



CANADA WATCH

Practical and Authoritative Analysis of Key National Issues

Canada Watch is a publication of the York University Centre for Public Law and Public Policy and the Robarts Centre for Canadian Studies of York University.

US IMPRESSIONS OF THE QUEBEC ELECTION

by Stephen Blank

The election of a government in Quebec committed to separation and the creation of a new country in North America has attracted little attention from the United States.

The reason is simple enough. The vast majority of Americans in business, government, and the academic community who follow events north of the border don't believe that Quebec will actually separate. Even among a smaller group of Canada watchers who feel that Quebec "sovereignty" is possible, most doubt that it will bring about a fundamental break within Canada.

This perspective helps explain the unruffled views of Wall Street bond watchers. A J.P. Morgan credit re-

port issued last August observed that political risk premiums associated with the possibility of Quebec separation "are overstated." The authors of the report, John Paulsen and Jade Aebi, wrote that "Quebec and Hydro-Quebec paper trade at relatively wide spreads given their ratings due to this political uncertainty. We believe that actual separation is highly unlikely and that, as the market realizes this, spreads are likely to tighten substantially in the near-term."

This is why other Street analysts (Peter Plaut at Salomon Brothers, for example) see a widening of Quebec debt spreads as a "buying op-

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CAN SOVEREIGNTISTS REGROUP IN TIME FOR THE REFERENDUM?

by Alain-G. Gagnon

Contrary to its first mandate leading to the 1980 referendum, the Parti québécois that came to power September 12, 1994 has shed its social movement orientation and taken the form of a typical political party. In doing so, it has lost the élan of the previous decade. However, this trans-

formation has contributed to the Parti québécois's accrued respectability in the international community.

The sense of security created by the successive victories of the nationalist forces during the last two

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VOLUME 3, NUMBER 2
OCTOBER 1994

Single Copy \$5.00

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portunity." Investors picked up three percentage points over the rate of US government paper from the Quebec government in June. But the key here is the belief that the underlying risk is minimal, that a worst case scenario is unlikely and that values will return in a reasonable period.

Bond watchers keep an eagle eye on day-to-day spreads. Manufacturers must take a longer view—for those whose operations rest increasingly on integrated, cross-border sourcing, manufacturing and marketing networks it is more difficult still to get worked up about developments in Quebec. No one at corporate headquarters watches Canada; Canadian operations are typically run out of operating companies or strategic business units. Canadian-based operations report directly to the heads of line business units. For many companies, doing business in Canada, including Quebec — notwithstanding border, customs, and regulatory irritants — is not much different from doing business in Ohio or California. Companies have rationalized and restructured, the economy is improving and new global and continental systems are in place. Few headquarters executives in these companies see looming political risk in North America.

Almost all Americans who know anything about Canada carry around an optimistic paradigm. They have lived through Canada's periods of uncertainty before, they say. Canadians are specialists in the politics of accommodation and symbolic solutions. Canada didn't come apart over Meech or Charlottetown. The election results support their views: the PQ's popular support was less than forecast and current polls show that a majority of Quebeckers oppose separation. Good old reliable Canadians will work out their problems.

SEPARATISM: REGRET AND DISMAY

But what if Quebec does move toward independence? How would Americans respond? Americans most certainly would view the separation of Quebec and the break-up of Canada with regret and dismay. Washington and every major company that does business in Canada will urge Canadians and Quebeckers not to cross that line.

But you can bet that Washington's and the US business community's baseline will be: "Whatever satisfies you works for us." The US response will depend heavily on how Canadians and Quebeckers deal with separation. No matter what the arrangements, if equanimity prevails and arrangements are put in place to preserve free trade and monetary stability in North America, Americans will go along.

While Americans would regret any sort of break-up, they would also view with disfavour any efforts by other parts of Canada to coerce Quebec, if they feel a majority in Quebec favours change. American mythology is tougher on bullies than on busting up countries.

It is by no means clear that Washington would oppose Quebec's entry into the FTA or NAFTA. Washington's primary objective would be to maintain the integrity of North American free trade. In any case, it would be odd, indeed, for "the rest of Canada" led by Ontario, which opposes both the FTA and NAFTA, to convince Washington to blackball Quebec, which has strongly favored North American economic integration. Any assumption that the US would be drafted into efforts to punish Quebec is probably unwise.

The issue is not that Washington will or won't oppose Quebec's entry into NAFTA. The danger is that once the package is unwrapped again, private interests will swarm over the

negotiations like piranhas on a fat deer, picking out all the juicy bits.

THE REAL RISK

Separation won't catch America's attention, but how separation is managed will. Violence won't be necessary to ring alarm bells; the hint of disorder will suffice. Rancorous argument about the disposition of federal resources, bitter debate about responsibility for the national debt, hot words about dismembering Quebec — if credible, threats and counter-threats would send Americans scurrying like sober citizens in a bar room brawl. If shouting starts and pushing looks likely, bond spreads will gap and American firms will begin to look for the nearest exit.

Some Canadians ask if the United States would intervene if it looked as though Canada might come apart. There is not the slightest possibility of US intervention, nor is there the slightest possibility that the United States would absorb any part of Canada. Neither of these outcomes is plausible. What is plausible, however, is that if the situation in Canada deteriorates sharply and serious threats on one side to demand total separation, and on the other to hobble or dismember Quebec really seem about to materialize, then capital and human resources will tumble south out of Canada. The most severe danger Canada faces isn't disorder or intervention by the United States, but the flight of everything that isn't nailed down. The United States won't absorb Canada — there's no chance of that. But it would be happy enough to welcome Canadians and their skills and capital.

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years has removed a pressing need to take the next logical step, that is, to separate. Indeed, the election of the Parti québécois last September, along with the impressive performance of the Bloc québécois with 54 out of 75 Quebec seats in the House of Commons, and the defeat of the Charlottetown proposals have contributed to a greater sense of ease among Quebecers. The sentiment among many Quebecers of being strongly represented both in Quebec City and in Ottawa is one of the biggest challenges that the Parti québécois government is facing at the current time.

The most important question at the moment is this: Can the Parti québécois government regroup in time for the referendum? This will be a daunting task for the PQ. Many elements need to be taken into account in any assessment of the government's odds in meeting its objective.

