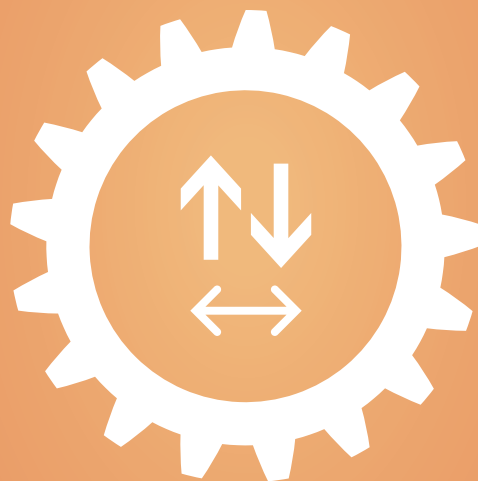


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SAVING DOLLARS AND MAKING SENSE

AN AGENDA FOR A MORE EFFICIENT,
EFFECTIVE AND ACCOUNTABLE
FEDERATION

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Executive Summary

Governments are under significant pressure to find ways to continue to deliver high-quality public services and even enhance them in strategically targeted ways while spending less money. Citizens expect their governments to operate as effectively and efficiently as possible and should feel confident that their governments are seeking creative options for the delivery of public services.

In response to these pressures, separate efforts to deliver administrative efficiencies and cost-savings are underway at the federal and provincial levels. So far, these initiatives are being undertaken independently of one another. They do not encompass the wide range of activities where both orders of government are active, policy space is shared and service delivery overlaps or is entangled. The potential savings and improved policy development from clarifying “who does what” in the federation are considerable.

This paper highlights the need for governments to work together to clarify their roles and responsibilities. It recommends several areas where responsibilities need to be uploaded, devolved or streamlined/disentangled in order to make government more efficient, effective and accountable.

The paper surveys the range of government activity in the social and economic spheres and identifies a series of interim and transformative steps that governments could undertake. We are confident that these interim measures can deliver substantial cost-savings over the short term, although quantifying these is beyond the scope of the paper. Our aim is to start a conversation that will uncover further opportunities to rationalize roles and responsibilities.

The transformative initiatives identified in this paper hold even greater promise for improving efficiency, effectiveness and accountability in the federation over the long term. If all were pursued, they could fundamentally re-order the Canadian economic and social union, delivering more accountable, transparent, cost-effective government, while holding the promise of improved government policy development and service delivery. Change of this magnitude will pose challenges, but the overlap, duplication and competition to provide programs in the same policy space is a conceit Canadians can no longer afford.

It is sometimes beneficial to have both orders of government involved in a policy field. However, Canadian governments have been too quick to compliment themselves on their ability to manage overlapping jurisdictions and intergovernmental competition in the same policy space. They have not been sufficiently honest with themselves that

intergovernmental jostling in the same policy area produces inefficiencies, poor policy outcomes, confused service delivery and, ultimately, public displeasure with the ability of governments to deliver effectively on key priorities. Given current fiscal challenges and global competition, this refusal to deal honestly with the realities of a broken intergovernmental model does not serve Canadians well.

Canada's federal system is filled with distorted incentives: blame avoidance, credit-taking, finger-pointing and the competitive and duplicative provision of programs in popular spending areas. This paper concludes that the federal, provincial and territorial governments should acknowledge these problems and work together to address them.

Given short-term budgetary challenges and medium-term structural and demographically related fiscal challenges, it is time for governments to work together to clarify their roles and responsibilities. Once this is done, governments will be better able to make difficult trade-offs and pursue innovative policy solutions within their own areas of responsibility—and be held accountable for their performance by the public.

Nineteenth century institutional arrangements groan under the weight of 21st century pressures. At a time when many other countries are moving ahead, Canada's model of federalism—in which governments spend extraordinary amounts of time managing interdependence—is a barrier to innovative policy solutions and timely responses to public problems. It has also imposed overlapping and burdensome accountability and reporting regimes on businesses and non-profit organizations.

One way to minimize intergovernmental conflicts is to reduce the areas in which more than one government is involved. One way to adopt timely policy responses is to reduce the number of actors who must first agree.

Most Canadians do not care which government delivers a particular service. The agenda laid out in this paper responds to that feeling by identifying which government is best positioned to make policy or deliver a program for Canadians. The recommendations are practical not ideological.

This paper is the first of a two-part story. The second part of this study, scheduled for release by the Mowat Centre in 2011, will consider necessary adjustments to Canada's fiscal architecture to accommodate evolving Canadian fiscal realities and the changes recommended herein.

Redefining “who does what” inevitably provokes a re-thinking of how government services are funded. Does each order of government have adequate resources to properly fulfill its functions? Holding governments to account requires that they have appropriate fiscal resources for their areas of responsibility.

Together, the two papers will constitute a new intergovernmental agenda for the federation: a re-ordering of roles and responsibilities, coupled with the modernization of Canada's fiscal architecture, for the purpose of giving governments the power and resources they need to better serve Canadians in a rapidly changing world.

Summary of Recommendations

INTERIM INITIATIVES

Sector	Recommended Action
Active Labour Market Programs	Devolve responsibility for remaining federal training programs to the provinces.
Immigrant Settlement	Devolve responsibility for immigrant settlement services to the provinces.
Food Safety	Upload food regulation and safety to the federal level.
Inspections, Investigations and Enforcement	Eliminate remaining overlap in II&E through a combination of uploading and devolving (Ontario should pilot).
Corrections	Upload responsibility for offenders sentenced to six months or more to the federal level. Devolve responsibility for offenders sentenced to less than six months to the provinces.
Policing	Streamline/disentangle policing by ensuring that police forces strengthen their ability to fulfill their core responsibilities.
Governance	Federal government should get out of decision-making processes where it does not serve a vital need.
Not-for-profit	Streamline/disentangle responsibilities in the not-for-profit sector to ensure complementarity between provincial social enterprise strategies and the CRA.

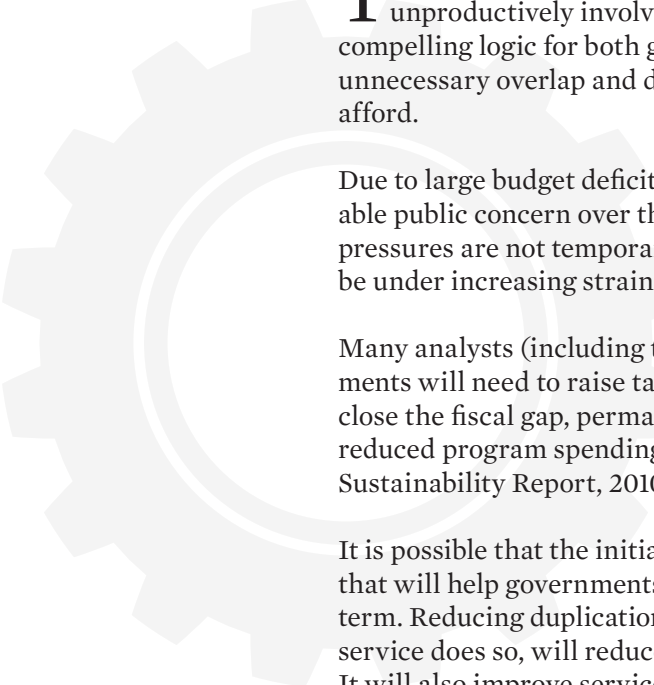
TRANSFORMATIVE INITIATIVES

Sector	Recommended Action
Social Housing	Devolve responsibility for social housing, with federal financial support provided to the provinces through a single unconditional transfer.
Early Learning	Devolve responsibility for early learning services to the provinces-territories.
Health Care and Pharmaceuticals	Upload responsibility for regulating, administering, delivering and funding a new single national public prescription drug plan to the federal government.
Financial Institutions Regulation	Upload regulation of all financial entities to the federal government.
Pension Policy and Regulation	Upload responsibility for pension regulation to the federal government.
Innovation and Economic Development	Devolve support for strategic investments to the provinces. Upload support for framework conditions and generic support of the innovation process to the federal government.
Climate Change and Water Policy	The federal government should take the lead role in regulation of greenhouse gas emissions and water policy.

SAVING DOLLARS AND MAKING SENSE

An Agenda for a More Efficient, Effective
and Accountable Federation

Matthew Mendelsohn, Joshua Hjartarson, James Pearce



The federal and provincial-territorial governments in Canada are too often unproductively involved in the same policy space. While there is sometimes compelling logic for both governments to be active in a particular policy area, unnecessary overlap and duplication is a luxury that Canadians can no longer afford.

Due to large budget deficits, particularly at the provincial level, there is considerable public concern over the sustainability of existing government services. These pressures are not temporary. An aging population means that public services will be under increasing strain, making rationalization of program delivery necessary.

Many analysts (including the Parliamentary Budget Officer) argue that governments will need to raise taxes and/or cut spending to balance their budgets. “To close the fiscal gap, permanent fiscal actions—either through increased taxes or reduced program spending, or some combination of both...are required...” (Fiscal Sustainability Report, 2010: p. iii).

It is possible that the initiatives identified in this paper can be part of a strategy that will help governments achieve fiscal sustainability over the medium- to long-term. Reducing duplication and ensuring that the government best able to provide a service does so, will reduce the imperative to cut program spending or raise taxes. It will also improve service delivery.

Citizens expect governments to deliver high-quality public services more affordably. This expectation is not naïve. It is reasonable. Some consolidation and rationalization of programs is possible—and it will be necessary if we are to sustain and improve public services (Tony Dean, former Ontario Secretary of Cabinet).

The Canadian practice of federalism and intergovernmental relations has been extraordinarily successful at accommodating diversity and managing conflict. But it has also become a barrier to policy innovation. Governments know this, but have been unable to change long-established practices and processes. Domestic fiscal pressures and increasingly fierce global competition that sees other countries making progress in addressing long-standing challenges may provide Canadian governments with the incentive to undertake a new agenda of reform.

