

## Social Policy After the Referendum

On October 30th, the people of Quebec will make a fateful decision – whether to vote for sovereignty or remain a part of Canada. If they choose the former, we will all be thrown into an immediate crisis. The TV news will report daily on a dizzying round of marathon meetings as our politicians struggle to keep the rest of the country together while negotiating – or not negotiating – with Quebec.

But if Quebec decides to stay a part of Canada, there is an opposite danger: that of sinking into the seductive lethargy of business as usual. If we succumb, the dreary world of Canada's shrinking social security system will continue on course. We will have verified the separatists' claim that a no vote means 'no change.' Instead, we should recognize now that a no vote does not endorse the status quo.<sup>1</sup> Rather, we should treat it as an affirmation of Canada and its capacity to meet the aspirations of Quebecois as part of Canada.

Social policy has long been central to Quebec's search for its identity within, or without, Canada. It will necessarily be at the core of any *rapprochement* in the future. A viable social policy strategy for the future must be based on a

sound analysis of what has happened in the past. Unfortunately, most Canadians outside of Quebec have very little understanding of that history, even those involved in social policy.

When Premier Bourassa rejected the Victoria Charter in the summer of 1971, the stated reason for doing so was the ambiguity of the treatment of income security: "The texts dealing with income security have an uncertainty which meshes badly with the objectives inherent in any idea of constitutional reform" [Smiley, 1972:49]. For many Canadians outside of Quebec, this must have seemed disingenuous. How could such a minor matter as textual uncertainty regarding income security cause the rejection of a Constitutional compromise that had absorbed the provinces and the federal government for much of the past three years?

But for Quebec in the early 1970s, income security was more than an incidental matter of whether a family got a few dollars more or less. Nor was it just a question of which government would sign the cheques. Rather, income security was a critical component in the Quiet Revolution's reinvention of Quebec.

In the early 1960s, Quebec began its emergence from the dark days of the Duplessis era. With tremendous “energy and optimism, the Quebecois took on the task of constructing a modern French-speaking society. The government of Quebec was the vehicle to undertake this great change. Examples of the transformation are to be found throughout all of Quebec society. For instance, setting up *Hydro-Quebec* was not just a dry business deal, as it might have been viewed in the rest of Canada. It was the beginning of a cherished dream of repatriating Quebec’s economy and giving francophone Quebecois an opportunity to work in French, own their province’s businesses and prosper as a modern nation.<sup>2</sup> The state, often regarded in the rest of Canada with suspicion and distrust, was in Quebec an instrument of national expression and sometimes of national liberation.

This presented an extraordinary conflict of visions to reconcile within a single country. Yet, for a time, Canadians found a way to achieve this reconciliation. In the decade from about 1964 to 1974, the resolution of Quebec’s and the rest of Canada’s conflicting vision was achieved by a coalition of progressive Quebecois and non-Quebecois Canadians within the federal government. With a view to solving social problems, this coalition was able to find common ground in forward-looking reforms for all of Canada, tailored where necessary to the special needs of Quebec.

This approach is exemplified in the establishment of the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP). In Quebec, the formation of a public pension plan was seen as a means of pooling a large amount of capital to invest in the Quebec economy and, more than incidentally, help develop an indigenous francophone business class. Quebec would have set up a public pension plan with or without the rest of Canada. Ottawa, on the other hand, would have

preferred a single mandatory, private scheme for all of Canada. Because contributory pensions were clearly a provincial matter under the Constitution, Quebec had the negotiating leverage to achieve its aims. Not wanting to be too far out of step, English Canada was dragged into setting up a public plan [Simeon, 1972].

Quebec created the QPP and the *Caisse de depot et de placement* to support it. Through the private sector investments of the *Caisse*, the QPP successfully accomplished much of its broader economic goal of development and repatriation. Canada outside of Quebec, by contrast, set up the CPP without a private sector investment fund. By lending money to the provinces at reasonable rates, the CPP helped finance the expansion of public institutions such as hospitals, community colleges and universities in the 1970s, but it was not otherwise used as a tool of economic development. The CPP and the QPP are two different pension programs, yet through working together cooperatively, Ottawa and the provinces have maintained them as parallel plans with almost identical benefits for the last 30 years, creating a common standard for all Canadian citizens. In the CPP and QPP, a solution was found to everyone’s benefit, consistent with the pervasive spirit of reform in the late 1960s and early 1970s.