First, having assumed power from 1976 until 1985 and having had the experience of one referendum, the Parti québécois government is no longer a neophyte and has a better sense of the institutions under its control. The popular vote secured on September 12, 1994, (44%) and their impressive victory at the federal level on October 25, 1994 (49%), combined with the defeat of the Charlottetown proposals on October 26, 1992 (56% against), indicate the extent to which a significant proportion of the electorate can be mobilized to protect Quebec interests.

Second, the PQ will attempt to demonstrate that Quebec interests at large are not well protected by the Canadian federal system. References may be made here to problems of the past, such as the S-31 incident that mobilized both Quebec's nationalists and federalists alike against the federal government in 1983-1984.

The same alliance between nationalists and federalists can be recreated with respect to manpower training, economic market, social policy, etc., as was suggested in 1990-1991 during the hearings of the Bélanger-Campeau commission.

Third, social program reform will be at the centre of the Quebec government's strategy. The case will be made that Ottawa is again trying to pass the buck to someone else while strengthening its power of coercion and intruding in an area of provincial jurisdiction. The Victoria proposals failed in 1971 essentially because of Quebec's desire to have a stronger say on social policy. Quebec, influenced by Claude Castonguay, said no to changes proposed by Ottawa in this policy area. The rejection of the amending formula was only secondary to the division of powers issue.

Fourth, the federal government and the Quebec Liberal party give no indication of intending to propose something that is in line with Quebec's traditional aspirations. Following the Bélanger-Campeau commission, a consensus has been established opposing the status quo and favouring additional powers to Quebec in order to increase efficacy and efficiency, and to discourage the overlapping and duplication of programs. Status quo politics has not always been rejected in Quebec, but if it means a further centralization of power at the federal level, as it has meant during the last three years, the PQ government can be expected to make important gains among the undecided.

Fifth, the PQ government has control over the agenda. This is not without significance. Already we have Mr. Parizeau opening up on the aboriginal question. A good case in point is the global offer the Premier intends to make to the Attikamek-Montagnais nation before the end of

1994. The government will probably set up an extraordinary commission to allow all Quebecers to express their views on the future of Quebec. An important place will be given to women, cultural communities, anglophone Quebecers, regional representatives, and other spokespersons from the corporate, cultural, education, and union quarters. It will be difficult, though not impossible, to recreate the excitement of the Bélanger-Campeau commission, because the participation of the federalist forces is not guaranteed, as was the presence of nationalist and autonomist forces at the 1990-1991 hearings.

Since its election on September 12, the PQ government has made efforts to empower Quebecers through proposals with respect to aboriginal nations, regional governments (establishment of the position of regional delegates), unions (modification of rules with respect to investment programs), and women (equality of representation on Priorities Committee, and salary equity in the public service). We can expect additional initiatives during the period leading up to the referendum.

THE RAINBOW COALITION

Parizeau has also changed his attitude toward non-orthodox supporters of sovereignty. He now speaks of a "rainbow coalition." In this he takes his lead from people like André Boisclair and Jean-Pierre Charbonneau, who have been strong advocates of *rapprochement* between all autonomist forces in Quebec. This contrasts profoundly with his earlier approach to politics and has surprised many observers of the political scene. Parizeau has made every effort to comfort Quebecers by not proposing major reforms to existing institutions. Changes to the parlia-

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mentary and electoral systems are not in the offing. The strategy may be too unsettling to people. However, while it promotes security, this strategy tends to bring little passion into the political arena and may be counterproductive.

A NATIONAL PROJECT

Excitement for a national project will develop if the government is willing to take the high road into politics and elaborate on an innovative project. Such a project ought to be constructed around a Quebec constitution, an entrenched charter of human rights and freedoms and, to name a few elements, a house of regions in which aboriginal nations, cultural communities and regions would be represented. However, it would prove difficult to go beyond a formal recognition of the overall ob-

jectives of such reforms, without risking an eruption of conflict among the various sectors of Quebec society.

Quebec is experiencing challenging times once again and it is crucial to take advantage of the situation to build bridges between all communities. At the end of this process, whether Quebec is in or out of Canada, it is fundamental for the government to add depth and meaning to relations between all members of Quebec's constituent communities. Therefore, to achieve its foremost objective, the PQ government will need to find a way to reach out to Quebec's various political communities. The PQ government will also need to ensure that party activists are invited to contribute to the mobilization process. If it wants to stand a chance of creating momentum for the project, it is essential for the PQ to renew its social movement tradition. This strategy

may, in fact, bring back the élan the PQ government needs to invigorate its position.

The deliberations under way since the tabling of Meech Lake in 1987 offer Quebec a great opportunity to explore new avenues and assess alternatives to current political arrangements. One thing is certain: the status quo is no longer acceptable for most Quebecers—and if federalist forces intend to counter nationalist and autonomist demands with the "politics as usual" credo, the game will be far from over.

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EDITORIAL

FEDERALISM AND THE CHRÉTIEN AGENDA

by Jamie Cameron

A CANADA-US COMPARISON

The last year has seen elections both in Canada and the United States register a strong anti-establishment vote. Similar dynamics have nonetheless yielded vastly different results.

The 1993 federal election returned a Liberal majority to Canada's Parliament. Not only were its two other traditional parties, the Conservatives and the New Democratic Party, effectively eliminated from the national landscape, the Bloc québécois, a party committed to a sovereign Quebec, formed Her Majesty's loyal opposition. One year later, the Reform party, which vaulted to prominence in Parliament on an anti-es-

tablishment platform, remains incapable of defining its "reform" agenda.

Although Canada's Parliament has been an interesting place since the 1993 election, the prime minister's ability to govern has not been compromised. One of the cornerstones of parliamentary democracy is party discipline, a principle that in most cases guarantees the safe passage of the governing party's initiatives.

Meanwhile, the American presidency is headed for trouble. In the United States, where the executive and legislative branches of government are separate, leadership skills are enormously important. The separation of powers is a two-way street:

Congress is as independent of the president as he or she is of Congress. Even with party control of the Senate and House of Representatives, the president cannot count on his policies being rubber stamped by Congress.

In that setting, Clinton had stumbled long before last week's midterm elections. Although he achieved unexpected results, as, for instance, on NAFTA, other initiatives, like health care reform, have foundered badly. As Whitewater and the sexual harassment action against him attest, the president's personal shortcomings have undermined confidence in his leadership.