Canadian federalism is also a barrier to constructive citizen engagement. When more than one government is involved in a policy field, the logic of intergovernmental negotiations makes it extraordinarily difficult for citizens to have a direct say in outcomes. On the other hand, when one government is responsible, it can more easily ensure citizen engagement, and public preferences can be more clearly incorporated into decision-making. In short, having more than one government involved in a policy area thwarts Canada's ability to fulfill its democratic promise.

Jurisdictional jealousies must be put aside, but constitutional changes are not necessary to realize the reform agendas articulated in this paper. Governments must simply agree to work constructively together to clarify their areas of responsibility and agree that they should all have more independence to manage their own policy areas.

The agenda laid out in this paper does not require unanimity between the federal, provincial and territorial governments. Canadian federalism is already deeply asymmetrical; in many of the areas discussed in this paper, different provinces already have unique arrangements with the federal government based on their own preferences and capacities.

If the federal government continues to fund an Equalization program and makes principles-based allocations (e.g. per capita) in major transfers, the agenda laid out in this report does not threaten equity between Canadians in different regions. Even in those areas where the provinces and territories are best-placed to manage programs and deliver services, the federal government retains a role in ensuring equality of opportunity across the country. More active provincial responsibility for making choices about social program design and delivery does not need to undermine Canadians' common citizenship.

It is possible to build a broad-based federal-provincial consensus around a fundamental transformation agenda that reflects the desire for effective government. The federal government in effect promised such a rationalization of "who does what" in 2006 (Speech From the Throne, 2006).

There is broad alignment between the paper's agenda and current federal and provincial goals. Moving forward on this overall agenda—without necessarily finding agreement or appetite for each and every one of the recommendations—will help improve fiscal positions, service delivery, policy development and governance within the Canadian federation.

At present, both orders of government are looking for ways to save money. The federal government announced in its 2010 Budget a comprehensive review of government administrative functions and overhead costs. Many provinces, including Alberta, British Columbia, Ontario, and Nova Scotia, have announced formal program reviews. However, these are all internal/horizontal initiatives. This paper identifies a vertical agenda which allows savings to be generated through the rationalization of roles and responsibilities between the federal and provincial governments.

"In the coming months, the government will undertake a review of service delivery so that every dollar is spent even more effectively."

- Government of Ontario, 2009 Ontario Economic Outlook and Fiscal Review

"Government has begun a comprehensive analysis of all department, agency, and third-party spending in order to achieve balance by 2013-2014. We will examine all administrative controls and fiscal policies, seek strategic alignments, and review all programs and the structure of government to determine if there are opportunities for savings."

- Government of Nova Scotia, 2010 Budget Bulletin

"Budget 2010 Takes Action in three critical areas... (including)...refocus(ing) government spending to ensure we get the most out of every dollar..."

- Government of British Columbia, Budget 2010 Highlights

"As part of plans to balance the budget by 2012-13, a detailed review of ministry spending was undertaken and \$1.3 billion in savings were identified."

- Government of Alberta, Budget 2010

"The Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery."

- Government of Canada, Budget 2010



THE NEXT FOUNDATIONAL INTERGOVERNMENTAL DISCUSSION?

The 1970s and 1980s featured lengthy constitutional discussions, culminating in the patriation of the Constitution and, eventually, the failed Meech Lake and Charlottetown Accords. The 1990s witnessed ongoing negotiations on how governments could better manage interdependence, culminating in 1999 with the Social Union Framework Agreement (SUFA), which identified how governments could better work together when they occupied the same policy space and competed to provide similar services.

These efforts have run their course. There is no serious interest in re-engaging in macro-level constitutional discussions, while the spirit of cooperation that is crucial to SUFA is often absent.

To date, discussions about roles and responsibilities in the federation have been driven by national unity concerns. Devolution was usually presented as part of a larger political strategy to confront western alienation or Quebec nationalism. In other instances, conversations took place on an ad hoc basis or in a siloed manner, focusing on one issue at a time, such as labour market training or immigrant settlement services.

This study is different. It is the result of an analysis of which government can most effectively develop policy and deliver programs in relevant policy fields. It identifies a principles-based agenda for strengthening the federation so that citizens are served better and more efficiently.

Devolution is not an end in itself, nor is uploading responsibility to the federal government. Instead, this analysis highlights where policy and service delivery can be improved and made more affordable by shifting responsibilities between governments. This is about making government work better for Canadians. The animating spirit of this agenda

is to re-focus in a principled way on which areas are best delivered by the federal government and which by the provinces-territories. Implementation of the agenda would strengthen the Canadian federation by allowing governments to act more quickly and with greater accountability when challenges arise.

Much progress has been made in recent decades. The federal government has devolved many policy areas that are better delivered by provinces, and cooperative agreements have been reached in many policy fields that have led to real savings and real efficiencies. The Immigration Agreements between the federal and BC and Manitoba governments are success stories; shared service agreements and the uploading of corporate tax collection between the federal and Ontario governments have also been notable successes.

And there is no doubt that overlap and competition will inevitably be necessary in some policy fields. However, Canadian governments have been too prepared to accept this competition and incoherence and devote their energies to managing this overlap. This paper recommends that the burden of proof be reversed: governments should devote their energies to avoiding duplication wherever possible, unless there are good, principled reasons for overlap that advance the public interest.

Governments should get their own houses in order before venturing into the constitutional domains of the other order of government. Simply put, this paper recommends that governments should get out of each other's way. When the public does not know who to hold accountable, governments do not have the same incentive to perform and public cynicism with governments grows.

Federal involvement in areas of provincial jurisdiction can undermine the ability of provinces to plan and deliver the services and programs for which they are responsible. When the federal government moves in and out of social policy and programs, it is disruptive to provincial plans and leaves provinces on the hook financially for picking up programs it abandons.

Federal decisions not to renew funding for the HPV vaccine and childcare spaces are two recent examples. This report takes no

RATIONALIZING ROLES LEADS TO REAL SAVINGS

In 2006 the Governments of Canada and Ontario signed an agreement that established one set of rules and one point of contact for corporate income tax collection. Under the agreement, the federal government collects and administers Ontario's corporate income tax, and businesses file a single tax return. The agreement reduces compliance costs for businesses—projected savings of up to \$100 million in annual compliance costs for Ontario businesses—and creates administrative efficiencies by eliminating a duplicate layer of tax authority.

position on the wisdom of these policy decisions; it merely highlights that jumping into a policy field for three years, offering up “boutique” programs and then abandoning them is not supportive of long-term policy development and program planning. Provinces that try to run their own parallel and competitive foreign policies are no less disruptive to the federal government.

Importantly, governments should be financially responsible for their own policy decisions. In Canada, because of confused roles and responsibilities, too often the federal government makes policy decisions that have financial consequences for provinces.

The goal of this paper is to identify policy areas where devolution, uploading or streamlining/disentangling of government roles and responsibilities will make government more efficient, effective and accountable, and to recommend an interim and longer-term intergovernmental agenda to move forward in these areas.

DEVOLUTION, UPLOADING, OR STREAMLINING/ DISENTANGLING

This paper makes three types of recommendations that could deliver the greatest possibility for savings and service improvements.¹

1. Devolution - when the sub-national order of government (provinces-territories) assumes responsibility over the policy area. This may require that the federal government vacate the policy space.

Why devolve?

- To capitalize on provincial-territorial knowledge about local needs and preferences and to enable provinces-territories to tailor programs to suit these conditions. Experts often refer to this as the principle of “subsidiarity”.
- To promote innovation, experimentation and policy learning across the provinces-territories.
- To capitalize on economies of scale in policy and program administration, improving efficiency and generating cost-savings when the bulk of program activity is already

located at the provincial-territorial level.

- To facilitate better integration with related provincial-territorial programming.

2. Uploading - when the federal government assumes responsibility over a policy area. This may require that the provincial-territorial government vacate the policy space.

Why upload?

- To promote the efficiency of the economic union where provincial-territorial oversight disrupts the free flow of people, goods and services.
- To generate economies of scale and administrative savings by removing overlap and duplication across two orders of government and/or across provinces-territories.
- To take advantage of the federal government’s core competency in a policy area thereby enhancing program effectiveness.
- To promote consumer safety and enhance regulatory standards by closing regulatory gaps and eliminating coordination challenges.
- To preserve the pan-Canadian social safety net and ensure Canadians have equitable access to social services.

3. Streamlining/Disentangling - when government actions in the same policy space are coordinated to ensure minimal overlap and duplication.

Why streamline/disentangle?

- To improve efficiency and divide roles based on core competencies in policy areas where there are compelling reasons for both orders of government to be present.
- To enhance accountability and provide citizens with a clear understanding of who does what.

These three strategies involve different approaches to clarifying roles and responsibilities. In a devolution model the federal government vacates the policy space; in an uploading model the provinces-territories do likewise. In the streamlining/disentangling model, both orders of government remain involved in the policy space for principled reasons, but work to clarify their roles.

At times we have had to weigh competing logics in making recommendations for devolution, uploading or streamlining/disentangling. For example, the principle of subsidiarity can conflict with the goal of a more efficient economic union.

Devolution or uploading are recommended when the logic is compelling. When it is impossible to adjudicate between these principles, we identify opportunities to streamline/disentangle roles and responsibilities to enable each government to take advantage of its core competencies.

One overarching framework that drives many of the recommendations is the distinction between those areas where the design of services will differ from province to province, as compared with those areas where Canadians have a right to expect common entitlements.

For example, the delivery of immigrant settlement and integration services should differ significantly between provinces. These differences can best be assessed at the local level, which is why settlement services should be downloaded to those provinces that believe they have the capacity to deliver programming. On the other hand, it does not make sense that one's access to a life-saving drug is determined by province of residence. In this case, unequal access is a violation of equality rights and uploading is required.

