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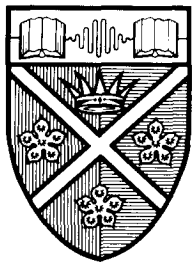

DEVOLUTION, FEDERALISM AND INDUSTRIAL DEVELOPMENT:

Inter-governmental relations in industrial development under the Scotland Act, 1987, and in the practice of Canadian federalism

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DEVOLUTION, FEDERALISM AND INDUSTRIAL DEVELOPMENT:

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CONTENTS

TABLES

ABSTRACT

One of the most difficult problems of inter-governmental relations in unitary and federal states is the division of powers between central and territorial levels of government. Two approaches to the division of powers are expressed in the Scotland Act, 1978, and in the practice of Canadian federalism. While the principles guiding the distribution of powers are very different in each case, many of the ensuing problems of inter-governmental relations are similar. In particular, both approaches imply functional overlap and consequent inter-governmental interdependence. Moreover, it is in the division of economic and industrial responsibilities and related questions of finance that this interdependence causes most problems and presents the greatest potential for inter-governmental conflict. The propensity for this conflict to materialise and the prospects for its resolution vary with social, economic and political conditions, which are very different in the two countries, however, the Canadian experience does shed some light on the contemporary Scottish debate and alerts us to some of the implications of the current devolution proposals of the British parties.

DECENTRALISATION IN SCOTLAND AND CANADA

Decentralisation involves the delegation of authority. Smith (1985) broadly classifies such delegated authority as either political or bureaucratic. Political authority is delegated when power is devolved through legislative enactment to an area government (as in a unitary state) or allocated between national and area governments by the constitution (as in a federal state). Such delegation creates political institutions with the right to make policies for their areas over which they have jurisdiction.

The Scotland Act did not propose the creation of a federal system of government. In a federal system, the area governments receive their powers not from the national government but from the constitution upon which the central (federal) government is equally dependent for its sphere of jurisdiction. The two levels are thus coordinate and independent. In short, "a federation is distinguished by a constitution which is superior to the individual governments of the states as far as the territorial division of powers is concerned" (Smith, 1985). Conflicts about rightful areas of jurisdiction have to be settled by a body independent of both levels of government, that is, a supreme court. In fine, the crucial and politically significant characteristic of a federation is that it is more difficult than in a unitary state for the centre to encroach upon the powers and status of regional governments. Thus, a cornerstone of federalism is the procedure required to amend the structure of relations between governments and the importance of independent adjudication and the representation of the constituent units at the central level of government. Federations are systems of government where it has deliberately been made difficult for the national government to alter the powers of the constituent units, their boundaries and their forms of government. In fact, until 1982 the Canadian Constitution was effectively entrenched against changes originating within Canada; the federation could not unilaterally change without British consent.

This system is in striking contrast to the tradition of devolution in the UK, of which the Scotland Act 1978 is typical. The proposed Scottish Assembly would have been a creation of statute, in exactly the same way as local government in the UK; Parliament creates local authorities and gives them statutory duties and functions. The Local Government Acts of 1972 and 1973 completely altered the system of local government in Scotland, England and Wales. Yet this fundamental and far-reaching change required no special legislative procedure; a simple majority in Parliament, as with all other legislation, was all that was required to effect this constitutional change. The devolution proposals of the seventies similarly required nothing more than ordinary legislation. Westminster would hand down certain powers to an Assembly which would be exercisable within resource constraints (the block grant), determined by Westminster and under the supervision of the Secretary of State for Scotland, Westminster retaining power to override any legislation proposed by the Assembly. In this case, then, political authority is *delegated* by the UK Parliament.

When the Devolution Bill was first introduced to the Commons, it began with the following clause: "Effect of the Act: The following provisions of this Act make changes in the government of Scotland as part of the UK. They do not affect the unity of the UK or the supreme authority of Parliament to make laws for the UK or any part of it". Inclusion of this clause was criticised and the Commons voted to remove it (*Hansard*, 1977). In fact the clause was unnecessary anyway because Parliament would retain full power, at least in theory, to legislate for Scotland despite the existence of an Assembly with legislative powers. This final authority would empower the government to abolish the Assembly, repeal the Scotland Act or amend any of its provisions. While Assembly Acts may amend any Act of Parliament (except the Scotland Act), provided that the amendment is within the field of devolved matters, Parliament could at any time prescribe that particular provisions were to be treated as though they *were* part of

the Scotland Act so that they could no longer be amended by the Assembly. In fine, the legislative supremacy of Parliament would remain unaffected with the passing of the Scotland Act. It was this that led Bogdanor to conclude that "Power devolved is, it would seem, power retained" (Bogdanor, 1978). Indeed, there is an exhaustive persistence throughout the Act underlying Parliamentary supremacy. While there are limits to the occasions and manner in which Parliament may intervene in Assembly business, the Scotland Act sets no limits on Parliament's power to legislate on any subject at any time. It would be by convention and not by statute that Parliament would mostly refrain from legislating on devolved matters.

There is no federalist division of powers, rights and responsibilities in the UK and no judicial review of the constitutionality of government legislation. The Scottish Assembly would operate with a limited degree of discretion, constrained by the actions of central government. The two levels would not be coordinate.

In considering the foregoing, federalism is often thought to be a highly decentralised form of government (Ridley, 1973; Riker, 1975; Smith and Stanyer, 1976). However, the comparative analysis of contemporary federations and unitary states reveals a number of themes which make the distinction between the two much less clear than it is sometimes believed to be. For example, Smith (1985) notes that it is not unusual for federal constitutions to contradict the principle of federalism by assigning some power to the federal government over the regional governments. In Canada, the federal government may disallow provincial law and instruct the lieutenant-governor of a province to withold assent from provincial legislation. Smith also draws attention to the fact that a unitary state can devolve substantial powers to territorial governments so that a quasi-federal arrangement exists; the government of Northern Ireland between 1920 and 1972 was a case in point. Most significantly, it is argued that the way in which federations have evolved makes formal legalistic definitions

in terms of divisions of powers relatively useless.

As federalism adapts in response to social and economic changes, the two main levels in most contemporary federations have become increasingly inter-dependent. There has been a significant expansion in the concurrent powers of federal systems (Birch, 1955). Among other things, this means that federations have a tendency to become more or less centralised than the founding politicians intended. It certainly means that different federations will reveal very different levels of decentralisation. For example, in the United States, the growth in levels of federal spending has meant that many grant-aided programmes have been initiated. These lay down policies which state and local governments are required to adhere to. In Canada, however, with the general process of 'province-building' has evolved a far more decentralised federation than anything the constitution framers had intended.

THE FEDERAL DIVISION OF POWERS

The 1867 Canadian Constitution Act had formally set out the functions and powers of the two levels of government. The key sections of the Act were those which put into place a federal system of government by specifying the division of powers between the national and provincial governments, of which there are now ten. The federal division of powers were set forth in a number of sections, the most important of which were Section 91, which specified the powers of Parliament, and Section 92, which specified those of the provincial legislatures.

The intention of the constitution framers was to create a highly centralised federation. The Act gave Parliament control over most aspects of national economic management (including public debt, regulation of trade and commerce, legal tender and banking) and even over such matters as criminal law, marriage and divorce which had been reserved to the states in the United States union. The provinces were granted only those powers over

matters "of a merely local or private Nature in the Province". Thus, Section 109 assigned all lands, mines, minerals and royalties belonging to the several provinces" to the provinces.

Other features of the Constitution Act testify to its centralist bias. In areas of concurrent jurisdiction, such as those over agriculture and immigration, Parliament would be paramount in cases offederl-provincial conflict. Furthermore, contrary to the tradition of federalism and in direct contrast to the situation in the United States, in Canada, all unassigned legislative powers went ot the central government under the "Peace, Order and Good Government" clause. This residuality clause proclaims that "It shall be lawful for the Queen, by and with the advice and consent of the Senate and House of Commons, to make laws for the Peace, Order and Good Government of Canada, in relation to all matters not coming within the classes of subjects by this Act assigned exclusively to the legislatures of the Provinces..." Many of these matters were relevant to industrial development.

Finally, Parliament was granted the declaratory power to make laws in relation to "such works as, although wholly situate within the province, are before or after their execution declared by the Parliament of Canada to be for the general advantage of Canada or for the advantage of two or more provinces". And the Act gave Parliament the power to disallow provincial legislation even when such legislation is wholly within the provincial legislative domain.

The architects of Confederation, having allocated to the federal level what were then the most expensive functions of government, provided that Parliament might raise moneys by "any Mode or System of Taxation" while the provinces were limited to direct taxation. Thus the federal government had exclusive access to customs and excise duties, the source of most public revenues at the time. The provinces were confined to taxes on real property, proceeds from the sale of Crown lands and the exploitation of

natural resources and to incidental fees and revenues. In addition they were to receive annual subsidies from the Dominion according to a schedule provided in the Act.

The division seemed clear; for many years, federal and provincial governments were considerably removed from each other, not only in terms of the inadequate communications of the day, but also because both levels of government functioned so minimally that there were few problems raised by overlapping jurisdictions. As the federal system has had to cope with a modern, industrial and transcontinental society and a vast expansion in the size and activities of government, the constitutional division of powers that had been laid out in 1867 was swamped and scrambled, especially in economic and industrial policy fields. At the same time, an expanding provincial resource base (provincial revenue was significantly expanded after 1947 when provincial governments started to levy local income and corporation taxes), increasing bureaucratic professionalism and a series of generous court interpretations of the Canadian constitution contributed to a significantly more powerful level of provincial government than the constitution-framers had intended. According to one authority, "among the more or less centralised federations of the modern world, most writers would agree that Canada is about as decentralised as one can get" (Riker, 1975). Interdependence has now replaced an earlier constitutional separation of governmental functions between national and territorial levels. In economic and industrial policy fields, this interdependence has been characterised in practice by inter-governmental conflict.

The problem of dividing powers between different levels of government is not confined to federal systems as the experience of the Scotland Act demonstrates.

THE SCOTLAND ACT DIVISION

In the Scotland Act the major criterion for the central reservation of power was the "preservation of economic and political unity" within the UK. This was considered to include, inter alia, the instruments of economic management (such as the taxation system, interest rates, social security and currency) and control of natural resources on the one hand, and those powers necessary for national security, international relations (including matters connected with the EEC) and the national framework of law and order (including the police and the electoral system) on the other. Matters relating to these functions constituted the 'high' politics by Bulpitt's definition (Bulpitt, 1983). The decision on whether or not to devolve was a function of the extent to which a Scottish administration could take decisions in a given field without influencing other parts of the UK. Thus, the government stated that "the devolution which is being proposed for Scotland and Wales relates to matters which primarily affect people living in Scotland and Wales and which can be administered separately in either country without side-effects for those living in the rest of the United Kingdom" (Privy Council Office, 1976).