But pensions were not the only social programs at issue in the Quiet Revolution. New secular institutions had to be developed in health, education and social services. The Quebec Commission of Inquiry on Health and Social Welfare, popularly known as the Castonguay-Nepveu Commission, was set up to devise a plan for the future of human services in Quebec. The Commission carefully set out the precise details for a totally revamped and rational new income security system, including as its centerpiece the establishment of a substantial family allowance, with rates varying according to the children’s

age [Quebec, 1971: 143]. The family allowance would allow Quebec to set up a two-tier “General Social Allowances Plan” to guarantee a basic level of income to all Quebec citizens.

Family allowance is a common feature of most countries’ social security systems. In 1945, Canada had instituted its own universal family allowance. But over the years, its value had plunged due to the failure to index benefits to keep up with inflation. By 1970, the purchasing power of family allowance had shrunk to about half of the original in 1945. More importantly, in 1951 it represented 8.1 percent of the income of a two-child family with half of average income: by 1971 it was only 3.2 percent of income for two-child families with half of average income [Statistics Canada, 1982:40,89]. As a result, what had originally been seen as an essential element of a comprehensive income security system was now little more than a bit of extra spending money for most Canadian families. Not only was the amount insufficient to meet Quebec’s goals for its reform of income security, but the federal family allowance also did not permit age variations in the manner recommended by the Castonguay-Nepveu report.

Quebec wanted a different type of family allowance and it wanted it to be much larger. But this was not merely an isolated ideal for a specific program; it was part of a vision that encompassed the reconstruction of the whole province. So when Bourassa turned down the Victoria Charter supposedly due to uncertainty regarding income security, it was not just the income security text or the federal family allowance program that he was rejecting. Rather, it was his perception and, more to the point, the view of his voters, that Quebec would be unable to pursue its goals of social and economic renewal. Bourassa could not have signed the Victoria Charter. He would have been viewed as sabotaging the Quiet Revolution of which his party, the newly re-elected Liberal Party of Quebec, was the founder.

This was a critical juncture in Canadian history. The federal government had two possible ways to proceed in light of the rejection of the Victoria Charter. One approach would have been to adopt a ‘provincial rights’ stand and gradually vacate the whole field of social security to the provinces. This would have left Quebec to develop its own and very different social security system from the rest of Canada. It would also have diminished greatly the degree to which Canada is a genuine nation, with a commonality of purpose, sharing similar social supports for all its citizens wherever they live.

The other alternative was to undertake the redevelopment of all of Canada’s social security system, reflecting both Quebec’s goals and those of the rest of the country. Where Quebec had unique requirements, these could be accommodated through offering the provinces a choice of arrangements, while still maintaining strong Canada-wide programs and basic consistency throughout the country. This was the *C/QPP* model. It was this strategy that was adopted by Prime Minister Trudeau, who appointed one of his most trusted and respected Ministers, Marc Lalonde, and one of his most capable and senior Deputy Ministers, Al Johnson, to the Department of Health and Welfare to carry it out.

By 1974, Lalonde and Johnson had initiated the Federal-Provincial Social Security Review. The Review was a massive effort to develop cooperatively with the provinces a new design for Canada’s social security system. The federal government kicked off the review with a bang. It announced the tripling of family allowance, which also would be fully indexed to the cost of living. As well, any province wishing to do so could reconfigure the federal family allowance by family size or age of child. Initially, Alberta, PEI and Quebec took advantage of this opportunity. This effectively responded to Quebec’s requirements. It showed that federalism could find flexible ways to meet the needs

of individual provinces while still maintaining national programs. While Trudeau was opposed to ‘asymmetrical federalism’ when it came to giving provinces special powers not available to others, he was apparently not opposed to asymmetrical outcomes where these were the result of options available to all provinces.