This paper does not explicitly address the role of municipalities; rather, it focuses on unpacking the complex web of entanglement between two constitutionally recognized orders of government. However, devolution to municipalities can deliver gains in efficiency, effectiveness and accountability. In many instances, devolution to the provinces is not the final step, but part of a process that creates greater scope for municipalities to take on a larger role in the lives of Canadians. Due to both the Constitution and the subsidiarity principle, the provinces are much better placed to integrate municipalities in subsequent discussions and, working with them, determine where they should take on greater responsibilities.

Devolve = Provincial responsibility

Upload = Federal responsibility

Streamline/Disentangle =
Delineate responsibilities



A TWO-PHASE APPROACH

The Mowat Centre is recommending a two-phase process that is informed by the need for public policies that respond to citizens' needs, while recognizing that some of the initiatives will be politically sensitive and will require sustained goodwill.

Phase one is a series of *interim initiatives* focused largely on administrative and service-delivery measures and are supported by the existing efficiency and cost-saving initiatives undertaken by governments across Canada. Many of these are easy fixes.

Success on these early initiatives will set the stage for *phase two*—a series of more complex transformative initiatives that will lead to substantial improvements in effectiveness, efficiency, and accountability in the federation.

Many of the transformative measures are in areas where both orders of government are currently driven by the “credit imperative”, that is, the desire to be relevant in the day-to-day lives of Canadians, and where the public and stakeholders often claim to want both governments to be active. As such, these initiatives are likely to encounter early resistance from some governments and stakeholders.

However, these are unusual times: short-term fiscal pressures, medium-term fiscal sustainability challenges due to the aging population, increased global competition all require timely policy responses. Meanwhile, public fatigue with intergovernmental conflict looms large. If ever there was an opportunity to address overlap and duplication, strengthen the federation, and usher in a new era of less acrimonious intergovernmental politics, it is now. One obvious way to decrease conflict is to reduce the number of areas where conflict is even possible.

FRAMEWORK PRINCIPLES

Downloading, uploading or streamlining/disentangling are recommended where they can deliver improvements to effectiveness, efficiency and accountability—the framework principles that drive our recommendations.

Effectiveness

Effectiveness is linked explicitly to policy outcomes: can government policy be effective in addressing substantive challenges? (Skogstad and Bakvis, 2008). In the context of federalism, overlap, duplication and the failure to coordinate activities among orders of government can lead to policy incoherence, program incompatibility and, ultimately, second- or third-best outcomes.

In areas where both orders of government are active, decision-making is subject to “joint decision traps,” whereby decision-making is slow and unable to keep up with societal and/or economic transformations because each government can veto change. It has taken years (and sometimes decades) for governments in Canada to harmonize and make seemingly easy fixes, such as a single standard for advertising the cost of bank and credit union loans, the size of truck tires and even the colour of margarine.

In worst case scenarios, Canadians are stuck with antiquated programs and rules because jurisdictions cannot agree on reforms or how to move forward. The current dialogue on pension reform in Canada is at risk of following this path.

There are many examples in Canadian public policy where there are too many actors. “There is a real price to pay in performance terms when roles and responsibilities overlap or are unclear” and when decision-making is dispersed across 14 jurisdictions

(David Cameron, interview).

One of the advantages of being a federation is that responsibilities are, in theory, divided according to competencies. It does not make sense for the provinces to be responsible for defending our national borders. Similarly, it does not make sense for the federal government to help immigrants integrate into local labour markets or run one-size fits all training programs in Kitchener-Waterloo, Swift Current or Cornerbrook. The provinces should not issue currency or run monetary policy. In Canada, the federal government has no business in the delivery of primary education.

Efficiency

Efficiency in the context of this paper is value for money. Which order of government can most efficiently deliver a given program or service due to administrative economies of scale, existing competencies and better understanding of local conditions? The size of current budget deficits makes the search for efficiencies all the more urgent.

“When one government is in charge, it can make the hard choices necessary to most efficiently deliver a public service; when more than one is involved, both have other incentives and may also not fully understand the overlapping activities of the other government” (Ian Clark, interview).

Accountability

Governments are accountable to their residents for the funds they spend and the programs they deliver. A core democratic principle is that governments must publicly account for their decisions, providing citizens with an opportunity to reward or punish governments based on their performance.

Accountability in federal states can be especially complicated because the lines of responsibility for a given program are often unclear. This lack of clarity can encourage “blame avoidance” and “credit taking” behavior among governments and diminish the incentives for public servants and elected officials to strive for maximum program efficiency and effectiveness (Weaver, 1986).

The recommendations made in this paper, if adopted, would provide citizens with a better understanding of which order of government is responsible for policy successes and failures and limit governments’ ability to pass the buck.

DOES THIS MAKE SENSE?

There are currently a number of policy sectors that suffer from a nonsensical division of roles and responsibilities. Whether they are accidents of history or simply the results of poor policy-making, these examples undermine the efficiency, effectiveness and accountability of the Canadian federation.

Why are there two sets of fish police? Does it make sense that my factory is visited by federal and provincial inspectors? Many industries are subject to duplicate inspections, investigations and enforcement. Although there may be a rationale for both governments to be involved, there are better and less expensive ways to protect consumers and the environment.

Who's in charge of making sure my pension is safe? Because a pension plan's regulatory home is based in the province where the plurality of members reside, Ontario regulates just under half of the pension plans in Canada, a sizeable number of which have members outside the province. In other words, Ontario has regulatory oversight over the pension funds of many non-Ontario residents. These people have no representative in their province or in Ottawa to provide a voice for them on this issue. Meanwhile, the federal government regulates the pensions of federally-regulated industries.

Why does Canada have 14 sets of financial regulators and regulations for the insurance, deposit-taking (banks and credit unions), and mortgage industries when Britain, France, and Germany have one each? How much does this duplication and overlap cost business and consumers? Internationally, countries are consolidating regulatory authority to close gaps and to make their sectors more competitive. We are being left behind.

Why can't provinces buy classroom space in bulk for training programs? Current federal legislation specifies that funding must flow directly to clients, preventing provinces from realizing administrative efficiencies for the programs they deliver.

Am I going to a federal or provincial prison? The current federal-provincial division of responsibilities is defined by an arbitrary 'two-year' rule that appears to "be a reflection of 17th century sentencing patterns in England" (CFCTF, 2009). One result is that the provinces pay a big part of the bill when the federal government toughens the criminal code.

Who's ensuring the safety of Canada's food supply? Current policy imposes different regulations on food produced and sold locally versus food that crosses provincial-territorial boundaries. The result is regulatory gaps and skewed accountability. The listeriosis crisis of 2008 illustrates an urgent need to rethink "who does what" in our food safety system.

I just became a citizen. Why do I lose my spot in my federally-funded language class? Federal rules prevent new citizens from continuing to access their settlement and integration programs, while provinces allow new citizens to continue with their programs if they need more time to acquire necessary skills, such as language skills.

Why is it taking so long to upgrade Toronto's waterfront? To build Downsview Park? These urban development projects are subject to approval at all three levels of government, making any progress administratively and politically difficult.

SECTORAL ANALYSES

DEVOLUTION

Devolution is the removal of federal involvement in a policy space. This can mean that the federal government vacates program delivery. It can also mean the removal of national standards and conditions attached to funds transferred to the provinces-territories in order to allow sub-national governments the full scope of decision-making over program design and implementation—so long as the funds are spent for the intended purpose. In some instances, the federal government may retain a limited role, such as ensuring inter-provincial mobility or protecting vulnerable populations, such as linguistic minorities.

Conditional grants should be abandoned in many policy areas because a) there is compelling evidence that high-quality, comparable programs in federations are achievable without federal standards (see right); b) negotiations on conditions are often so acrimonious that they derail progress entirely; and c) unconditional grants allow provinces-territories to tailor programs to suit local conditions, as long as funds are used for their intended purpose.

Maintaining federal involvement in a policy sector for the sake of political appearances is detrimental to policy effectiveness and can no longer be justified.

The absence of federal conditions would impose greater obligations on provinces to report publicly to their residents on how funds were spent, how this spending furthered the policy objectives for which it was intended, and the results obtained.

ACTIVE LABOUR MARKET PROGRAMS

Services are segmented by client group and vary from one province to another depending on the particulars of federal-provincial decentralization; as a result, citizens are not clear on who does what.

The ability for the two levels of government to coordinate and rationalize programs in such an environment is limited.

- Klassen and Wood, 2008

Labour market training programs are designed to help unemployed Canadians gain the skills they need to find employment. The existence of a coherent set of accessible training programs is critical to Canadians.

Most training programs were devolved to the provinces beginning in the mid to late 1990s. This occurred because both orders of government recognized that the provinces were better situated to deliver effective and efficient labour market programs. Provinces are better placed to tailor training policies to local market conditions—a good training program in Windsor may not work in Fort McMurray.

Yet the job is not complete. The federal government still runs a number of smaller, specialized training programs aimed at youth, older workers,

ARE NATIONAL STANDARDS NECESSARY?

Education, though a provincial responsibility, has attained a remarkable degree of policy cohesion across Canada. Jennifer Wallner (2009) suggests that pan-Canadian similarity is achieved in this case without national standards.

Wallner (2009) maintains that a combination of stakeholder and parental advocacy, unconditional federal transfers and the structure of the Canadian education system contribute to remarkably common standards in education across the country. Education is the sole responsibility of the provinces-territories.

Education illustrates some of the advantages of Canada's system of federalism: experimentation combined with national consistency. Successful policy ideas can be learned and adopted by other provinces-territories, facilitating consistency in programs and outcomes.

The Canadian education system reveals that national standards are not always necessary for the development of high-quality, comparable programs in a federal state. Wallner's findings support this paper's recommendations with respect to the elimination of federal conditionality and national standards in some areas of provincial-territorial jurisdiction.

and persons with disabilities. Continued federal government activity in providing labour market services and programs has led to duplication, inefficiencies in administration, and gaps in programming.