However, if devolution in the seventies was to be restricted to those matters in which no interaction with the government or UK interests would occur, very little would be devolved because "it is unlikely if not impossible, that public policy of any significance could result from the choice process of any single unified actor" (Sharpf, 1978). The architects of the Scotland Act attempted to get round the problem of dividing powers on an all-or-nothing basis by specifying precisely the powers of a Scottish Assembly and binding it by the rule of ultra vires. In the Scotland Act, the matters to be devolved are classified in 25 groups but these must be read subject to the matters excluded from devolution; powers are only devolved if they relate to the subjects listed in the groups set out in

Schedule 10, Part 1 and are not excluded by the entries in Schedule 10, Parts 2 and 3.

However, while this very detailed enumeration which envisages the specification of both devolved and retained subjects may be sound in theory, in practice it would lead to fragmentation in policy-making. While, with regard to some matters, the division of power is clear enough - for example, Westminster would retain clear responsibility for defence and foreign affairs - many of the other demarcation lines are obscure. In health policy, for example, the Assembly's powers may potentially interfere with reserved functions. While the Assembly would be responsible for determining its own priorities in devolved areas and allocating funds from its block grant accordingly, it would be constrained in its actions insofar as these are not allowed to affect reserved functions. So, while the Assembly may choose to devote funds to preventitive medicine, and while occupation is closely linked to ill-health, it could not establish an occupational health service aimed at preventing occupationally-linked disease because occupational health is explicitly a reserved function (because it affects employment).

The Scotland Act is replete with 'intra-functional' divisions of responsibility between levels of government with overlap a virtual inevitability in many cases. But if it is fallacious to assume that within one policy field, technically discrete functions can be administered independently by different agencies, it is no more realistic to talk about policy areas as self-contained units or to expect the effects of an initiative taken in one policy field to be confined to that policy field. What we are referring to here is the potential for 'inter-functional' overlap. Nowhere is this inter-functional interdependency more apparent and serious than in the field of economic and industrial development and related questions of finance.

Our discussion thus far, has been confined to issues arising from the proposed division of powers between an Assembly and Westminster in which legislative authority is apparently vested in one or other government body. There are other areas though, where, by the same criterion of the impact of devolved decisions on the rest of the UK, the power to administer existing laws can reasonably be devolved, but the power to make new laws cannot. In such cases, 'executive' rather than 'legislative' responsibility would be devolved. The proposed powers of the Scottish Executive are listed in Schedule 11 of the Scotland Act. But by far the most important of these devolved executive powers are those relevant to industrial development. Some of these powers are listed in Schedule 11, others in Section 42, entitled "Industrial and Economic Guidelines".

DEVOLUTION AND INDUSTRIAL DEVELOPMENT

One of the sharpest criticisms of the proposed Assembly focussed on its limited powers in the economic, fiscal, industrial and employment fields. The devolution proposed accepts the continuation of the major features of the present system of economic management and do not change the basic nature of the relationships between Scotland and the rest of the UK. The main instruments of economic policy - demand management, fiscal policy, monetary and exchange rate policies - were to remain UK responsibilities, although subject to EEC and international constraints. Four Scottish MPs (Ewing, Sillars, Eadie and Robertson) argued that a Scottish Assembly should exercise an economic responsibility over such matters insofar as it is accepted that much of the Scots' discontentment in the seventies sprang from their inability to solve their severe economic and social problems in the fields of employment, trade and industry, housing and the environment. Under the terms of the Act, the economic role of the Secretary of State for Scotland would be enhanced by the transference of responsibilities for manpower functions in addition to his existing responsibilities for economic planning and industrial assistance

(although no extra money for industrial development would be forthcoming) but the most important economic decisions affecting Scotland would continue to be taken by Westminster government.

Once again, these proposals reflected the centre's desire to maintain the economic unity of the UK which meant that the central tools of demand management and macro-economic policy generally must be retained. But the government also argued that it was the only body constitutionally empowered to determine a fair balance between the different regions of the UK. Such a balance could not be developed by the regions themselves, for then the allocation of resources would depend on the political bargaining power of the regions and not upon considerations of genuine social need. Thus, Our Changing Democracy states that "relative need can be assessed only by taking an overall view, and that particular areas would be precluded from drawing up their own schemes of economic support and assistance with an overall allocation, since divergences could easily destroy competition in ways incompatible with a unified economy" (Cmnd. 6348, 1975).

The Act outlines three specific areas of activity which would be subject to guidelines set by the Secretary of State for Scotland. The first of these are the industrial development functions of the Scottish Development Agency (SDA). The Act states that SDA functions relating to "the promotion, financing, establishment, carrying on, growth, reorganisation, modernisation or development of industry or industrial undertakings" would be the subject of guidelines (Section 42). The second broad area includes the economic development functions of the Highlands and Islands Development Board (HIDB) and the final area concerns the disposal of land or premises for industrial purposes. Such guidelines then, would affect the work not only of the SDA and HIDB but also of local authorities and the New Town Development Corporations. It seems that the government was forced to adopt this guideline scheme to help solve a problem inherent in its devolution proposals, that is, the problem of fragmentation of

responsibilities. The government wanted to retain control over industrial development and regional policy, the 'high politics', so that Scottish institutions would be unable adversely to affect the interests of other parts of the UK by offering more generous forms of assistance than would be available elsewhere. Nevertheless, complete Westminster control over such matters would raise problems since some devolved subjects, like land-use planning and New Towns, are obviously related to industrial development policies.

The application of this general policy to the SDA and HIDB would have resulted in a division of responsibility for their functions between the Assembly and the government (see Table 1).

TABLE 1: ***Responsibility for the SDA under the Scotland Act***

FUNCTION / POWER	PRINCIPAL PROVISION IN SDA ACT 1975	EXTENT OF TRANSFER OF POWER	RELEVANT PROVISION IN SCOTLAND ACT
1. Appointment of members	s. 1	Executive	Schedule 11, Group E, Para. 9
2. Industrial investment	s. 2 (2) (a), (b), (c)	Executive (subject to guidelines)	Schedule 11, Group E, para. 9; s. 42(1) (a) (guidelines)
3. Selective financial assistance under Industry Act 1972, s. 7	s. 5	(Reserved)	See Schedule 10, Part III; and n.b. absence of reference to these functions in Schedule 11
4. Environmental and factory building	s. 2 (2) (d), (e), (g), (h)	Legislative and executive; but as regards latter, subject to guidelines on disposal of land etc for industrial purposes	Schedule 10, Part I, Group 6; s. 42 (1) (c), (2); Schedule 7 (guidelines). See also Schedule 10, Part III

SOURCE: Scotland Act, 1978

The Assembly would have had responsibility for the Agency's environmental and factory-building functions but not over its industrial development functions or the terms of disposal of premises or land for industrial purposes. This is lest distortions arise through the offer of more attractive and generous financial terms than those available elsewhere in the UK. However, the Government, as we have seen, decided to go beyond the Royal Commission's recommendations that there should be no devolution of trade and industry functions at all. Apart from the reasons already specified above, the government recognised that it must respond to the political pressures in Scotland for some devolution of industrial functions. The outcome was a compromise; the industrial development functions of the SDA and HIDB would be placed under the authority of the Scottish Executive, but subject to statutory published guidelines to be set by the Secretary of State for Scotland, subject to Treasury approval (Section 42, Scotland Act). Accordingly, the SDA would, through the Scottish Executive, be required to continue to operate in a commercial manner and the guidelines would cover such matters as target rates of return on investments, minimum interest rates or returns made by the SDA and HIDB and the criteria for making grants. Statutory responsibility for these agencies would remain with Parliament to which they would be required to present annual reports on matters covered by the guidelines. This compromise would also render more palatable to English MPs the devolution of industrial powers.

By this Section, the SDA would also be allowed to continue in its inward investment role. Given the government's preoccupation with minimising geographical overlap, it might seem surprising, in retrospect, that the attraction of inward investment to Scotland was a devolved function under the Scotland Act.

The actual powers of the SDA then, would not be altered; all that would change would be the source of finance (the Assembly would finance the SDA and the HIDB) and the source of governmental control. With the Scottish

Executive now involved, it is clear that the chain of control over the SDA and HIDB would be lengthened. But the Secretary of State already supervises these agencies so it may well be that the transfer of supervisory powers to the Scottish Executive would be formal rather than real and thus the provisions of the Scotland Act would greatly complicate the work of these bodies and cause a blurring of responsibility for the supervision of their activities.

The Scottish Executive would have had the power to appoint the SDA board and powers of patronage which would ensure that the Agency did not step too much out of line with any policies which the Executive wished to pursue. Further, Section 4 of the SDA Act would be devolved to the Executive, thus empowering it in the industrial investment field to give the Agency "directions of a specific or general character". The Secretary of State has this power at the moment but has used it very rarely and it is unlikely that a Scottish Executive would use it because its indirect control of the Agency would usually be sufficient. It must also be remembered that any direction given by the Executive would have to comply with the terms of the SDA Act, to the powers devolved to the Scottish Executive and with the content of the guidelines.

Quite clearly, the Executive's powers would be constrained by the guidelines. Although consultation may take place between the Executive and the government on the content of the guidelines, all such consultation would take place on a purely non-statutory basis.

What then, are the implications for a Scottish industrial policy of the provisions of the Scotland Act ? Job creation and economic development have to march hand-in-hand with housing, environmental improvement, education and social welfare. To attract industry and commerce it is first necessary to offer buildings or sites and other financial incentives. The Scottish Executive would have responsibility for the SDA's industrial

promotion activities as well as its factory-building functions. The Secretary of State, however, would have control over the determination of the financial package to be offered to potential investors. And, while he is responsible for the distribution of selective regional aid, non-selective assistance and selective sectoral aid would remain the responsibility of the Department of Industry. Factories are no use without houses; houses are built for people who need social facilities, roads, transport, education and a pleasant environment. The responsibility for these latter functions would fall to the Assembly. Thus, while the retention of economic and industrial powers can be seen as an attempt to avoid geographical overlap, the consequences would imply a new dimension of institutional interdependence. Just how this interdependency would be managed would depend, in part, on the political colour of the two principal levels of government involved. For example, the prospect of a Conservative government issuing guidelines to the SDA, to which a Labour-controlled Assembly is required to give effect, illustrates how the guidelines solution to a previous problem may well be a recipe for inter-governmental conflict.

