

# CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

## A new cycle of investment begins

A new era of social investment has finally begun after two decades of public sector restraint and restructuring. We must now turn the page from “getting our economic house in order” to “getting our social house in order.”

There was not much controversy about what “getting the economic house in order” meant—reduced deficits and debt, lower interest rates, more employment, less inflation. But “getting the social house in order” is far less predictable. We are not aiming

BY JUDITH MAXWELL

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to go back to the golden era of the 1960s, but we are striving to meet the social needs of Canadians in an era when work, family life, and the age of the population are radically different

from the 1960s. In short, we are building a new social paradigm for the 21st century.

With the benefit of hindsight, we can divide the post-war period into two big swings of the pendulum.

### A GOLDEN ERA

From 1945 to 1975, the focus was on nation building. Governments—mainly the

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## Canada's future is in the stars

On January 1 of this year, Revenue Canada began taxing Hollywood movie stars working in Canada like Canadians. Instead of a 15 percent withholding tax, they were ordered to pay full Canadian rates.

American studio executives and Canadian film and television producers promptly descended on Ottawa. They argued that making movie stars pay Canadian taxes would lead those stars to refuse to work in Canada. And without American stars, 35,000 Canadian jobs and \$2.3 billion a year in economic activity would end up on the cutting-room floor.

Three weeks later, Revenue Canada relented—temporarily, of course—while discussions are pursued toward a compromise.

BY DAVID STEWART-PATTERSON

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Stars can work wherever they please. Movies and programs will be made where the stars want to work. David Duchovny may have been motivated by Vancouver's rain or the long commute from Los Angeles rather than by BC's taxes. Whatever his reasons, though, the star of *The X-Files* got what he wanted. Production went south, even though reports suggest the hit television series costs twice as much to make in California. Canada's lower costs pro-

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federal government at first, but in later times the provinces—adopted an unprecedented proactive approach to both economic and social policies. After the hardships of the Depression and the successful mobilization for the war, there were two challenges. One was to send soldiers and war industry workers “back to civil life.” This amounted to one-third of the work force. The second challenge was to avoid another economic slump.

Building on the emerging consensus about Keynesian economic policies, governments took more responsibility for supporting economic growth and redistributing income. Over a 25-year period, the federal government reduced taxes, paid down its debt, and constructed a fairly comprehensive social safety net (pensions, medicare, some social services, and more generous unemployment insurance, for example).

No wonder we look back on this period as a golden era. Economic and social goals were more or less in harmony. Economic progress made it possible to invest in greater security for the lives of Canadians. Economic growth was strong, unemployment and inflation were low, and living standards increased considerably. It is no wonder that Canadians were hopeful and optimistic in those days.

The gears of economic growth, however, began to grind more slowly in the early 1970s. The oil shock provoked a period of higher unemployment and inflation (stagflation), budget deficits began to mount, and productivity slowed down. For a while, the pendulum in public policy paused. Then, when the 1981-82 recession hit hard and the federal deficit and unemployment rates went through the ceiling, a new era began.

## THE STATE IN RETREAT

The notion of fine-tuning the economy was replaced by a much more market-oriented philosophy, and a more restricted role for the state. The era of

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spending cuts, deregulation, and the targeting of social programs began.

At the same time, the changing economic environment started to produce greater inequality. Employment began to polarize into good jobs and bad jobs. Wages for younger workers fell drastically in real terms. And we learned only recently that poverty became more concentrated in inner cities during the 1980s—mirroring the trend in American cities in earlier decades.

In the 1980s, policy advisers were bewildered by the rapid increases in welfare case loads and struggled to understand the “cost drivers” that were making longstanding social programs so expensive. Their policy changes primarily focused on cutting back on eligibility in order to control costs.

Meanwhile, the world economy was also changing fast. More open trading arrangements, including the Canada-US free trade agreement and NAFTA, increased import competition and cre-

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had an impact on some important items in the federal budget in recent years. The imposition of a "floor" below which the CHST would not fall, the backing away from the proposed seniors' benefit, and the abolition of the surtax on low-income earners are just some recent fiscal initiatives for which social movement activism, of which the AFB is but a small part, can take some credit.

