



Social Policy 2000: An Agenda

by

Tom Kent

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About the author

Tom Kent is one of the chief architects of postwar Canadian social policy. He played a key role in shaping the policies of the Liberal party during its 1957-63 opposition years and, as Policy Secretary to the Prime Minister and a Deputy Minister, was equally active in the implementation of those policies – including medicare – by the Pearson government.

Mr. Kent was born in Stafford, England and graduated from Oxford University. He began his multi-career life in British military intelligence during World War Two, as a code-breaker on 'the ultra secret.' After the war he went into journalism, working on the editorial staff of the *Manchester Guardian* and as Assistant Editor of *The Economist* before coming to Canada to serve as Editor of the *Winnipeg Free Press*. Following his years in Ottawa as chief policy advisor to the Prime Minister and senior public servant, he ran Devco and Sydney Steel, headed a royal commission on the press and served as a dean at Dalhousie University. Since his retirement, he has been an adjunct professor of public administration at Dalhousie and fellow-in-residence at the Institute for Research on Public Policy, and is now associated with the School of Policy Studies at Queen's University. Mr. Kent has written several books and articles on political and economic subjects, including *Medicare: How to Keep and Improve It, Especially for Children* published by the Caledon Institute of Social Policy in December 1997. He was named an Officer in the Order of Canada in 1979.

Action summary

This paper attempts to propose an agenda of improvements in nationwide social programs that could be put in place during a term of progressive federal government. The reforms would embody a national purpose: to make the opportunities open to all Canadians more equal. The results would be both a fairer society and an economy more efficient in the development and employment of the skills of Canadians.

The principal measures proposed are:

- a national investment in the development of our prime resource, our children; this would be intended as a cooperative federal-provincial undertaking, but designed so that it could operate nationwide even if a province chose not to opt into the program
- for this purpose, replace the present child care expense deduction by a refundable tax credit, on a sliding scale related to income, to a maximum of \$7,000 a year per child
- with this significant scale of financing, the federal government would negotiate with the provinces for the operation of child centres providing early childhood care and development, accessible for all children irrespective of parental income
- even if a province chose not to opt into the program, the refundable tax credit still would be paid to parents of children, so that they could pay the fees for developmental care of the same high quality
- to combat child poverty, increase the federal Canada Child Tax Benefit to a maximum \$4,000 a year, initially for preschool children and in later stages for all
- a new form of joint federal-provincial financing of medicare, assuring the provinces of permanent reimbursement from the federal government of 25 percent of the costs of their medicare programs
- in conjunction with the new financial partnership, establishment of a publicly operated national information system for health and of a federal-provincial joint process to improve the operation of health services
- scrapping of the Canada Health and Social Transfer (CHST). Of its \$12.5 billion a year, \$7.5 billion to be incorporated in the new medicare financing; the remaining \$5 billion to be transferred to other programs
- reduction in personal income taxation by increasing the basic personal credit and the tax brackets in order to benefit all taxpayers while providing proportionately large relief to those with low and lower-middle incomes
- taxation of capital gains and inheritances at the same rates as earnings, initially using the proceeds chiefly for quick reduction of debt and subsequently to increase revenues available to finance public services
- establishment of a revolving fund to finance interest-bearing loans to able postsecondary students, the loans to be repayable at rates scaled to subsequent income
- substantially increased federal funding of research, particularly in universities
- employment-oriented economic policies, including consistently low interest rates, to be maintained despite any fluctuations that international money markets may impose on the exchange rate of the Canadian dollar.

Since attention is heavily concentrated on tax and spending changes in the next federal budget, it must be emphasized that this is a multi-year agenda for progressive government. Restoring medicare is the first priority. The major program for early childhood development is an investment that we cannot afford not to make, but its timing can be adjusted in line with the revenue increases arising from moder-

ately good economic growth. In conjunction with the proposed fairer base for taxation and reduced interest charges (thanks to debt reduction and low interest rates), there will be room for other important reforms during the government's term.

I suggest that it is possible to marshal a clear public will for a national program of this kind, a will strong enough to overcome the main obstacle – the disarray of our politics – that has to be recognized in the paper.

At the beginning

Canada is no longer, as it was described some decades ago, the unknown country. It still is, and would be even if there were little separatist sentiment in Quebec, an awkward country. We do not have the long habits and traditions, the cultural identity, of older states. We have too much geography for our numbers, too great regional differences, too much diversity of origin, to come easily together. We divide our government between Ottawa and provinces greatly different in size, resources and nature. We ponder about our identity, made less distinct by the enormous influence of our southern neighbour. We find our nationhood only in the relatively few things we do together; we become most conscious of it in intermittent national projects as diverse as the railway, wars, medicare.

It is the mark of our contemporary confusion that, perplexed by constitutional wrangles, we have not undertaken a significant new national project since medicare 30 years ago. And medicare is faltering.

The underlying theme of this paper is the need for a new project to which we can agree to rally, an agenda for the turn of the millennium that will embody a strengthened purpose and enhanced confidence in Canada.

It may be argued that this proposed national project is premature, even dangerous, when we cannot be sure that Canada as we know it will continue: Quebec may leave. There could hardly be a weaker

excuse for inertia. To suspend national policy until Quebec makes a decision would be to invite Quebec to leave; it would play to one of the separatists' strongest arguments – that federal Canada works badly for everyone. It would also leave the rest of the country ill prepared to hold together if Quebec went.

The delicacy of Quebec's position in Canada does, however, underline what is in any case an essential condition for a national agenda. Unless programs are in exclusive federal jurisdiction – and, war apart, those are not numerous – they must be, as medicare was, programs in which the federal government can exercise effective leadership by methods that do not invade provincial jurisdiction and do gain the cooperation of the provinces. This does not mean that Ottawa has to be deterred when provinces grumble. In the larger provinces, particularly, there is always some political and bureaucratic resentment of the feds. Provincial governments of a political stripe different from Ottawa's will always probe for faults in federal plans. Such jousting is part of the ritual of the federal-provincial relationship. Cooperative federalism does not require an 'all pals together' pretence by politicians who inevitably are in some respects competitors. It does require the substance of cooperation in action.

There is a second necessary condition for a national agenda. Its purposes must fit with basic values shared by most Canadians, with a predominant concept of what society should be. Such concepts are, of course, diverse. But on one point at least almost everyone can agree: The good society is a society in which all citizens start with opportunities for a good life.

In America north of the Rio Grande, the era of settlement created a sense of opportunities so manifold as to be almost universally accessible with will and work. 'Equality of opportunity' gained some credibility as a political slogan, provided that black people and aboriginal people were kept out of mind. Its relation to any possible reality is also subject to more general limitations. There cannot be equality of outcomes, of income and wealth, of knowledge and power. And inequality of outcomes is inevita-

bly transmitted as inequality of opportunity. The children of the well-to-do start with advantages denied to the children of poorer families. In Orwell's biting phrase, "some are more equal than others."

Nevertheless, the time-honoured slogan has a resonance that makes it useful shorthand for a national objective. Public policies have done a good deal to lessen the disparities of opportunity. They can and should do much more. They cannot level the playing field but they can make it less uneven. While equality of opportunity can be only approximated, almost everyone will say that it is the right direction for our society, and most people mean it.

This paper therefore starts from the assumption that the overarching purpose of the national agenda Canadians will support is to improve the opportunities for a good life of those who are now at a disadvantage.

Identifying the broad purpose is the easy part. The difficulties are in method, in perceiving the priorities and developing the practical programs that can best move us along the path to a more equitable and equable society.

Retrospect and change

This is, for me, a repeated task, though the previous time was in very different circumstances that provided higher expectations of effectiveness. In 1960 L.B. Pearson, then leader of the Liberal party in opposition, proposed the Kingston conference, a gathering of "liberally-minded thinkers" not restricted to formal adherents of the party. Though known as a critic of the former Liberal government, I was invited to contribute a major paper to the conference. Its title, *Towards a Philosophy of Social Security*, was incomplete. The paper went on to draw from the philosophy the outline of an agenda for eight years of progressive government.

Consequently, as concern for social security took hold in the Liberal party of the 1960s, I became deeply involved in the planning and implementation

of the programs of the 1963-68 Pearson government. It is fair to say that Canadian society was then transformed, particularly for people with low and middle incomes, to a degree that has not distinguished any other five years.

Nostalgia is not, however, constructive. There are only two reasons for recalling the past. The obvious one is to draw such lessons from experience as are still relevant in greatly changed times. The other, more important, is that present problems are blurred if we see them only as they have recently evolved; our view may be clearer if we can look at the present in sharper contrast with other times.

If so, we will see this as the time of uncertainty. Though the threat of nuclear war hung over the postwar world, otherwise most Canadians had come by the 1960s to an unprecedented sense of both security and opportunity, a remarkable confidence that the future would bring continuing improvement. This happy state faded in the 1980s. Many more people are now worried about their jobs and their incomes, about their homes and their safety, about their futures and, even more, the futures of their children.

In a confident society, concern for the public good runs strong. With uncertainty comes fractiousness. People are more defensive of their interests; groups that are strong enough become more aggressive in asserting their rights, more vociferous in claiming entitlements. A.E. Housman wrote of people too unhappy to be kind; he might equally, if less poetically, have said people too worried for themselves to be much concerned for the public interest.

This psychology of uncertainty is important because it has been epitomized in the increased acceptance of neoconservative ideology. The reason is not that Canadians generally have turned against their country's history, have rejected the role of government that had become so large in our society. It is rather that the public interest gets less attention because people do not feel government is effective in lessening the uncertainties to which they are exposed. Indeed many politicians, under the

influence of neoconservatism and anxious to avoid blame for themselves, take the lead in telling us that markets rule and there is little they can do.

This does not have to be. For 20 years, however, Canadian social policy has been marked by more retreats than advances. The reason for the decline is not the reason articulated by bankers and corporate executives, by conservative think tanks and other pundits, and endlessly repeated in the media. Their familiar proclamation is that, in an increasingly competitive, globalized economy, the nation cannot afford the social benefits it thought it could. We can be sure that few of the people who say this are themselves less well off than their peers of a generation earlier. The nation as a whole is better off.

It is true that the world is now a less kindly place for the Canadian economy than it was in the postwar period. It is also true that for more than 20 years we have failed, and are still failing, to operate the economy to its potential. Nevertheless, our national income per person, in real terms after allowing for inflation, is more than double what it was at the beginning of the 1960s. The reason why our social policy is in disarray is not that we are poorer than we were.