Last week, Clinton and the Democratic party bore the brunt of voter hostility toward incumbents, Washington, and "government" in general. As control of the Senate and House of Representatives passed to the Republican party, Clinton had little choice but to sing the praises of bi-partisanship. More policies will be sacrificed than saved by bi-partisanship, and Clinton's prospects are not bright.

One year into his mandate, Prime Minister Chrétien of Canada still claims the public's confidence. His popularity continues to climb, and he has most recently emerged triumphant from a much-touted federal-provincial trade convoy to the East. After facilitating agreements that may create as much as \$8.6 million in business and trade with China, Chrétien was dubbed "Chairman of the Board of Canada." According to some, a new era has dawned on federal-provincial relations. This despite the conspicuous absence from the entourage of Quebec's premier.

Without the power to control Congress, Clinton's policy agenda will collapse; however, if Chrétien's founders, it will be for quite different reasons.

CHRÉTIEN'S AGENDA

A partial list of the prime minister's agenda for the upcoming year includes comprehensive social policy reform, aggressive steps to combat the intractable problems of deficit and debt, reconfiguration of the GST, an overhaul of immigration policy, the national health forum, and a range of significant, though incremental, reforms on criminal justice issues. Items that may force their way onto the agenda, albeit less voluntarily, include the Quebec referendum, the ever uncertain future of Canada, and the unwelcome prospect of yet another round of renewed federalism.

Virtually every item on the agenda above has enormous implications for the provinces. Despite the strength of his majority in Parliament, the prime minister cannot go forward on these initiatives without the provinces. Unilateral federal reform of university education, unemployment insurance, job training and welfare is quite simply a non-starter. Nor can the GST be reconfigured to achieve harmonization with other taxes without coordination and collaboration with the provinces. Thus far, however, the province's reaction to federal initiatives has been, at best, lukewarm. For example, they have snubbed the federal government's national health forum, which now must proceed without their participation.

Now add Quebec into the equation and the dawning of that new era appears yet more distant.

FEDERALISM

During the Asian trade junket, Ontario Premier Rae bubbled, "We're 28 million people in a great wide world, and we've got to work together." Jeffrey Simpson of *The Globe and Mail* declared that "this trip gives lie to notions that the federation cannot work and that getting the two levels of government to cooperate is as hopeless as herding cats."

Can the institutional history of federal-provincial relations in recent years be so easily forgiven and forgotten? Lest we forget, the demands of federalism have subverted virtually all attempts to reform our constitution. Without Quebec's consent, it is difficult to accept the legitimacy of the patriation package of 1982. The Meech Lake accord ended in fiasco largely because the distinct society clause defied a conception of federalism that featured the ten provinces as formal equals. The Charlottetown Accord was rejected

for any number of reasons, including the conflicting perceptions of federalism that it represented: while some decried the accord's devolution of powers to the provinces, others saw nothing but insidious centralization in its reform of institutions like the Senate.

Although the constitution has been set aside for now, federalism continues to place constraints on governance. The much-ballyhooed interprovincial trade agreement (ITA) is a case in point.

When announced early last summer, after some 14 months of negotiation, the ITA was pilloried for institutionalizing exemptions and loopholes that, it was alleged, would actually increase, rather than decrease, protectionist conduct. In a play on Joe Clark's community of communities, a *Globe and Mail* editorial pronounced Canada a "community of constraints."

Like the separation of powers in the United States, federalism in Canada is our genius but also our burden.

CONCLUSION

It is questionable whether Chrétien's Asian trade junket has broken Canada's cycle of failure in federal-provincial relations. Surely there is a difference between consensus and cooperation on a trade deal with China — which effectively is a win-win situation for all — and the overhaul of fiscal and social policy — which has enormous implications for the provinces — that Chrétien is contemplating at home. Realism suggests that the demons of recent history cannot be so easily exorcised.

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REFORMING THE WELFARE STATE: PAYING FOR CANADA

by Peter Clutterbuck and Armine Yalnizyan

Canadians are being told that the welfare state is in ruins and that social programs no longer work, as evidenced by the fact that "child poverty is growing, unemployment rates are near record highs and our national debt soars higher every day." (*The Toronto Star*, September 17, 1994)

This is an empty debate as long as it is based on false assumptions about the source of the fiscal crisis, and as long as there is no discussion of the range of options that are, in fact, available to the federal government.

Let us put this exercise into context.

The current drive to reform UI and welfare is being triggered by peripheral concerns: the 3 percent rate of known abuse of welfare, and the 6 percent of the population drawing UI that lives in Newfoundland. The government and the media have promoted the view that the vast majority of those who legitimately use these programs are virtually *abusing* them. This focusses social security reform on issues of dependence and fraud, not despair and poverty.

The real fight in this country is about public responsibility, and the public role around shaping economic development. It is a fight about what kind of social security programs we want, about what kind of economy we want, and what kind of public finances would bring this about. In essence, this dialogue is about defining the role of government and its character.

IS THE WELFARE STATE OUTDATED?

Public finances are at the heart of the struggle to redefine the quality and scope of the Canadian welfare state. Ironically, the arena of debate

about public finances has been largely closed to the public. In the formulation of budgets and fiscal plans, the Finance Department relies on only one dominant perspective — the way to good nationhood is through the market. Looking at public finances through the lens of the marketplace has led us to prescribe balanced budgets through cutting costs. These costs are equated with social spending.

But Canada's fiscal crisis is *not* the result of an unaffordable system of social programs. Canada has neither over-provided nor over-spent on social programs. Rather, Canada has *under-collected* relative both to the capacity of its citizens and corporations to contribute to the social security of Canadians, and as compared with other industrialized countries.

SOURCE OF THE FISCAL CRISIS

Canada has had a primary expenditures surplus (all federal expenditures except interest paid on the debt) since the 1986–87 fiscal year. Indeed, primary expenditures have been declining every year since

1984, with the exception of the last few brutal years of recession. It is striking that, even under these economic conditions, primary expenditures were lower in 1992 than in 1975. Clearly, government spending is not out of control.

The fiscal crisis originated in under-collection of revenues in the 1970s and was exacerbated by rising debt charges due to the unprecedented interest rates of the 1980s. It did *not* arise from rampant spending on social security, which has remained relatively constant since the mid-1970s, with the exception of the recession periods of the early 1980s and the early 1990s. All other functions of the federal government have fallen dramatically in relation to the size of the economy, with the exception of the service charge on debt.

