edge of Canadian experimentation in citizenship engagement. The project is titled “Making the Connections.” It pays $600,000 over three years to the Child Care Advocacy Association of Canada to monitor provincial and territorial reporting about child care expenditures funded by the ECDA, Multilateral Framework and any new early learning and care agreement(s) that may emerge from the new federal commitment of $5 billion for child care over five years. The Advocacy Association will engage with public reports released by PT governments to determine whether their accounts conform to intergovernmental agreement conditions. Findings from this analysis will be translated to local constituents in each province and territory in meaningful ways that are intended to inform and enrich debates within local jurisdictions.

The Making the Connections project marshals a unique range of relevant expertise. The Advocacy Association includes a team of child care providers and representatives from all provinces, including Quebec. The Association has sub-contracted with Lynell Anderson to lead the project. She is arguably the Certified General Accountant in Canada with the most familiarity and expertise with child care across the country. Project directors have also established a Reference group of Canadian academics (political scientists, economists and public policy scholars) who specialize in child care policy. The project thus unites informed citizens, relevant service providers and third party experts to coordinate the citizen review of intergovernmental transfers and mobilize knowledge among the broader population across the country.

This arrangement enjoys many parallels with the development of new citizenship involvement patterns that Phillips and Orsini urge above. Senior and front-line managers in Social Development Canada appear to be embracing citizen involvement as a central component of governance and are
investing funds to enhance citizenship skills in policy review and debate in local community contexts. Unlike extant ECDA patterns, the project does not expect citizens to be social scientists; but instead supports citizen review of intergovernmental transfers with expertise from social scientists.

While the emergence of this project provides some reason for optimism about federal commitment to citizen engagement, there remain a number of issues about Making the Connections that will need to be addressed if the project is going to be more than a photo op for Ottawa. Project funding is an obvious issue. It is one thing for the Child Care Advocacy Association to collect in each of three years all relevant PT reports, audit budget figures, and develop and publish knowledge translation material for a fee of $600,000. But the task of mobilizing this knowledge within local communities in each province and territory for this funding seems unrealistic given the amount of time and travel involved. It is therefore necessary to question whether the Making the Connections project is an example of Ottawa downloading accountability responsibilities for intergovernmental transfers to the voluntary sector, effectively privatizing these costs to the female child care labour force which already articulates pay equity concerns. Such questioning is important since Abelson and Gauvin (2004b: 7) report that in the 1990s “the terms ‘public participation’ and ‘public consultation’ became negatively associated with cynicism and mistrust in public officials arising from failed public participation experiments,” many of which were perceived as instruments of cost-cutting.

A second feature of Making the Connections that merits concern is that the project is not empowered by legislative authority to access provincial and territorial financial data. The terms of reference for the project are to engage only with the budget figures publicly reported by the provinces and to inform local citizens about how spending patterns match ECDA and Multilateral framework expectations. But, as the Auditor General notes, genuine accountability requires that PT financial claims “can be verified” (1999: 6.80). The Advocacy Association cannot demand access to this data to perform this verification role.
The politics of appointing the Child Care Advocacy Association of Canada as the lead citizen watchdog in Making the Connections is a third issue that requires attention. The organization lobbies for what some might call the ‘gold standard’ of child care in Canada that would create a system consistent with that implemented in many countries across Europe. But there remains a lack of consensus in Canada about the value of this program, especially in the province of Alberta. One can expect, therefore, that some provincial governments will raise questions about the legitimacy of the Advocacy Association serving as the third force in federalism regarding early learning. This characteristic of the project stands in contrast to the Reference Group established for the National Child Benefit, which consisted of representatives from 10 groups of non-governmental organizations concerned about children in poverty (Auditor General of Canada 1999: 6.93). It is also contrary to the dispute settlement practice in the health care domain, which forms panels composed of one representative selected by the disputing province, a second federal representative, and a third who is jointly chosen by the first two to serve as chair. This practice of provincial involvement in selecting third party evaluators is absent from the Making the Connections Project. If it is to pave new ground in accountability in Canada, more work is necessary to plan and justify selection processes to citizenry committees.

**What is the Point of Permissive Spending Power?**

If senior governments do not work with projects like Making the Connections to overcome the above sorts of challenges so that the citizenry actually evolves into an effective third force in federalism, then there are strong reasons to question the point of permissive spending power in areas where the Canadian government does not enjoy a policy legacy. Noël (2001b) has characterized Ottawa’s approach to federalism since SUFA as one in which it steers while the provinces and territories row. But this is not the scenario we witness when Ottawa is endeavouring to broker nascent programs that don’t yet have a pan-Canadian presence. As the ECDA and Multilateral Framework illustrate, the federal government’s approach is better characterized as a weather vane that signals Ottawa’s direction while at the negotiation
table with PT governments; but which is vulnerable to dramatic shifts in direction once transfers are underway and subject to the political winds in provinces and territories.

