

Introduction

CANADIANS HAVE WITNESSED THE END OF CERTAINTY. INDEED, IT HAS NOW BECOME trite to write that the pace of change in society has accelerated dramatically in recent years. It is apparent, even to the most casual observer, that traditional public policy solutions no longer work. In Canada, the national economy is withering away at the edges as regional economies begin the process of disengaging from each other and forging new relations with their neighbours to the south.

Not surprisingly, therefore, the Canadian federation is undergoing important changes, albeit by stealth rather than by constitutional reform. Canadians are far more pragmatic today than they were 40 years ago, but public opinion surveys suggest that they have less confidence in government as a problem-solving mechanism for society. Protecting jurisdiction and turf only makes sense to the current generation of politicians who came of age when federal-provincial conflicts over constitutional reform and when Ottawa's spending power dominated the national media. The next generation of politicians will have come of age in the new economy, seeing endless potential for both government and the private sector in the cybernetic revolution. They will likely have very little interest in old federal-provincial conflicts preferring to focus on how to make things work, and how to strike new collaborative mechanisms between regions.

Indeed, the issues today are even different from those associated with the not-so-distant Charlottetown Accord, the last major rethink of our institutions. They include the rise of multi-level governance because the dominant issues now require it; the search for new public policy instruments because existing ones are being discarded (e.g., tariffs); dealing with the mobility of capital and the impact of international markets on fiscal and monetary policies because trade barriers

continue to fall, and so on. Quite apart from the above, we now need to explore how to make representative democracy work better and how to gain a better understanding of the growing trend toward decentralization and its implications.

There is also a growing populist demand for greater public participation as a means of solving problems and making the outcomes of the political process more equal. The sense here is that the leadership of government has lost touch with the people and has appropriated power and benefits for itself. Beyond the demands for mass political participation there are also increasing demands for participation at lower levels of policy-making. It appears that many citizens are not pleased with the representation their views are receiving through political parties, elections and legislatures and they want to have more direct influence over policies.

These demands for popular participation present some paradoxical pressures on governments attempting to be more efficient and more responsive to the market. On the one hand, government officials are frequently being told to be decisive, entrepreneurial and responsive to market signals. On the other hand, these same leaders are being told to be more sensitive to public demands and to the wishes of lower-echelon workers. They are also told to institute a range of procedural devices that will slow down decisions and perhaps divert them from the “discipline of the market.” At the same time, they are told to look to the private sector to learn how to manage government operations.

Contributing to the popular perception that governments are less effective than they were in the past is the fact that the policy problems they now face also appear less tractable than those of the past. Governments have already done the easy things and now are faced with a number of extremely difficult problems. For example, governments now must attempt to manage the economy in a more competitive and contentious environment. Yet most elected politicians realize that economic performance is one of the clearest predictors of their re-election, so they cannot escape from dealing with the economy, a task that is increasingly difficult in a world without frontiers.

In addition, the social problems that governments face now appear more difficult than those “solved” in the past. The welfare state programs of the past decades were reasonably simple programs, largely based on giving people money. This could be done through well-established methods such as social insurance or means-tested benefits, depending upon the type of social need addressed and the political values of the country in question. To be sure, these programs are now

well-established, but governments now face some more formidable social policy tasks. These include coping with increasing social diversity and the need to manage social change peacefully. Add to those family breakdown, crime, drugs and persistent poverty. The list could be extended but the point would remain that there are few methods agreed upon for “solving” these problems and governments are left with the need to address the problems as best they can.

The new economic order is also leaving in its wake new challenges for government. The focus of new emerging activities is in urban areas which is forcing the hand of national governments to redefine their relations with cities. The competitive nature of the global economy may well set in motion a race to the bottom where nation-states compete to adopt weak laws to encourage firms to locate new activities in their jurisdictions. National governments may well need to consider “new” forms of citizenship as recent developments begin to erode the nation-state from below (e.g., minority nationalism) and from above (e.g., transnationalism).

Finally, even foreign policy is more difficult now than it was in the past. During the Cold War it was usually clear who the enemy was and what the general strategy should be. In a world with an increasing number of small conflicts, often based on internal cultural and ethnic differences, the approach of industrialized democracies is much less clear. September 11, 2001 has shown that the world has become a more dangerous place than even during the Cold War, but the dangers are more difficult to identify and classify. As well, the lessening of large-scale international tensions means that policy differences among former (and continuing) allies become easier to accept, and economic and other tensions are likely to become more important than military conflicts in international affairs.

If the policy problems of government taken individually are less tractable, then taken together the difficulties in governing are even greater. Policy areas have never been watertight compartments as they are sometimes portrayed, but the interactions across sectors appear to have increased significantly. Thus, governing effectively in one sector will depend to a greater degree upon decisions taken in other sectors. Policies such as welfare, education and the labour market interact to an ever greater degree and present more significant challenges of policy definition and management. The implications for Canadian federalism should be obvious.

The fundamental direction of change has been to make government function more like the private sector. The underlying assumption here is that if the

public sector would only follow the lead of the private sector most problems of governance would be over. These reforms are all in pursuit of a model for governance that will be at once efficient, effective and democratic. Different political leaders will assign differential importance to each of those three criteria, and might impose some additional ones of their own, but almost all would see a better government as being the product of the reform process. However, as governments attempt to overhaul their operations, they are also expected to deal with powerful new political and economic forces that no longer respect political borders.

Indeed, in Canada, as elsewhere, the impact of the new economic order, the information revolution and the growing populist demand for greater public participation as a means of solving problems is being felt in virtually every sector and in every area of government activity. We know that profound change is redefining the relationship that Canadians have with one another, as well as how Canada's regions relate to one another economically and politically. We also know that old federal-provincial conflicts no longer resonate with Canadians. What is less clear is how new political and economic forces will shape the Canada of tomorrow and how governments and other policy actors can harness these forces to promote development.

