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Foundations and Future of Social Policy in Canada:

Three Short Speeches from the Caledon Institute's 10th Anniversary Celebration, November 6, 2002

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Ken Battle, President, Caledon Institute of Social Policy

The video of social policy pioneers that you just watched, the early November date of today's event and the Remembrance Day reference on your program were all carefully chosen: *Lest We Forget: Why Canada Needs Strong Social Programs* is also the title of one of Caledon's writings that best exemplifies the passion, rigour and analytic toughness that guide and distinguish our work.

In that 1995 paper, we wrote: "Lest we forget why the generation for whom Remembrance Day is a living memory said never again to the economic devastation and social despair of the Great Depression. Lest we forget why they supported the development of a national system of social security as an antidote to hunger, helplessness and deprivation."

Caledon believes fervently that strong social policy is as necessary now – and in the future – as it was in the past, and for the same basic reasons: To both civilize and invigorate capitalism.

The market economy can neither produce nor distribute, in an efficient and effective manner, some of the very things that Canadians most need and value – adequate basic incomes for all, health care and education being but three prominent examples. Social policy was invented to provide some things that don't belong in the market, and to help lessen the gross inequalities of income and opportunity that are an odious by-product of market economies.

But social policy also has an important role to play in training and educating the workforce – a role that, as Tom Kent reminded us in the video we just watched, was acknowledged a half century ago by the founders of the modern welfare state. To remain competitive and productive, our economy is reliant upon the intellectual and social infrastructure that only a strong social security system can help supply.

Now more than ever Canada needs well-educated, highly-skilled and lifelong-retrainable employees and self-employed workers. We need a reliable social safety net in the form of income security and accessible health care to help people cope with adversity and return to paid work. We need a fair and open immigration and refugee policy to nourish a country that always has welcomed new Canadians and benefited enormously from their contributions.

Canada needs not just a civil society: It needs a civil economy to temper the failings of the free market and to repair the economic and social damage wrought by persistent and extreme inequalities of opportunity and outcome. Both those daunting tasks – striving for a civil society and a civil economy – are the job of social policy.

But our social security system was built largely in an earlier time, and has been struggling to operate in a society and economy that is much changed, if not transformed. Piecemeal renovation has updated some of its elements, and in a few cases has achieved structural reform through what we have dubbed ‘relentless incrementalism.’ However this largely *ad hoc*, unconnected approach is not enough: We need a new ‘architecture’ for social policy, to use the vogue term, a better “bone structure” to borrow Tom Kent’s evocative imagery – to invigorate both the redistributive and human capital development capacities of Canadian social policy.

Caledon recently issued a report called *Social Policy That Works: An Agenda* (copies are available here today) that advances our quest for reconstructing Canadian social policy. It puts forward a series of policy proposals and challenges for this first decade of the 21st century that build upon our past work and upon some important ongoing government reforms – which sometimes are one and the same, I’m gratified to say.

Sherri Torjman and I are going to briefly highlight a few of these reform ideas, though I encourage you to read the paper since it is jam-packed with a lot more ideas than we can mention today. It covers such diverse fields as child benefits, early childhood development, parental leave, welfare and Employment Insurance, employment and learning services, supplementary health care, Canadians with disabilities, community economic development and social infrastructure for cities.

Then Michael Mendelson will talk about Caledon’s controversial stance on debt reduction, which is key to finding the money to pay for the social and health reforms that Canada so badly needs.

I’ll begin with one of Caledon’s major successes, an ongoing reform that appears to have legs. The National Child Benefit has been hailed as the most promising social policy innovation since medicare. It *is*, though note the adjective ‘promising’: There are still many miles to go before we realize the dream of an adequate child benefit.

The National Child Benefit is important in and of itself, as a crucial part of income security policy, of family policy and of anti-poverty policy. But it is also important for other reasons that bear mention because they offer lessons, and hope, for embarking on more ambitious social policy reforms – one of which I’ll end my remarks with.

