

Citizen's Hall: Making Local Democracy Work by André Carrel. Toronto: Between the Lines, 2001. Pp. ix, 156.

Carrel's book is an insightful and well-written critique of the hierarchical position of local governments in Canada. This semi-autobiographical work lays out a framework for changing the relationship between the citizens of a local jurisdiction and their elected representatives.

Carrel grew up in Switzerland and as a young man was introduced to the concept of local referenda and intense participation in the political process. He emigrated to Canada at the age of 22 and worked as a municipal manager, first in the Yukon and then in various municipalities in British Columbia. The book reflects the formative influence of local democracy in action in small communities.

The pervasive theme of the book is that the governance arrangements of local communities should reflect the wishes of the local community. Thus, while the Canadian constitution makes local governments "creatures" of the province (Carrel characterizes the relationship as "colonial") in which municipalities are generally viewed as service providers, Carrel lays out the case for a broader perspective. Given the dearth of materials on the functioning of municipalities, his discussion of the workings of municipal finance are useful, especially in his account of the impact of transfer payments and some of the adverse consequences of provincial rules.

The key contribution of the book is his description of his attempt to revolutionize the relationship between the citizens of Rossland, British Columbia, and their council. The materials pertaining to this effort are contained in the book and his experience with the process pervades the argument for a more participatory approach to local governance. In 1990, the Council of Rossland adopted a "Bylaw to regulate the use of referenda and elector initiatives in local government matters" with the short title of the Constitution Bylaw." Prior to the adoption of the

bylaw, Carrel prepared a discussion paper setting out the background for the new participatory framework. In it, he stated that:

A municipal constitution should have provisions for three forms of direct citizen participation. The first is provision for mandatory referenda to guarantee electorate participation in legislative matters of a quasi-constitutional nature. The second is a provision for optional referenda to establish electorate control in legislative matters of a general nature. The third is a provision for elector initiatives to enable citizens to initiate legislation.

The Bylaw set out rules for minimum numbers for petitions and the requirement for Council to comply. The discussion paper also outlines a mechanism for Council to seek general prior approval in budgetary matters to avoid conflicts with provincially set deadlines pertaining to tax matters.

Carrel also describes the means by which the municipality avoided a confrontation with the provincial government over the legality of the bylaw. To some extent, his working within the existing rules is revealing of the fact that despite the "creatures" view, direct provincial supervision of municipal activity is rare except in cases of financial malfeasance and major restructurings. To that extent, the book may confirm the suspicions of those who believe that municipal councils cannot be trusted to get their affairs right.

To his credit, he does deal with some of the issues around the use of referenda including capture by specific interests. However, his response is that the rules would have to fit the particularities of the Canadian context.

Carrel's book is relevant reading in view of the rekindled interest in affairs municipal in the context of globalization and in relation to decentralization initiatives happening in other countries as well as the interest in understanding the development of "social capital." It is also relevant to the ongoing

discussion of intergovernmental relations between the three levels of government in Canada.

ALMOS TASSONYI, Ontario Ministry of Finance

Minding the Public Purse: The Fiscal Crisis, Political Trade-offs and Canada's Future

by Janice MacKinnon. Montreal and Kingston: McGill-Queen's University Press, 2003. Pp. xv, 316.

Janice MacKinnon was, and is, an academic historian. In between she was a cabinet minister in two Romanow-led New Democratic Party governments in Saskatchewan from 1991 to 2001. From 1993 to 1997 she served as minister of finance.

MacKinnon's tenure as minister of finance coincided with a period of fiscal crisis in Saskatchewan. Two Progressive Conservative governments under Grant Devine had from 1982 to 1991 accumulated large amounts of debt and had committed the Government of Saskatchewan to participating in several expensive and risky megaprojects. In conjunction with a sluggish economy these factors combined to seriously stress the finances of the province. By 1993, the province's credit rating was such that it was no longer able to borrow money in Canada and had to go cap-in-hand to the money market in New York. Add to this mix the need to cut tax rates in response to tax competition from Alberta, cuts to federal transfers, and the dumping on the province of responsibility for certain social programs by the federal government, and Saskatchewan was facing a full-blown fiscal crisis. By 1993 members of the Cabinet were even debating the possibility of defaulting on provincial debt. This book is a candid account of MacKinnon's experiences during this turbulent time. As minister of finance, she was at the eye of the fiscal hurricane and she was the person most responsible for determining whether the provincial government's finances would collapse or recover. They recovered.

