

From one ex–finance minister to another

Advice for Paul Martin as he takes office as Prime Minister

by **Janice MacKinnon**

PAUL MARTIN'S ASCENT TO THE PRIME MINISTER'S JOB COMES AT A time of tremendous opportunity. Canada's fiscal strength is the envy of other G8 countries, we have the most openly federalist Quebec Premier in recent memory, and the Canadian public has a renewed sense of confidence in its identity and values. Moreover, the new Prime Minister comes with a rare combination of talents. Having served for almost a decade as Finance Minister, he knows government. Whatever the political baggage associated with Canada Steamship Lines, it is a testament to his success in the rough-and-tumble world of business. And as a politician, he has a reputation for having a keen interest in substantive policy issues. Martin, then, begins with a firm foundation on which to build.

The magnitude of the opportunities, however, is matched by the daunting na-

ture of the challenges. There are unrealistic expectations both of Martin himself – which have been fed by his strategy of trying to be all things to all people – and of the capacity of the federal treasury to fund new programs. Whether it is students struggling with higher tuition and debt, cities coping with outdated infrastructure or soldiers being sent into battle with substandard equipment, the effects of the necessary but dramatic cutbacks of the 1990s are still present.



Paul Martin comes to the prime minister's job with a rare combination of talents – and faced with unrealistic expectations.

changes: the fiscal crisis necessitated drastic cuts to programs and services; the increasingly global economy limited what

At the same time, a disproportionate share of new government money is being gobbled up by the ever-increasing demands of a health care system whose costs are spiraling beyond the fiscal capacity of governments at all levels. Canadians face politically charged issues, like the Kyoto Accord and the environment, the relationship between the federal government and First Nations, and same-sex marriage. Jean Chrétien followed a transactional approach to government, handling problems as they presented themselves and developing strategies to manage them. If Martin adopts such an ad hoc approach to governing, he could easily find himself bogged down in a quagmire of political trouble.

Alternatively, Martin could become a transformational prime minister, not just reacting to problems as they arise but tackling the root causes of current crises and making fundamental changes in key relationships. The last decade has seen dramatic

governments can do; and the aftermath of 9/11 has changed the world in many ways. Although the foundations for the federal government's most important relationships changed, Prime Minister Chrétien's transactional approach meant that there was no concerted effort to rethink major issues. After a decade of managerial government, with a Prime Minister who avoided grand designs or bold solutions, Ottawa is ripe for redefinition of its key relationships: with the rest of the world, with the provinces, with western Canada and with Canadian voters.

Moreover, without a new, more relevant long-term vision of these relationships, there is a danger that Canadians may come to believe that they can return to the past. For example, there are calls for the federal government to resume the past practice of funding up to 50 per cent of health care costs, and to abandon targeted social programs like the Child Benefit in favour of the costly universal programs of the 1970s. These

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ideas are unrealistic in light of the new demands on the federal treasury. By focusing on a long-term vision of where Canada is going and the tradeoffs required in revitalizing its critical relationships, the new government can avoid the pitfalls of moving from crisis to crisis.

Canada's relationship with the rest of the world

Two defining moments in Canada's relationship with the world over the last decade are ill-equipped Canadian troops leaving to fight terrorism in Afghanistan and Canada's rejection of entreaties by our traditional allies, the British and the Americans, to join their war against Iraq. Over these years,

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Canadians looked inward, preoccupied with the deficit battle and the Quebec referendum.

The budget cuts of the 1990s dramatically reduced funding for the military, foreign aid and the diplomatic service. The numbers speak for themselves. Though Canada has the world's largest coastline and second largest land mass, it spends only 1.1 per cent of GDP on the military, one of the lowest levels of spending in NATO, with the result that our military equipment is aging and the military has difficulty finding new recruits. There is a similar problem in for-

ign aid, an area in which Canada spends a mere 0.22 per cent of GDP, third to last among OECD countries. That aid is spread thinly over more than a hundred countries and numerous programs. And in the foreign service, problems of recruitment and retention have been worsened by blatant patronage appointments, such as that of Alfonso Gagliano, the Minister of Public Works linked to numerous government scandals, as ambassador to Denmark.