What is true, of course, is that the finances of government are more straitened. But that was not forced upon us. It is the outcome of a generation of poor government, and a new generation can overcome it. To do so, however, we must be clear about what is cause and what is effect. It is not in the stars, not because of forces beyond our control, that we have faltered in national purpose, that our pursuit of the public interest has flagged. It is in ourselves, in the atrophy of our national politics.

How to live with government by improvisation

In the 1960s, as on various other occasions in Canadian history, a national purpose could be pursued, a social agenda could be developed and implemented, within the party political process. It cannot be today. The condition of our politics yields only government by improvisation. The challenge today

is to find the practicable way to fulfil a national purpose despite such politics.

In order to suggest how this could be done, it is necessary in this paper first to assess some aspects of the political condition.

Political parties should be the central agents of democratic government by representation, by the election of a Parliament. They are the voluntary associations of people actively interested in public affairs. Motives for the involvement are, of course, mixed. Some are habitual, some trivial; more are self-seeking. At the core, however, are people with strong concern for the shaping of public action in the public interest as they see it. They come to their parties from viewpoints of the right, the left and the middle. They prepare the ground for the electorate's choice among alternative ways to deal with current issues.

This is the main process by which public purpose can be injected into what is otherwise politics as a contest for personal power. It is a process that at present is not working. The core of policy activists has withered. Both of the national parties that have ever formed governments, Liberal and Conservative, have become hollow. Party stalwarts are a diminishing band. People with active public interests have turned from party politics. They find more congenial outlets for their energies in the burgeoning organizations devoted to the pursuit of particular causes, as broad as the environment or women's issues, as specific as the remedy of injustices to individuals and small groups. It is realistic to think that, for most public purposes, lobbying from outside is now more effective than work within a political party.

Nationally, the parties have become little more than advertising machines, competing for public support by much the same techniques of imagery as businesses with almost identical products use to compete for market share of detergents or banking services or whatever. The parties' political positions are shaped less by the views of their membership than by the devices of their professionals: the pollsters, public relations experts, image makers, advertising experts, spin doctors and – since the techniques

are expensive – the fundraisers. Such people are the mechanics of political power. A vicious circle comes into operation. People of purpose find the party becoming uncongenial. The dominance of the mechanics increases. More members lose interest. The party as an agency of public purpose is increasingly hollowed out.

The consequence is that when a party comes to Parliament its members have no definite set of ideas on current issues, generated in discussion and pointing to policies around which they have coalesced. If the party forms the government, its cabinet ministers are unrooted in any public purpose for which they can be held accountable within the party and by the country. They may have waved their Red Books and the like, but those consist of little more than generalities that can be interpreted, or set aside, to fit whatever the cabinet subsequently decides to do. We have government not by democratic mandate but by improvisation.

Mr. Trudeau set the pattern. Elected leader without experience within his party, he had scant respect for its troops. Besides charisma, he offered only the vague promise of a just society. When challenged at the next election as to why he had not delivered on that promise, his response was to tell the heckler to ask Jesus Christ: “He promised it before I did.” Mr. Trudeau’s most definite election campaigning, in 1974, was devoted to excoriating his opponent’s proposal for price and income controls – and soon after its reelection, his government imposed such controls.

In opposition Mr. Mulroney, hewing to his party’s traditional view, would have nothing to do with continental free trade – and soon put it front and centre in his government’s policy, along with cuts to the social programs that he had declared to be a sacred trust. Mr. Chrétien in opposition was against, among other things, NAFTA, the GST, Tory cuts – and in office has maintained the first two and intensified the cuts.

There can be no surprise that people of goodwill have increasingly turned in contempt from party politics. Single-issue organizations have grown cor-

respondingly in numbers and strength. Those that show best in the public opinion polls may now get occasional results from their lobbying. But that is far from a return to purposeful government. On the contrary, improvisation has been elevated to a philosophy: Don’t be seduced by any grand design; don’t anticipate problems, however obvious their approach; when one can’t be delayed any longer, deal with it by itself; and keep telling everyone to be happy, grateful to be in the best country in the world. A different personality might modify the style, but the practices of improvisation are now deeply embedded in parties and politicians. They will not be easily changed.

Politics is a difficult and uncertain trade. It is entirely understandable that its practitioners prefer to give no more hostages to fortune than they must; to make their policy declarations as loose as is compatible with getting elected; in office to avoid decisions for which they will be criticized, either widely by the public or particularly by the corporate executives on whom they are so dependent for party financing. All this is understandable. It is not democracy.

The function of the political system is to assert the popular will in the shaping of public policy. To do so, it has to discipline the politicians into greater precision than most of them like, into saying more clearly what they will do if elected and into doing it if they are. The parties are not now vigorous enough to require any such commitment of their leaders.

The interest groups to which energy has been transferred are important institutions in a pluralist democracy. The need for them, in an increasingly complex society the need for an increasing variety of them, is unquestionable. They are not, however, substitutes for effective political parties. That is not their purpose. The business of each group is to press its particular cause, in competition with others. It is not the resolution of conflicting interests, the choosing among claims for public action, the development of programs to implement those choices, the building of agreement on the programs. Those are the distinctive functions of politics. The decay of politics has created a democratic deficit in their fulfilment.

To close the deficit requires a new kind of social activism.

The inertia, short sight, neoconservatism of politics will not stand against a clear public will. What clear will requires has, however, changed. The responsibility of social activists has increased. It is no longer enough for them to formulate and popularize objectives. The political process will not take over from there, as it did in the 1960s. Those who want reform must themselves take the further step, sorting out priorities and formulating programs. They cannot stop at objectives. They need to formulate means as well as ends. And, for national social programs, the means require new techniques of cooperative federalism, new mechanisms of public action.

The process is underway through the work of some of the so-called think tanks, Caledon notably. It needs to go beyond the development of particular programs, to illuminate the priorities that can be embedded in a realistic, multi-year agenda. The dominant public wish is undoubtedly for purposeful national government. There is a policy vacuum waiting to be filled. The question is whether reformers can muster enough coherence of objectives and practicability of methods.

This paper attempts to suggest how the opportunity might be taken. It offers ideas that could, I hope, help to lessen confusion about priorities. It proposes, for the priority reforms, programs that, I believe, fit the politics and economics of the present times.

The medicare partnership

There is no doubt what social concern today comes first in the minds of Canadians. It is to preserve and improve our faltering system of health care.

For some years, most people blamed their provincial governments for cuts to health services. Of late, however, there has been growing public awareness of the extent to which reduced federal

funding has undermined medicare. The political pressure is now on Ottawa. If it has more revenue, the federal government's first priority will almost certainly be to put money back into medicare.

But how can that be done, when the mechanism there was has been dismantled?

An answer was suggested in my earlier Caledon paper, *Medicare: How to Keep and Improve It, Especially for Children*, published in December 1997. At that time, the Prime Minister was still saying that "we" spend enough on health. The case for more federal funding had to be argued. Ottawa has since been shaken by public opinion. In the changed climate, discussion of how, not whether, can be updated; the proposed answer can be improved.

The federal government has regulatory responsibilities related to health; it can finance research; it can provide health services in areas – the territories, Indian reserves, military bases – outside provincial jurisdiction. That is all. We cannot have, constitutionally, a national health service. We have ten provincial medicare programs that are based on common principles and are therefore consistent enough to provide the same kind of service to all Canadians.

We have that national standard because Ottawa put the principles of medicare into federal legislation and induced the provinces to establish programs based on those principles. The inducement was the federal government's undertaking to reimburse the provinces for half of the costs they incurred in providing such programs.

The problem with cost-sharing is now well known. In the 1960s, it was used not only for medicare but also for the financing of postsecondary education and of social services and welfare. For a decade it worked well. But cost-sharing depended on federal politicians dedicated to national social policy, dedicated enough to take revenue from taxes they imposed and hand it over to provincial politicians to spend on services they deliver to the electorate.

The dedication did not last. In its Established Programs Financing (EPF) legislation of 1977, the Trudeau government abandoned 50 percent sharing of costs for medicare and postsecondary financing. Federal taxation was largely replaced by provincial taxation (the so-called 'tax points' that Ottawa ceded to the provinces), supplemented by block funding, according to a formula not tied to the provinces' actual expenditures and designed so that the transfer would gradually diminish. In practice, the diminution was accelerated by a series of belt-tightening changes. The Mulroney government extended the retreat from federal commitments. Its 'cap on CAP' limited federal cost-sharing in the third major area, welfare and social services, for Ontario, Alberta and British Columbia.

In 1995, the Chrétien government brought this process to its logical conclusion when it announced that EPF and CAP would be replaced the following year by a single block transfer, the Canada Health and Social Transfer (CHST). There is now no sharing of program costs. The CHST is not only much smaller. It is different in nature. The transfer is not related to the provinces' costs. It is fixed unilaterally by the federal government. It can be varied as the Minister of Finance chooses. It smells of expediency, an improvisation to be abandoned as soon as politics permit.

The other side of the coin is that the CHST cannot be used to increase medicare funding. The virtue claimed for it is that it is an unconditional grant-in-aid; the provinces can spend it however they choose. In the present public mood, the provinces must say that any increase would be devoted to extra medicare spending. But there would be no way to know whether the resources they put into medicare were in fact greater than they would have been anyway. Indeed, the provinces would be wise to be cautious, since they cannot be confident that an increase in the CHST would survive a change in political circumstances.

If the federal government cannot do better than increase the CHST, everyone will recognize that it is incapable of constructive action for the future of

medicare, that it is merely improvising another expedient in the hope of dampening current criticism.

An alternative that has some support in Ottawa is to put new federal money not into the CHST pool but into a special fund allocated to home care or drugs for sufferers from hepatitis C or some other hot spot of present discontent. The provinces rightly object that such allocation is an invasion of their responsibility to operate medicare as they think best for their people; it would distort the delivery of health services instead of helping to maximize their effectiveness; and, like much else improvised in Ottawa, its continuation would be in doubt.

If the will of most Canadians is to be respected, if nationally consistent health care is to be maintained and improved, politicians will have to stop trying to evade the reality imposed by the nature of medicare. It is not, as it is now seen in Ottawa, a matter of the federal government legislating the principles, making its interpretations of how they should be applied, and compelling the provinces to conform by threatening that otherwise it will withdraw some of such money as it chooses to transfer to them.