The strength of this book is in its description of the depths of the fiscal crisis, its description of the Cabinet debates about what steps to take to resolve the crisis, and how difficult all this was made by the politics of implementing the chosen solutions to the crisis. Economists and political scientists will find it interesting to read MacKinnon's description of factors she found crucial for enabling the provin-

cial government to implement very large budget cuts: a strong minister of finance, the unwavering support of the premier for the finance minister, and a clearly defined, easy-to-understand and easy-to-measure target for fiscal policy. These factors are commonly cited in the political economy literature as being key for a successful strategy of fiscal consolidation. Another factor often cited in the literature as being important to the success of deficit-reduction efforts is the unwavering support of the grass roots of the governing party. This is something MacKinnon did not have.

I found it particularly interesting to read that the major political battles were fought not with the opposition Conservatives — as the widely acknowledged authors of Saskatchewan's fiscal misfortunes they had little credibility in attacking the policies of the new government — but with members of the NDP caucus and party membership. Throughout the book MacKinnon expresses frustration with her own party for failing to see what she felt was obvious; that Saskatchewan was on the verge of bankruptcy and that very strong fiscal action was required. She also had to fight battles to reduce tax rates in reaction to cuts in Alberta and to resist calls for the creation of new provincial Crown corporations which she felt would restrict the growth of the private sector and inhibit more grass-roots community efforts. The description of these battles, especially because they were fought during what any impartial observer would classify as a clear-cut fiscal crisis, makes one sympathetic to MacKinnon's conclusion that,

By perpetuating the notion that the fiscal crisis was a phantom conjured up by right-wing governments, the left in Canada made a fundamental strategic choice. In the 1990s fiscal crisis and the massive restructuring of Canada that ensued, the left had relegated itself to the status of bystander. (p. 136)

MacKinnon's frustration with her party was seemingly a key reason for her quitting politics. Faced with the possibility of leading the party after Romanow's departure, MacKinnon chose not to take

up the challenge for, although she thought herself capable of leading the Saskatchewan people, she felt she could not lead the New Democratic Party.

Readers will also find it interesting to read that in response to the fiscal crisis Saskatchewan relied on spending cuts far more than on tax increases. Indeed, Saskatchewan cut spending more than any other province and the birthplace of medicare cut health care spending more than did the Province of Alberta. MacKinnon reminds us that Saskatchewan was the first province to implement large spending cuts — Saskatchewan's budget cuts predated those in Alberta by a year, those of the federal government by two years, and those in Ontario by several years — and as such provided other jurisdictions with lessons to be learned. It is interesting to speculate whether these other jurisdictions would have had the courage to do what they did had not Saskatchewan shown that deep cuts in spending could be achieved even while maintaining voter support.

The weakness of the book comes when MacKinnon leaves discussion of the ins and outs of budgeting under crisis in Saskatchewan. Part Three of the book is less interesting than the rest as in it MacKinnon turns to commenting on federal deficit reduction efforts. This is ground that has been previously tilled by Greenspon and Wilson-Smith in their book *Double Vision* and MacKinnon adds little to our understanding of the federal efforts at deficit reduction during the mid-1990s. There are sections in this part of the book which are interesting — particularly her description of the efforts by the federal government to co-opt the provinces in bailing them out of their promise to eliminate the GST — but for the most part readers will, I think,

find Part Three of the book less interesting and less informative than the rest. It is also in this part of the book that MacKinnon spends some time justifying her government's policies. In some of these discussions she makes claims that academics will find troubling. For example, MacKinnon makes the statement that the Government of Saskatchewan did not cut welfare rates during her tenure. Data published by the National Council of Welfare (2002) shows this claim to be literally true in the sense that the *nominal* dollar value of benefits remained more or less constant over this period, but they show that the *real* value of benefits fell quite considerably. Thus MacKinnon's claim is rather disingenuous.

