

P o l i c y

OPTIONS

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By Deborah Coyne

Agenda for a Social Economy

The nuclear generation requires initiatives that will improve work opportunities and secure fuller social justice in a new economy

Although Canada is experiencing a period of profound and wrenching social and economic change, many segments of Canadian society remain isolated from these changes. Their unawareness is preventing the national effort needed to meet the constant challenges of the 1980s and 1990s and to strengthen the socio-economic fabric of this country.

If Canadians are to adjust successfully to our unsettled social and economic climate, and regain a sense of confidence in ourselves and in our ability to fulfil our potential, we must all be prepared to participate fully in the debate over the future shape of the Canadian society and economy or, more simply, the Canadian social economy.

This concept of the "social economy" is the key to meaningful future progress. Because we have considered social policy reform initiatives in isolation, we have failed to recognize the vital link between our social and economic objectives and policies.

The debate over social policy reform must now be placed in the context of the even wider debate over a new public philosophy more reflective of the socio-economic realities of the 1980s and 1990s. This new philosophy must define Canada's place in an interdependent world and embrace, not resist, change. It must provide a new vision of Canada to guide our efforts in the social, economic, political and moral spheres: a vision that focuses on the dignity, worth and advancement of the individual, not simply on the satisfaction of basic material needs.

At the same time, the vision must focus on achieving a better balance between the liberal, individualist em-

phasis on maximizing personal freedom and the need for greater social solidarity in an increasingly complex and bewildering post-industrial society. In other words, we must actively seek to change the "society of strangers" that has resulted from the evolution to date of our welfare state and we must take positive steps to identify what is good about modern life and promote a greater appreciation of the advantages of sharing and of the value of community spirit.

Before it is possible to establish a bold strategic agenda to reorient the Canadian social economy, we must understand the distinctive features of the new generation of Canadians. This is because it is as important to understand those who will forge and implement the agenda as it is to understand the substance of the agenda itself.

This new generation is often called the postwar baby boom generation. But this label "postwar" reveals our tendency to define ourselves negatively, in relation to the past, and in relation to what we have not experienced. It is frequently said, for example, that we are the generation that has not lived through a World War, the generation that has not lived through the Great Depression.

If this new generation is to assume responsibility for the future direction of the Canadian social economy, we must define ourselves positively, distinctively, in a forward-looking way, for it is only when we recognize and account for our collective experiences that we can overcome those elements within us that may impede our ability to be bold and imaginative. Only then can we maximize our creativity and take advantage of the exciting opportunities to reshape the social economy and achieve concrete and meaningful social and economic progress.

So, while we may not have lived through a World War or a Great Depression, we instead face daily the

effects of two parallel but distinct new challenges: first the threat of nuclear annihilation; and second, a burgeoning deficit. We did not create either of these burdens, but we must now deal with them, and understand how each affects our vision of the future.

It is appropriate, therefore, to refer to the coming of age of the nuclear generation, the first generation to grow up in the shadow of Armageddon. Whether or not we are conscious of it, this deeply affects our perception of the fragility of the human race and our acute sense of mortality. It also contributes to our difficulty in looking beyond the short term and setting a long term course for our future progress.

In a similar way, the existence of a high and rising deficit is another challenge which, like the threat of Armageddon, affects our approach to policy development. In large measure, the deficit is the legacy of the halcyon days of prolonged economic growth and rising material expectations, particularly in the 1960s. This translated into rapid increases in expenditures financed on credit. More specifically, we contented ourselves with redistributing a growing economic pie for a wide variety of well-intentioned *ad hoc* social purposes without regard to the need to sustain the economic capacity to support such a generous income security system.

Now it is all too clear that we have allowed our massive national debt to creep up on us without ensuring that, as our credit was drawn down, expenditures were made prudently and wisely for the long term benefit of all Canadians. While undoubtedly we have made tremendous advances after four decades of the welfare state, it is equally clear that our current mix of social and economic policies and programs is entirely inadequate to meet the new fiscal, economic and technological, and social and demographic, realities of the information-based society of the 1980s

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and 1990s.

These two challenges—eliminating the threat of Armageddon, and controlling the deficit and our national debt—ought not to intimidate the nuclear generation. Every new generation has its own challenges, and this generation must boldly stake out new ground, analyze the nature of the challenges and firmly overcome the intellectual paralysis that seems to have temporarily overwhelmed us.