This pattern is unfolding again in intergovernmental negotiations about a national system of early learning and care between federal Social Development Minister Ken Dryden and social service PT Ministers. There is no doubt that the negotiations reflect the federal government flexing its spending muscle successfully to bring provinces and territories together in respect of an issue that Ottawa currently wishes to advance. But despite early signs that Ottawa would be successful at brokering a deal, the momentum at the end of 2004 was lost by early 2005, largely over the issue of what conditions, if any, would be attached to federal transfer payments. Alberta and Quebec in particular remain reluctant to sign a deal that has any conditions whatsoever (Baglole 2005). Despite the lack of an agreement, the federal government is eager to start the flow of the $5 billion committed in the 2005 federal budget for this initiative and has invited PT governments to access year one and two funds on a per capita basis from a trust account established by Ottawa (Paraskevas 2005). The trust does not set any conditions to limit local allocation of funding to child care, let alone particular kinds of regulated care.

While commentators like Banting (1998: 52-53) support the SUFA statement that Ottawa’s capacity to facilitate a pan-Canadian compromise has historically been critical to the development of the nation’s social union, this positive federal influence has always come at a cost. Ongoing disputes about federal intrusion in provincial jurisdiction, which remain a primary bone of contention for Quebec sovereigntists, are perhaps the most obvious. The costs associated with federal spending power merit closer attention as Ottawa acquiesces to weather vane spending patterns. For if disingenuous reporting to citizens is as good as post-SUFA fiscal federalism gets in terms of intergovernmental accountability, then the costs may start to outweigh (potential, but no longer practiced) benefits. I briefly focus on three sets of costs below: costs to national unity; to social policy innovation; and to substantive debates about justice and equality.

Cost 1: National Unity and the Vertical Fiscal Imbalance
Federal spending power factors most prominently today in the national unity question during debates about an alleged vertical fiscal imbalance that characterizes intergovernmental relationships. Provinces, particularly Quebec, maintain that their political ability to generate revenue through available tax sources are not sufficient to pay for their constitutional spending obligations for health, education and other social programming which have ballooned in cost in the last two decades. Simultaneously, the rapid restoration of federal fiscal health in the late 1990s and the large budget surpluses that Ottawa is expected to enjoy for the foreseeable future is said to reflect a federal revenue-raising capacity that surpasses its obligations to pay for services and infrastructure that fall within its jurisdiction. The remedy, some provinces suggest, is to reorganize and reduce intergovernmental transfers in favour of a transfer of tax points to the provinces so that provincial revenue capacity matches its expenditure responsibilities. This argument was advanced by the Séguin Commission on the Fiscal Imbalance in Quebec, which recommended that Ottawa abolish the former CHST in order to transfer the General Sales Tax to provinces as a direct provincial revenue source (Québec 2001). More recently, the fiscal imbalance debate threatened to derail the current minority federal Parliament following its first Throne Speech. On this occasion, the Bloc Quebecois refused to approve the legislative agenda outlined in the Speech unless it included formal federal recognition that a vertical fiscal imbalance is penalizing the province of Quebec (see Hansard for transcripts of federal debates in reply to the Speech from Throne in October 2004).

This article is not the place to debate the existence of the vertical fiscal imbalance. Ruggeri (1998; 1993) has led the academic case for affirming its existence. More recently, Lazar, Hilaire and Tremblay (2004) urge caution about this interpretation, noting how muddied the debates are since both levels of government have access to all major sources of tax revenue and can set their own tax rates accordingly.

As far as national unity is concerned, however, the fact of the matter is not relevant; it is perception of a fiscal imbalance that counts, and this perception fuels the separatist cause in Quebec. A new round of equalized tax point transfers from Ottawa to the provinces would therefore steal some of the wind from
separatist sails. But the cost is reduced capacity in Ottawa to use federal revenue to enforce national standards and broker pan-Canadian compromises about new social policy development. The analysis in this article urges those who oppose a new transfer of tax points because of this cost to reconsider their position in the light of the permissive character of Canadian government spending post-SUFA, as witnessed under the ECDA.

