

# TOWARD A COMMON CITIZENSHIP: CANADA'S SOCIAL AND ECONOMIC CHOICES

by

Judith Maxwell



## HIGHLIGHTS

Citizenship is more than a passport. It defines who “we Canadians” are, and describes the kind of community “we” wish to become. Citizens have rights, they have responsibilities, and they need access to jobs, services, and supports. The balance among these rights and responsibilities changes over time in response to the core values of citizens, their implicit contract with the state, and the economic and political context. This *REFLEXION* focuses on the key economic and social choices that will shape our common citizenship in coming years.

During the post-war years, Canadians forged a common citizenship out of their experiences with the Depression and the Second World War, with the help of a prolonged economic expansion. During that time, standards of living increased, a broad middle class emerged, and social programs such as medicare were established. A strong synergy was created between economic and social policy.

However, this progress was interrupted in the 1970s by a downward shift in the rate of economic growth. As economic problems mounted, new ideas about the roles of the state and of markets took hold. For the past 20 years, Canada has rolled back layers of institutions and protections central to the post-war model of citizenship. Driven by freer trade, fiscal deficits, and new political forces, decisions were made that loosened the anchors of the old citizenship and created new social deficits, while getting the Canadian economic house in better order.

Despite the hardships of the 1990s, Canadians have come to accept the increased role of markets, and many of them relish the challenge of global competition. Now that the economy is in better shape, public finances are in surplus, and the investment boom raises the prospect of stronger productivity growth, Canada has room to choose the common citizenship we want. The terms of that citizenship must be shaped by our history, our values, and the realities of the political, social, and economic context of coming years. Other countries face similar challenges and are making their own choices based on their own history and ways of doing.

Canadians are pulled in conflicting directions – between market and state, between North American integration and independence, and between compassion and self-reliance.

This *REFLEXION* is designed to provoke a broader discussion so that alternatives can be considered and choices made. Part I looks back over the past 50 years, describes how the country has changed, and looks briefly at how Europeans and Americans are reshaping their notions of social protection. Part II maps the challenges and choices we face with respect to four core elements of social and economic policy – tax reform, health care, learning, and social transfers.

The *REFLEXION* argues that our goal should be a new and durable synergy between economic and social policies:

- Federal and provincial governments have reduced their spending significantly in the 1990s, but this smaller role for government is not visible to Canadians because 18 cents of every dollar of taxes is devoted to interest on the public debt. The faster Canada pays down that debt, the more degrees of freedom we will have to set the overall levels of personal taxation and program spending in the future.
- While corporate and business income taxes must be designed to be competitive with other jurisdictions, differences in personal income tax rates and structure are sustainable over time even as economies become more integrated. Personal tax rates for middle- and high-income Canadians in 2001 will be the lowest they have been since the early 1970s.
- Canada has the combination of money, technical expertise, and management skills to deliver the kind of health care citizens want. But current patterns of access, accountability, and governance are not up to that challenge. In particular, we need to talk through ways to extend the principles of universality and accessibility to include home care and pharmaceuticals.
- Learning is fast becoming the centrepiece of citizenship rights in Canada, from early childhood to retirement. But the education system has failed to adapt to a world where lifelong learning is essential. Even worse, Canada has a learning system that actually mirrors the inequalities in the labour market – people with low incomes face greater barriers to learning than do those in higher income brackets.
- Income supports for adults without work – Employment Insurance and social assistance – are still stuck in the old industrial model. What will be the right mix of social protection and incentives to work in the future?
- Income supports for families with children have been adapting to the new social and economic realities since 1998, but much remains to be done to provide families with the support they need to make choices about work and caregiving.
- A further gap is created by the cuts to public services affecting middle- and upper-income groups. These Canadians are asked to contribute a large share of tax revenue while receiving a shrinking share of public services, even as their confidence in the quality of those services is in decline. This in turn erodes the common bonds among citizens.

Canadians want well-functioning markets balanced by a well-functioning state. They want the benefits of North American integration balanced by control over their own lives and over the way their citizenship is defined. They want more than a passport.

We can and should dare to be different from our past and from our trading partners. This does not mean a lurch to the left or to the right. The *REFLEXION* argues for the radical middle. Let's use our hard-won room for action to imagine and then build the Canada we want.

# Introduction<sup>1</sup>

In the 1940s, Canada's leaders deliberately set out to create a pan-Canadian citizenship, which created a strong synergy between economic and social policies.

Looking back on the three decades after the war, it is clear that Canada became a prosperous and diverse place, with a particular notion of citizenship, based on the various origins of its people, two international languages, and several national identities. Universal programs for health and old-age reshaped risk while expressing the rights of a common citizenship. Legal protections against discrimination and supporting civil rights were extended. At the same time, strong economic growth and major investments in education fostered the emergence of a broad middle class, which supported and welcomed this notion of citizenship.

The last 25 years have been more challenging. Governments have been embattled on economic, fiscal, and political issues. Reluctantly, the country embarked on a transformation – freer trade, deregulation, and a fierce struggle with deficits and debts. During that transformation, trade-offs were made. Core social values of compassion and investing in the future were trumped by demands for individual self-reliance.

Canadians have also changed. We are much more diverse culturally and politically. We are older, on average. We are less deferential to authority. Women are now very present in political, business, and civil life. There is more inequality in pre-tax incomes and in opportunity. Markets have gained broad, though not unanimous, acceptance as the place where choices are made about who has more or less, who has access, and who is excluded. Political institutions are less effective in resolving conflict and building consensus. And our political diversity is challenging the meaning of community. Old premises about the connections among neighbours and fellow citizens are being openly challenged.

What choices will Canadians make now? What should we keep from the old citizenship model, and what needs to change?

Answers to these questions will have to take account of the fact that Canada at the turn of the 21st century is a more pluralistic country. We need to think about how to live with these differences, rather than suppressing them. Pluralist societies also need political institutions that can manage conflict and openly debate choices to be made (Jenson, 1998). Fear of conflict can foreclose options that merit consideration. This *REFLEXION* is intended to stimulate a deeper dialogue on a range of social and economic issues.

As an ordering mechanism for this dialogue, we have chosen citizenship. This is because for hundreds of years in liberal democratic societies, citizenship and its boundaries have defined what draws a body of citizens together into a coherent and stably organized political community, and keeps that allegiance durable (Beiner, 1995). But citizenship is a complex idea. It is more than nationality or passport.

Citizenship grants *rights* and demands the exercise of *responsibilities*. But citizenship also means *access* to work, education, technology, and social protection (Jenson and Papillon, 2000). These are the elements that take citizenship beyond a passport to a sense of belonging. Therefore, it is important to follow the ways that patterns of access are being altered under pressure of new economic and social realities and public choices.

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In the 1990s, when federal and provincial governments hit the fiscal wall, many of the elements of our common citizenship were eroded. It was a time when fiscal duress trumped core commitments about access to health services, education and training; when tax burdens increased for many citizens even as their incomes were falling. It was time when everyone who had a job worked harder and seemed to take home less, when borders were being opened as non-Canadians gained access to Canada, and some Canadians roamed far beyond traditional markets and networks. In short, many of the anchors of our common citizenship created in the post-war period were loosened. It is time to think about what the new anchors might be.

All the industrialized countries confront the challenges of markets, economic integration, and the extraordinary transformation of the new economy. Canada's choices must reflect "local conditions" – our history, our institutions, our ways of thinking and doing – while adapting to the new circumstances. In a very real sense, as we choose between different views of the role of markets, communities, and state, we will be redefining what Canadian citizenship means to us and to future generations.

The scope for making choices in 2001 far surpasses what many Canadians experienced in the 1990s because Canada's economic house is in better order than it has been for 30 years. The economy is healthier, and the fiscal situation is much improved. The new economy is creating value in new ways, it asks working people for a different set of skills, and redistributes power and income.

Long-term economic prospects look better than they have in decades. Scholars who study long-term growth trends, like Richard Lipsey, have noted that new technologies lead to "deep structural adjustment," which, once absorbed, lead to a period of secular boom. No one knows for sure when that prosperity will come, but the experience of the United States in the past six years, and the emerging strength here in Canada suggest that from now on we may expect stronger expansions and weaker recessions than were typical of the 1980s and 1990s.<sup>2</sup>

Economic revival will not be enough to solve the challenges to our common citizenship, however. It is not a question of cutting taxes and turning on the

tap of government spending. Rather it is a time to shake off old assumptions, examine new ideas, and rethink our priorities. These next five years will be a special time for Canada.

Part I of the essay considers the context in which choices about our common citizenship will be made. Section 1 reviews Canada's policy history of the post-war period, and describes the policy shift toward market-based decision making that began in the early 1980s. Section 2 describes the costs associated with the rollback of the post-war institutions. Section 3 takes a brief look at how Europe and the United States are redefining or confirming their notions of citizenship in the context of increasing global economic integration.

Part II looks forward to the choices we must address in the 2000s. Section 4 presents the tensions in the debate – as we try to strike a new balance between market and state, between integration and independence, and between citizen and state. Section 5 looks at the most conflicted policy issues that will shape our common citizenship: tax reform, health care, learning, and social transfers. Section 6 sets out the main conclusions.

The *REFLEXION* is broad in scope, but also limited. The focus is on a range of social and economic policies, which leaves out a lot of other important topics – constitutional change and environmental challenges, to name only two.

## Part I – Context

### 1. Canada's Distinct History

A sense of common citizenship emerged in Canada after the Second World War. Political classes had been shocked to discover the poor health of recruits to the armed forces in 1939. A report by Leonard Marsh of McGill University pointed to the hardships of the Depression and the cold fact that a day's wage for a typical worker was not enough to feed a family. Even a job was no guarantee of adequate nutrition. This combination of circumstances led to a general consensus that the road back to civilian life and the way to avoid another Depression required a different role for governments.

Political leaders were encouraged to pursue more active interventions in economic and social

policies by the then innovative Keynesian macro-economic theories and by the Beveridge Report, which provided the blue print for the welfare state in the United Kingdom (Guest, 1985).

For perhaps the first time in Canadian public policy, economic and social goals were combined into a joint strategy. When Paul Martin, Senior, introduced the new citizenship act to the House of Commons in 1946, he talked about creating a pan-Canadian citizenship. By pan-Canadian, he meant a regime that would weaken regional loyalties, and enable Canadians to participate in a set of new economic and social institutions that expressed the bonds shared from “sea to sea.”<sup>3</sup>

Unemployment insurance was introduced in 1940, and family allowances were implemented in 1944 to supplement market incomes (though not at the levels recommended by Marsh). Veterans were given help with education and housing, in recognition of their contribution and as part of Keynesian spending to foster economic growth. Major investments in education were launched. Plans were developed to create health insurance and a national pension plan. In sum, a blueprint for a common citizenship was established by the end of the war, even if it was not fully in place until the 1960s.<sup>4</sup>

Some provincial leaders were reluctant to embark on this strategy at the time. Their opposition was at least partly financial – the provinces were still deeply in debt from the Depression. But because the provinces had primary jurisdiction over education, health care, and social assistance – the core components of the safety net – the federal government could not act in these areas without the co-operation of the provinces. Together, over time, they created a complex system of arrangements to finance the new or expanded provincial programs. The federal government, for its part, took prime responsibility for unemployment insurance and transfers to the elderly. One of the triumphs of the blueprint was the dramatic reduction in poverty among the elderly in the 1970s and 1980s.

As it turned out, the key to the success of this strategy was the extraordinary surge in productivity, economic growth, and employment over the next 30 years. As the strong economy produced a stream of revenues, governments were able to pay down their debts, and reduce the burden of taxation, while funding a wide array of new programs.<sup>5</sup>

Revenues were strong, despite falling tax rates, because wages and profits were riding the wave of prosperity. By the 1960s, relatively unskilled workers could not only feed their families, they could also earn enough to buy a home and a car, and send their children to college. This, plus universal access to education, created a broad middle class (cf. Guest, 1985). The remarkable element of this post-war period was the coincidence of wealth creation, upward mobility, and greater equality of both opportunity and outcomes.