Rising debt charges on Canada's accumulated debt consume a growing proportion of our public resources. The federal government now spends \$41 billion annually — nearly 25 percent of all federal expenditures or 6 percent of our GDP — to service our debt. (See Table 1.)

Table 1

Federal Revenue and Expenditure Patterns as Percentage of GDP, 1986–1992

Year	Total Revenue	Primary (Current) Expenditures	Debt Charges	Total Expenditures
1986	18.1	17.6	5.2	22.8
1987	18.3	17.0	5.0	22.0
1988	18.3	16.2	5.2	21.4
1989	18.3	15.9	5.7	21.6
1990	19.1	16.7	6.2	22.9
1991	19.8	18.0	6.2	24.2
1992	20.8	18.2	5.7	23.9

Source: Canadian Tax Foundation (1993), *The National Finances 1993*. Analysis prepared from data reported in Table 3.6 and Table 3.8.

THE FALSE DILEMMA: DON'T WANT CUTS, BUT CAN'T PAY

For two decades we have been bombarded with the notion that we pay too much tax. What does the evidence show?

From 1976 to 1985, a majority of advantaged and middle-class Canadians, as well as Canadian corporations, enjoyed a *tax holiday* that resulted in a serious decline in public revenue. This was the initial factor contributing to Canada's current fiscal crisis. For the average Canadian, these tax breaks took the form of full indexation in the personal income tax system and the substantial growth of tax shelters, such as RRSPs. Canada was the only G7 country that experienced such a decline in public revenues.

The problem of a generalized tax holiday was compounded after 1986 when, in addressing revenue problems, the previous government broadened the tax base at the bottom and reduced the rates at the top, resulting in profound inequities in the tax system. These obvious changes have significantly reduced people's will to pay, especially in the light of continued reduction of publicly provided services and benefits.

Corporate contributions have declined most precipitously among all sources of federal tax revenue in the last 20 years. They accounted for only 7 percent of federal revenues in 1992, down from 17 percent in 1975. (They represented 25 percent of all federal revenue in 1995.) In relation to GDP, federal and provincial corporate contributions to public provision in Canada, both in taxes and social security payments, are lower than those in the United States and are the lowest of all G7 countries, including Japan. (See Figure 1.) Apparently, Canadian corporations have some latitude to increase their contribution with no threat to their existing competitive position.

In fact, average Canadians pay less than average Americans for a significantly better society. Relative to the US, average Canadians enjoy access to a universal health care system, an inclusive and well-funded system of public education, and higher levels of support for seniors, the unemployed, and the poor. The cost? Contributions of average Canadians to total government revenue are above those in the US before social security contributions are taken into account. When social security contributions are included, average Americans pay more than average Canadians.

How should we pay for the debt? Cutting social programs to reduce the deficit makes no sense. The crisis of this period is not that we cannot afford to pay for social programs, but that we cannot afford to have an economy that does not work. The objective of reviewing social programs and public finances at this time should be to find fair and logical ways of paying for a system that works.

ENHANCING SOCIAL SECURITY AND ADDRESSING THE DEFICIT

For the past decade, federal politicians have been telling us that there

are no alternatives to cutting social entitlements. Canada *does* have national options for addressing the fiscal deficit that do not require us to dismantle the welfare state and erode the foundations of Canadian nationhood. Canadians should expect their federal government to exercise these options and play a key leadership role both domestically and internationally.

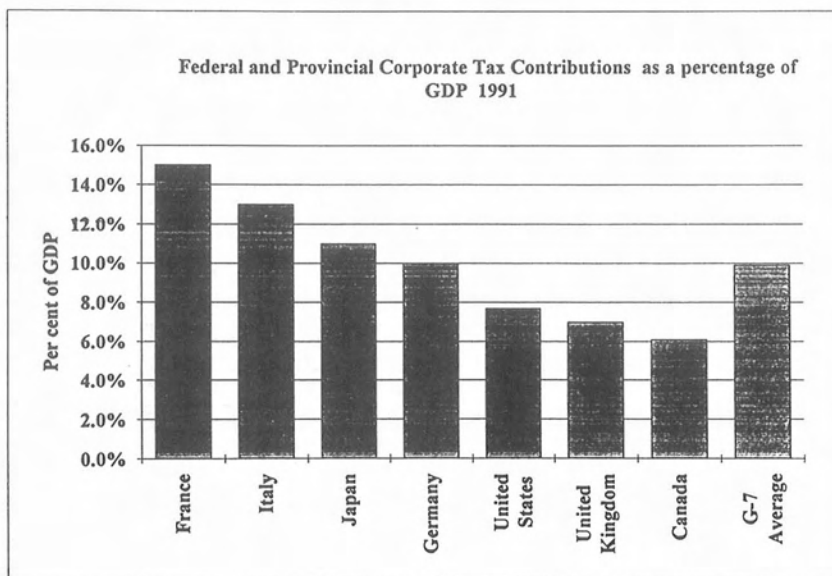
FOCUS ON GETTING PEOPLE BACK TO WORK

The only sustainable mechanism to reduce the deficit and restore financial health to the public and private spheres of society is full employment. A number of possibilities exist to create both more jobs and better jobs.

First, we live in an era of paradox where an unemployment crisis coexists with more and more people working extremely long hours. Establishments that regularly rely on long hours of work — through paid overtime, for example, in heavy manufacturing, and through unpaid overtime, for example, managerial and professional salaried employees — should be required to *reduce*

Continued, see "Reforming the Welfare State" on page 20.

Figure 1



"Reforming the Welfare State,"
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and redistribute working time to create new job openings.

Second, essential public services — such as providing child care, developing preventive and corrective environmental technologies, supporting community-based health care, and building the training/upgrading infrastructure — should be prime sites of *public investment*, which in turn would generate needed and decently paid work.

Finally, *more private sector job creation should be expected during a recovery*. This is only likely to occur, however, if:

1. *more of our savings are returned from offshore*, so they are made available for productive investment here, and
2. *more domestic consumption is supplied through domestic production* rather than imports.