It is against this backdrop that the Institute for Research on Public Policy and the Canadian Institute for Research on Regional Development decided to assemble an outstanding international team of scholars to review eight policy challenges as part of the overarching theme, *The Art of the State: Governance in a World Without Frontiers*. These authors delivered their papers in the presence of a number of leading Canadian analysts and policy practitioners drawn from academe, governments and the private sector at Château Montebello in October 2001. This led to a very fruitful interchange, so much so that for each of the sessions in addition to publishing the formal paper and the comments of a designated discussant, we also present a brief summary of the floor discussion.

We now turn to a brief overview of the eight selected themes.

A Preview

The new economic order

WITH GLOBALIZATION AND THE KNOWLEDGE/INFORMATION REVOLUTION SERVING to radically alter traditional policy conceptions of economic space and

time it is only natural that *The Art of the State: Governance in a World Without Frontiers* should begin with an assessment of this new economic order (NEO). This task falls to Richard Harris and his paper “Old Growth and New Economy Cycles: Rethinking Canadian Economic Paradigms,” which compares and contrasts the old and new economic paradigms in terms of their implications for the policy triad of growth/productivity, stabilization and distribution.

While the traditional drivers of growth and productivity—investment in machinery and equipment; education, training and human capital; and openness to trade and investment—remain critical, they cannot easily explain the mid-to-late 1990s relative burst in productivity in the United States. Enter the NEO which Harris views as “real and BIG” and “is being driven by the convergence of a number of *new* technologies in the computer and information technology (IT) sectors which are the basis of what [analysts] refer to as General Purpose Technologies (GPTs).” In more detail, Harris characterizes the interaction between the NEO and GPTs on the one hand, and the progression through the various phases of the business cycle on the other, in the following ways:

- ◆ As the old GPT matures, growth slows and productivity gains from the old technology become increasingly hard to obtain.
- ◆ The new GPT “arrives” in the form of a new set of generic technologies. At first, growth may slow even more, as experimentation and learning occurs with respect to the new GPT. Measured productivity growth slows down and inequality rises for technological reasons (skill-biased technological change) and because of the obsolescence effect on older industries and technologies.
- ◆ As the pace of adoption of both the new GPT and appropriate complementary investments rises, growth and productivity begin to pick up. Competition increases as the number of new entrants who are technologically enabled grows rapidly. Wage inequality continues to rise, but growth rates accelerate and show up in the form of lower prices, improved quality of new goods and services and higher profits.
- ◆ As diffusion of the new GPT through the economy begins to peak, advances in growth rates slow and consolidation begins to occur across a number of the new industries. Wage inequality falls due to (i) trickle-down effects and (ii) the factor supply response (more people choose to

be educated or skilled appropriately). Technological displacement in the old economy slows.

Harris argues that this version of the NEO can help explain the differences in the Canadian and US economic performance in the 1990s, in part because the US was further along in the GPT cycle. When one combines the NEO with increased north-south integration and with the increased importance of what are called global city regions, one of the implications Harris draws is that “whether Canada can sustain itself as a high-income economy within an integrated North America almost certainly comes down to how [our] cities will fare in relation to major US cities.” Although global city regions do not receive much further attention in the various papers, we note that federal policy is rapidly moving in the direction of striking a closer relationship with these cities, in spite of what the provinces may say.

On the stabilization front, the NEO as outlined above obviously lends credence to the Schumpeterian process of “creative destruction” as a business-cycle theory. It also appears that the NEO has, via the Internet and especially business-to-business (B2B) linkages among other ways, ushered in some fundamental changes in labour markets such that the NAIRU (non-accelerating-inflation rate of unemployment) has fallen considerably which, in turn, means that sustainable non-inflationary growth may be much higher than heretofore was thought possible. Harris concludes his discussion of the stabilization implications of the NEO by suggesting that in terms of enhancing productivity, of successfully competing in NAFTA economic space and of ensuring a favourable proportion of North American investment, a common Canada-US or North American currency appears appropriate, although the politics on neither side of the border are as yet on side.

In terms of the income distribution, the disturbing news is that market incomes are polarizing, partly due to the education premium for highly educated workers. But when one controls for education, the data suggest that there has been a marked increase in measured within-group wage inequality. Arguably, the most promising explanation of the above two observations is the new economy hypothesis, and in particular the earlier description of the implications for wage inequality as the new GPTs diffuse through the economy. Harris concludes by recognizing that while there is some truth in the argument that governments of small economies are powerless in the face of intense globalization, there is also truth in

the proposition that policy may be more important in the NEO because good policy will have higher returns and bad policy will lead to worse outcomes than was the case in the past.

In one of the two commentaries on the Harris paper, Pierre Fortin provides a needed perspective for all of the papers in this volume, namely that it may be all too easy to jump on the new economy bandwagon and proclaim the advent of a new societal paradigm. This he associates with Heraclitus, the Greek philosopher who was a believer in change for its own sake. Fortin prefers to take the side of fellow Greek philosopher Parmenides who was more interested in continuity. While Fortin readily admits that there has been an acceleration in US productivity, much of this can be viewed as a cyclical phenomenon. On the stabilization front, the drop in the NAIRU can, in part at least, be attributed to the fine tuning of Alan Greenspan. Finally, while market incomes may be polarizing, Fortin sees no reason to believe “that the old Canadian social compact made up of medicare, free or low-cost education, moderately high minimum wages, reasonable social security, and a progressive tax system cannot deal effectively with the particular challenges we are now facing.”

Intriguingly, while Harris and Fortin may emphasize quite different perspectives on what the future may hold, they line up fairly closely in terms of what constitutes good policy now: remain open to free trade and investment and free movement of people; support investment in education, in machinery and equipment, and in research and development; strive for reduction in the public debt; and avoid overly-conservative monetary policy. While this is Fortin’s list from his concluding paragraph, it parallels closely the policy preferences proffered by Richard Harris.

