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Social Policy in Real Time

by

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Foreword

Social Policy in Real Time, by Michael Mendelson, is the keynote address delivered at Rethinking Social Welfare, the Sixth Biennial Social Welfare Policy Conference held in St. John's, Newfoundland from June 27-30, 1993. The conference was co-hosted by the Community Services Council of Newfoundland and Labrador and the School of Social Work of Memorial University of Newfoundland, and brought together social policy analysts, academics, activists and administrators from across Canada.

The Caledon Institute of Social Policy is honoured to publish *Social Policy in Real Time* as the inaugural document in its series *Caledon Papers*, written by leading experts in the fields of social and economic policy. Mr. Mendelson's paper is a particularly appropriate way to launch our series since it speaks directly and clearly to the strong links between social and economic policy and the need to re-think social policy fundamentally – two of Caledon's founding premises.

Michael Mendelson is a distinguished senior public servant and one of Canada's most astute and original thinkers on social policy. He is currently Deputy Secretary of the Cabinet for the Government of Ontario and was Assistant Deputy Minister, Office of the Budget and Intergovernmental Finance in the Ministry of Treasury and Economics. He also served concurrently as Assistant Deputy Minister of Community Services for the Ministry of Community and Social Services and Acting Assistant Deputy Minister of Community Health for the Ministry of Health for the Government of Ontario.

Before moving to Ontario, Mr. Mendelson was Secretary of Treasury Board for the Government of Manitoba and also served as Deputy Minister of the social service department. Mr. Mendelson also worked for the federal government, where he contributed to the Government of Canada's position paper leading to the introduction of the Canada Health Act. While on the staff of the Parliamentary Task Force on Federal-Provincial Fiscal Relations, he wrote chapters on social services and income security, and worked with members to achieve a consensus draft in many contentious areas.

Although he has spent most of his career in government, Mr. Mendelson has managed to pursue his research and academic interests by publishing articles and giving addresses to policy and academic conferences. He wrote the prescient paper *Is Social Policy Dead?* some years before it became fashionable to say so, followed by the equally thoughtful *Can We Reform Canada's Income Security System?* He also has written on free trade and social policy, child benefits, health policy and pension reform. While at the Ontario Economic Council, he published two books that have become classics in the literature – *Universal or Selective? The Debate on Reforming Income Security in Canada* and *The Administrative Costs of Income Security Programs: Canada and Ontario.* More recently, Mr. Mendelson prepared a report for the National Council of Welfare on national issues of health policy.

The views expressed in *Social Policy in Real Time* are those of the author and do not necessarily reflect the views of the Government of Ontario.

Introduction

For the last 40 years, much of social policy writing, thinking and analysis – even active experimentation – has been dominated by a single idea – the guaranteed annual income. Since the early 1950s and continuing to today, students and advocates have returned to the concept of a guaranteed annual income as a kind of Holy Grail of social policy. But like the Holy Grail, it forever recedes into the distant mists. The closer we get, the more insubstantial it becomes.

Recently, analysts from both the right and left have begun to criticize the guaranteed annual income. Both ends of the political spectrum have questioned the assumption that the solution to social alienation, disenfranchisement and all the ills associated with poverty is, simply put, "money." Money no matter how derived.

On the political right, the very programs established to address social problems have been blamed increasingly for causing the diseases they are meant to cure. On the left, the need for full employment as an alternative to subsidized unemployment has been stressed. This is a stimulating and important debate – and one which should carry on. But if we take a step back from the issues themselves, we might want to ask: Where are these ideas coming from? And why now? Why has the idea of a guaranteed income played such a critical role but is now seemingly outmoded?

The answer may appear simple. The guaranteed income was held up as the goal of social policy because that was the best thing people could think of at the time. But with more experience and more analysis, its weaknesses have become increasingly apparent. So new ideas are developing. On one level, this is certainly a valid answer. But it cannot be the complete answer. If it were the complete answer, social policy would be primarily a contest of ideas, and the ideas would be primarily about social policy. In this view, we who are students and practitioners of social policy would go about developing our arguments and analyses, and when the right answer finally was developed, it would be adopted and would solve the problems of the day.

Like a social policy version of Archimedes, some lonely analyst sitting in the bath would finally get the right combination of marginal tax rates, basic guarantees and monthly reporting forms and, doubtless crying out 'Eureka,' bring forth the answer to the waiting world.