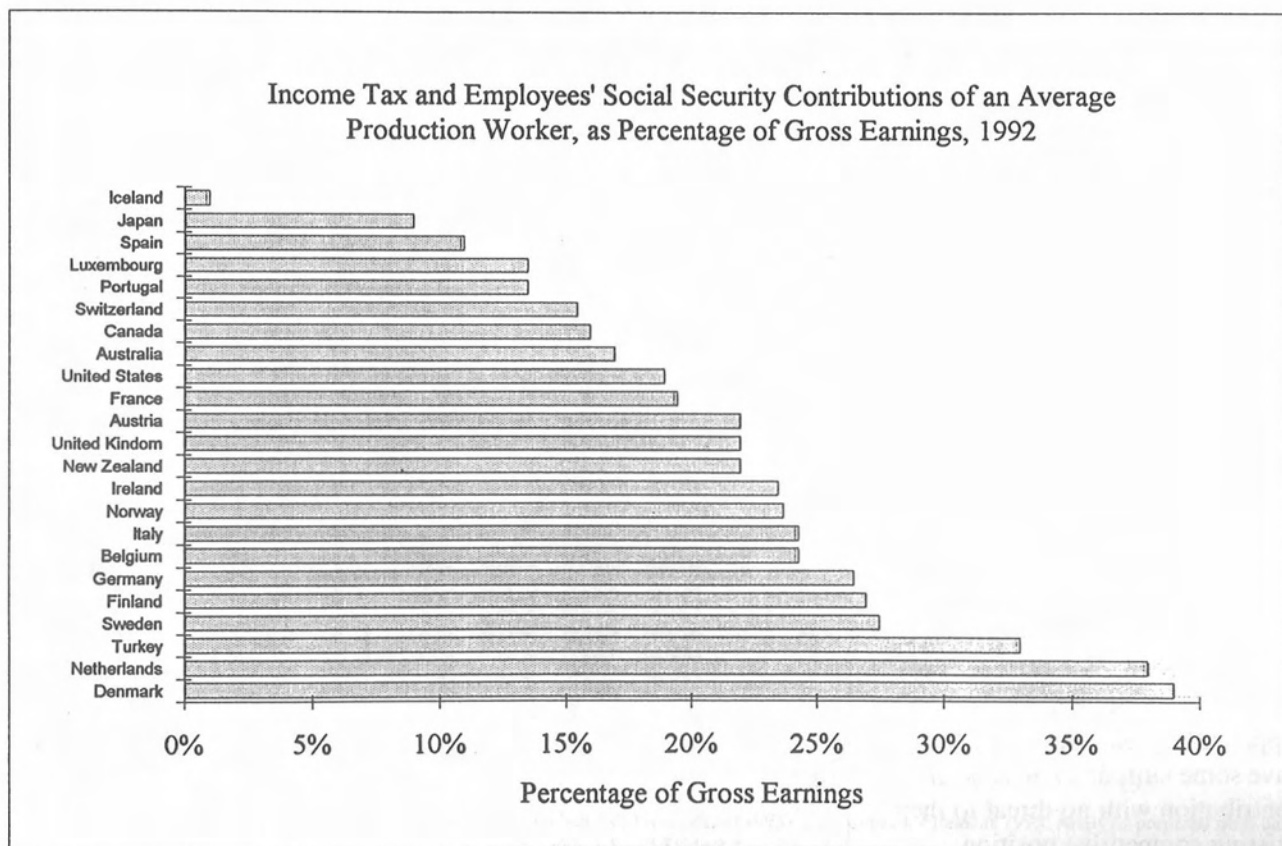
These conditions can be met respectively by:

1. returning foreign investment thresholds for pension/retirement plans to 1989 levels (10 percent instead of the current 20 percent), thereby re-routing about \$25 billion back for investment in Canada, and
2. identifying key sectors of the economy as vital to the national interest (as has been the case for the defence industry) and setting domestic production targets in these sectors (e.g., heavy machinery related to resource-extraction, technology associated with hydroelectricity, pharmaceuticals, etc.).

Canadian taxpayers spend 25 cents of every tax dollar to service the \$41 billion federal debt. An increasing proportion of that money (8.6 percent in 1983 to 23.6 percent

in 1992) simply leaves the country in the form of interest to foreigners who hold our debt. Reviewing these expenditures is at least as important as reviewing expenditures on social programs. A variety of mechanisms could be weighed, from renegotiating the yields from bonds, to introducing interest rate controls, to relying more heavily on long-term, strictly domestic instruments such as Canada Savings Bonds (which can only be held by residents and have historically been the prime mechanism for financing Canadian debt). Since the financial community has long been alerting us to the dangers of debt "crisis," they should be required to finance part of it. Canadian banks and other large bondholders could be required to take marginally lower returns as part of the belt-tightening exercise that the government has required of the unemployed and working poor for the past three years.

Figure 2



*GENERATE TAX REFORMS THAT
ADDRESS BOTH EQUITY AND
ADEQUACY CONCERNS*

Many studies show that the federal deficit started in the mid-1970s due to an under-collection of tax revenues, not overspending. Is there room for higher taxation? Who should bear these increases? These questions raise issues of both equity (who should contribute and how much?) and adequacy (what amounts are required for what levels of benefits and for whom?). (See Figure 2.)

Tax expenditures such as retirement savings exemptions, protected family trusts, and business corporate tax exemptions are perhaps more of a drain on public finances at a time of deficit crisis than social spending. In these cases, significant public revenues are "spent" on those who least need public support. As one example, the startlingly generous RRSP contribution limits could be reviewed as a possible source for financing the debt. The current ceiling for RRSP contributions is \$12,500, a limit wildly beyond the \$2,567 claimed on average by 4 million Canadians in 1990, representing only 22 percent of tax filers, and causing the federal government to forfeit about \$4 billion in revenues. A further \$10 billion was

forfeited through registered pension plans. The decision about how much of that could be retrieved is political, not economic.

Tax deferrals and exemptions should also be reviewed. For example, the amount of federal taxes deferred by corporations due to fast write-offs for capital investment totalled about \$3 billion in 1972. By the early 1990s, corporations had deferred almost \$40 billion in federal taxes — roughly equivalent to the nation's debt servicing charges. If this is a fiscal crisis, it is reasonable to expect a review and reduction of such tax holidays.