Irritants in our relationship with the United States, such as the longstanding softwood lumber trade dispute, have been exacerbated by the aftermath of 9/11. Heightened American security concerns led to border delays that cost some Canadian businesses dearly, a situation aggravated by American allegations that terrorists were entering the United States via Canada and that Canadian immigration policy is lax. Canadian-American differences over the war in Iraq led to tense moments as high-ranking Canadian Liberals made disparaging comments about the American President, while the American ambassador to Canada lectured us about our responsibilities. The relationship between Prime Minister Chrétien and President Bush reached new lows.

While the world has changed dramatically in the last decade, there has not been a similar redefinition of Canada's role in it. As a prosperous country with a history of multilateralism, Canada needs to be more engaged in the world, which means redefining Canada's international role and providing adequate funding for the military, foreign aid and diplomacy. For instance, even if Canada decides to carve out a military niche in peacekeeping, the soldiers we send abroad as peacekeepers need to be

properly equipped. Considering our good fortune, living in one of "the best countries in the world," we have an obligation to do more for those whose lot in life is much bleaker. But our foreign aid needs to be more focused and selective. And when we are asking diplomats to do more, we need to provide the salaries and other benefits required to attract the best and the brightest.

Whether we like it or not, Ottawa must spend a lot more money on these programs.

A new government would be well advised to shun the advice of those arguing that our trade or border disputes with the Americans can be solved by some new big scheme to integrate us further into the American orbit. Big countries don't generally share power, and this is especially true of the United States under President Bush. After all, the Bush Doctrine states that the United States is prepared to act unilaterally and pre-emptively, which flies in the face of Canada's history of acting multilaterally, in response to real – not perceived – threats. More generally, Canadians are increasingly diverging from Americans in their basic values. There is a greater prevalence of fundamentalist Christianity in the United States, and Americans have dramatically different views of social programs from Canadians. Canadians are moving closer to western Europeans in their values. Also, refusing to join the American war on Iraq reflected a



Former Saskatchewan Finance Minister Janice MacKinnon: Martin should address the issue of the alleged fiscal imbalance between Ottawa and the provinces.

growing sense of Canadian self-confidence and maturity. It is a decision that has withstood the test of time as the postwar situation in Iraq has continued to deteriorate.

While the Americans have every right to expect that the Canada-U.S. border be secure against terrorists and that senior government officials, whatever their private views, show some basic respect for the American Presi-

dent, the new Prime Minister would be unwise to move closer to the Americans. This means, for example, not proceeding with the American missile defence scheme, unless better reasons for it can be found than those currently put forward. A major theme in Canadian history is our desire to reap the economic benefits from a closer relationship with the United States without accepting American social values or foreign policy. Canadians generally approved of Chrétien's ability to juggle these two goals; the new Prime Minister would be well advised to take note.

Ottawa's relationship with the provinces

Federal cuts to transfer payments in the 1990s fundamentally altered the relationship between Ottawa and the provinces. The cuts illustrated the historic shortcomings of cost-shared programs. From the provinces' vantage point, the federal government

funded programs like health care in good times, but in tough times it merely offloaded more of the costs onto the provinces, which were left with the unpalatable options of paying more or explaining to voters why services were being cut. Especially difficult is the area of health care, where costs are increasing at a much faster rate than government revenues. Hence, provinces are devoting the lion's share of their new monies to health care, at the expense of postsecondary education, municipalities and roads.

From Ottawa's perspective, although it has contributed significant funds to social programs like health care, it has no power to administer the programs or ensure that they are cost-effective. The federal government has tried to use new funding to buy a say in provincial programs; the provinces counter that Ottawa is in no position to dictate the way its contributions are spent since it is paying such a small percentage of total costs and social programs are clearly provincial responsibilities. Thus, while Canadians want cooperation between the two orders of government, more often they get confrontation.

