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Session 2B) EFF Theme Plenary: New Economic and Fiscal Federalism

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There is one inescapable reality in the challenges that globalization poses for our national economies.

Whether they be rich or poor, large or small, all countries of the world are faced with the same challenge: how to manage their growing interdependence at the global level while retaining the ability to respond to the very specific needs of their populations at the national, provincial or local level.

The beauty of federalism is that it offers the best of both worlds.
Why?

Because it provides federal states with the freedom to develop the specific policies and services that are required in the regions themselves.

But at the same time, it allows these states to reap the benefits of size: that is, economies of scale and greater influence in the world.

Federalism, at its heart, effectively reconciles the two compelling realities of globalization -- the growing interdependence of national economies on the one hand, and the ability to meet the need for the political, social and cultural diversity that exists within a country's boundaries on the other.

In the short time I have before you, let me illustrate this point with a few Canadian examples.

In our federal system, Canada's provinces act in a wide range of social, economic and cultural matters. They tailor the policies and programs under their jurisdiction to meet the specific needs and demands of their own populations.

At the same time, however, by making it possible for our country as a whole to pool its resources, federalism offers Canadians as well a balanced formula for sharing the benefits of economic growth.

As a result, no matter where they live, Canadians enjoy reasonably comparable standards of education, health care and social assistance.

This has been accomplished through a national network of social insurance plans and equalizing transfers to less wealthy provinces.

Furthermore, and this is a critical point, working jointly through a federal system has given Canadians the critical mass of resources, people and ideas required to meet today's global competition head on.

This is true in terms of government support for research and development, for example, where economies of scale have made the federal government by far the key catalyst in the country.

It is also true in the way Canada is a major player as national governments meet the evolving challenges of global governance. For instance, it is one thing to have a seat in the major fora of the world; it is another thing altogether to make effective use of that seat.

The fact is, globalization is changing the very nature of the world's economy. In that evolution, you either have the wherewithal to ensure that your interests and views are taken into account or you often find that you must accept the consequences of decisions made by others.

Consider, for example, discussions in the Group of Seven (G-7), the International Monetary Fund and the World Bank.

Or consider the Group of Twenty (G-20), an important new grouping that was created less than two weeks ago. The latter brings together G-7 countries and several of the world's key emerging markets for the purpose of addressing major issues related to the global economy.

One has to ask if any one of the three countries represented here on this panel would have been invited to be part of the G-20 were it not for the size and influence they have because the constituent states that make them up are part of dynamic federations, as opposed to independent actors.

Needless to say, without the size and influence that Canadians enjoy as part of a federal system, not only would we not have been chosen to chair the G-20, we might not even have been included in its deliberations.

The point is, thanks to federalism, Canadian diversity speaks with a credible voice that is listened to on the world stage.

A third major challenge of globalization is the need for flexibility. The fact is, globalization puts a premium on innovation and adaptability to rapid change.

Here again, federalism offers Canadians a comparative advantage as a result of the balance it provides between competition and co-operation between

governments.

By its very nature, our federal system is open to different approaches among provinces in the design and development of policies, programs and services for Canadians.

This competitive federalism lends itself well to experimentation, innovation and new ideas.

It also allows different governments to share best practices and to learn from each other. In the right hands it encourages a race to the top, a quest for excellence in meeting the needs of Canadians.

And when governments co-operate together, the net result is greater choice and better programs and services for all Canadians.

For example, Saskatchewan pioneered health insurance, a program that the federal government subsequently helped extend to the entire country.

Other provinces have initiated effective approaches to helping children in poverty and their families, programs which have also been extended across the country.

The Caisse de dépôt et placement du Québec, which manages financial market investments to ensure the growth of Quebecers' pension funds, is another example of innovation at the provincial level adopted at the national level. Last year, the federal government and the other provinces followed this example and established a similar fund as part of the reform of the Canada Pension Plan.

In short, all of these examples illustrate the flexibility and innovation of federalism. And on the eve of the 21st century, these qualities are more relevant than ever.

In summary, when finance ministers are asked what is to be done, the answer is normally quite predictable. Keep inflation low, maintain balanced budgets, reduce debt and lower taxes.

All true. All very necessary. But surely, as well, as the global village becomes a reality there is more, much more, that governments must do.

The fact is, at the heart of globalization, there is an inherent bias toward inequality. We may be creating a world in which the best will do very, very well, but it is also one where others may fall far, far behind.

The challenge for governments is to go beyond economic indicators and balance sheets. It is, in short, to seek equal opportunity, to narrow the gap between the rich and the poor. It is to widen the mainstream of a vibrant and expanding

middle class.

Unitary states can certainly meet this challenge.

But in my opinion, the advantage that federalism offers is that, all the while maintaining the strength that comes from concerted action, it also possesses the flexibility required in times of transition and great volatility, so that governments can experiment, innovate and adapt in ways that ensure that a greater quantity of growth in our economies is matched by a greater quality of life in our societies.

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