

THE ECONOMIC IMPLICATIONS OF CONSTITUTIONAL CHANGE FOR ATLANTIC CANADA

Elizabeth Beale*

In this paper, I will address some of the issues related to constitutional change and their impacts on Atlantic Canada. Like many economists and other social scientists across Canada, I participated in a number of studies on the economic impact of Quebec separation during the post-Meech Lake period in the years leading up to the referendum on the Charlottetown Accord. Virtually every policy institute, financial institution or indeed public or private interest with a stake in the economic future of the country was at that point investigating various aspects of separation.

During this period, the research on the economic impact of constitutional change covered a wide range of topics. Every area of public policy, domestic and international, was torn apart and reexamined in terms of the country's future with and without Quebec. The topics addressed included the environment, federal-provincial relations, key industrial sectors and trade policy. For Atlantic Canada, the research coalesced in three areas:

(1) industries with shared jurisdictions, such as the fishery, where the establishment of international agreements could lead to a displacement of economic activity, as might occur with the loss of access to a traditional fishing area.

(2) federal-provincial fiscal relations, and in particular fiscal transfers between the federal and provincial government, transfers to business (regional development incentives) and transfers to persons, such as UI payments. These topics were given an almost uniformly gloomy treatment with respect to Atlantic Canada. It was generally assumed that any form of constitutional change would restrict the federal pipeline to Atlantic Canada. The Allaire Report,¹ for example, called for a more open domestic economy with less restrictive interprovincial trade and a reduction in "dependence inducing" transfer payments. Whatever the form of constitutional

* President and CEO of the Maritime Provinces Economic Council.

¹ This report is a proposal by the Quebec Liberal Party regarding the political autonomy of Quebec and its future. See Allaire Report, *A Quebec Free to Choose: Report of the Constitutional Committee of the Quebec Liberal Party* (Montreal: Parti libéral du Québec, 1991).

change, whether Quebec's departure or a greater accommodation of provincial rights, most analysts interpreted it as inevitably leading to a reduction in the net inflow of transfer dollars. In transfer-dependant Atlantic Canada, it was assumed that this would automatically result in lower levels of consumption and a deterioration of government services, placing the region's economy at a great disadvantage vis a vis the rest of the North America.

(3) transportation links to the rest of Canada. Transportation issues have been a dominant regional concern since the initial negotiations for Confederation prior to Confederation, and an ongoing source of federal-provincial conflict since then. The potential fragmentation of the country into two distinct parcels fueled a resurgence of concerns about how transportation links could be maintained or reworked. For example, for surface freight links, could a corridor authority or common trucking or rail regulations be established to allow shipments to move between the Atlantic provinces and the rest of Canada, free of user or transit fees imposed by Quebec? Would the federal assets governing the St. Lawrence Seaway, and the myriad of Crown corporations involved with its operations, such as the Ports Corporation and the Seaway Authority, be sold? Would an independent Quebec take over ice breaking, the subsidy of which is a long-standing irritant to Atlantic Canadians? Again, most of the analysis pointed to a mostly negative outcome for Atlantic Canada. With the loss of Quebec, the four small eastern provinces would be further isolated and separated from major markets, with diminished federal support for essential transportation infrastructure.

This analysis and the discussion on the economic impact which I have referred to all took place in the pre-Charlottetown Accord era. After October 1992, the discussion on the economic consequences came to a fairly abrupt halt. Although there have been some attempts to raise the profile of this topic again (notably during the referendum), for the most part this has been resisted by policy makers. This is, for example, only the second time in five years where I have been asked to address this topic, and neither of these have been for a business or economic policy audience.

It seems to have been replaced by a much more muted discussion on other constitutional issues such as whether 50 percent plus one constitutes a majority or whether partition is democratic or antidemocratic. I use the word "muted" quite advisedly. It seems that most ordinary Canadians are less likely to feel comfortable in advancing an opinion in some of these areas. In contrast almost everyone had an opinion on Quebec's departure, i.e., they felt it would lead to the loss of their job or a reduction in their standard of living.

I suspect there are numerous reasons why the economic impact issues dropped to the back burner, with the overexposure of the topic in the media and elsewhere being, no doubt, an important consideration. Although most social scientists attempted to maintain an objective position in carrying out the studies to which I have referred, it was hard to avoid completely the emotions of the period. Certainly the information on the economic costs of separation was used as a battering ram by those from the federalist camp, hoping that rational economic "hit them in the pocketbook" arguments could persuade where other arguments had failed. When this strategy was unsuccessful, there was an inevitable tendency to blame the messenger (or at least the analyst). Rational economic research frequently fails to convince the committed, instead merely inflaming them. Economists frequently get caught in the middle of heated political debates.

