

SHARING CANADA'S POWER AT WHAT COST?

For months, a constitutional cry has been raised from several influential corners for Ottawa to hand over many of its economic powers to the provinces.

The rationale, often unspoken, is that the provinces couldn't be any worse at running the economy and that somehow the debt crisis would be resolved.

Is that possible? The short answer is that constitutional change can't cure Canada's fiscal problems. In fact, it could make matters much worse.

If, for example, Ottawa agreed to give the provinces significantly more power, it would virtually collapse under the weight of its own massive debt.

Today, Ottawa spends nearly 36 cents of every dollar of revenue in interest payments on the national debt. If the more radical proposals for decentralization were put into force, Ottawa could end up spending 75 cents of every revenue dollar just to carry its debt.

Furthermore, the federal government would lose effective control over many of the levers it uses to run the Canadian economy, such as interest rate policy and the raising of taxes.

The province of Ontario, for example, could easily end up with as much fiscal clout as the central government.

Such dramatic changes would undoubtedly bring about a very different and decentralized Canada. But could the country function successfully?

According to three major groups, the answer is yes:

□ The Quebec Liberal party, in the Allaire report, has urged Ottawa to vacate no fewer than 22 jurisdictional fields, and give each province enough money to run its own show.

□ A blue-ribbon panel of 22 prominent Canadians has also recommended that Ottawa turn over half its spending to the provinces, but keep its troublesome \$30 billion deficit as well as its mammoth debt.

(Among its members, the Group of 22 counted former Ontario premier Bill Davis, former Saskatchewan premier Allan Blakeney, New Brunswick frozen food king Harrison McCain, Alberta oilman Bob Blair, economist Sylvia Ostry, and former federal cabinet ministers Jean-Luc Pepin, Maurice Sauve and John Roberts.)

□ Finally, the Business Council on National Issues, the voice of big business, sees decentralization as the

best way to eliminate costly duplication and give Canadians "more efficient and accountable" government.

The common thread running through these reform proposals is the belief that Ottawa is so choked by debt it has lost its capacity to meet the country's needs.

There is little doubt that most Canadians don't see the federal government as much of a bargain any more. With the cancer of compound interest on the debt eating away at federal revenues, a tax dollar now buys only 90 cents in federal programs and services, compared with \$1.33 a decade ago at the height of Ottawa's borrowing spree.

Not surprisingly, Prime Minister Brian Mulroney's popularity has vanished along with services that Ottawa used to provide.

If Ottawa is no longer capable of delivering a dollar of services for a dollar in taxes, then, as the decentralists see it, it should stop over-extending its reach into areas outside its jurisdiction, and stick to its own constitutional turf.

As the Group of 22 put it: "It is imperative, and in the interests of all Canadians, that (Ottawa) act aggressively and well within its own jurisdiction. . . . The federal government ought not to try to be all things to all people. Ottawa will derive its legitimacy and respect from doing its own job well, not from doing the job of the other level of government."

A detailed economic analysis of such wholesale decentralization, however, shows that it could leave the federal government too weak to break the bonds of its crippling \$420 billion debt.

Instead of helping to improve Ottawa's fiscal position, decentralization would keep the federal deficit at present levels, and enshrine it in a virtual constitutional guarantee.

Consequently, by treating Ottawa's deficit as if it were a federal problem — and not a national one — both Allaire and the Group of 22 would



make our fiscal predicament even more intractable than it now seems to be.

To see why, consider what Ottawa's current budget would look like if it were redrawn along the lines of these two decentralization schemes.

Transfers to persons

The biggest part of Ottawa's program budget (\$35.8 billion) is spent on cheques for the elderly, family allowances, unemployment insurance benefits and veterans' pensions.

Leaving Ottawa with only veterans' pensions, the Allaire report would shift responsibility for the other 95 per cent of these transfers to the provinces.

For its part, the Group of 22 would also make the federal government jointly responsible for the pure insurance component of unemployment insurance, while turning the remaining 70 per cent of transfers to persons over to the provinces.

Under both schemes, Ottawa would, of course, also have to give the provinces enough revenue to allow them to pay these additional bills.

Transfers to other levels of government

As Ottawa's second-largest program expenditure (\$23.3 billion), these cash transfers are paid to the provinces for health, post-secondary education and welfare.