Controlling the deficit, for example, is not simply a question of more and more cutbacks and tax increases, and of spurring economic growth and productivity. Such an approach merely breeds cynicism, resentment and indeed selfishness. Expanding the economic pie is of course critical, and we have not emphasized it enough in the past. But the more fundamental question must be asked: production and growth for what?

It is in addressing this question that the need for a strategic reorientation of the Canadian social economy becomes most apparent. The production and pursuit of wealth and power must not be permitted to become an end in itself. Nor should our policies for controlling the deficit and the national debt be dominated by, for example, the pursuit of a chimerical credit rating in the international financial markets.

Rather, we must seek out fresh new policy approaches across a whole range of interrelated areas including both fiscal and monetary policies, as well as social policies that will permit us to synthesize effectively social and economic objectives, and our attacks on poverty and unemployment. Only if we succeed in establishing such a strategic agenda will we be able to ensure consistent and coordinated progress towards greater social and economic justice, and a fairer, more equitable society.

How should we proceed towards this

our most urgent need at present
is to renew our commitment
to greater social justice.

reorientation of the social economy? It would be useful to begin with a discussion of the economic impact of social policies, and then turn to the social impact of fiscal and monetary policies. This will permit us to identify the critical components of the strategic agenda and areas for coordinated action and initiatives.

With respect to the economic impact of our social policies, our most urgent need at present is to renew our commitment to greater social justice, to the elimination of poverty and to narrowing the income gap between the affluent and the poor. Equally important is the recognition that the key to both social and economic progress, to both greater social justice and improved productivity and competitiveness, is the development of our human resources—our intellectual capital.

Accordingly, income security and the social safety net must be redefined in terms of the individual's capacity to be flexible, to adapt, to shift careers and to exercise choice according to changing needs at various stages of life. This necessitates new approaches to the redistribution and sharing of income and work, as well as the integration of measures designed to provide basic social services, and a basic minimum income, with our employment and human resource development strategies.

But before elaborating on the possible new directions for change, what has

given rise to the current malaise of the welfare state? Why has our commitment to social justice noticeably diminished?

Daily we are bombarded with reports of increasing numbers of people lined up at food banks, and the evidence of the increasing numbers of people with inadequate housing is equally tragic. It seems that somehow, in constructing our huge welfare bureaucracies and a hodgepodge of programs, and tax exemptions, we have lost our sense of direction and become isolated from those we intended to help.

We have become a society of strangers where money is transferred from the pockets of the affluent to the underprivileged via the impersonal intermediation of the state. As John Kenneth Galbraith recently commented sadly, *The affluent society has lost its sensitivity to the needs of the less privileged, and has allowed the poor to slip into voiceless anonymity.*

Recent statistics from the National Council of Welfare are particularly disturbing. Poverty has clearly been on the rise in the 1980s by whatever measurement, whether it is the Canadian Council for Social Development poverty line based on one-half of the average family income, or the Statscan poverty line based on the income level that requires a family to spend 58.5 percent or more of its income on food, shelter and clothing. (In 1984, a family of three living in a large metropolitan area required an annual income of at least \$17,365, and an individual income earner required at least \$9,839, to be above Statscan's poverty line.)

According to the National Council, 4.35 million Canadians now live below the Statscan poverty line, an increase of 874,000 in the last four years. One in five Canadian children and over one million Canadian families live in poverty.

This trend can be attributed to the marked escalation of unemployment since 1980 from 7.5 percent to the peak of 12.8 percent in December 1982, something which is further supported by the evidence of the one bright spot in

Shares of Total Income by Income Quintile
(percentage)

	Families			Unattached Individuals		
	1951	1980	1984	1951	1980	1984
Lowest quintile	6.1	6.2	5.9	2.7	4.5	4.6
2nd quintile	12.9	13.0	12.1	8.9	9.4	9.8
3rd quintile	17.4	18.4	17.8	16.1	15.5	15.1
4th quintile	22.4	24.1	24.1	25.8	25.7	24.5
Highest quintile	41.1	38.4	40.1	46.6	44.9	46.0

the Council's report: that poverty levels among the elderly poor have declined due to the public pension system and the enriched Guaranteed Income Supplement payments, and their relative insulation from income losses due to unemployment. Thus, for example, the number of unattached seniors living in poverty fell from 61.5 percent in 1980 to 50.4 percent in 1984.

Even more disturbing than the hard facts of growing poverty, however, is that this growing poverty has been accompanied by an increasing trend toward income inequality. As the chart indicates, the three lowest income groups experienced a significant decline in their share of total Canadian income between 1980 and 1984, while the highest income group was the major beneficiary.

