The Changing Nature of Quebec-Canada Relations: From the 1980 Referendum to the Summit of the Canadas

by

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ABSTRACT

This paper traces the economic and political evolution of Quebec-Canada relations from the 1980 Referendum through to the July 2004 Council of the Federation (COF) meeting at Niagara-on-the Lake. Tthe rebrati-dTn7i0a-qfTn7igplDT 1t4008 TcthLak04 tion and the knowledge-based era (KBE), both about in the 21st century. In short, sovereignty is now about how societies live, and work and play, which in turn means that on the policy front it is all about education, skills, health, cities and citizens generally. In Canada, these are largely *provincial* powers. This being the case, it is hardly surprising that Quebec's rallying cry is focussed on restoring vertical fiscal balance in the federation.

With the resurgence of the Bloc Québécois to

relations in the 21st century, the analytical storyline on both the political and economic fronts must begin much earlier. Accordingly Part II focusses selectively on Quebec-Canada

Mario Dumont to enhance their profile among Quebecers.

Post Meech, the Mulroney Tories were also active on the constitutional file, striking both the Spicer Commission to take the pulse of ordinary Canadians on renewing federalism, and the more formal Beaudoin-Dobbie joint Senate-House Constitutional Committee. What finally resulted from all of this was the *Charlottetown Accord* – a cobbling together of a myriad of concessions designed to elicit support from Canadians in all walks of life for an omnibus package that included numerous measures that privileged Quebec (e.g. a commitment that Quebec would have a guarantee of 25 percent of the House of Commons seats and of three Supreme Court Justices), but that also included much of the content of Meech, several key concessions to First Nations, and a collection of other measures running the gamut from regional policy to the Bank of Canada. Complicating this already complex Charlottetown process was the fact that

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have a year to decide. If no agreement could be reached, Quebec would move to full independence (Martin, 1997, 280).

Even with this conciliatory question the Parizeau-Bouchard Yes forces were trailing badly a month prior to the referendum. Then came the master stroke: Parizeau stepped aside and handed over control of the Yes forces to Lucien Bouchard. As all Canadians recall, it was only the eleventh-hour, 100,000-strong Parc du Canada rally that, arguably, saved the day. The “Yes” side lost by the slimmest of margins – 49.4% to 50.6%. Following Parizeau’s “money and the ethnic vote” comment on the referendum results, Lucien Bouchard resigned his seat in the House of Commons and was shortly thereafter acclaimed premier of Quebec. This was only half of what Bouchard had long desired – the Quebec he was now in charge of was still in Canada and independence was, for the immediate future, a spent force.

III: Canada-Quebec Political Relations in the Chrétien Era

A. Pan-Canadian Provincialism

The combination of a) Paul Martin’s massive cuts to provincial transfers in his 1995 budget and his accompanying request that the provinces help design Canada’s social policy principles in the CHST era, b) the emergence post-NAFTA of a north-south trading axis, and c) the perception if not the reality that Ottawa had bungled the Referendum interacted to spawn a very innovative and exciting period in Canadian federalism, namely *pan-Canadian provincialism*. The underlying reality, fully recognized by the provinces, was that Ottawa was both fiscally able and politically more-than-willing to invade provincial jurisdictions if the provinces did not adopt a pan-Canadian approach to their collective actions. This might not prevent federal intrusions, but it would at least make them politically more difficult. The instrument chosen by the provinces for addressing these pan-Canadian policy spillovers and for advancing provincial interests was the revitalization of the Annual Premiers’

unique character of Quebec society within Canada."

- If any future constitutional amendment confers powers on one province, these powers must be available to all provinces."

referendum question is clear and whether there is a clear majority, along with the manner in which the rest of Canada would go about negotiating with Quebec, should the occasion arise. Not only does Jean Chrétien view the *Clarity Act* as one of his proudest achievements (

While it is obviously the case that the Bloc garnered the protest votes of a goodly number of federalist and nationalist voters, the fact remains that we are once again, and surely unexpectedly, in unchartered political waters. The Parti Québécois is already talking about re-taking L'Assemblée nationale, perhaps with Duceppe at the helm, and holding yet another referendum by decade's end.

