
Social Canada in the Millennium

*Reform Imperatives
and Restructuring Principles*

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The Social
Policy Challenge 4

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Chapter 1

Introduction and Overview

The role of *Social Canada in the Millennium* is to describe, to evaluate, and, ultimately, to redesign Canada's social policy infrastructure. However, given that the manner in which we Canadians decide to rework our social envelope will be one of the defining characteristics of our nation in the twenty-first century, redesigning Social Canada is tantamount to redefining Canada. It cannot be otherwise, since this is the inherent nature of a social infrastructure — a seamless web where the social, political, economic, and regional threads lead here, there, and literally everywhere. But this is a two-way street. One cannot address the needs and challenges on the social policy front apart from the manner in which our economy and society are themselves undergoing transformation. Thus, forces such as globalization, the knowledge/information revolution, and the fiscal reality must of necessity inform the process of social policy restructuring. It is within this broader, interactive, and evolving context that the ensuing analysis of Social Canada will proceed.

It is true, of course, that at the most basic of levels Canadians may well associate social policy with the design and delivery of specific programs, such as health care, education, welfare, unemployment insurance, old age security, and the like. Yet, once one scratches the financial and analytic surface of these programs, the linkages become very apparent. Overarching, and critical to the well-being of most of these individual social programs, is the federal-provincial transfer system — Established Programs Financing (EPF), the Canada Assistance Plan (CAP), and equalization — which is, in effect, the set of social programs for the provinces. But embedded in this federal-provincial transfer system is an incredibly complex set of incentives and principles that reflect and articulate the political, economic, and redistributive underpinnings and, indeed, the values relating to the manner in which we Canadians have elected to approach not only our east-west social contract but also the way we practice federalism. This catapults social policy front and center into the politics of Canadian nationhood — issues relating to interregional or interprovincial equity and even the role of social policy as an indispensable part of the “glue” that binds us together as a nation.

Beyond these easily identifiable but very far-reaching financial linkages, there is also a set of emerging forces that at the same time redefine and constrain the role and scope of the social envelope. Some of these forces are the result of our own collective decisions. The Canadian Charter of Rights and Freedoms has brought the courts and the judiciary to the social policy table as a key player in several critical areas. Likewise, our collective decision at both levels of government to live beyond our means in terms of the debt/deficit excesses is reverberating with potentially explosive results on the future of Social Canada. Compounding this, in the eyes of many Canadians, was our decision to enter the Canada-US Free Trade Agreement (FTA) and then the North American Free Trade Agreement (NAFTA), so that the new challenge is whether Social Canada can remain a distinctive, made-in-Canada, collective choice or whether North American economic determinism will not only homogenize continental social policy, but Americanize it as well.

But not all the forces impinging on Social Canada are of our own making. The world is in the throes of one of its truly epic transformations, which, in this monograph, I shall encapsulate in the terms "globalization" and the "knowledge/information revolution." In effect, this new revolution likely will do for human capital what the industrial revolution did for physical capital. This has immediate and dramatic impacts on one's conception of social policy — with knowledge progressively at the cutting edge of international competitiveness, aspects of social policy now become indistinguishable from economic policy. This is not without its own set of challenges, since the middle class in a knowledge world must include the likes of technologists, para-professionals, information analysts, and so on. While we do well at the upper (professional) end, we fail rather miserably, as do all Anglo-American societies, in such areas as technologists and apprenticeships. Social policy holds the key to offsetting the ongoing polarization of incomes and, consequently, to rebuilding the middle class.

The challenges to the social envelope inherent in globalization are equally problematical. Among many other issues, it is forcing us to reconcile our long-standing focus on east-west redistribution with the reality that our trading system is increasingly north-south.

Of necessity, all of these threads must interact with the basic values that Canadians bring to bear on the design and implementation of the social envelope. Intriguingly, this was *not* the case when much of the current infrastructure was put in place, basically in the 1950s and 1960s. Essentially, this was an era when Canada was basking in the luxury of resource rents and growing productivity, operating behind significant tariff walls and participating in a global economy that was not only tranquil but ever-expanding. As I have argued elsewhere (Courchene 1987, 7), this "sustained and unparalleled economic expansion, by bringing automatic increases in tax revenues or fiscal

dividends, rendered social policy expansion almost costless in political terms.” Although the Canadian social contract underwent a veritable explosion during these years, the apparent declining political and economic price of social policy in this environment of plenty meant that politicians no longer had to strive to sort out the tradeoffs between equity on the one hand and growth, liberty, and justice on the other. Indeed, the tradeoffs were deemed by our authorities to be so negligible that Canada embarked on major programs whose legislative intent was to interrupt the processes of natural and national economic adjustment — for example, the regional aspects of the unemployment insurance (UI) program. As Hugh Hecló (1984, 397–399) noted, in a comment that transcends the Canadian experience:

After a generation or more of expansion, the democratic welfare states had produced a policy system that was admirably attuned to — and presumed — continuous economic growth. Politically it was a low cost system whose operation generated minimum conflict and maximum, if somewhat passive, support. Economically, it was in rough harmony with conventional thinking about fiscal management. Socially, it avoided raising difficult questions about social values. Commitments on the welfare state rose as commitment to it fell.