What this evidence demonstrates all too clearly is that despite many years of economic growth, together with our much vaunted welfare state with its vast network of income transfers, we have only barely prevented the inequality of income from deteriorating. Moreover, our supposedly progressive tax system has certainly not mitigated the situation. For example, in 1983, the income of the poorest fifth of unattached individuals amounted to about 0.2 percent of the national income; government transfers (pensions, family benefits, unemployment insurance, etc.) raised this to 4.8 percent; and the tax system then increased the share to a mere 5.6 percent. By contrast, the transfer system removed only 9.2 percent of the share of national income acquired by the most affluent fifth of the population; and the tax system, only a further 3.7 percent. Even after paying income tax, families in the highest quintile receive five times the share of those in the lowest group, while upper-income, unattached Canadians enjoy eight times the share of those in the lowest income category.

The time is clearly long overdue for a comprehensive overhaul of the welfare state and the integration of the tax and transfer systems. *Ad hoc* and marginally valuable steps to ensure that more resources flow to the poorer Canadian, such as those in the federal budget of February 1986, are simply not sufficient. For even though the present government has taken steps to enrich the child tax credit and to provide a refundable credit for low-income households to offset the hike in the regressive indirect federal sales tax—measures that will allow the family of four with a \$15,000 annual

income to come out ahead under the budget—the absurdity nevertheless remains that under our tax system the same family still pays more than \$1,000 in income tax.

Most importantly, however, unless comprehensive reform is undertaken in the very near future, we face the very real possibility of intensified class tensions within Canadian society. In January 1986, the Maclean's Decima poll indicated that, as Canadian society has evolved and matured, it has begun to fragment into divisions of class based on economic status. A dissatisfied lower class has now emerged as a potential problem for Canadian society.

Poverty consequent on unemployment is only part of the explanation. The nature of employment in today's high technology, information society is the other part. More specifically, recent Economic Council of Canada research indicates that the middle layers of Canadian income distribution were eroded between 1971 and 1981, and there is evidence that new technologies may be creating a "technonobility" with the information and skills to control the new production processes, and "technopeasants" whose lives are moulded and directed by them.

This growing presence of debilitating class divisions, and the link between growing poverty and trends in both employment and unemployment, is reasonably new to Canada. As Keith Banting recently commented, our politics have typically revolved much less around class divisions, than around regional and linguistic divisions. Social integration has hitherto always meant building common bonds amongst the various territorial units, the language groups and the regions that make up the country. Banting suggests that perhaps one of the reasons that we have not divided more on the basis of class is that we developed a universal welfare state earlier in the history of our industrial maturation than did, for example, Great Britain. Furthermore, our universal social programs represent one sphere of shared experience for all Canadians across all regions, linguistic groups and so forth.

While the foregoing observations undoubtedly have some merit, the extent to which the existing mix of socio-economic policies and programs fulfils the goal of social integration is now highly questionable, especially in light of the evidence of increasing class divisions. Moreover, as Banting himself

admits, the heightened awareness of disturbing levels of poverty and unemployment has already shifted our focus from traditional concerns with horizontal equity, involving universal transfer programs such as family allowances and old age security, towards concerns with vertical equity and redistribution involving more targeted programs like the refundable child tax credit and the Guaranteed Income Supplement.

Given this new environment and new concerns, the time is ripe to address firmly such sacred cows as the universality of certain transfer payments (a misnomer at the best of times). It is time to state unequivocally and without hesitation that any system that permits the degree of poverty that we are currently witnessing, and yet continues to distribute money to those not in such straightened circumstances, is indefensible.

It is time to redefine our concept of social justice. If it means anything, social justice must mean helping those in need and improving their *relative* prospects and position.

But while striving to improve the relative position of the less privileged, we must always remember that respect for human dignity is not fulfilled simply through mechanical transfers of income to meet basic material needs and thereby to eliminate the need for degrading food banks, or through the provision of basic social services by impersonal welfare bureaucracies. Respect for human dignity involves ensuring to the greatest extent possible that everyone has an opportunity to engage in meaningful and fulfilling work. For the opportunity to work is still the primary means in our society through which individuals flourish and reach their full potential.

Thus, in our pursuit of greater social justice, we must focus on how to ensure the equitable distribution of work opportunities and how to enhance employability through better, more accessible education and training, at least as much as we concern ourselves with the traditional mechanisms for income redistribution and new approaches like a guaranteed annual income. In other words, the key to real socio-economic progress is to maximize our investment in human resource development, both quantitatively and qualitatively.