The National Child Benefit is one of the rare reforms in the history of Canadian public policy that sold itself to governments of all political stripes and hues by virtue of the logic of its substantive policy rationale, which entails three main objectives: 1. to break down a large part of the welfare wall that stands in the way of families moving from welfare to work; 2. to provide a secure, fully indexed, portable and non-stigmatizing benefit that treats all low-income families equally and includes them in a social program that serves virtually all families, poor and non-poor alike; and 3. to help reduce the depth of child poverty. The National Child Benefit is a rare reform in that Ottawa and the provinces and territories not only are working together – a rare sight indeed in these years of uncooperative federalism – but are implementing significant integrated reforms that depend the one upon the other. And the National Child Benefit was launched relatively quickly by means of a pragmatic political agreement, not through a lengthy process of writing new legislation or one of those fed-prov exercises in visioning that are thick with rhetoric and thin on substance.

We are just one federal Budget away from completing the first phase of this groundbreaking reform, which is to create an integrated child benefit that gets rid of welfare-provided child benefits in favour of parallel federal and provincial/territorial income-tested benefits. The federal Canada Child Tax Benefit currently pays a maximum $2,422, scheduled to rise to around $2,500 by July 2004.

This is too slow. Ottawa should accelerate the pace of investment in the Canada Child Tax Benefit by announcing in the forthcoming Budget a $2,600 maximum benefit for the July 2002-June 2003 payment year (the rise being retroactive to July).

The Budget should go one better: It should announce a second significant increase, as a down payment on a second stage of reform, that will gradually expand the Canada Child Tax Benefit to achieve the ultimate target of an adequate child benefit. By adequate, we mean a maximum child benefit that largely offsets the cost of raising a child in a low-income family. That would go a long way to filling the gap between wages, which pay workers as individuals, and family income needs, which depend upon family size.

In a 1997 report, Caledon suggested a figure of $4,000, which amounts to about $4,400 in today's dollars. But we deliberately erred on the low side and recommended that a study be done using more up-to-date data to look at the costs of raising children. Clearly, we cannot reach that target in one or even a few Budgets, but we should be able to get there by the end of the decade. The UK and Australia already provide substantially larger child benefits to their low-income families.

The integrated child benefit we are so close to achieving will remove child benefits from welfare. Successive increases in child benefits as we progress towards an adequate child benefit will deliver real increases to welfare families as well as the working poor. But building an adequate child benefit also means improving child benefits for non-poor families, especially those with modest and middle incomes.

Child benefit reform is crucial, but it takes us only so far in fighting poverty and income inequality. For all the vogue talk about the investment in human capital in the knowledge economy, Canada still has no coherent system of income security, employment and lifelong learning for all. That must be one of the next big things – if not *the* next big thing – in social policy reform.

Our report *Social Policy That Works* puts forward some bold and far-reaching proposals calling for radical reform of welfare, Employment Insurance, and employment and learning services.

We call for deconstruction of the outmoded welfare system and its replacement by wage-based income security and an integrated employment and learning system for all Canadians, both working and unemployed. This is a far more complex and ambitious challenge than child benefit reform. But we believe that the policy and political methods that are making the National Child Benefit a success could usefully be applied to building an effective income and learning system.

Sherri Torjman, Vice-President, Caledon Institute of Social Policy

We are delighted that so many colleagues have joined us on this important occasion in the life of the Caledon Institute. We have worked with many of you – on research, projects and policy development. Some of you are the authors or co-authors of Caledon reports – on innovation and community economic development, special education, sustainable development and the quality of life, and the recognition of skills credentials for new Canadians. Your thinking has contributed immeasurably to the wide body of work we have published over the years.

At the heart of this broad scope of work is a strong public core. Ken spoke about the many policy areas in which are involved. One area that we will continue to pursue, with others here, is to ensure that people with disabilities are included as full citizens in Canadian society. This journey has been the longest and most winding of roads.

One clear component is access to disability supports. Caledon has proposed a national disability supports fund to promote full participation. But this is not simply an agenda which concerns the estimated 16 percent of the population formally designated as disabled. Canada is a rapidly aging nation, so the availability of supports for living independently is everyone's business. Most people, at some point in their lives, will require some form of assistance to help them live at home.