“New federal-provincial labour market agreements have increased funding for the social assistance stream, but... [o]verall, employment supports remain a patchwork of uneven access [and] quality and [are] for the most part not delivered in an integrated way, thereby creating gaps, duplication and instability” (Social Assistance Review Advisory Council, p.12, 2010).

In its 2007 budget, the federal government acknowledged that there was more work to be done and that the devolution of all labour market programming would be in the best interest of Canadians.² The federal government has not followed through on this commitment to review the feasibility of devolving its remaining programs.

Moreover, while the provinces now deliver most labour market training for unemployed workers, the federal government continues to define eligibility for these programs through the EI program and apply “tests of similarity” across training programs to uphold national standards.

Federal tests of similarity and the requirement that funding flow directly to clients act as barriers to achieving economies of scale and are unnecessarily prescriptive. For example, provinces cannot buy classroom space in bulk for provincial training programs for the unemployed. These spaces must be purchased individually, costing the taxpayer more (see Employment Insurance Act, Section 63 and Canada-Ontario Labour Market Development Agreement, 2005).

Recommended Interim Initiative

Devolve responsibility for remaining federal training programs to the provinces. Federal transfers to provinces for training should be unconditional.

The Case for Devolution

- Provinces have a deeper understanding of their local economies and labour markets and can respond to changes more quickly than the federal government (Klassen, 1999).

- Provinces have closer relationships with the local agencies and community groups that are often involved in training. Provinces are better placed to tailor training programs to meet their needs.
- Vesting responsibility with the provinces will allow for seamless integration of the full range of educational services, including post-secondary education, and will clearly define lines of accountability.
- Continued federal presence serves to complicate the policy sector and creates bureaucratic overlap.
- There may be a continued federal role in supporting a national labour market.



SOCIAL HOUSING

Populations less well served by the present system include Aboriginal households, female-led single parent families, single persons, youth, people with disabilities, new immigrants and seniors. Priorities must be set locally, considering the range of needs and the types of housing solutions available.

- Canadian Housing and Renewal Association, 2009

In Ontario alone, government spending (federal, provincial, and municipal) on social housing totaled close to \$2 billion in 2008-2009 fiscal year.

Federal funding is currently provided through several separate allocations for the various federal housing programs (Social Housing Agreements, Affordable Housing Initiatives, etc), which are cost-shared with the provinces.

Federal funding imposes fragmentation on the policy sector and limits provincial flexibility to design programs to suit local needs. For example, federal conditions limit the type of expenditures that can count towards provincial cost-share. Specific funding streams must also be segregated and spent on particular population groups, such as seniors, First Nations, and disabled persons.

Further, the federal government imposes time-consuming and costly administrative requirements by, for example, imposing different reporting requirements for each funding stream.

STUDENT AID

Although the Constitution (s. 93) clearly identifies education as a provincial responsibility, the federal government provides student loans and grants. This is an area where both orders of government are present and generally work well together.

From a client perspective, the administration of student loans appears seamless and fairly well-integrated, and governments report good collaboration on the issue. However, when considered through the lens of efficiency and accountability, the student loan system does suffer from administrative overlap.

The federal government has acknowledged that complex student aid programs may be keeping some potential students from obtaining financial help (Ensuring Access, HRDC, 1997; Advantage Canada, Ministry of Finance, 2006). Ottawa has committed to working with the provinces to simplify the administration and delivery of student aid, but a comprehensive review of programs has yet to occur.

Student aid is inconsistently administered across the country. Some provinces run stand-alone programs, while others offer programs integrated with the federal government's student loans directorate (made up of approximately 300 staff).

Conservatively estimating the average federal public sector salary at \$75,000 per year including benefits, eliminating a layer of bureaucracy at the federal level could save tax payers approximately \$22.5 million in staff costs alone.

Further, although many observers find that the system of student aid has been reasonably well-integrated across federal and provincial lines, anomalies remain. In Ontario, for example, students with federal loans pay them back at prime plus two and a half per cent interest, while those who have provincial loans pay them back at prime plus one. To loan recipients, it makes little sense to have a higher interest rate imposed on their federal loan than on their Ontario loan.

The provinces are closest to this policy area. They have long-standing relationships with municipalities, local housing providers and citizen advocacy groups. They are much better placed to make decisions on how the pool of funds should be allocated.

If the federal government vacated this policy space and eliminated the conditions attached to funding, the provinces could do a better job. More resources would be spent on the ground meeting local needs. Provinces would be better able to integrate social housing policy with provincially and locally administered social assistance programs.

With respect to social housing, Canada is an outlier. Other federations, such as Germany, realize the merits of devolving social housing.³

Recommended Transformative Initiative

Devolve responsibility for social housing, with federal financial support provided to the provinces through a single unconditional transfer, coupled with public reporting by the provinces on how their social housing funds were spent and with what impacts.

The Case for Devolution

- Expert opinion and civil society both support the recommendation that social housing policy be integrated with the suite of provincially administered social programs.
- Experts also agree that provinces-territories are in a much better position than the federal government to determine the most appropriate allocation of funds between groups (Pierre, 2007).
- Social housing needs are different in, for example, Regina, St. John's and Vancouver. The provinces should have the capacity to craft programs and the ability to allocate funding to suit local circumstances
- A single funding stream would provide greater flexibility for program administration and clearer lines of accountability.





IMMIGRANT SETTLEMENT

Making community organizations report six-ways to two levels of government for one project just doesn't make sense.

– Joan Andrew, former Deputy Minister,
Government of Ontario

Canada is in an intense competition for immigrants. Developing a well-planned, forward-looking immigration strategy is critical to Canada's ability to remain competitive and prosperous.

The federal government rightly takes a lead role in selecting immigrants. This is an important component of nation-building. At present, however, there are three models of federal-provincial immigrant services employed in Canada. Quebec has operated its entire immigration strategy, including selection, independent of Ottawa since 1991.

In the second model, provinces play a role in immigrant selection through Provincial Nominee Programs (PNPs), while allocating primary responsibility for settlement services to Citizenship and Immigration Canada. This model is in place in Alberta, Saskatchewan, Ontario, and the Atlantic provinces.

In BC and Manitoba, settlement services have been devolved to the provincial level, allowing them to develop an integrated set of programs that address the specific needs of their immigrant communities. Devolution in both of these provinces has led to innovative program design and positive economic outcomes for new immigrants.

The success of the BC/Manitoba model is unsurprising. Provinces typically have closer ties to service provider organizations (SPOs), the third party organizations that deliver most of Canada's immigrant settlement services. Also, in a devolved model, SPOs have to follow only one set of rules and file one set of forms to receive grants and fulfill reporting requirements (Seidle, 2010). Also, bureaucratic overlap is eliminated and more resources are available to be delivered on the ground.

The search for savings is particularly important given that the federal government has announced unilateral cuts to spending on settlement services of \$53 million for 2011-12 and \$59 million for 2012-13.

Internationally, a trend towards greater devolution and multilevel governance is apparent. The Mowat Centre conducted a comparative study of Canada, the UK, Australia and Germany that revealed a shift toward sub-national control of settlement services (Siematycki and Triadafilopoulos, 2010).

Despite the successes in BC, Manitoba and internationally, the federal government has not devolved settlement programs to the other provinces. This results in a lack of flexibility and the inability to deliver programs that respond to the needs of local communities. Immigrants that acquire citizenship, for example, automatically have their access to federally-funded language training cut off. This negatively affects some categories of immigrants, such as family class entrants, who traditionally take longer to transition to the work force and cannot benefit from federal services when they need them.

At a time when new Canadians are performing worse in the job market than previous generations of immigrants, the tiresome federal-provincial conflicts and battles to take political credit should end. Settlement and integration services should be performed by the government that can best carry out these functions.

Recommended Interim Initiative

Devolve responsibility for immigrant settlement services to the provinces.

The Case for Devolution

- Devolution can make immigrant settlement services more effective by facilitating greater integration with provincially-run services that immigrants frequently access.
- Provincial governments are better placed to respond effectively to local immigrant needs and deliver services that reflect local differences (for example, labour and housing shortages in Calgary versus labour and housing surpluses in Windsor).
- The current administrative overlap associated with federal involvement in settlement and integration services siphons vital resources that could be helping immigrants successfully integrate (Seidle 2010).
- Devolution is the more efficient option. Service providers liaise with one government and fol-

low one set of rules. More funds get spent on services; less is spent on administration.

- Experience in Canada and in other countries demonstrates that devolution leads to more innovative programming and better results for immigrants.



EARLY LEARNING

The division of responsibility for the financing of services has too often led in the past to blame avoidance. Clear provincial responsibility for both the financing and regulation of services would create clearer lines of accountability ... [and] is essential also in order to integrate the child care and early childhood education aspects of early childhood education and care.

– Luc Turgeon, University of Ottawa

Canada suffers from relatively poor quality child care services (OECD, 2006; UNICEF, 2008). There are two problems: lack of integration with provincial-territorial education systems, and inadequate supply.

Provincial-territorial governments, who have lead responsibility for this issue, have undertaken a variety of strategies to deal with these problems. For example, Quebec has seven-dollars-a-day daycare; BC has introduced all-day kindergarten.

“Child care” used to be seen as “babysitting” until children were old enough to go to school. This philosophy has changed. Today, daycare is viewed as an opportunity for early learning and a head start in building human capital. To child care experts, a holistic approach to early learning is a key driver of economic competitiveness, equality of opportunity and social justice (Friendly, 2004).

Provincial-territorial governments are innovating to help kids learn more effectively by integrating early childhood programs with provincially-territorially run school systems. Ontario’s Early Learning Report recommended the introduction of all-day kindergarten to facilitate better educational outcomes. The province has moved forward on this recommendation.

A comprehensive model to early childhood education makes “effective use of the facilities and resources

we have, eliminate[s] bureaucratic duplication, and respond[s] to the needs of modern families, in order to benefit children” (Pascal, 2009).