That is not how medicare began and not how it can continue. The implementation of its principles, providing comprehensive, universal health care, is necessarily very expensive, a dominant component in the budgets of even the wealthiest provinces. Consistent implementation in ten provincial programs requires a genuine partnership; it requires the federal government to be right in there, sharing the costs. That financial principle is just as central to medicare as the health principles. Its abrogation has removed the foundation on which medicare was established.

The resulting shakiness of the building, now so apparent, is bound to get worse. By its nature, precisely because of its virtues, there is a rising trend in some of medicare's costs. With good health services, people live longer; and as they age, they require more care. This trend is accentuated by scientific advances, increasing the range and sophistication of medical treatments. While some are more cost-effective than older treatments, many are expensive

improvements. Provinces with greatly varied finances will cope consistently with these trends only if they are assured of a partnership through which a reliable share of costs is nationally contributed.

Federal politicians cannot all be blind to this. Some must see that, if they persist in their present stance, their claim to be the defenders of medicare is empty rhetoric. Medicare has already been seriously eroded. It is too popular to collapse suddenly. But it can be further eroded, in ways and to degrees varying with provincial finances and ideologies. If Ottawa fails to increase its contribution, nationwide consistency will fade. By one device and another, there will be richer care for the rich and less adequate care for the rest. The underlying, fundamental principle – care according to need – will be lost to the character of Canadianism.

This is the disaster waiting to happen. It can be averted, by a return to partnership. That does not mean a return to cost-sharing as it was before 1977. In the following section, I shall propose a different relationship and contribution ratio. Much has changed since the 1960s. In particular, the roles of provincial governments have grown, and so – thanks in part to the EPF transfer of 1977 – has their proportion of total taxation in Canada. No one could now expect to return to federal taxes for 50 percent of medicare costs. A sufficiently significant contribution would now be 25 percent, which would require \$5 billion a year of new federal money. In our economy of \$900 billion a year, there are many \$5 billions being used to less good purpose.

Controlled sharing

The obstacles to saving medicare are not economic. They are political and bureaucratic. The present generation of politicians does not like cost-sharing. Finance officials have always hated it. It lessens their control. What provincial governments decide to spend on cost-shared programs determines how many dollars Ottawa has to find for them under the sharing formula.

This was, indeed, a serious consideration when three open-ended programs were shared 50 percent. But what is now at issue is sharing of one program only: the largest program, it is true, but only as to 25 percent. The uncertainty that will create for the federal Finance department is minuscule beside all the factors that so often result in actual revenues and expenditures greatly different from the department's budgeted predictions and plans. Officials as well as politicians would be serving the nation badly indeed if old attitudes, born in different times, were to be inflexibly applied to a new proposition.

It is not, however, they alone who need to take a fresh look. Those of us who were involved in the establishment of medicare should recognize, in the light of experience, that we made a serious omission. There should have been an additional principle, one that would give the federal government a role in the monitoring of health care. Desire for something of this kind has lately been floated in Ottawa, in talk about 'report cards.'

A developed proposal would have two parts. The first would be to establish a detailed national information system for health. The main purpose is to relate cause and effect, to provide empirical evidence as to what procedures are most appropriate for which health problems, to assess the cost-effectiveness of alternative treatments. There are, of course, many research projects that bear on particular questions of this kind. But there is no database for broad, regular, systematic assessments of medical practice. Present information collection is a by-product of record keeping directed to establishing physicians' claims for payment on the fee-for-service basis. It tells little about what benefit has accrued to the patient. Evidence of results could be applied to achieve efficiencies and to make major improvements in the quality of health care.

The transition from private to public health care could not have been made without maintaining fee-for-service as the principal method of remuneration. While fee-for-service is not easy to improve on, some of its effects in a public system are perverse. Some doctors are very busy. A few are overly

concerned to make their practice, and hence its profitability, as large as possible. These and other factors inevitably produce some tendency to follow habitual procedures without close diagnosis of the particular case. Those are, indeed, the procedures that most patients are happiest to accept, even in some cases to demand. No one knows the extent of the resulting waste, but undoubtedly some of the treatment administered is of dubious value, some of no value at all, a little even harmful.

Provincial administrators struggle to lessen this and various other problems in the delivery of health care. They have the support of large segments of the health professions but it is often rather silent support, not strong enough to counter the resistance from established interests fortified by appeal to professional autonomy. Comprehensive information is crucial to effective sophistication of the standards of best practice in many areas of medicine. It would greatly strengthen the hands of reforming administrators. The federal government can help them by attaching a condition to its improved financing.

The condition would be that the provinces cooperate in the creation of a publicly operated information system. It should be organized at the local, provincial and national levels, providing the information relevant to each level. The provinces have everything to gain from it, provided they obtain the cooperation of the health professions. That will be easiest if the information system is formally incorporated as a sixth principle in the Canada Health Act.

The way would then be opened for a second reform that would give the federal government a hand in, and considerably strengthen, further measures to improve the cost-effectiveness of health care. Ottawa should propose the creation of a joint committee, federal-provincial in structure, to review and oversee the operation of medicare.

Hitherto, the federal government has always insisted that it alone is the interpreter of how the principles of medicare, as set out in the Canada Health Act, are to be applied in practice. The provinces, of

course, object. They demand a joint process. On the surface, it is a reasonable demand from the people who provide the service and raise most of the taxes for it. But Ottawa has always rejected it. At present, there is no choice. With its financial contribution in the insecure form of the CHST, and small at that, Ottawa's weight in a joint process would be negligible. Ontario and Alberta would run the show, possibly with some collaboration from Quebec. The outcome would be a dilution of medicare.

With a return to financial partnership, however, the balance of power would be very different. Ottawa could maintain the medicare principles without being afraid to join in consideration of the many practical issues that have gone unresolved. Exactly what are the services necessary for health that should be covered consistently in provincial programs? How can provinces collaborate more effectively, with each other and with the federal government, in the use of scarce resources, in dealings with pharmaceutical companies, in the prompt adoption of better and more efficient techniques? The tragedy of the blood supply has demonstrated clearly enough the costs of confusion. The hepatitis C imbroglio has shown how much better it would be to have regular consultations rather than ad hoc confrontations.

Perhaps most important of all, collaboration could make it significantly easier for provinces to undertake pilot projects directed to more efficient ways of delivering health care; of adjusting the roles of physicians and paramedical personnel; of remunerating all personnel; and of staffing and administering hospitals. In such matters as these, provinces individually have made little progress against established interests and attitudes. It is the kind of situation where a mingling of responsibility, through joint process, can be turned to advantage. A federal-provincial authority monitoring medicare could well serve as an empowerment for provincial administrators to act more decisively for the effectiveness and efficiency of medicare. The beneficiaries would not be, in addition to the public, provincial governments alone; the federal government would gain an active role in ensuring that the dollars it contributes to medicare are effectively used.

The establishment of such an agency would not be easy. It would make explicit issues of jurisdiction that are often fudged. No federal government could cede to the provinces a decision-making role in relation to the medicare principles established in the federal legislation of the Canada Health Act. But how the principles are applied in detail, in changing circumstances, is very much the provinces' business. There is no reason for Ottawa to shrink from a process that, while consultative not executive in form, could result in effectively joint decisions for the improvement of medicare.

Visibility and reliability for medicare

Such optimism is dependent, however, on the form of the new financial partnership. To be acceptable, it must satisfy two conditions that the old cost-sharing did not. For federal politicians, the new financial arrangement has to remain visible, so that they get continuing political credit for their money. For provincial politicians, it has to be reliable; they do not want to be let down again, to establish programs with the promise of federal funding that is later withdrawn.

Legal certainty, guaranteeing to the provinces that a federal contribution to medicare will in future be proof against downloading of financial difficulties, would require entrenchment in the constitution. Otherwise, a sovereign Parliament can always undo what it has done. Constitutional amendment, however, is not at present in the cards. It would not in any event be satisfactory to federal politicians. If providing funds for medicare were a constitutional requirement that they had to fulfil, they would not get any political credit for it.

Since the new financial partnership for medicare cannot be legally guaranteed, we have to find a political way to ensure that it is visible and reliable. It needs to be in such a form that its withdrawal would bring too much political discredit for any government to incur. I have previously suggested that a way to do this is to identify the federal share of costs with some of the beneficiaries of health care – specifically, with children.

The financial dealings between governments are an arcane subject. A sharing arrangement that appears as simply an outcome of their bargaining scores low in both visibility and reliability. As we have learned, understandings can be broken, undertakings set aside, with little public discredit, at least in the short run. It develops, if at all, only as consequences accumulate over the years; and about those, politicians struggling with the troubles of the day rarely have much time to worry.

A federal commitment identified with the health of the nation's children would be very different. It would have the continuing visibility, the return in political credit, that federal politicians want. By the same token, the provinces could be confident that the arrangement would hold. Ottawa can get away with breaking promises to the provinces, but not with letting down young Canadians.

In my 1997 Caledon paper, I thought it tactful to leave the CHST – Mr. Martin's recent creation – undisturbed for the time being. The proposal was to provide in addition a new fixed-ratio contribution based on the proportion of medicare costs at present attributable to children up to the age of 10, which is about 14 percent. In combination with the CHST, the total federal contribution would be equivalent to about 30 percent of the provinces' costs.

In the changed mood this year, a two-step approach no longer seems necessary. It should be practicable to scrap the CHST and move straight to a new partnership embodying a fixed ratio of costs.

Children in the legal sense, to the age of 18, are at present close to 25 percent of Canadians. There is no virtue in being too precise, since the age distribution of the population will change and so may the relative cost of care at different ages; if there is increasingly successful emphasis on preventive care, as is to be hoped, more care in early life could more than offset, in its effect on the distribution of costs, the fall in the youthful percentage of the population. In any event, a fixed 25 percent ratio can be sufficiently rationalized as the federal government contributing the cost of health care for young people.

To do so fits the division of governmental responsibilities. Provincial social programs cannot be entirely segregated from the economic policies for which Ottawa has primary responsibility. The productivity and growth of an economy now depend, above all, on the quality of the workforce; and that is greatly influenced by health, and consequent ability to learn, in childhood and adolescence. It is appropriate that the federal contribution to health costs should be linked with this socio-economic need.

Of course, the federal money would not be segregated in the actual operation of medicare. That would be quite impracticable, as well as contrary to the aim of reliability in financing. The proposed link to the welfare of young people is entirely notional. It may be said to be a gimmick. But gimmicks are not always to be despised. In public affairs, as indeed in some others, the perception is often the reality.