The personal income tax system should also be reviewed regarding the rates of taxation, the numbers of tax brackets and their thresholds. Note that, between 1987 and 1989, the number of tax brackets fell from 10 to 3, with the top marginal rate of tax dropping from 36 to 29 percent while the bottom was boosted from about 7 to 17 percent. Alternative sources, such as inheritance taxes or altering regulations regarding family trusts and/or capital gains exemptions, should be examined.

CONCLUSION

Public finances are at the heart of the struggle to redefine the quality

and scope of the Canadian welfare state. Ironically, the arena of debate about public finances has been largely closed to the public. In the formulation of budgets and fiscal plans, the Finance Department relies on only one dominant perspective — the way to good nationhood is through the market. Looking at public finances through the lens of the marketplace has led us to prescribe balanced budgets through cutting costs. These costs are virtually equated with social spending.

What is missing in the spending cuts "debate" are the connections between revenue and security, and between collection and provision. The capacity to finance social need exists when people know what they are paying for, and when increased contributions result in enhanced — not decreased — supports and services.

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**Practical and Authoritative
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**Volume 3, Number 2
October 1994**

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WordsWorth Communications

Canada Watch is produced
jointly by the York University
Centre for Public Law and Public
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Fax (416) 736-5546 and the
Robarts Centre for Canadian
Studies of York University:
Phone (416) 736-5499,
Fax (416) 736-5739.

ISSN 1191-7733

Subscription Information

Canada Watch is published
eight times per year.
Subscription rates effective
this issue are as follows:

Institutions	\$75.00
Individuals	\$35.00
Students	\$20.00

(Outside Canada add \$10.00)

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the Robarts Centre for
Canadian Studies

Printed in Canada

ABORIGINAL PEOPLES AND SOCIAL SECURITY REFORM

by Mary Ellen Turpel

The Liberal government's proposals for the reform of unemployment insurance, social assistance and income security, support to education and learning, labour practices, job creation incentives, and the delivery and management of programs will, arguably, most profoundly affect aboriginal peoples — the most economically marginal group in the country.

What is alarming is that the debate seems to have been formulated without any consideration of self-government or a firm methodology for renewing social programs so that outputs will operate more effectively to ameliorate poverty and foster economic self-sufficiency. Aboriginal peoples are being included in a single process of considering all "Canadians" and their social security program interests. Meanwhile, the unparalleled poverty and social and political disempowerment of aboriginal peoples, and their special rights are not being factored into the review process.

The changes proposed are taking place out of context and without the comprehensive review of the federal government's fiscal obligations toward aboriginal peoples, especially those flowing from First Nations treaties. The treaty perspective is complex and it deserves specific attention because the post-Confederation treaties include specific economic rights for First Nations that no Canadian of any other ancestry enjoys. These economic rights (health, education, economic development, famine assistance) were promised in exchange for a commitment on the part of aboriginal peoples to share lands, and they were not meant to be broken or retreated from at will. As Treaty Commis-

sioner Morris reported in the 1870s, after his negotiations with First Nations during Treaty 6:

I have told you that the money I have offered you would be paid to you and to your children's children. I know that the sympathy of the Queen, and her assistance, would be given you in any unforeseen circumstances. You must trust her generosity.

The Assembly of First Nations and other aboriginal organizations have criticized the reform initiative because it has not acknowledged the existence of First Nations jurisdiction in key social policy areas and thus does not dovetail with the commitment to implement self-government. They have also questioned the process of policy review when aboriginal peoples are lumped into the process as "interest groups," and their political existence as distinct peoples with distinct governments is being ignored.

On this second point, the problems with the social security reform process are clear. Aboriginal peoples, as one of the major consumers of social security programs (especially social assistance), have not been properly identified as peoples with their own government representative, who deserve more than cursory consultation in a review process that will involve critical issues of rights and federal fiscal obligations. This unique process is required for First Nations because the government and non-aboriginal experts simply do not have a grasp of the social security issues of concern to aboriginal peoples.

Everyone in the field knows that data on aboriginal peoples and so-

cial security reform is limited and in many cases unsafe in its conclusions. A major study recently prepared by the Canada Council on Social Development for the Department of Indian Affairs (September 1994) concludes that "Information about the aboriginal population and its use of social programs is limited. Key information sources have severe drawbacks. ... There is a paucity of data on ethnic/aboriginal origin in program statistics generally for health services, welfare, education, income security ..." (p. 4). In other words, the data is unavailable. What is there is largely unreliable, and to understand either the problem or the solutions will require detailed discussions with aboriginal peoples in a specific process that can highlight aboriginal experiences, rights, and ideas for reform.

Many aboriginal people see the social security reform process as another opportunity for the federal government to off-load its fiscal responsibility for aboriginal programs onto the provinces where these programs face further erosion (as in the Alberta example), until treaty rights are eventually rendered non-existent. The "off-loading" or delegation of responsibility for Indians by the federal government is by no means new. There has been a trend since the 1950s to avoid cost obligations for Indians by either retreating entirely from a program area, or transferring responsibility to the province and attempting to either compensate a province in part for this, or allow the province to fill the void (if it so wishes) created by the federal retreat.

For example, in the province of Manitoba, the federal government has ceased off-reserve recoveries for Indian child welfare and no longer

reimburses the province for off-reserve provincial and municipal social assistance. According to federal-provincial studies, this has resulted in a decrease in provincial revenues in 1992-93 of \$23.7 million gross on the social allowance program, \$10.3 million gross on municipal assistance, and \$4.2 million net on child welfare recoveries. The total net cost to Manitoba after calculating the Canada Assistance Plan contributions that the federal government makes to these programs for all residents (regardless of Indian status) is \$21.2 million for 1992-93. Some people estimate that the provincial costs for Indians, given the birth rate statistics, will rise to nearly \$100 million by the turn of the century in the province of Manitoba.

The off-loading issue is important, from a Treaty First Nations perspective, because it indicates further erosion of the historic relationship between the Crown in right of

Canada and First Nations. This is worrisome because it demonstrates a shuffling of responsibility for treaty rights, or even a diminution of treaty rights by dispersing responsibility to the provincial governments. This may lead to a patchwork across Canada of the standards for fulfilling treaty obligations, depending on the "friendliness" and commitment of a particular provincial government at the time the federal government off-loads. Considering that Treaty First Nations have never fully enjoyed treaty rights because of the intransigence of the federal Crown, it is especially troubling that responsibility for key areas can be shifted to the provinces.