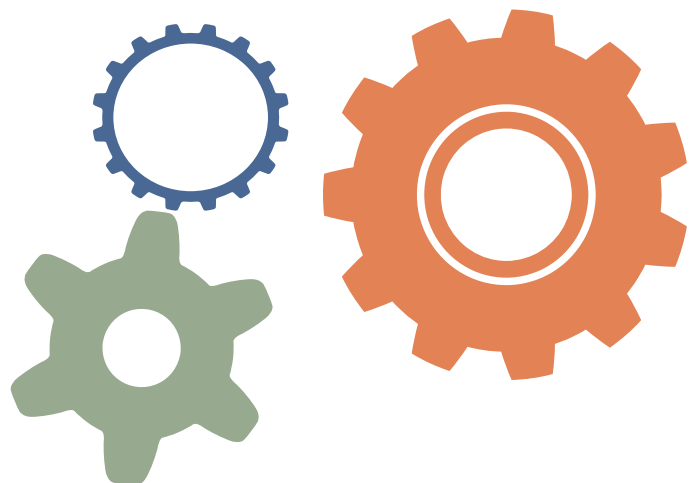
Devolution to provinces and territories of existing federal funding streams would allow provinces-territories—which have the tools and the capacity in this policy field—to make their own choices about how to use funds for child care and ensure that these are responsive to local preferences and integrated with other services delivered by provinces-territories, municipalities and schools.

Recommended Transformative Initiative

Devolve responsibility for early learning services to the provinces-territories.

The Case for Devolution

- Education is provincial jurisdiction.
- Daycare is now considered education and early learning, in which the federal government has little expertise or administrative competency.
- Effectiveness (learning outcomes) would be enhanced if early learning was fully integrated into provincial-territorial education systems.
- Provinces-territories have core competencies in the area. They are the experts in learning and have closer ties to groups responsible for program delivery.
- Devolution will improve accountability. The current lack of clarity on financing and responsibility enables governments to blame each other for the country’s poor outcomes.



UPLOADING

The following are sectors where uploading authority to the federal government can improve efficiency, effectiveness and accountability. In areas where the federal government chooses not to act, the provinces-territories could come together to create provincially-territorially administered programs that are national in scope and achieve greater efficiency and effectiveness without federal involvement. One example is the Ontario-led effort to set up a pan-Canadian pharma purchasing alliance through the Council of the Federation.

It is better that provinces move forward together than wait indefinitely for federal engagement. However, it is a second-best option. Sub-nationally administered national programs are unlikely to be as effective in overcoming joint decision traps, which will slow decision-making and innovation. Such mechanisms may also encourage some provinces-territories to free-ride on the efforts of their peers.



HEALTH CARE AND PHARMACEUTICALS

Access to medically necessary pharmaceuticals should not be determined by postal code—all Canadians should have access to the same medicines, regardless of where in Canada they live. This is a clear opportunity for federal government leadership.

– Tony Dean, former Secretary of Cabinet,
Government of Ontario

Provinces are laboratories for health policy innovation. Federalism means finding a balance between pan-Canadian equity and continued provincial policy and program innovation.

– Patrick Fafard, University of Ottawa

The existing public, single-payer health care system is unsustainable unless efficiencies and new models of service delivery are implemented. Health care costs continue to rise at a rate faster than government revenues and constitute the single largest expense (typically greater than 40% [Sibonney, 2010; Fekete, 2010]) for all provincial-territorial budgets.

When Medicare was first introduced, intergovernmental agreements were negotiated to ensure that the federal government would cover approximately 45 per cent of health care costs. Over the years, this has declined dramatically despite the importance of the Canada Health Act and the public's strong belief

that all Canadians should have access to good quality health care services wherever they live. The federal government now contributes between 20 and 23 per cent of health care expenditures (Ontario Ministry of Finance, 2010; Finance Canada, 2010).

Beyond this shrinking contribution, current federal involvement—such as entering the wait times debate only to withdraw soon after, leaving provinces-territories on the hook—exacerbates intergovernmental tensions and fails to serve a useful role in sustaining the publicly-funded health care system over the long term.

What role is left for the federal government to meet Canadians' desire to see a strong national health care system?

As the second most expensive element of health care budgets, pharmaceuticals represent an opportunity for considerable cost-savings. The OECD claims that the Canadian government needs to take serious action to address these rising costs, suggesting that drug coverage be administered by a national program (OECD, 2010).

The OECD also points out that Canada is notable among its international peers for its lack of drug coverage. By creating a federal pharmacare program, the federal government could carve out a unique and important role for itself in the area of health care—an area where the public expects the federal government to be involved.

Recommended Transformative Initiative

Upload responsibility for regulating, administering, delivering and funding a new single national public prescription drug plan to the federal government.

The Case for Uploading

- Huge administrative efficiencies could be achieved if responsibility was consolidated federally; the federal government would have massive purchasing power, which could lower pharmaceutical prices (Gagnon, 2010).
- Both orders of government have a hand in pharmaceutical policy. The federal government is responsible for patents and the initial approval and labeling of prescription drugs; provincial-territorial governments fund health

care services, including some pharmaceuticals. This creates policy incoherence.

- A national pharmacare system would clarify accountability in the sector.
- Provincial-territorial cost-savings could be reinvested in other areas of the health care system, thereby increasing the effectiveness and efficiency of the system.



FINANCIAL INSTITUTIONS REGULATION

The stability and performance of the Canadian banking system during the global financial crisis and its aftermath have been exceptional. However, the non-bank financial sectors are plagued by an inefficient regulatory landscape characterized by overlap, duplication and harmful regulatory competition that hinder their growth and competitiveness.

This problem is well-documented in the securities sector (see Hjartarson, 2010). It is also rife in the credit union and mortgage sectors, which are regulated by the provinces, and the insurance and pension sectors, which are regulated jointly by the provinces and the federal government.

Fragmentation along provincial lines has limited the ability of credit unions and mortgage brokers, for example, to expand into other provinces, undermining potential economies of scale in the industry and preventing the development of an even stronger national brand in financial services.

Efforts to create a single market for these entities (whereby, for example, a mortgage or insurance broker licensed in one province can service other markets) have been slowed by joint decision traps. It has taken Canada’s insurance regulators years to harmonize some basic forms.

Provinces have varying capacities to regulate their sectors. In many provinces, the legislation governing financial entities is woefully out of date. Financial regulation is among the federal government’s core competencies whereas many provinces just dabble.⁴

Financial regulation is operated on a cost-recovery basis. These inefficiencies are paid for by industry participants and, ultimately, consumers. What are

the compliance costs when there are approximately 3,000 pages of overlapping federal and provincial statutes for the insurance sector in Ontario alone? What are the compliance costs if one’s firm has agents across the country who are subject to 13 other sets of idiosyncratic rules and regulations? Why does Canada, with a population of 33 million, have 14 or more prudential regulators while the UK with its population of over 61 million has one?

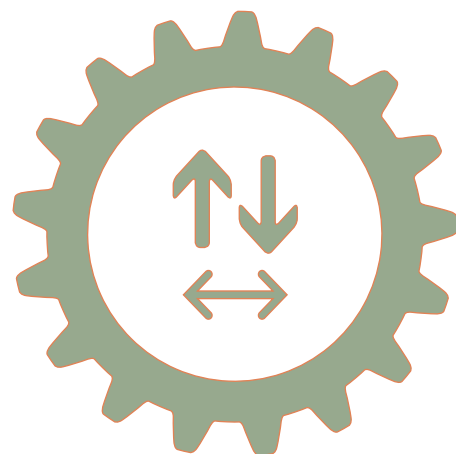
Ultimately, federal regulation of these sectors could enhance the efficiency of the economic union and boost competition in Canada’s highly concentrated financial services sector, where the banks are dominant and consumers lack choice. A financial regulation upload could be examined as part of the recently announced review of federal financial regulation legislation.

Recommended Transformative Initiative

Upload regulation of all financial entities to the federal government.

The Case for Uploading

- Uploading financial regulation would create administrative efficiencies and save financial entities and consumers money.
- Uploading would improve the economic union by reducing regulatory barriers across the country and boost competition in the financial sector. Consumers and businesses across the country would benefit.
- Uploading would be more effective in ensuring high-quality regulatory capacity across the country and a higher standard of consumer protection.



PENSION REGULATION IN CANADA

There is no point in having a bunch of little regulators apply laws that are similar in scope but different in detail.

– Anonymous Expert Interview

The global economic downturn has thrust pensions into the public spotlight. Canadians are increasingly concerned about the adequacy of their savings and the financial soundness of their pension plans. The federal government is reviewing the retirement income system. Meanwhile, several provinces are considering pension reform.

So far, these discussions have not included a dialogue on who should be responsible for regulating pension savings in Canada. They should. This is a potential area where there could be considerable gains from rationalizing roles and responsibilities.

Through the Income Tax Act, the Government of Canada dictates the tax incentives for pension savings. The federal government also regulates the pension funds of federal public servants and employees who work in federally regulated industries, such as aerospace, telecommunications, and airlines.

The provinces regulate plans in all other industries. However, because a pension plan's regulatory home is based in the province where the plurality of members reside, Ontario regulates just under half of the pension plans in Canada, a sizeable number of which have members outside of the province. In other words, the Ontario government has regulatory oversight over the pension funds of many non-Ontario residents.

Furthermore, pension law is broadly inconsistent across the provinces and territories. Ontario, for example, is the only province in Canada, and the only sub-national jurisdiction in the world, that has a Pension Guarantee Fund. The overlap, duplication and lack of harmony in pension rules in Canada is a constant source of complaint in the sector (Anonymous Expert Interview).

For efficiency, effectiveness, and accountability reasons, pension regulation should be uploaded to the federal government.



FOOD SAFETY

The safety of food in Canada is somewhat unpredictable.

– Rick Holley, University of Manitoba

The health of every Canadian depends on access to high-quality, safe and affordable food.

While the jurisdictional overlap in agriculture has typically been managed well due to strong intergovernmental cooperation and strong stakeholder pressure, agricultural product safety issues have caused considerable policy challenges and may be one of the exceptions to the rule.

