

**International Conference on Federalism
Mont-Tremblant, October 1999**

Session 9) Plenary: Theme Reports

**RAPPORTEUR'S REPORT ON THE
SOCIAL POLICY AND FEDERALISM THEME**

**By Nicholas Timmins
Public Policy Editor, Financial Times, UK**

8 October 1999

Could I just start by recalling the old joke about the economist John Maynard Keynes -- that whenever there were five economists gathered in a room there would be six different opinions about the topic under discussion, and at least two of them would be held by Keynes.

After two days listening to social policy experts discuss federalism and social policy, I can tell you that when 50 of them are gathered in one room there are at least sixty opinions, and lots of them will be held at the same time by the same person, depending upon the topic under discussion.

This offers me the advantage as rapporteur that whatever I say now there is almost certainly someone who was at our sessions who will agree with some of what I report. And the undoubted disadvantage that there will be plenty more who won't recognise a word of it.

Could I also say what a pleasure it has been to be here -- although if you look at the media reporting of the conference, it is clear even to a deaf, dumb and blind observer, and I'm deaf in one ear and wear glasses, that there are -- how shall I put it politely -- a few slightly turbulent political eddies running around federalism in Canada and Quebec in particular.

Indeed as one member of our sessions -- a Canadian I hasten to add -- neatly put it, there were moments when for some of us it felt as though a friendly warm and welcoming couple had invited people from all around the world to dinner, and then started having an almighty spat across the table in front of the guests -- leaving us unsure whether to turn our faces to the wall in embarrassment or to roll up our sleeves and join in the fun.

But to social policy and federalism. I think we started with a worry about how federalism affects social policy. Federalism may well help in assisting cultural

diversity. It is a neat way, as one of our speakers put it, of enabling people to live separately but together. It provides checks and balances more obviously than a unitary state. It prevents central government becoming too autocratic. It can force debate about policy into the open which may, when it does not produce political deadlock, lead to better policy because the policy has been formulated more transparently.

But there were at the start of our session serious worries about equity, and about whether a federal system makes that harder to achieve if responsibilities for health, education, or income security, the three areas on which we focussed, are devolved, or devolved too far, to provinces or states.

We opened with what I suspect was the star turn of the whole conference in Robert Reich, the US former Labour secretary, who turned in a sparkling performance and was the only speaker who managed comfortably to exceed his allotted 15 minutes without anyone daring or even wishing to raise the red card.

His thesis was that in a world where globalisation and information technology are leading to rapidly widening inequalities both between nations and within them, federalism can add to the problem. It can make it relatively easier for the people on the winning side -- the educated, skilled and those in the high value service sector -- to cede from the poor side. He took as his example education in the US, where 40 to 50 per cent of expenditure comes from local taxes -- and where the rich in rich areas can afford better schools, better teachers and thus better education and better prospects for their children, while the poor in poor areas face a spiral of decline. Or unemployment insurance, again a state not federal responsibility, where states have cut eligibility in a battle to attract employment by offering low labour costs -- producing in his words, a race to the bottom. Or adverse selection, where a state offering generous benefits attracts in the needy, leading either to higher taxes -- which encourage the better off to leave -- or in time to the state seeking ways to push out the needy, for example by getting rid of subsidised low income housing so that the needy have no choice but to depart.

His answer to this was to widen the base from which revenue is raised -- making funding for education and unemployment insurance a federal responsibility, while leaving the administration of the programmes in local hands. And the political pitch for this, he argued, should not be distributional equity, but the argument that by raising the game for all, everyone will gain from greater productivity. A case based on enlightened self-interest, not charity.

Well all that was pretty gloomy for federalism -- and about as focussed as it got on federalism.

There were of course plenty of arguments the other way. That federalism permits greater flexibility and wider experimentation and diversity within social policy -- just look, for example, at welfare reform in the United States where there is no

longer one welfare policy but literally hundreds, or even thousands as not just states but counties pursue their own roads to welfare reform. It is difficult to see that having been initiated in a unitary state. Equally, federalism can allow health programmes to adapt to the very different problems in northern and southern Nigeria.

But there is another issue here. Even if federalism allows greater experimentation, does it make it any easier -- when one particular programme is shown to work better than another -- to ensure that the less successful learn from the more successful and adopt what works? Not necessarily. Diversity and successful experimentation only raise standards overall if the political culture is a learning one, and doesn't suffer from the view that "we're not doing that here because it wasn't invented here". And it is not necessarily clear that federal systems are better at that than unified ones.