A review of the entire area of fiscal responsibility for aboriginal peoples is long overdue. The federal government cannot conduct such a review in isolation; nor can it think it will appease aboriginal peoples through a sham consultation proc-

ess where the aboriginal peoples are lumped in with interest groups. Legitimate issues of rights, especially treaty rights, are at stake, as is the sincerity of the Liberal commitment to implement self-government. Apart from some innovation in the area of youth internships and youth training, the government proposals for reform demonstrate that the government has no grip on the process or substance of reform in this area.

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WOULD THE REAL STATUS QUO PLEASE STAND UP?

by Daniel Latouche

TAKE-IT-OR-LEAVE-IT FEDERALISM

Against all odds, the constitutional status quo has made a remarkable comeback and is now offered as the only viable option for Canada. The country, as we are often reminded, managed very well before the recent round of constitutional negotiations. Are not Canadians a status quo people? And what is wrong with a little status quo *for a change*.

As the Prime Minister has made abundantly clear, there will be no devolution of powers to the provinces, no redefinition of Quebec's place within confederation and no new deal with the First Nations. Welcome to the "Take-It-or Leave-It" federalism.

A CAMPAIGN OF CENTRALIZATION

But, of course, this status quo has a special bent to it. As Maurice Duplessis used to say about the Supreme Court, "It's independent all right, but we know which [way] it is leaning." One of the few things on which Quebecers agree, federalists and sovereigntists alike, is the firm belief that the federal government, under the guise of bringing peace to the constitutional front, has already decided to embark on a widespread campaign of centralization, trying as best it can to circumvent the provinces to deal directly with so-called "ordinary" Canadians. In the health and welfare area, university education, science and technology, fisher-

ies, agriculture, tourism — to mention only those dossiers which have emerged in the last three months — Ottawa wants to use the coming massive funding cuts it envisages to recuperate those decision-making powers that it was forced to give to the provinces. For example, the Axworthy reforms can only be implemented if Ottawa unilaterally modifies its long-standing agreements with Quebec regarding tax points. Apparently, it can do so unilaterally.

NO ALTERNATIVE

Why is the federal government so willing to take the chance of offering absolutely no alternative to

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Quebeckers on the eve of a referendum, when we all know that the absence of such an alternative is one of the most potent weapons in the hands of the PQ. It is traditional to try to undermine the major argument of the other side and refrain from beefing it up. In this case, Ottawa has already announced that it will spare no effort to convince the Québécois that a "no" vote on the referendum is actually a "yes" vote to the status quo.

The easy answer, of course, is to assume that Ottawa does not want to repeat the same error as in 1980 when the victory of the No side was actually interpreted as supporting a renewal of Canadian federalism through a new round of constitutional talks. For Jean Chrétien and the Liberal party, this reopening of the constitutional can of worms is judged to have been a catastrophe, not so much for the country or for Quebec, but for the Liberals themselves: they were expelled from power the moment the constitutional agenda came alive again.

No doubt, there is some truth in this explanation because the Chrétien government, as certain as it is of a massive referendum triumph, wants to make sure its coming victory is not re-interpreted away from them. But this is an awfully big gamble to take. If, for any reason, the Parizeau referendum becomes a referendum on the status quo, then Ottawa, and Canada for that matter, are left with absolutely no fall-back position. It is difficult to imagine that the Canadian government is willing to take such a chance — to let the country dissolve for its failure to have presented a counter-proposal to sovereignty. No, there must be something else behind such a reckless refusal.

It becomes clearer when one imagines the required content of a

successful and attractive package. It would have to be acceptable to Quebec, of course, but also to the rest of the country, to the First Nations, to the provincial premiers, as well as to all those groups that opposed Charlottetown. It is not too difficult to figure out the specifics of such a package. For one, manpower training, culture and language, regional development, post-secondary education, and research and development would have to be "given" back to the provinces. A number of them would undoubtedly refuse such an offer. Quebec would clearly accept it and make use of these new "powers" to fully implement its own model of social solidarity and integrative concentration. This model clearly implies a move toward more equalitarian social policies, more regional and local empowerment, less obsession with the deficit and inflation, and a push toward full employment through a more strategic role for the state.


Even a superficial reading of the recent Axworthy project shows how unacceptable such a turn toward a renewed social democracy is to the Liberal party. Their major preoccupation is not so much to "save" the country from the separatists, but to make sure the country does not use the pretext of a constitutional crisis to experiment with new ideas. Quebec has made clear its intention of moving in the same direction as that already taken by Sweden and a number of western countries. But the Quebec situation is a dangerous one and could serve as both an example and a pretext to the rest of the country.

Will the Liberal strategy work? Perhaps. In Quebec, those who oppose the sovereignty project are precisely those who would benefit from a turn to the right in Canada. They have their back to the wall as they know full well that the only way a

sovereign Quebec can make it in the new global age is through a renewed commitment to social democratic ideals and policies.

Only two "Canadian" politicians, Joe Clark and Jean Charest, have found the courage to denounce this refusal to confront our constitutional impasse. As for the Reform Party, it occasionally makes noises about rebuilding the country from political scratch while leaving little doubt that come referendum time, they will not object to the Chrétien crusade to save the country. There are close to 500 elected politicians in the nine provincial legislatures of Canada and so far not one has protested this surprising resurrection of the status quo.

Could it be that Canada is, indeed, a status quo paradise? John A. Macdonald would not have been happy.

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THE LIBERALS' INTERGOVERNMENTAL AGENDA

by Douglas Brown

In its first year of power, the Liberal federal government has pursued low-profile relations with the provinces. But as the second year of the Liberal mandate begins, the calm will not last. Not only is there the upcoming referendum in Quebec, many of the key policy challenges now facing the Liberals depend on intergovernmental negotiation. The Liberal agenda will be a test of the Chrétien government's intergovernmental style, if not of the survivability of the federation itself.

In the past — despite the election to Parliament of two strong regional parties with opposing viewpoints — the Liberal majority has had a stabilizing influence on federal-provincial relations. The Liberals do not hold the strongly centralist positions of Pierre Trudeau and appear to have a more pragmatic approach to many issues as compared with the more ideological and constitutional agenda of their Conservative predecessors.