Economists and political scientists interested in the process of government budgeting will find this an interesting read. I suspect that MacKinnon would join me in also recommending the book to a broader audience: the voting public. As she notes in her conclusion, minding the public purse is everyone's business and it deserves everyone's close attention if we are to avoid repeating the mistakes of the past that lead to large deficits, rapidly accumulating government debt, and the cuts to social programs that inevitably follow.

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RONALD KNEEBONE, Department of Economics, University of Calgary.

Postmodern Public Policy

by Hugh T. Miller. Albany: State University of New York Press, 2003. Pp. xvi, 116.

This book is motivated by what this reviewer would consider an extreme postmodernist perspective on both knowledge and ethics. Yet its main conclusion is nevertheless reasonable, though in need of further clarification.

On knowledge, the author is certainly correct in stating that all knowledge is relative. Philosophers of science generally accept that no scientific statement can be proven, or even falsified; there is always scope for the exercise of judgement by scientific communities. In practice, though, both scientists and individuals in their everyday lives commonly amass enough evidence in favour of particular propositions — demand curves usually slope downwards, cars usually drive on the right — that it is reasonable to act as if these were known to be true (though we should remain open to revising all propositions in the face of contradictory evidence). One need not, then, leap from a reasonable epistemological premise to the argument that Miller makes: that the dream of rational, consensual public policy is a chimera, and the best to be hoped for is a never-ending conversation.

On ethics, Miller boldly states that there are no universal ethical judgements. This all-too-common point of view reflects a laudable desire to respect the views of others. It has the unfortunate, and in my view obscene, implication that we cannot say that cannibalism or spousal abuse or genital mutilation are wrong, as long as these practices are sanctioned by any group anywhere. The ethical challenge of our times is to maintain a respect for diverse views while also salvaging certain universal ethical principles: to sail between ethical orthodoxy and ethical anomie. I have myself suggested one way in which this might be done (“Politics and the Five Types of Ethical Analysis,” *International Journal of Politics and Ethics*, forthcoming).

The main conclusion that Miller draws is that the goal of universal bureaucratic rules should be abandoned; societies should instead encourage local conversations in which policies can be hammered out and constantly revised. I would justify Miller’s conclusion in a different manner. Rather than suggesting that no answer to any question can ever be firm enough to guide rational public policy, I would point instead to the complexity of both individuals and societies. Some individuals may respond to compassion, others to “tough love,” some to rewards and others to penalties. Diverse social problems — poverty, racism, drug abuse — interact differently in different communities, and thus require a different policy mix. Miller himself recognizes this line of argument, noting that as governments promulgate thousands of rules aimed at different policy goals, these inevitably conflict and give bureaucrats freedom to manoeuvre.

It is not clear that Miller’s conclusion follows from his premises. Miller recognizes that there are good and bad conversations: good conversations avoid the extremes of apathy or combative strife, and reflect a genuine desire to understand others. I concur wholeheartedly: democracy hinges on a belief that people can honestly disagree, and then seek to identify the sources of their disagreement. However, if an individual or group believes, following Miller, that there is no hope of logical, rational solutions to policy debates, it is an easy step to justifying the close-minded and combative pursuit of their goals. Many postmodern scholars have indeed argued, loudly, that winning is the only goal. It would seem that respectful conversations can be more solidly grounded in a belief that people can struggle toward an answer, than in a belief that no such thing exists.

Miller is understandably offended by the simplistic sloganeering that dominates many public policy debates. He suggests that the antidote is to recognize that there is no right answer. As noted above, this may only encourage narrow-mindedness and

strategic behaviour. Miller, I fear, proffers a simplistic solution to the problem of simplistic solutions: the answer lies in both educating the citizenry on the complexity of (some) public policies, and on the value and practice of open, honest conversation.