Figure 1 shows the roller-coaster ride of the last 70 years as witnessed by the fluctuations in after-tax income per Canadian. The sustained expansion of the post-war years enabled Canadians to achieve a great deal. While the new social programs were important, so too was economic prosperity. Together they created the strong sense across all income groups that citizens were all part of the same enterprise.

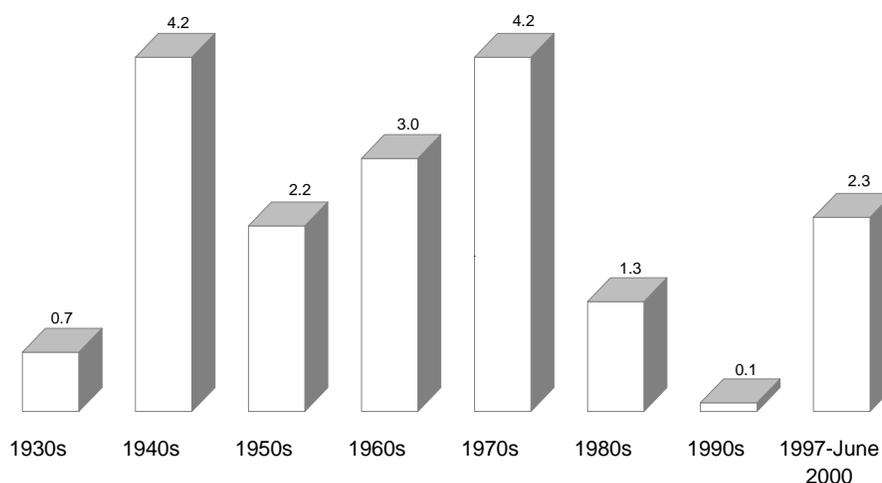
- Through their participation in the labour market, citizens achieved self-reliance and gained rights to social protections such as unemployment insurance and pension plans.
- Through their access to the political process and to civil rights, they gained a sense of involvement.
- Through their access to education, universal health insurance, and universal pension plans, they acquired skills and personal savings that created greater future self-reliance. They also became part of a shared community.
- All this in turn forged the pan-Canadian citizenship imagined in the mid-1940s.<sup>6</sup>

In the mid-1970s, however, the long period of sustained economic growth was already coming to an end. Economists are still arguing about why the growth trend shifted, but governments suddenly faced higher rates of inflation and unemployment, much slower growth in revenues, and higher rates of interest on the public debt. Government spending began to outpace the growth in revenues, and this led to conflicts in priorities both within and between governments.

As the federal government tried to scale back its financial commitments to cost-shared programs for health and education, the provinces were left to



**Figure 1**  
**Growth in Real Disposable Income Per Capita\***



\* Compound annual growth rates; decades are 1930-39, 1940-49, etc. 1997-June 2000 assumes January-June 2000 is an annual average for the purposes of calculation.  
 Source: Statistics Canada.

carry the responsibility with more of their own money. The increasing political clout of the provinces, plus the growing pressure from Quebec to carve out space for its own distinct social and economic institutions, and from Alberta to control the benefits coming from its natural resources, increased federal-provincial frictions.

In sum, the 1970s brought confusion over economic policy and intensified intergovernmental conflict. Policymakers throughout the Western world began to search for a new set of ideas upon which to base economic policy, and it took time for a new set of ideas to come to the fore (Bradford, 1998).

### ***Leap of Faith***

When the new ideas arrived, they came from Britain and the United States – from Margaret Thatcher and Ronald Reagan, with a Canadian push from the Macdonald Royal Commission, which reported in 1985. The Macdonald Commission did not adopt the Thatcher and Reagan focus on smaller government, but it did place more emphasis on the discipline of markets. The Commission used the expression “leap of faith” to describe its recommendation of a free trade agreement with the United States. After a severe recession in 1981-82, it had become obvious that the old economic and

social model was in trouble, and Canadians began a 20-year voyage of restructuring.

No one dreamed at the time that it would take 20 years, and no one – certainly not the Macdonald Commission – recognized what the transformation would mean for the social and economic experiences to come. Canadians have dealt with an extraordinary amount of uncertainty and a goodly portion of hardship, as layer after layer of the old economic and social model has been stripped away and markets permitted to make more decisions.

Canada has become a different country in many ways.

- In the 1980s, the main pressure to introduce market forces was on renovating government regulations, breaking down government monopolies, and selling off crown corporations. For example, the transport sector was deregulated, and, over time, the government’s shares in Air Canada, Canadian National and other crown corporations were sold; financial regulations were rewritten to enhance competition; energy price controls were eliminated, and so on.
- The Canada-United States Free Trade Agreement (FTA) was signed on January 2, 1988, and

implemented a year later. The FTA reduced tariffs and other barriers to trade for most goods and services and made it easier for people to cross the border for business purposes. This was followed in 1994 by the North American Free Trade Agreement, which included Mexico.

- Monetary policy increased its focus on reducing inflation in the late 1980s. Interest rates were jacked up to record levels to slow inflation. The high interest rates succeeded in reducing price pressures, but also raised the cost of servicing the public debt and contributed to the economic recession in 1990-91. This put federal and provincial budgets deeper into deficit. In 1991, a target inflation range (now 1 to 3 percent) was established by the Bank of Canada and the Minister of Finance, as the guide to policymaking.
- Throughout the 1980s and into the 1990s, the federal government struggled with a burgeoning fiscal deficit. Budget after budget included spending cuts and tax increases. The Goods and Services Tax was introduced to replace the inefficient manufacturers sales tax. Transfers to the provinces with respect to health care and education were modified to slow the drain of federal revenues.
- In the 1990s, in contrast to the gradual efforts of the 1980s, provincial and federal budgets imposed deep cuts in government programs, extensive reorganization of departments and ministries, a new focus on efficiency and service delivery,<sup>7</sup> and frequent abrogation of collective agreements (Swimmer, 2000; Lowe, 2001).
- The 1990-91 recession also hit the business community hard, just at the time when trade barriers with the United States were falling. Industries began a massive restructuring to adapt first to the new competition and new opportunities created by the trade agreements; and later to the new technologies, which began to transform the way business was conducted inside and outside the firm. These transformations continue to this day, as the Internet and e-commerce revolution unfolds.

The cumulative effect of all these changes has produced a different country – a country we could not have imagined 25 years ago.

## 2. How We Have Changed

Canada's capacity to create wealth has increased enormously, after 20 years of restructuring in business, services, and governments. Economists are now talking optimistically about a potential burst of productivity growth comparable to the one experienced by the United States since the mid-1990s. Such a surge in growth could push unemployment rates down to levels not seen since the 1960s. But the synergy with social policy is missing.

Economic success has produced a polarization of world views. The professional and business classes who participate actively in the global economy measure success in global terms, and many of them wish to live according to global (by which they usually mean North American) standards. While they would acknowledge a loss of economic sovereignty as more and more decisions are made in board rooms and government offices outside Canada, they take pride in their participation in the high-stakes games on the wider playing field. They recognize but enjoy these risks, and they try to live at the speed of the Internet.

The buoyant U.S. economy has become a magnetic attraction for highly qualified talent from around the world. As many Canadian engineers, scientists, doctors, and nurses have been discouraged by the cuts in infrastructure, and their uncertain futures here, they have moved to the wider stage and bigger payoffs in the United States.<sup>8</sup>

The emergence of new technologies has given birth to new industries in all provinces, changed the way business is done, and created a wage premium for people with high skill. As noted earlier, this new economy could also give birth to a new period of great prosperity. But, "an important characteristic of growth-inducing technological change is that the price is usually confined to the present generation while the benefits extend to all future generations" (Lipsey, 1996). Even as we rejoice in the new potential, we cannot ignore the costs.

### ***Economic Costs***

For those who are not direct participants in this exhilarating world, the perspective is rather different. Local retail companies are driven out of business by the arrival of mega-stores and e-commerce. The cores of cities and towns go into decline as



businesses move to the suburbs or the outskirts and work gets done in cyberspace. Mines and mills in the hinterland are closed, fish stocks have declined, and grain prices do not cover the cost of production. As a result, the population is dwindling in rural areas.

Working people cope with the constant reorganization of workplaces as companies are acquired, subdivided and merged. And the push for flexible payrolls in business and government has transformed many jobs into contract, temporary, part-time or shift positions with limited security and benefits. Many young people wonder how they will earn enough to live as well as their parents, whether they can hope to own a house and create some security for their own retirement.

Large wage gaps have emerged within workplaces, between generations, and across industries and sectors. High flyers in expanding sectors are paid very well indeed, although much of their pay is based on performance (their own and the stock market). Meanwhile the real earnings of young men in full-time work have fallen sharply in relation to adult wages since the 1980s (Morissette, 1998). Poverty among families with young children has remained at record levels, and homelessness has become a chronic urban problem – in Toronto, the poverty rate of families with children was 37 percent in 1997 (Lee, 2000). One way to scramble out of poverty is to have a second salary in the family, but even two minimum wage jobs will not support a family of four in the major cities.

## **Social Divisions**

What are the social consequences of the economic shift to markets and the redesign of social programs such as social assistance, employment insurance, and housing policies provoked by the fiscal crisis?

Recent research shows that the four groups at highest risk of poverty and exclusion are lone parents, immigrants landed in Canada less than 10 years ago, Aboriginal people, and persons with disabilities. The people in these groups facing the greatest disadvantage are those with less than high school education (Human Resources Development Canada, 2000).

A study based on the 1991 census noted a remarkable increase in the number of distressed

neighbourhoods in major Canadian cities. These neighbourhoods are not only poor, but there are also high rates of inactivity<sup>9</sup> among young people (more than 45 percent of 15- to 24-year-olds are not in school full time), and large numbers of adult men do not work a full year (more than 64 percent of men over the age of 15) (Hatfield, 1997). People in these neighbourhoods experience multiple disadvantages that put them at risk of marginalization (Jenson, 2000).

A return to high rates of employment is a necessary condition for these people to become more self-reliant, but for many, it is not a sufficient condition. Those who are disadvantaged even when jobs are plentiful are those without a solid education.<sup>10</sup> An alarming proportion of Aboriginal people are locked in social and economic distress, reflecting their poverty, and the legacy of decades of racism and exclusion (Canada. Royal Commission on Aboriginal Peoples, 1996). However, there is an emerging class of professional and middle-class Aboriginal people, and programs like Aboriginal Head Start are beginning to make a difference for young children (and their parents), giving them the confidence to succeed in school. They are ready to learn and ready to participate in a market economy.<sup>11</sup>

Newcomers to Canada are finding it harder to integrate than did those who arrived in earlier decades (Metropolis, 1999). The immigrant community is also polarized in terms of education, literacy and numeracy skills. Canada receives more immigrants at advanced levels of education than other countries through the selection of skilled workers. But the proportion of immigrants at the low end of the scale is also high, reflecting the large numbers admitted on humanitarian grounds (Statistics Canada et al., 1996).

At the same time, the cuts to public services – federal, provincial, and municipal – have a particular impact on people in low-income situations and/or distressed neighbourhoods who cannot afford user fees. Children in poor families are far less likely to use recreation facilities such as swimming pools, for example (Statistics Canada, *Daily*). The result is a system that magnifies socio-economic differences.

Unlike the durable synergy between economy and society in the post-war period, the last 20 years or so have shown slower growth and rising inequality in pre-tax incomes. This presents a whole new set

of challenges in creating a common citizenship. People who do not participate in the economic life and who cannot provide for themselves and their families do not feel like full citizens.