This proposal of a 25 percent federal contribution to medicare is a shaving compared with the approximately 30 percent of my earlier suggestion. Of the latter proposal, however, only half would have been in a fixed ratio to costs. The rest, the CHST portion, would have continued the uncertainties of the past. If the provinces have any foresight, they will welcome more warmly a one-step transition to 25 percent. That level of federal funding should establish a partnership sufficient to ensure, with the backing of public opinion, that nationwide medicare endures and improves.

The 25 percent of medicare costs at present amounts to about \$12.5 billion a year. If the CHST is notionally allocated in proportion to the provinces' costs for the three formerly shared-cost programs for which the CHST is consolation, of a sort, the lion's share – about \$7.5 billion – is medicare money; hence, the extra requirement, referred to earlier, of \$5 billion.

That is the federal cost for medicare as it is. The national information system and its ramifications will yield some efficiencies. On the other hand,

medicare in its present form is now far from providing complete health care. Increasingly, we need thorough provision for home and community care. Dental care is largely missing. The provision of necessary aids to coping with physical disabilities – eyeglasses, for example – varies among provinces and is everywhere limited. So, above all, is pharmacare. To generalize, expanding medicare will be a particularly difficult undertaking; a two-stage method is suggested later in this paper.

In any event, these needs are unlikely to be served, consistently for Canadians, unless the principle of partnership is restored to medicare financing. If it is, then it will be possible to embark on a progressive policy of improving health care across the country. To do so is a priority use of resources that as a nation we can well afford, and that will be politically practicable provided it is undertaken with a combination of firm purpose and deliberate care.

To conclude this discussion of medicare, its distinctiveness should again be emphasized. The assurance it provides is important to all Canadians except a small minority of the very rich. Though it consists of separate provincial programs, medicare has become one of our most treasured national institutions. The provincial programs must therefore operate on consistent, nationwide principles. For that they require the kind of support that is also leadership, a partnership on which they can rely for a firm ratio of changing costs. What has been suggested is a possible way. Other ways should be considered, provided they satisfy the essential requirements for federal visibility and provincial security.

After the CHST

For all purposes except health care, provincial attitudes give the federal government every reason for continuing to act according to its own dislike of cost-sharing. The technique will remain necessary for occasional, ad hoc purposes; but for the foreseeable future, it is not the way that new programs of a continuing nature will be introduced.

It is important to avoid the confusion that often pervades federal-provincial affairs. Cost-sharing has a precise meaning: Ottawa reimburses a province for a fixed proportion of its expenditures on a defined provincial program. Because that was how major programs were established, many people still think of it as the natural, almost automatic, way to start new programs. It is not; too many politicians, for various but decisive reasons, now dislike it.

This in no way means, however, that federal and provincial governments cannot cooperate in coordinated programs. They must. Canada cannot work otherwise. The problem is to develop new methods of cooperation, suited to the times. One way of doing so has lately been found, for the National Child Benefit. This paper will propose another, appropriate for early childhood development.

The existing CHST, however, is not a substitute for cost-sharing. It was an improvisation to soften the shock of the federal government's downloading of its financial difficulties to the provinces. No doubt the intent was always that, in time, the CHST could wither away. It satisfies neither the federal wish for visibility nor the provincial need for security of funding. With the removal of its medicare component, the remaining \$5 billion of the CHST will become even more an anomaly that should be tidied up.

It is easy to think of better ways to use \$5 billion. The best way would be to make faster improvements in child benefits and early childhood development. But Ottawa is trapped by its own propaganda for the CHST: It is an unconditional transfer. Tidying it away will be possible only through complex and inevitably protracted negotiations to ensure that no province is worse off as a result.

It may therefore well be that, in the end, the tidiest thing will be to incorporate much or all of the \$5 billion with the other unconditional transfer of federal funds – i.e., the equalization program. Though it is in principle a constitutional requirement, in practice there are political limits to the extent to which the federal government will use its taxes for

the purpose of equalization – which is, in effect, to transfer income from rich provinces (including a province as big as Ontario, returning many Members to Parliament) to poor provinces (with fewer MPs). Discontent with the transfer is being fanned by the present attitudes of the Ontario and Alberta governments, and federal vulnerability is heightened by the Chrétien government's dependence on Ontario representation.

In these circumstances, there would be merit in diversifying the equalization program by incorporating in it a basic per capita grant paid to all provinces, rich and poor alike. Some, perhaps much, of the \$5 billion could be used in this way. While the arrangement would be criticized as mere window-dressing, it would not only be tidier than the separate existence of two unconditional transfers. It would be of some help in strengthening recognition that the equalization program is a national benefit.

This tidying away of the CHST leaves gaps in the social policies that the former cost-shared programs were intended to serve. Later sections of the paper will suggest more effective ways to achieve their purposes.

There remains, in this area of discussion, an important issue of federal-provincial relations. The central point of the so-called 'social union' negotiations is that the provinces want to limit future use of the federal spending power. They make their case in terms of transfers to them. As such, the provinces' concern is academic. New cost-shared programs are not going to be started anyway. We may therefore wonder whether the provinces' real objective is broader: to circumscribe federal spending in relation not only to provincial programs but also in relation to individual Canadians. For matters in provincial jurisdiction – including almost all of social policy – any federal spending would then require the consent of most of the provinces, and a provincial government that chose to opt out of the program would be entitled to full financial compensation. In other words, a province could take for itself the money intended for its residents individually, subject only to the condition that the proceeds should be used for some purpose vaguely similar to the federal proposal.

If those had been the rules in the past, Canada would never have had its first great, universal social program: family allowances. It may be said that this also is an academic point, since family allowances no longer exist. It is not. The refundable tax credits that have replaced family allowances are equally payments to individuals; they are related to the tax system only in the sense that it is used to determine the level of net family income used to calculate the amount of benefit and to phase out the payments for people above low levels of income.

The danger is clear. A sovereign federal Parliament has power to authorize payments directly to individual Canadians, for any public purpose it judges beneficial. If that power were to be circumscribed by provincial governments, we would be well down the road to a national government with responsibility for little more than criminal law, order and defence. The Parti Québécois is, by comparison, timid. It would break Canada into two states, loosely associated. The path down which some politicians and pundits are pointing would lead to ten states, only somewhat more associated and most of them unviable.

I am not suggesting that this is the conscious intent of even the most devoted decentralists. The doomsday scenario is unlikely to materialize. Nevertheless, in the confusion of our politics, we can do little more than speculate what will come from what drifts and improvisations. While the politicians of the larger provinces are actively eager to take more power, the force that is drawing the provinces as a whole towards a restructuring of federalism is more in the nature of suction. Nature, in the old phrase, abhors a vacuum. It is chiefly the disposition in Ottawa to feel good and do little, in major areas of public policy to shuffle off responsibility to the market or to the provinces, that threatens the effectiveness of the national government essential to our nationhood.

The commonsense wisdom of most Canadians is clear. We need purposeful leadership from the federal government. To provide it, Ottawa needs the federal spending power that the constitution provides.

It is true that cooperative federalism would be strengthened by reasonable rules specifying the requirements for provincial consent if the federal government should ever again wish to induce program changes by giving or withdrawing transfers of its money to provincial governments. But the federal government's power to make payments directly to individual Canadians is quite different. To subordinate this power in any way to provincial politicians would be to abandon the possibility of national action in many of the ways that matter most to us when we go into federal polling booths. It would make Canada's kind of federalism unworkable.

Downing the debt

Federal leadership has to begin with repair work. The most urgent job is to restore responsible funding for medicare; how it can be done, quickly, has been suggested earlier in this paper. The second job is longer term: to reduce the burden of government debt.

Debt is an emotional issue. Everyone knows that it can be overwhelming; how much can be safely incurred is usually assessed in relation to income. But government debt is not like personal debt. Provided that the bonds are denominated almost entirely in the national currency (as is the case for Canada), and even if foreigners incur the exchange risk of owning some of the bonds, public debt is essentially an obligation to ourselves. It can be a proportion of national income that would be horrendous, at a personal level, without incurring the risk of anything at all comparable to bankruptcy. Many social activists are encouraged by this to make light of the debt as a necessary restraint on public spending.

That is unwise. The social significance of debt is not measured by its relation to national income. What is practically important is the proportion of government's tax revenues required for interest on the debt. During the 1960s, out of each ten dollars of federal revenue, a little more than one dollar went to pay interest; nearly nine dollars were available to provide public services. From the mid-1970s, with budget deficits requiring new borrowing and

with rising interest rates, the ratio changed rapidly. Through the 1980s and 1990s, interest took more than three dollars out of ten. At its peak the ratio approached four in ten, and it is still around three.

In other words, for every ten dollars we pay in federal taxes we get only seven dollars worth of public services. This simple arithmetic has much to do with the diminished repute of government. People do not have to be accountants to sense that they are getting poor value for their money. Too much of it goes to pay interest to bondholders.

‘Pay down the debt’ is predominantly the cry of conservatives, who see it as the way to reduce future taxes. It can equally be seen as an important item in a realistic social agenda, freeing up resources for new and improved government programs.

Debt reduction is not, however, an easy item to implement. Everyone agrees, for the present at least, that we cannot return to deficit budgets, increasing debt. Optimists, particularly on the political left, think abstention from deficits to be enough. Debt reduction can then be left, so to speak, to nature. As the economy grows, and tax yields rise with it, the proportion of revenue required for interest payments will shrink.

That is true enough, if such optimism turns out to be justified. The trouble is that, unless the economy expands much faster than can at present be reasonably anticipated, the shrinking will be slow. Government will continue to be severely crimped by debt charges. It will be many years before interest takes only one out of ten tax dollars, before we are again getting really good value, in public services, for our money.

The obstacle to moving faster is formidable. There has to be not an absence of budget deficits but a series of budget surpluses, used to repay debt. And a budget surplus means that government takes more out of the economy, in taxes, than is returned to it in public and private spending. Economic activity and employment are thereby reduced. This effect is particularly strong because our federal taxes in Canada fall very heavily on consumption, both directly

through the GST and excise duties and indirectly through a personal income tax that reaches deep into the lower levels of income.

A government policy reducing economic activity and employment is the last thing to be wanted today. If the present tax system is inviolate, the gradualists are right. We will have to let heavy interest payments crimp our social agenda for many years ahead.