They also include equalization payments to the have-not provinces to ensure that Canadians in all provinces enjoy reasonably comparable levels of services for reasonably comparable taxes.

In the reconfiguration of Canada that they envision, both the Group of 22 and Allaire would wipe out all these dedicated federal transfers except for equalization. To make up for the loss to the provinces, Ottawa would relinquish enough money to enable them to fund health, education and welfare themselves.

Other major transfers

The federal government spent \$11.6 billion last year to help business, natives, farmers, and to pay for job creation and student loans.

Since the provinces would take over many of these responsibilities, under both the Allaire and Group of 22 schemes, Ottawa would have to give up roughly another \$8 billion.

Other government operations

Last year the federal government spent \$18 billion, mostly for labor and capital, to run its various departments.

The leaner, meaner central government pictured by the Group of 22 and the Allaire report would require fewer departments, offices and workers to play its more limited role.

Of course, the provinces would need more. So Ottawa would hand over roughly \$6 billion to the provinces under the Quebec Liberal party recommendations, or \$4 billion under the proposals of the Group of 22.

Payments to crown corporations, defence and foreign aid

In both of the decentralist schemes, these three areas (and their combined \$19.6 billion budget) would remain under exclusive federal control.

The impact of all of these changes on federal finances would depend on whether Ottawa ceded tax room to the provinces or created a new federal general-purpose transfer for giving them more funds.

Under the first option (illustrated in the chart on Page B7), Ottawa's over-all program budget would shrink by 50 per cent under the Group of 22 formula, and by 60 per cent under Allaire's disentanglement scheme.

Federal revenues would also drop — by 40 to 50 per cent.

But out of those reduced revenues, Ottawa would still have to make annual interest payments of \$43 billion to service the federal debt.

The implications for federal finances would be grim.

Ottawa now pays 35.6 cents out of every tax dollar in interest on its mammoth debt. That's 35.6 cents out of every dollar that can't be used for programs Canadians want.

To prevent even further erosion of its programs, the government says it must wipe out the deficits that drive the federal debt.

But if you think 35.6 cents is excessive, how would you feel about paying 61.6 cents out of every federal tax dollar to service the national debt? That's how much Ottawa would have to pay if it followed the suggestions of the Group of 22, because interest payments would come out of a much smaller kitty.

That figure would rise to an astounding 75 cents out of every tax dollar if Canada were reshaped along Please see CAN/page B7



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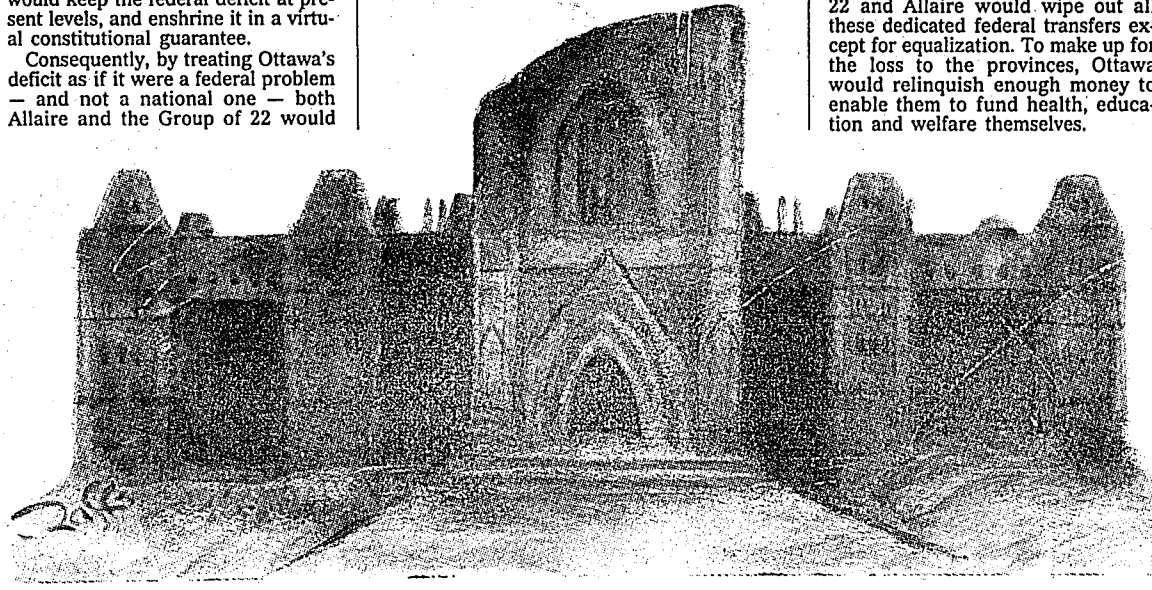