Cost 2: Dampening Policy Innovation

The power to spend in order to negotiate pan-Canadian compromises about social policy innovation also entails the power not to spend, or to cut extant expenditures. It is this latter power exercised by both the Mulroney and Chrétien governments in the 1990s that triggered current disputes about a vertical fiscal imbalance between FPT governments. The ‘cap on CAP’ which limited growth in Canada Assistance Plan transfers to Ontario, Alberta and BC for social assistance to 5 per cent per annum in 1991, the notorious $6 billion annual reduction to transfers initially introduced by the CHST in 1996, and federal restructuring of Employment Insurance (EI) coverage in the same year dramatically redefined provincial capacity to weather recession storms. Whereas the national government bore the brunt of deficit and debt growth during the recessions triggered by the oil crisis of the late 1970s, Lazar, St-Hilaire and Tremblay (2004) and Courchene (2002) report that the cap on CAP instituted by Ottawa to shield its expenditures from economic downturn contributed substantially to the provinces shouldering about two-thirds of the fiscal costs of the recession in the early 1990s. Of the roughly $32 billion increase in yearly national (federal plus provincial) deficits between 1989-90 to 1992-93, the collective provincial deficit grew by $20 billion (from $4.3 in 89-90 to $24.7 billion in 92-93), with the federal government absorbing the rest (Courchene 2002: 18). CHST and EI reform subsequently exacerbated this situation for the provinces. While Ottawa has reported surpluses consistently since 1997, the provinces, together, managed to achieve a surplus only in 1999. Looking forward, the same economic trends that project balanced budgets for the federal government predict that nearly all provincial budget statements will end up in the red (ibid.: 32).
The above structural changes to provincial revenue and demand for provincial services have circumscribed the fiscal latitude available to premiers to address pressing social problems by innovating with new social expenditures. Yet provincial innovation has long been a key to policy enrichment across the country (Richards 1997). Tommy Douglas’ experimentation with Health Care in Saskatchewan has attained near mythic status among Canadians, as they recently voted him the “Greatest Canadian.” Similarly, Quebec government efforts to establish a unique social policy identity in the 1960s and early 70s regularly upstaged Ottawa and motivated the federal government to invest in social policy areas it might not have otherwise. The same pattern is now unfolding in respect of family policy. An innovative parental leave plan tabled in Quebec in 1997 pushed Ottawa to extend parental leave benefits in 2001. And the early learning and care component of Quebec's family policy is the model to which Ken Dryden often points in his many public presentations about the national system of child care that the federal government wishes to set in motion.

With the provinces in a more precarious fiscal position than two decades ago, the extent to which the current division of tax room between senior levels of government puts the brakes on PT social policy innovation merits closer scrutiny. This line of investigation will inevitably invite a whole host of other questions related to the appropriate level of taxation, public debt, and competition for scarce public resources. In particular, the fact that provincial governments have generally reduced income taxes in recent years (most notably in Ontario, Alberta, Saskatchewan and BC) may incline some to conclude that provincial lamentations about a vertical fiscal imbalance are disingenuous political posturing tactics. Why cut taxes if provincial social expenditure demands are growing?

My intention is to raise this question in the context of permissive federal spending, not answer it. The question is important, however, because Lazar, St-Hilaire and Tremblay (2004: 149) remind us that in practice “both orders of government – and governments of all political stripes – believe there are effective limits to taxation and behave accordingly. Thus, if the overall tax burden (all levels of government
combined) is equal to or exceeds the assumed limit, then [the fact that provinces enjoy] the constitutional power to tax is not of much value if, for practical economic or political reasons, it is not desirable to do so.” Given this observation, if recent provincial (and federal) income tax cuts signal that citizens feel at or near the taxation threshold, it is not obvious social policy across the federation is best served by the current division of tax room if it risks thwarting policy experimentation at the provincial level.

Cost 3: Lost substantive debate

A third historical cost of federal spending power is that it perpetuates a national political context that obscures substantive debate behind the closed doors of executive federal practices. When debate is aired in the media, dialogue privileges distributive questions about regional equity at the expense of distribution along class, gender, ethnic and other lines.

Simeon (1994: 136) captures this problem when he observes that “the constitution and related issues of national unity tend to trump or dominate debate on substantive, functional policy issues” in Canada. “Questions about the regional distribution of costs and benefits [therefore] tend to trump debate in terms of alternative aspects of distribution;” and “fiscal and financial issues tend to trump debate on social policy” (ibid.: 136).

Canadians witnessed this cost in action during the February 2005 intergovernmental negotiations about a child care system. An informal review of media coverage by the Globe and Mail, National Post and Vancouver Sun in the weeks proceeding and immediately following the meeting of Ministers at which Ken Dryden publicly stated his goal was a signed pan-Canadian child care deal reveals that the theme of regional resistance by provincial governments to any deal factored in 15 articles written by journalists, whereas the theme of women’s equality enjoyed no formal coverage. In fact, discussion of the relationship between women’s equality and child care only appeared in these newspapers when editors published four op-ed submissions that addressed this theme in passing. The failure of the formal journalism discourse to report public debate about the latter theme is striking when we recall that it was the goal of women’s
equality that first motivated the call for a national system of child care in the report of the Royal Commission on the status of women in Canada. Moreover, when policy debates are about intergovernmental demands for flexibility and fair treatment for a region, citizens and their parliamentary representatives risk losing track that it is for reasons of women’s equality, the impact of child care costs on human capital investments in children, and looming labour shortages as baby-boomers ready for retirement that the country ought to think seriously about enhancing its social policy blueprint to include new policies like the system of early learning and care that Quebec has implemented.