### ***Political Divisions***

Today, the political discourse in the House of Commons, provincial legislatures, and the media includes sharply defined differences in core values. Citizens, on the other hand, share a wide range of common priorities across regions, income groups, and whether they are from urban or rural settings (Canadian Policy Research Networks, 2000b). Ekos Research Associates have found a core group of about 13 percent of the population with individualistic values, an emphasis on self-reliance, and a strong preference for smaller government (Graves, 1999). But the Ekos work also shows a high proportion of insecure and alienated Canadians who have no natural political home.

In recent federal elections, each political party has won seats concentrated in one or more regions. These strong regional loyalties contribute to the tense relations between federal and provincial governments, which are jointly responsible for “social Canada.” First Ministers represent different philosophies of the role of market and state, making decisions on social policies even more divisive than they have been in the past. In the summer of 2000, for example, some First Ministers advocated a retreat from the inter-regional equalization payments built into social programs. These extra payments were designed to shore up revenues of poorer governments so that all Canadians might expect comparable levels of services, no matter where they live. First invented in the 1950s, they are one of the backbones of post-war citizenship.

The fiscal crisis contributed to these strained relationships. Two federal decisions – both taken unilaterally – broke the contract with the provinces that had been constructed over the post-war years of intergovernmental relations. This history of unilateralism continues to plague the intergovernmental relationship. In 1991, Ottawa placed a cap on transfers to the “have” provinces with respect to the Canada Assistance Plan just as the recession turned their fiscal positions sharply into deficit. This was followed in 1995 by the decision to consolidate the transfers to provinces for health, post-secondary education, and social assistance into the Canada Health and Social Transfer, while removing almost

one-third of the cash transfer. Provinces reeled as they faced slashed revenues.

Serious efforts were made to mend the damage of the cuts. Premiers issued a report (Ministerial Council on Social Policy Reform and Renewal, 1995) that outlined core principles, roles and responsibilities for the two orders of government; and then, the Social Union Framework Agreement was signed by Ottawa and nine provinces in February 1999 (*A Framework to Improve the Social Union for Canadians*, 1999). The Agreement, which was not signed by Quebec, set out rules for the way governments would work together to meet the social needs of Canadians. The longer term success of these initiatives will depend on rebuilding the trust that is so important to the collaboration required to manage the interdependence among these governments (Lazar, 2000).

Meanwhile, the citizen/taxpayer cannot help but notice that she is paying more and getting less in public services. Middle-income<sup>12</sup> Canadians have been paying top tax rates of close to 50 percent, while their public services have deteriorated – highways are in poor repair, hospitals are closing beds, university tuition has soared, smog is affecting public health, and environmental regulation has slipped to the point where water quality is unacceptable in some locations. The targeting of programs and the downsizing of governments have created gaps in service that require attention.<sup>13</sup>

Part of the model of earlier times was based on universal access to some services and to income transfers. As income transfers and services become more and more targeted to the most needy groups in society, many taxpayers see less value from their governments, and therefore see less reason to pay into public services that do not meet their needs. Adding to the gap between expectations and outcomes is the 25 cents out of every tax dollar that goes to pay interest on the public debt, rather than to current spending (Finance Canada, 2000a).

The challenge for governments is that citizens expect better value for their tax dollars. Their dissatisfaction with the balance between taxes paid and services received leads to pressure for tax reductions and does nothing to help identify the ties that bind and the content of citizenship.

In summary, we are challenged to live with three interacting political divisions.

First, power has shifted from governments to markets, and from Canadian governments to international institutions. Integration with the United States has progressed to a point where many economic decisions are made in boardrooms outside the country (Arthurs, 2000). Markets move at a faster pace than governments, leaving the state institutions struggling to keep pace.

Second, provinces have become more powerful and more assertive, and their linkages to neighbouring states have increased. The differences in views among the provinces around market-state balance have deepened, making consensus across governments more challenging. The federal government has lost legitimacy through the spending and transfer cuts of the 1990s, and has not yet adapted its style of governing to the collaborative model set out in the Social Union Framework Agreement.

Third, Canadians' notion of fairness is in dispute. Provincial premiers are questioning the fairness of the federal-provincial bargain;<sup>14</sup> the elite are openly questioning the sharing built into the post-war conception of citizenship. Some Canadians react with disbelief to the idea that families experience hunger in this country of plenty, for example, while others argue that people in such situations are there through their own fault (Laghi and Ibbitson, 2000). Others still believe in the importance of sharing, but have lost confidence in the social programs developed during the post-war period. They see these programs as fostering dependency.

### ***Pluralism and Values***

Clearly, then, Canada at the turn of the century is a more pluralistic society, where citizens have different ways of knowing, seeing, understanding, and explaining how the world operates. Not surprisingly, they want these differences reflected in the way governments develop policies, including social policies (Rice and Prince, 2000). They live with markedly different expectations of what it means to be a citizen in this country.

How do pluralistic societies work? They work best when there are effective institutions for managing conflict, and when there is a strong foundation of common citizenship (Jenson, 1998 and 2000). Unfortunately, Canada's political institutions are weak and the foundations for our common citizenship are being challenged.

In the midst of all the restructuring, CPRN's first publication explored the core social values of Canadians through in-depth dialogue with citizens and a careful review of the polling evidence (Peters, 1995). We found a remarkable amount of common ground around three core values – self-reliance, compassion leading to mutual responsibility, and investment in the future, especially in children. Subsequent polling has confirmed that those values are still central to Canadians.

Today, there are two contradictory meanings for self-reliance. In the Peters study, self-reliance means that a citizen takes responsibility for himself and his family, and makes a contribution to the community, for example, by paying taxes and giving time and money to good causes. It reflects a sense of connectedness, and therefore easily co-exists with compassion and investing in the future. There is an implicit notion that where people cannot manage on their own, investments will be made to build self-reliance.

The second meaning for self-reliance implies a kind of isolation from the rest of the community. Taxpayers argue for lower taxes so they can spend their money on their own needs. They place less value on collective services such as education and health care designed to serve all citizens, regardless of ability to pay. Their advice for those who are unable to cope is that the fittest will survive. This meaning does not co-exist easily with compassion and investing in the future.

To redefine our common citizenship, we will have to work through these tensions about what we mean by self-reliance and compassion, and how that fits with the new economic context of North American integration and the new technologies. These same economic pressures are forcing other countries to define or confirm their notion of citizenship, so we now turn to two case studies – Europe and the United States.

### **3. How Other Countries Are Addressing Their Challenges**

Europe and the United States have always been the two most influential sources of political and policy thinking for Canada. In recent times, Europe and America have been rethinking social policy. Each one has responded to its own history, with its

own style of governance and its own values. Their responses are radically different in both style and content.

## ***Europe's Social Vision***

The European Union (EU) now has 15 members, with a timetable for enlargement to bring in most Central and Eastern European countries over the coming years. The EU is the result of efforts, over several generations, to use tighter economic, political and cultural ties as the strategy for guaranteeing peace on a continent that fought two horrendous wars in the 20th century. A larger and deeper Union is also seen, however, as the best way of ensuring economic prosperity in a world of global markets and rapidly changing technology.

In order to build the Union, the Member States and European institutions have focused on opening markets for trade and labour, while guaranteeing workers' rights across the ever-expanding territory. The first trade agreements focused on steel and coal in the 1950s and, by 1957, the Treaty of Rome signified a commitment to building a Common Market. Over the next decades, trade barriers were dismantled, community-wide social and economic rights were put into place, and agreements on everything from an agricultural policy to standard setting in industry moved forward. The Maastricht and Amsterdam treaties went much further than the Treaty of Rome, with Member States agreeing to impose strict convergence criteria for fiscal and monetary policies on themselves. They also agreed to create a common currency – the Euro.<sup>15</sup>

At the time that they decided to deepen and broaden the economic union, the Europeans also committed to a stronger social and political union. This includes European law about equality of opportunity and about workers' rights, as well as granting the right to vote in local elections to all citizens of the Union, in their country of residence, whether they are a national of that country or not. Citizens carry a common passport, although the Member State still grants them the right to do so. Most broadly, there has been a decades-long effort – through cultural, educational, economic and social policy – to build a European identity. The principle of European citizenship is now inscribed in treaty law. The notion is that such a citizenship will not subtract from national identity, but add a new dimension of citizenship.

Europeans are pooling their sovereignty in the EU in order to achieve a range of goals, including social ones touching on employment and social protection. They are doing this in full recognition of the need for flexibility in the face of global markets, and the advantages of building stronger political institutions to make choices about deficit reduction, productivity growth, and employment creation.

Despite a long history of internal disputes and oft-expressed fears or dislike of the “Brussels bureaucracy,” the Member States have become increasingly convinced of the need to establish supranational institutions such as the Commission, the Parliament, and the European Court, as well as the Intergovernmental Conferences and the Treaties. These bodies set limits on the behaviour of Member States, but at the same time they can prevent a “race to the bottom” while redistributing resources to ensure that Europeans no matter where they live can count on a shared level of well-being.

Key to success in pooling sovereignty has been the construction of political institutions with flexible decision-making rules, which allow some Member States to opt out for a time – as the Danes have done with the Euro or the British did with the Social Protocol during the years of Margaret Thatcher – so that the others can move in the directions they wish to go together.

Europe is often scorned by North American commentators because of its high tax burdens,<sup>16</sup> expensive welfare states, high unemployment, and heavily regulated labour markets. It is seen as too slow moving to keep up with the technological explosion of recent times, and many of its industries still need restructuring. But Europeans are methodically constructing an economic, political and social framework to create a durable synergy between economic integration and social order. To do this, European countries have pooled their sovereignty in ways that would be unthinkable to Canadian provinces. Yet, Member countries continue to tolerate wide differences among countries in the size and role of the state, and in the design of social policies.

In contrast to the Europeans who prefer to govern with a “big social vision,” the United States treats social policy in a more technical fashion. Congressional debates on social policy decisions are not linked to economic policy, except when they have to consider financing issues.



The United States embarked on a major redefinition of welfare and related programs in the mid-1990s. This reform has made having a job the basic condition for access to social protection, and has attempted to balance the social goal of a living wage with the low-wage work created by the U.S. economy.

### Social Reform in the United States

In 1996, President Clinton signed a law designed to “abolish welfare as we know it.” To casual observers, this sounds like abolishing welfare. However, the reality is that the federal government undertook a number of major policy reforms over a short span of time – affecting welfare, health insurance,<sup>17</sup> transfers to states, tax credits, and food stamps. Since 1996, with the fair winds of a strong economy, welfare caseloads have dropped by one-half, while the cost of federal programs increased by one-third (see Figure 2). All the new measures have been designed to discourage access to welfare,<sup>18</sup> while making low-wage work pay. The underlying philosophy is that governments should support people only when they work.

However, the United States has made no pretense of creating national standards either under the old

AFDC or in the new programming. As a result, the actual impact on American people depends entirely on where they live. Many states offer minimum benefits and no supports. In 1997, welfare benefits for a family of three in Mississippi were \$120 a month, compared to \$639 in Vermont (Penner, Sawhill and Taylor, 2000, p. 101), where there is a tradition of more generous benefits. And a few states have used the flexibility offered by the block grants to make much more active policy reforms. Cities in Minnesota and California are making significant investments in child care, training, and employment services to help people find jobs, for example (Berlin, 2000).

The initial impact of the reforms is difficult to disentangle from the effects of the booming economy. Clearly, large numbers of people are no longer dependent on welfare. And those who found jobs are coping with their new life, even though there is evidence that their disposable incomes have fallen (Penner, Sawhill and Taylor, 2000). While they are working for low wages (\$6 to \$8 an hour and often without benefits), the access to food stamps, Medicaid for some, health insurance for children, and the annual tax credit makes their lives manageable. And there is considerable evidence to show that people on welfare would prefer to work if they could (Solow, 1998).