We can predict that the functional divisions in a post-devolution Scotland between different government institutions would pose considerable constraints on an Assembly seeking to act independently, even in one specific policy field and even within the scope of devolved functions. Nevertheless, however a constitution is devised, the legal framework which it embodies is only one of the factors which will determine how it will work in practice. As Heald comments, "An abstract principle of respecting the separate powers of the Assembly will be sorely put to the test by actual conflicts over important and heated issues" (Heald, 1976).

A major source of tension between an Assembly and Westminster focuses on the central distribution of benefits and disbenefits to Scotland. At one level this refers to major economic and industrial decisions, notably over the location of nationalised industry and the establishment of, investment

in, and protection of major publicly-aided private enterprise. This is a major theme in Scottish politics.

Looking at Scottish MP's perception of their role, Keating presents evidence which indicates that many Scottish MPs see themselves as representitives of Scottish interests in Parliament and thus, they will campaign at Westminster on behalf of their 'trustees' (Keating, 1975). Indeed, in this lobbying, many Scottish MPs, including the Secretary of State for Scotland, justify their role. Post devolution, this type of politics could be expected to remain, perhaps even taking on increasing importance, given the distribution of responsibilities under the Scotland Act.

At a more fundamental level, however, issues on the distributional dimension concern the allocation of funds to an Assembly and this may prove to be the most difficult area in practice. The denial of tax-raising powers to the Assembly would mean that the freedom to spend would hinge on a block grant; its size would determine the scope of activity of the Assembly which, in turn, would make it difficult for Assembly members ever to accept that they had been given enough. Jackson argues that "the process of grant negotiation and determination must by its very nature be a set of conflict relationships. It is most unlikely that a Scottish Assembly will be satisfied with the size of the grant; just as in the case of local authorities at the moment, the demands on finance will always exceed that which is available" (Jackson, 1979).

FINANCING DEVOLUTION

It was the government's proposals for financing the Assembly which gave rise to the most bitter criticisms of the Scotland Act and this was because of the absence of any form of revenue-raising powers for the devolved administration. As it was, however, the Assembly would be almost entirely financially dependent on a block grant, voted annually by Parliament and paid in instalments into a Consolidated Scottish Fund. The

Assembly's discretion would be limited to the mix of spending for which it was responsible.

One reason behind the decision to retain central control over finance relates to the political pressure on governments to equalise living standards from area to area or, conversely, the political unacceptability of spatial inequalities in expenditure needs, public services, costs and fiscal resources. Thus, the White Paper, Our Changing Democracy (Cmnd. 6348, 1975), states that distribution according to relative need is the "cardinal fact about our whole system of allocating public expenditure. Resources are distributed not according to where they come from but according to where they are needed" (Para. 20). On this view, the danger of any significant devolution of the taxing power is that the richer parts of the country would be able to benefit at the expense of the poorer. Central government would thus be the only body able to secure the equitable distribution of public resources on the basis of need.

A second source of resistance to devolved taxation lies in the fact that the central government's approach to finance must always be different from that of a devolved administration's. The latter needs revenue in order to finance expenditure plans; the former needs revenue, amongst other things, to stabilise the economy. Thus, the Treasury feared that the dispersal of revenue-raising powers would make the processes of economic management more difficult. The thinking behind this was expressed in the Kilbrandon Report (1973) (chapter 14) which stressed the need to maintain the economic and political unity of the UK which in turn would require the central retention of powers for the management of the economy, including the main powers of taxation. Devolution would not be allowed to undermine the ability of the UK Treasury to retain macro-economic control over the economy and devolution of taxation powers was *perceived* as a threat to the government's ability to do this.

An alternative explanation for the central retention of taxation powers takes as its starting point the political weakness of the minority Labour government in the seventies which had suffered heavy by-election and local government defeats in 1976 and 1977 and which trailed massively behind the Conservatives in the opinion polls. In particular, the government was conscious of the way back-bench Labour MPs would have viewed a move to add taxation powers to the Devolution Bill as a further act of appeasement to the nationalists.

It seems likely that a combination of these factors, together with concern about the additional financial and administrative costs which would be incurred in the collection of Scottish taxes, contributed to the exclusion of revenue-raising powers from the proposed form of devolution in the seventies.

One politically crucial implication of the denial to a Scottish Assembly of the powers of taxation concerned the position of North Sea oil and gas resources. Scottish nationalists as well as a number of other interest groups in Scotland had laid a claim to ownership of these resources almost as soon as their potential had become apparent. Yet, without taxing powers, a Scottish Assembly would have been denied direct participation in the financial benefits the industry offered the tax-collector.

Devolution and North Sea Oil

In its February 1974 election manifesto, Labour clearly stated its position with regard to the control of resources in the North Sea: "...The new situation has greatly strengthened Labour's determination to ensure not only that the North Sea and Celtic sea oil and gas resources are in full public ownership, but that the operation of getting and distributing them is under full government control with majority public participation" (Labour Party, 1974). In fact, Labour's pledge to nationalise the oil industry was

never carried out but the government and the Department of Energy in particular had no intention of relinquishing its hold on oil.

Nevertheless, Labour in 1974 was anxious that its off-shore policies should be seen to be bringing benefit to Scotland in order to counter SNP claims that industries in Scotland were not likely to profit fully from Labour's North Sea oil policies (Jenkin, 1981). With an election due, Labour relocated the Off-Shore Supplies Office from London to Glasgow and further hoped that by stressing the industrial spin-offs from North Sea developments, they might stem further support for the SNP. Indeed, the Conservatives and Labour did not disagree on the need firstly, to retain central control over the rate and conditions of oil exploitation, and secondly, to convince voters north of the border that oil and gas revenues would duly be pumped back into the Scottish economy. Of course, it is not possible to estimate the extent to which governments of either colour have fulfilled these promises; it is impossible to tell what the governments' future expenditure programmes would have been in the absence of North Sea oil revenues, nor is there any special fund for North Sea revenues like the Alberta Heritage Fund in Canada.

There can be little doubt that devolution in the seventies was proposed as part of a strategy aiming to 'buy off' nationalism in Scotland. Keating and Bleiman (1979) continue that, in a sense, it can be seen more specifically as a bid to side-track the nationalists themselves from the oil issue. Certainly there was considerable opposition in Scotland, most notably from the SNP, regarding the failure of the Scotland Act to allow the proposed Scottish Assembly directly financial benefit from the North Sea resources. However, it was not long after the repeal of the Act that the oil industry began to suffer the effects of falling world oil prices. As economists began to forecast the decline of the industry, the issue of revenue-sharing has gone somewhat out of vogue.

The financial provisions of the Scotland Act were inappropriate and potentially unstable depending on the political control at Westminster and in the Assembly. If this control was split between the Conservatives and Labour respectively, party political rivalries would be accentuated by UK policies designed to cut public expenditure or reduce spending differentials between Scotland and England. A reduction in public expenditure would naturally mean a smaller grant for the Assembly. And the Assembly's legislative powers over, for example, education would seem empty to the Assembly if the UK government decided that there should be less public and more private expenditure on education and reduced the block grant accordingly. In this respect, Labour's proposals in 1978 would have set up an Assembly with many of the weaknesses of the present system of local government, tied down functionally and financially dependent. It was recognition of this which led Jackson (1979) to conclude that devolution was merely "an hallucination in which the structure of government is changed by shuffling the cards in the pack but leaving the power relations on the face cards intact".

For local democracy to operate fully, local decision-makers must be answerable for the raising of taxes to finance their budgets. That the power to raise money should be vested in the same hands as the power to spend it has long been accepted as a fundamental tenet of responsible government and was particularly highlighted in the Layfield Report on Local Government Finance (Layfield, 1976). This is so that the amount of expenditure is subject to democratic control. More recently, Foster, Jackman and Perlman (1980) noted that the accountability of local governments to their electorates is increasingly being undermined as locally elected representitives lose control over the spending for which they are ultimately held responsible through the ballot box, and concluded that the higher the proportion of grant in local revenues, the greater will be the propensity to spend.

If the Assembly possessed its own revenue-raising powers, its willingness to exercise them would, to some degree, be a cross-check against assertions of great needs for expenditure. As it is, however, the Scotland Act would provide for little financial discipline or accountability. Arguments, therefore, would be less about policies and more about who can squeeze the most money out of London. The Assembly, in other words, would take on the role of pressure group focussed on London, rather than an independent political body. And, of course, the nature of pressure group relationships is inevitably unstable. The demand for improved services in Scotland must be infinite. Each side would blame the other and the electorate would not know who is really responsible.

Certainly, the Assembly would have had the ability to determine its own expenditure priorities under the provisions of the Scotland Act, but control over its total budget would be essential if the legislative powers granted it were going to be effective in allowing it to pursue policies of its own. As it is, the nature of the financial relationship between the UK government and the Assembly suggested by the terms of the Act, would make the block grant negotiations the central part into which tensions and conflicts would be channelled.

INTEGRATION OR FRAGMENTATION ?

The Labour government in the seventies proposed a scheme in which certain powers would be devolved, while the main conrtols over economic and industrial policy would remain centralised. But, despite the appearance of the Act that governmental powers would go to one or other authority, the provisions of the Act in fact suggest considerable functional and, by implication, institutional interdependence. Exercise of these responsibilities would be inter-governmental by nature and we have identified the potential for inter-governmental conflict.

Many of the problems of defining those powers to be devolved to a Scottish Assembly are remarkably similar to those currently experienced by

the federal system in Canada. In particular, the framers of the Scotland Act were unable to divide powers between each level of government on an all-or-nothing basis. Policy issues are too inter-connected and the spillover effects too pervasive to permit more than the muddiest delineation of the respective tasks of each level. In practice, considerable interdependency, overlapping jurisdictions and inter-governmental relations would be inevitable. Furthermore, it is the division of economic and industrial powers between two governmental levels that causes the most difficulties under both constitutions. Economic and industrial strategies touch on so many policy areas and involve so many policy instruments that to ascribe them to one lever or the other is to argue either for massive centralisation or massive decentralisation. Unwilling to consider either such alternative, both constitutions have encountered problems in searching for a compromise.

In the Canadian federal state, the provinces have considerably greater powers in economic and industrial policy areas than would the proposed Scottish Assembly. The provinces also possess taxation powers, including powers to tax the oil industry in their areas. In the pursuit of territorial equity, the question of control over natural resources, themselves unequally distributed, has raised problems for national governments in both countries. The Canadian provincial governments industrial development powers include those relating to the attraction of inward investment, but the inherently unequal nature of the resultant inter-provincial competition for new investment has been a great concern to the federal government. In Scotland, the question of responsibility for attracting investment has never been adequately resolved.