As a companion to the above overview of Quebec-Canada *political* relations, the analysis now turns to a similar overview of Quebec-Canada *economic* relations, thereby setting the stage for an overall political-economy assessment of Quebec-Canada relations in the 21st century.

IV: Quebec-Canada Economic Relations

A. Quebec and NAFTA

With the FTA and NAFTA serving as catalysts, all provinces' trade has shifted sharply north-south, relative to east-west. In Quebec's case, in 1989 (the first year of the FTA) exports to its sister provinces exceeded its exports to the US-- 21.2% of GDP for east-west exports (or exports to the rest of Canada) and 16.0% of GDP for north-south exports (or exports to the USA). By 2001, however, this had changed dramatically. Quebec's north-south exports increased to 33.6% of its GDP while its exports to the rest of Canada fell to 19.4%. Indeed, as of 2001, all provinces except Manitoba exported more to the US than they did to the rest of Canada.

In effect, Canada has become a series of north-south, cross-border economies rather than a single east-west national economy. And because Canada's provinces/regions tend to differ industrially more from each other than from their cross-border counterparts, the provinces' attempt to enhance their prospects in North America will tend to result rather naturally in an enhanced degree of policy decentralization and operational asymmetry. It was this reality that led Colin Telmer and I to signal the emergence of North American region states (1998).

Several important implications flow from this development. First, Quebec's economic future is clearly in NAFTA economic space, not Canadian economic space. Compared to the province's trade dependence on the rest of Canada in 1995, let alone 1980, the economic costs of further loosening economic ties with the rest of Canada are now much reduced. (By way of maintaining perspective, the later analysis will also argue that the benefits of independence are also reduced).

Second, as north-south trade integration heightens, all provinces will become increasingly tolerant of Quebec's nationalist vision of its role in the federation, since they too will want greater degrees of policy freedom. The best example here is that the "Alberta Advantage" slogan (which promises that this province will have the lowest tax rates in NAFTA, let alone in Canada) is giving way in some Alberta quarters to a "firewall" vision of Alberta-Canada relations. In a sense, therefore, the earlier-noted, post-Charter focus on symmetry as a philosophical goal of Canadian federalism has been trumped by the provincial/regional realities of North American trade integration. Phrased differently, this may be the international (NAFTA) economic reality underpinning the domestic politics of the 1998 Calgary Declaration.

The third implication is more troublesome. The provinces have become so dependent on NAFTA trade they can effectively be held hostage to interruptions in their access to the US market. And because provincial policies can and do differ widely, these border interruptions may affect the individual provinces differently (e.g. softwood lumber affects B.C. and New Brunswick quite differently), which in turn severely complicates national policy. Arguably, the Council of the Federation (COF) could play a most useful role in aggregating provincial interests in such situations. Ottawa should welcome having this pan-provincial body make the initial attempt to wrestle with issues that frequently play very differently, if not in a zero-sum manner, across the various provinces.

Fourth, it would seem to follow from the above observations that many provinces would eagerly trade off some of their power in the *existing provincial powers than acquiring further powers*. Moreover, the interaction between language and culture on the one hand and human capital development on the other is sufficiently close that Quebec will be able to play a larger role in the human capital development of its citizens than will be the case for any other province. In other words, language provides an environment within which Quebec will have more room to "policy determine" its KBE future. Or in terms of sovereignty, the emergence of the KBE allows Quebec to move toward a fuller nationhood *within* the Canadian state.

From this follows an even more important corollary: the *key to Quebec's future in the Canadian state lies in gaining access to revenues sufficient to make use of its existing powers*. Hence, Quebec's rallying call has, appropriately, shifted from "more powers" to "more access to revenues." Small wonder then that restoring fiscal balance in the federation is Quebec's foremost priority. And for somewhat similar reasons (see below), this is also the number one priority of the other nine provinces as well.

C: Global City Regions (GCRs)

Global city regions (Toronto, Montreal, Vancouver, Calgary/Edmonton ...) are emerging as the dynamic economic motors of the knowledge/information era (Courchene, 2000). This is so in large part because these GCRs are home to dense concentrations of knowledge and human capital networks (health, bio-sciences, R and D, universities, corporate services, cultural, etc.). Following Harris (2002), Canada's future in terms of productivity growth and living standards will depend on how well our GCRs will fare against US and international GCRs.