**Figure 2**  
**Actual Federal Spending on Welfare-related Programs in 1999<sup>1</sup>**

Description of Program(s)	Billions of dollars		Percentage of total spending	
	1996	1999	1996	1999
Food Stamps	25	19	27	15
Supplemental Security Income Program <sup>2</sup>	24	28	26	22
State Children's Health Insurance Program <sup>3</sup>	0	24	0	19
Family Support <sup>4</sup>	18	20	19	16
Child Nutrition	8	9	9	7
Earned Income and Child Tax Credits	19	26	20	21
<b>Total</b>	<b>94</b>	<b>126</b>	<b>100</b>	<b>100</b>

1 Does not include Medicaid.  
2 The Supplemental Security Income provides monthly payments to people who are 65 or older, or blind, or have a disability and who have low net worth and little income.  
3 Source for this figure is Penner, Sawhill and Taylor, 2000.  
4 Includes Temporary Assistance for Needy Families (TANF) in 1999, Aid for Families with Dependent Children (AFDC) in 1996, Family Support, Child Care Entitlements to States, and Children's Research and Technical Assistance.  
Source: United States, Congressional Budget Office, 1999.

It is too soon to say whether these gains will endure through the next recession, and, as yet, there is no evidence available about the people who have not found work and are moving inexorably toward the five-year limit on welfare. So, for the moment, we can only say that the policy story is incomplete.

### ***Lessons for Canada***

There are two big ideas embedded in the social policy strategies of Europe and the United States. In Europe, countries are pooling their sovereignty to build the architecture that embraces both economic integration and a common social citizenship. In the United States, which is less exposed to the pressures of global market integration, the big idea has been a range of experiments using tax credits and social supports to make low-wage work pay. Some states and cities are much more focused on building self-reliance, encouraging families and individuals to work as much as they can, providing supports to help them find work, and then backstopping with “last resort” welfare transfer. Depending on which state they live in, Americans are experiencing self-reliance as survival of the fittest, or self-reliance as a goal, where the state is actively investing in building self-reliance.

The rhetorical contrast between the European commitment to “place employment and citizen’s rights at the heart of the Union” and the U.S. goal of “ending welfare as we know it” could not be more striking. In Europe, the broad conception of social protection is linked to an economic strategy, and both are wrapped in visionary statements about their common citizenship. In the United States, even the decision to abolish welfare as we know it was accompanied by a mix of tax and spending initiatives that make it easier for families to manage with low-wage jobs. It is also noteworthy that the new initiatives were significantly more expensive than the program that was abolished.

Both experiences provide helpful lessons for Canada, now at its own crossroads. How will we marry growing economic integration with the United States to a new definition of social rights and responsibilities founded on Canada’s own social and political values, which have historically been closer to the countries of Europe?

## **Part II – Looking Forward**

During the hard times of the 1990s, alarm about fiscal deficits and slow productivity growth led to a shift in priorities from equity goals to efficiency goals. Where economic or fiscal imperatives made trade-offs necessary, two of Canada’s deeply rooted social values – compassion and investment in the future – were trumped by the pressure to create more self-reliance, which is also a core social value. The individualism of market choices overrode concerns about the collective good. As we noted in Section 2, social deficits were created along the way. With the return of economic prosperity at the turn of the century and the prospect of stronger productivity growth in the years ahead, Canadians must now consider how to bring the social and economic into better alignment.

To make the best of its new prosperity, Canada needs to create a new and durable synergy between economic and social policies. Currently, however, discussions about citizenship rights and responsibilities are stymied by those who magnify the tensions between market and state. Our pluralism becomes an excuse for not establishing a common citizenship.

But market and state can be complements; they need not be opposites. Pluralist societies can function best when there is a foundation of common citizenship.

Section 4 looks at these tensions. Then Section 5 sets out the policy choices in four core areas that will shape our citizenship in the next decades: tax reform, health care, learning – including early childhood development, and social programs.

### **4. Tensions in the Debate**

In a world of globalizing markets, rapid technological change, and increasing diversity, most industrial countries are being forced to reconsider how they wish to balance the benefits that come from market and state. They also need to strike a balance between integration and independence. And here in Canada, citizens have been asking for a more collaborative relationship with the state.



## **Market and State**

Well-functioning markets generate growth, employment, and wealth. They need a well-functioning state to deliver safety and security, to pool risks, share costs, arbitrate conflicting interests, and represent Canada's interests to the rest of the world. Both market and state need constraints, in order to work well. How do we wish them to co-exist? How can they support each other to produce the best possible results for citizens? What is the right balance at this time in our history?

First, it is important to recognize that the right balance will vary from one country to another (Rodrik, 1999). And within a given country, the balance will shift over time. Here are a few examples:

- Japan, where large employers traditionally provided lifetime employment, and families provided social protection, placed fewer demands for social protection on the state. But the Japanese state has long been very active in industrial policy and in protecting employment in small family-owned businesses. Thus taxes in Japan are much lower than in the United States (by about 5 percentage points of GDP). Yet, the Japanese model is being challenged as more women enter the paid labour force and are less able to provide unpaid social care at home, and as employers are backing off from the lifetime commitment.<sup>19</sup> New social challenges are erupting throughout Japanese society.
- In Germany, labour and management have cooperated to create the major social protection systems such as pensions and health insurance, and have agreed to fund those systems through payroll deductions. As the German population ages, however, the system is running into financial problems. One avenue to buttress the system is to encourage more married women to work so that they will be contributors to the system, and to make markets more flexible, including labour markets and commerce.
- Nordic countries give a significant role to the state in social development and have traditionally levied the highest overall rates of taxation to pay for social programs. These programs include a wide range of universal supports and services designed to promote women's equality at home and in the workplace. Because the expectation

was that everyone had a responsibility to work in the home as well as outside it, parents can take leave when their children are young, with the anticipation that they will soon return to their job. But as unemployment rises and labour-management agreements move toward individualising incentive structures, women find they sometimes have trouble entering and staying in the labour force, while their male partners work longer hours and do less parenting.

- In the United States, social security is funded through a payroll tax and maintained as a separate trust fund from the main federal budget. The government finances health insurance coverage for the poor, many children, and the elderly, but other Americans are expected to acquire their own insurance through their collective agreements or as an employment benefit, or to purchase it on their own. One result is that Americans are unhappy with the limited amount of coverage provided by Medicare and Medicaid (about 2 percent of Canadian consumer spending is on health services, while Americans average 6 percent) and they are deeply concerned that so many people are not insured.

In short, the market-state balance is an ongoing debate in a lot of countries, not just Canada. It is also a debate that quickly begins to touch employers and families. What the state does not do, has to be done by someone – either the family or the employer or, in some cases, the voluntary sector.

Take one concrete example. When Canada introduced hospital insurance in the 1950s and then medical insurance in the 1960s, governments did so to help citizens cope with the financial risks associated with major illness. Their only alternative to covering the high costs of care was to do without it. Today, Canadians pool the risk through a collective insurance system, financed out of health premiums and/or tax revenues.

While the costs of health care are shared through governments, the delivery of health care services takes place through market arrangements with health care providers such as hospitals and independent doctors. Hospitals, long-term care institutions, and most home care services are provided privately, by non-profit or for-profit ventures. Most medical doctors are also independent practitioners.

The market-state balance is most pertinently discussed with respect to debates about:

- Tax reform: How much money should governments tax from citizens in exchange for public services? And what is the right tax structure?
- Health care: What is the public role/responsibility in ensuring citizens have access to adequate care?
- Learning: Are child care and post-secondary education purchased for private ends? Or should they be financed by the state in order to meet public goals?
- Family responsibility: What is our collective responsibility to support families in their role as parents and caregivers?

### ***Integration and Independence***

In the debate about Canada-U.S. free trade in the 1980s, the fear was that Canada would be swallowed up in the American way of life and swamped by the overwhelming economic and political might of a country at least 10 times its size. In short, many Canadians feared a loss of independence and jobs, a weakening of Canada's distinct character (especially social policies and culture), and the erosion of Canadians' sense of identity and belonging. Similar fears have been voiced about globalization.

There is no question that the two economies are now more entangled than they have ever been<sup>20</sup> – partly because of lower trade barriers, but also because of the way technologies are changing the organization of production and decision making. There is also clear evidence of growing pressure to be “more like the Americans.”<sup>21</sup> For example,

- Business leaders have been lobbying for tax reductions to match or approach American levels to make investing and working in Canada more profitable, and to slow the brain drain.
- Well-to-do Canadians wish to adopt the American style of social policy (private health insurance, for example), so that they can buy the quality of care they want at the time they need it.
- Canadians already show a strong preference for American films, television, magazines, etc.,

and the United States is quite aggressive in using trade law to reinforce its cultural supremacy, not only against Canada but also against other countries.

Does economic integration explain these pressures to be more like the United States? Does it mean that, inevitably, the two countries will become more similar in thought, word, and deed? It has become commonplace to see articles forecasting the eventual extinction of the Canadian way of life (Pearlstein, 2000).

But John Helliwell, of the University of British Columbia, argues that “the common perceptions about the extent of globalization are based much more on myth than on fact. Distance and national borders have surprisingly large and continuing effects on the patterns of economic life, and these effects both permit and require a set of policy choices much different from what would be considered by anyone who thinks of the global economy as a seamless unit” (Helliwell, 2000, p. 2).

Other analysts would say that there is no inevitability that Canada will be assimilated into the United States (Watson, 1998; Banting, 1999; and Hoberg, 2000). But they do acknowledge two things: first, that globalization is driving all countries toward a smaller state, and second, that the cost of remaining distinctive has risen. The greater the differences in corporate tax rates, for example, the more investors will choose to locate in the United States. The more assertive Canada becomes with respect to cultural policies, the more the U.S. government will use its political and economic clout to resist those cultural policies. The way to maintain the loyalty of the Canadian elite to the Canadian health care system is to be able to provide high quality and accessible services at a reasonable cost.

In summary, integration into the North American economy creates more constraints on Canada's scope to be different. Past approaches of subsidization and protective tariff barriers are clearly out of the question. But degrees of freedom remain. Lars Osberg of Dalhousie University compared anti-poverty programs in American states and Canadian provinces in the 1990s and found that wide variations in generosity exist side by side even within the same country. Thus, he argues, if such policy diversity is possible *within* a national economy, an even greater diversity between countries is likely to be sustainable (Osberg, 2000).



In sum, Canada retains valuable degrees of freedom to define its own way of accommodating economic integration, globalization and the new technologies. The challenge is to determine how and when to use the powers of the Canadian state to pursue a different balance between economic goals on the one hand and the social, political, and environmental goals on the other. There will be times when Canadian values and preferences lead to differences in public policy, and there may well be times when the two countries will end up in the same place, each for its own reasons.

Integration has a double-edged effect on Canada's citizenship choices. As capital and labour become more mobile across the border, there are more costs associated with imposing higher tax rates and lower interest rates than those south of the border. This, in turn, forces Canadians to be more efficient in the way that they design and deliver social programs. But, as integration stimulates economic growth, Canadians have more prosperity to share through either tax or spending policies.

In the debate to date, Canadians have been highly defensive about the consequences of integration. For some, the fear of loss of control of the way we define our community dominates. For others, there is a tendency to give up on being Canadian. Instead, we need to start asking tougher questions about what is important, and what can be done to make tax and social policies work more effectively to meet common Canadian goals.

### ***Citizen and State***

Canadians today are less willing to accept the word of "authorities" than they might have been in the past; they want to have a voice in what happens to their country (Nevitte, 1996). But, at the same time, they are looking for vision and leadership. This sometimes makes it harder to reach decisions, because citizens seek to be engaged, and will not be satisfied with "taking the government's word for it." Active participation and involvement can be a way to solidify support for hard choices and to ensure "buy-in," however.