THE PURSUIT OF THE PRIVATE INDUSTRIALIST

Direct government measures to stimulate economic activity have been at the heart of political controversy in Canada for the last twenty years.

But, in addition to provoking debates about the appropriate role of the state, focus on industrial assistance policies provides a rich source of information on inter-governmental relations.

The Constitution Act is silent about industrial development loans and grants to influence industrial location. There is no limit to Ottawa's spending power in this field. Indeed, as we shall see, Ottawa is more constrained by the activities of the provinces as well as other countries than by the constitution. Nor has the constitution thrown up any obvious road-blocks to a major provincial role in the industrial assistance sphere or to provincial use of subsidies and other incentives to attract investment.

Thus, as well as highlighting a variety of long-standing political tensions, industrial assistance policies also offer an opportunity to probe policy-making in an area where both government levels are deeply involved and where inter-governmental conflict is the rule rather than the exception.

Concentrating on programmes to attract inward investment, we shall address two question in particular: first, how does federalism influence policy, compared with what might transpire in a unitary Canada and, second, what are the causes and consequences of inter-governmental rivalry in this field.

THE FEDERAL ROLE

The establishment of the Department of Regional Economic Expansion (DREE) in 1969 was the first serious attempt at federal level to influence the location of economic activity and to stimulate economic development in Canada's poorer regions, especially in Atlantic Canada. One of DREE's major administrative responibilities was the Regional Development Incentives Act (RDIA). At the heart of RDIA was an effort to lure job-generating enterprises to slow growth regions and to encourage the expansion and modernisation of existing plants. The central enticement was outright federal grants to manufacturing or processing concerns willing to locate or

expand in federal 'designated areas'. These areas were designated in terms of central economic indicators, including income per head and unemployment.

RDIA came under fire on a number of counts, for example, for attracting the wrong kind of industry (Le Goffe and Rosenfield, 1979) and for not offering enough money (Dudley, 1974). But most importantly, Ottawa's efforts to influence firms' locational decisions focussed attention on the trade-off between national and regional development; promoting growth in weak regions may rob stronger regions of their vitality and thereby weaken the national economy. Despite the fact that after four years, DREE's activities had failed to have any significant impact on regional disparities (Savoie, 1986), Ontario province complained loudly about this trade-off, insisting that an industrial strategy should be concerned with maximising existing strengths and resisting politically inspired regional development schemes (Tupper, 1982). Of course, Ontario's industrial sector was the principal of those strengths.

It was not just Ontario which criticised DREE's initiatives. Federal assistance is generally welcomed by those areas which expect to benefit from it, that is, those areas with a flagging economy, low per capita incomes and which, partly because of their geography, are not feasible sites naturally to attract most types of secondary industry. Yet the price these areas pay for federal monies is the loss of provincial autonomy. With one voice then, these provinces express their resentment at the loss of autonomy while simultaneously complaining that the federal government is not doing enough for them. Quebec in particular, objected to federal governments buying their way into provincial areas of jurisdiction in this way. In the seventies, DREE had designated certain parts of Quebec for development but these priority areas did not coincide with the priorities for development of Quebec provincial government. As the federal government attempted to bribe investors to the outerlying parts of the province, the provincial government, concerned to attract industry to Montreal, went into

direct competition with Ottawa over the location of industry within a single province (Tupper, 1982).

Finally, and most significantly, there is a chorus of provincial grievances which suggest that Ontario alone benefits from federal industrial policies. Despite the fact that the intention of RDIA is to supply an incentive above that required to off-set the extra costs of locating in disadvantaged regions, most provinces complain that, on balance, federal policies have maintained Ontario's economic supremacy. It would be unconstitutional for the federal government to discourage investors from locating in Canada's relatively prosperous areas by means of a development 'stick'. Thus, Ottawa is limited to offering incentives to industrialists to locate in the designated areas. This being the case, Ontario would find it relatively easy to increase its aid to overcome the appeal of DREE offers in the designated regions, if it felt such a course to be in its own interest (for examples see Lithwick, 1978).

It should also be noted that DREE is also engaged in the administration of sectoral industrial aid and most of the recipients of such aid are located in Ontario province (see Savoie, 1986 and Department of Industry, Trade and Commerce, 1981). And the Industrial and Labour Adjustment programme (ILAP), launched in 1981, offered grants to firms willing to locate in designated communities which had been especially hard hit by 'industrial adjustment'. A number of these areas were located in non-DREE areas, such as southern Ontario.

Such provincial criticism coupled with the singular failure of federal industrial policies to reduce, let alone alleviate regional disparities, prompted a major policy review of existing initiatives. The outcome of this was the merging in 1982 of DREE with the Department of Industry, Trade and Commerce to form the Department of Regional Industrial Expansion (DRIE). With this, DREE grants became DRIE grants. In addition, however, came a radical re-orientation of industrial policy. Instead of aiming to

alleviate regional disparities, which had proved less easy than was expected in the sixties, DRIE has set out to enable each region to achieve its "full economic development potential". By the time that DREE was disbanded, the regional incentives programme covered 93% of Canada's land mass and over 50% of its population (Savoie, 1986). The coverage has been expanded even further under DRIE. The new criteria for area designation were particularly loose and ill-defined; all that was required to designate a new area was an order-in-council. Criteria such as earned income per capita or unemployment rates never entered the calculation.

THE PROVINCIAL ROLE

The roots of the modern phase of inter-provincial competition for industry lie in the recession of the late fifties. The weaker provinces in particular, developed a belief that they must intervene in the economy to achieve levels of economic prosperity not available under laissez-faire. Designed to off-set natural economic disadvantages and apparent federal indifference, the Maritime provinces developed policies to create jobs and promote economic diversification through the nourishment of secondary manufactutring. By attempting to woo private investors with various schemes of *compensation*, the poorer provinces hoped to catch up with central Canada. Provincial ability to offer financial incentives increased in the sixties with the provinces' rapidly increasing tax revenues supplemented by federal equalisation payments for all but the wealthiest provinces.

By the mid-sixties most other provinces had begun to follow the example of the Maritimes and actively sought to attract new investors. Led by Alberta, the three westerly provinces have struggled to reduce their dependence on natural resources, to diversify their economies and to promote a westward shift of political and economic power. Partly in response to this latter development, as well as to a series of external challenges, especially from Japanese exports, Ontario came to rely heavily

on industrial incentives in an effort to restructure its industrial base and maintain its dominance. Ontario having begun to offer incentives to attract investment, Quebec was inevitably going to join the chase and vowed in the mid-sixties to alter its industrial incentives to ensure that Ontario would not garner new industry by offering superior incentives to those of Quebec (Forget, 1968).

These wealthier provinces were further encouraged to take on a more active role in the attraction of inward investment by the effects of federal attempts to reduce regional economic disparities at *their* expense.

In the pursuit of the private industrialist, what tools, or *weapons*, do the provinces have at their disposal ?

Without approval from other members of the federation, a province may subsidise a firm, offer financial services to industry, own firms engaged in inter-provincial commerce and even enact purchasing codes which explicitly favour provincial firms. Most provinces now have development corporations to promote secondary manufacturing by providing financial assistance to manufacturers considering locating or expanding in their province. Committed to luring new investment to their province, these development corporations have a similar mandate to DREE and DRIE, but on a local scale.

The inducements that provinces can use to influence industrial location and development relate primarily to expenditure and taxation powers. Ontario, Quebec and Alberta have implemented separate corporate tax systems which allow them greater flexibility in tailoring fiscal policy to local requirements and, in the case of the wealthier provinces, allow them lower tax rates. Some provinces offer the private industrialist tax holidays and some have also established special taxation provisions to encourage private investment in firms carrying on all, or a substantial part of their activities within the province (Jenkin, 1983).

In addition to fiscal incentives, provinces provide a significant level of direct financial support to firms. In 1979-80 provinces spent a total

of $330M in direct support of trade and industry, direct cash transfers to business, loans via development corporations to businesses to assist with new plants and expansions, guarantees for corporations borrowing in the private sector and even direct equity participation by the provincial government, which is usually content to act in such cases as a silent partner, exercising little or no influence over the management of the enterprise (Jenkin, 1983).

Finally, provincial governments may use as an incentive to industrialists, the offer to provide infrastructure at public expense, favourable terms for the exploitation of Crown timber and other resources and a whole host of unquantifiable inducements. While the structures for the administration of provincial industrial assistance policies are broadly similar, the substance of these policies varies with different economic circumstances (provinces with chronic unemployment problems will be looking for labour intensive industries), prevailing ideologies (Quebec insists that new investors employ a specified number of Quebeckers to qualify for financial assistance), and available financial resources (Ontario has the most money to spend).

Obviously the lure of these significant inducements and the consequent shopping around by the private sector can lead to bidding wars between provincial governments. This competition is attracting increasing attention as the costs loom increasingly large in a competitive international environment.

What is interesting is not the competition per se but the competitive manner in which provincial powers are wielded. For, rather than waiting passively for firms to respond to their lures, the provinces tend to pursue potential investors aggressively. Provincial governments today maintain about forty offices abroad, roughly half of which are located in the United States (Simeon et al, 1987) and most provinces conduct international

campaigns designed to inform capitalists about the availability of government assistance and other amenities. Often operating in secrecy, a provincial department of development, frequently supported by a Crown corporation, or even the premier himself, will travel the Continent trying to snare investors. Frequently, they arrive only a few days after a firm has been visited by a similar representation from another province (for examples see Savoie, 1986).

There is also evidence that provinces actively try to influence firms already located in Canada to move to, or expand in another province. Ontario and Quebec are persistently accusing each other of inter-provincial 'raiding'. In 1978, for example, Ontario denounced Quebec for allegedly offering a Timmins-based firm $17 million in interest free loans to expand in Quebec (*Financial Times of Canada*, 1978). Nor is this competition simply inter-provincial. As we noted earlier, the wealthier provinces can afford, if they wish, to top any offer Ottawa may make to an industrialist to locate in a designated area, thus thwarting federal regional development efforts.

THE COSTS OF COMPETITION

The costs of such competition are undoubtedly difficult to estimate. The cost of new investment is closely related to the extent of inter-governmental competition which clearly provides investors with an element of bargaining power not often found in a unitary state. Such competition allows businesses to play one jurisdiction off against another in order to obtain the best subsidy. Indeed, *Canadian Business Magazine* (1980) reports that "some firms are in the happy position of being able to employ staff or consultants whose sole function is to sniff out all the juicy morsels the politicians and policy-makers throw into the public trough". Inter-governmental conflict for industry, especially when it takes the form of bidding wars, certainly makes new investment costlier than in a unitary state.