The complicating issue here is the following. On the one hand, cities are constitutionless – they are the creatures of the provinces. On the other hand, with their economic and political star in ascendancy the GCRs want to become more fully and more formally integrated into the system of intergovernmental relations and fiscal federalism. Intriguingly, the provinces, despite their constitutional supremacy over cities, find themselves in a dilemma of sorts. Either they cater to the demands of the cities for greater autonomy, financial flexibility and infrastructure (rights that many international GCRs already have) or the cities will band together and pressure the federal government to satisfy these demands. Actually, there is, in principle at least, a third option, namely that the GCRs can aspire to become "city provinces," like the city-Länder of Germany (Berlin, Bremen and Hamburg). The power of the GCRs is such that they *will* play a more important political, economic and even jurisdictional role in the Canadian federation, the only issue is *how* they will play this role and how this will impact on the various provinces.

Up to this point, the lens for viewing the implications of the KBE has been a provincial lens. But Ottawa is much more than a spectator in all of this. Indeed, it is actively engaged in finding ways that it, too, can get access to the policy levers that deal with cities and citizens. Enter "hourglass federalism."

D: KBE Intergovernmental Relations: Hourglass Federalism

It did not take the federal government long to realize that nation-building and electoral saleability in the KBE is not about old-style resource-intensive mega projects but, rather, has everything to do with citizens' issues – education, health, training and the like. Indeed, and as already noted, with knowledge at the cutting edge of competitiveness, investment in education/skills and human capital generally holds the key to competitiveness and cohesion alike, both of which are of obvious interest to central governments of all nation states, federal or unitary. And since the performance of Canada's cities, especially the GCRs, will determine productivity growth and living standards, this too comes into Ottawa's sights.

Cast in this light, it is clear that politically, economically and electorally these policy areas are far too important to be rendered off-limits to

Thomas J. Courchene, *The Changing Nature of Quebec-Canada Relations* the key to electability and nation-building in the KBE is to become a player in the provincial-powers game. The form that this has taken has been referred to above as hourglass federalism – fiscally starving the provinces in the sense that they have to divert discretionary spending from everywhere to feed the voracious appetite of medicare, so much so that citizens and cities are welcoming of any and all federal spending initiatives directed toward them. Not only is hourglass federalism another name for VFI, but it is VFI *with a purpose*, as it were, so that Ottawa will not willingly unwind it. This is clear from Martin's medicare proposal which admittedly does move Ottawa's share of medicare funding toward the provincial target of 25%, but does so in a manner that would commit the provinces to embark on several new and costly initiatives, i.e. in a manner that does *not* let the provinces escape from hourglass federalism.

What is clear from this brief résumé of the earlier analysis is that to an intriguing degree the political, ideological, fiscal, and jurisdictional/constitutional factors likely to play determining roles in the evolution of Quebec are being funnelled into the September FMM on health care. And other provinces are bringing some of their own issues to the bargaining table, e.g. regional/equalization issues. While recognized as a defining moment for Paul Martin's minority government, the reality is that the FMM is about competing visions of Canada and as such may well turn out to be one of the defining moments for the evolution of Canada. Elaborating on just what is likely to be at stake in the FMM and how it may influence the future of Quebec-Canada relations is the subject of the final part of this essay.

VI: Quebec and the Summit of the Canadas

A. The Federal Proposal

Drawing from St-Hilaire and Lazar (2004, 118), Prime Minister Martin's proposal for the September FMM is to "fix medicare for a generation" to "buy changes" and to "deliver real, measurable progress" by:

- Ensuring stable, predictable long-term funding ($3 billion over the next 2 years plus automatic increases in the future);
- Implementing a National Waiting Times Reduction Strategy – the "Five in Five" plan ($4 billion);
- Reforming primary care;
- Creating a National Home Care Program ($2 billion over 5 years);
- Developing a national strategy for prescription drug care by 2006; and
- Respecting the *Canada Health Act*.