The adequacy of disability benefits – both program and tax-delivered – is another area that we will continue to pursue with practicable options for reform. There have been modest but significant tax improvements in recent years that were introduced when Paul Martin was Finance Minister. But the gains on the adequacy side are now being reversed in some cases by administrative changes on the eligibility side. Many people who once qualified for tax-delivered benefits are no longer considered eligible. We believe this practice to be a breach of the will of Parliament.

A related policy area is the need for respite – or occasional relief – for caregivers of the elderly or persons with severe disabilities. In 1997, we wrote a paper entitled *Desperate for Respite*, on which some of you provided helpful comments in draft form. Short title, big problem. Canada is well behind other countries in providing supports for caregivers. Perhaps it should come as no surprise, given our record on high-quality, affordable child care. We need to care more about caregiving. The Speech from the Throne at least acknowledged the issue. The challenge is to ensure that the policy response is not so narrow that it defeats its own purpose through impossibly tight eligibility criteria. Adequate respite and high-quality child care will remain other important components of our policy agenda.

Our concern lies not only in government policy, but rather public policy broadly construed. We currently are engaged in a national effort called Vibrant Communities which is being coordinated by Eric Leviten-Reid. The project was spearheaded by the Tamarack Institute for Community Engagement, represented by Paul Born who is here today. The project is receiving multi-year, multimillion-dollar support from the J.W. McConnell Family Foundation in Montreal, represented by Tim Brodhead. Tamarack and McConnell have both been wonderful partners. Human Resources Development Canada is funding the policy component of this work.

Selected conveners from 13 cities are involved in a Pan-Canadian Learning Partnership in which they meet monthly to share ideas and strategies on local solutions to reduce poverty. While we are still in a learning mode, we are beginning to understand the tremendous potential for ‘scaling up’ community efforts through this type of careful, deliberative learning. Selected information combined with insights from local ‘know-how’ can create an incredibly powerful dynamic for change.

In addition to participating in the Pan-Canadian Learning Partnership, five communities will receive substantial funds for poverty reduction work. To qualify, they must convene a multisectoral steering group that helps create a community-wide vision with detailed actions. This group must include business, government, anti-poverty groups and the voluntary sector.

Caledon is working on the policy dimensions of this initiative. For example, we wrote a report on the role of local government in community-based poverty reduction. Several municipalities have used this report to identify and remove barriers to self-sufficiency inadvertently embedded in their policies and programs. Beyond Vibrant Communities, we have worked directly with local governments, including the City of Hamilton and the City of Ottawa, to prepare Social Vision documents. These reports help guide their work in a range of social areas, including child care and early childhood development, skills training and decent affordable housing.

We recently instituted policy dialogues with several government departments to bridge the gap between community realities and public policies. Community work and policy development typically take place on separate, parallel tracks. There must be many more points of convergence.

One of the most exciting elements of our community work is that a number of young people participate in these policy dialogues: Some are here today and we also welcome Carleton University students, members of Canada 25 and other young people who have travelled from across the country to attend this celebration. *We need your help.*

We need your help to figure out how to capture the wisdom and will of the generation that emerged from the ravages of the Depression and World War with the knowledge and passion of your generation – whose life experience may be very different but whose objectives, we believe, are fundamentally the same: to create a nation that *cares*. To create a nation that *cares deeply* about the health of the planet. And to create a nation that *cares deeply* about the well-being of its people.

Michael Mendelson, Senior Scholar, Caledon Institute of Social Policy

When governments have serious fiscal problems, social programs and civil society suffer. With this in mind, the Caledon Institute has long accepted that sound fiscal policy is a necessary foundation for social progress. In 1994, we published *Social Policy in Real Time*, which argued that social programs inevitably would be shaped by fiscal reality. So in 1995, when the federal government got serious about tackling the deficit, we had many questions about the specifics, but we agreed with the need to get the books into balance.

So how do we reconcile our commitment to sound public finance with our advocacy of additional spending on social programs?