Critics of such competition also point to a variety of other consequences, notably the further fragmentation of an industrial sector which is already very fragmented for the size of the Canadian market. Politically inspired locational decisions are unlikely to increase the international competitiveness of Canadian industry. Considerations of comparative advantage have been ignored in the desire of each province to emulate the industrial structure of Ontario on a smaller scale. Moreover, incentives have redistributed income away from provincial tax-payers for the benefit of private industry, most of which is owned and controlled outside Canada (Simeon, 1979). The high level of foreign-owned industry in Canada is an inevitable result of this inter-provincial competition; Ontario has already slowed down its pursuit of foreign investors for fear of becoming a branch-plant economy. Finally, Simeon et al (1987) warn that this competition causes Canada to project a discordant voice abroad and this is perhaps undermining her bargaining power.

The consequences of inter-provincial rivalries also extend to concerns about regional disparities (see Table 2). Inter-provincial competition is a lop-sided struggle which disadvantages some provinces more than others. For, while, in a formal sense, the provinces wield comparable powers, their ability to employ different policy levers effectively is ultimately determined by a complex series of economic, geographical and fiscal factors. In attracting secondary industry, Ontario seems to enjoy significant advantages over peripheral areas. Its greater fiscal capacity allows it to outbid weaker provinces even if investors were not sufficiently attracted by the province's natural advantages, like proximity to markets and a well-developed infrastructure. In regions which cannot offer the locational and other advantages of Ontario, or say, the resource endowments of the West, bidding wars will tend to have a negative impact. The Prairies and Maritimes, for example, are distant from markets, have a small population and inadequate infrastructure and face problems of losing

population, unemployment and the vagaries of resource-based economies. To compensate, these provinces would have to offer very large incentives. Inter-provincial rivalries thus raise the spectre of already disadvantaged provinces straining their budgets in a tread-mill like effort to compete with the more prosperous areas. The resources provincial governments have to devote to industrial development are clearly uneven. The burden placed on the poorer provinces to support industry, in terms of per capita expenditures on trade and industry, is already significantly greater than it is for wealthier provinces.

TABLE 2: ***Unemployment rate, earned income per capita and GDP, by province, selected years 1961-81: relationship to national average (Canada=100)***

	NFL	PEI	NS	NB	QUE	ONT	MAN	SAS	ALT	BC
Unemployment Rate:										
1961	275	-	114	148	130	77	70	58	66	120
1966	171	-	138	156	121	76	82	44	74	135
1971	135	-	113	98	118	87	92	56	92	116
1976	189	135	134	155	123	87	66	55	56	121
1981	186	150	134	154	137	87	79	61	50	88
Earned Income per capita:										
1961	53	53	75	64	89	121	93	67	100	114
1966	52	54	71	65	89	118	91	92	99	111
1971	55	57	74	68	88	119	94	79	99	109
1976	56	60	74	69	90	112	94	99	105	109
1981	53	59	73	65	90	111	93	99	114	110
GDP at Market Prices:										
1961	50	49	65	60	91	120	90	77	109	111
1966	52	48	63	61	90	117	87	100	109	109
1971	56	52	68	64	89	117	91	87	111	107
1976	54	52	66	64	88	109	91	101	137	109
1981	52	50	61	63	86	106	88	109	146	109

SOURCES: Statistics Canada, *The Labour Force* Catalogue 71-001; Statistics Canada, *Provincial Economic Accounts* Catalogue 13-213

Furthermore, the competition for industry may lead provinces to strike poor deals with companies, to support incompetent firms and to grasp at investment opportunities regardless of their fit with the provincial economic and political milieu. This is especially a problem in the poorer provinces; while Ontario can afford to focus on attracting high-tech industry, other provinces are concerned to attract any kind of industry that they can. The provincial government of Manitoba was criticised for many years for funding "everything that moved" (Rumball, 1974). Competition also means, in some areas, an impact on the substance of employment policy. Stevenson suggests that the existance of a docile, unorganised labour force may be one of the few attractions in a particular province for the investor (Stevenson, 1982). In 1971, then, Nova Scotia felt it necessary to enact restrictive labour legislation to prevent the organisation of workers at specific factories in a bid to entice Michelin Tires Limited, a company notorious for its hostility to trades unions. Stevenson also presents evidence which suggests that inter-provincial rivalries and a desire to impress potential investors probably leads to less stringent environmental safeguards in some provinces (Stevenson, 1982).

NATIONAL OR REGIONAL DEVELOPMENT

To a greater degree than most other public policies, industrial assistance policiesa have prompted bitter debates which have stressed the heterogeneity of the Canadian polity. Many observers argue that the present system's blurred lines of authority are what have allowed industrial policy-making to degenerate into a political free-for-all in which constitutional niceties are subordinated to the drives of opportunistic governments. Ans, as we have seen, there are considerable economic costs associated with this competition. Without doubt, inter-provincial competition for industry, the existence of conflicting federal and provincial industrial incentives and constant inter-governmental

wrangling about the location of industry, point to a constitutional order which does little to restrain the interventionist governments it has spawned. Ottawa's ability to frame industrial policies acceptable to all provinces is increasingly suspect.

Federal industrial policies embody two distinct strands; one stresses the need to strengthen secondary industry, regardless of its location, and another emphasises the development of industry in lagging regions. Thesetwo policy thrusts can be seen as contradictory. DRIE related federal measures, by luring capital to areas where it may not be employeed to full advantage are often a drag on the economy. Here emerges a trade-off between regional development and national prosperity which, in fact, as we noted earlier, Ontario has attempted to bring to the attention of the federal government. It is the balance in federal policy between regional and national growth which has evoked inter-governmental and especially inter-provincial conflict. It is usually Ottawa which gets the blame.

Federalism complicates such controversies by moulding them into inter-governmental disputes. As dictated by their economic prosperity, their industrial structure and their relative dependence on federal funds, the provinces have expressed very different views about the trade-off between overall economic performance and its explicitly regional dimensions. Many have been quick to attack federal governments which, in an effort to enhance Canada's international strength and competitiveness, seem to confer inordinate benefits on particular provinces and regions. Canadian federalism, by conferring important economic powers on the provinces, allows the provincial states to offset federal policies and to chart autonomous industrial strategies. While the provinces are unanimous in their rejection of market forces and federal policy as the exclusive determinants of provincial economic development, inter-governmental conflict is the inevitable result. Most provincial governments feel that they should have the prime responsibility for area development and while

this is the case, there are limits to what the federal government can do to establish national objectives.

As well as complicating federal-provincial relations, provincial competition for industry also poisons inter-provincial relations. Most provinces agree that competition amongst themselves is not in their common interest and in the West, provincial governments have at least *tried* to cooperate. In 1974 the Western premiers established the Committee of Western Industrial Ministers, empowering it to examine options for a 'western industrial strategy'. But there have been few concrete results. The joint denunciation of federal initiatives remains the bulwark of western 'cooperation'.

Why should this be ? Almost self-evident is the tendency of provinces to evaluate industrial developments exclusively in terms of their impact on provincial rather than regional or national prosperity. For, having assumed certain entrepreneurial roles, the provincial states' capacity to generate jobs, to take credit for industrial growth and to create at least the illusion of prosperity has become a central determinant of their success. Under these circumstances, there are few incentives for governments to eshew competition in favour of cooperation. And given their focus on provincial prosperity, the premiers seldom see any compelling reason to entertain industrial projects which seem to confer, even in the short term, greater benefits on other provinces or regions (Tupper, 1982). Provincial governments are accountable to a provincial electorate and consequently, competitive policy-making is a fact of life under Canadian federalism.

THE POLITICS OF ENERGY

Of all the various means by which Canadian provincial governments have pursued provincialist goals, the most frequently used, most successful and most fully documented has probably been the exercise of the provinces' ownership rights with regard to natural resources. Today in Canada, one of

the most important and controversial issues is who will make the decisions as to when, how and by whom the nation's natural resources will be developed and who is to have control over the funds generated by that development. The energy crisis in the early seventies really precipitated these issues and as petroleum and natural gas are two of the key sources of energy (in the seventies about two-thirds of Canada's energy consumption was from oil and gas), I shall direct my remarks primarily to the control, development, production, use, marketing and pricing of these commodities. I shall also focus on energy resources in Alberta in particular (in 1974 Alberta was producing 85% of Canada's oil and over 80% of its natural gas (Lougheed, 1977)) and only on government-owned resources (in Alberta about 85% of natural petroleum and gas is owned by the provincial government (Leitch, 1977)).

NATURAL RESOURCES AND THE CONSTITUTION

Section 109 of the Constitution Act states that "All Lands, Mines, Minerals or Royalties shall belong to the several Provinces of Ontario, Quebec, Nova Scotia and New Brunswick in which the same are situate or arise, subject to any Trusts existing in respect thereof, and to any Interest other than that of the Province in the same". The other provinces at the time of entering confederation were placed in the same position with respect to natural resources as the founding provinces. This is the Section then, by which the Fathers of Confederation confirmed that the provinces would own natural resources. In essence, its purpose was to provide a revenue source for the provincial governments; this is evident from the fact of this Section's inclusion in the part of the Act headed "Revenues; Debts; Assets; Taxation".

In addition to ownership of natural resources, the Constitution Act gives provincial governments legislative capacity over them. Section 92 (5) gives the provinces the right to make laws in relation to "The management and sale of the public lands belonging to the provinces and of

the timber and wood thereon". With such powers, the provinces may decide whether, by whom, when and how to develop their resources; determine the degree of processing that is to take place within the province; dispose of the resources upon conditions that they only be used in a certain way, in a certain place, or by certain people; and determine the price at which the resources or the products resulting from their processing will be sold.

There are also a number of significant bases for federal involvement in the natural resource sector. The Trade and Commerce power, for example (Section 91 (2)), gives Parliament jurisdiction over all aspects of inter-provincial and international trade. This includes inter-provincial pipelines and oil and gas exports. Other relevant federal powers include the emergency powers contained in Section 91; taxation powers contained in Section 91 (3) which provides almost complete freedom for Ottawa to employ any mode or system of taxation; and, although it has not been used since 1943, the power to disallow provincial legislation.

Thus, the Constitution provides for both strong federal and provincial powers, while at the same time containing controversial areas of both overlapping and uncertain jurisdiction. A potential consequence of this situation of substantial jurisdictional ambiguity and overlap is federal-provincial conflict. Federal attempts to create a national energy policy seem inevitably to entail encroachments upon provincial ownership of natural resources. Nor is political conflict in energy matters confined to the federal-provincial relationship. Because energy resources are concentrated in the Western provinces, and in Alberta in particular, inter-governmental conflict has also taken on the cloak of territorial conflict, especially between producer provinces and consumer provinces.