The way out is to reform the tax system. It is to raise taxes on capital, partly to permit some reduction in income taxes but chiefly, for a time, in order to pay down the debt. A budget surplus created in this way will still have some adverse effect on spending, economic activity and employment. But it will be small compared with the effect of a surplus created within the present structure of taxation on income and consumption. It will be small enough to be offset, as will be discussed later, by other policy action.

To say this is to recognize, of course, that we should not aim for a massive budget surplus. The debt that was accumulated over 20 years will not be precipitately eliminated in a few. It is all the more important that the aim should be firm and the action as steady as fluctuating economic circumstances allow.

That debt reduction should come from taxes on capital is sound economics and is also social justice. The pain of deficit elimination was imposed chiefly on people without work and people with low and lower-middle incomes. Recent years have been hard times for very many people. But for a minority, by no means limited to bank officials and various speculators, they have been very good times. It is appropriate that those who have accumulated personal wealth should now make their contribution to relieving the burden of public debt.

A special tax on recent accumulations of wealth would not be morally unfair, but there are two objections to it, both overwhelming. First, retroactive taxation is in principle bad public policy, and worse if it is discriminatory. (The same, it should be

said, is also true of many claimed entitlements to compensation for past wrongs.) Second, it would be impossible to administer such a tax measure with anything near the completeness and consistency that justice would require.

Tax reform should therefore be concerned with personal capital irrespective of its origin and form. Three measures are candidates for inclusion in the early agenda.

One: While the tax system is in outline modestly progressive, its detail is replete with devices that give advantages to the well-to-do, that make it easy for the wealthy to become wealthier. To tidy away all these devices will take time; but some of the major ones, which have been played around with in many budgets, could be removed or modified at once.

Two: Canada is almost unique among developed countries in having no taxation of inheritance. If we are seriously concerned for equality of opportunity, inheritances and gifts between generations will be taxed at the same rates as income, subject to a considerably larger basic allowance, to provisions for orphaned dependants and to arrangements for forward averaging of payments.

Three: Discrimination in favour of capital gains, as opposed to earnings, should be ended. Tax rates should be the same.

These three reforms would take us a considerable way towards the comprehensive restructuring of personal taxation recommended in 1966 by the Royal Commission on Taxation chaired by Kenneth Carter, but sadly ignored. The underlying principle would become simple. A dollar is a dollar, and how it comes to the individual is irrelevant to the fair tax on it. The effect of such broadening of the tax base would be, of course, that the same revenue could be raised from considerably lower tax rates than are applied to income as it is now more narrowly defined.

There is equal need for the reform of business taxation. However, it must be recognized that comprehensive restructuring of taxation is not a short-

term proposition. Undertaken brusquely, it is too disruptive to succeed. It requires not only thorough preparation but careful transitional arrangements. I have discussed some of its complications, and how they may be dealt with, elsewhere.¹ It would be unwise, however, to include in the present agenda more than the three items linked to the need soon to pay down federal indebtedness.

Even these modest proposals will not escape the fearful objections always raised against taxation of the well-to-do: Money and people would flee the country; investment in the Canadian economy would be choked; our competitiveness in the global economy would be hurt beyond repair.

Such scaremongering has to be seen in perspective. Canada is a cold country and a relatively small economy. While it attracts many immigrants, it is bound also to lose people. They may retire to warmer climates. People with highly specialized skills – e.g., scientists or performers in arts or sports – may find wider scope for their talents in larger economies. Tax levels may be a factor, but secondary to market pulls. It is especially unlikely that the best and the brightest, usually pictured as the people we risk driving away by taxation, will be much influenced by higher taxes on capital gains or the prospect that their heirs will be exposed to higher inheritance taxes.

Again, rich people may contrive to shift their money to the Cayman Islands or other havens, but the difference between Canadian and, say, US taxes is not relevant to such manoeuvring.

None of this is to argue that we can cheerfully disregard differences between Canadian taxation and that of countries otherwise similar. The main consideration is the effect on investment. This is not investment as it is thought of by individuals and endlessly discussed in business journalism and the literature of financial institutions. Most of that is simply the shuffling, among companies as well as individuals, of the ownership of existing assets. It produces fluctuations, sometimes wild, in the prices of stocks and bonds and the exchange values of currencies. If capital gains taxation can help to dampen such specula-

tion within Canada, the economy does not lose; it gains.

The investment at issue is 'real' investment in the economists' sense: the creation of new productive assets. Governments have various ways, some disreputable, to influence the location of investment location. In a globalized economy, our tax rates will not influence shifts driven by low wage costs in the third world. The investment that may be influenced is restricted to investment to produce those internationally tradeable goods and services for which the economic location is still somewhere within the developed world.

There are many influences on such choices or location. Certainly taxation can be one. It is, however, taxation of earnings, in part personal but chiefly the direct taxation of business. Neither is affected by the measures proposed for this agenda. On the contrary, broadening of the personal tax base reduces the necessary tax rate on earnings. Nor would the later reform of business taxation increase the direct tax on corporations. On the contrary, it would abolish entirely corporate income tax on earnings distributed to Canadian owners and shareholders; they would be taxed like other personal income. Other distributed profits would be subject to equivalent withholding taxes, but direct taxation of corporations would be limited to profits that they retain instead of distributing. The consequence would be to make capital more available for new enterprise, to sharpen competitiveness and flexibility. While some investment could be lost to Canada, more could be gained.

The economic realism of neoconservatives generally amounts to little more than advocacy of copying the US model in all matters of business, and much else. Despite continentalism, no such conformity is necessary. We can have made-in-Canada taxation without sacrifice of national income.

Two points may be added. To encourage high-tech industries, we greatly need more public funding of the research facilities and activity in which Canada is a laggard. Such investment will be of far more certain benefit to the economy than an equivalent cut in any kind of taxes.

Second, even if there should be some points at which equity in taxation conflicts with economic growth, it by no means follows that equity must be sacrificed. The public good is not identified with the Gross National Product. There is a margin where any necessary tradeoff would be made by most Canadians in favour of a society more equitable and equable than we see to the south.

Money and employment

If the government were not so indebted, the state of the economy would call not for a budget surplus or even balance, but for the stimulation of a budget deficit. As it is, the depressive influence of tight fiscal policy must be offset by other government action. 'Jobs, jobs, jobs' is too important an objective to be much compromised for any other public purpose.

A good society is, above all, one that offers to each of its citizens a sense of sharing in the community, of taking a useful part; and that means, for most people for most of their lives, jobs that give satisfying expression to their abilities. Full employment in this sense is, of course, an ideal. To approach it as closely as possible is, however, fundamental to a social policy agenda. No social benefits, however generous, are satisfactory compensation for unemployment.

The necessity for a tight fiscal policy – for taxes at least equal to current expenditures – therefore joins with equal necessity for an easy monetary policy – i.e., for consistently low interest rates. There is nothing novel about the link. Experience has shown that it works. In the period of Canada's postwar prosperity, up to the end of the 1960s, tight fiscal policy was joined with generally easy monetary policy and developing social programs. It was a winning combination. Economic growth was rapid, most of the time there was little unemployment, the wartime government debt was quickly reduced, inflation was generally slight, the great majority of Canadians shared in enhanced well-being.

Though there are still some people – on Bay Street, in Ottawa, among pundits – who do not recognize the lesson, the reversal of policy in the mid-1970s was plainly disastrous. The formula was turned round. For 20 years we had lax fiscal policy and tight – at times very tight – monetary policy. Slow economic growth, heavy unemployment, inflation at times severe, escalating debt and diminishing welfare have been the consequences.

The past few years have seen a partial return to the proven formula: Fiscal policy became tight, though at the expense of social programs; monetary policy was eased, though slowly. Modest improvements have resulted. The way to advance them is to return fully to the formula. The way to rebuild a progressive Canadian economy and society lies in the combination of easy monetary policy and tight fiscal policy with enhanced social programs.

This mix of policies now has a corollary that it did not in what were, for Canada, the easier economic conditions of the postwar world. In the turbulent global economy, consistently low interest rates will be accompanied by a low exchange rate for the Canadian dollar against the US dollar and some other currencies. Our dollar will not often fall as it has done in much of 1998, but it will generally be low by previous standards. That is the price we have to learn to accept, until the world changes, as the price of being the kind of society we want Canada to be.

Low interest rates do not stand alone as the way to increase employment. While a tight fiscal policy rules out broad tax cuts, it should be possible to make some reductions. Income tax bills have risen steadily because for years the basic personal credit, other tax credits and tax brackets have been only partially indexed to inflation. The consequence is that all taxpayers – including people well down the income scale – have incurred an appreciable, and rising, tax burden. The tax brackets and some of the tax credits could now be raised appreciably. All taxpayers would benefit, but the gain would be especially important for those on low incomes. Almost all of the extra money in peoples' pockets would be spent, stimulating production and employment.

The same effect, on a larger scale, would flow from the social measures proposed in this paper. They would increase and diversify employment in the health professions, of daycare workers, teachers at various levels and many ancillary workers. By their nature, these social initiatives are far more labour intensive than most government programs, and particularly than capital projects such as the purchase of submarines and tanks, the building of frigates and other construction projects.

This last comment is not a condemnation of Canada's armed forces. They have essential roles: to protect national sovereignty over our marine resources and environment; to deal with emergencies at home; in the world, to contribute to peace-keeping and election-monitoring operations of the United Nations. But there is no benefit in what seems now to survive from the traditional military role: to be able to claim a combat-ready, if minute, participation in operations directed from Washington. That is certainly among the least employment intensive of public expenditures.

The last section of this paper will suggest some further measures that would strengthen the activity of the Canadian economy and take us closer to full employment.

The high-tech unjust society

Few people can now escape awareness of the speed at which technological advance is changing the ways we work. Its social significance may as yet be less apparent but it is not less strong. And it is disruptive.

It is disruptive because increasingly complex technology reinforces two age-old injustices: to him that hath shall be given; and the disadvantages of the parents are visited on the children. An equitable society, as Canada in most of our experience has been, is a society in which people have developed, largely through government, accommodations that sufficiently blunt those partly unavoidable injustices. Universal public education, redistributive taxation

and medicare are conspicuous examples. They are increasingly less effective as countervails to technology's sharpening of the injustices.

The economics of this are clear. As technology becomes more complex, the labour market puts a rising premium on the knowledge and understanding to use it effectively today and to adapt to its change tomorrow. At the same time, there are fewer jobs for which lesser skills suffice. The labour market puts less value on those that remain. And as the gap widens, it becomes more difficult to cross. That is the social problem.

