

Federalism and the COVID-19 crisis: The view from Canada



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Covid-19 is teaching all of us that governance matters. The response to the crisis has varied between regions, and between countries. This is true both of the health impacts of the virus, and the economic devastation that has followed in its wake.

In Canada, the practical administration of the health care system lies with the provinces, but the all-important area of public health is shared between the federal government, the provinces, and municipal governments. In addition, the federal government has added to its transfers to the provinces additional amounts for health care over and above the health transfer that is now built into the structure of federal-provincial financial relationships.

When universal health care was introduced in Canada in the late 1960s, the federal government promised to fund this program on a 50/50 basis. This was changed a decade later, when the federal government shifted to block grants. Consequently, over time the share of health costs paid for by the federal government has dropped substantially, a source of continuing tension in the system which will be seriously aggravated by the Covid-19 pandemic.

While much of the response to the pandemic is directly related to the health crisis being managed on the ground by the provinces, public safety issues are also testing the federal system. All Canadian provinces have invoked emergency powers, as have most municipalities.

In the two telephone meetings the Prime Minister has held with the Premiers, it appears that the provinces have discouraged him from invoking the Emergencies Act. This federal legislation is the successor to the War Measures Act which transformed federal-provincial relations in the two world wars.

This, in turn, has meant that there has been in Canada - as in our federal neighbour the United States - a range of approaches adopted by different jurisdictions, and arguably a lack of consistency in the response to the pandemic. The Emergencies Act is being held in reserve, but it seems clear from discussions so far that it will only be used if all other federal and provincial approaches prove inadequate.





The boundaries and effectiveness of governance are being tested in Canada, as they are in all countries. But the health crisis is not the only challenge we face. As a result of the pandemic, the Canadian economy has been dramatically affected, and the impact of a long term recession on the federation will be serious.

Canadian provinces have financial autonomy, and can borrow on international markets - unlike some federations, where there are clear limits established. As a result, the ratings agencies assess provinces differently. This system is about to be sorely tested. Already Premier Ball of Newfoundland has written to the Prime Minister to warn that his province's finances are being stretched beyond capacity. He will not be alone.

More than any other cyclical recession, the necessary measures to deal with the health aspects of the pandemic are having a direct impact on everybody's revenues and cash flow. That includes everyone; individuals, businesses, and all levels of government. Canada is not alone in this regard, and the interest costs of borrowing are relatively low.

But we know for certain that this issue will have a powerful impact on our global financial arrangements, as well as those within the federation.

The federal government established the Rowell-Sirois Commission many decades ago to deal with the impacts of the Great Depression. We can rest assured that something like it will be needed once again. The crisis being experienced is happening in real time. Canadian federalism, like everything else, will need to change to deal with the effects and consequences of the Covid-19 pandemic.