ILLUSTRATION BY RAFFI ANDERIAN/TORONTO STAR

Harbor commission suit could make history

Here is further proof that we live in a strange time. The chairman of the Toronto Harbor Commission is actually suing three of his fellow commissioners for "conflict of interest."

The suit could prevent the harbor commission from disposing of millions of dollars worth of waterfront land.

It could also make the hundreds of people appointed by city councils across Ontario to serve on the boards of hospitals, libraries and other community institutions begin to wonder whether they too could be opening themselves to legal action every time they cast a vote.

Harbor commission chairman Frank Smith is charging that Martin Silva, Betty Disero and Michael Walker, who are all members of Toronto City Council, violated their oaths as harbor commissioners when they voted to have the harbor commission put its land into a deal with the City of Toronto's Economic Development Corp. (TEDCO).

A legal statement of claim filed Wednesday shows that Smith wants the TEDCO deal put on hold. He also wants the court to kick the three city

councillors off the commission.

Smith is refusing to answer any questions and one might be tempted to treat this as a nuisance suit, except that Smith has hired a formidable legal expert to represent him, former Ontario attorney-general Ian Scott.

So this lawsuit is serious business. The defendants are not talking in public, under instructions from their own lawyer, Julian Porter.

The papers filed by Scott charge that the three members of city council took oaths that put them into an impossible bind.

When they took office as councillors, they swore to defend the interest of the city.

When city council appointed them to the harbor commission, they

promised to defend the interests of the commission.

Then David Crombie's royal commission on the future of the waterfront recommended that some 560 acres of harbor commission land be turned over to the City of Toronto's development corporation and to a provincially controlled "land regeneration trust."

The harbor commission controls some of the most valuable real estate in North America, but because of long-standing quarrels with Toronto City Council, the commission has had trouble getting the city to rezone land for development.

City council decided to support the Crombie recommendations. It also voted that the city's representatives on the harbor commission, Disero, Silva and Walker, should help get the Crombie report implemented.

Disero at first did not go along. She insisted that the harbor commission was the best body to get new development and jobs going on the waterfront. But she couldn't get any of her colleagues on city council to listen to her.

Finally, at the end of August, she

decided she was "tired of hitting her head against a wall." Disero said at the time she talked to Crombie and he agreed that all of the harbor commission's land could go to the City of Toronto's development corporation instead of being split between TEDCO and the provincial land trust.

Disero then called a press conference and announced that she had changed her mind and would support the harbor commission's giving up its land.

All this time, according to Scott's claim, Smith kept complaining that the three city councillors had a conflict of interest and shouldn't even be dealing with the disposition of harbor commission land.

Nevertheless, Scott says, the three commissioners voted in favor of forming a partnership between the harbor commission and TEDCO to develop commission lands.

That, according to Smith, violated their oaths as harbor commissioners and now he is taking them to court.

The commission is not, of course, an independent body. It reports to Transport Minister Jean Corbeil and he was sent a copy of Scott's claim

late last week. But a spokesperson for Corbeil's office said that he was not going to jump into this dispute. And who could blame the man?

I just love this business. It is going to put a lot of old, established practices into question.

Municipal politicians have gone on for years appointing friends, relatives, campaign workers and even the occasional capable citizen to boards and commissions. Nobody ever stopped to ask who these people are supposed to be working for: the municipal council that appointed them or the board they are serving on.

Ken Rosenberg, the lawyer who is working with Scott to press the suit, says, "If you sit on a board, your responsibility and loyalty cannot be to another body."

Julian Porter, who is expected to file a defence for the three defendants, says that as far as he is concerned, the public interest for harbor commissioners involves more than just protecting the commission's land.

There is more to be said about this lawsuit. I think it is going to make a bit of history around here.



The City

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