

Dialogue Table Proceedings: Summary Address

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Assignment of Responsibilities and Fiscal Federalism

(Dialogue Tables 3 and 6)

The Federal Idea and Its Enemies

There has been a profound resurgence of interest in the federal idea in the last decade. I choose the phrase “federal idea” carefully because the “ism” in federalism has a way of limiting debate and understanding. In Spain, the central government is reluctant to use the word because it seems to connote the dissolution of sovereign authority; conversely the Catalonians won’t use it because in their eyes it does not sufficiently represent the unique nature of the Catalan claim to self-government. In South Africa the word fell into disrepute because it had some official approval from the apartheid government; similarly the African National Congress’s vision of “one South Africa” made the party reluctant to describe any new constitution as “federalist.”

These are hardly new debates: the Jeffersonian tradition in American politics was proud to call itself “anti-federalist” because it concluded that the centralising forces behind John Adams and Alexander Hamilton had branded the “f word”. Yet both Thomas Jefferson and John Adams were clearly

federalists who shared far more key assumptions than the rhetoric of democratic debate might have led some to believe.

What is happening today in South Africa, Spain, Mexico, Nigeria, the United Kingdom, Russia, Brazil, India, Pakistan, Cyprus, and Sri Lanka, to mention just a few countries, is a reflection of some important common tendencies that need to be understood. There is certainly more than one way to be a federalist; it is the common idea that matters.

Political arrangements of cooperation and association have their roots in many ancient societies, from African tribal councils to city state pacts to the Iroquois Confederacy. The modern federal idea is first and foremost a democratic idea. It implies a respect for people's identities and their political choices, freely expressed, and has to start from that premise. It is incompatible with populist concepts of democracy that are not based on a respect for individual rights, constitutional process, and the rule of law. It also runs against those elements in society who believe they have a pipeline to the "real" or "best" interests of the people. Ideologies that express a certain knowledge of political truth (or religious truths as made manifest in the world) are implacable enemies of the federal idea.

The federal idea, therefore, understands the vitality of politics and rival notions of the public interest. It also speaks to a common concern about limiting the sphere of government. Constitutions that set out which level of government can do what, and then also guarantee rights and freedoms, if they are combined with a court structure with the capacity to interpret this balance –

and to enforce that interpretation – are inevitably about the boundaries of popular sovereignty and the protection of both group and individual rights.

These points are fundamental to the defining element of the federal idea, namely that a federal country is one where power is at once divided and coordinated. That, of course, is the central tension in federalism: it is not just “one idea”. It implies a common agreement to do certain things separately and other things together. It is about more than just devolution, because the premise is that state or provincial governments have as much sovereignty in their sphere as the national or federal government have in theirs. There are no “higher” or “lower” governments, no “senior” or “junior” governments, just different governments doing different things within a common framework. Nor is the national government a mere creature of the provinces, delegated by them to do certain tasks. It too has its own sovereignty, its own direct connection to the people.

The federal idea, therefore, implies an ongoing, indeed a never-ending dialogue about who does what. There are significant concerns in each federation about fiscal issues, how money is raised, how it is shared, how it is spent. In Canada resources are provincially owned and the windfall from that flows to different provincial governments. In Nigeria the central government claims all oil revenue and then divides it up according to a formula. With the return of democratic federalism to that country, the issue of how revenue should be divided is now being argued in court. Australia’s revenue-sharing formula is said to be so complicated that it brings to mind the British statesman’s comment that “there are only three people who know the causes of the Crimean War. Two of them are dead and I can’t remember.”

There is a growing consensus that local and state governments need to be able to raise the money to spend on their own programs: this increases both transparency and accountability. Where this is not possible, central revenue sharing needs to be both clearer and less unilateral. When this doesn't happen, as is often the case, it gives rise to inevitable conflict.

Those opposed to federalism point to these conflicts, the sometimes bewildering complexity of federal institutions, and the alleged cost of "too many governments" as justification either for separatism or simply abolishing regional governments altogether. In Sri Lanka, for example, federalism has often been opposed by elements of the majority because it is said to imply costs in a country that is too small for federal arrangements. Canadians will remember Quebec Premier Jacques Parizeau's famous promise in Toronto that the appeal of separatism to the rest of Canada was that it would mean "no more trips to the dentist". To which one might reply that if you don't go to the dentist your teeth fall apart.

Yet we know from our own experience in Canada that metropolitan Toronto was a federation before it was unified by the provincial government. This new government is neither more efficient nor less expensive than what we had before. On a much larger scale, it would be hard to point to the "efficiency" of a one-party Mexico or the Nigeria of the military dictatorships. Switzerland is geographically small, and politically complex. Yet it has remained for decades a symbol of efficiency and tolerance.

The federal idea is indeed about the complexity of things, but better the give and take of an endless negotiation – isn't that what much of life itself is,

anyway? – than the simple desert of the Jacobin, the Leninist, the militarist, the religious fanatic, or even the old fashioned ethnic nationalist whose world has difficulty with any kind of pluralism.

The resurgence of the federal idea has at its core many different causes. The vitality of the values of democracy, the revolutions in the politics of identity and human rights, the twin collapse of apartheid and bureaucratic communism, the impact of the technological revolution, the economic changes we associate with the word “globalisation”, all these have made their contribution. In Mexico, for example, one-party rule for most of the twentieth century meant that while the constitution spoke of the federal nature of the country, the reality was quite different. The same was even more true for the Soviet Union. The man on horseback had an equally brutal effect in Brazil and Nigeria: the federal idea is quite incompatible with the command control mentality of the military hierarchy.

The debate on fiscal federalism demonstrates clearly that there is no one “correct” economic model of a federalist fate. Each country’s method of sharing responsibilities and financial powers is inevitably a reflection of different histories and values.

What, then, can we learn from each other? The idea of this conference is that globalisation is more than an economic or technological phenomenon.

Practical people need to share experiences, academics need to share ideas: no federation is an island unto itself. All politics may be local, but we benefit by understanding not just the values, but the workings of other systems.

Some modest conclusions would seem to flow from our comparative discussion:

First, the level of government which is responsible for a particular service should have the capacity to raise taxes to pay for that service: this increases accountability and efficiency.

Second, where this is not possible, the system of transfers from one government to another – either “horizontal” or “vertical” – must be transparent, objective, and non-discriminatory.

Third, new technologies must be understood when dealing with arguments about the efficiencies of various kinds of taxes (e.g. tolling technologies, user fees etc.) value added tax, for example, can be local or provincial.

Fourth, equalisation can take a variety of forms, depending on the level of commitment to “solidarity” as a working principle (e.g. Canada versus Australia versus Switzerland).

Fifth, in developing transitional economies, local capacities are key, but it must be remembered that central bureaucracies rarely give up power easily, and overweening patriotism is an enemy of the federal idea.

The economists in our midst were inevitably frustrated by the messy pragmatism of many existing systems. Yet politicians have much to learn both from each other and from subjecting their proposals to the scrutiny of rigorous academic cross-examination. The International Conference on Federalism 2002 was an ideal place for this dialogue to occur.