Miller is aware of the irony that the postmodernist conjecture that there are no universal truths is itself a universal statement. Yet he is himself guilty of a universalizing tendency. With a couple of brief exceptions, the argument is carried as if all government policies were implicated. Surely, though, more flexibility is required in the way in which certain social policies are delivered than in the way driver's licences are regulated?

How are broad policy goals to be decided? Miller's advocacy of local conversations leaves open the question of how larger communities would set the goals and constraints in which local groups operate. Miller's disbelief in the possibility of consensus on either goals or means raises questions of the legitimacy of any constraints on local decision-making. These might be grounded in local conversations — Miller favours bottom-up policy discourse — but without constraints these might evolve in quite different directions, unless of course there is much greater consensus on goals or means than Miller is willing to admit.

RICK SZOSTAK, University of Alberta

Understanding Canadian Defence

by Desmond Morton. Toronto: Penguin Canada, 2003. Pp. xiii, 234.

Desmond Morton wants Canadians to understand how their country works. In his most recent book, *Understanding Canadian Defence*, he has attempted to elucidate the dilemmas that Canadian defence policymakers encounter and the paradoxes that arise because of them. The events that have shaped defence policies in Canada extend from the early threats of American invasion in the eighteenth and nineteenth centuries, to the two world wars of the twentieth century, to the aftermath of the relatively recent World Trade Center attacks of 11 September 2001. The book addresses the ubiquitous question of whether Canadians feel threatened enough, even with the new terrorist realities, to support more spending on defence. Morton points out that “military brass become imaginative, vague, and frankly unpersuasive” when asked to explain why defence should be a more urgent national priority. Their classic response, Morton asserts, is that Canada must keep up with the United States and it is the validity of this point that the author examines.

One of his main contentions relates to Canada’s relationship to the United States. Morton makes it clear that, since the American Civil War, there was no point in preparing for a conflict that Canada would never win. Instead of drilling and spending on an impossible defence, the Canadian government made friends and turned its attention to nation-building — constructing railways and promoting settlement. Morton points out that superpowers make enemies and so need military power, but he quickly asked: “Does Canada?” He indirectly answers that Canada needs only to be friends with the largest military superpower in the world and that our tactic seems to be to do just enough to “make the elephant next door lie down ... carefully.”

As Morton is a history professor, much of the book is devoted to how our military past is a reminder of a collective experience; how success in great battles

forms nations. But contemporary Canada does not have a memory of being invaded, as so many other countries that belong to NATO vividly have. The world wars were a long time ago, and it has been some time since our shores were threatened in any way. Morton astutely quoted one of his colleagues: “Canada’s defence problem is that it has no defence problem.” As a result, the Canadian government has very rarely planned adequately for its future defence and this tradition is difficult to reverse. But Morton does acknowledge how daunting a task it is to forecast how the next war will be fought and to create a concomitant defence policy.

Morton ends the book with a look at the future. He described a revolution in military affairs that has been underway for more than a decade. Digital technology has transformed the way Americans wage war, and Canada is often expected to participate in these new levels of financial investment. But Morton revealed that Canadian values, nurtured by a consistently peaceful domestic history and powerful peace lobby, preclude such vast expenditure or commitment to most things military.

One shortcoming of the book is that he does not stress our international commitments enough when he speaks about whether we need “military power.” The reader begins to think that the main reasons to have a military are to remain on good terms with the US and be prepared if we have another domestic crisis, like that of October 1970. Professor Morton writes that our peacekeeping duties are usually to help our allies avoid conflict. But he could have, indeed, stressed that the Canadian government signed the NATO pact in 1949, just as it did the Permanent Joint Board in 1940. While he is correct in claiming that analysts and senior command should not stress keeping up with our neighbours to support spending on defence, he should have paid more attention to one of the most significant reasons why we have a military — to honour our international commitments and to play a significant role in global stability. He acknowledges our place in international security, but does not really indicate why this may be important.

The book lacks footnotes and is written in a very relaxed style; however, this is obviously the point and makes for a very enjoyable and fast read. This style is especially good at explaining the inevitable obsolescence of military equipment and the complicated realm of weapons procurement and its importance.