On the surface, one might be led to believe that many of the concerns with the economic impact of constitutional change died or at least lost their voices following the failure of the Charlottetown Accord. On the contrary, the debate over Canada's constitutional future has been a major catalyst in encouraging a restructuring of the economic union and specifically of federal-provincial relations. Many of the leading policy analysts redirected their energies away from the more obvious questions regarding Quebec's departure. This has been described as the effort among "political scientists, economists, lawyers and practitioners to extricate themselves from more than a decade of Canadian constitutionalism and re-engage themselves in the remaking of Canadian federalism."

The pressures which arose with the concern about our constitutional future have also coincided with a number of economic factors. The last seven years since the recession of the early 1990s has been a period of exceptional change and restructuring for most industrialized countries and Canada is no exception. This has been led by rapid changes in technology, in particular, information technology and a shift from domestic to international markets. Canada's fiscal deficit and debt has also led to a significant downsizing and decentralization in areas of both economic and social policy.

The combined effect of these factors has been to encourage a move away from policies which would support a highly centralized federal state in favour of a more laissez-faire attitude generally and greater provincial autonomy in economic policy matters. The most pivotal source of ideas on the new federalism has been Tom Courchene, economist and director of the John Deutsch Institute at Queen's

University. In his Access Proposals (fall, 1996),² Courchene points to the decentralist movement already underway and asks how do we reconstitute our internal socio-economic union? In his full Access model, the full responsibility for setting national (what Courchene calls pan-Canadian) principles in health/welfare/post-secondary education would fall to the provinces, with the current cash-transfer floor converted to tax transfers. Equalization would remain a key transfer, to allow the provinces access to the revenues sufficient to mount "national" programs.

The primary benefit of this arrangement would be to allow one level of government to integrate all policies with respect to all aspects of the labour market, including education, welfare, training and employment insurance. This would avoid the rigidities which currently limit the efficient delivery of programs where both senior levels of government are involved, or the federal unilateralism which frequently emerges in areas of dispute.³

The proposals represent a radical restructuring of the traditional post-war status quo. They have triggered a far reaching debate on federalism, capturing almost as much energy, one might argue, as the pre-1992 debate on the economic impact of constitutional change. To those who are uncomfortable with the premise of greater decentralization, Courchene argues that this is already underway, driven by global and to some extent fiscal forces. These proposals, in his view, reflect the changing environment and force the provinces to take on a greater responsibility commensurate with their increased power. Although not stated explicitly by Courchene, it seems that Quebec's aspirations for greater independence are never far removed from consideration. These proposals would be one way to allow Quebec and all provinces to have greater autonomy in areas such as labour market training and immigration.

What implications do these proposals have for the Atlantic provinces? To date, no part of Canada has been more affected by the economic restructuring than the Atlantic region. The region's resource industries are no longer the mainstay of communities across this region and we are experiencing a rapid movement of the

² T. J. Courchene, *ACCESS: A Convention on the Canadian Economic and Social Systems* (Toronto: Ontario Ministry of Intergovernmental Affairs, 1996).

³ For example, one area of dispute consists of issues regarding residency requirements. Note, there is also an interim Access model for those who would fail the test of nerves required to remove completely the steadying hand of the federal government in these areas.

population out of rural areas. Fiscal restructuring has resulted in a rapid contraction of government's role in the economy across the spectrum. For those who decry this loss of federal support to the region, the Access proposals represent a further attack on the poorer provinces, forcing us to rely more on our limited internal resources and reducing further the federal lifeline.

I am not nearly as negative about the Access proposals as some of its critics from Atlantic Canada. In part this reflects my observations about the positive aspects of the adjustment process underway in this region's economy. Despite the loss of employment in some industries and a contraction in government spending, the economy has shown a remarkable resilience, with new areas of economic activity evident across all provinces. Quite apart from the more receptive environment which might encourage provinces such as Quebec to remain as part of the economic union, the Access proposals could strengthen this adjustment process, leading the four Atlantic provinces to work more closely together on key economic strategies and taking a greater responsibility for their economic destiny.

Revitalizing the federal economic levers or moving further in favour of provincial rights? It is still not clear which outcome will have the greatest benefits for Atlantic Canada. However, more Atlantic Canadians need to become involved in this debate on the new federalism.