The Social Security Review proceeded with great intensity. Joint federal-provincial working groups were formed to review in depth the alternatives available. The Income Maintenance Working Group issued a paper setting out several options for a basic income security program, some of which bore a strong resemblance to the recommendations of the Quebec Commission. In February 1976 “the federal government proposed a form of GAI (Guaranteed Annual Income) inspired by the two-tiered system of Castonguay-Nepveu” [Canada 1994:31]. There was great hope for new national social programs.

But all this activity ground to a sudden halt. While Lalonde and Johnson were doing their best to construct a new social future for Canada, John Turner and Simon Reisman, the Minister and Deputy Minister of Finance, respectively, were pursuing quite a different agenda. In an effort to cut down the size of government, they drastically reduced revenue growth. However, things did not work out quite as they had planned. The deficit began to explode. The federal government, and many of the provinces along with it, turned suddenly from many years of balanced budgets to chronic deficits [Mendelson, 1993].

Faced with the burgeoning deficit, increased spending seemed out of the question. Taking advantage of the new reality, the Social Security Review was quickly knee-capped by the Department of Finance. Funding was withdrawn and options available to the Minister of Health

and Welfare were only those that could be financed internally within his Department. The reform of family allowance in 1974 and the Refundable Child Tax Credit in 1979 were virtually the only products of this period, instead of the first instalment in a comprehensive reform of social policy.

The Liberal government of the day lacked the will to find a way around the fiscal obstacles and carry through with reform, but it remained committed to Canada’s social programs, most of which it had founded, as well as to the idea of a basic Canadian identity expressed through the sharing of adversity across provincial boundaries. The social progressives in the Cabinet could not marshal the support to go forward. Neither would the Cabinet agree to go backward. So it remained more or less stationary.<sup>3</sup>

The stalemate remained in place for almost a decade, but with the coming into power of the Mulroney government it was finally shattered. The Mulroney government represented an unlikely alliance of Quebec nationalists and western conservatives. Of course, as we now know, in the end this coalition proved satisfactory to neither group – one becoming the Bloc Quebecois and the other the Reform Party. In the meantime, however, Mulroney could appease both partners in the coalition by adopting a ‘provincial rights’ strategy. This would allow the nationalists in Quebec to claim success, while permitting western conservatives to satisfy their ideological commitment to reducing the size of government.

The result was a gradual dismantling of the social security system built since the Second World War. Through a policy of only partially indexing social benefits, huge cuts were gradually implemented in many direct federal programs and in funding of provincial social programs [Battle 1990]. In 1990, Ottawa abrogated the

Canada Assistance Plan (CAP) agreement by imposing a five percent ceiling on increases in federal cost-sharing for BC, Alberta and Ontario. Coming at the beginning of a massive downturn of the Canadian economy, this meant a huge gap would grow between what Ottawa would have to pay if it restored full cost-sharing in the CAP and what it was actually paying on a capped CAP. No government in the future would close this multi-billion dollar gap. Through this round-about route, the ceiling spelled the certain doom of the CAP, the last major cost-shared federal-provincial funding arrangement.<sup>4</sup>

But as Mulroney discovered, the policy of feeding the monster did not work. Gradually ceding more and more of the national role to the provinces failed to satisfy the demands of Quebec nationalists; rather, it whetted their appetites for more. Yet Canadians, both in Quebec and outside of Quebec, were becoming increasingly worried about erosion of national social security programs.

The Meech Lake constitutional proposals were the first attempt to resolve this contradiction. Meech would have formally recognized the federal spending power in areas of provincial jurisdiction while allowing provinces to opt out “if the province carries on a program or an initiative that is compatible with the national objectives” [Meech Lake Accord 106A; from Canadian Public Policy, 1988: 149].

During the ensuing debate, the likely effect of Meech on national social programs was greatly exaggerated [Banting, 1988; Courchene, 1988]. The consequences would certainly have been less than the cumulative impact of the program changes being made by the Mulroney government without any constitutional amendments at all. Nevertheless, the Meech Lake Accord was opposed by most social groups because of its perceived limitations on the federal

spending power. This is not surprising given the context of distrust and erosion of national social programs. Had a similar amendment been proposed in a context such as the introduction of the C/QPP, a very different reaction might have been anticipated.