Hecló then adds (*ibid.*):

more and more social policy was assumed to be aimed exclusively at solving social problems: any investment in confronting, debating and resolving political problems (Who is losing and gaining? What are the implications for personal liberty? What rights are owned by whom? Is it worth it?) could be minimized.

This was the heyday of Social Canada — social policy could be and was designed and implemented without much (if any) reference to economic Canada.

However, virtually all aspects of the environment that led to this conception of our social infrastructure are now history. Sustained economic growth is no longer the norm. Except for the past couple of years, productivity has been flat for much of the period since the mid-1970s’ energy shocks. Unemployment hovers frustratingly in the double-digit range. Resource rents have evaporated. The tariff walls have gone, a process hastened no doubt by the FTA and the NAFTA, but inevitable in any event. And the world economy is anything but tranquil as economies everywhere have restructured.

All of this is obviously important in its own right, especially since it undermines the viability of the status quo on the social policy front. However, it also has important implications relating to the interaction between social policy and Canadian values. One hears and reads that our traditional commit-

ment to a generous social contract is wearing thin. This may well be true, but my hunch is that, to the extent that Canadians are harboring concerns with respect to the social envelope, these concerns attach more to particular programs than to a desire to abandon the notion of a "sharing community," to use Peter Leslie's (1993) term. Yet the former is surely beginning to impinge on the latter, which in turn heightens the imperative of social policy reform. The key point at issue here is that the societal changes alluded to above imply that the prism through which our values must be filtered has altered dramatically. Even an unswerving commitment to a sharing community will lead to a quite different social infrastructure in a context where the price of sharing is very low (as in the 1950s) than in a context where the tradeoffs between sharing and other societal goals and values have become increasingly acute.

It is in this sense that reworking Social Canada is tantamount to rethinking Canada. One example will suffice. For most of our history, we made our way in the world of nations as a resource-based economy and society. Yet, in an era in which human capital will likely dominate resource capital, we have no choice, despite our generous resource endowment, but to make the transition toward a knowledge-based economy and society. Indeed, the design of an appropriate social and socio-economic infrastructure not only holds the key to maintaining our position in the pecking order of nations, it will also be the bridge to this new era.

Initially, this book was intended to be a rather straightforward updating of my 1987 C.D. Howe Institute monograph *Social Policy in the 1990s*. While most, if not all, of the analytical content of the earlier monograph still applies (although not all is carried forward to the present volume), the scope and the context are, not surprisingly, quite different largely because the environment within which social policy must be reworked is now markedly different, despite the passing of only a half-dozen years or so.

Most important of all, the perspective is quite different. There is a sense of urgency in what follows that was not present in the earlier book — urgency in the sense that the status quo is obviously unsustainable and that a failure to undertake a comprehensive rethinking and reworking of Social Canada could well lead to a spiraling downward of many of our postwar achievements on the social policy front. Moreover, whereas the earlier volume was largely efficiency- and incentive-oriented, the ensuing analysis is rooted far more in a political economy framework. In addition, as befits a knowledge era, there is much more emphasis in the present monograph on targeting social policy reform around the needs of, and challenges facing, individual Canadians and much less emphasis on adhering to the jurisdictional and institutional structures and processes that have dominated the old social policy paradigm. Indeed, several of the themes or subthemes of the following analysis derive from this last observation. For example, I shall argue that, this time around, social policy

restructuring must be a bottom-up process — in other words, a process centered on and sensitive to the needs of those who may have to fall back on the social policy support system. Among the implications of adopting this perspective is that the federal-provincial transfer system must become “derivative,” not once again “determining.” In other words, fiscal federalism must accommodate what makes socio-economic sense from the perspective of individual Canadians: it cannot march to its traditional drummer and once again limit what is both possible or desirable in terms of the new social policy paradigm. If there is a “mission statement” that carries throughout the entire analysis, it would be along the following lines: the role of Social Canada is to provide full opportunity for all Canadians to develop and enhance their skills and human capital so that they can become full citizens in the emerging Canadian and global society. In short, the time has come for the surpluses of the federal system to filter down to individual Canadians rather than being pre-empted by governments.

Now that I have broached aspects of the analysis that follows, it is appropriate to detail the outline of the book.

Outline of the Analysis

The structure of the analysis differs from most public policy treatises in that few, if any, of the chapters are self-contained — all represent essential building blocks leading to the development of a blueprint for the new Social Canada that appears in the final chapter. For illustrative purposes, consider the equalization program. The details of this program are presented in Chapter 4 as part of the description and evaluation of the status quo as it relates to fiscal federalism. While the chapter includes some options for reform, the analysis remains incomplete because it is only in later chapters (such as Chapter 7 on deficit shifting and Chapter 8 on globalization and the information revolution) that new and relevant perspectives are brought to bear on the role that equalization ought to play in the restructured social envelope. And it is only as part of the new blueprint for Social Canada (Chapter 11) that the new and markedly different proposal for equalization takes final shape and form.