Food and animal product safety, including management of food-borne emergencies, is handled by both orders of government, making cooperation necessary. However, lack of effective coordination has meant that accountability is unclear. The uncertainty as to who was ultimately responsible for dealing with the listeriosis outbreak of 2008 or the BSE outbreak in 2003 exemplifies the confusion over accountability.

The federal government is responsible for safety inspection of exported goods, while the provincial government inspects goods that are produced and sold in local markets. Theoretically, a single national standard would clarify accountability and reduce the likelihood of food-borne emergencies resulting from inconsistent inspection and enforcement.

There is some concern that onerous federal standards will make compliance for small producers (selling locally) too costly. Some industry experts believe that a second tier of federal regulation for locally sold products that does not impose additional standards would effectively eliminate duplication and take advantage of greater federal resource capacity.

Recommended Interim Initiative

Upload food regulation and safety (e.g. setting safety standards, ensuring via inspection that standards are adhered to, and removing unsafe food from the food supply when outbreaks of food-borne illness occur) to the federal level.

The Case for Uploading

- Current fragmentation creates gaps in regulation and weakens accountability in the sector.

It is unclear to Canadians who is responsible for the safety of food.

- Uploading would create efficiencies and save business and consumers money. There are currently 14 sets of food safety regulations and administration, mostly operated on a cost-recovery basis.

STREAMLINING/DISENTANGLING

The following sectors represent opportunities to clarify responsibilities in areas where compelling arguments can be made for both orders of government to be present. While both orders may wish to maintain a presence, there is no need for each to perform the same tasks.



INCOME ASSISTANCE

Evidence of the failure of the existing system of adult benefits could support an argument for redrawing responsibilities as part of a larger policy reform.

- Peter Graefe, McMaster University

Policy makers must overcome a number of systemic problems that underpin the outcomes in Canada (including) policy making in silos, together with poor co-ordination between federal and provincial governments in their respective administration of employment supports and benefits.

- OECD, 2010

Income assistance programs are a central feature of Canada's social safety net and their effective design is a core responsibility of Canadian governments.

There is a lack of coordination between income support programs. Governments and departments operate in silos in the policy field, resulting in significant gaps and lack of coherence in programming (Stapleton, 2007).

It has also resulted in muddled accountability. "With both the federal and provincial governments involved as is the case now, the ultimate accountability to the clients for policy performance and outcomes is divided and often blurred between the federal and provincial governments" (OECD, 2010, p. 9).

There are competing views regarding who should ultimately be responsible for income assistance in

Canada. However, what is clear is that better integration of social assistance and employment insurance programs is required to increase the effectiveness of service delivery (Herd, 2006; HRDC, 2000; Graefe Consultation, 2010; Stapleton, 2007).

There is a strong consensus among anti-poverty advocates that the federal government needs to adopt a more prominent role in income assistance, pointing to the fact that nearly 80 per cent of income security is delivered by the federal government (Battle et al., 2006). Uploading would enhance coherence of income assistance programming, minimize gaps, particularly for working age adults, and safeguard against a provincial race to the bottom in taxation and social programs (Oates, 1999).

Conversely, the advocates of concentrating income assistance at the provincial level point to the federal government's poor management of the Employment Insurance program. These advocates argue that provincial management of income assistance is likely to lead to a fairer allocation of supports and temper the federal proclivity for introducing an inter-regional equalization element into its social programs (Courchene, 1996).

Advocates of full provincial responsibility also point to the fact that the nature of poverty varies from province to province. Each province could potentially benefit from tailoring income assistance to meet its particular needs. Such advocates argue that a one-size-fits-all approach would exacerbate program gaps and fail many groups.

There appears to be a broad consensus around the need to integrate federal and provincial childcare benefits in order to provide a common benefit platform for families with children receiving social assistance and those working in low-income employment (MISWAA, 2006).

Responsibility for sickness and disability benefits also needs to be concentrated at a single level of government in order to plug gaps, improve information flows and enable early intervention so that individuals get help sooner (OECD 2010).

The way federal and provincial tax systems interact with income assistance programs must also be addressed when considering whether to concentrate responsibility with the federal or provincial governments (Graefe, 2010).

A conclusion has yet to be reached as to whether concentration at the federal or provincial level would better serve Canadians. What is clear, however, is that greater clarification of roles is necessary, and that this should result in either significant uploading or devolution, in conjunction with improved design of the income support systems in Canada. The Mowat Centre has convened an Employment Insurance Task Force to further explore these questions, with a final report expected in Spring 2011.



INNOVATION AND ECONOMIC DEVELOPMENT

The basic fact is that what Canada is now doing is not working.

- Tijs Creutzberg, Principal, HAL Consulting

Canada has spent a lot on regional economic development and innovation and much of that money has had little impact on strengthening local economies or advancing Canada's position in the global economy.

Citing just one funding stream, the federal regional economic development agencies in Canada are scheduled to spend more than \$3 billion over the next three fiscal years. It is not clear what impact these funds are having on economic development—if any.

Innovation and economic development in the Canadian federation is plagued by unnecessary policy overlap. Both levels of government utilize a myriad policy tools. These include everything from tax credits and research grants, to university-industry partnerships and infrastructure development investments.

Innovation and economic development programming can be best understood as falling into three broad categories of support (Creutzberg, forthcoming):

Support for Framework Conditions

- The federal government takes a lead role in broadly fostering the conditions for innovation, in providing R&D tax incentives to firms, in controlling the regulatory environment and in supporting the research system that generates new knowledge and supports the training of a highly skilled workforce. There is generally little overlap in this category.

Generic Support for the Innovation Process

- In this category, significant vertical and horizontal overlap occurs, as each level of government supports organizations and programs targeted at strengthening innovation.

Support for Strategic Investments

- Whereas the previous two categories target the innovation agenda broadly defined, the third targets specific sectors, such as auto manufacturing.
- Strategic investment in specific sectors is dependent on regional specialization that can most effectively be managed at the provincial level. Provincial competency in this sector is shown by Quebec's successful support of the videogames development industry (Savoie, 2001).⁵

Recommended Transformative Initiative

Devolve support for strategic investments to the provinces.

Upload support for framework conditions and generic support of the innovation process to the federal government.

The Case for Streamlining/Disentangling

- Strategic investment in specific sectors is dependent on regional specialization that can more effectively be managed at the provincial level.
- Provincial responsibility for strategic investments will prevent the federal government from undertaking regional redistributions under the guise of supporting innovation.
- Streamlining will focus each government's activities on its core competencies and reduce administrative overlap.
- A less crowded landscape will lower administrative burdens (e.g. search costs) on stakeholders.
- The federal government has the policy tools and expertise to develop framework conditions.





INSPECTIONS, INVESTIGATIONS AND ENFORCEMENT (II&E)

Too often both orders of government still inspect the same premises. There is a better way.

- Mel Cappe, former Clerk of the Privy Council

Canadians rely on government to make sure the water they drink is clean and the food they eat is safe. However, it is incumbent upon government that inspections, investigations and enforcement be conducted efficiently and do not impose unnecessary costs on business and consumers. Canadian producers are subject to global competition and undue regulatory burdens can undermine their ability to succeed.

Unfortunately, many of Canada's industries are burdened with unnecessary costs due to overlapping federal and provincial II&E mandates. A crowded regulatory framework increases the costs of doing business in Canada, as industries are forced to spend significant amounts of time and money to navigate multiple layers of regulations.

Unnecessary administrative burdens have an impact on citizens' confidence and trust in government. Complaints about two orders of "fish police" or other duplicative inspections take a toll on citizens' evaluations of government. There is no reason for two sets of inspectors to perform the same job.

In some cases, the provinces are the more knowledgeable and sophisticated regulator; in other cases it is the federal government. On a case-by-case basis, the federal and provincial governments should work together to decide which level is better placed to fulfill II&E functions.

The two discussions on represent positive and negative examples of how Canada's federal system works with respect to II&E. The progress achieved in environmental assessments illustrates the potential that coordination holds for improving the efficiency, effectiveness and accountability of II&E.

Recommended Interim Initiative

Eliminate remaining overlap in II&E through a combination of uploading and devolving (Ontario should pilot).

The Case for Streamlining/Disentangling

- Streamlining government activity so that there is one site inspection and one point of con-

Bad News

Effluent Regulation in the Forestry Sector

The regulation of effluent from Canada's pulp and paper mills is crowded with different provincial and federal regulatory standards.

High levels of dioxins were found in paper products and fish species downstream from pulp mills, which prompted both levels of government to respond with regulation (Harrison, 1996).

The federal regulatory framework imposes a lower standard and the presence of two regulatory processes depletes industry resources and has "left a legacy of challenges" (Anonymous Expert Interview).

According to industry analysts interviewed for this study, a more appropriate regulatory strategy would be for strict national standards to be enforced locally by provincial regulators. This disentangling strategy would allow both levels of government to maintain a presence in the sector without imposing additional industry costs.

Good News

Federal-Provincial Environmental Assessment Coordination

Environmental assessment (EA) is a good example of an area where it would be difficult and undesirable for either order of government to abdicate authority.

In order to balance the tension between retaining oversight and streamlining processes for businesses, Ontario and the federal government entered into an agreement on environmental assessment cooperation. The 2004 Canada-Ontario Agreement created an administrative mechanism to coordinate the EA process whenever projects are subject to simultaneous review by both jurisdictions.

Under the Agreement, both orders retain their legislative and decision-making responsibility. Projects still require separate approvals. However, decisions are based on the same body of information. The timing of approvals and announcements are coordinated.

The federal-provincial cooperation on environmental assessment is viewed positively and may be a potential model for II&E coordination in other sectors.

tact for business and individuals will improve the efficiency of inspections, investigations and enforcement, reducing the costs borne by industry.