Unlike Meech, Charlottetown would have entrenched the federal responsibility for many federal transfer programs. In fact, Charlottetown would likely have made it impossible to abolish the Canada Assistance Plan and the Established Programs Financing Act without a replacement, since it would have constitutionally entrenched the principle of federal funding for social assistance and other provincial social programs. Again, despite this and the relatively mild restraints on federal spending power reflecting the Meech formulation, Charlottetown was again unacceptable to most social groups for much the same reason as they opposed the Meech Accord in the first place.

What this brief history shows is that the ‘provincial rights’ strategy just ends up increasing the contradiction between Quebec and the rest of Canada rather than decreasing it. Premiers’ posturing about developing alternative national standards is a “constitutional oxymoron” [Cairns, 1991:94]. Premiers will do what they are elected to do – represent their provinces. It is no accident that Quebec separatists react so positively when Premiers call for increased provincial powers. This is just a resurrection of Mulroney’s failed coalition, part of which were many of those self-same separatists.

The sole option which has worked and brought satisfactory results for Quebec and for all of Canada is that of cooperative reform, wherein the provinces and the federal government work together to achieve an improvement in Canada’s social programs, although not

necessarily through cookie-cutter imposition of standardized federal programs.

The newly-elected federal Liberal government appeared to be undertaking exactly this strategy when it promised a comprehensive review of Canada's social security system. The rebirth of the Federal-Provincial Social Security Review of the 1970s seemed to be under way. But such was not to be. Once again, in a chilling imitation of the events of two decades previous, Finance withdrew its support for the review process and effectively killed it with the Canada Health and Social Transfer [Battle and Torjman, 1995].

Which brings us back to today and the referendum. If Quebec rejects separation, how do we proceed next?

The answer does not lie in the current federal policy of continuing Mulroney's strategy. When Premier Parizeau argues that a 'no vote' will mean reduced federal pensions, he is not calling for cut-backs in social programs. Just the opposite. The threat of reductions in federal social programs for people strengthens the separatist argument. A satisfactory response to a no vote will not be found by Ottawa getting out of the business of helping people.

In social policy, the path to national reconciliation lies in reviving the enterprise of cooperative federal-provincial redevelopment of our social security system. This will require a long-term view. Present fiscal circumstances are constraining, but they will steadily improve. Working now to design better social programs that are phased in over the next decade is not impossible. If the federal government wanted to see such a process occur, it would be natural to initiate it as part of the renegotiation of federal-provincial transfers that is about to begin [Mendelson, 1995].

This process would require tough negotiations to extract real compromise from everyone. All will not be sweetness and light. In some instances, the federal government may have to reach directly to the people of some provinces, 'above the heads' of the provincial governments, as it did with the Canada Health Act. Some asymmetry doubtless will arise, as in the C/QPP. There is nothing impossible about such an enterprise. With patience, perseverance and time, the Canada-Quebec social policy riddle can be solved.

If Quebec votes 'no' on October 30, Canada should say 'yes' on October 31.

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#### **Endnotes**

1. In a CROP Inc. poll conducted from September 7 through 12, 1995, 81 percent of Canadians outside of Quebec said that a no vote would "mean Quebecers want change but not sovereignty: only 13 percent said rejection would mean Quebecers are satisfied with their place in Canada" [*Globe and Mail*, September 19, 1995:A5].
2. In the words of the Royal Commission on the Economic Union and Development Prospects for Canada: "During the Quiet Revolution, Quebecois sought to use an activist provincial state to redress the historic underrepresentation of Francophones in the ownership and management of the provincial economy. The instruments that they used included *Hydro-Quebec*, the *Caisse de depot et de placement* and the *Societe generale de financement*, and sweeping reforms to the education system. In many respects these efforts proved successful" [Canada, 1985:145-6].
3. Other than the Refundable Child Tax Credit of 1978, the two major social policy changes of this period were the introduction of the Established Programs Financing (EPF) Act in 1977 and the Canada Health Act (CHA) in 1984. EPF replaced prior cost-sharing with block funding but it was not at all a cutback in funding to the provinces

– most enjoyed large increases. The CHA was the quintessential defense of the status quo.

4. The *coup de grace* was delivered by the Liberals in the 1995 Budget through the introduction of the Canada Health and Social Transfer.

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