But there is another view – in this view, social policy analysis is not only, or even mainly, a contest of ideas about what works best in the world of social policy. Rather, social policies, both those implemented and those which remain idealistic hopes, are part and parcel of the nexus of economic, political and technological realities which make up the world in which we live.

From this perspective, social policy is not developed as an intellectual tour de force, as a kind of field in its own right which, when and if the right answer can be found, can then be shipped out and fit into whatever economic reality we confront at the time. We cannot record the "right" social policy answer on our VCR and play it back whenever we have the time. Instead, social policy is both a part and a reflection of the present needs of our economy and our political life. This is what I mean by social policy in "real time."

When we work in real time, the debate as to the future of social policy is not about which marginal tax rate best encourages work while minimizing cost; rather, it is about our political, social and economic future. The debate about social policy is as much about monetary policy as it is about poverty and work. When analysts on the right argue for an end to universal programs, their argument is as much about deficits as it is about distribution.

This is the context in which social policy is discussed in this paper – because we are at a crucial turning point for Canada. To return to the question asked at the beginning of this paper: Why is it that the guaranteed annual income is being called into question now and new ideas are emerging? It is because Canada's economic context no longer can support the basic consensus which has governed its economic, social and political life since the 1940s. Yesterday's Holy Grail now appears nothing but a tarnished cup with little relevance to reality.

The guaranteed income has not changed. We have.

From social progress to stagnation

Canada emerged from the Second World War with great optimism – a sense that anything was possible and with faith in the instruments of policy, in government and in public life. Moreover, the generation which fought the war became a relatively quiet, disciplined work force, as those whose lives were disrupted by both the war and the depression looked for nothing more, or less, than the opportunity to raise a family, hold a decent job and live a predictable life.

The neat division of the world into the Communist East and the Capitalist West provided a simple, expedient external threat to stifle any nascent stirring of internal division and to enhance the essentially conservative wishes of that generation. The non-White world remained nothing but a dim presence with little implication for daily life.

In the economic realm, enlightened Keynesian-oriented economists dominated public policy in both Finance portfolios and central banks. With the US dollar tied to gold, more or less predictable exchange rates saw a massive escalation in international trade as the rebuilding of Europe provided an outlet for investment. Over this all, a single nation reigned supreme – the United States – with unquestioned dominance of the world economy and of world technology.

What was social policy in Canada in those decades?

Perhaps the dominant theme of social policy was an unspoken but common assumption that progress was certain – that with time and some effort, programs would get better, the number of poor would decrease, better housing would be generated and ways would be found to "cure diseases" of the body, of the mind and of society as a whole. Progress might be slow for some and fast for others, but progress there would be.

In the "personal social services," such as child welfare and programs for persons with developmental disabilities, new ideas were implemented ranging from "group homes" to "behaviour modification." While these efforts now may appear, at best, as make-do when nothing else was available or, at worst, as horrible abuses of power, at the time they were regarded as hopeful, modern new approaches often undertaken by idealistic advocates.

By the end of the 1960s, the gradual development of social programs had occurred since the war escalated into an explosion of reform. In the five years between 1965 and 1970, the Canada Assistance Plan, the Canada and Quebec Pension Plans, the Guaranteed Income Supplement and Medicare all were established.

But gradually, as the pace of reform and change slowly halted, as the solutions which yesterday were applied with so much vigour became the problems of today, it became apparent that there was a problem – progress was not continuing.

In 1976, on the tenth anniversary of the Canada Assistance Plan (CAP), there was real faith that new programs would soon replace welfare and that the Plan itself would disappear as it was overtaken by better, more progressive legislation. Experiments with guaranteed income plans had flowered across North America and were reporting their results. Canada's Federal-Provincial Social Security Review, a massive cooperative effort of federal and provincial governments to reform social programs fundamentally, was still a live issue.

There was every reason to expect that the reforms of the previous decade were only a prelude to deeper and more profound changes in Canadian life.

But by the twentieth anniversary of the Canada Assistance Plan, in 1986, faith in the certainty of reform should have been dwindling. Perhaps the most disappointing feature of CAP's twentieth anniversary was the fact that it was still there, unamended and unchanged. The few efforts at reform – such as the Saskatchewan Family Income Plan and the federal refundable child tax credit – had failed to penetrate to the core of social policy and had become instead minor add-ons to the system built in the 1960s. Institutions for persons with developmental disabilities still abounded and thrived. Child welfare systems remained mired in no-win choices.