In his “Reflections on the New Economic Order,” Don Drummond of the TD Bank Financial Group attempts to bridge the gap between Harris and Fortin. On the input side, Drummond is emphatic that the NEO is a BIG DEAL, in terms both of the diffusion of new technologies and knowledge workers, and in terms of the altered nature of North American economic geography. On the output side, however, Drummond is less certain that the NEO, as often interpreted, is determining. For example, many of the so-called “old-economy” sectors are rapidly adapting to the requisites of the NEO. This leads Drummond to follow both Harris and Fortin in emphasizing that we still need to pursue all the good policy initiatives that allowed us to excel under the previous paradigm. Nonetheless, global-

ization is forcing us to alter some of our old policy ways. On the taxation side, high marginal tax rates, for either personal or corporate taxation, are increasingly problematic. More generally, globalization is moving us in a direction of shifting reliance from taxing income to taxing consumption, including user fees.

The changing nature of power and democracy

There are numerous reports suggesting that citizens do not have confidence in national political and administrative institutions in the way they once did. Moreover, there is evidence that this is true in different political systems and in various parts of the world. That is, the drop in public confidence in national institutions is not only evident in Anglo-American democracies. As B. Guy Peters reports in his paper, "Democracy and Political Power in Contemporary Western Governments: Challenges and Reform," the problem is no less acute in countries such as Finland, Spain and Austria.

Our system of governance is being challenged on at least two fronts. Some insist that our democratic institutions, Parliament, cabinets and political parties can no longer do their jobs adequately. Others argue that the very concept of representative democracy itself may be dated in that it no longer enables the public to exert sufficient power over the policy-making process.

Peters reviews the calls for reform in our systems of governance and reports on recent developments. He explores the potential for direct democracy, its advantages and drawbacks. He also considers deliberative democracy and communitarism. Peters makes the point that these three approaches require "an active, informed and heavily involved citizenry." He adds, however, that new developments such as the Internet hold important possibilities for democracy, for citizen participation and for sharing information about key public policy issues.

Globalization, as many observers have noted, also holds important implications for democracy and the nation-state. Why, one may ask, should we worry about democratic governance at the national level if national governments are capable of controlling so little? However, Peters insists that the literature has overstated the case and that, while power may be moving up to supranational organizations and the international market and down to local government, it does not tell the whole story. He argues that the role of the nation-state may well have been strengthened in recent years and points to the European Union to make his case. Events surrounding September 11, 2001 would also suggest that nation-states

will still have an important role to play in the future. He argues that the nation-state will remain the focus of our attention as we try to improve our system of governance, broadly defined.

Why, Peters asks, has our system of governance fallen into such disrepute? He argues that public expectations have been raised to such levels that no government could possibly meet them. Political campaigns are invariably filled with promises that are difficult or impossible to deliver.

Peters looks at the role of political parties, Parliament and the executive in planning efforts to reform representative democracy. He sees problems with all of them. For example, he insists that political parties have become part of the problem rather than part of the solution. They tend to obfuscate issues, protect incompetence and can hardly go beyond partisan considerations once in office. Moreover, parties are seen as “corrupted” if only because of the need to raise money to fight election campaigns. Peters also explores alternatives to conventional democracy. He writes that while direct democracy holds promise, it is not without problems. For direct democracy to work well, the public must be sufficiently informed and interested to make the right choice on complex issues. He also reports that voter turnout on referenda is lower than for elections to office. This would suggest that the general public may well be less interested in pursuing opportunities to shape public policy than it is generally assumed by political scientists and political observers. Peters also considers deliberative democracy and points to deliberative elections and deliberative polling to guide better policy choices. But, again, he argues that such mechanisms may not attract “citizens in droves.”

Peters suggests that we should explore more fully citizen participation on the output side. That is, governments should look at ways to involve the public in the management of public programs that affect them. In fact, many citizens have more contact with tax collectors, the police, social workers and school teachers than with their elected representatives. Recent developments suggest that there are increasing opportunities for citizens to be directly involved in the management of public programs. Committees of parents are more and more involved in managing schools, advisory groups of one kind or another are being established to oversee program delivery and the development of such instruments as a “citizen’s charter” are just a few examples of efforts to make government programs more responsive to the public.

André Blais acknowledges in his comments on Peters' paper that "everywhere citizens have become more distrustful of politicians and politics." However, he argues that we should blame people, not politicians, for the drop in public confidence. He makes this provocative claim by insisting that political institutions have not become less democratic, that governments and politicians are not systematically worse than they were 30 or 40 years ago, and that citizens do not have a narrower range of options to choose from than before. He points out that the emergence of the Reform/Alliance and the Bloc Québécois alone means that voters have a wider range of options than before. Blais argues that direct democracy holds considerable promise and that we should pursue it. He dismisses standard objections to direct democracy. Indeed, he maintains that the threat of direct democracy alone will make representative democracy work better.

Why, he asks, is cynicism on the rise? He points to education and secularization as factors. Education, he maintains, makes people more critically oriented. Religious people, he adds, tend to have greater respect for authority and to be less cynical. Whatever the reason for the current state of affairs, Blais applauds the instrument of direct democracy because it holds the promise of alleviating public discontent with our system of governance.

Managing interdependence in a federal state

In his paper, "Managing Interdependence in a Federal Political System," Ronald Watts provides a detailed record of the state of knowledge in the governance of federations. He looks at developments in many federal systems but pays close attention to the evolution of Canadian federalism, looking at these developments against the backdrop of globalization, the knowledge and information revolution and the increasingly horizontal nature of the public policy process. He seeks to identify lessons learned that could apply to Canada.

Watts reports that a form of intergovernmental cooperative arrangements was established virtually from the day federal systems were born and, in this, Canada is no exception. But it was only later, with the arrival of Keynesian economics and the rise of the welfare state, that cooperative federalism appeared in full force. Governments were forced to define new arrangements as they became more active in more policy fields and as the constitutional division of powers lost some of its application and new financial requirements began to surface.

He describes how the world is becoming more and more interconnected and that new orders of government continue to be established everywhere. European federations (e.g., Germany) are adjusting to life as members of the broader European Union. In Canada, a new order of government may well emerge to accommodate self-governing arrangements for the First Nations. In addition, global and regional trade and economic arrangements have also been implemented in recent years. Large metropolitan areas are also making their presence felt beyond their national borders, as well as their provincial or regional ones.