The intensity of territorial conflict is heightened by the dependence of provincial governments on a resource base for both revenue and development plans. Alberta has always had a narrow economic base, is distant from the major population centres of North America and its dependence on outside

capital, communications, transportation and volatile commodity markets, have produced a society whose well-being and security are precarious, always at the mercy of decisions by ousiders. Nevertheless, The Alberta government felt that the federal government gave it no help in trying to diversify its economy. The reader is referred to Smith (1977) for a fuller account of Western grievances against the federal government and the central provinces. These grievances are important because they shape political behaviour. The energy products boom in the early seventies provided the basis for unparalleled economic expansion in the West, especially in Alberta, offering an opportunity to redress the regional imbalance. To accomplish this, Alberta was prepared to exploit its constitutional powers to the fullest extent. The hostility to Ottawa's interventions in the energy policy field in the seventies was a continuation of a decade's long tradition of regional dissent resulting from the West's frustration with its economic role.

CANADIAN ENERGY POLICY

The history of energy policy in Canada is well documented elsewhere and need not detain us here (see for example, Doern and Toner, 1985, Part II). For our purposes, all we need to note at this stage is that the period to 1973 was characterised by a reasonable consensus of values between the federal and provincial governments and the industry over the management of Canada's growing oil and gas reserves. The overriding objective of energy policy was to encourage oil and gas production and to stimulate the growth of the domestic petroleum industry.

The oil price and supply shocks of 1973 are usually cited as the major turning point in the politics of energy in Canada (see Blair, 1978; Davis, 1974 and Engler, 1977), introducing abrupt changes in the energy policy environment within Canada and extinguishing the relatively calm and consensual relations which had governed the major relationships of power throughout the sixties. The quadrupling of the world oil price (from $3.01

to $5.12 per barrel in 1973 and to $11.65 in January 1974 (Ruthven, 1985)), the magnitude of the revenue involved and the importance of its capture for the participating interests, dramatically raised the stakes of energy politics in Canada and crystalised for the producing provinces, the federal government and the oil industry, the recognition that they each had distinct, and to some degree conflicting interests with respect to oil and gas pricing and revenue-sharing. In the following sections we shall attempt to analyse some of the competing concerns.

Inter-Governmental Relations and Energy Pricing

Federal initiatives in the seventies with regard to energy pricing were four-fold. Primarily, they were designed to cushion the impact of rapidly escalating prices on Canada's industrial sector and, in so doing, to provide a comparative advantage to Canadian export manufacturers. Ottawa was also concerned, however, to protect Canadian consumers from OPEC-set world prices and to subsidise those Canadians dependent on off-shore (imported) crude (before 1973, all provinces east of Ontario imported off-shore oil from other countries as pipelines only extended as far as Ontario). Thirdly, the government wanted to slow the inter-regional transfer of income from oil-importing provinces to western producing provinces. Finally, the federal government would have to try to dampen the inflationary impact of rising energy prices on the Canadian economy (Doern and Toner, 1985).

Ottawa's first move was to end the essentially market-based domestic price-setting mechanism by imposing an oil well-head price freeze for six months from September 1973. This was significant because it was the first direct application of the federal government's authority over inter-provincial trade and commerce with respect to energy pricing (Ruthven, 1985).

In response to the realisation that domestic reserves of crude oil were more limited that had been previously estimated, an Energy Supplies

Emergency Act was passed in 1974 and this empowered the federal Cabinet "to declare a national emergency in the event of an actual or anticipated shortage of petroleum or a disturbance in the petroleum market considered to be severe enough to affect the national security, welfare or economic stability of Canada" (Department of Energy, Mines and Resources, 1983).

Finally, when a rapid jump in shipments to the United States threatened to disrupt domestic supplies, Ottawa moved to control the export of oil by means of a new tax levied on oil exported to the States to equalise the price of Canadian oil with American oil at Chicago. The revenue from this export tax was ear-marked to finance Ottawa's new Oil Import Compensation Programme (OICP), intended to reimburse Canadian refiners who were still forced to purchase off-shore (imported) oil.

These measures gave the federal government a breathing space. When the price-freeze ended, Trudeau appealed to the Alberta's 'fraternal spirit' in setting an internal price that was 'fair' to all Canadians. Alberta however, had a different notion of what was 'fair' and insisted that internal prices rise with international prices. From an economic perspective, the Alberta government argued that keeping the domestic oil price low may cause exploration to be diverted to other countries where the return is better; may give false signals to the economy by implying that Canada has a substantial comparative advantage in energy-intensive production; and, apart from encouraging American motorists to fill-up in Canada, it would encourage multi-national companies to shift their energy-intensive production to Canada and encourage energy-intensive exports (Bryan, 1982). Alberta's permier Lougheed also called attention to the constitutionally sanctioned provincial ownership of resources, a fundamental element of Confederation. Claiming that it is one of the features of Canadian political development that provincial governments, when and where they have the capacity to do so, strive actively to shape the development of their provincial economies and societies, he painted a picture of

Albertans desparately trying to diversify their economy by means of their own resources, while the federal government seemed hell-bent on frustrating this effort.

Another prong to Alberta's attack was Lougheed's claim that Ottawa had simply given in to the wishes of Ontario on the issue of oil and gas pricing. The greatest consuming province, Ontario was concerned about the repercussions of escalating domestic oil prices for its industry's competitive position internationally. Simeon (1980) calculated that a $7 per barrel increase would add $3 billion to the coffers of the Alberta province, while adding 3.2 points to the inflation rate in Ontario and reducing its gross provincial product by 1.5%. Ontario's position, then, was clear and Premier Davis demanded lower domestic prices and a federal guarantee that supply commitments would be met. The Davis government of Ontario shows that a major consuming province is not without power in Canadian energy politics, especially when it contains one-third of Canada's federal voters in a period of minority government.

These competing interests were brought together in a number of federal-provincial conferences during the following months. When agreement could not be reached on a price for oil when the price freeze ended, Ottawa passed a Petroleum Administration Act in 1975, arming itself with a number of broad powers over the pricing of oil and gas in Canada, including the authority to *set* the price of Canadian oil and gas in the event that a negotiated price could not be agreed. It was not long before this powerful new weapon of last resort was exercised as we shall see shortly. Negotiations with the producing provinces re-convened in May 1977 and finally agreements were concluded on petroleum prices to the effect that the Canadian prices could move towards world prices by $1.00 increases twice a year. By late 1978, Canadian prices stood at 80% of the world price with the gap between domestic and international prices at less than $3 per barrel (Doern and Toner, 1985).

Inter-Governmental Relations and Equalisation

In the 1970's another major focus of inter-governmental conflict was the business of revenue-sharing. Increasing oil prices were not only putting pressure on the federal government's OICP but also on its equalisation programme. With increasing wealth accruing to Alberta, commitments under the extant equalisation scheme were putting considerable pressure on the federal budget, as even Ontario looked like becoming a 'have-not' province under its terms (Courchene, 1980). Thus, if energy prices were to rise in step with world prices, a new revenue-sharing scheme of some kind would have to be devised. The problem was, though, that any scheme that could be imagined intruded in some way on what the Western provinces saw as their constitutional position as landlord of these resources (Norrie, 1982).

Despite the fact that effective federal tax rates were increasing, Ottawa did not feel it was getting a *fair* share of natural resource revenues with increasing oil prices; the province of Alberta was extracting considerably more money from the industry via taxes and royalties than was the federal government (see Table 3).

TABLE 3: ***Historical oil and gas revenue-sharing, 1975-80***

	Net operating income	Federal		Provincial		Industry	
	($B)	($B)	(%)	($B)	(%)	($B)	(%)
1975	5.3	0.6	(11.3)	1.9	(35.8)	2.8	(52.9)
1976	6.3	0.6	(9.5)	2.6	(41.3)	3.1	(49.2)
1977	8.1	0.9	(11.1)	3.8	(46.9)	3.4	(42.0)
1978	9.2	0.9	(9.8)	4.2	(45.7)	4.1	(44.5)
1979	11.1	1.0	(9.0)	5.6	(50.5)	4.5	(40.5)
1980	13.4	1.1	(8.2)	6.0	(44.7)	6.3	(47.0)
Total	53.4	5.1	(9.6)	24.1	(45.1)	24.2	(45.3)

SOURCE: Department of Energy, Mines and Resources *Do Governments Take Too Much ?* (Ottawa, Department of Energy, Mines and Resources, 1982)

A second federal concern, then, was to prevent the "balkanisation" of Canada and the redistribution of power from the centre to the periphery. As Shaffer (1983) explains: "Alberta, as the chief recipient of economic rents, would become the most powerful province in Confederation and would be in a position to undermine federal jurisdiction over the nation's affairs. The federal government was not inclined to abdicate its role, especially to a province containing only one-tenth of the population".It was the provincially-imposed royalties which irked the federal government the most. Royalties are payments to the provincial government in their capacities as owners of resources and are subject to the discretion of provincial governments. In 1973, Premier Lougheed had announced that henceforth royalties would increase with international oil prices. The objective was, by squeezing the industry, to get Ottawa to remove the export tax which, Lougheed argued, was an infringement of provincial authority (Richards and Pratt, 1981). In fact the federal response was to ban the royalty deductable allowance in the calculation of federal taxable corporate income of petroleum companies by the Income Tax Act 1974. The petroleum industry in Alberta was predictably furious about this prohibition, seeing it as double taxation; almost immediately, new projects and investments were cancelled and a number of employees in certain companies most feeling the squeeze, were laid off (Richards and Pratt, 1981). The point is of course, that taxation of the oil industry is a zero-sum game. While Alberta argued that the deductability of royalties was an established priciple of taxation, Lougheed was nevertheless compelled by pressure from the industry to reduce royalties which he did a few months later.

THE NATIONAL ENERGY PROGRAMME

In 1979 the Iranian revolution and the consequent removal of 2.5 million barrels of oil a day from the world oil market doubled international prices. With the jump in world prices, Canadian energy prices fell from over 85% of the world level in 1978 to less than 45% by 1980

(Helliwell and Scott, 1981); Federal-provincial energy relations, already cool, now froze. The federal concern was directly related to the fiscal capacity of its treasury and particularly to the increasing costs of its OICP; the estimated cost of this programme for the fiscal year 1979-80 was 1,800 million (Ruthven, 1985). Ottawa also feared that inflation would increase as a result of higher energy prices and this would increase all federal expenditure commitments indexed to inflation.