Professor Morton does not offer any easy answers to the problem of defence in Canada. While this may disappoint many readers searching for an obvious

solution, this was never the point of the book; the book was to explain why the problem exists and to help readers understand the realities that determine our defence policy and the dilemmas that have confronted Canadian political and defence officials throughout our history.

AARON PLAMONDON, Department of History and Centre for Military and Strategic Studies, University of Calgary

Tax Evasion and Firm Survival in Competitive Markets

by Filip Palda. Northampton: Edward Elgar, 2001. Pp. 136.

An obvious social cost of tax evasion is a reduction in the tax base. A less obvious social cost is the potential market displacement of efficient firms by less efficient firms who are better able to evade taxes. Although this insight is not new, Filip Palda is the first to model the phenomena. In his book, Palda develops a clear analytical framework that illustrates how this social cost can arise from the evasion of taxes and price controls and the awarding of subsidies and monopoly licences. What is less clear is whether this is a social cost policymakers should be concerned with.

The theoretical framework, based on an earlier paper, Palda (1998), is developed in Chapter 2. Each firm has a different unit cost of production or productive ability, where a higher ability means a lower cost, and a different evasive ability, where a more able firm evades a greater proportion of the unit output tax. A firm produces an infinitesimal amount of output if the output price is greater than their total unit costs.

Palda examines two cases. In the first case, he assumes that productive and evasive abilities are perfectly negatively correlated and in the second case, he assumes they are uncorrelated. One implication of the first case is that for a given tax rate the equilibrium output is higher than the full compliance level, provided the least (production) cost firm produces. Consequently, more tax revenue may be raised when firms evade taxes. Despite what is implied in the book, this result is neither general nor surprising. In the second case, some lower cost firms will not produce. Palda defines and calculates the “displacement cost” of tax evasion as the difference between actual total production costs and what total production costs would be if the equilibrium output was instead produced by the least cost firms. Palda shows in Chapter 3 that if there was an output

subsidy rather than a tax, so that subsidies and production costs are uncorrelated, then similar displacement costs arise.

In Chapter 4, Palda argues that a minimum wage can result in high reservation wage workers displacing low reservation wage workers, and thus, displacement costs. All individuals are assumed equally likely to become employed. Palda does not allow workers to compete on non-price attributes of a job which would mitigate possible worker displacement even though he allows for this when he considers the case of workers evading the minimum wage. He also shows that when firms evade the price control, displacement costs occur similar to those resulting from tax evasion.

Finally in Chapter 5, Palda argues that firms competing for a monopoly licence can create displacement costs. The value of the licence is the same for both firms and each firm wins the licence with some probability that depends positively on their own lobbying expenditures and ability, and negatively on the other firm’s. If the higher cost firm wins the licence, then there is a displacement cost. Again, the result depends on the assumed rationing rule. Had Palda instead assumed that the firm with the highest expenditure wins, then the licence would always go to the least cost firm.

Palda asserts that “fairness is efficient” meaning that “uneven enforcement of government rules” give rise to displacement costs. He also claims that displacement costs could be avoided by allowing agents with high evasive abilities to specialize as lobbyists and hire out their talents. The important question left unanswered is whether a firm’s evasive behaviour is determined by government enforcement policies or by innate firm characteristics. Presumably, it is some combination of the two.

Palda’s model is open to several criticisms, some of which he addresses, for example, the exogeneity of evasive behaviour and the assumed correlation of productive and evasive abilities. However, his

policy prescriptions, such as the elimination of price controls, are based on specific assumptions that require further supporting evidence. As well, Palda uses simulations to prove his results and although they make the results easy to grasp, his arguments would be strengthened if, in addition, more general proofs were given. Empirical testing would also strengthen his model's predictions. In fairness, Palda recognizes this and suggests it for future research.

Overall, Palda sets out a framework that clearly illustrates how tax evasion can affect the survival of firms in the market and consequently, generates

some interesting research questions. Only when these questions are answered, however, will it be clear whether the social cost he identifies is indeed one that policymakers should be worried about.

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KATHERINE CUFF, Department of Economics,
McMaster University