By way of elaboration, the "five in five" plan is to reduce waiting times based on national targets over the next five years in five key areas – cancer, heart, diagnostic imaging, joint replacement and sight restoration. Since all of these five areas are under the provinces' jurisdiction, the suggested $4 billion price tag is presumably the federal government's best guess as to what it will cost to induce the provinces to address these five waiting periods.

B. The Council of the Federation (COF) Proposals

The COF agenda for the FMM includes pharmacare, opting out for Quebec, VFI, and equalization.

Pharmacare

The surprise proposal from the COF was, as already noted, the unanimous recommendation to transfer responsibility for pharmacare to the federal government, in part a response to Paul Martin's call for a "national strategy" for pharmacare (bullet 5 above). In the words of the COF Press Release (http://www.scics.gc.ca/cinfo04/850098004_e.html):

> The federal government already plays a significant role in the management of pharmaceutical drugs in Canada – it is responsible for the approval of drugs for use in Canada and for deciding which drugs are

available by prescription and which over-the-counter. It is responsible for the Patents Act and for the drug plans for Aboriginal peoples, the military, and the RCMP.

Currently, the provinces are spending in the range of $7 billion while “full coverage” is estimated to be in the $12 billion range. Note that Martin’s proposals did not include a price tag for his prescription drug care strategy for 2006. Indeed, the cost of pharmacare probably exceeds the total value of annual transfer increases contained in the Martin proposals.

Quebec’s opting out

Often overlooked in the press coverage of the COF meeting in Niagara-on-the-Lake, but central to the analysis in the present paper, is that the provinces have agreed that Quebec can opt out of the pharmacare plan with compensation. Again in the words of the Press Release: “It is understood that Quebec will maintain its own program and will receive a comparable compensation for the program put in place by the federal government.” This is a remarkable concession, one that builds upon the spirit and the letter of the 1998 *Calgary Declaration* (and also resurrects one of the principles of the Meech Lake Accord). Indeed,

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The view of many in the chattering classes seems to be that none of the federal parties wants to face the voters for a while so that Liberal minority government is unlikely to be brought down as a result of the outcome, or non-outcome as the case may be, of the FMM. This reasoning seems faulty on two fronts. First, a Parliamentary defeat of the Martin government in the immediate aftermath of the FMM, denying him confidence on the Throne speech might not trigger an election. Rather the Governor General could, arguably, invite Stephen Harper to try to form a government. In other words, while Canadians may well want minority government to work and may well be willing to punish those parties that pull the electoral plug, this is quite different from saying that Canadians want a *Liberal* minority government. Hence, Paul Martin will need to ensure that the outcome of the FMM finds some resonance with either or both the Conservatives or the BQ.

The second point is that the politics enveloping the FMM obviously transcends federal politics. Given the perspective of this essay, the politics of Canada-Quebec relations will also be in play. The combination of the Sponsorship scandal (including the downplaying of the Chrétien wing of the Liberal Party) and the resurgence of the BQ (including its potential balance-of-power role in the Commons) has left the federalist forces in Quebec in a very weak position. In this environment, it would be foolhardy on Ottawa's part (i.e. on the part of the federalist parties in the House of Commons) to leave Charest high and dry in terms of the outcome of the FMM. His position in Quebec will be weakened considerably unless he emerges from the summit with meaningful progress on the VFI front and with minimal infringement on Quebec's ability to legislate on the medicare front.

What thus emerges as most problematic on the political front is how the Liberals can meet their electoral commitment of buying new programs and commitments from the provinces with an increase in transfers that is arguably *less* than that required to address the 25% Romanow target. The NDP and a goodly number of Canadians will attempt not only to hold the Liberals to their campaign proposal but perhaps as well to embrace the COF proposal that Ottawa launch a national prescription-drug program. But Martin's proposal seems to fall way short of what the provinces will settle for and what the Conservatives and BQ will support.

All in all, a daunting challenge.

Process

My comment on process is contained in a single word – SUFA. If Prime Minister Martin wants to play in areas of exclusive provincial jurisdiction, then SUFA or a SUFA-equivalent approach is the agreed-upon process. SUFA involves, *inter alia,* federal-provincial co-determination in terms of program design, provincial flexibility in terms of implementation, and combined federal-provincial monitoring and oversight. Moreover, SUFA is arguably flexible enough to accommodate the opting-out-with-compensation for Quebec (as embodied in the COF pharmacare proposal).