- Coordination between the different orders of government will close gaps in regulation, increasing the effectiveness of II&E systems and better protect public health and safety.
- Better coordination will improve accountability for regulatory failures and successes.
- A bilateral process between the federal government and one provincial government is more likely to lead to progress than a full-blown multilateral F-P-T process, given that the areas where duplication occurs differ from province to province.



CORRECTIONS

The two-year rule is an accident of history that is no longer justifiable.

- Mel Cappe, former Clerk of the Privy Council

No one we spoke with was able to offer a rationale for ‘two years’ although there was some suggestion that it could be a reflection of 17th century sentencing patterns in England.

- Changing Face of Corrections
Task Force (CFCTF) 2009: p.23

Effective correctional services are essential for maintaining the safety of Canadian communities and successfully rehabilitating offenders. Unfortunately, the system is confusing and complicated by an arbitrary distribution of responsibilities between governments.

The “two-year” rule dictates that sentences of two or more years be served in federal penitentiaries, while sentences under two years be served under provincial jurisdiction.

The Constitution Act of 1867 allocates responsibility over “penitentiaries” to Parliament, and gives provinces jurisdictions over “prisons and reformatories,” but does not detail the difference between the two. The two-year rule was an ad hoc attempt to clarify this ambiguity (CFCTF, 2009) but it no longer reflects sentencing patterns in Canada. As noted by

RESEARCH FUNDING IN THE POST-SECONDARY EDUCATION (PSE) SECTOR

The innovation and R&D landscape in Canada is cluttered to the extent that stakeholders have to expend precious institutional resources figuring out who does what and where funding applications go.

- Anonymous Expert Interview

PSE in Canada could also benefit from greater clarity related to the objectives and operation of federal and provincial-territorial research funding programs. Ensuring that the process for accessing research funding is as streamlined and user-friendly as possible is critical to enabling both Canada and individual provinces-territories to maximize the potential returns on investments in research.

The system in its present form is administratively and operationally complex due to federal-provincial overlap and lack of coordination. Officials from the university sector interviewed for this paper have described the federal-provincial research funding environment as a considerable drain on the sector’s administrative capacity.

Further, unilateral action at the federal level has created additional funding pressures on provinces. For example, the Canada Foundation for Innovation (CFI) is the principal federal mechanism to support research infrastructure. The CFI will fund up to 40 per cent of the capital costs for a project on a competitive basis, with the remaining 60 per cent funded from other sources. This federal contribution is typically matched by various provincial funding agencies. However, the CFI’s decisions place significant funding pressures on the provinces during the budget planning period and divert provincial resources from other priorities. This is particularly problematic for some small provinces.

Clearly defined roles are necessary to effectively fund university research. A federal-provincial dialogue is required to streamline/disentangle the sector and to ensure that the returns on these programs are maximized.

the CFCTF report, the rule creates an “artificial barrier to efficient and effective programs and facilities and it deprives large numbers of offenders programs that could benefit them and enhance public safety” (CFCTF, 2009: p.24).

The result is duplication of programs and services, impeding the effectiveness and efficient administration of Canadian corrections (Griffiths, 1998) and creating tension over cost-sharing.

Expert consensus converges on the need to redraw the line “between long-term programs aimed at criminal behaviours and short-term programming aimed at issues that can be addressed—or at least started to be addressed—in a very limited time frame” (CFCTF, 2009).

Recommended Interim Initiative

Upload responsibility for offenders sentenced to six months or more to the federal level. Devolve responsibility for offenders sentenced to less than six months to the provinces (as recommended by the CFCTF).⁶

The Case for Streamlining/Disentangling

- Clearly assigning responsibility for corrections services based on a distinction that makes sense will minimize duplication, improving the sector’s efficiency.
- Disentangling corrections services will allow each order of government to better target its efforts and develop core competencies. For example, the provinces have more experience and more capacity to deliver community supervision, a typical feature of sentences of six months or less (CFCTF 2009).
- This approach upholds the functional division of responsibilities within Canada’s constitutional framework (i.e. it does not require constitutional amendments).
- Governments should bear the costs of their own policy decisions. Currently, the federal government can undertake changes to the criminal law which impose huge fiscal burdens on provinces.



POLICING

Provincial relationships with a federally subsidized and centrally controlled provincial RCMP have become increasingly conflictual, as federal responsibilities and centralized decision-making clash with provincial politics and regional policing concerns.

- Christopher Murphy, 1998

Policing is integral to the safety of Canadians and their communities. There are legitimate doubts about the efficiency and effectiveness of the current division of policing authority in Canada.

All but two provinces—Quebec and Ontario—have entered into contracts with the Royal Canadian Mounted Police (RCMP) for the provision of policing services.

Data from the Canadian Centre for Justice (CCJ) suggests that Ontario’s provincial police force is both less expensive on a per-capita, per-detachment basis, and better at containing costs than the RCMP (Cooper and Koop, 2003). The efficiency gains from provincial policing will save money.

The current method, whereby a federal police force is contracted to police small communities, may misuse the core competencies of the RCMP. “Federal police are not particularly concerned with enforcing laws against public order offenses, which are more local and variable than is major crime” (Cooper, 2003).

Instead of diverting the RCMP from enforcing federal law—white collar crime, organized crime, international security, etc.—provincial police forces should be introduced to more effectively address small community needs to which they would be better attuned. This would enable a greater focus of resources on policing issues that demand a federal approach, such as organized crime and international security.

A discussion needs to happen about reducing duplication of enforcement services. For example, both Ontario and the federal government operate sex offender registries and forensic services. Does it make sense for these to be consolidated at the federal level?

Streamlining/disentangling can generate economies of scale (e.g. forensic services) and enable consistent approaches to trans-boundary issues (e.g. sex offender registries).

The creation of autonomous provincial policing forces may make particular sense for larger provinces such as Alberta and BC that could replicate the efficiencies of Ontario's system.

Recommended Interim Initiative

Streamline/disentangle policing by ensuring that police forces strengthen their ability to fulfill their core responsibilities.

The Case for Streamlining/Disentangling

- Provincial police forces could more effectively provide policing services that address the local needs of small communities.
- Provincial police forces, based on current data, can deliver services more efficiently.
- The RCMP should focus on its core competencies and improve its capacity to perform its core duties related to organized crime, trans-border issues and other matters.



GOVERNANCE

The “joint decision trap” emerges when autonomous, interdependent actors committed to consensus decision-making seek to make decisions. The time and cost of coordination can escalate; solutions may be avoided or simply express the lowest common denominator.

- David Cameron & Richard Simeon, 2002

In its 2010 Speech from the Throne, the federal government committed to eliminate unnecessary appointments to federal agencies, boards, commissions and Crown corporations. This commitment should be extended into a broader examination of the federal participation in decision-making in areas of clear provincial jurisdiction.

In these areas, inaction often prevails due to joint decision traps and conflicting aims, goals and disputes over funding. This is particularly true in the urban development field.

For example, the complexity of governance relationships at play in the development of the Downsview Park project has significantly undermined policy outcomes. “In general, the more fragmented power and agendas were, the poorer the eventual policy outputs of a given policy initiative were” (Horak, 2009).

REDEVELOPING THE TORONTO WATERFRONT

Few cities around the world have sought to redevelop industrial lands and waterfronts with direct involvement from three or more levels of government. It's rare for a reason: the governance challenges are too unwieldy.

- Gabriel Eidelman, University of Toronto

When the Royal Commission on the Future of the Toronto Waterfront began its work in 1988 to unlock redevelopment efforts, up to 100 government bodies held some jurisdiction over waterfront lands. Twenty years later, that number has gradually been reduced due to the formation of Waterfront Toronto, a joint federal, provincial, and municipal development agency meant to cut through the gridlock.

Yet, despite being granted legal autonomy under its own provincial legislation, the corporation still cannot mortgage assets, acquire land, or borrow money without the express consent of all three levels of government. Revenues flow instead from contribution agreements negotiated behind closed doors by the three governments on a project-by-project basis.

This arrangement has left Waterfront Toronto vulnerable to bureaucratic and political delays replicated at each level of government. Over the last decade, at the federal level alone, it has worked with five different cabinet ministers, across six different departments, and under three different political administrations. Such instability precludes the long-term outlook necessary for successful redevelopment (Eidelman, forthcoming).

When the federal government involves itself in the governance of municipal policy-making, significant time and resources are devoted to lobbying and bargaining, lengthening project timelines and reducing political will to achieve desired policy ends (Horak, 2009).

Similar challenges have faced the development of Toronto’s waterfront. Years of broken commitments and disputes between all levels of government have plagued the development of what should be a widely celebrated and enjoyed public space in downtown Toronto (Horak, 2008).

Canada used to have the luxury of indulging intergovernmental conflicts for decades before municipal projects were built. The world is moving along. The time for this Canadian self-indulgence is over.

Recommended Interim Initiative

Federal government should get out of decision-making processes where it does not serve a vital need and where the legitimate interest is local and/or provincial rather than national.

The Case for Streamlining/Disentangling

- Removing an order of government will speed the pace of decision-making processes and facilitate better policy outcomes.
- There is legitimate federal interest in some issues related to the use of federal crown lands, whereas there is no legitimate national interest on others.



NOT-FOR-PROFIT

I’ve been doing this for so long and I still feel like I don’t know what’s going on. Every day, there is another limitation. I’m always finding out that something I’ve done for years is now illegal.

- Anonymous Expert Interview

The not-for-profit sector is growing both in size and importance in Canada. The sector is vast, accounting for \$100.7 billion and seven per cent of the Canadian economy (Statistics Canada, 2009). Ontario alone has 46,000 not-for-profit organizations which generate revenues of \$29 billion and employ 16 per cent of the province’s population (Eakin and Graham, 2009).

There have been many intergovernmental initiatives to eliminate barriers to the smooth functioning of Cana-

FULFILLING THE FEDERAL ROLE IN THE ENVIRONMENT

Constitutionally, the environment is shared jurisdiction. This has led to some confusion about who is in charge when it comes to climate change, water and many other environmental issues. When viewed through the lens of efficiency and effectiveness, it makes the most sense for the federal government to play the lead role in regulating greenhouse gas and water.