In today's fast-moving, competitive, information-based, electronic society, this goal takes on a very special meaning.

For example, increased production resulting from automation and technological change has increased our leisure time. Clearly, work cannot be viewed any longer in the 9 to 5 sense. We already require much more flexible part-time work schedules, work sharing, flexible retirement both up and down, multiple career shifts, and so forth. Hence, the need to consider a wide range of recommendations aimed at improving the quality of primary and secondary school education across Canada, eliminating illiteracy (which is at wholly unacceptable levels in this country), providing for income supplementation during training programs and more broadly for the working poor, and undertaking serious reforms to the unemployment insurance system.

Finally, we must firmly commit ourselves to full employment and reject the clinical, antiseptic acceptance of the so-called natural level of unemployment reflected, for example, in the Macdonald Commission report. At the same time, however, we must reexamine the concept of the wage economy, and analyze what is referred to as the share economy and its central concept of work sharing and the linking of employee remuneration to profits and performance, rather than to rigid wage structures. Special consideration should be given, for example, to the creation of a Share Plan Agency to encourage employers and employees to look at ways to redefine job descriptions and to restructure their work places to encourage the sharing of work, and the mixture of work and training, in an interesting, stimulating and productive manner.

It is appropriate now to turn to a brief discussion of the social impact of fiscal and monetary policies. This will illustrate the need to coordinate our policy initiatives in all areas if we are to succeed in reorienting the Canadian social economy around such objectives as greater social justice, eliminating poverty and unemployment, and narrowing the income gap.

The interface between social policy and fiscal/monetary policy too often involves simply a sterile debate over the quantum of spending in the social development expenditure envelope, and whether or not we should cut back social spending as part of a deficit reduction strategy. This is a totally inadequate approach, ignoring as it does the many social implications of spending outside the social development envelope, and perpetuating the artificial division

New accountancy approaches would permit a much more meaningful discussion of the concept of a balanced budget

between social and economic matters.

Certainly the over \$50 billion that the federal government currently spends on our income and social security system is substantial. As the Macdonald Commission noted, however, this spending is by no means excessive in relation to other industrialized countries, and there is every indication that we have sufficient economic capacity to support it.

It is far more important to examine the broader social implications of our fiscal and monetary policies in general, and how we might improve the synthesis of our social and economic objectives. To begin with, it is critical to recognize the inequitable impact that the financing of the national debt has on individual Canadians and the socio-economic fabric.

More specifically, to the extent that the government must borrow to finance the deficit from persons and institutions that have money to lend, notably higher income Canadians who support the vast pools of pension funds and retirement savings, these lenders benefit from the high real interest rates to which this borrowing contributes. But the majority of less affluent Canadians, who have no such money to lend, derive no such benefit. Indeed, they contribute disproportionately to the interest payments on the debt insofar as the government makes use of revenues derived from indirect taxes, such as the sales tax, which poorer Canadians cannot escape.

Second, it is important to note that the increase in the government sector deficit (excluding considerations of the current account balance) has its counterpart in the equivalent increase in the private sector's net holding of financial assets, that is, the excess of total savings in all forms, including depreciation allowances and corporate savings, over total investment.

As Clarence Barber noted in a February 1986 article, the private sector has saved more than \$100 billion over the past four years in excess of the amount invested. He suggests that this has been a

massive drain on the prosperity of the economy, and has been most responsible for the high level of unemployment and the large size of the government deficit. Any serious plan to reduce the size of the government deficit can only be successful, therefore, if it is accompanied by an equal reduction in the private sector's surplus; otherwise, deficit reduction will lead to lower income and increases in unemployment, and simply exacerbate the pressures on the welfare system.

Thus, as our business leaders forcefully argue for deficit reduction as a precondition to improved economic performance and applaud the 1986 federal budget, we must equally forcefully inquire of them whether in fact they can justify the investment assumptions on which the recent budget projections for real capital formation and job creation were based.

Third, we must analyze public expenditures in a much more discriminating way so as to recognize that many of the services provided by governments are indispensable to society, and indeed to the private sector, and contribute to society's productivity for many years.

For example, it has been suggested that we need to develop a capital budget for the public sector that will account for capital expenditures such as long-term investments in public health and education, pollution controls and community infrastructure. At present, our outdated system of public accounts operates on a cash-flow basis and treats such expenditures effectively as current expenses. New accountancy approaches would permit a much more meaningful discussion of the concept of a balanced budget, and of which expenditures contribute to economic growth and productivity, greater social justice and so forth.