Instead of bigger, better and more programs, cracks began to appear in the wall of progress. Quebec's reforms of the Quiet Revolution, kicked off by the visionary Castonguay-Nepveu Report of 1971, came to a crashing halt with the publication of the White Paper on Income Security of 1984. On the federal scene, the national child care program failed to materialize and instead was replaced by a gradual erosion of benefits in most federal programs.

However, we human beings are slow to change – we do not readily adopt new basic views and adjust to new realities. Despite the accumulating evidence all around us, the expectation of progress remained; reform still was seen as the natural course of events. Setbacks were not a trend; they were small aberrations in the great movement of society towards improvement, towards hope and towards the elimination of poverty and social ills.

Today, we are three years away from the thirtieth anniversary of the Canada Assistance Plan. Ironically, the Canada Assistance Plan finally has changed – but not at all the way it was foreseen in the 1970s. CAP has changed through the imposition of arbitrary ceilings on three provinces – ceilings from which any federal government will find it difficult to rescue the plan. But CAP has been replaced by nothing at all – no new Social Services Act, no guaranteed income, no child care program. It is clear, in 1993, that social progress is not the natural order of things.

In retrospect, we can see that the mid-1970s marked a turning point, the time when the movement to develop new programs gradually petered out. The great changes at the end of the 1960s were not a prelude to more; they were the climax of a distinct period in the history of Canada's social development. Although most of us could see it clearly only 15 years later, the post-war decades of constant improvement in social programs had become the stagnation of the late 1970s and early 1980s.

What occurred in the mid-1970s to cause this great change?

Why the times changed

In his 1972 and 1973 Budgets, the federal Minister of Finance, one Honourable John Turner, introduced several critical changes in the tax system. Turner's tax changes included general indexing provisions for the whole personal income tax system, taking effect in 1974, as well as substantial increases in many types of tax expenditures.[1]

The stated purpose of indexing the tax system was to eliminate "the hidden revenues accruing to governments through the effect of inflation on a progressive tax system."[2] However, the consequences of the reforms were a lot more important than revealed by that explanation: the reforms decreased radically the "elasticity" of government revenues relative to Gross Domestic Product for all future budgets. This meant that the amount of growth in revenue "automatically" resulting from any growth in the economy was from then on reduced.

The results were immediate. Canada went from a surplus in its primary budget balance – i.e., a surplus not including debt servicing costs – to a primary deficit. Moreover, the deficit was clearly "structural" – meaning that it was not just a result of the ups and downs of the business cycle at that moment in time. The solid line of Figure 1 shows that federal expenditures began to exceed federal revenues as a built-in feature of the budget, in 1975, even after cancelling out the effects of the business cycle and without taking account of the cost of paying for the increased debt which resulted each year.

However, rising government debt in and of itself is not always a big problem. Other countries ran even larger government budget deficits in the last half of the 1970s: Most notably, Japan's budget deficit averaged five percent of its Gross Domestic Product – the second highest of all the OECD nations after Italy – while Canada's federal budget deficit from 1975 to 1981 averaged three percent of GDP.[3] But by 1985, Japan had turned its fiscal ship around. Its net government indebtedness as a percentage of GDP started to fall as rapidly as it had climbed in the late 1970s.

Why was Japan able to climb its way out of the debt of the late 1970s while Canada became more and more deeply enmeshed?

The Turner tax changes do not in themselves fully explain the origin of Canada's continuing fiscal problem. Ultimately, what counts is not how much debt you owe; rather, it is how much of your income you have to use to pay for your debt. The interest rate on the country's debt determines the "debt servicing" costs, while the overall state of the economy determines how much income there is to pay the debt servicing costs.

When interest rates on debt are less than the rate of growth in the economy, debt servicing will become more affordable without any extraordinary effort, even if there is a small primary budget deficit. This is just a matter of arithmetic. But when interest rates payable on government debt exceed the rate of growth in the economy, debt servicing costs as a percent of economic activity increase, unless there is a large primary budget surplus. Debt to GDP ratios keep on climbing even if there is a balanced primary budget. This is what is known as a "debt trap." In a debt trap, the debt seems to have a momentum all its own.