There is scope for Martin to change the way the federal government relates to the provinces. In terms of process, he can take a more cooperative approach by scheduling regular first ministers' meetings, by jointly determining the agenda with the premiers, and by using a vehicle like a federal-provincial Council of the Federation – something proposed by Quebec's new Liberal government. A council could help sort out interprovincial differences and allow provincial input into areas of federal jurisdiction, like trade, in which the provinces have a significant interest. Martin can

also give the provinces a larger role in federal decisions. For instance, equalization is due to be renewed and, although the federal government will have to make the final decisions, the provinces' input should be sought. In turn, a province should not be allowed to opt out of national programs and take that province's share of federal money spent on the program; it should be expected to wrestle with the tradeoffs involved.

The federal government should address the issue of the alleged fiscal imbalance: the claim by the provinces that they have inadequate revenue sources to fund their expensive programs, notably health care. Such a claim merits independent assessment, but the parameters of the debate between the federal and provincial governments should be broadened.

First, the analysis should include the municipal level of government. The vast majority of Canadians live in cities, which are also critical centres of economic activity. Cities' primary revenue sources are restricted to property taxes and various user fees. Are these sources adequate for the roles that cities need to play in the 21st century? It is noteworthy that Quebec Premier Jean Charest recently suggested that he would not oppose federal action to enhance the fiscal position of cities, even though cities are constitutionally under the umbrella of provincial governments.

Second, the federal government's position needs to be considered not in light of its past role, but in the context of what role it should play in the 21st century. In the last decade it has undertaken new responsibilities, notably the Child Benefit which helps address child poverty and the Innovation Strategy which supports research and de-

velopment. Significant new funding will be needed in these areas. Similarly, new funding will be required for the Kyoto Accord and environmental programs generally. Adding to these the new funds required to reposition Canada in its relationship with the rest of the world may lead to the conclusion that there is no fiscal imbalance between the federal and provincial governments.

If, however, a fiscal imbalance does exist, then rather than merely giving the provinces more tax room, which is usually more beneficial to the larger and wealthier provinces, options that expand the federal government's role in areas of national concern should be considered. For instance, Ottawa could follow the American example of funding major national highways such as the trans-Canada. This would address the provinces' claim of a fiscal imbalance by reducing their infrastructure costs. Canada is already a very decentralized federation and giving the provinces more tax points would merely accelerate that trend. While Ottawa should recognize the constitutional powers that the provinces currently have, it should also preserve its power to implement new programs of national significance and play a more effective role in coordinating activities that span the various regions of the country.

Once fiscal balance has been achieved, the federal government should provide three transfers to provinces – for health, postsecondary education and social programs – which increase at the rate that federal revenue increases. The provinces would get the predictability they have been seeking, while Ottawa's commitments would remain affordable and allow it the scope to pursue other national objectives.

The federal government should resist calls either to dedicate the lion's share of its new resources to health care or to continue investing billions of dollars into health care on an ad hoc basis. The costs of health care are increasing faster than government revenue, and since health care is clearly a provincial responsibility it is the provinces that will have to make the changes needed to keep the system affordable. Massive infusions of federal funds merely delay such changes and lead Ottawa down the road taken by the provinces – allowing other priority areas to suffer because so much is de-

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voted to health care. Education is just as important to the future of Canada as health care; however, rising tuition and student debt are leading us to accept the American view that postsecondary education is a private good that benefits the individual rather than a public good that benefits society as a whole. This view is shortsighted: within the next decade Canada, like other major western countries, will be experiencing a shortage of educated, skilled people. At the provincial level, students' voices have been drowned out by those of seniors and baby boomers insisting on ever more health care spending. Since the provinces won't, the federal government should take up the students' case.

Beyond transfers, Ottawa can play a role in health care and postsecondary education

by following the example of the Child Benefit. Ottawa funds 100 per cent of this program and hence has the power to design and administer it, thereby avoiding the problem of providing money for provincially managed programs over which it lacks control. Because the Child Benefit is wholly federally funded, the provinces' concern about future federal cost offloading is also addressed. In endorsing this program, the provinces agreed to spend the provincial welfare monies saved by Ottawa's provision of some assistance to low-income families on other programs to help these families.