Watts also comments on recent trends to make federal systems accommodate emerging political and economic circumstances. Some federations have embraced asymmetry, others have turned to hybrid political structures, and still others have sought to combine features of “confederation and federation to define the most appropriate public policy instrument.”

What does this mean for Canada? Watts maintains that there is no single ideal model of federalism that applies everywhere. He does, however, argue that new developments in governance in the federations provide an impressive list of options that Canada could draw from and further that many of them could be applied without formal constitutional amendments. Still, throughout his paper Watts warns that many developments and instruments in managing interdependence better can also add to the democratic deficit.

One thing is clear. However, interdependence in federations today involves more than two orders of government. It involves establishing new relationships with local governments, including the municipal governments of large urban areas and with international agencies. This is necessary because of the requirements of the global economy and the information society. This, in turn, means that virtually every policy issue flows into every order of government whether local, national or international.

Our system of government is not geared to deal with this development. Our political institutions still assume a vertical accountability of governments to Parliament and to their electorates for specific areas of responsibility. The question that we now need to address is: How can we ensure that governments remain accountable for policies and programs that they do not fully control or for which they do not have full responsibility? Whatever reform measures we may wish to introduce, Watts maintains that they should be “flexible” and “adaptable.”

He concludes with the observation that emerging global and regional circumstances are forcing the hand of governments everywhere to introduce measures to promote collaboration with other orders of government. He insists that other federations have developed more and better intergovernmental collaboration mechanisms than has Canada. He argues that Canada must now search for new techniques to “consciously improve” intergovernmental collaboration. The search should be guided by the following values: provincial autonomy, political stability, democratic transparency, accountability and participation, equity, efficiency and innovative flexibility.

In his discussant’s comments, Robert Young addresses one of the key observations made by Ron Watts, namely that because Canada is largely an arm’s-length federalism rather than an interlocking federalism it is “less well-equipped to manage the contemporary challenges of interdependence than most other federations.” In the Canadian context, Young associates arm’s-length federalism with vertical and horizontal competition and interlocking federalism with intergovernmental collaborative mechanisms. Should Canada search for new collaborative techniques (as Watts argues) or can the process and dynamics of intergovernmental competition be counted on to address jurisdictional policy interdependencies?

Horizontal competition, or competition between provincial governments goes hand in hand with greater decentralization and with rising provincial autonomy. Its well-heralded virtues lie in the areas of responsiveness, innovation and accountability, among others. Yet Young also notes that it may have negative consequences: a failure to reap potential economies of scale; a tendency for very small units to generate negative externalities; the possibility of destructive competition (competing away tax bases or gutting pollution regulations); and a diminished capacity to ensure minimum national standards.

Young then explores the comparison between competition and collaboration in the context of relying on vertical or federal-provincial interactions in terms of addressing interdependencies. Defining vertical competition as including competition by both levels of government in providing goods and services, Young notes that this is frequently seen as leading to wasteful duplication and overlap. He offers some evidence to indicate these concerns are less serious than we have been led to believe and then proposes for further research that federal-provincial collaboration may well need a dose of vertical competition: “This might be espe-

cially appropriate where provincial governments have demonstrated neglect or inertia, and when emerging problems that demand federal government attention have inescapable links into areas of provincial authority (such as issues involving municipalities).” Young is fully aware that this would amount to the resurfacing of the issues surrounding the spending power.

Corporate governance

Given that capital is increasingly mobile in the new economic order, should it not follow that enterprises will actively pursue jurisdictions where the corporate governance regimes are more to their liking (where corporate governance embodies the framework of laws, regulations institutions and reporting requirements that condition the way in which corporations are managed)? In turn, should the loss of employment, investment and tax revenues associated with corporate exodus not trigger a “race to the bottom” in which states will compete to adopt weak laws to curry corporate patronage? In the face of this dysfunctional behaviour, should not the preferred solution be a monopoly/supranational regulator? Assessing this scenario constitutes the core of the paper by Ronald Daniels and Benjamin Alarie, “State Regulatory Competition and the Threat to Corporate Governance.” They end up being highly sceptical of both the “race-to-the-bottom” hypothesis and of the capacity of supranational monopoly regulators to address any supposed deficiencies of national regulators.

Daniels and Alarie begin their analysis by noting that the competitive-regulatory-product model, under the assumptions of democratic accountability and the absence of externalities, is likely to be more innovative and responsive and also more likely to ensure that “all stakeholders whose interests are bound to the corporation are better served ... than if there were only a single monopoly supplier of rules.” Moreover, corporations are not likely to be as “footloose” in response to alternative corporate governance regimes as they are often perceived. For example, corporate governance regulations are only one part of the regulatory and contractual arrangements influencing corporate behaviour; there will surely be significant sunk costs and relocation costs that will attend jurisdiction shopping; there is no certainty that currently appealing alternative regulatory climates will remain so, and so on. In tandem, these and other factors suggest that “corporations will not be nearly as feckless as some commentaries have proposed in relocating jurisdictions in response to marginal regulatory changes.”

While this enhances the case for national corporate governance regimes, Daniels and Alarie devote most of the remainder of their paper to outlining alternative approaches to further ensure that states are not induced to “under-supply” optimal corporate regulatory product. One obvious option here is to effect “hands-tying agreements” among states that have as their objective either to seek to limit the scope for competing down standards in selected areas or to stiffen states’ resolve against bending the rules in favour of corporations. Second, trade and economic sanctions constitute the primary way in which nation-states attempt unilaterally to impose their desires on rogue states for more humane labour practices, for fairer tax policy and for reasonable environmental protection, etc. A third route is the promotion of voluntary codes of conduct and self-regulation. For example, Daniels and Alarie note that the OECD *Guidelines for Multinational Enterprises* have provisions in areas of disclosure and transparency, industrial relations, competition norms, tax compliance, product safety and quality, the environment and the like. Along similar lines, the UN’s *Global Compact* asks multinational enterprises to voluntarily endorse nine principles relating to human rights, labour rights and the environment, and many companies have done so. A final avenue, facilitated by the Internet, is the emergence of a new type of corporate lobby group: “a grassroots techno-savvy network of social advocates working together to point out the costs and negative effects associated with corporate irresponsibility the world over.”