As already noted, the 2000 and 2003 health accords were viewed by Ottawa as buying "change," whereas the provinces simply presumed the transfers to be unconditional independent of the "accord." This will happen in 2004 as well if the federal government does not work through a SUFA or SUFA-equivalent process.

While process and a flair for the political are necessary ingredients for a successful FMM, substance and policy must be centre-stage.

Policy

An appropriate launch point for an analysis of the range of choices facing the first ministers is to focus on that which is "new" to federal-provincial health care meetings, namely the COF proposal with respect to pharmacare. Earlier, this proposal was viewed as a masterstroke on the part of the provinces since it allows them to escape from the hourglass-federalism straightjacket. Yet this proposal should, in principle, also be eagerly welcomed by Ottawa because it presents the federal government with the right to deal directly with Canadians in ways that heretofore it could not do, it also expands the scope of Canadian medicare in ways in which the Liberals themselves called for in their election platform, and it increases the degrees of freedom that Ottawa has in negotiating with the provinces.

Ottawa's initial reaction to the COF pharamacare proposal appears to be one of backing away from rather than embracing it. Even accepting that the cost side might pose problems for Ottawa, this decision summarily discards several creative options. Consider, initially, the following option:

- Ottawa accepts responsibility for pharmacare, commencing with a takeover of a standardized version of existing provincial programs;
- it maintains existing funding levels for the rest of the system; and
- it agrees to index the existing transfers (either to inflation or to the growth of medicare expenditures) in turn for a SUFA-type agreement to get joint input into standards, etc., where this joint input into standards would now include pharmacare.

While this would not address the letter of the Liberal proposal, it would nonetheless score high points in an important number of key areas – it expands medicare into an important area; it takes a huge medicare cost-driver off the provinces' books; by maintaining the existing level of transfers (indexed), it satisfactorily addresses the VFI; and it offers scope for some mutually-agreeable commitments on issues like waiting lists, etc. It seems that Alberta and Quebec (and arguably the BQ and Conservatives respectively) would be on side, and most of the rest of the provinces could probably be finessed with an equalization commitment (which would be negotiated at a later date). Finally, the long-standing jurisdictional quagmire surrounding medicare would be rationalized by dividing up the policy area.

The specific example is not intended to serve as a preferred outcome. Rather it is meant to suggest that throwing pharmacare into the hopper substantially increases the degrees of policy freedom. Consider some other options:

- Ottawa takes over pharmacare for the elderly;
- Ottawa takes over pharamacare for the elderly and the children;
- Ottawa takes over either one of the above two but does so in the context of income-tested, catastrophic coverage, run through the federal personal income tax system;
- Ottawa takes over pharmacare but only on a catastrophic basis;

All of these options could be combined with the status quo in terms of existing CHA transfers (as in the original example).The focus on the elderly and the children is deliberate because Ottawa now plays the key role in terms of their income support (e.g., OAS/GIS for the elderly and the CCTB for the children), so that responsibility for some version of pharmacare would not constitute a huge departure in terms of the federal mission.

If, however, Ottawa rejects the creative COF pharmacare proposal, then forging a package acceptable to the provinces becomes much more difficult, because the formal Liberal proposal would certainly not be acceptable to the four largest provinces and perhaps not to the remaining six either. The earlier quotation from St-Hilaire indicates why this is so. From the provinces vantage point, the minimum acceptable package (absent the pharmacare option) would seem to be a move to a 25% unconditional funding share. Buying new provincial programs/commitments would be possible only with additional transfers (i.e., beyond the 25% share), and again run through some SUFA-like process.

One major disadvantage of this latter strategy is that it continues to increase the magnitude of federal transfers that are directed to areas of provincial jurisdiction. Even with a SUFA agreement in place it will become progressively easier for the provinces to harbour the view of a vertical fiscal balance, since one (not the only) definition of an increasing VFI is increasing federal spending/transfers directed to areas of exclusive provincial jurisdiction. The advantage of the various pharmacare options is that aspects of prescription drugs would in effect henceforth come under *federal jurisdiction*.

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