Environmental issues often know no boundaries and they are best managed on the largest scale possible—globally if possible, nationally as a second best-outcome. The incentives for free-ridership and the inability of very small geographic units to deal with externalities in the environmental space suggest that local or provincial responsibility will produce less effective outcomes.

Most economists will argue that sub-national governments in federations should avoid taxing mobile economic units such as corporations (Oates, 1999). While some provincial governments (Quebec and BC) are dabbling with carbon taxes, it is possible that corporations would vote with their feet in search of locations more accommodating of environmentally unfriendly practices, taking jobs and investment with them.

Similarly, climate change is a trans-boundary, global issue that demands a coordinated strategy within and across borders. International relations are a federal jurisdiction and a core competency of the federal government.

A parallel logic applies in water policy. Just as CO₂ emissions cannot be contained within jurisdictional boundaries, fresh water moves between provinces-territories and internationally, which also necessitates a national coordination mechanism.

However, as Thomas Axworthy recently wrote “over the past two decades, the ability of the federal government to act on water has been systematically cut and programs that used to support our national capacity to protect water no longer exist” (Axworthy, 2010).

There are almost certainly areas of environmental regulation related to water that should remain provincial and/or local, such as licensing municipal wells or protecting groundwater at its source through local planning and zoning. However, the logic for a strong federal role is compelling.

da's economic union (e.g. the Agreement on Internal Trade) and the social union (e.g. the Social Union Framework Agreement). There remain, however, many intergovernmental barriers to the smooth functioning and the growth of the not-for-profit sector.

Provinces maintain constitutional jurisdiction over charitable and non-profit entities and have engaged in efforts to strengthen the sector. For example, Ontario has attempted to loosen provisions to allow greater autonomy in generating revenues through its Good Government Act (Bill 212), while BC, New Brunswick and other provinces-territories have moved forward with aggressive and innovative strategies to support social enterprise and the growth and entrepreneurship of the sector.

The federal government, through the Canada Revenue Agency (CRA) and the Income Tax Act (ITA), maintains jurisdiction over the charitable status and taxation issues related to the sector. Strict federal interpretation of charitable and tax-exempt activities are often in direct contradiction with provincial strategies for the sector.

The result of shared jurisdiction is a lack of coherence in the not-for-profit sector. The issue has become even more important because governments are increasingly looking to the sector as a partner in program delivery. Across provinces-territories, there is broad consensus that charities and non-profits need more opportunities to generate revenue in order to occupy the space vacated by governments, but the CRA is an obstacle.

Other countries, such as the UK, are finding ways to support the growth of the sector by creating space for social enterprise, including more freedom to generate revenue. Canada needs a mechanism that helps clarify the fragmented regulatory landscape.

Recommended Interim Initiative

Streamline/disentangle responsibilities in the not-for-profit sector to ensure complementarity between provincial social enterprise strategies and the CRA. A federal-provincial-territorial working table should be established to clarify responsibilities.

The Case for Streamlining/Disentangling

- The lack of federal-provincial-territorial coordination is a barrier to improving effectiveness

and to the emergence of a nationally integrated, entrepreneurial not-for-profit sector.

- Streamlining federal-provincial-territorial legislation will eliminate interprovincial-territorial barriers and enable the sector to maximize administrative efficiencies on a national scale.
- Growth of the not-for-profit sector will be vital to the realization of government cost-savings and efficiencies.

CONCLUSION

Canada's federal system of government has been a success story. It has permitted the accommodation of diversity, the building of national projects and the exercise of local autonomy to respond to local preferences. There is much to be proud of, but we have become complacent.

We have been too quick to congratulate ourselves for our ability to manage a diverse federation rather than acknowledge that much can be improved. Most who work in government know this but work in a system that is difficult to change.

The way Canada's federal system works is too costly, too inefficient, too closed to public engagement and hinders innovation in policy-making and service delivery. It is slow in a world that is quick.

It is also too unaccountable, because when more than one government jostles in the same policy space, it is difficult for citizens to know who is in charge—often because everyone is, or no one is.

The paper has made recommendations that will improve policy development and program delivery. The recommendations do not presume that Canadians care which government delivers a particular service. In fact, more than “who does what,” Canadians care about governments delivering public services efficiently. This is another reason why it makes sense to look for opportunities to upload, devolve or streamline roles.

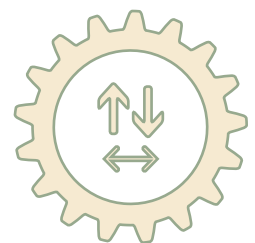
This paper has scoped out a broad reform agenda. Individual observers will no doubt disagree with any number of the specific recommendations, worrying that they either weaken the federal government or

strip sub-national governments of their autonomy.

Yet we believe this paper has struck a balance by recommending a strong federal presence in those areas where the federal government can play a useful and productive role—both strengthening the economic union and reinforcing Canadians’ common citizenship—and a strong provincial-territorial role where they are better able to develop, design and implement programs and services to suit their local circumstances. This vision could also include deeper asymmetry in Canada given that not all provinces-territories will support all of the items identified.

Even when an issue is devolved, intergovernmental agreements can ensure that the federal interest is protected. This could include strong assurances that the federal government will receive public credit for the funds it spends and safeguards around the protection of linguistic minorities and other vulnerable groups.

This paper aspires to initiate a national conversation on the overarching agenda. The overall objective is to reduce the number of areas in which the agreement of more than one government is necessary before change can occur. Clarifying roles and responsibilities in Canada’s messy intergovernmental landscape will strengthen the federation and better serve Canadians. MC





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APPENDIX

RESEARCH DESIGN

Literature Review

The Mowat Centre examined the public policy literature across the major sectors of government activity.

Expert Survey

The Mowat Centre conducted a survey of Canada's foremost sector experts in the scholarly community. These experts were asked to complete a questionnaire on their areas of expertise, aimed at identifying areas where re-calibrating roles, responsibilities and intergovernmental collaboration could produce tangible gains in efficiency, effectiveness and accountability.

In a few instances, these surveys were supplemented by interviews with civil society organizations and business associations. A number of experts consulted for this study requested anonymity.

Expert Panels

The Mowat Centre hosted two panels, one with senior and renowned scholars of federal-provincial relations, and the second with former senior federal and provincial officials. The panels offered unparalleled expertise that has been used to inform the recommendations for re-calibrating roles and responsibilities in the federation. These panels were supplemented with interviews with retired senior federal and provincial officials.

Survey of Government

The Mowat Centre also posed a number of questions to current government officials in order to probe the rationale for current arrangements and the plausibility of change.

Over 50 scholars, practitioners and current and retired government officials participated in the interview, questionnaire and panel processes, including those identified in the list below. However, the opinions and recommendations expressed are those of the Mowat Centre. Some experts consulted for the paper have requested anonymity.

Experts Consulted

George Anderson, Forum of Federations, former Deputy Minister of Intergovernmental Affairs, Canada
 Joan Andrew, former Deputy Minister, Citizenship & Immigration, Ontario
 David Cameron, University of Toronto, former Deputy Minister of Intergovernmental Affairs, Ontario
 Mel Cappe, former Clerk of the Privy Council
 Ian Clark, former Deputy Minister and Secretary of the Treasury Board, Canada
 Tijs Creutzberg, HAL Consulting
 Tony Dean, former Secretary of Cabinet, Ontario
 Gabriel Eidelman, University of Toronto
 Patrick Fafard, University of Ottawa
 Bill Fearn, former Deputy Minister of Federal-Provincial and International Relations, Newfoundland and Labrador
 Peter Graefe, McMaster University
 Diane Gray, former Deputy Minister of Federal-Provincial and International Relations, Manitoba
 Alex Himelfarb, former Clerk of the Privy Council
 Thomas R. Klassen, York University
 Chris Kukucha, University of Lethbridge
 Harvey Lazar, former Senior Assistant Deputy Minister, Strategic Policy, HRDC
 Douglas Macdonald, University of Toronto
 Peter Meisenheimer, Ontario Commercial Fisheries' Association
 Martin Papillon, University of Ottawa
 Andrew Sancton, University of Western Ontario
 Richard Simeon, University of Toronto
 Grace Skogstad, University of Toronto
 Luc Turgeon, University of Ottawa
 Jennifer Wallner, University of Regina

ENDNOTES

1. For a more detailed discussion of the rationale for who does what in a federation see, for example: Oates, 1999; Boadway, 2001 and Boadway and Shah, 2009.
2. "There are currently a number of federal labour market programs that target some under-represented groups, such as youth, older workers and persons with disabilities. The Government is also proposing to explore with provinces and territories the feasibility of transferring, within the context of the bilateral agreements, the responsibility for delivering these programs and the funding associated with them, which currently totals well over \$500 million per year" (Government of Canada, Budget 2007).
3. Germany's federal government provides financial assistance to its state (Lander) governments to design and implement housing policies that respond to the particular needs of their constituencies. The German model has proven to be flexible in administering effective social housing policies (Schlosser, 2004).
4. The federal government has acknowledged the barriers to a national credit union system. Legislation will soon be in place to allow credit unions to opt into federal regulation. However, not all provinces will grant their credit unions this option, thereby further confusing the regulatory landscape.
5. See Savoie, 1986. On a number of occasions, the federal government has countered this economic dynamic by directing significant innovation/R&D support to regions lacking in the needed industry/knowledge capacity required to realize outcomes. The space sector has been subject to many of these decisions, most famously the decision to locate the Canadian Space Agency in St. Hubert.
6. There are other examples of efficiencies from rebalancing roles and responsibilities in the corrections sector that are beyond the scope of this paper, but are worth examination. For example, BC has discontinued the British Columbia Parole Board in favour of transferring jurisdiction to the National Parole Board. Should this approach be replicated across the federation?

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