This is the trap Canada made for itself in 1974. A long-term analysis of Canada's finances reveals that "the effective interest rate on Canada's net debt has exceeded the rate of nominal GDP growth since 1974. Canada has suffered a classic and extended debt trap."[4] In Japan, by contrast, interest rates remained continuously below the rate of growth of the economy, allowing Japan to avoid a debt trap despite its rapid build-up of debt.

So in 1981, when a primary budget surplus was achieved in Canada, it was already too late – the miracle of compound interest was at work. When debt servicing costs are included, the deficit remained, as can be seen on the dotted line of Figure 1. Overall, debt servicing costs – which had been more or less steadily diminishing as a percentage of GDP since the war – began to increase from 1974 on, as shown in Figure 2.

Canada's fiscal problems reside in the interplay between fiscal and monetary policy, not in fiscal policy alone. Although monetary policy was not exceptionally rigorous until the mid-1980s, it was not loose enough to support the fiscal policy which had emerged willy-nilly from the head-on crash of the Turner tax reforms into the political reality of taxes and expectations.

Welcome to the 1990s

It is unusual to find a lengthy discussion of fiscal and monetary policy in the middle of a paper on social policy. But this is just the point of this paper, for if we ask the question: "What happened to social policy in the 1970s?" The surprising answer is "nothing." Nothing happened to *social policy.* What changed was the economic environment in which social policy operates.

And the consequence was the stagnation of social policy.

So let us go back once again and take another look at the history of Canadian social policy in this light.

The last major expansion of a social program financed through significant amounts of "new" money was the tripling of family allowances in 1974, announced at the initiation of the Federal-Provincial Social Security Review. Like the Review itself, the main reason for this last gasp of reform was not its social policy implications. Rather, it was a case of Canada's peculiar constitutional imperatives. Quebec's stated reason for rejection of the Victoria Charter was removed by increasing family allowances and allowing them to be varied by the number and/or age of children according to the wishes of the provinces.

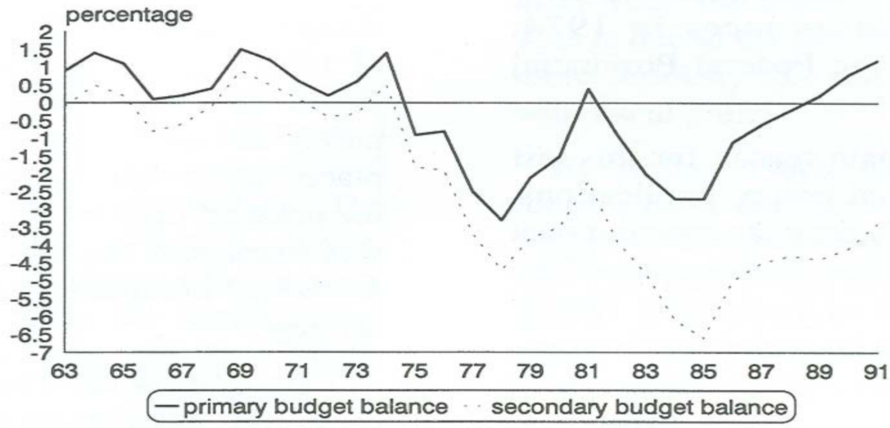
The Federal-Provincial Review itself was designed to show that positive social policy reform could be accomplished through federalist institutions and that sole provincial control of the field was not necessary for progressive change to occur. The Review constituted the federal response to Quebec's increasing blame of federalism for that province's inability to implement the Castonguay-Nepveu vision.[5]

However, the escalating deficit after 1974 made the reforms contemplated in the Federal-Provincial Review impossible to implement. Courchene comes to the same conclusion:

> ...the initiative faltered in large part because the federal fiscal position deteriorated quite remarkably during the 1973-78 period. What might have been possible in the 1970-73 era became unrealistic as federal budgetary surpluses turned into substantial deficits.[6]