Economists and business pundits used to argue - some still do - that economic growth, not government intervention, is the effective solvent of social ills. Their favoured saw was that a rising tide lifts all boats. In simpler times, there was some truth to that, though it was always limited by many exceptions and long time-lags. Today, it is virtually irrelevant. Far too many of the boats are stranded far too far up the shore for any tide to reach them.

Some displaced fishermen, loggers and textile operatives may be able - even in their 40s and despite little previous schooling - to learn enough basic science to become, say, electronics technicians. But they are the rare exceptions. For almost all older workers with little education and with experience only in types of work now in short demand, the new economy offers low-paid jobs at best, often none. Younger workers who did not go far up the education ladder are at the same disadvantage.

The Economist has put the widening polarisation between the advantaged and the disadvantaged succinctly: For the highly skilled and the lucky, the good times continue to roll; for the rest, forget it.² But that is only the beginning of the polarization. It tends strongly to intergenerational transfer.

The luck part of the dictum may come into play at any stage of life, but predominantly it reflects where and to whom you were born. If your parents had average or better income and education, if your home and the homes of your childhood friends had books and the gadgets of contemporary technology

to stimulate your interests, if you were generally treated with some respect and affection, it was not difficult to do reasonably well at school and be prepared for a fairly well-adjusted adult life. In such circumstances average talent, with normal application and later luck, will secure a comfortable affluence.

The requirements in talent, application and luck are far stiffer if your parents were poor or had little education, if facilities for mental stimulation were sparse in home and neighbourhood, and particularly if respect and affection were scarce. Exceptional abilities, of course, may with some luck prevail over all handicaps. When white-collar and unionized blue-collar jobs were plentiful, a good many disadvantaged children could make their way at least to the lower-middle class. The walls are higher now. The prospect for more of our children is uncertain, unsatisfying, poorly-paid work, or none. We are generating a new underclass of resentful youth, alienated from the society of comfort and order.

Class divisions rooted in birth are nothing new. Never before, however, have they co-existed with the information age and our consumer society. In nothing is corporate business more enterprising than in pounding into everyone, the poor included, the delights of spending. The promotion of dissatisfaction with what we have has been made into a major mechanism of the economy. It is hardly surprising that disadvantaged youth are frustrated and feel little social inhibition against venting their frustration aggressively, without regard for convention or even for law and order.

The working of our society now rests on a complex infrastructure of power grids, computerization, telephone switching and the rest. Its fragility is occasionally made patent by natural disasters like floods and ice storms. More fundamentally, its operation rests on general acceptance of the rules and conventions of a civil society. In Western Europe and North America, that social glue is still strong. Weapons in schools, gang wars, drugs, casual violence, soccer hooliganism, even the sophisticated organisation of crime, have some way to go before

they greatly disturb the lives of the majority. But the gathering consequences of polarisation, of a trapped underclass in the age of informed consumerism, are too plain for complacency. With injustice for the deprived comes uncertainty for the comfortable.

After the Second World War, most democratic countries moved decisively in the direction of lessening inequalities. Most Canadians want the movement to continue, at least gradually. In fact the direction has of late been reversed. That will not be changed by economic growth of the present kind; and while social security programs can lessen the immediate effects of polarization, they will not in themselves do much to turn the direction of change back to greater equality of opportunity. The challenge is to develop new programs of social opportunity aimed directly at the roots of the problem of increasing inequality in high-tech society.

The importance of the child

Economists have a clear response to advancing technology. High productivity and economic growth are now determined chiefly by – in their phraseology – our investment in human capital. The days are long past when industrial innovations often came from ingenious mechanics little blessed with formal learning. Now new technology originates in scientific research; and, at the second stage, how and where new knowledge is applied effectively depends on a core of skilled and adaptable workers marshalled by enterprising managements.

The diagnosis is not in dispute, but what is the content of the prescription? How do we invest in human capital? In the third world, the answer may relate to elementary schooling. In the richer countries, it usually concentrates on excellence in universities, technological institutes and advanced trade schools. In this view, those who make it through to higher education are those who matter. The educational priority is to give them the best we can, because it is their quality that counts. For the rest, “forget it” as *The Economist* said. Contemporary elitism is not often so bluntly expressed but it is implicit in much current punditry.

Practitioners of sciences more exact than economics, and of arts broader than business, have a different understanding of human resources. In particular, advances in neuroscience have made precise what was always vaguely apparent to commonsense observation. Human learning begins at once. The ‘wiring’ of the brain is governed by the stimuli it receives. The critical period is early. The development of the brain is pretty well determined by the age of six. The learning that takes place by then relates not only to cognitive skills but also to confidence and emotional development, to social knowledge and competence. In large measure, early learning sets the personality.

Only after the early years, does society assume, through compulsory schooling, a large measure of responsibility for the development of its children. Before then, parents are pretty much on their own. Increasingly, this arrangement is somewhat qualified by various child services, but the presumption underlying most of our institutional organization is still that younger children are looked after by devoted mothers staying at home; if they are not, they should be.

This was always a solidly middle-class image. Through the ages, the rich have delegated much of the care of children to slaves, nannies and governesses. In peasant societies and in most other farming communities, wives were and are burdened with much more than household chores; the time for tending children is scant. Among the urban working class, mothers have long supplemented the family income by part-time work, at least when they could get it. Certainly in the large families of the past, either you could afford household help or the young children were left largely to the care of grandparents or older siblings.

Siblings are now scarcer and grandparents less often close at hand. The sharpest change, of course, is the move of middle-class mothers to employment. The time they can devote to the care of their children is no longer markedly greater, as it used to be, than in both richer and poorer households. The transition from mothering to parenting is only a partial offset. The consequence, in any event, is a

greatly heightened demand for daycare, formal and informal; the need for it, though not the financially effective demand, is further driven by lone mothers many of whom without it cannot leave welfare to work. The deduction from taxable income now allowed for child care expenses is of significant benefit to well-to-do families, but it does not help people paying little or no tax. Unless daycare is available to lone mothers without charge, most of their children are confined to growing up in very low-income homes indeed.

Preschool children of the working poor are not much better off. Either the family (one- or two-parent) manages on one low income or both parents manage somehow to juggle work without daycare. If it does a little better, the daycare that is affordable is no more than babysitting. In many cases, such care may do less for the child's development than a parent at home would do, even a busy parent limited in patience and understanding.

The irony, in short, is that much as we talk about the importance of education and investment in people, as a society we are probably on balance doing no more, perhaps less, for the early development of our children than was done a generation or two ago. The break between preschool and compulsory school always worked against the effectiveness of the schooling. Change in the family and the economy has made it a major weakness of our social institutions, a weakness that is only a little offset by part-time kindergarten classes available for the last year or two before regular school. In Canada as a whole, we lag far behind most of the countries of Western Europe in establishing the public services through which the community can make its necessary contribution to the development of our children through their crucial early years.

There is, of course, nothing sacred about six or thereabout as the starting age for compulsory schooling. Some parents would welcome its reduction. Others would object, particularly in rural areas where long bus journeys between home and school are required. Most provincial governments cannot be expected at present to tackle the financial and other problems involved in extending the school system to

lower ages. Even if it were practicable, a year or two sooner to school would be an inadequate response to the development needs that begin in infancy.

The requirement is for centres available to children from an early age, where preschool children from all backgrounds come together. While some of their work will be child-tending, for which an appropriate temperament is the chief requirement, it is essential that the core staff be quite as qualified in child psychology and in teaching methods, with quite as much aptitude, as good school teachers – and paid accordingly. Daycare is a misleading label. The primary function is not to enable parents to go to work. It is to provide the stimuli and socialization from which children of the well-to-do and of stay-at-home parents may often benefit as much as the children of the poor and the workers. The ideal centre is one to which almost all children want to go from an early age, with their parents happy to agree and, indeed, eager to contribute time as volunteers.

Most centres of this kind will be best established by school boards, building from existing kindergarten classes. Some, however, could be the creations of local organizations of various kinds: community associations, groups of churches, branches of organizations concerned with child welfare, parents' associations, Indian bands, aboriginal associations in cities such as Winnipeg and Regina. The one requirement, for the federal program to be proposed in the next section of the paper, is that they must be not-for-profit organizations.

Otherwise, there is no need to impose any fixed pattern. Experimentation is needed, as is flexibility to fit local circumstances. There are some precedents, created by community endeavour; a few relevant pilot projects are financed under the federal government's existing – but small – Community Action Program for Children. It must be emphasized, however, that necessary regulatory responsibility to ensure adequate standards in staffing and facilities lies with provincial governments.

The age from which it is practicable to provide day-long developmental care will no doubt vary

from community to community, but in any event partial services for younger children – nursery care and parental counselling, for example – need not be excluded. Some centres, perhaps many, will be capable of developing into efficient focal points for the coordinated delivery of comprehensive child services by a variety of organizations. In that case, their role will extend beyond preschoolers. Care will have to be taken, however, that the distinctive purpose of the centres is in no way submerged. That purpose is to fill what is now the vacuum in social responsibility for child development that pervades, in most communities, until formal schooling begins.

This initiative does not require, it should be repeated, rigid forms. The one national aim should be to ensure that child centres, adequate in their various ways to help the young child to develop, become at least as thick on the ground, in all of Canada, as primary schools. To invest in our human capital effectively, to secure some equality of opportunity, it is essential that we build such a social infrastructure for early childhood development.

How to invest in children

The need is clear. How to meet it, within Canadian federalism, is complicated.

Investment in human capital is now a principal instrument of economic policy; for our long-term prosperity, it is the most important instrument. As such, it is the concern of all the nation. A federal government that fails to ensure appropriate investment in Canadians is a government delinquent in serving the public interest.

Investment in human capital is, however, an economist's phrase for education – not, it is true, education confined to the formal system, but centred on it. The original authors of the Canadian constitution intended the federal government to be responsible for economic policy, but they did not understand education to be part of it. Education has become established as the most jealously guarded of provincial prerogatives.

The primary provincial responsibility for education has not always precluded an active federal role. For a time, under the Diefenbaker government and into most of the 1960s, Ottawa shared generously in the costs of technical and vocational education, not only to provide closely defined programs but also to build schools. Most of the provincial governments of the time liked the arrangement, but it was hardly a model. Ontario and Alberta, which could well afford their part of the costs, used the program lavishly; it helped to finance a rapid expansion of their school systems. Poorer provinces, where the need for improvement was most pressing, were much less able to benefit.