Thus, there exist a variety of mechanisms both for reining in the power of corporations in terms of their ability to demand lax corporate governance and for ensuring that government incentives to supply such corporate regulations are reduced. Indeed, the complex interplay among shareholders, management, stakeholders and governments in the context of national corporate governance regimes leads Daniels and Alarie to the implicit, if not explicit, conclusion that the regulatory race often tends to be to the optimal and not to the bottom.

Donald McFetridge’s paper is not so much a comment on Daniels and Alarie as it is a different perspective on the relationship between globalization and corporate governance. Among recent developments in corporate governance that McFetridge elaborates are the tendencies for Canadian multinationals to come under increasing pressure to adhere to US securities regulations, to be subject to class actions launched by US investors, and to bend or otherwise respond to activist US institutional investors as well as to US and European corporate

responsibility advocates. McFetridge also notes that while institutional investors are increasing in importance in both Canada and the US, those in the US are far more aggressive in monitoring aspects of corporate management (e.g., executive compensation) and more willing to seek seats on boards of directors of public companies than are Canadian institutional investors. Presumably, convergence to the US norm will occur here as well.

McFetridge then addresses the shareholder versus stakeholder tug-of-war in terms of approaches to corporate management. Under the former, the *raison d'être* of management is to maximize shareholder wealth. The alternative and, in some areas, increasingly popular stakeholder approach would have management sacrifice profitability to a variety of other objectives and in some variants would also include stakeholders' interests in corporate decision-making. McFetridge's view is that shareholder interests should be primary, since there are ample avenues for both influence and redress open to stakeholders.

In the final section of his comments, McFetridge follows Daniels and Alarie in addressing the "race to the bottom." His bottom line is that there is no such race:

Capital is mobile and has been so for many years. This has not implied that corporations flit from country to country in search of greater concessions from potential host governments. To the extent that it does occur, interjurisdictional competition provides a welcome break on rent-seeking by domestic interest groups and bureaucrats. The redistributive consequences of this competition are, in all likelihood, largely domestic.

Also supporting his claim that there may be no race to the bottom are McFetridge's related summary observations, namely that the tax revenues of national governments have not declined as a proportion of GDP, and that there still exist many high tax jurisdictions that have high quality public services and a stable business environment.

New forms of public service

We have seen over the past 20 years, particularly in Anglo-American democracies, wave after wave of government reform measures. Politicians, from Margaret Thatcher onward, who set out to fix government started from the premise that bureaucracy was the problem. It is revealing to note that political institutions have remained largely intact. The Canadian and British Parliaments, the American

Congress and the American presidency have not been downsized and the relationships between parliaments and the executives in British parliamentary systems or between the president and Congress have not been overhauled. But things have been different for government bureaucracies and career officials: they have witnessed privatization, contracting-out, downsizing, new management practices and the list goes on.

Chris Pollitt, in “New Forms of Public Service: Issues in Contemporary Organizational Design,” explores various forms of public service and their link to the legitimacy of the liberal democratic state. He presents a long list of things we expect from government programs and services: that they be accessible, high quality, flexible, reliable, integrated, efficient, transparent, accountable, equitable, participatory, and so on. The point is that citizens have high expectations of government and it explains why governments everywhere have been reorganizing government departments and agencies and experimenting with new ways of delivering services. They have tried various delivery models—some have been integrated into government departments, while others have been established at arm’s length from the government. New organizational forms, however, have not meant smaller government. Indeed, in many cases expenditures have remained steady and the total number of staff has hardly been altered.

Pollitt maintains that we have in recent years witnessed a “positive orgy of experimentation with reforms” and that we are now in a position to choose from an extensive menu of reform measures. He also reports that when it comes to new forms of public services, we are truly living in a world without frontiers; the flow of ideas about appropriate organizational forms is strong between states and through international organizations and there are also important developments in international benchmarking to assess the performance of government departments and their programs. In addition, much of the IT infrastructure in Britain has been provided by US firms. Thus, it is not only international boundaries that are being crossed but also within states the traditional barriers between the public sector, the business community and voluntary associations are also breaking down.

Pollitt sees a strong link between forms of organizations and services and the legitimacy of government and the nation-state. He argues that decisions in governmental organizations are essentially political, not managerial. He concludes with suggestions on how we should determine which activities and ser-

vices should remain in a government department and which ones should be contracted out or put at arm's length. Notwithstanding this advice, Pollitt insists that designing public service organizations is a very complex task and that there is no set answer available to policy-makers. He warns against solutions cast in "simple proverbs" such as "steer, don't row." He maintains that it is not possible to have one form that will consistently outperform all others. By way of explanation, he notes that an organizational form that maximizes speed and efficiency may not score well in terms of equity and participation.

Rather than search for one superior model that can accommodate all circumstances, Pollitt suggests that we should proceed in three phases. First, look to the more important criteria for a given situation: what is more important, efficiency or clear accountability? efficiency or participation? Second, determine the more important functions or service characteristics to be pursued. For example, to what extent does the function attract intense and continuing interest from politicians? Third, consider the broad cultural context into which the service needs to operate. He writes about the deep-rooted difference between what he labels public-interest states such as the United Kingdom and the United States and the juridical thinking that permeates administrative life in France and Germany.

Ralph Heintzman, in "The Dialectics of Organizational Design" agrees with Pollitt's view that a link exists between government services and the legitimacy of the state. That is, service delivery is not just about service, it is about democracy and strengthening confidence in public institutions. He adds that we need to focus on redesigning services within the state and on transferring functions outside government and their implications for public institutions. But he stresses that we should never lose sight of the fact that public service requires a high level of trust and a strong public ethic. By way of making his point, Heintzman quotes an earlier Pollitt article, "I do not want an entrepreneur looking after my state pension (or my aged grandparent) but neither do I want a cautious bureaucrat driving the fire engine or giving pump-priming grants to investors."