Finally, we must question the equity of our ensemble of fiscal policies as reflected in incoherent, incomprehensible investment and tax incentives, and flashy initiatives such as the \$500,000

lifetime capital gains exemption. We must equally examine the value of our so-called monetarist, high interest rate approach to controlling inflation and other economic ills. Taken together, our fiscal and monetary policies appear clearly to have rewarded savers and investors for their financial acumen, not their ability to create real capital goods (Ralph Winter, *Policy Options*, November 1985). And this has led to a serious shortage of basic entrepreneurial skills, which add up to the ability to innovate, organize and manage productive inputs.

Moreover, high interest rates have both seriously distorted the distribution of national income in favour of so-called paper entrepreneurs, as well as significantly increased the share of unproductive interest income in Gross National Product, at the expense of the business profits that fuel those valuable entrepreneurs who employ people, take risk, and produce goods and services. Indeed, as Nate Laurie has recently estimated, between 1974 and 1984, interest income grew at twice the annual rate of corporate profits; and after three years of recovery, interest income amounts to 7.4 percent of GNP while corporate profits stand only at 8.8 percent, down from 13 percent in 1979.

This discussion of the challenges and a possible new strategic agenda for a new generation of Canadians is certainly far ranging and perhaps at first glance somewhat daunting. But it is intended to emphasize the wholly new parameters within which policies must be formulated and the complex interrelationship between social and economic goals, policies and programs. It has highlighted the need to establish clearly a vision of the type of social economy toward which we should focus our efforts, and that will guide us consistently in all spheres of action: a vision that persuades all Canadians of the moral and not merely material stake in greater social and economic justice, in eliminating poverty, in narrowing the income gap and improving the relative prospects of poorer Canadians.

Some will argue, of course, that by comparison to the bygone days of the 1960s, when we were putting in place completely new pension schemes and income security measures, today's policy environment does not seem promising. In reality, however, the potential for new policy directions is constrained only by the limits of our ingenuity and imagination:

There are innumerable interesting and exciting ways in which we can reshape our socio-economic destiny, whether in the context of the current renegotiations of the federal-provincial Established Programs Financing arrangements for health and education, amendments to the Canada Assistance Plan, a review of the system of equalization payments, a major tax-reform initiative, a restructuring of the federal government to create, for example, a Department of Employment and Human Resource Development, and so forth.

We need only be convinced that a guaranteed annual income, or Share Plan Agency, or any other particular policy will help us advance social and economic justice and create a more compassionate society. Implementation will then require simply a strong dose of determination, particularly in the face of the vested interests who will resist changes to the *status quo*, together with an assessment of the practical steps necessary to achieve the objective.

But this requires the foresight and initiative to examine the future of the Canadian social economy in a long term perspective. All Canadians, but particularly the nuclear generation that is emerging as the new custodian of Canada's future destiny, must immediately begin the long process of building a solid social and political consensus around our key social and economic objectives. Only in this way will we be able to pursue successfully the much needed reforms in all the important public policy areas. Nothing less than the future course of social and economic progress in Canada is at stake. ■

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BOOK REVIEW

Act of God?

By John de la Mothe

P.M.S. Blackett wrote that *once a nation bases its security on an absolute weapon, such as the atomic bomb, it becomes psychologically necessary to believe in an absolute enemy*. However, between the raising of the nuclear sword of Damocles in 1945 and the election of Ronald Reagan in 1980, the idea of an "absolute enemy" has been successfully resisted.

A central principle underlying this success has been the concept of deterrence which trades off mutually assured destruction (MAD) against verifiable military balance. Thus the essential instability of deterrence has been directly affected by the interaction between politics and technology. But whereas this continual tension and mortal fear of

disequilibrium have promoted the development of negotiative policies and accords between the superpowers, the more recent past strongly suggests that the Reagan administration has actively embarked upon a policy of aggressive destabilization.

Under Reagan, the "unthinkable" has not only become "thinkable" but the deliberate delusion of winning a limited or protracted nuclear war has become firmly installed as official policy. The distinction between conventional and nuclear war has become blurred into a continuum. *To the possibility of nuclear war being initiated by madness, miscalculation, malice or accident one can now add the possibility of nuclear war being precipitated by a belief in victory that is sanctioned by religion. Policy has become the conversion of mythology into nuclear means.*

Supporting this conversion has been

**Reagan, God and the Bomb*. F.H. Knelman, McClelland & Stewart, Toronto, 1985. 304 pages. \$22.95.