In the summer of 1980, there took place a number of energy discussions between Alberta and the newly elected Liberal government in Ottawa but none produced any kind of agreement. So, in October 1980, Trudeau introduced the National Energy Programme (NEP), prepared behind closed doors and without any consultation with Alberta.

The upshot of the NEP pricing package for the producing provinces was to keep internal prices below international prices, by means of the imposition of a price ceiling. Prices were, however, allowed to rise to this level, at a specified rate. A new series of federal taxes was the method chosen to redistribute a larger share of economic revenues to the national government and to energy consumers; these were the Natural Gas and Gas Liquids Tax (NGGLT) and the Petroleum and Gas Revenue Tax (PGRT). Both taxes were applicable to the provincial Crown and its agencies. The former was applicable to all natural gas sales, including those in the export market, and the revenues it generated were ear-marked to pay for the OICP. The latter related to the production of oil and gas, including income from oil and gas royalty interests.

The energy battle had not solely been concerned with pricing and revenue-sharing; it was also about the management and control of oil and gas. The NEP can be viewed as one part of an inter-related effort by the re-centralising Liberals to re-affirm the federal government's economic management powers and political visibility; it was intended to be a signal

of a revitalised central government as well as a bargaining stance in the continuing pricing and revenue-sharing negotiations.

Alberta's Response to the NEP

Alberta's response to the NEP was strident and condemning. The content of the verbal response portrayed the NEP as a centralist attempt to make the smaller provinces second class citizens; a plan designed to reward the Liberal party supporters and electorate in central Canada, as opposed to their opposition in the West; a programme which was intended to turn Canada into a unitary state; and, finally, as a stupid economic policy (Doern and Toner, 1985). Lougheed was particularly incensed by the unilateral manner in which the Programme had been imposed: "Without negotiation, without agreement, (Ottawa has) simply walked into our home and occupied the living room" (quoted in Doern and Toner, 1985). The Alberta premier also tackled Ottawa on the constitutionality of the new taxes. The PGRT was a tax on production revenues which did not allow for any write-offs, and was in effect a well-head tax, a veritable royalty. Royalties were considered a sacrosanct provincial right and the application of the PGRT was thus seen as unconstitutional. Alberta further charged that because the PGRT and NGGLT were applicable to the provincial Crown, they contravened Section 125 of the Constitution which prohibits one government from taxing the lands or property of another government. On the other hand, though, as we will remember, another section of the Constitution Act allows the federal government to impose taxes on any commodity.

Finally, Albertans felt severly discriminated against by the federal government. While the price of domestically consumed oil was kept below its international commodity value, the federal government used the revenues derived from the export tax to help subsidise Eastern consumers dependent on imports. If it was Ontario's oil, Lougheed claimed, Canada would be paying world prices (quoted in Doern and Toner, 1985). That petroleum has

historically attracted considerably more federal attention and intervention than hydro-electricity in Ontario is explained by Stevenson (1982) by the large size and political influence of Ontario. The smaller size and remoteness of the petroleum-producing provinces facilitated a less inhibited assertion of the 'national interest'. This felt discrimination was compounded by the fact that in 1980, there were but two Liberal MPs in the legislative assemblies of the four Western provinces (both from Manitoba), yet the Liberals, as a result of their strength in central Canada, dominated the political scene.

Alberta's official response to the NEP appeared in a television and radio broadcast in October 1980. There were three prongs to its proposed retaliation:

1. **in February 1981 (ie. after 91 days notice) oil production would be cut by 60,000 barrels a day, followed by further cutbacks of 60,000 barrels a day on 1 May and 1 August 1981 (production would thus be reduced to 85% of capacity);**

2. **approval of two major oil-sands projects (the Esso Cold Lake and the Alsands projects) would be withheld; and**

3. **an official court challenge to the legality of the gas tax would be mounted.**

It was the proposed production cutbacks which were designed to hurt the most. They were intended to demonstrate to Ottawa the 'subsidy' paid by Alberta as a result of the holding of domestic oil prices at levels below those prevailing in international markets; Alberta pointed out that Canadian pricing policy had resulted in Alberta's subsidising Canadian consumers, the majority of whom are in central Canada, by $17 billion since 1973 (Doern and Toner, 1985). There were, however, two provisos in connection with this action. First, the cutbacks would be continued until negotiations on pricing and revenue-sharing were resumed, and second, that the cutbacks would be rescinded if a serious shortage of oil occurred. This latter qualification was due to Lougheed's fear that Ottawa may make use of the federal emergency power which would allow it to override the

provincial government and take control of production. Section 92 (10) (C) of the Constitution Act provides that the federal government may declare any 'works' situate within a province to be for the general advantage of Canada or two or more of its provinces.

The period from October 1980 to September 1981 witnessed strategic point-counterpoint manoevres by Alberta and Ottawa in their political stand-off over the NEP. As both governments tried to increase their powers vis-à-vis the other, the interests of the industry were pushed aside entirely. By the summer of 1981, Alberta producers were beginning to suffer. The impasse was also having a notable effect in terms of a loss in potential GNP and economic growth, in part from the actual outflow of capital and in part because of its indirect effects on the climate of investment (Chamber of Commerce, 1981). Responding, then, to the growing political and economic pressure from the energy industry as well as other industrial sectors and from other provincial governments, the Alberta and Ottawa energy ministers, Merv Leitch and Marc Lalonde, agreed to negotiate once again. The outcome of these negotiations was the Canada-Alberta Agreement, signed in September 1981.

THE CANADA-ALBERTA AGREEMENT 1981

The Canada-Alberta Agreement represented a compromise which reflected the power of both governments. A new pricing regime was established for the period September 1981 to December 1986. Separate producer price schedules were established for 'old' and 'new' oil ('new' oil was that from pools discovered after December 31, 1980); the latter could reach 100% of the international price under the provisions of the New Oil Reference Price, while old oil prices would not be allowed to exceed 75% of the world price level. The federal government acceded to the higher domestic prices in exchange for provincial funding and administering of the Petroleum Incentives Programme, designed by the federal government to encourage expansion of the industry as well as its Canadianisation. Alberta also

agreed to make Market Development Payments to Ottawa to facilitate the expansion of gas markets east of Alberta.

In terms of changes to revenue-sharing, Alberta fought hard for the principle that no export tax be levied on natural gas. Ottawa heeded Alberta's criticism of the tax, but wanted to underline its right to levy such a tax and so the NGGLT was retained but set at a zero rate. The PGRT rate, however, would increase to 16% from January 1982, but a 25% resource allowance was introduced and this permitted the industry to deduct a portion of provincial royalty expenses. Finally, the Agreement yielded the Incremental Oil Revenue Tax to the federal government and a Petroleum Compensation Charge levied on domestic consumers. Thus, Ottawa managed to secure a larger share of revenues, from 7% before the NEP to 16% by 1984 (Ruthven, 1985). The Agreement also provided that in excess of $200 billion of revenue would be shared over the period 1981-1986 on the following basis: 44% to the petroleum industry; 30% to Alberta; and 26% to Ottawa.

A revision of the 1981 Agreement became necessary by spring 1983 when world oil prices began to soften; rather than climbing towards the predicted $90 a barrel level, world prices were dropping to meet the Canadian level. By this point, both governments had a vested interest in making the system work and accommodations were arrived at with a minimum of conflict. In June 1983, a Canada-Alberta Amending Agreement, covering the period July 1983 to December 1984, was signed.

At the 1984 national election Albertans were on the winning side of a national Conservative landslide; Alberta now had twenty-one MPs on the government side of the House and three ministers in the federal Cabinet. The new Prime Minister, Brian Mulroney, had displayed a lively concern for Western interests and his party was pledged to undo the damage inflicted on the Alberta economy by the NEP (Gibbins, 1985). Signed in April 1985 by Ottawa and the governments of Alberta, Saskatchewan and British Columbia,

the Western Accord dissolved the remnants of the NEP and called for a return to the pre-1980 system of tax incentives for exploration and development. These would replace the NEP formula of across-the-board taxes coupled with Petroleum Incentive Programme grants and development agreements negotiated between governments and operating firms. Price controls were to be abolished for the first time since 1961, although producing provinces were still not allowed to increase their revenues from oil and gas production. Dictated by the declining world oil prices then, federal policy changes under the Western Accord, involved the federal government giving up substantial revenues, the elimination of cross-border differences in prices as well as the abandonment of measures to promote the extension of Canadian ownership and control of the industry.

The ability of the federal system to accommodate both national and regional aspirations has been tested no more severely than in the area of management of natural resources. The debate in the seventies and eighties was not just about pricing and revenue-sharing but about the constitution. At issue in the resource battle were a number of contentious questions. First, at the most general level was a fundamental difference of view on whether resource wealth was a national patrimony - which implied that its development was a national concern and that the revenues should be shared across the whole country - or whether resources were a provincial patrimony - which implied unfettered provincial control over development and provincial use of the revenues for long-term diversification and for saving for the future. The dabate was tied directly both to the division of authority in the constitution and to the way in which power was distributed within national institutions. The concern with national institutions lay in the fact that the question of oil pricing and revenue-sharing directly pitted the interests of consuming provinces, who were interested in lower oil prices and a wide sharing of revenues, against the interests of the

producing provinces, who wished to maximise their prices and revenues. In the West, there was a fear that, since the larger consuming provinces held by far the greatest weight in the federal Parliament, national decisions would be weighted in their interests. These fears of having inadequate powers in their own hands and inadequate political influence at the centre, underlay virtually all the concerns of the producing provinces in the constitutional arena, and provincial actors sought cast iron guarantees of their existing powers and a greater provincial voice in the making of national decisions. These Alberta in fact won in the 1982 Constitution Act.

There were significant costs incurred in the inter-governmental and inter-regional battles in the 1970's and '80's - political costs which seriously strained the fabric of confederation, and economic costs as industries and consumers were squeezed between the interests of competing governments. Nevertheless, in the end, the processes of the federal system seem to have produced roughly the right solution, namely, a reasonable compromise among fundamentally opposed and competing interests. Canada arrived at such an answer precisely because the constitutional allocation of power gave each side powerful bargaining levers with which to ensure that its interests would be heard.

