

FROM TOP TO BOTTOM: SOCIAL POLICY FOR THE '90s

by Daniel Drache

For the last 40 years, the ideological underpinnings of Canadian state policy offered Canada's elites an unprecedented array of nation-building tools. Every government accepted the responsibility for employment creation and the need for social security. These policies were seen as positive for the well-being of business and society, and the state rather than the market was accepted as the mechanism of adjustment for the national economy. Today, this is no longer the case. State policy is being redesigned from top to bottom. All governments, regardless of political orientation, now appear to support a monetarist inspired federalism as the cornerstone of new state practices. With welfare-anchored federalism under attack, equity, social solidarity and transparency matter less than ever. The Axworthy report is at the eye of this hurricane in which change of state policy is the order of the day.

Any document that purports to lay the basis for long-term renewal of Canada's social programs needs to explain why social spending continues to soar, despite government restraint. Had the Axworthy report provided the numbers, it would have seen that Canada's deficit has already been cut from 8 to approximately 4 percent of GDP, and that the primary budget account has been in surplus for most of the decade. Ottawa and the provinces are losing the war on deficit reduction for a principal reason that does not figure in its analysis — namely, that government revenues are falling faster than these public agencies can cut spending. Indeed, Canadian governments seem to be oblivious to the roots of the deficit crisis and to the major way in which government

borrowing practices are adding to the debt burden. Here, too, the conventional wisdom à la Axworthy does not go to the heart of the matter. It fails to provide Canadians with an adequate understanding of the shortfalls of the existing social welfare system and the kinds of changes that are required for renewal and reform.

THE PARTICULARLY FRAGILE NATURE OF CANADIAN SOCIAL POLICY

Since 1981, with few exceptions, Canada has had double digit unemployment every year. Since 1990, Canada's unemployment rate has been twice that of the United States even though our inflation has fallen to zero. As well, Canada has one of the worst job records of any industrial country; the US Bureau of Labor Statistics reports, for example, that Canada has lost five times more jobs than its southern neighbour.

In such an economic climate, it is not surprising that Canada's fragile social security system has been unable to cope with the demands placed on it. The principal reason is that Canada is subject to a brutal business cycle that results in widespread lay-offs. One in five Canadians experience regular unemployment spells. Further, in many regions, much of the employment is seasonal, such as in the construction, fishing, forestry, hospitality, and tourism industries and also subject to the repeated lay-off syndrome. So no amount of personal initiative is going to change this fundamental condition for the more than 3 million Canadians on UI and social assistance. It is a pipe dream to believe that only if people try harder and have more personal gumption will they find satisfactory employ-

ment. Indeed, the framers of post-war social policy long ago recognized the highly seasonal and cyclical nature of the Canadian economy in proposing a Beveridge-type of social security system based on universality and other security enhancing principles. They remain no less valid today because of the many structural weaknesses in our export-oriented economy.

In this connection, the most important new factor behind spiralling social expenditures is not welfare abuse, but Canada's recent decision to join NAFTA. There is now agreement from a range of independent sources that Canada lost somewhere between 250,000 and 400,000 industry jobs when many firms downsized and an equally large number shut down their Canadian operations and returned to the United States. This is the best explanation for why Canada's social security system is, indeed, in crisis. US direct manufacturing costs are roughly 20 percent lower than their Canadian equivalent. A good deal of this is explained by the poor system of social security paid for out of public funds. The Canadian economic elite would like to level the playing field by paying less tax and supporting fewer social programs. Here also it makes no sense to blame the individual user of social security. Rather, the culprit is Canada's boom-bust economy, which is too heavily focussed on export markets supporting companies that can only compete by cutting wages. Again, the Axworthy report has not been sufficiently candid with the Canadian public. If the Chrétien government is serious about innovation and build-

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ing a high performance economy, it needs new building blocks to get Canada's economy back on the rails and social policy is one of the most important. This is so for two principal reasons.

First, in a deeply regional country such as Canada, there remains a large role for a government in a borderless world. Business does not have the resources to pay for the training, education, science, and technology that a modern workforce requires. Off-loading government responsibility onto business is a non-starter. Every public poll confirms that Canadians are against reducing the benefits of their social security system even though many believe that the money is not being well spent.

Second, while it is fashionable to advocate getting the government out of the economy and privatizing the delivery of social welfare wherever possible, the evidence points to contrary conclusions. Anglo-saxon countries such as Canada, the United States, and the United Kingdom are following this policy option. Business is being de-taxed in these jurisdictions, but it is also the case that a low taxation policy has not resulted in a good economic performance. Many core sectors of the economy continue to perform poorly and unemployment is in the double digit range. By contrast, Germany, Japan, and Sweden, even with all their difficulties, are high-tax regimes, but also have much stronger productivity growth and, more important, the institutional capacity to adjust and adapt to new global realities. They are spending money on income support and skill training, as well as funding many new adjustment programs. The lesson is rather obvious. Social policy is a key part of the institutional arrangements that strengthen the problem-solving ca-

capacity of both people and government. If the system's dynamic is positive, then better outcomes are possible. But if the system dynamic is blocked, then it is unlikely that business will invest in leading-edge technologies and a better skilled workforce. What, then, should be the principles for getting the social policy reform process back on track?

ALTERNATIVE PRINCIPLES FOR REFORM

First, the aim of social policy must be to enhance the security of Canadians by protecting them from the global business cycle. This means that social policy has to be more closely linked to job creation via an industrial policy. In a highly volatile international economy, lay-offs and unemployment will be more, not less, prevalent. In the circumstances, if governments wish to spend less on unemployment insurance, they have to build stronger industries with a better skilled workforce. This is the first principle to apply in getting our social security house in order.

Second, many Canadians do not have access to the benefits they require in a modern service-centred economy. In particular, part-time, casual, and contractual workers are excluded from "fair entitlement." Here, too, Canada's social security system needs broadening, particularly for working women, physically challenged Canadians, and visible minorities. The question is, who pays? Again, the Axworthy report is deficient because it individualizes responsibility for social security rather than presents social welfare as an integral part of an efficient public sector.

Third, income maintenance is still as important as skill training. It is wrong to believe that income maintenance is no longer a primary goal of improving social security in Canada. People can only help them-

selves when they have the financial resources. For more than a decade, family revenue has stagnated or declined and this fact, more than any other, explains why so many Canadians are dependent on governments to supplement their income. There is no escaping the fact that the safety net approach remains an integral part of our social security system. The critical link is that minimum wage and other entitlements cannot be increased unless wages are rising in the rest of the economy. Thus, social security entitlements are never free-standing, but are part of a modern employment relationship. Only a high-wage economy can support higher standards of social security.

The Axworthy review forgot that public investment via the state has long been the cement of confederation. A policy of deficit reduction that requires the state to cut expenses and reduce social spending is tantamount to disinvesting in the future. In sharp contrast, social programs continue to be essential for the well-being of people, governments, and business. As all public authority seeks a fundamental reorientation of state policy, the principles of equity, social solidarity, universality, and transparency matter more than ever. These have to be the founding principles of redesigning Canada's social programs for the '90s.

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