In short, substantive economic issues and distributive justice between the generations, sexes, ethnic groups, and income quintiles, are just as pressing, if not more so, for the social policy envelope in Canada than questions of regional equality. Extent fiscal federal relations deter debate about these matters and risk extinguishing public consciousness about these issues so much that the public demand for policy innovation and investment may be minimized.

Citizen engagement of the sort envisioned by the Making the Connections project has some potential to remedy this situation. Since representation on the project extends beyond regional membership to also include service providers who regularly witness familial needs and interests, as well as social scientists attuned to distributive questions that are not limited to regional equality, the project’s public reporting about PT deployment of federal child care transfers has potential to feature issues that are muted on the executive FPT scene. If projects like this one can become a template for fostering genuine deliberative democracy whereby citizens participate actively in considering different points of view to negotiate a reasoned evaluation of policy trends, then concerns about the harm fiscal federalism presently yields over substantive debates about justice may be set aside.

If not, however, then the dampening influence that the present division of tax room exerts over provincial innovation merits even more concern. Provincial legislatures are not distracted in the same way by issues of inter-provincial equality. Debates internal to provinces and territories thus offer more potential
for dialogue that focuses on the substantive reasons for implementing or retaining policy, not FPT wrangling. Given this recognition, a transfer of tax points to the provinces and territories may enhance the quality of policy debate in regions across the country because these debates are less likely to be distracted by cross-Canada distribution questions which are so salient on the national scene.

**Beware Throwing the Baby out with the Bath Water**

Another tax point transfer is raised in this article as a policy option to consider – not a recommendation. Proposals like Courchene’s once much discussed ACCESS proposal and the more recent Séguin recommendation that would replace the cash transfer represented by the former CHST with an exchange of tax points risks throwing the baby out with the bathwater. Save for equalization funding, this proposal would all but eliminate federal capacity to entice otherwise reluctant, ideologically divided provinces to create pan-Canadian programs and to enforce standards from coast to coast to coast. While the federal government currently seems loathe to exercise this power, the Courchene and Séguin proposals would see the one Canadian government constitutionally responsible for citizenship rescind the potential that inheres in social policy to cultivate a sense of national citizenship.

For those who remain interested in a tax point transfer despite this cautionary note, the division of the CHST into a Social Transfer that is separate from a Health Transfer opens the door to a more modest tax point exchange than Courchene or Séguin contemplate by converting the less valuable (roughly $8 billion) CST into a one-time transfer of equalized tax points to the provinces. So long as the CHT remains a cash transfer, the federal government could use this cash to enforce national standards, not only in terms of health care, but also in terms of post-secondary education and other social services. As McIntosh (2004: 33-36) notes, there is solid reason to believe that the CHT’s relatively large cash component enjoys its size in part today because it has siphoned some cash from the element of federal transfers historically targeted to non-medical social spending. It therefore would be appropriate for the Government of Canada to withhold CHT cash to enforce intergovernmental obligations associated with social spending. In fact, given
the unique place that health care occupies in the psyche of Canadians, reduced health transfers to provinces and territories that remain out of step with new norms regarding programming in other social envelopes may be an especially influential federal ‘stick’, if and when Ottawa chooses to become less permissive in its spending authority.

Alternatively, for those who remain committed to the current division of tax room between federal and provincial governments, it will become increasingly important to devote resources to experiments in citizenry involvement like Making the Connections. If adequately resourced, such initiatives have potential to allow citizens to emerge as the sort of third force in federalism of which SUFA speaks, addressing the accountability concerns that underpin arguments for considering tax point transfers in this article. Citizen involvement initiatives have the added bonus of partly addressing democratic deficit issues as part and parcel of enhancing government accountability.

Even if citizens do form this third force, and the accountability issue is overcome, the other problems with federal spending power remain in respect of national unity, the dampening influence on provincial innovation, and impoverished debates about inequality. This signals that proposals to empower citizens as accountability auditors and to transfer tax points are not necessarily mutually exclusive options.

One’s position in regards to these options will ultimately depend on views about federalism and the role of government in social provision. For anyone interested in this subject, the current state of intergovernmental negotiations about child care is a real litmus test for the value of federal spending power. Should the federal government fail to get a pan-Canadian deal or series of bilateral agreements with interested PT governments that build in effective accountability measures, either through genuine citizen engagement or old-fashioned federal oversight, it will be even harder for Ottawa and its proponents to discount the growing chorus of provincial calls for another transfer of tax points akin to what we witnessed with the Established Programs Financing in 1977.
References


Norrie McCain, Margaret, and Fraser Mustard. 1999. Early Years Study: Reversing the Real Brain Drain. Toronto: Canadian Institute for Advanced Research.


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