THE FEDERAL-PROVINCIAL BALANCE OF POWER

With the possible exception of the constitution, more time has been spent debating industrial strategy than any other issue in Canadian public policy (Jenkin, 1983) and calls have come from many quarters for the harmonisation of federal and provincial policies, not only to permit greater consistency across provincial boundaries but to provide a stronger, more united Canadian position in the international economy (see Economic Council of Canada, 1978; Maxwell, 1978; and Hudson, 1978). Yet, while it is relatively easy to achieve consensus on the need to do something, it is quite another thing to find agreement on what a 'national strategy' would

look like. At the heart of the debate lie widely differing conceptions of the Canadian community. Is there a 'national interest' distinct from the interests of provinces and regions ? Is the national interest something that transcends local interests or should it reflect them ? Is the whole greater than the sum of its parts, or equal to them ? Are the regional divisions, the competing development priorities of the federal and provincial governments so different, the policy instruments needed to develop such a strategy so widely shared between the two levels of government that insurmountable constraints face those who argue for such a strategy ? These are not easy questions to answer. They do reveal, however, that the articulation of the national interest in a regionally diverse federal state is never straight-forward and rarely uncontentious. To appeal to the national interest in the resolution of regional conflict is to duck a set of issues which adds much of the flavour to Canadian political life.

Most important of all, is the question of which level of government should be responsible for fashioning Canada's industrial development strategy. To give the federal government a power over national industrial strategy would mean reducing provincial powers significantly at a time when all the political forces seem to be moving the other way; such an attempt would be destined to flounder on the shoals of contemporary provincialism. Furthermore, the federal government is under attack for the regional bias of its policies and seems uncertain about its own role or in what direction its policies should move. It is in large measure in response to the vacuum created by weak federal leadership that the provinces have become so aggressive and expert at promoting the industrial expansion of their own economies. Not to deny the existence of some abstract commitment to economic policy in Canada, with eleven governments involved, the outcome will be eleven definitions of the 'national interest' and eleven strategies for protecting the same. In short, "Ottawa's economic policies, if it has

any, can reflect little more than the lowest common denominator of consent among regional factions of the ruling class jockeying for advantage" (Stevenson, 1977).

CAN SCOTLAND LEARN FROM THE CANADIAN EXPERIENCE ?

While we have drawn attention to a number of common themes of inter-governmental relations associated with the division of economic and industrial powers in Canada and in the UK under the Scotland Act, closer analysis of the issues renders a direct comparison problematic. The potential for inter-governmental conflict is in-built in both types of decentralisation but the factors affecting this conflict vary considerably. Under the Scotland Act, the balance of party control between Westminster and a Scottish Assembly would have an almost decisive influence in shaping inter-governmental relations since the objectives of the principal actors at each level of government would be conditioned by ideological factors. This might import a centralist bias into inter-governmental economic and industrial policy negotiations. In Canada, inter-governmental conflict goes on largely regardless of partisan divisions on social and economic questions.

This having been said, the Canadian experience does shed some light on the contemporary Scottish debate and alerts us to some of the implications of the current devolution proposals of the British parties. The Labour party is currently proposing a scheme on the same lines to that set out in the Scotland Act in 1978 (Labour Party, 1984). However, while economic and industrial powers would remain largely centralised, certain tax raising powers would be devolved to supplement the block grant from Westminster government. While Labour expected this to allay some of the fears associated with the earlier proposal of complete Assembly financial dependence on central government, the Canadian experience warns of a

different set of inter-governmental problems implied by the decentralisation of taxation powers to sub-national levels of government.

Both the Liberal and Social Democratic parties also propose to devolve taxation powers to a Scottish 'Parliament', although these would be broader in scope than the power simply to vary the rates of income tax which Labour proposed (Liberal/SDP Alliance, 1983). In other respects too, the Liberal/SDP Alliance devolution proposals appear to go further than Labour's. Most significant, perhaps, while the UK Parliament would remain sovereign, the UK government would have no power to interfere with the Scottish administration's responsibilities unless with the consent of both chambers of the UK Parliament, or by two votes of the House of Commons with a general election intervening.

With regard to the division of powers between the Scottish Parliament and Westminster government, the Alliance formally states that only specified government functions would be devolved. In a separate document, the SDP argues that only reserved functions should be specified (Social Democratic Party, 1986). Nevertheless, both parties are committed to a general principle guiding the division of powers, that "no decision should be taken at a higher level of government which can, with equal or greater effectiveness, be taken at a lower level" (Liberal/SDP Alliance, 1983). However, while this may sound impressive, quite what it would mean in practice is far from clear, particularly when we consider some of the conditions attached to the exercise of the Scottish Parliament's responsibilities. Most importantly, where there are mixed functions, legislation passed by the Scottish Parliament "shall take effect only insofar as it is not inconsistent with any UK Act of Parliament".

There would be other constraints on the Scottish administration's power. Those domestic powers and duties which are necessary for the "good government of the UK" would remain with the UK Parliament (Liberal/SDP Alliance, 1983). This is the potentially all-embracing clause whose

interpretation has caused so many problems in the Canadian context. Another highly ambiguous clause in the Alliance document is the one that states that the UK Parliament should define the minimum standards which will bind the Scottish Parliament.

In the allocation economic and industrial powers, the Alliance believes, on the one hand, that "the Scottish Parliament should have powers to enable it to guide and assist the progress of the Scottish economy". On the other hand, the party concurs with the Labour party on the over-arching need to maintain the economic unity of the UK; this would mean that the central tools of demand management and macro-economic policy would remain with Westminster. These two clauses appear to cancel each other out. In terms of the Scottish administration's taxation powers, the Alliance is forced to acknowledge that "it might...be necessary for the United Kingdom Parliament to impose a limit on the total revenue to be raised by the Scottish Parliament" (para. 96). There are other areas in the economic field where "the relative advantages of central as opposed to local control, and the respective arguments for uniformity as against local variation, are more evenly balanced" (Liberal/SDP Alliance, 1983). Thus, many of the nationalised industries, including coal and steel, would not be devolved.

To deal with the inevitable interdependence and potential inter-governmental conflict that their devolution proposals would imply, the Alliance suggests that a constitutional court, the Judicial Committee of the Privy Council, would be able to settle any jurisdictional battles. However, given the retention of Parliamentary sovereignty, the role of such a court is unclear.

Despite the appearance of the Alliance proposals, then, in practice, they may not amount to much more than those of the Labour party. While the operation of the new constitutional arrangements may be different in respect, the Alliance does not offer the Scottish administration much more in terms of functional powers than does Labour.

Our discussion of the Alliance proposals so far, may give the impression that the constituent parties of that alliance, are in complete agreement on the question of constitutional reform. This is not always the case.

For the Scottish Liberal party, the establishment of a Scottish Parliament would be a first step towards a federal solution (see Robinson and Von Romberg, 1982). This would require the establishment of regional Parliaments throughout the UK. The Scottish Liberals propose one each for Scotland, Wales, Northern Ireland and England. However, the party has not, as yet, devised a means for implementing such a scheme. In fact, in the SDP literature, and that of the Alliance, the term 'federalism' is notable by its absence. While the Alliance document does discuss the possibility of extending devolution to the other regions of country, this is not a priority: "We do not believe that constitutional changes (in England and Wales) should be rushed...While there is wide public support in Scotland for measures such as we have proposed, it is not clear that there is popular support for elected Regional Assemblies in England or for an elected Parliament in Wales" (Liberal/SDP Alliance, 1983). This introduces a tension into the Alliance which has not yet been resolved.

The Scottish Liberal party's proposals for dividing powers are wider in implication than those of the Alliance. For example, "ownership of all nationalised assets located on Scottish territory...(will be)...vested in the Scottish state". Furthermore, while both Scottish and federal governments would have the power to take Scottish-based assets into public ownership, the latter could only do so with Scottish consent. The exploitation and development of energy resources, including North Sea oil would also be "Scottish matters", and, by means of a Petroleum Revenue Tax, the Scottish Parliament would receive a "fair share" of the revenue derived from the North Sea. The Scottish Liberal party insists that these provisions would guarantee that "the development of the Scottish economy would rest almost

exclusively with the Scottish government". Most significantly, the division of powers would be constitutionally entrenched; as in Canada, the federal government could not interfere in the Scottish Parliament's affairs or change the terms of the constitution without the consent of a supreme court. Parliament would no longer be sovereign.

The Liberal party believes that a federal system offers the only effective means of dividing industrial and economic powers between different levels of government. In their document, *Scottish Self-Government*, the party explains, "We do not want to see the British people divided in a tragic conflict for jobs and prosperity. That is why a federal system is the only one which meets our needs. Self-government is balanced in a federation by the fiscal powers of the federal government and the open bargaining processes which are characteristic of federal politics. The communities in a federal system compete to innovate and progress, not to destroy one another" (Robinson and Von Romberg, 1982).

As a general observation, this is quite at odds with the experience of federalism in Canada. In Stevenson's opinion, the extent to which wholesale economic warfare between the Canadian provinces has not developed, probably has more to do with limited financial resources than any commitment to national economic harmony (Stevenson, 1977). The Scottish Liberal party denies that the unequal size of the states in a federal Britain would mean that the federation would be unduly dominated by the largest - England. As Alberta derives political weight from the control of oil and gas resources, so, it could be argued, might Scotland in a federal context. The weaker positions of Wales and Northern Ireland, however, would present a British federal government with similar problems as do the provinces of Newfoundland and Nova Scotia in Canada. In arguing the case for a federal UK, the Scottish Liberals state that, "...but for federalism, Canada as we know it would not exist" (Robinson and Von Romberg, 1982). This may be true, however, the practice of Canadian federalism suggests that *keeping*

Canada together has been, and continues to be, one of the great balancing acts of the twentieth century. "Whether the four blocks of territory constituting the dominion Canada can forever be kept by political agencies united among themselves and separate from their Continent, of which geographically, economically, politically, and, with the exception of Quebec, ethnologically, they are parts, is the Canadian question" (Wilson, 1979).

What, then, is the British question ?

It might be conventional to talk of decentralisation as an administrative concept but the outcomes in terms of working federations or systems of sub-national governments in unitary states are the result of political forces in conflict. In unitary states, the choice of institutions for decentralised administration or the level of autonomy devolved to sub-national governments will reflect the primary interests of the centre. These interests are rarely compatible and the final decision will reflect a compromise between administrative needs and political demands. Demands for equalisation and the reduction of regional disparities require centralisation. However, the need in contemporary states for decentralisation reflects the power of different groups to promote and defend their political interests. The Scotland Act was a response to political demands for devolution emanating from Scotland but the devolution plan had to be acceptable to the central interests which meant in practice that the central tools of economic management would remain centralised and that Parliament would remain sovereign. The nature of decentralisation thus depends on a particular combination of factors pulling sub-national units together with those pulling towards regional autonomy. The question will be resolved politically because the interplay of political forces determines both the choice of institutions, the choice of principles for the drawing of boundaries and the allocation of powers.

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