Similar problems would apply now to the cost-sharing that has often been suggested for child care. In any event, that is not a form of cooperation that either federal or provincial politicians will willingly embrace. A new technique has to be found.

There is a mechanism to hand: the tax deduction for child care expenses. Its maximum face value – \$7,000 a year for a child up to age six – is well-judged, a reasonable measure of the per-child cost of the care of high quality that the proposed centres would provide. But the child care expense deduction, as it now is, is unfairly regressive. Like all tax deductions, it provides a significant income tax break to people paying a high rate of tax; it is of little or no help to people with lower incomes. Moreover, the child care expense deduction does not actually provide \$7,000 per child; the highest combined federal and average provincial income tax savings, payable to claimants in the top tax bracket, amounts to \$3,086.

The cure, for this as for other purposes, is to turn the child care expense deduction into a refundable tax credit. As was pointed out earlier, a refundable credit is bureaucratic jargon for a payment to individuals. The full payment is made to people with low incomes; partial payments go to those at higher income levels, the amount tapering down as income increases.

The federal government therefore has the power to initiate a nationwide child development

program. To do so, it would announce its intention to phase out the tax deduction for child care expenses and commit itself to willingness to provide, instead, a refundable tax credit of up to \$7,000 a year to the parents of a preschool child who attends a child centre providing care of sufficiently high quality to justify that fee.

On the firm basis of this commitment, but without other prior conditions, Ottawa would then negotiate with the provinces how financing on this scale could best be used for child development in the circumstances of each province. There are, however, difficulties to be recognized. Few things in federal-provincial relations are easy.

There is a worst-case scenario. A province could refuse to negotiate any such arrangement. It could not forbid its residents to take advantage of the refundable tax credit, but it could choose a passive role. The response would then have to be organized by parents. Many would want better care for their children, and in most communities they would have support from local organizations, non-governmental and often municipal also. In one way and another, child centres would be widely established – more slowly than if they had provincial leadership and organisation, with more difficulty in recruiting and training staff, but established many in time would be.

In this situation, the federal role would be simply to provide financial empowerment for popular demand. The centre would set a fee, charged to parents, who would pay that fee, up to the \$7,000 maximum, with their refundable tax credit. The credit could be paid monthly, at the rate appropriate to the previous year's family income but subject to adjustment with the final tax assessment.

Where sufficient places in a full-scale centre were not available, the costs of alternative day care would be reimbursable by a tax credit of lesser amount. With the province passive, Ottawa would need the help of child care professionals to assess the reasonableness of the fees being paid.

This is one of several weaknesses in the scheme. It is certainly not the ideal way to provide the public service of early childhood care and education. The point, however, is that it could be done if need be. In time, the child development initiative would yield substantial improvement over the present situation. While a province that chose passivity would grumble about the 'over-activist' feds, Ottawa's role would not be open to constitutional challenge. And the administrative awkwardness of a fee-refund system would not much offset the popularity of good child care accessible to all.

On that account, as well as their understanding of the need to invest in people, few if any provinces are likely to refuse to negotiate involvement. They will not be faced with a rigid plan, with the choice of acceptance or opting out. The invitation will be to opt into a program to be worked out cooperatively. Ottawa will bring to the table its financial commitment, the cost of the refundable tax credit. The provinces will bring their regulatory power to set standards for child care and to monitor it; their kindergarten classes; their educational expertise; school buildings; existing subsidies to child care; and their resources for staff education and training.

Successful negotiation will depend on neither side being heavily burdened by preconceptions. The federal government has to be firm in its purpose, made clear by the nature and size of its financial commitment. Ottawa should be equally clear in recognising that how that purpose can best be achieved lies in the judgement and through the work of each province. The federal initiative is necessary to bring into existence the nationwide infrastructure of child centres capable of providing the opportunities for development that all our children need and that Canada, for its progress, needs them to have. But the best way to achieve that purpose will differ in detail from community to community, from province to province.

Flexibility may not preclude some difficult issues. Full-scale child centres will not spring up overnight. For some years, at least, there will be need

to provide refundable credits, in amounts below the maximum, for more conventional day care. There may be parents who want to continue to use that kind of care, with consequent difficulties in relating its standards to an appropriate level of refundable credit.

The federal expenditure in any year will be an estimate, based on the forecast level of child participation, its distribution among different kinds of care, and the income levels of the parents. After-the-event adjustments are familiar in federal-provincial financial dealings, but the complications of the accounting for this program could result in uncertainties and the possibility of controversies.

It should be noted that the scale of federal financing will enable provinces to make savings compared with their present expenditures on kindergartens and the like. Such savings should enable the provinces to provide financing for the capital costs of new facilities. The extent of the savings will, however, vary considerably among provinces and, again, flexibility will be necessary in order to arrive at equitable arrangements.

To urge any program for childhood development would be foolish if the existence of such difficulties of detail were not recognized. They are common to most federal-provincial relations, inherent in our federalism and in no way insuperable. They can be resolved in the spirit of cooperation that is essential to the operation of Canadian federalism.

The child benefit

In that spirit, the social infrastructure for childhood development can be built. The inequality of opportunity among our children will be greatly lessened. It will not be removed. However good the new style of child centre, however fully accessible to all children it is made, the child who goes to it from a poor home will still be disadvantaged.

The roots of unequal opportunity are in the environment of childhood. It is well known that poorer people are, on the whole, less healthy people.

The consequences are most severe when the poverty is experienced in childhood. Hungry children, children with health problems, learn less well not only at their school desks but also in discovering how to cooperate with other people, how to cope with stress. The effects of childhood poverty are carried to adult society in lower productivity and also in a more strained and less civil society, in higher costs for health care, for welfare, for protective services and much else.

An adequate agenda of social reform therefore requires a two-pronged instrument. The child development centres are one prong. Improving the home environment of the disadvantaged child is the other. It requires a higher family income.

The new federal-provincial National Child Benefit is a significant improvement on previous government action to lessen the depth of family poverty. But at a maximum of \$1,625 a year for the first child and \$1,425 for each additional child, the federal Canada Child Tax Benefit is still small, and the planned increases over the next two years are minor steps towards the level – about \$4,000 a year – required to cover the minimum costs of supporting a child. The improvement should be greatly speeded up. Realism, however, requires a difficult choice: Should the maximum benefit be progressively increased for all low-income children? Or should the priority be to provide a larger benefit for pre-school children in low-income families?

Equality in such matters is not identical with equity. This is illustrated in the present tax deduction for child care expenses. The maximum allowed is \$7,000 a year for children up to six years of age; it falls to \$4,000 for older children. The point, of course, is that society is already making a major contribution, through the public school system, to the development of older children. It makes little contribution for preschoolers, crucial though that period is for development.

Therefore, important though it is to combat poverty for all children, the first priority should in my view be to raise the maximum Canada Child Tax

Benefit to \$4,000 for the most vulnerable – preschoolers. Subsequently, this new level of benefit would be extended up the age ladder, in steps as finances allowed, until it applied to all low-income children. The process would be in principle the same, though in the reverse direction, as the one used 30 years ago to move eligibility for Old Age Security from 70 to 65, in steps of a year at a time.

There are, admittedly, arguments – particularly political – for the alternative procedure of gradually increasing the maximum benefit for all children at the same pace. Whichever method is chosen, what is important is that we should as soon as possible eliminate child poverty, at least in the technical sense that, for a low-income family receiving the full amount, the child benefit would match the extra costs attributable to having a child in the home.

This eventual \$4,000 child benefit, for all low-income children, would require at most \$5 billion a year more than present expenditures. An interim stage, either providing the full benefit to preschoolers only or making a smaller increase for all, may be tagged at no more than \$3 billion.

It would be presumptuous, in advance of negotiations with the provinces, to estimate a net cost for the other prong of the children's program, the financing of universally accessible child centres. The cost will depend not only on the form of arrangements with the provinces but also on how many parents wish or allow their children to use the centres for how many of their preschool years. The program and its cost will no doubt build up gradually at first, but perhaps quickly later. It would be wise to prepare for an eventual federal expenditure of up to \$8 billion a year, if the program achieves its intended purpose.

Some people will condemn the proposed child development initiative as a massive further intrusion of the federal government into social policy that ought to be left to the provinces. In fact, the initiative is rooted as much in economic as in social need. A national program is required. Structured as is proposed, with respect for provincial jurisdiction in education, it is based on the federal power to make

payments to individuals and is not open to constitutional challenge. It is the cooperative federalism that is as necessary for our children as it is for our health care.

The rights of the child

The purpose of child development is, indeed, so important that Ottawa and the provinces could well do something to dramatize it, as one of the national projects of which we have too few. For example, Canada's commitment to its children might be made material by issuing to each one, as soon as he or she is named, a 'certificate of opportunity.' It would be in the child's name but conferred in trust on the parents or parent. It would move with the child if there were any subsequent shift in legal responsibility.

The certificate would state the rights of the child and, briefly, the subsequent rights and responsibilities of citizenship. It would affirm, briefly, the commitment of the government of Canada, in cooperation with provincial governments and with communities, to do all in its power to protect the individual's security, to foster health, to secure good living standards, to make possible for each individual a full opportunity to develop and use his or her capacities.

In that last respect, the certificate might be seen as a kind of passport for early access to the services of a child centre. I am not suggesting that such a certificate – over the seal of the federal state, not the name of any politician or appointee – would be more than a symbol. And the practical relevance of symbols is greatly variable. But at least it might be a little more forceful, as a reference point reminding politicians of the purposes of public policy, than – say – a parliamentary resolution about ending child poverty.

In any event, the children's initiatives proposed in this paper should not be undertaken without careful arrangements for evaluating their operation. The criterion most often suggested is that preschool programs should result in school entrants being more 'school-ready.' Certainly that should be a major benefit. There is danger, however, in concentrating

on it. Children flourish best if they are loved as persons in their own right, appreciated for what they are at each age rather than valued chiefly for what they will become. Evaluation requires measurement, but it must also find ways to give weight to as many aspects as possible of opportunity to develop the human spirit in all its breadth and variety.

In concluding this section, one other point should be noted. The proposed child development and child benefit improvements would be especially valuable for the First Nations, precisely because they are not designed particularly for them. The reforms offer a non-discriminatory way to lessen the child poverty from which they greatly suffer, to reinforce their cultures and to empower, in a major function, their own communities.