The Liberal government pledged itself to cooperative, pragmatic federalism and the avoidance of constitutional politics. But the intergovernmental agenda may be as daunting as the issues of constitutional reform: managing the burgeoning federal debt; making more sustainable transfers to the provinces; implementing aboriginal self-government; harmonizing the GST with provincial sales taxes; conducting a long overdue review of social programs; improving the economic union; and, in general, reaching agreement with the provinces on a more "efficient federalism."

EFFICIENT FEDERALISM

Current intergovernmental relations are responding to a broad and fundamental challenge to the very

practice of governance. Due in large part to debt-ridden public finances, governments seek to harmonize policies and rationalize programs, to bring greater efficiencies to public spending and regulation and to remove obstacles to the restructuring of the private economy. Not all governments share the same view on the urgency, scope, and nature of the reforms required to meet this agenda. But there is sufficient common ground for a broad initiative on "efficient federalism." Four significant thrusts of this agenda are the review of fiscal arrangements, the closely linked review of social programs, the internal trade negotiations and measures to reduce overlap and duplication. Let us look more closely at the first two.

There seems to be a broad consensus that the current set of fiscal arrangements are unsustainable and will self-destruct in this decade if unreformed. The system no longer delivers what it was designed for — whether the output is measured in terms of redistribution, national standards, or economic efficiency. Nor does it respond to the current demands for revised social programs and balanced federal and provincial budgets. The following problems have developed: the richer provinces, led by Ontario, have been emphatic in saying that the Liberal government needs to lift the unfair cap on Canada Assistance Program (CAP) payments; the poorer provinces were alarmed at projected cuts in equalization announced in the last days of the Conservative government; and social policy activists and provincial governments alike have been worried about the trend toward zero in federal cash infusions to health care and education. And yet,

to respond to any one of these problems is potentially to reduce the resources available to satisfy the others.

Since its election, the Liberal government has bought time to negotiate the details of fiscal arrangements with the provinces and to launch a far-reaching review of social programs. In the February 1994 budget, the Liberals froze all major transfers except equalization (which is to increase by five percent for five years), sustained the cap on CAP, and signalled that budget deficit reduction over the next three fiscal years will demand a dividend of \$2 billion from the review of social programs (a figure that could rise significantly by the 1995 budget).

The social security review is linked to fiscal arrangements, given that major aspects of social programs are currently funded by federal-provincial transfers. It seems that the federal government accepts the logic of making social policy and program delivery choices first and sorting out fiscal arrangements second. (The reverse was the case in the past five years — incremental fiscal transfer changes made for budgetary reasons drove social policy outcomes.)

The federal Minister of Human Resource Development, Lloyd Axworthy, has launched a review of all federal and federal-provincial social programs (with the notable exception of seniors' benefits and health care). On the table are such federal programs as unemployment insurance, child tax benefits, and job creation and training, and such provincial programs with major federal funding as social assistance and

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post-secondary education, among others, for a total of 26 percent of total federal program expenditures.

While the green paper, *Improving Social Security in Canada*, released last month, is short on firm proposals, it provides much fodder for intergovernmental negotiations. The list of issues to be resolved is long, and includes the regional allocation of training funds provided by unemployment insurance reform; the nature of agreements on labour force development (including the prospect of transferring to provinces the entire responsibility — with cash? — for labour training); new incentives for provincial welfare recipients to get job training; incentives for more provincial day care spaces; the reduction of payments to the provinces for post-secondary education in favour of student loans; and changes to CAP, including less money and more conditions, or both.

Compared with the relative calm on this front before the Quebec election, these issues promise to be hot — not only in the intergovernmental arena, but also among business, labour, and social advocacy interests as well. They will test the Liberals' commitment to pragmatic solutions and the suspicion in Quebec and elsewhere that a centralist agenda underlies the Liberal proposals. In the meantime, various provincial efforts to reform welfare and to proceed with pilot projects for training and related programs continue with the possibility that progress on these fronts will forestall more comprehensive reforms coming from Ottawa. The challenge will be to devise social policy and program changes and to reinvent intergovernmental transfers for their own sakes, before the federal finance minister feels obliged to slash regardless of the progress on reform.

The two other initiatives noted above have been less controversial and conflictual, and thus have shown earlier results. After months of intense effort, the first ministers signed a comprehensive agreement on internal trade on July 18, 1994, to come fully into effect on July 1, 1995. Despite the cynicism of the media about the announced agreement on the eve of the Quebec election campaign, the agreement is a significant and long overdue achievement. It is a domestic accord that recognizes that many internal trade barriers are in place for good social and cultural reasons, but that the main goal is to improve, over time, what is already a highly integrated economic union. Its enduring achievement may not be the substance of specific commitments for liberalization, but the foundation of interprovincial trade on a rules-based regime with a clear process for building more free trade in the future.

The other initiative where progress is being made is on "overlap and duplication." Governments have jumped on a bandwagon to rationalize programs and to improve citizen access and client service where more than one government is involved. Despite inconclusive evidence of the effects and extent of such duplication, governments are determined to be seen to be doing something and it is not surprising that such efforts are well advanced in Alberta and New Brunswick where broader public sector reforms are also high on the public agenda (and in Ottawa where they are tied to its broader program review). The results to date from federal-provincial negotiations are modest: the "Action Plans" for "Improving the Efficiency of the Federation" announced at the first ministers meeting in July. The then Liberal government of Quebec did not sign, probably in the knowledge that such an

agreement would have been attacked as too little. In any case, the content of the plans is not dramatic, but covers a host of service and regulatory programs in the environmental, wildlife, fisheries, agricultural, housing, justice and business development fields, among others. If the action plans are fully implemented as advertised, however, many daily interactions between governments and citizens will be improved with potential results in terms of governmental efficiency, cost effectiveness and legitimacy to the federal system.

This leads us back to the overall challenge of the Liberals' intergovernmental agenda: to show that the federal system can adapt to new circumstances and can change without constitutional reform. It is too early to tell whether sufficient progress can be demonstrated before the Quebec referendum, expected in 1995, although evidence of movement will help the federalist cause. More difficult will be the inevitable regional differences emerging from the social program review and the renegotiation of fiscal arrangements. The new Quebec government will argue that the system does not work, and at the same time resist any departure from the status quo that is not wholly in its interests. When other provincial interests are considered, Canadians can expect more intergovernmental heat in the coming months. What remains to be seen is whether the result will be more light on an efficient and legitimate federal system that will last past the current Liberal mandate.

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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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