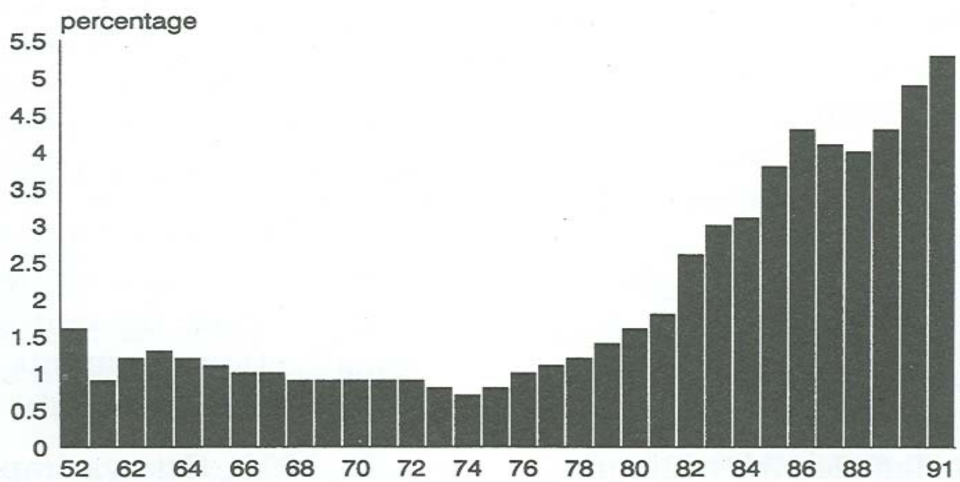
In the new spirit of the 1970s, the refundable child tax credit was borne out of a wish to make spending more effective while, perchance,

Figure 1: FEDERAL BUDGET BALANCES AS PERCENTAGE OF GDP (CYCLICALLY ADJUSTED)



data source: Department of Finance Canada

Figure 2: FEDERAL NET DEBT SERVICING COSTS AS PERCENTAGE OF GDP



data source: Department of Finance Canada also reducing spending. By reallocating family allowances funding, which was counted as an expenditure in the books, towards increasing tax credits, which were counted as a tax decrease, there was a reduction in overall "spending" in the accounts. But accounting aside, the overall cost impact was in reality neutral, as the refundable credit was financed by a decrease in family allowances and other child-related benefits.[7]

The refundable child tax credit signalled the beginning of a new era – a time when social policy would be, at best, a zero-cost exercise. Words such as "retargetting" now would enter the social policy vocabulary. The time of the big bold program initiative was over.

The final major "progressive" national social policy initiative of the last few decades – the Canada Health Act of 1982 – is a case where the cliche "the exception that proves the rule" applies. The Canada Health Act was a purely defensive measure, meant to keep what exists in place, rather than to expand it. Appropriately enough, the political decision to introduce the Canada Health Act was announced through a policy paper called *Preserving Universal Medicare,* with emphasis on the word "preserving."[8]

This reflects the changing spirit of the times. For those who traditionally have looked for improvement of social programs, the challenge now was to maintain what had been achieved. Perhaps the whole decade of the 1980s could have been kicked off with a policy paper called *Preserving the Status Quo* – not just Medicare.

But by the mid-1980s, the period of benign stagnation was drawing to a close. The struggle to maintain existing programs was being lost.

In his 1985 Budget, Finance Minister Michael Wilson partially de-indexed Established Programs Financing (EPF) entitlements to the provinces (to the increase in GNP less two percentage points), effective 1986. This ushered in a period of mounting reductions in federal transfer payments. The level of EPF entitlements was frozen from 1990-91 through 1994-95, after which a partial indexation formula of GNP-less-three percentage points is to be applied.

But because cash payments under EPF are the residual of the entitlement less the value of tax points, the result has not been simply to freeze cash payments. Per capita cash payments under EPF have declined steadily since 1989, from $343 in that year to $294 per capita in 1992. The cash payments under EPF will begin to disappear within the next several years in some provinces and will be gone throughout Canada by around 2010.

In 1987, the ceiling on equalization payments, first imposed in 1982, was extended for another five years. But this time the ceiling had a real impact, reducing equalization payments to less well-off provinces by about $3 billion over the next five years.[9]

In 1990, Ottawa imposed a five percent ceiling on increases to CAP payments to Ontario, Alberta and BC. This was just at the beginning of the recession, which has had a devastating impact on employment in Ontario and resulted in huge increases in social assistance caseloads. As a consequence of the ceiling, the federal government now is sharing only about 28 percent of social assistance costs in Ontario.

Overall, the federal government apparently was giving up on any sense of responsibility for the country as a whole. From now on, Ottawa would focus on the federal debt and the provinces could look after themselves. The fiscal problems of Newfoundland or Alberta no longer were of concern to the federal government. In innumerable smaller programs, almost all in the social policy field, federal funding was withdrawn, regardless of the consequences for the people or the province affected.