The last decades of transformation have been hard on political institutions created in the 19th century at Westminster, with no notion of the complexities of fitting them into a federal structure and governing an active and mobilized citizenry. Not surprisingly, this creates several points of tension.

Over the course of the last decades, as governments grew in size and gained in capacity, power within each province and in Ottawa has been highly centralized in the office of the first minister (Savoie, 2000). This trend is buttressed by the basic principle ministers are responsible for whatever happens throughout their department.

This top-down approach to governance (which has also been dominant in the private sector for decades) involves dividing responsibility into silos or boxes, known as divisions, departments, subsidiaries or business units. Each unit hires its own specialists or experts. The minister makes decisions, based on the advice of expert staff. Sometimes she will consult clients or citizens about how they react to the decision before it becomes final. However, the principle is that expertise is the basis for choice, and responsibility for decisions belongs at the top.

The role of citizens in this model was limited to choosing the politicians who would then assemble a team of public servants (chosen on the basis of merit and knowledge) to make policy. Moreover, the role of front-line public servants and staff was limited to implementing policy that was decided at the top.

The role of both groups has changed dramatically in recent years. New management models seek to give more responsibility to front-line staff to cross boundaries and put together the best package of services for their clients. In the case of civil servants working with long-term unemployed lone mothers, for example, this may involve guidance to access training, income support, a child care space, or home care services for an elderly relative. All these services cross departmental boundaries and, therefore, put into question traditional notions of silos and ministerial responsibility. Similar kinds of cross-departmental (and intergovernmental) collaboration are necessary in order to address the challenges in health care, education, and social transfers. None of these issues fall neatly into existing organizational structures.

Citizens also demand this kind of co-ordination. They live their lives all of piece, and do not want to be cut up into categories of "worker," "parent," "student," "patient," and so on, especially as the new economy often requires that they play all of these roles simultaneously.

Technology is also opening possibilities for citizens to become more active in governance, not just waiting for an election to choose a government. Thus far, governments have tended to treat the Internet as a way to display more information for the use of citizens. For the most part, the government response is to filter and manage the flow of e-mails and not to use the Internet as an active tool for modernizing governance (Richard, 1999).<sup>22</sup> In contrast, citizens see the Internet as the medium for a two-way discussion about the issues.

Such immediate and two-way communication raises a number of important questions about the role of elected officials, about public servants and about service. For example, citizens are empowered by access to more information about social and environmental issues, and by the capacity of non-governmental organizations to collaborate on issues they consider important. Is there a role for elected members of Parliament and legislatures to participate in this new form of dialogue between citizen and state? In this interactive world of the Internet, does the citizen become a partner in the governance process, rather than a client of service delivery?

We can expect in the 21st century, that people will want more than data, advice, service, and decisions. They will also want a relationship with the provider of the service and a voice in the priority setting. They are seeking transparency. They want to know where the decision comes from, and they would like to validate it by seeking other views or by applying their own judgement. They see themselves as stakeholders, whose lives will be affected by the decisions, and they want to be part of the process. Governments and other leaders in society are not yet equipped to meet citizens on this ground (Ellsworth, 2000; Rosell, 2000).

In contemplating Canada's citizenship choices, then, we face hard choices about process (who participates in priority setting and how) as well as content with respect to rights and responsibilities. Where is the public space where people can deliberate and come to judgement on the ongoing tensions between self-reliance and compassion, between market and state, and between integration and independence.

Let's turn now to an examination of the choices about our common citizenship involved in tax reform, in health care; in learning; and in social policy.

## 5. Choices for Canadians

### *Tax Reform*

Few observers in 1994 were optimistic enough to predict that Canadian governments would eliminate their budget deficits before the end of the decade. International agencies have heaped praise on the federal government for its achievement. Provinces have made similar progress. As a result, recent budgets – federal and provincial – have had the luxury of choosing a balance between spending increases, tax reductions, and paying down the public debt.

The success on the deficit was achieved through a combination of tax increases and cuts in expenditure. Figure 3 shows the degree to which federal and provincial governments have restricted their activities to achieve budget targets. The size of the federal government, measured by program spending, has shrunk from 16.9 percent of GDP in 1981-82 to 11.7 percent in 1999-2000. Provinces have cut back from 17.5 percent of GDP in the early 1980s to 16.2 percent in the last fiscal year.

Figure 3 also shows the continuing burden of interest on the public debt carried by both federal and provincial governments – 6.6 percent of GDP overall. Interest payments added a combined total of \$66 billion to government spending in 1999-2000. In short, 18.4 cents of every tax dollar is paying the bills for federal and provincial services received in earlier years.

This debt burden is an important but often neglected element in the debate that has been raging over the past several years about how much to reduce taxes, and what is the most appropriate rate of spending to provide public services for Canadians. If the debt were repaid, there would be far more fiscal room to both spend and reduce taxes. So far, the pace of debt reduction has been modest, at both levels of government.

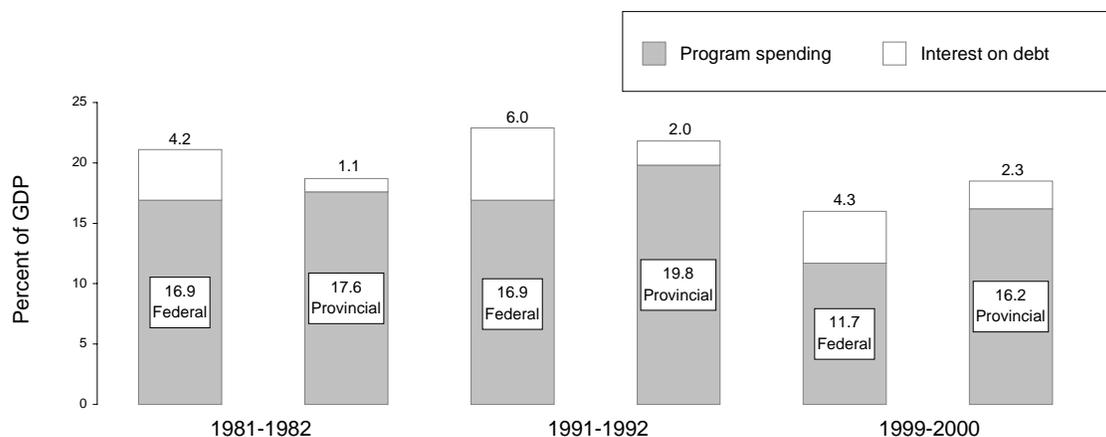
Nonetheless, the debate about taxes rages on. Two issues require attention. How much to reduce taxes, and how progressive the tax structure should be.

### *Cutting Taxes*

The trend toward tax cuts began in Alberta and Ontario in the mid-90s, where the logic was that



**Figure 3**  
**Federal and Provincial Spending as a Percentage of GDP\***



\* Federal transfer payments are included both as federal spending and as provincial revenue, and are, therefore, double counted.  
 Source: Statistics Canada and Public Accounts.

lower tax rates would stimulate growth and lead eventually to stronger revenue growth. The pressures for federal tax cuts became intense as the federal surplus emerged in 1999. (The *National Post* campaigned vigorously, as did the Business Council on National Issues [2000]) The combination of the February 2000 budget and the October 2000 Economic Update has produced a significant package of cuts, affecting all income groups and both business and personal tax rates. In addition, all the provinces have now reduced their personal income tax rates.

Despite this massive dose of tax relief, the political pressure to cut taxes further is likely to continue, especially if the new U.S. administration decides to reduce taxes over the next four years. In the meantime, there is surprisingly little attention to the risk of overshooting on tax cuts – that is, cutting taxes so severely that the next time the economy slows down, deficits begin to mount and the debt starts to climb again.

The arguments in favour of lower tax rates seem to be based on both economics – making Canada more competitive in an integrated North American market, and on politics – leaving the money in the taxpayers’ pockets, so people are free to determine how their earnings should be spent. Meanwhile, there are counter-pressures from citizens and citizen groups who believe that at least part of

the surplus should be invested in basic public services such as education, roads, public safety, public health, health care, schools, libraries, and parks (Anderson, 2000).

The call for lower taxes so business can compete for capital investment and for highly qualified staff presumes the need for a more level global playing field. However, experience inside Canada (as well as inside the United States and in Europe) shows that differences in personal tax rates from one province or state to another can be sustainable – as long as they are not excessive. On the other hand, differences in taxes on business and capital income cannot be sustained for long.

Corporations appear to be more sensitive to differences in tax rates than people are, as they direct new investments to locations with lower tax costs. For example, a number of companies have moved from Vancouver to Calgary in recent years because the business climate is considered more favourable there (Cattaneo and Hasselback, 2000). That business climate includes not only lower taxes but also cheaper energy, less regulation and the ready availability of business services.

The personal tax side is quite different. Quebecers are said to chafe at the high rates they pay compared to those in Ontario. But even residents of Hull, who might easily move to Ottawa, accept those tax rates

as the price they pay for staying in their neighbourhood, where they can live in their own language and culture. There they can access the range of services the provincial government provides. As Helliwell and Osberg have noted, borders matter, even within countries.

Interviews with Canadian professionals who have moved to the United States – new graduates and mature professionals – cite numerous reasons for leaving (including taxes), but the primary factors are invariably work related. They are drawn to the excitement and challenge of bigger jobs in leading edge institutions in their field.<sup>23</sup> What Canada must do to keep and attract the best people is to create the kind of work and research opportunities that will make them wish to be part of the Canadian enterprise.

Many economists agree that the tax structure should be designed to foster economic growth. This leads them to call for a shift in the way taxes are levied to encourage saving over consumption (Policy Options, December 1998, and October 2000). Jon Kesselman argues, for example, that the fundamental cure for the brain drain is to raise productivity growth rates to those of the United States so that Canadians will be able to earn comparable wages to those paid in the United States – “almost all policies that could stem the brain drain would be desirable even if brain drain were not present” (Kesselman, 2000a, p. 17).

An even more important question is how much government service is needed to build the kind of country that Canadians want while keeping government finances on a sustainable course. The spending side of the ledger can be a source of both equity and efficiency. John Helliwell has observed, for example: “Although the Canadian health care system has lost some of its luster over the past decade, the fact that it continues to provide universal coverage and generally superior medical outcomes at two-thirds the cost of the U.S. system, is or should be, widely known and appreciated in Canada” (Helliwell, 2000, p. 44).

### *Tax Structure*

The tax structure issue boils down to one of income redistribution. Comparisons of income earned before and after tax show a significant redistribution from wealthy and middle-income groups to

lower income groups. Indeed, this was one of the core concepts behind the common citizenship of the post-war years. Citizens were expected to pay taxes according to their ability. Almost all of this redistribution takes place through the personal income tax. The other forms of taxation – the GST, payroll, property, and business taxes – are either capped or flat rate. Their net effect is somewhat regressive, meaning that citizens are not taxed according to their ability to pay (Vermaeten, Gillespie and Vermaeten, 1994; Brooks, 2000). The personal income tax is therefore pivotal to the way taxes are distributed across the population.

The most radical tax structure change to be considered in Canada is the single tax being implemented in Alberta (Flanagan, 2000). Flanagan argues that the single rate of 10.5 percent moves the tax burden from the wealthier to the middle-income group. Taxes are proportional, rather than progressive, and therefore have no impact on income distribution. Kesselman (2000b) argues that other tax measures can achieve much more positive economic outcomes – specifically, he proposes taxing consumption and reducing corporate taxes more aggressively.

Kesselman is, therefore, supporting a shift in the tax structure more closely aligned with the business community’s preference for lower taxes on capital gains, stock options, and lower marginal effective tax rates for above-average income earners. This tax structure would favour investment and economic growth, creating a larger economic pie. The strong economy would then produce benefits for all Canadians, he argues, in the form of higher future incomes.