A similar approach could be taken in health care and postsecondary education. The federal government could target a particular program and assume exclusive responsibility for it, thereby freeing up provincial resources for other priorities. In health care, for example, Ottawa could establish and fund centres of excellence to address issues like disease control, or upgrade academic health science centres across Canada which are responsible for research, teaching and tertiary care. The Innovation Strategy has been successful, but Ottawa should revamp it to eliminate provincial requirements to match federal funding on major research projects. In demanding cost-sharing, federal officials are forcing provinces to do what they themselves balk at: fund programs over which they exercise no control.

There are similar tensions within universities over claims that too much funding goes to research and not enough to teaching. Ottawa should offer agreements to the provinces through which it would assume 100 per cent of the funding for federal research and development projects, so long

as the monies saved by the provinces were spent on postsecondary education.

While it would be foolhardy to believe that all sources of friction between the two orders of government can be eliminated, effectively involving the provinces in critical areas of federal decision-making and re-designing fiscal relations so that each level of government plays a distinct but coordinated role in key areas like health care and postsecondary education could lay the foundations for a more cooperative federalism.

Ottawa's relationship with western Canada

Martin has targeted western Canada for special consideration. As a growing region with 30 per cent of the country's population and 32 per cent of its GDP, the West is, in the opinion of its residents, a distinct region that has been ignored and treated unfairly. The good news is that western Canadians are eager to participate and play a significant role in changing Canada, a sentiment on which Martin should capitalize.

The most fundamental cause of western discontent is the first-past-the-post electoral system. The system gives an electoral advantage to small parties with regionally concentrated appeal, and fails to ensure that the views of all regions are adequately represented in the central government. Provincial governments are considering electoral reform, and the federal government should follow suit. The main argument against alternatives like proportional representation is that majority governments would be the exception; governments would in general be coalitions. Rather than being a problem, this would be an asset in such a regionalized country as Canada. The Institute for

Research on Public Policy recently ranked prime ministers of the last half century, and concluded that the most effective was Lester Pearson, who never presided over a majority government.

Since the Liberals stand to lose the most in such a revamped system, it is unlikely that Martin would consider this option. There are, however, changes that Martin could make quickly, without returning to the constitutional table, that would lessen western Canadians' mistrust of the federal government and engage them more in federal decision-making.

Immediate action is required on the issue of gun control. It has become a symbol of insensitivity to the region. The massive, escalating costs of the gun registry and the apparent lack of accountability for the huge cost overruns grate in a region that led all of Canada in deficit reduction and fiscal accountability. A first step in signalling a greater responsiveness to western Canada should be some changes in both policy and accountability on this issue.

Changes in the federal bureaucracy are also a necessity. Stories abound about the lack of understanding of western Canada within the public service: for example, the federal civil servant who allegedly said that if the synchrotron, a major federal research facility in Saskatoon, was really important, it would be located in central Canada. There need to be efforts to recruit more westerners. This will take time; in the short term, concerted efforts should be made to recruit senior civil servants from provincial capitals, with offers of either permanent employment or short-term leaves. It is critical to attract a cluster rather than merely a few isolated individuals. And part of their mandate should be to recruit other westerners to fill

vacancies as the baby boomers begin to retire. One issue that may have to be addressed if senior westerners are to be attracted is the requirement of French fluency, something that has discouraged talented western Canadians from seeking employment with the federal government.

As the Canada West Foundation has recommended, Ottawa should "strengthen its policy capacity with respect to the regional application of national policies." Ensuring that the views of western Canadians are taken into account *before* decisions are made could be effective in lessening regional tensions.

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The other problem to be addressed involves the question, Who speaks for western Canada? Currently, it is often the provincial premiers who stand up for the West when it comes to issues like gun control or the effects of mad cow disease. The reason is that cabinet ministers and Liberal members of Parliament are required to obey rigid party discipline and support government decisions that are unpopular in western Canada. Consider, for example, the 1997 federal election in Saskatchewan. Prominent Liberal members of Parliament loyally defended gun control, with the result that the Liberals lost four of their five seats in the province.