Heintzman underlines the importance of organizational culture. He writes about two cultures found in government departments: one is the culture of "managing up," which looks to the policy process, to ministers and senior career officials and the other is "managing down," to front-line staff, program delivery and citizens and clients. Past reform measures, he maintains, have not paid sufficient

attention to this factor, nor to how one can bridge the two cultures. It may well explain why the most urgent new frontier of organizational design, according to Heintzman, is within traditional departments where service delivery functions may be suffering for lack of adequate organizational space.

Heintzman, a senior practitioner with the Government of Canada, acknowledges that Canada has not been as aggressive as have some other countries in reforming its public sector. He argues, however, that by being behind in public service reform, Canada has actually ended up ahead. He explains that Canada has been able to avoid some of the excesses of public sector reform and can now look to lessons learned from other jurisdictions.

Tom Kent draws on his extensive practical experience to offer important insights on the machinery of government. Kent begins with the statement “You can’t settle on an appropriate form of organization until what is intended is clear: policy first, then structure.” Hence, the “Policy First,” title of his commentary.

Reorganization, he insists, is often the product of desperation. Kent acknowledges that a great deal has been said and written in recent years about the fading of public confidence in government. But, he argues, there is another side to this argument—the government’s declining confidence in itself. Kent revisits three organizations with which he had a strong association to demonstrate this. He was directly involved in organizing two new federal government departments: Manpower and Immigration (M&I) and Regional Economic Expansion (DREE). The government, he insists, had a clear idea what it wanted to accomplish when it established M&I, but was uncertain in the case of DREE. The third organization was a wartime agency designed to decode enemy messages which was highly successful because it had a clear purpose, support from the highest political level and the necessary resources to get the job done. He concludes, like Pollitt, that political and administrative circumstances are by nature diverse and warns that what fits one set of policy and circumstances is not always a model for others.

New forms of citizenship

Globalization and the related development of supranational institutions (e.g., NAFTA and the EU) on the one hand and the internationalization of individual rights on the other have spawned a burgeoning literature on new ways to think about sovereignty, democracy and citizenship. Defining “old” citizenship as the (current) status quo resulting from the co-evolution of liberal democracy and the

nation-state, Will Kymlicka, in “New Forms of Citizenship” asks whether either the globalization-related trend toward subnational political communities (minority nationalism) or supranational political communities (transnationalism) are undermining this traditional view. His answer is “no.” “The “old” model of citizenship remains the touchstone from which new forms of citizenship may well depart but will eventually return.

Kymlicka begins his analysis with an evolution-cum-definition of the so-called “old” model of citizenship: “it is the culmination of two long-term processes: (i) a process of nation-building, in which national languages, cultures, loyalties, and institutions were diffused socially downwards from the elites to the working-class and geographically outwards to peripheral regions; and (ii) a process of liberalization and democratization, in which disadvantaged groups fought to gain non-discriminatory access to the civil, political and social rights of citizenship.” The key issue for Kymlicka then becomes whether in a world without frontiers the linkage between universalistic and individualistic liberal democracy is likely to remain consistent with the particularistic and collectivistic aspect of nationhood. His insightful answer to this potential contradiction is that western states have tended to eliminate any such tension between the two, not by abandoning the centrality of nationhood but, rather, by liberalizing and democratizing the conception of nationhood, that is, by “thinning” nationalism as reflected, for example, in the shift from “white Australia” to multicultural Australia. Thus, “the fact that the boundaries of our nation are permeable to goods and ideas and people, and that our national cultures are now multicultural and multi-ethnic, does not change the fact that the nation remains the bearer of sovereignty, the central object of loyalty, and the basis of collective solidarity.” Indeed, the argument for the link between liberal democracy and the nation-state runs even deeper: the “liberal democratic values of social justice, deliberative democracy and individual autonomy ... are best achieved in a nation state, that is, in a state that has diffused a common identity, culture and language amongst its citizens.”

With this as backdrop, Kymlicka then focuses on those key aspects of the “new” forms of citizenship which are presumed to challenge the nation-state as the locus of citizenship. As already noted, these challenges come from eroding the nation-state from below (minority nationalism) and/or from above (transnationalism). While sub-state national movements along Québécois, Catalan or Flemish

lines may well represent a serious challenge to the *integrity* of their respective nation-states, Kymlicka argues that they do not represent a challenge to the prevailing model of citizenship. This is so because both national and subnational models of citizenship “endorse the idea that citizenship is exercised within territorially bounded political communities which are simultaneously national in scope, liberal in values and open to the world culturally and economically.” Indeed, minority nationalism becomes viable in a world without frontiers *precisely because* it can buy into the prevailing liberal-democratic model of citizenship.

In contrast, transnationalism/globalization represents a much more serious challenge to a territorially-bound conception of citizenship. While Kymlicka identifies five different forms of transnationalism—immigrant transnationalism, transnational advocacy networks, international legal authority, transnational legislative/parliamentary bodies and intergovernmental regulatory authorities—only the last of these, he claims, poses a real challenge to the liberal-national model and then only because it confederalizes the nation-state model.

Immigrant transnationalism does not challenge territorially-bounded national communities since immigrants are literally “dual nationals,” not post-nationals, and are “as committed as anyone else to the view that politics should remain organized through bounded national political communities, both in their new home and their country of origin.” Neither are *transnational advocacy networks* an example of people exercising political agency in forums beyond those of the nation-state. Rather, “[they] are an attempt to influence how nations exercise their sovereignty not an attempt to offer an alternative post-national or non-territorial forum for political decision-making.”

The remaining three possibilities for the emergence of transnational citizenship all involve forms of supranational authority. The first of these—*international legal authority* or international law, especially human rights law—far from challenging the liberal/national model can be seen as exporting and universalizing it. Or, as Kymlicka notes, “there is nothing in international human rights laws which conflicts in any way with the liberal/national view of how political authority should be organized and exercised.”