Then again states and provinces may find it easier, because they are smaller and more local than the nation, to combine social programmes such as health, education, and income support in one department, allowing the problems which interact to cause social exclusion or poverty to be tackled jointly. But good governmental infrastructure is needed to achieve that. And while it is true that these issues do interlock, one all embracing department may create as many internal bureaucratic problems as the more transparent disconnections between different departments.

A trend was noted -- in developed countries at any rate -- for national governments to be increasingly eager to set standards -- defining curricula or setting achievement targets in education for example, or setting standards and measuring outcomes in health -- while leaving the means of their achievement to provincial or state government. But even here there were doubts. The shifting of responsibility for implementation between one level of government and another may be a means of encouraging innovation and efficiency. But it can also be a means of cost-shifting -- of a central government wishing to cut taxes, for example, devolving responsibility but not finance down the federal chain, and using accountability measures as smokescreen for what it is doing.

And there were differences of view about accountability -- and how important, or not, it is that powers of the different levels in a federal state were separately defined or held concurrently. This may not be a fair summary, but I got the impression that accountability was less of an issue in the mature democracies where it is clear that, whoever is in fact responsible, the electorate knows it can throw one lot out and put the other lot in every few years. It was much more of an issue in developing countries, where clear accountability may be an essential guard against the risk of corruption.

And there was a huge amount of discussion about centralisation v. decentralisation, and about the impact for good and ill of globalisation and the IT

revolution. We talked about power shifting upward -- to the growing number of international bodies affecting finance and trade, and in the case of Europe upwards to the European Union.

And shifting outwards to multinational corporations. And shifting downwards: away from the nation state and even from provinces and states to local government, to municipalities, and to pressure groups and citizens -- with the Internet and the IT revolution seen on its more benign side as empowering individuals either against government, or for government in the sense that they will be able to play a fuller part in their own governance.

But it was notable, as the two days wore on, that the word federalism crept up less and less in these discussions. And as someone from the United Kingdom, which, Europe aside, has been a unitary state in the fullest sense until we indulged in a little devolution to Scotland and Wales a few months back, all these issues sounded ever more familiar.

For all of them -- centralisation versus decentralisation, the impact of globalisation and technology, standard setting, outcome measures, accountability, sources of finance -- are the stuff of political debate in the UK. They have been for the past 20 years and more. They are not peculiar to federalism.

And while it can be argued that federalism may promote greater risks of inequality, as in Reich's analysis of the United States, it is equally true that other federal countries have not seen inequality rise so rapidly.

Indeed, it is noteworthy that the two developed countries which have seen the fastest rise in income inequality -- although obviously not the widest spread of inequality -- have been over the 20 years to the mid-1990s not federal states but unitary ones: New Zealand and the United Kingdom.

Nor is it true that only federal governments can experiment. They may find it easier to do so, but unitary states can also play the game: the UK's current Labour government has a string of experiments under way through what the cynics have dubbed "zone-itis" -- health action zones, education action zones, employment and community action zones and more, where different ways of doing things are being tried out. Whether these will be seen through in quite the way that would be more inevitable in a federal system remains to be seen. As indeed does whether the unitary UK proves any better or worse at applying the lessons from them more widely.

So what increasingly we found ourselves discussing was not federalism per se, but governance. And much of the decentralisation we were talking about -- whether barefoot doctors in the third world, or self-management of hospitals, the

organisation of primary care, or the design of welfare to work programmes to fit local needs -- was devolution and decentralisation to levels far lower than the state or the province or even the municipality. We were talking about trying to establish what works -- where power, finance, responsibility and accountability should lie. And it was clear that the answers to that lay at least as much in each country's history, culture and structure as in its formal political arrangements, which in any case differ sharply between federal states.

Now it may be that that happened because most of the people in our sessions were social policy wizards, not economists or fiscal gurus. And this is absolutely not an argument to say that federalism doesn't matter for social policy -- clearly it does and fiscal federalism in particular must have impacts on social policy. But its impact will depend upon the nature and design of the system, where power over particular issues actually lies (as opposed to where the constitution says it lies), how vigorously the constitution is enforced, and who raises the money for what.

I think what I am saying is that for me at least what has come out of the last two days is that the lessons to be learned for social policy from federalism and for federalism, will come much more from case by case comparison, subject by subject, within and across federal countries -- and even between federal countries and unitary ones -- than it will from some Einstein-like general theory of federalism. Which may well be a suitable subject for the Forum of Federations, if it becomes a permanent body after this conference, to explore.

We seemed to be dealing as the debate wore on with universal truths about the changing nature of the world and its impact upon government and social policy, far more than we were about universal truths about strengths and weakness of federalism versus unitary states. Which may not be quite the conclusion which we came looking for.