In the current federal budget, pressure from social movements, organized labour, and consumer groups across the country led to the restoration of at least some of the cuts to health transfers. In the coming year, the main task facing social movements will be to develop even more persuasive arguments for the necessity to strengthen social programs, to offset what are likely to be increasingly histrionic calls by the business lobby for across-the-board tax cuts. ♦

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ated new export opportunities. World financial markets became highly fluid, and new technologies altered the way international business was organized.

It was the 1990-91 recession that finally provoked drastic action—first in the private sector, as industries began to deal directly with their lagging productivity and the intense pressures of world competition, and then in the public sector, as those fluid financial markets began to take flight from high-debt countries, including Canada.

Budget cuts were deliberately designed to reverse the role of government—shifting responsibility and insecurity back to citizens. Although the political rhetoric and the severity of the cuts varied from one part of the country to another, Liberal, Conservative, and NDP governments were all caught up in the process of "getting the economic house in order."

Hospitals were restructured, unemployment insurance became less generous, public pensions became more costly, social services were cut, and so

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cial programs became more and more targeted, leaving gaps in the social safety net. As people began to fall through those gaps, the social deficit increased.

The first food banks appeared in the late 1980s. By the late 1990s, homelessness was painfully evident on the downtown streets of most Canadian cities.

### **A NEW ERA BEGINS**

Now, finally, Canada is poised on the threshold of a new era in the balancing

of risk between citizen and state. The fiscal crisis is largely behind us, and we have the luxury of planning ahead. The federal budget each February has become one of the key levers for social investment.

Both the education budget in 1998 and the health budget in 1999 took important initiatives to direct money into starving systems. But they did not "fix"

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ondary education has been threatened by tuition hikes.

The federal government, after contributing to certain of these negative developments in the early and mid-1990s, now has a fiscal dividend that allows it to change direction. A number of the measures in the most recent federal budgets will increase equality in Canada — such as the enriched child tax benefit and additional funding for education and health. However, the federal government deserves much less credit in the area of equality of economic security because it has been unwilling to reverse the rise in the economic insecurity of Canadians resulting from its EI cuts. This area in particular should be a key priority for future action. Of course, much more remains to be done in all four of these areas and hopefully the government will follow through in future budgets to address these equality issues. ♦

**The 1999 budget has become known as the health care budget because it introduced a number of measures to strengthen the health care system, including transferring additional moneys to the provinces and territories for health care. While one may argue that this is still inadequate and fails to make up for earlier cuts, at least this new emphasis should in principle counteract any trend toward increased inequality in access to health care.**

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either post-secondary education or health. Those fixes will be a long, hard slog in the years ahead. It will be a lot easier to modernize and adapt these systems when there is some discretionary money to invest. But it takes political will to move the money to the new priorities rather than feed the claims from the old ways of doing business.

And now the competition is on for prime billing in budget 2000. Will it be children? The environment? Productivity? Or tax cuts? Or will it be a combination of these priorities?

These theme budgets make sense if they enable governments to concentrate their resources on the implementation of a long-term strategy. If the next budget addresses children, for example, it will require a well-articulated strategy for supporting parents in achieving healthy child development. No single budget could possibly “fix” the problem; we will need a 10-year agenda. The same challenge holds for the other possible themes.

**The new investment cannot take us back to where we were in the mid-1970s; it has to take us forward to where we should be in the 21st century.**

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The decisions about priorities should be selected to maintain harmony between social and economic goals. We all must recognize that the task we face on each of these issues is fundamental, difficult, and long term. The new investment cannot take us back to where we were in the mid-1970s; it has to take us forward to where we should be in the 21st century.

Although there are parallels with 1945, the challenges are rather different. Rather than “getting back to civil life,” we will have to build a “civil society”—a society that shares risks and responsibilities and lives within its means.

The way people earn their living and the way they look after each other will be different going forward—as will be the role of the state.

Perhaps the most important lesson we can learn from the post-war period is to avoid the extreme pendulum swings. If the social budget gets over-extended, the pendulum will have to swing back. If the market-oriented philosophy is taken too far, the policies will not be politically sustainable.

In future, we want to keep both social and economic policies under the same roof, and resting on the same solid foundations. ♦