To pick just one small example, in Saskatchewan the federal government recently unilaterally stopped paying social assistance for registered aboriginal Band members living off-reserve. The net cost to the province is about $20 million – not a lot of money in the scheme of things, but a telling blow to Saskatchewan, a province reeling under the weight of virtual bankruptcy.

The 1985 Budget also initiated a series of measures to reduce direct federal social spending, beginning with limiting the indexation of all child benefits: Over the next several years, through what has been called the "politics of stealth," gradual and often apparently technical adjustments were made in social programs, whose full effects often would not be seen in anyone year.[10] However, by 1992, the structure of Canada's social programs had changed fundamentally:

> ...the universal Family Allowances program was terminated at the end of 1992; the universality of Old Age Security was effectively abolished by 1991; and the federal government's direct contribution to financing the Unemployment Insurance scheme was ended in 1991.[11]

The 1985 Budget also inaugurated continuing increases in federal taxes as a percent of GDP – rising from 17.2 percent of GDP in 1984 to 18.3 percent of GDP in 1986 and, with a slight pause for the election of 1988, to 19.8 percent in 1991.[12] The GST was introduced, providing what was hoped to be a lucrative new source of revenue for the federal government.

All of this was purportedly an effort to improve the government's fiscal position. However, debt servicing costs continued to eat up a huge percentage of the budget – in many years growing rather than falling. Year after year, federal budgets would predict startling decreases in the deficit and new timetables of deficit reduction. Year after year, the forecasts would turn out to be wrong. This is due to the fact that, as in the late 1970s, but much more seriously this time, monetary policy is out of line with fiscal policy.

By the late 1980s, the Bank of Canada had begun to focus almost entirely on a single objective – reducing inflation. It adopted the goal of zero inflation. To do this, the Bank raised real interest rates to extremely high levels. The resulting decline in economic activity and lower rates of inflation contributed to a decline in tax revenue for government. This increased the deficit, causing the Bank to raise rates even higher to negate any stimulatory effects of the increased deficit.

Like a dog chasing its own tail, Canada's fiscal policy could not catch up to its monetary policy.

One of the most serious consequences of high interest rates is an overvalued dollar. This has led to the rapid deterioration of Canada's current account. The "current account" is the balance of all economic activity, both private and public, with the rest of the world. A deficit in the current account means that our country is consuming more economic resources than it is producing.

Figure 3 shows Canada's current account balance as a percentage of GDP compared to that of other OECD nations. It can be seen that

Canada's current account is declining steadily and is now much worse than that of any other OECD nation. Among other consequences, an increasing amount of our debt is denominated in foreign currencies, so that any future depreciation of the Canadian dollar will increase our debt servicing costs – making "monetary solutions" (i.e., inflation) to fiscal problems much less effective.

So we enter the 1990s with a serious economic problem and a structural fiscal problem. Perhaps a different monetary policy in the late 1980s would have put us in a better position. But the reality today is that there is no easy panacea available. Fiscal policy will have to meet monetary policy halfway – which means that times will continue to be very tough on public spending under any scenario. Furthermore, we will have to become even more economically efficient, so we can redress our current account balance over the next several years.

In short, Canada is a nation in trouble.

Rethinking social policy

What this means for social policy is simple: there will be change. If there was ever any doubt, the period of benign stagnation is now definitely over.

As a country, we will be less willing to support social programs whose main feature is to "park" unemployed people – pay them a cheque and forget about them. Increasingly pressed taxpayers will reject governments that