Quality and equality in universities

Primary and secondary education are not matters for national policy. Provincial jurisdiction has been too firmly embedded not only in the words of the constitution but also in attitudes and thought. Federal authorities may help in respects such as statistical analysis, but otherwise keep clear. Nationwide consistency can develop only through the interprovincial cooperation that has made some progress in recent years. Federal concern with our 'human capital' must therefore jump from the near vacuum in its preschool development to the post-secondary area where the provinces' prime responsibility has long been mingled with some federal involvements.

The most direct of these is conducted under the heading of research. It has, however, a considerable shaping influence on university faculties. Indeed, since some of the research funding by federal agencies takes the form of financing doctoral studies, it is directly educational. Nevertheless, research is too hallowed for objection to be made on constitutional grounds. It is closely related to the strength of the economy. Canada does less research than other industrial countries. To do more is a national need, for which responsibility lies appropriately with the

federal government. Its consequent involvement with the universities is a case of the constitution notwithstanding. Ironically, given provincial sensitivity about education, few policies are subject to less federal-provincial controversy.

Other issues in postsecondary education are different. Universities are, by design, elitist in their outputs; graduates are labelled to confer an advantage over other people. The social policy issue relates to inputs: whether there is equality of opportunity to become a university student.

Canadian universities are a prime example of the tendency that pervades much public policy; governments use a good deal of their tax revenues to benefit the rich more than the poor. Provincial governments have long been heavy contributors to the capital and operating expenses of universities. During the cost-sharing period, they were helped mightily by the federal government. Though there have since been substantial cuts, in general provincial subsidization still covers well over half the universities' costs for students in most faculties.

That leaves, however, fees and other costs of being a student that only well-to-do parents can afford for their children. Scholarships big enough to cover much of the cost are few. Unless you are well connected, jobs by which to work your way through college are now uncertain or worse. Student loans, large loans, are increasingly the necessary recourse. Thanks to a degree of subsidization, effective interest rates are low. For the offspring of parents moderately prosperous or more, university on these terms makes sense. For others, unless they clearly have exceptional and remunerative talents, it often does not.

Student loans are repayable on schedules similar in nature to those for other personal loans. Increasingly, as the loans have become larger, enforcement is qualified by various concessions. But those are uncertain and require humiliating pleas of poverty. For very many families, the loan obligations are intimidating. There are too many uncertainties, in the minds of both the parents and the

potential students, for it to be sensible to incur the financial risks.

The consequences are little mentioned but obvious on every campus. Many students of modest aptitude and limited academic interests are there chiefly because it is where, at the income level of their parents, they are expected to be in their late teens and early 20s – with much help from the public purse. Not on campus are many other young people whose futures would be transformed by higher education, whose lifetime contributions to society would be enhanced, but who are excluded because the incomes of their parents are too low and the risks of borrowing too great.

There is an alternative. It would make the public investment in our human capital considerably more efficient. By making educational opportunity more equal, our society would become more just.

In essence the alternative is that, instead of giving public money to the universities as institutions, government should fully finance qualified students, partly by scholarships but chiefly by loans of a different kind: loans repayable not on a conventional schedule but at rates contingent on the student's subsequent income.

The idea is of long standing. In recent years, it has attracted growing talk, but not action. University administrators are defensive of the status quo and governments are inert. If Canada is to be a land of more equal opportunity, they have to be stirred up.

For a complete change, the governments to be stirred are provincial. But the federal government is heavily involved in student loans. It can take an important initiative. It would be wise, at this point in the finances of all governments, not to provoke the provinces by getting into scholarships, with or without a millennium label. There is every reason to convert federal student loans to income-contingent repayment.

This would not interfere in any way with the responsibility of each province for whatever support and regulation it thinks fitting for postsecondary institutions. The federal role would be simply a fairer and more efficient way to help able Canadians, irrespective of parental or personal income, to attend whatever university or college, anywhere in Canada, they are qualified for and choose.

What can be offered here is only a preliminary sketch of the kind of program that would serve this purpose. No doubt it could be improved in consultations with the provinces and the academic community.

The program should not be rushed into lavishly. Initially, at least, the qualification requirements would be considerably higher than present admission standards. They would be set, and from time to time adjusted, by an independent body working in consultation with provincial and academic authorities. Provided that the federal government combines firmness about the nature of the program with open-mindedness about all its detail, such cooperation could not be withheld.

Loans could be available for diploma, undergraduate and graduate courses, but not doctoral studies. They could be up to the full costs reasonably required to take the chosen course. There would be, however, no interest-free period. Interest, at a rate to cover the federal government's cost of borrowing, would accumulate from the start of the loan. Repayment of capital and accumulated interest would be made through a graduated surtax on the incomes of the former students. The rates might reasonably be set to obtain full payment, in normal circumstances, within ten years or less.

Borrowers would have to be permanent residents of Canada at the time of their application; foreign nationals on student visas would not be eligible. The loan terms would include a statement of the student's intent to work in Canada. While the intent could not be enforced, it would be underlined by

requiring a signed undertaking from the student and a parent or guardian that, if the student should subsequently reside outside Canada for any period, one or the other would continue to pay the Canadian surtax to service the loan. It should be possible to secure the cooperation of most foreign tax authorities in administering this provision.

What is proposed will be, eventually if not at first, a big program. It will not, however, be expensive for the taxpayer. Its financing will appropriately be a revolving fund, separate from other government accounts. There would be some leakage from the fund. A few students would die, or become incapacitated, before their loans were fully repaid; a few of those who moved permanently from Canada, and whose parents also moved or died or became financially distressed, could succeed in renegeing on their repayment obligations. But the losses that had to be made good from taxes would be a tiny price indeed for the benefits of the investment in Canadian youth.

The basic benefit, of course, is that all of those most able to develop their talents through postsecondary education could do so, to their own gain and Canada's. They could borrow what they need. They would not be deterred, as many of the poorer now are, by the obligations of a fixed repayment schedule in an uncertain world. Income-contingent repayment would establish as much equality of opportunity for postsecondary education as is possible in an economy where wealth and earnings are greatly unequal.

It would also bring another significant benefit. Able students could better vote with their feet. The loans would cover their costs at whatever university they judged best for their particular studies. Communications in their age group are now close enough for most of the judgements to be well informed.

This is the kind of market pressure, directly from their students, that the universities need. Financed as institutions, with student fees a minor source of their funds, they have inevitably tended to

be run as their established faculties think best, rather than with close attention to student needs. This would not matter so much if Canada were more thickly populated. But the country is too big, geographically, to be well served by a few universities; it is too small, in population, for numerous universities each to achieve the mastery of all human knowledge that the name implies. Truly first-class faculties in various disciplines are possible only if individual universities specialize more than is, without strong student pressure, natural to them.

Students financially empowered, voting with their feet, will create more impetus to specialization. The 'centres of excellence' that governments have rightly called for will develop more readily, in various locations across the country. The advanced research that the economy requires will be facilitated.

I am not suggesting that income-contingent financing of students will work miracles. It is the way we can make good progress in both the equality and the quality of postsecondary education across Canada. To provide the impetus for that improvement, through its loans to students, is within the constitutional responsibilities of the national government. A wise government, pursuing projects that bring the nation together, will not hesitate to act.

Furthermore

The social agenda suggested in this paper is extensive but not greatly ambitious. There are too many uncertainties for a timetable; but if the world goes not too badly, it is an agenda that a competently progressive government should be able to complete with time and resources to spare.

There is, obviously, much else to be done.

As was pointed out, the preschool program will be of considerable benefit to the people of the First Nations. It is, however, only a little of what is needed to establish the rights that the rest of us have long denied to them. We must start promptly to implement the kind of program for economic, social

and cultural advancement that the recent royal commission proposed.

Again, the proposed additional Canada Child Tax Benefit for children to age six is only a beginning. We will be substantially reducing poverty only when the maximum child benefit for all children is raised further and faster than the government has yet indicated.

Many people with disabilities are, after the First Nations, the most ill served of our society. It is too rarely recognized that the main reason for long-term dependency on welfare, at its generally miserable level, is disability. The various other ways of providing income and support are a jumble of provincial programs (notably, workers' compensation), federal pensions through the CPP, some employer and trade union plans, private insurance (often enfeebled by the fine print) and charity. It is a jumble through which many people fall – hence, the last resort of welfare. There is clear need to replace most of the bits and pieces by one equitable system. Over the years, several good suggestions have been made, but the established obstacles to reform have not been overcome. We continue to lack the political will to recognize that a humane society owes the assurance of aid with dignity to those of its members with disabilities. That obligation should soon rise to the top of a reform agenda.

The first proposal of this paper would save and strengthen medicare as it is. It will remain partial health care until a restored financial partnership embraces not only improvements but also major additions to health services. The most financially demanding addition is, of course, pharmacare. Desirable though it is, it will be outstandingly difficult to operate efficiently and equitably. The question is not whether – but how – it can be established. It could well be best to begin with a sizeable pilot project: pharmacare (including nutritional supplements) for preschool children. That would be a further embodiment of the rights of the child expressed in the suggested certificate of opportunity. The experience gained would, all being well, enable Ottawa and the provinces to cooperate later in a prac-

ticable form of pharmacare for all. In my view, that would probably have to include a user fee, acceptable provided that it is income-related and levied not at the time of treatment but through the tax system; however, that is for later judgement.

The wish list could continue, through social housing, environmental cleanup and protection, the correctional system and much else. It is even more important, however, to emphasize in conclusion the most basic need of all. The best social policy is full employment. Macroeconomic policy, centred on low interest rates, can do much. So can stabilizing income supports, community development projects and social programs that are, by their nature, work-intensive (such as child care and home care). Nevertheless, there will still be some older workers, particularly those displaced from resource activities in remote areas, who cannot be absorbed either into the market economy or into the social services, and who should not be insulted with training programs to nothing. Much though the approach has been sullied by niggardly ideas of work for welfare, we do need to find better ways to marry income supports with the dignity of useful work. If other programs are adequate, that need not be more than a tail-end item of a progressive social agenda. But in making progress practicable, some last resorts have to be included.

At the end, I would say again that, while I believe that the proposals of this paper are grounded in present realities, their aim is to embody a steady national purpose that a constructive government would pursue through years of long-term vision.

Endnotes

1. See, for example, Tom Kent. (1989). *Getting Ready for 1999*. Montreal: Institute for Research on Public Policy; and "How to Strengthen the Welfare State." (1997). In R. Blake, P. Bryden and J.F. Strain (eds). *The Welfare State in Canada*. Toronto: Irwin Publishing.

2. *The Economist*, December 21, 1996.

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Website: www.caledoninst.org

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