Part of the money needed for social programs can be found by a resolute attack on obsolete and unfair provisions in current social and tax policy. For example, the spousal credit and equivalent-to-spousal credit together cost $1.8 billion annually to Ottawa and about half this amount to the provinces. Why should government provide tax subsidies for family units in which one adult has decided to support another adult? This tax subsidy is out of date, and derives from a time when women were expected to serve as unpaid full-time cooks and cleaners in the home. It is also bad social policy, as it imposes extremely high effective marginal tax rates on two-earner couples in which the second earner has a low income.

Another example of where to find money by looking hard at our current spending is tax breaks for RRSPs. The data show that tax deductions for RRSP contributions are hugely regressive, disproportionately benefiting wealthier Canadians. At the very least, the deductibility of RRSP deposits could be set at the rate of the lowest tax bracket, as are almost all other tax credits. We estimate that such a change might save about one-fifth of the approximate $8 billion federal cost of deductibility for RRSP contributions, or $1.6 billion. Since investment earnings in RRSP accounts would continue to be untaxed, we do not believe there would be any consequent change in Canadians' savings rate.

But in addition to re-prioritizing existing spending, we also propose a radical new fiscal policy – balanced budgets.

Canada's public debt fell from a high of 70.9 percent of GDP in 1995-96 to 49.1 percent of GDP in 2001-02, a decline of 21.8 percentage points in debt burden. This decline in debt burden is the result of two factors: growth in GDP and repayment of the debt. How much is attributable to each factor?

Rephrasing the question: What would today's debt burden be if we had not repaid a single cent of the debt since 1995-96, everything else being equal? The calculation is simple: Divide the debt in 1995-96 by GDP in 2001-02. The answer is 53.4 percent. In other words, while today we have a debt-to-GDP ratio that has fallen to 49.1 percent, the debt ratio would have dropped to 53.4 percent even with no repayment whatsoever of the debt. Therefore, of the 21.8 percentage point reduction in debt burden since 1995-96, 17.5 percentage points are attributable to growth in GDP and only the remaining 4.3 percentage points are attributable to debt repayment, everything else being equal.

Of course, everything else would not have been exactly equal. On the one hand, interest payments on the debt would have been a little bit higher. But, on the other hand, there would also have been somewhat more growth in the economy. The latter effect fully offsets the former, so our estimate of the relative contribution of debt repayment versus economic growth to the reduction in debt burden remains about right.

Therefore, our arduous debt repayment schedule over the last several years has amounted to this – about one year's acceleration in the reduction of debt burden. The question the Caledon Institute asks is whether, looking back, a one-year speed-up in decreasing the debt burden was the highest priority we could imagine for the approximately $45 billion plus in debt repayments since 1995-96?

Of course, hindsight is easy enough, but what about foresight? Will debt repayment be the best way to spend another $45 billion over the remainder of this decade? Imagine it is now 2010 and we are looking back at the years since 2003. Will we feel we have accomplished our best for Canada if we can say that the debt burden is now 26 percent of GDP? Or will we feel we have accomplished more if we can say that over the last seven years we have ensured that no Canadian child had to go to bed hungry at night? Or that we have revitalized Canada's health care system? Or laid the foundation for healthy and prosperous cities? And, while having accomplished this, we *also* have reduced the debt burden to 30 percent of GDP?

This is the choice we must make: a policy of repaying, on average, $5 or $6 billion in debt every year for the next several years, *or* balanced budgets and increased public investment. We advocate balanced budgets over the next several years. Admittedly, because fiscal projections are never perfect, a balanced budget implies a few years in which there will be a small surplus or deficit. An occasional small deficit as a result of imperfect economic projections is not 'slipping back into debt;' it is a minor fluctuation around the zero point. If Ottawa cannot accept the public relations risk of a small deficit, even though it is of no fiscal or economic significance, then let it do what the provinces have done: Set up a rainy day reserve fund. The surplus for the current fiscal year ending in March 2003 will doubtless be adequate for this purpose.

Yes, we acknowledge that there will never be enough money for all we would like to do. But with a fiscal policy of balanced budgets and a thorough review of existing policies – not overlooking some politically difficult but reasonable measures – we believe that more than $10 billion annually can be freed up for reinvestment. This may not be sufficient to create the Just Society, but it is one heck of a good down payment towards a better Canada.

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