In 2000, the combined federal-provincial top income tax rate in Canada was 46 percent for incomes above \$63,000 a year. In 2001, this rate will fall by 3 percentage points to 43 percent due to tax reductions introduced in the October 2000 Economic Statement.<sup>24</sup> This will be the lowest combined tax rate paid by middle-income taxpayers since 1973. (Over the past 50 years, the tax rate for this level of individual income [in 1999 dollars] has climbed from 30 percent in 1949 to 44 percent in 1973, to 45 percent in 1987, and then to 46 percent in 1999.)

To maintain a progressive structure, the Economic Statement created a new income tax threshold for individuals whose income is \$100,000 or more.<sup>25</sup>



The rate for income above this threshold will be a combined federal and provincial rate of 46 percent, compared to 49 percent in 1973, and 51 percent in 1987. (In the past decade, high-income taxpayers have actually paid rates well above 50 percent because of a number of surtaxes.) The new tax structure for high-income groups therefore compares favourably with post-war trends.

In summary, the fiscal battle of the 1990s has already shrunk the spending role of the federal and provincial governments to levels typical of the 1970s, or earlier in the case of the federal government. This shrinkage in spending helps to explain why citizens are experiencing gaps and inadequacies in public services. This smaller role for governments is not as visible to Canadians as it should be because of the taxes devoted to paying the interest on the public debt.

The faster Canada pays down its public debt, the more degrees of freedom governments will have to set the overall levels of taxation and program spending. If current prosperity is sustained, Canada could experience the virtuous circle that explained so much of the success of the post-war years – when incomes are growing, governments can pay down the debt, reduce taxes, *and* enhance public services.

The key lesson from this analysis is that, within reasonable limits, Canada can set its own course on personal income taxes. That room to manoeuvre can be expanded in two ways: by promoting stronger economic growth to create more opportunities for people to work in Canada; and by reducing the public debt at a faster pace. Canada's longer run independence on social and economic policy will therefore require smaller tax cuts and less new spending in the short run.

A second lesson is that Canada does not have to imitate the personal tax system or the personal tax rates of the United States in the years ahead. The new tax structure set out in the 2000 Economic Statement sets personal income tax rates for the majority of Canadians lower than they have been since the early 1970s.

The guiding principle for fiscal policy decisions should be to ensure a tax system that fosters economic growth and generates the revenues that will pay for the range of public services Canadians

wish to receive. This leaves the following core questions, as we define our common citizenship:

- To what extent should the tax system redistribute income? This determines how progressive the personal income tax will be.
- At what speed should federal and provincial governments reduce the public debt? If Canadians place a high value on independent social and economic policies, then faster debt reduction is called for. This in turn would mean scaling back or delaying further tax cuts and spending increases.

## **Health Care**

Health care has probably accounted for more newspaper ink in the past 10 years than any other single social topic. Concerns range from emergency room crises to federal-provincial funding crises to community crises over closing hospitals or waiting times for care. Whatever the story, there is a sense of urgency. And, whatever the issue, it is commonplace to say that universal health insurance is one of the cornerstones of Canadian citizenship.

Is there a “crisis” in the Canadian health care system?

The report of provincial and territorial ministers of health published in June 2000 says that “Canadians continue to be well served by their health system. Canada's publicly funded health care system is not in crisis, but the cost pressures and constraints on the system are real” (Provincial and Territorial Ministers of Health, 2000).

Surveys of patients show high levels of satisfaction with the care received. In depth studies of the impact of fewer hospital beds in Winnipeg and Vancouver show no signs of a surge in readmissions, which would indicate that people got sicker because they left hospital too early (Brownell and Hamilton, 1999).

The harsh cutbacks in spending and the radical restructuring of operations in the 1990s have definitely had an impact: waiting times are excessive for some interventions; and some critical services such as cancer treatment have run into serious bottlenecks due to lack of equipment and staff; there are signs of burnout among health professionals;

and there are gaps in insurance coverage for pharmaceuticals and home or community care.

But stress on the system is not a crisis. It is a sign that thoughtful, long-term predictable policies are needed to bolster a vast and complex system of services. With the addition of a large amount of new federal and provincial money in the past two years, there will be opportunities to shore up the weak links in the system and to improve service by adapting new technologies and addressing basic problems in access, accountability and governance. Let's deal next with access.

### Access to Health Care

While it is true that all citizens have universal access to hospital and medical care, health insurance in Canada is incomplete and coverage tends

to vary from one province to another, depending on how they define what is "medically necessary."

When provinces signed on to the new medicare accord over the period from 1966 to 1972, health services meant hospitals and doctors. Drugs were a minor part of the health care budget, and, for the most part, families cared for elderly family members or sick children who were not in hospital. So the 1968 medicare agreement covered the most important aspects of health services. The core principles (shown in Figure 4) were restated in the *Canada Health Act* in 1984 based on the same medical model. The figure shows the challenges to those core principles caused by the change in medical practice since 1984.

Pharmaceuticals now account for 14.5 percent of health spending (public and private) in Canada.

**Figure 4**  
**Challenges to the *Canada Health Act* Principles**

The <i>Canada Health Act</i> principles	Current challenges to the principles
<p><b>Comprehensiveness:</b> All doctor and hospital services that are medically necessary are included.</p>	<p>More care is provided at home, and home care is not covered by the <i>Canada Health Act</i>; patients at home must pay for their own drugs, except in Quebec.<sup>1</sup> Provinces do finance these services for needy people, but coverage is not systematic.</p>
<p><b>Universality:</b> A legal resident of any province is eligible for coverage with no more than a three-month waiting period.</p>	
<p><b>Portability:</b> All Canadians can receive medical coverage when they move to another province or are away from home temporarily.</p>	<p>Provinces differ as to what is medically necessary, so someone moving to a new province may not get the same treatment as he/she did originally.</p>
<p><b>Accessibility:</b> No financial obstacle to access to health services, and no discrimination against any group.</p>	<p>Some Canadians do not have access to the drugs and home care services that now substitute for medical and hospital care.</p>
<p><b>Public Administration:</b> A public authority must administer health insurance but not deliver services.</p>	<p>As home care and drug costs increase in importance, Canadians are more dependent on private insurance, and some will not be able to afford that coverage.</p>

<sup>1</sup> Quebec has a system of mandatory private drug insurance, with special arrangements to help people with low incomes to cover the cost.  
Source: Canadian Policy Research Networks.



No definitive numbers are available for community or home care, but demands are expanding rapidly. Growth in both sectors will continue in coming years.

Canada's access problem is that health insurance coverage has not adapted to the new diversified model of services. Canadians are locked in an outdated model that cannot be extended for two reasons. First, the cost of providing universal coverage for these new and growing services is high, and the methods for determining what is medically necessary coverage are weak. And second, there is an impasse about even discussing alternative methods of paying for this insurance (Mays, 2000).

The impasse arises because Canadians have become obsessed with the U.S. health model, which is the most costly and unevenly distributed system in the industrial world. The obsession includes two opposing groups: on one side are those who admire the speed of service for the insured population and want access to similar advantages, and then on the other side are those who fear a loss of coverage, an explosion of costs, and inequalities in service, based on economic class.

Meanwhile, there are many instructive lessons to be learned from the countries in Europe, in particular, which have less expensive but well-functioning public insurance systems. These systems provide valuable case studies of a variety of financing methods and service delivery models (Tuohy, 2000). Those with federal structures, such as Germany and Australia, also demonstrate alternative forms of national frameworks, designed to achieve some form of national solidarity while respecting regional diversity in health services (Banting and Corbett, 2000).

### *Affordability and Efficiency*

The provincial-territorial report released in the summer of 2000 makes a strong case for more funding for the system. It presents cost estimates that take account of population growth, ageing, new forms of treatment, and the rate of inflation. It also projects that costs of operating the system will grow by an average of 4.7 percent per year for the next 25 years. This implies that health care will take a steadily rising percentage of government revenues in the future, creating the prospect of higher taxes or cuts in other government programs such as education.

The report does not attempt to estimate efficiency gains that can be achieved by using new technologies and "de-bottlenecking" systems, although it does document an impressive array of pilot projects and innovations that will alter health care operations quite dramatically in coming years.

Meanwhile, citizens and employers are convinced that much of the financial problem can be solved through efficiency gains. Citizens in dialogue in CPRN's *The Society We Want* project in 1999 referred constantly to the waste and inefficiency that they can see in their interaction with the system. Most were convinced that the financial problems in health care could be largely resolved through efficiency gains. Some were prepared to consider tax increases, if the money was dedicated to health. Whatever happens, they want assured access.

The fundamental problem with health care delivery is that it is not easy to limit demand. Processes for determining how much treatment is enough are weak, and since treatment is often a matter of life and death, the bias in the system is to give more rather than less. Moreover, there is a strong tendency to concentrate new investments in the technical attributes of health interventions while the care aspects are given short shrift.

If federal and provincial governments intend to dedicate a bigger share of the national income to finance health care, they will have to convince a lot of taxpayers that the money is being well spent. The September 2000 Health Accord does include a commitment by each government to develop reports to citizens. Health care providers – institutions and professional groups – also carry part of the responsibility to demonstrate to citizens that quality and efficiency are improving.

### *Governance*

If there is any crisis in health care, it is in the governance of the system. Decision making authority is so fractured in this complex system, and competition among politicians and professionals is so intense that there is little scope for joint problem solving.

Glouberman (forthcoming) explains that the competition has occurred for two related reasons. Knowledge has become so specialized in health care that administrators and providers are organized in vertical

silos, with very limited communication across silos. And within each provider group – doctors, nurses, and others – there are dozens of specialized professionals, who take pride in what they can contribute to the care of sick people. Because they value their own work so highly, they place a lower value on the contribution of other providers or institutions. The lack of integration across these silos creates much of the waiting time and inefficiencies experienced by the public.

But the lack of money in the 1990s has greatly aggravated the situation. Now, each specialty has to compete with all the others to attract funds in order to serve its patients. Many professional groups take their cases to the public – which leads to the cacophony of voices crying that their part of the system is in crisis.

Patients and their families cannot cope with the system in terms of silos. They need systems that can manage the interdependence of services – across surgery, hospital beds, home-based care, nursing and medical staff.

In the meantime, the governance regime for health policy is organized around the silos.

- Doctors fiercely defend their autonomy, and are self-regulated through their own professional organizations.
- Hospitals get most of their money from regional authorities or provinces, but most are accountable to community-based boards whose primary purpose is to raise funds for new equipment and services.
- Regional authorities have responsibility for integrated service delivery in their territory, but do not control the recruitment or compensation for doctors, and depend on the province for their funding.
- Provinces have responsibility for delivering health care, but the funding is shared with Ottawa.
- The federal government also has extensive responsibilities for public health, health promotion, research, and information systems.
- The public health infrastructure and much of the health promotion activity in Canada is funded or managed by local and/or provincial governments.

But many public health and health promotion services are actually delivered by voluntary organizations.

- The provinces and the federal government have responsibility for regulating different aspects of public health – air and water quality, food and drug protection, immunization, etc.
- Voluntary organizations deliver many of the community based services, operate the national foundations and research organizations, and coordinate much of the caring activities in hospitals and in the home.
- Traditionally, the federal government has been seen as the guardian of the health care system from a national perspective. But its legitimacy in this role is weak, partly because of the funding cuts of the 1990s, and partly because the provinces thwart all efforts by the federal government to act on behalf of all Canadians on issues of access quality, efficiency and governance. To the provinces, the federal government is a competitor and an unpredictable source of funds. Banting and Corbett found Canada's national framework for health policy to be the weakest in a five-country comparison (Banting and Corbett, 2000).