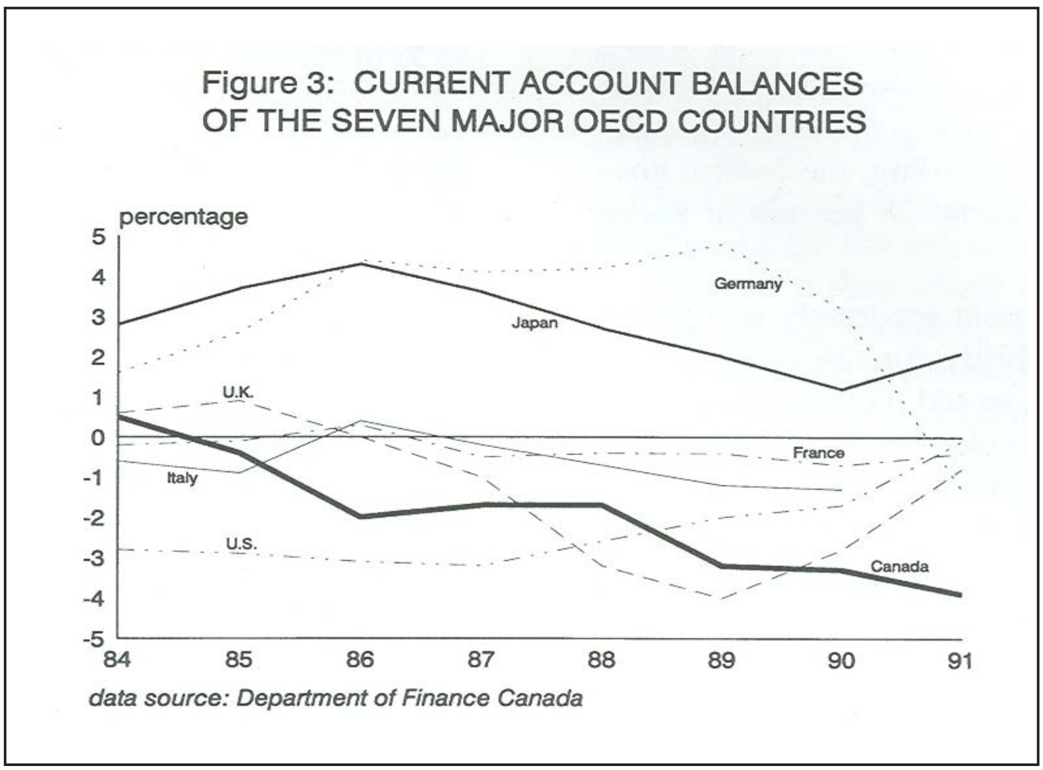


Figure 3: CURRENT ACCOUNT BALANCES OF THE SEVEN MAJOR OECD COUNTRIES

do not find better ways to spend their money. A strategy which can be described as "conservative" in the classic sense – aimed principally at preserving the programs of the 1960s – therefore will no longer be viable.

There will be change, but the nature of that change in our social programs is dependent upon the economic and social path we choose to follow. One path is to continue as we have over the last several years, maintaining a very restrictive monetary policy with a single-minded goal of price stability. This will require an extraordinarily severe fiscal policy. In fact, it is doubtful whether in the long run it could work at all, and instead we would just end up going in a declining spiral of fiscal versus monetary policy until some crisis shakes us off this route – for example, as has now happened in Britain.

Nevertheless, if we make this choice, the implications for social policy are clear: it will mean continued cutting back, freezing here, trimming there. This path will lead to a network of social programs which will more closely converge with that of the US. As they introduce some form of national health insurance with fees, partial coverage and managed competition, we will reduce our universal program through fees, partial coverage and managed competition.

Pensions will be whittled away. Social assistance will be cut back and punitive rates introduced for some categories of recipients. There will be a "back to the basics" movement in personal social services, with reductions in community-based and preventive programs. The commitment to national social programs and to continued sharing of our burdens as a single nation will continue to erode, and in some cases, will disappear altogether.

This is the path we are on now. However, there is an alternative.

Our economic policy must put the goal of increased employment first, adopt a less restrictive monetary policy and allow the dollar to drop to its natural level. This will ameliorate somewhat the fiscal crunch, but it will not solve it. Unfortunately, it is too late for any easy or painless solution. Even if we make this choice, budgets will remain very constricted.

In this economic context, we need to define reasonable social policy alternatives that make sense in "real time" – that make sense in a time of fiscal constraint and economic challenge.

What makes sense for social programs is to transform them so that they are an investment in people. To choose a metaphor from the social services, this means rethinking every social program so that it does not just "remove the child to a place of safety," as child protection is called in child welfare. Rather, the goal should be to ensure the child is in a place of growth.

From Medicare, which should be rethought on the basis of restoring and promoting health rather than intervening to treat illness, to social assistance which must be rethought as a way of retraining and promoting potential rather then maintaining people at a subsistence level – all programs need to be reinvented so that they help and not just hold. Old ideas, which would hold and not help, like a guaranteed income, need to be discarded.