What this means is that the analysis accumulates, layer by layer, as it were, as new factors or forces are introduced and as social policy progressively interfaces with the full reality of the new societal order. I recognize that this approach has drawbacks — as already noted, the major section on equalization in Chapter 4 does not incorporate the full equalization proposal that appears as part of the new social policy blueprint. The potential upside of this approach is that it drives home the message that what is appropriate in terms of Canada’s new social policy infrastructure cannot be determined by focusing solely on the

internal operations of the social envelope. One can, of course, derive operational principles at this level, but these principles must be filtered through the full set of realities that will characterize Canadian society in the millennium. The point here is not so much to defend the approach that follows, but to apprise the reader of the manner in which the analysis is structured.

In more detail, the content of the analysis is as follows. Part III focuses on the federal government's presence in the social policy area. Chapter 3 describes and evaluates Ottawa's role in delivering direct programs to Canadians — for example, old age security, pensions, UI, and day care. Chapter 4 then turns attention to fiscal federalism or the federal-provincial financial interface — EPF, CAP, and equalization.

Part IV, which consists of a single lengthy chapter, details provincial government presence in the social policy arena. Programs coming under review and assessment include health, education, welfare, workers' compensation, and training. The inclusion of training under the provincial umbrella is admittedly arbitrary — the rationale has to do with its close links with other provincial responsibilities such as postsecondary education and welfare.

With Part V, "The Political Economy of Social Policy Reform," begins the "layering process" alluded to earlier, where new perspectives are brought to bear on the analysis of the status quo undertaken in Parts III and IV. Chapter 6, focuses on why the social envelope has not evolved when wholesale restructuring was the order of the day in the private sector. The analysis deals in turn with the role of vested interests, the "capture" theory of federalism, the role of the courts, and the existence of public sector monopolies and sinecures. The framework for much of the analysis is adapted from the recent macro growth literature with its emphasis on positive feedbacks and path dependence and, more generally, the concept of Schumpeterian "creative destruction." The chapter ends on an optimistic note in that it focuses on a set of forces that may serve to overwhelm this evolutionary gridlock.

Chapter 7 addresses "federal offloading" or "deficit shifting." The issues here are potentially explosive — the EPF freeze, the 28-cent-dollar sharing for Ontario under CAP compared with 50-50 sharing for the have-not provinces, and the ceiling on equalization. The analysis presents both a provincial and federal perspective on this paring of the growth of federal-provincial transfers. However, the overarching issue here is the impact of the debt and deficit burdens on the future of Social Canada and, in particular, the reality that the new social order will have to be redesigned within a context of fiscal restraint, if not fiscal constraint.

The final and probably most important bit of layering is the subject matter of Chapter 8 — globalization and the knowledge/information revolution. In terms of globalization, developments such as the internationalization of produc-

tion, the shift from an east-west to a north-south trading axis, and the fact that comparative advantage is becoming more a regional than a national characteristic all have a major influence on what is appropriate for the future of Social Canada. In terms of the informatics revolution, now the fact that knowledge is at the cutting edge of competitiveness implies that aspects of social policy become progressively indistinguishable from economic policy. Moreover, in a human-capital and skills-formation era, the east-west social contract has to begin to privilege "people" rather than "place." Until this point in the analysis, one could probably mount a case that a straightforward cost-cutting exercise on the social policy front represented a viable alternative to the status quo. Not so once globalization and the information/knowledge revolution are layered into the analysis: a restructured social envelope is essential to our future economic competitiveness and well-being.

With the mandate for reform and restructuring now established, Part VI, "Reform and Restructuring: Initiatives and Options," directs attention to reform initiatives and options. Chapter 9 details and evaluates a selective set of recent provincial initiatives and/or proposals as well as the social policy reform initiatives contained in the 1994 federal budget. Chapter 10 then provides a summary to this point in the analysis. The core of this chapter is a series of tables that present a rather comprehensive range of options with respect to UI, welfare, the retirement-income subsystem and the constellation of federal-provincial transfers. This serves as a convenient menu of reform options from which readers can select their own preferred future for Canada's social policy infrastructure.

The final chapter presents my blueprint for the evolution of Canada's social envelope. The chapter begins by drawing together the restructuring imperatives and the restructuring principles that underpin the analysis in the previous chapters. With this as backdrop, I then proceed to develop a 13-point blueprint for a renewed Social Canada. After focusing on the implications of the blueprint for various issues (such as the division of powers and the fiscal imperative), some concluding observations complete the chapter and the book.

The analysis of rethinking and reworking Social Canada begins with a focus on provincial economic disparities. The rationale for this as the launch point has to do with the fact that, whereas the origins of the typical European welfare state are found in the interplay of national or class politics, the origins of the Canadian welfare state arise largely in the context of the pursuit of interregional or interprovincial equity. In an important sense, therefore, as go the fortunes of the various provinces, so goes Social Canada. Thus, the first issue to be addressed is the following: what are the economic fortunes and prospects of the various provinces and provincial economies and with what likely impact for the evolution and future of Social Canada? To this I now turn.