Accountability and efficiency are not easy to track in this tangled web of relationships. No wonder citizens are losing their “peace of mind” about access to health care. Yet, somehow, 80 percent of the patients say that they are satisfied with the service. Taxpayers and citizens want three key outcomes from the health care system. The first is peace of mind (Glouberman, forthcoming). They want the care to be there for them and their loved ones when the family emergency occurs. To the majority of citizens, guaranteed access when the need arises is the top priority (Canadian Policy Research Networks, 2000a).

The second is quality and speed. As people become accustomed to the speed of the Internet and seven-day-a-week shopping, they become less tolerant of the waits between consultations, followed by waiting time for the treatment needed. They resent paying taxes for the service and then having to lobby for attention, scrambling for their own community care, and paying out large sums for essential services such as home care and prescription drugs.



The third is efficiency and accountability. With the large amounts of new federal and provincial money pouring into the system over the next several years, both providers and governments will have to demonstrate that they can work together to relieve the stresses on the system. If they do not produce the combination of peace of mind, quality and speed of service that taxpayers and citizens believe they are paying for, we could well see an abrupt drop in public confidence and a flight from public insurance. It would be an astonishing waste to throw away a system that has been notably more cost-effective than the one in the United States.

In summary, Canada has the combination of money, technical expertise, and management skills to deliver the kind of health care Canadian citizens want. To get there, the thousands of key decision makers – both professionals and politicians – will have to find ways to collaborate. That means focusing their energy and talent on patients.

Here are the core questions:

- How can the principles of universality and accessibility be extended to include home or community based care and pharmaceutical care? If the insurance model used for hospital and medical services is too expensive, then what other models might be appropriate?
- How can governments and health institutions demonstrate that the new money being poured into the health system is improving the quality and efficiency of care?
- Who can serve as the guardian of the health care system – objectively informing citizens of the strengths and weaknesses in the various health systems across the country, and calling governments and health institutions to account when quality and efficiency are slipping?

## **Learning**

A new economy and an ageing society mean that learning should become the centrepiece of the citizenship rights of Canadians – from early childhood to retirement. Many Canadians can recite the litany about human capital as the key to economic growth and personal security. In effect, it is the main bridge that links social and economic policies. Surprisingly, however, Canadians do not

pay attention to the quality and access issues that plague the learning system.

Adults face the challenge of constant re-tooling to keep up with the new technologies and adapt to changing workplaces. They worry about the quality of the education offered their school-age children; about the soaring cost of post-secondary education for their young adults; and they often face anguishing choices about how to find and finance good quality developmental child care for their young children. With the prospect of skill shortages on the horizon, working people and employers have every reason to worry about how to keep pace with the persistent rise in skill requirements and the growing need for general skills to complement technical competence.

These worries are all well placed. High literacy skills are associated with more rewarding jobs, a greater sense of control over one's health, and a healthy lifestyle (Willms, 1991). In a word, literacy is associated with well-being as well as economic success.

In principle, Canada has a system of universal access to publicly financed education. But this applies only to the core education from age 5 or 6 to high school completion. Access problems are serious for young children, for young adults, and for working Canadians. And even in the core education programs, problems of quality are seldom addressed.

## *Access to Learning*

Let's begin with the early years, and then move up through the system.

Finding affordable and good quality early childhood learning is still a challenge for most Canadian parents. In 1998, about 65 percent of children under the age of 12 had employed mothers. The regulated child care spaces available to care for those children would accommodate about 4 percent of the children in Saskatchewan (the lowest among six provinces) and 15 percent in Quebec (Childcare Research and Resource Unit, 2000). What happens to the other 85 to 95 percent of the children with working mothers? A few are cared for by their fathers, as the parents do shifts. Some are cared for in the home, by a caregiver such as a nanny or sitter or by a relative. Many are placed in unregulated care – much of it very good quality, but too much is inadequate or even harmful. Many of the

older children are latchkey kids, left unsupervised during the hours parents are working.

The cost of regulated care varies from \$100 a month in Quebec to \$865 or more per month in other provinces. Thus the annual cost per child can easily exceed \$10,000. All provinces provide subsidies for regulated care to reduce fees for some children of parents with low incomes. As a result, those with lower incomes have better access to these facilities. Indeed, in the mid-1990s, 32 percent of parents with incomes under \$30,000 had their children in regulated day care. In contrast, those with higher incomes were left to pay the full fee and claim the tax deduction, if the caregiver provided a receipt. Consequently, only 17 percent of parents with incomes above \$30,000 are making use of regulated care centers (Jenson and Thompson, 2000).

For school-aged children, access to public education is universal. But what happens inside schools varies enormously from one province to another, depending on how the spending cuts were applied in the 1990s, and how school systems are adapting to the new technologies and the diversity of the school population (Mahon, forthcoming).

In the meantime, more young people leaving high school are enrolling in college and university programs – with 17 percent of 17- to 24-year-olds attending college or university in 1997, up from 13 percent in 1991 (Statistics Canada, 2000). Provinces (except Quebec and British Columbia) have released controls on tuition fees and cut back on transfers to pay operating costs of universities and colleges. As a result, the average cost of post-secondary education tuition has risen from 2.5 to 4.6 percent of average family income since the late 1980s. These costs are prohibitive for many families and may be discouraging some young people from even trying to complete high school.

To help students cope with the rising cost, the federal and provincial governments have revised their student aid programs to increase the number of grants to low-income students, make student loans more accessible, and assist graduates who have trouble managing their debt.<sup>26</sup> A number of employers (such as Canada Trust and Nortel Networks) have established major scholarship programs, and the federal government's new Millennium scholarships went into effect in 2000. Despite all this help, debt burdens of new graduates are notably higher than in the past.<sup>27</sup>

Finally, the adult education system has expanded dramatically, with a proliferation of Internet and private colleges offering upgrading courses. Community colleges have also adapted their programs to meet the shifting needs of both employers and individuals. There is a rich array of programming available for working Canadians. The problem is affordability – the cost of tuition and the loss of earnings, if the worker leaves a job to study. While the choice of programs is impressive, there is a great need for independent accreditation of courses to enable students to choose on the basis of quality (Economic Council of Canada, 1992).

Employers, especially large employers, invest a lot in training for their own employees – but not all employers train, and those that do, do not train all their employees. Typically, they invest in those who already have a lot of education, those working with technologies, and those with a long tenure in the firm. This leaves the self-employed, low-skilled, and people working in small firms out in the cold. They must fund their own training or do without (Betcherman, McMullen and Davidman, 1998). Yet, they are the least likely Canadians to be able to afford to take time out to train.

In summary, while Canada started out with a commitment to universal access to education, it has so far failed to adapt to a world where lifelong learning is essential. Nowadays, families and individuals are expected to pay a significant portion of the cost of learning from their own pockets for the early years, for post-secondary, and for adult education. This creates serious barriers to access for people with low incomes. As yet, there is no debate about whether this is the best strategy to move Canada forward into the new economy.

### *Quality of Education*

Even in the universal education system from kindergarten to the end of high school, there are wide variations in quality from one part of Canada to another.

Standardized achievement tests consistently (including the most recent international study of achievement in science and math) show that students in the western provinces and Quebec do well by international standards. But students in the other provinces are not performing nearly as well.<sup>28</sup>



While youth from “advantaged” family backgrounds do well in all provinces, there are large inequalities in literacy skills for youth from disadvantaged backgrounds. Schools in Manitoba, Alberta, Saskatchewan and Quebec do a much better job of meeting the needs of children from poor social and economic settings than do schools in Ontario, British Columbia, and the four Atlantic provinces (Willms, 1991).

In the early 1990s, Canadians were alarmed that only 79 percent of youth aged 19 and 20 had completed high school (Statistics Canada, 2000). The completion rate rose to 81 percent between 1995 and 1998, but the problem is far from solved. The problem now appears to be concentrated among young men, especially those in inner cities (Hatfield, 1997).

Despite the universal nature of the need for high quality learning opportunities, learning is not seen as a national issue in Canada. In fact, Canada is one of the few countries in the industrialized world that does not have a national framework for education and learning. Even worse, Canada has a learning system that actually reinforces the inequalities in the labour market. From birth to retirement, people with low incomes face greater barriers to access learning than do people in higher income groups.

Learning should be a national issue that is front and centre in the debate over our common citizenship. Provinces are key players in the production and financing of education services from birth to retirement. But they are not the only suppliers of education and training, and certainly not the only sources of financing.<sup>29</sup> The federal government, employers, and especially citizens spend vast sums of money on learning, but their voices are seldom heard on the central issues of access and quality. Without their active participation, the Canadian learning system will not meet the standard citizens need to prosper in the 21st century.

Here are the core questions:

- If consistent access for all citizens to high quality learning opportunities is important to our vision of the Canada of the future, where is the guardian of quality?
- What is the appropriate balance between what citizens pay directly to the provider and what employers and governments pay?

- If governments are to pay part of the cost of learning, should the payments be made to the providers of the education or to the learners and their families?

## ***Social Transfers***

In the post-war period, access to social benefits for working age people depended almost entirely on the employment status of the head of the household. As a result of having been employed, workers had certain rights to unemployment insurance, workers' compensation, and retirement incomes. If they did not participate in the labour force, they were eligible only for social assistance, and any earnings from employment were deducted from social assistance benefits. There was a clear distinction between work and welfare.

This model has shifted dramatically in recent times. The boundary between employment and other statuses has shifted, fewer workers are eligible to collect unemployment insurance if they are laid off, while access to some social benefits depends upon family status. Having children under 18 present in the home gives adults access to both transfers and services (Beauvais and Jenson, forthcoming).

Social assistance benefits for adults without children have been reduced in most provinces, and incentives to work have increased. A range of programs provide support for and help with the transition from welfare to work in several provinces. In others, certain welfare recipients are *required* to work (or enter training) in order to receive benefits. Meanwhile, emerging evidence from experiments in both Canada and the United States (see Section 3) suggests that the model for the future may well be a combination of work and welfare. In this model, work is rewarded, but welfare and social services are available to top up earnings to reach minimum standards.

The situation is, however, different for families with children than it is for adults without children. Let's begin with adults, and then discuss families with children.

### ***Adults without Work***

As noted in Section 2, the most vulnerable Canadians are people with low skill, people with mental or physical disabilities, people from visible

minorities, especially recent refugees and immigrants, and Aboriginal people.

Traditionally, the provinces have provided social assistance for those who had no other source of income or were the long-term unemployed. A federal program, Unemployment Insurance, provided some replacement income for those who were laid off or could only find short spells of work in a seasonal industry. With the cuts to both programs, as well as to ancillary programs such as social housing, the amount of income support has diminished, as have active supports such as training and job search assistance.

Many adults hit the wall in the 1990s as their jobs disappeared. In some cities this led to a dramatic increase in homelessness. In others, it meant living in crowded, inadequate and unsafe housing. As the market prices for housing climb and the supply of social housing has shrunk, the barriers to getting off welfare, and in some cases off the streets have risen. That is why there are “working homeless” people in Canadian cities, people who hold jobs but do not earn enough to rent or buy a place to live.

Social assistance programs have traditionally discouraged any mixing of welfare and work. Earnings were deducted from the monthly social assistance payment. But since the late 1980s, provinces have been experimenting with measures that permit welfare recipients to add some earnings without losing welfare benefits, and some programs permit families to retain health benefits for a period of time after leaving welfare. However, Canadian policies have not yet taken advantage of the findings from the Self Sufficiency Project here in Canada that show that income supplements can encourage employment and reduce the depth of poverty for lone-parent families.<sup>30</sup>

Social assistance rules continue to penalize adults who work for short spells, and Employment Insurance (or EI, as it is now called) focuses on workers who have a long-standing, and regular participation in the labour force. It also has a regional bias, making access to benefits easier for some types of seasonal workers.