In some cases, investment initially could cost more money. But if the investment is realistic, can be seen to deliver value for taxpayers' money and returns the initial investment within a reasonable period of time, it can be a viable political and fiscal strategy. An example of such an investment strategy is Ontario's recently proposed changes to its social assistance system.[13]

In other cases, an investment strategy will save money immediately. For example, it has been well documented that many of our health expenditures are not efficacious' in promoting health or even in treating illness. The same can be said of the personal social services. This unproductive spending should be stopped.

In any case, of this we can be certain: unless a reasonable, progressive investment strategy can be articulated, the simple-minded strategy of deep cuts will be adopted at some point down the road.

This is the challenge for advocates of social policy in 1993. To give up defending the status quo. To instead articulate an alternative path. A path for social policy which makes our social programs better, not worse. Which reflects hope and optimism about people, not despair and fatalism. A path for social policy which is both progressive and which can survive in "real time."

Endnotes

1. These tax measures are described in David Wolfe, "The Politics of the Deficit" in G. Bruce Doern (ed.), *The Politics of Economic Policy* (Toronto: University of Toronto Press, 1985), pp. 122-123. They included a write-off for the manufacturing sector, exemption of clothing from the federal sales tax, the investment tax credit, the personal investment income deduction as well as other measures.

2. John Turner. 1973 *Budget Speech* (Ottawa: Department of Finance, 1973), p. 19.

3. Canada. Department of Finance. *Economic Reference Tables* (Ottawa, August 1992), p. 141.

4. UBS Phillips & Drew, Global Research Group. *Economic Briefing* (London, England: February 25, 1993), p. 11, emphasis in the original.

5. A view which can be seen even today as informing the Allaire report. Of course, the Federal-Provincial Review did, in fact, fail.

6. Thomas J. Courchene. *Social Policy in the 1990s: Agenda for Reform* (Toronto: C.D. Howe Institute, 1987), p. 49. While Courchene also sees 1974 as the "turning point," he argues (p. 9) that "it is convenient to associate the beginning of this reformulation stage with the world energy price increases that occurred in 1973 and 1974." However, analysis does not seem to bear out this explanation.

In their careful statistical review of the origin of Canada's debt, Mimoto and Cross conclude that "Deficits also became steadily larger after 1975-76 initially more from a shortfall of revenues than high-er spending. Much of this shortfall originated in numerous changes designed to reduce taxes and in the transfer of tax points to the provinces." See Hideo Mimoto and Phillip Cross, "The Growth of the Federal Debt." *Canadian Economic Observer* (Ottawa: Statistics Canada, 1991). It should be noted that the transfer of tax points to the provinces did not occur until 1977. [Statistics Canada later disavowed this study. The disavowal appears to have been politically motivated.]

The same conclusion was reached by Wolfe: "A substantial portion of the underlying structural deficit of the federal government can be accounted for by the discretionary tax changes introduced in the years since the comprehensive reform of the income tax in 1971." David Wolfe, "The Politics of the Deficit", p. 120.

7. Michael Mendelson. *Universal or Selective: The Debate on Reforming Income Security in Canada* (Toronto: Ontario Economic Council, 1981), pp. 62-63.

8. Monique Begin. *Preserving Universal Medicare* (Ottawa: Department of National Health and Welfare, 1983).

9. Ken Battle and Sherri Torjman. *Federal Social Programs: Setting the Record Straight* (Ottawa: The Caledon Institute of Social Policy, 1993) and Peter Leslie, Kenneth Norrie and Irene Ip (eds.) "The Fiscal Crisis of Canadian Federalism" in *A Partnership in Trouble: Renegotiating Fiscal Federalism.* (Toronto: C.D. Howe Institute, 1993).

10. Grattan Gray. "Social Policy by Stealth." *Policy Options*, Volume 11, Number 2 (March 1990).

11. Michael Prince and J ames Rice. "Lowering the Safety Net and Weakening the Bonds of Nationhood: Social Policy in the Mulroney Years" in Susan Phillips (ed.) *How*

Ottawa Spends 1993-1994: *A More Democratic Canada...?* (Ottawa: Carleton University Press, 1993), p. 383.

12. Canada. Department of Finance. *Economic Reference Tables* (Ottawa: August 1992), p. 142.

13. Ontario Ministry of Community and Social Services. *Turning Point: New Support Programs for People with Low Incomes* (Toronto, 1993.)