However, transnational or supranational organizations do offer organizational models with the potential for engaging citizens. *Transnational legislative/parliamentary bodies*, the fourth of Kymlicka’s five alternatives, represents the most obvious possibility. While Kymlicka views a democratic transnational parliament

at a global level as being currently off the radar screen, he admits that this remains a possibility at the regional (NAFTA, EU) level. However, his view is that this idea of cosmopolitan citizenship is met with “hostility in North America and indifference in Europe.” In particular, the reason why Kymlicka feels that the EU Parliament will not become an agent for transnational citizenship is that there is no true *community of fate* at the EU level: “no pan-European media, no pan-European political parties, and no pan-European language, let alone intangible issues of common loyalties or solidarities.”

How, then, might we remove the democratic deficits associated with the profusion of transnational organizations? Enter *intergovernmental regulatory authorities*, the last of Kymlicka’s five alternative approaches to transnational citizenship, and the only one that he feels holds promise for addressing the democracy deficit. However, these international intergovernmental organizations are, from a citizen’s vantage point, effectively processes of *indirect* democracy. They would be made accountable to citizens *through their respective national governments*. To enhance this accountability, one could imagine giving nation-states stronger vetoes over certain international intergovernmental organizations’ decisions. And to ensure greater openness and transparency one could grant at least observer status to non-governmental organizations and international non-governmental organizations in the decision-making process. Kymlicka recognizes that this indirect form of democratic accountability through the national state is limited, but the alternative of seeking a more direct form of transnational democratic accountability may not be feasible. This is a bold claim since the evolution of the European Parliament will render all of this testable.

Thus, Kymlicka’s conclusion is that the traditional conception of citizenship remains alive and well and any “new” forms of citizenship in a borderless world will have staying power only if they reinforce and work with (or work through) both the liberal democracy and sovereignty/ nationhood features of the “old” form of citizenship.

In her commentary, “The Frontiers of Citizenship: Reflections,” Jane Jenson accepts much of the Kymlicka analysis as it relates to the likely supranational influences on the future evolution of citizenship. Her principal concern is that government policies under the guise of responding to globalization, and neoliberal ideologies more generally, are serving to create “internal borders of difference and inequality” across Canadian citizens. Her examples include: the shift

from universality to targeting on the social policy front; the shift from horizontal equity to inequality as a key focus in terms of the parameters of the personal income taxation (refundable and income-tested tax credits); the primacy of children in the emerging social paradigm (to the potential detriment of families without children); and the association of full citizenship with having full-time and well-paying jobs (more obvious for health and social security coverage in the US, but also evident in the employment-related maternity benefits in Canada). Jenson argues that this has been a result of a “redesign of the architecture of welfare” or a re-assignment of responsibilities among governments, markets, families/individuals and the voluntary sector. This shifting of the “boundaries of citizenship” means that “less can be expected as a right of citizenship.”

Subnational communities

Michael Keating’s “The Territorial State: Functional Restructuring and Political Change” provides an historical context to the rise and transformation of the nation-state. He suggests that, regardless of the system of government in place, the centre in both unitary and federated states established similar relations with regions as the role of the state expanded. Whether in a federal state like Canada or in a unitary state like Britain, regional policies and programs were introduced which sought to steer development away from wealthy areas into needy ones under an apparent win-win scenario: wealthy areas would gain from relief of inflationary and development pressures, and needy areas would gain much needed new investments. Regional policies thus became part of a larger agenda: the rise of the welfare state.

But things are changing, and the forces of change are numerous and powerful, as regions seek to redefine their relations with the centre and with one another. The nation-state itself is now being challenged. As Keating argues, forces for change come from “above, below and alongside the state.” He adds that in recent years the territorial state “has been treated as a phenomenon to be explained, rather than taken for granted.” In addition, the economic rationale for transfer payments, if not for regional development policies, is increasingly being undermined in open economies.

Nation-states can no longer steer investments to certain regions and transfer payments are more difficult to maintain because they are no longer part of a “nationally-bound bargain” from which all regions believe they can draw benefits.

Wealthier regions, whether in Germany, Belgium, Spain or Canada, are complaining about the burden of supporting have-less regions. Cooperative federalism is being replaced by competitive federalism where regions seek to loosen ties with their nation-states and fellow regions. Competitive federalism also encourages governments to adopt “boutique policies” which are highly visible. They serve to establish a political presence in policy fields, but they often operate on the margins of a government’s jurisdiction and may well represent a waste of resources.

The above comes at a time when a number of citizens are asking whether their political, national and regional institutions should be renegotiated. Indeed, the concept of sovereignty is no longer as straightforward as it once was since there are an increasing number of “sites of sovereign authority.” As subnational regions become more autonomous vis-à-vis their parents, as it were, they will want to develop strategies to compete in the new global economy. This in turn will redefine the kind of relationship regions have with one another and with the outside world. Why then, wealthy regions will ask, should they continue to transfer resources to slow-growth areas only to see them use these resources to compete against them in the search for new investments. This is not to deny the fact, however, that some regions are in a much better position to compete in the new economic order, given their urban structure and access to financial and human resources.

Keating points to the rise of city regions as a major development in the global economy. Global cities are now the key sites for high value-added activities, headquarter services and modern living. They have also become the new form of “democratic impulse and reform and bases for political power.”

Keating also writes about the democratic deficit as policy-making is increasingly moving away from nation-states only to “disappear” into regional and international trade agreements, intergovernmental arrangements and public-private partnership networkers. He maintains that we cannot turn back the clock and simply have the old nation-state institutional model provide for all democratic requirements. He calls for new approaches to accountability and a new capacity to formulate a democratic will. We may need to introduce a host of accountability mechanisms at various levels, including audit, legal control, special investigations and adversary politics. Similarly, deliberative democracy may need to take place at multiple levels. Keating writes that democratic will and iden-

tity “may be located at a very small scale, as in the small communes of many countries, which are too small to correspond to any functional system.”

Jean-François Lisée builds on the “regional state” or “stateless nation-building” sections of Keating’s paper to elaborate on Quebec’s evolution toward a North American region state. He singles out two key features which prepared the way for Quebec to turn progressively toward focusing on the North American market. The first was Quebec’s overwhelming support of the Canada-US Free Trade Agreement and the second was the province’s converting its provincial sales tax into the export-import-neutral GST (and in the process collecting this combined federal-provincial value-added tax).