Votes on items such as the budget are legitimately votes of confidence in the government and party discipline should prevail. But allowing more free votes on other matters – such as gun control – would help address western alienation, and would have the added advantage of showing Canadians that their elected representatives are not just “trained seals.” More independence for members of Parliament might also help reverse the decline in voter turnout.

The Senate could also play a more prominent role in voicing regional concerns if the nature of the appointments were changed.

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The Senate was originally designed to represent regional interests. The flaw in the British North America Act was that senators are federally appointed. Although there are distinguished Canadians among its members, Liberal and Conservative governments have often seen the Senate as a source of patronage to reward longtime supporters. Without changing the constitution, the federal government could agree that future senators would be distinguished Canadians appointed on recommendations from the provinces.

If Martin was really serious about revitalizing the Senate, he could go a step further and prevail on some of the many Liberals in the Senate to take early retirement or accept other appointments. That would

permit him to make enough new appointments to make a difference. None of this is to deny that the Senate has done some very good work recently. There is scope to give its members a bigger role in taking up unpopular or controversial issues that are often avoided by members of Parliament who have to seek re-election.

The relationship with voters: Pursuing institutional reform

There is a malaise among voters reflected in the decline in voter turnout. While 75 per cent of Canadians voted in the 1988 federal election, turnout dropped in every subsequent election and stood at only 61 per cent in 2000, the lowest in Canadian history.

While the reasons for nonvoting are complex, cynicism about politics and disillusionment with government in general represent a major factor. The new Prime Minister has to deal immediately with the unsavory array of scandals that have plagued the government – from the mess at Public Works to the boondoggles at Human Resources Development Canada to the overspending and abuse of power by former Privacy Commissioner George Radwanski. Tightening accountability processes and setting very high standards of integrity and transparency are obviously important, but not enough. Bold and dramatic action, such as recalling Alfonso Gagliano from his ambassadorial position and dealing firmly with senior civil servants who were not vigilant in performing their duties, is also necessary.

More free votes and giving members of Parliament a more important public role in government will help restore some confidence in the system. As the system now



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works, most Canadians elect a backbench member of Parliament, not a cabinet minister. Their MP promptly disappears until he or she sends out a newsletter parroting the government line on the issues of the day. No wonder so many voters wonder if voting is worthwhile. Free votes would enhance the stature of MPs. Expanding the role of parliamentary committees would also give them more power and profile. It was, after all, the Government Operations Committee that broke the Radwanski story.

There is a need for more transparency in appointments to critical entities like the Supreme Court of Canada. Since the Charter of Rights and Freedoms was entrenched, the courts have become more powerful; yet the process by which judges are appointed is far from transparent. A distinguished legal academic, Jacob S. Ziegel, poses excellent questions about the process: What role does the cabinet play in the appointments?

Are provincial attorneys general consulted? Is any consideration given to ensuring a balance of views on the Court? Reforms to improve transparency would include a nominations committee of eminent Canadians to compile a short list from which the government would choose justices, and judicial confirmation by a parliamentary committee.

Recent polls show that a majority of Canadians think the Supreme Court is too powerful. This too should give the new government pause. While the Liberals' adamant refusal to use the Charter's “notwithstanding” clause may be understandable, many Canadians are uncomfortable with it. If a direct conflict arises between the will of Parliament, as expressed by a majority in the House of Commons, and a decision of the Supreme Court, should the government not even consider using the notwithstanding clause? What message does such a position send to Canadians about the value of exercising their franchise, if courts can always trump decisions by duly elected politicians?

Reversing the declining voter turnout trend, alleviating western alienation, improving relations between the federal government and the provinces and repositioning Canada in the world constitute a large agenda for a new prime minister. Yet all of these issues need attention. Addressing problems only as they come to a boil – Jean Chrétien's inclination – works for a while, but after more than a decade, there needs to be a fundamental redefinition and revitalization of our most important relationships. The challenge is great; so are the rewards. Paul Martin, if he chooses, could be a transformational prime minister who sets Canada on a new course for many years to come. ■