Lisée demonstrates that the resulting “harvest” from these and other policies/attitudes includes a dramatic shift in Quebec’s trade from east-west (or inter-provincial) to north-south (or international). And in the process, the composition of Quebec’s exports have changed dramatically—raw material exports have been overtaken by aerospace production and telecommunications. Lisée interprets this export transformation, along with the impressive performance of Quebec in terms of 14 indicators of innovation, as evidence of a corresponding and fundamental transformation of the Quebec economy in the direction of a knowledge-based society.

International governance and Canada

In their paper, “Citizens, States and International Regimes,” Pierre-Marc Johnson and Karel Mayrand conclude that it is only through building stronger democratic processes and pursuing a more balanced globalization agenda that global governance will begin extricating itself from the conceptual and physical barricades within which it is now imprisoned. Albeit implicit, this message is directed to those international players desirous of further World Trade Organization (WTO) rounds of globalization.

The two-stage analysis leading to this articulate call for renewing global governance begins with a careful assessment of the variety of ways that globalization has profoundly altered the three key players in the international governance game: citizens, states and international regimes. This is then followed by an analysis of the substantive, procedural and institutional requisites, among and between these players, if globalization is to work for people and not just for profits.

Toward this end, the authors focus initially on the rise of international civil society. In their view the proximate causes of this development are, on the “demand side,” a declining confidence in the state and the related and growing awareness of the need for public participation in governance and, on the “supply side,” the dramatic role of the Internet in creating the more than 20,000 new international citizen networks over the last decade. In tandem, these forces have eroded the former “permissive consensus” underpinning international governance and are leading the international system toward a “participatory consensus.”

With powers passing upward and downward from central governments of nation-states and with the shift toward multi-centred and horizontal networks and away from traditional Weberian hierarchical lines of control, nation-states must now assert their control more and more in partnership with local authorities, civil society and the private sector and by utilizing innovative tools and strategies. In terms of the last of the three players—international regimes—the creation of the WTO, replete with a heightened degree of intrusion into domestic governance and a powerful dispute-resolution mechanism, exceeds anything possible let alone contemplated under the old General Agreement on Tariffs and Trade (GATT) regime. Parallel to this trade/economic regime are a series of other non-legally-binding regimes in fields of human rights, social development, environment, culture, etc. While some of these other regimes are extensive (there are more than 500 multinational environmental agreements) they remain no match for the power, scope and focus of the trade/economic regimes, which is, of course, part of the overall governance problem.

With this as backdrop Johnson and Mayrand then focus on the potential ways in which global governance might and ought to evolve. Not surprisingly in light of the above, the overriding challenge is two-fold. The first is the need for *integration*, namely ensuring that the regimes dealing with developmental and with non-trade issues develop coordination, coherence and a capacity to play on par with the WTO. The second is *participation*, namely developing democratic and procedural “space” in global governance so that the various regimes can accommodate international civil society into their decision-making and consensus-building processes. In terms of the first of these issues, while the authors recognize the inevitability of the eventual evolution of the environmental and trade regions into a coherent and balanced overarching governance structure, perhaps

in the form of a world environmental organization (WEO) as a companion to the WTO, they also recognize that the prior challenge is to ensure internal coordination and capacity within the highly diversified, fragmented and complex environmental regime.

In terms of encouraging a participatory consensus, Johnson and Mayrand elaborate alternative approaches, such as allowing greater civil society participation in the WTO and encouraging international assemblies of national parliamentarians at the WTO and elsewhere. They conclude their paper with an appeal to Canada to don the mantle of leadership here, particularly since as a major trading country and a major natural-resource producer we ought to have a heightened interest in the future of global governance of the economic and environmental regimes alike.

While recognizing the Johnson/Mayrand paper as comprehensive, stimulating, constructive and focused on a key global dilemma, discussant Denis Stairs nonetheless feels that the underlying changes to global governance may not be as fundamental as the authors suggest. While the international players have indeed been evolving, and “the bottles may have new labels ... the wine itself is well and truly aged.” For one thing states are still atop the hierarchy of actors: they have authority, the other players only have influence. And granted that civil society organizations (CSOs) are more numerous than heretofore, their predecessors (the campaign against slavery, for disarmament, etc.) were also “transnational.” In terms of inter-regime linkages, Stairs echoes the Johnson/Mayrand suggestion for an environmental equivalent of the WTO and also shares the authors’ concerns that expectations here should not be too high that the environmental club can soon get its act together.

Stairs is more or less on side with the “building participatory governance” section of Johnson/Mayrand, with one important proviso, namely that we recognize CSOs for what they really are. Although they have a right to an audience, one must remember that they are not elected. Rather they are self-appointed, and often are obsessively single-minded. In Stairs’ words, “the more they are treated as if they are representatives of *demos* at large, moreover, the weaker becomes the position of those who are *really* supposed to represent *demos* at large—namely, the elected Members of Parliament.” This leads Stairs, in his final comments, to support enthusiastically the Johnson/Mayrand recommendation to enhance the role of parliamentarians in global governance.

Policy panels: September 11, 2002 and common currency

The tragic events of September 11, 2001 occurred after the authors had submitted their papers but before the conference itself (October 11–13, 2001). In order to ensure that the floor discussions related to the various papers were not dominated by the implications of 9/11, we decided to hold a special evening roundtable to deal with the likely short- and longer term consequences. The resulting *A Roundtable on September 11* appeared in the November 2001 issue of *Policy Options Politiques* (pp. 37-46). Alternatively, it can be accessed from the IRPP website at www.irpp.org.

What we were not prepared for was that the floor discussion relating to the first session (The New Economic Order) appeared likely to become a debate on the pros and cons of a common currency for North America. We resolved this by holding a second roundtable, this one dedicated to the appropriate currency regime for Canada. The edited transcript of this currency roundtable appears in the Appendix.

C o n c l u s i o n

ALL THAT REMAINS FOR US IS TO EXPRESS OUR SINCEREST THANKS TO OUR AUTHORS and discussants and to invite our readers to absorb, assess and, we trust, enjoy their reflections on *The Art of the State: Governance in a World Without Frontiers*.