Accumulating the necessary hours to be eligible for benefits may come from intense seasonal work or from a long-term job that suddenly ends, whether full-time or part-time. However, EI is not designed

to meet the needs of the working poor in urban centres. If they move in and out of work during the year, they may not accumulate enough insurable hours to receive benefits. Moreover, they must work significantly longer than someone in Atlantic Canada or rural Quebec to be eligible for EI payments. This situation is clearly not fair to the workers. Nor does it adequately address the realities of an economy in which many people are confined to temporary or other short-term jobs. The labour market is no longer what it was when UI was designed in the 1940s, and even the reforms in the 1990s did not recognize the particular needs of workers in the new economy.

But the challenge to EI is even greater. The choice of supporting workers in high unemployment regions is regarded as unacceptable by wealthy provinces like Ontario because employers and employees in Ontario pay far more into the EI system than they take out. An added complexity is that, on paper, the EI account is running a large surplus, which is used to fund general government spending.

The danger in this situation is that the EI system is far from being a neutral social insurance to help unemployed people transition from one job to another. Anger at the distortions in the eligibility requirements and in the way the payroll tax is used is therefore undermining political support for one of the core elements of any industrial country's system of social protection, at a time when the economy is offering more low-wage, unstable jobs.

In effect, the EI program is trying to achieve too many goals at one time. Numerous task forces and commissions over the years have studied the situation and recommended various forms of income top-ups designed to “make work pay.” If Canada is going to commit to a modern social safety net with the right incentives, this one will have to be on the agenda.

### *Policies for Families with Children*

Are families autonomous entities, responsible for all dimensions of their own well-being? Or are they social institutions, giving to and taking from their communities, neighbourhoods, and governments, according to their needs and capacity? Canadians have traditionally answered yes to the first question, but in recent times they have shifted to the second perspective (Michalski, 1999).



Perhaps the most deeply felt issue in the recent political debate has revolved around the rights and responsibilities of families with children. The Canadian Alliance argues for the right of the family to make its own decisions with respect to the care and nurture of children. In Alberta, this has extended to freedom of choice in the kind of school the child will attend to include a number of charter schools, which set their own standards and curriculum. The Alliance believes that the state should recognize the contribution of parents, whether they stay at home or send their children to child care, by providing families with a \$3,000 tax credit for each child.

This view of the needs of children resonates with many parents, but it conflicts with the widely held view that everyone should work. Reforms to social policies since the 1980s have provided more and more incentives (and requirements) for lone parents to take a job. In a sense, then, there is a double standard for those who advocate for stay-at-home mothers. Women with well-to-do husbands should be permitted to stay home, but not all mothers.

Single mothers have been primary targets of employability programs, receiving help in preparation for labour market participation, some support for child care expenses, and so on. However, all the provinces, including those like Ontario, which allowed lone mothers to “substitute” caring for their children for labour force participation (Boychuk, 1998), have reduced the age at which lone parents must seek work.

Nor does promotion of stay-at-home parenting reflect the realities of most families today. Two-thirds of children under five have employed mothers. Moreover, the reality of the situation is that for the vast majority of two-parent families, it is only the second salary that is keeping the family above the poverty line.

This is a complicated matter, then, with two interconnected issues: the mix of parental and non-parental child care, and income support for families with children.

Let’s turn first to the mix of parental and non-parental care – the learning dimensions of child care were discussed earlier. Surveys in Canada and elsewhere show that people understand the advantage of parents caring for their young children (Michalski, 1999). Other countries have responded to this need in a variety of ways.

For most children aged three and over, two-thirds of the countries of the European Union provide publicly financed pre-school or child care centres. Even in the “laggard” countries such as Ireland and the United Kingdom well over half are in publicly supported child care (Jenson and Sineau, 2001). For children under three, the solution is most often to provide a paid parental benefit, of longer or shorter duration.

Canada has paid up to six months of maternity and parental leave for a number of decades. Studies show that eligible parents tend to stay on leave until their benefits run out, while those without benefits are much more likely to return to work within a month or two of giving birth (Marshall, 1999). Therefore the extension of EI financed parental leave to a full year as of January 2001 will allow parents to provide their own child care longer. However, there are still gaps in this system, because not all new mothers who are working are covered by EI, and not all provinces have adjusted their labour codes to guarantee that a parent’s job will be held for the whole leave period.

The second issue is how to provide income support to families with children, in recognition of their contribution to the country’s future.

The National Child Benefit (composed of the Child Tax Benefit and other programs) is a landmark in social policy history for two reasons. First, it is the only new and enriched social program to appear on the scene since the early 1970s. And second, it is a joint federal-provincial effort designed to reduce poverty and to make it easier to get off welfare. Income benefits and supports have increased since 1998, but they still fall short of the needs of low-income families, in a world where affordable housing is scarce, and many jobs pay low wages.

Through the Child Tax Benefit, the federal government provides a tax benefit to 80 percent of families with children (albeit with the full benefit going only to low-income families). Provinces provide a variety of services for young children and their families to support healthy development. Provincial subsidies for child care remain targeted to low-income families, with only Quebec (and to a more limited extent British Columbia) providing low-cost universal services. Working parents who pay for child care are eligible for some tax relief, through the Child Care Expense Deduction. Typically, this

covers about one-third of the total cost for a working parent whose income is below \$65,000.

While the state (federal and provincial) is now actively supporting families with children, the system is still fragmented and incomplete. The federal role is mainly the provision of income security through the Child Tax Benefit, parental leave through Employment Insurance, and help with child care expenses through the Child Care Expense Deduction. Provinces provide a variety of services, as well as some income support and help with expenses.

Clearly, families with children are receiving far more support than they did even five years ago. However, three issues remain. The first is the need to raise the Child Tax Benefit to adequate levels (which still need to be defined). The second is to reduce the extremely high tax back rates for families with modest incomes in receipt of a variety of tax and service benefits (Shillington, 1999). And the third is the absence of any recognition, via tax reductions, that all families with children, no matter their income level and no matter their choices about parental and non-parental child care, face higher expenses than individuals or families without children at equivalent income levels. Reintroduction of tax deductions for families with children would go a way toward recognizing the contributions made by families with children.

In summary, Canadians face a major challenge in adapting the old income supports and social services to the conditions of the 2000s. Again, we face tensions between self-reliance and compassion. Support for families with children has moved furthest in the past few years toward an investment model – building self-reliance for the future. But social protection for adults without work is still stuck in the old industrial model and therefore does not fit the challenges of the new labour market.

Core questions surface around the basic principles that should guide social programs in the future:

- How should the structure of social assistance and employment insurance be modernized to ensure that they provide the right mix of protection and incentives to work in the labour market of today?
- Should social assistance be designed to supplement earnings from work, rather than be a substitute for earnings?
- How should EI benefits be adjusted to recognize the hardships of unemployment in all provinces, not just those with high structural unemployment?
- Now that federal and provincial governments, working together, have created a new model for social protection for families with children, how should the model be completed? What is the appropriate level of benefits? What is the right mix of income and services? And what supports should be provided to help balance work and family responsibilities? How should policies support a choice between parental and non-parental child care?

## 6. Concluding Comments

Citizenship is more than a passport. It defines who “we Canadians” are, and describes the kind of community “we” wish to become. Citizens have rights, they have responsibilities, and they need access to jobs, public services, and public participation. The balance among these rights and responsibilities changes over time in response to the core values of citizens, their implicit contract with the state, and the economic and political context.

All the industrialized countries are being forced by economic pressures to rethink this balance. Europe is doing so with its broad social vision of employment and citizens’ rights. The United States is seeking a new balance between work and welfare, and has shown that social policy reform does not save money in the short run.

Canada also has to make its choices, based on its history, economic context, and core values. And in contrast to the past 20 years, Canada has the opportunity to create a new and more durable synergy between economic and social policies.

Because Canada is now a more pluralistic society than it was when we designed the many social and economic rights and responsibilities of citizenship, we have many conflicting views on what choices to make. The time has come to create a common view of our rights and responsibilities – a sense that we are all part of the same enterprise, even as we differ in perspective and political philosophy.

This demands a willingness to step back from old patterns of thinking and to discuss with open



minds what choices will make the most sense in the new economy and the new society we are becoming.

To have this dialogue, we will need well-functioning political institutions. This means institutions that can manage conflict. Conflict is healthy, if it is well managed, but otherwise may be dangerous. Unfortunately, Canada's institutions have been weakened in recent times – power has shifted to markets and to international institutions; federal and provincial governments are still in the early stages of learning how to manage their interdependence on social policies; and the notion of fairness is in dispute.

An added complication is that Canadians are less deferential to the authority of governments and other institutions. They wish to be involved in the major policy choices the country makes – not just as voters every four years, but as participants in priority setting. They are seeking broader *political* rights.

As markets have grown in influence through shifts in trade policy, regulatory policy, and government ownership, *economic* rights have been reshaped. More responsibility has been shifted to individual workers to develop their own skills over their working lives and to create their own job security. As workers carry more risk, their incomes are more volatile, and, in too many cases, a year of full-time work will not support a family. The change in economic rights forces us to rethink the kinds of social protection needed to cope in the new economic environment.

Just as limited liability has given the corporate sector protection against economic fluctuations, working people need basic protections when the economic tide turns against them. To use the metaphor of the Senate Social Cohesion report, cars can go faster when they have reliable brakes.

As the power of the state and its role in the lives of Canadians has been rolled back over the past 20 years, the conditions of *social* citizenship have been altered. Decisions made to balance budgets have curtailed access to core public services, and social programs have not yet adapted to the exigencies of the global market place, the new technologies and the requirements for high levels of literacy and skill.

The cuts in social programs have eroded the shared rights enjoyed by all citizens. The pan-

Canadian citizenship of the post-war years was founded on the principle of universality, which helped to create a broad middle class. Fiscal duress led to a multitude of decisions to make programs more targeted on specific economic, health, and social problems. While it makes sense to target the people with the greatest risk when resources are scarce, the very notion of targeting excludes others whose needs are defined differently, and opens up gaps in the common citizenship.

The cuts have also affected middle- and high-income groups. They have lost free access to many services that should create common bonds among people who might not otherwise meet. These Canadians are asked to contribute a large share of tax revenue while receiving a shrinking share of public services, even as their confidence in the quality of those services is in decline. Therefore, a new vision of a common citizenship must somehow embrace a wider cross-section of Canadians so that they share in the rights as well as the responsibilities.

Tough trade-offs have been made under the stress of a decade of slow economic growth, an intense battle against deficits and debt, and accelerating North American integration. Looking ahead, we can expect further economic integration to impose constraints in areas like the taxation of business and capital income. But as Canada absorbs the new technologies, we can also expect a more robust economic environment, which should generate higher incomes and more employment for citizens, and stronger revenue growth for governments.

The end of deficits and the resumption of economic growth give Canada more room to set its own terms and conditions of citizenship. As we rethink the balance between market and state, it is important to understand that Canadians want both market and state in their lives. As we seek to balance economic integration and independence to accommodate the change that has taken place in the past 20 years, it is essential to take advantage of the fact that borders between provinces and between countries permit different, sustainably different, policy choices.

Every decision that is made with respect to tax policy, health care, learning, and social transfers (and many other policies not discussed here) should be anchored in a core understanding of our common citizenship.

To provoke more discussion about the kind of country we will become, this *REFLEXION* has argued that:

- While corporate and business income should be taxed to be competitive with other jurisdictions, Canada has sufficient space to set its own personal income tax rates and its own tax structure. The prime factors to consider in setting tax policy are economic efficiency on the one hand, and the needs of Canadian citizens for public services, on the other. The way to increase the range of long-run choices on tax and spending policies is to pay down the public debt more quickly in the short run.
- Canada has the resources and the ingenuity to shore up and adapt the health care system in ways that are essential to the peace of mind of Canadian citizens. The new money committed by federal and provincial governments in 2000 should shore up the system for the next few years. But long-run sustainability will depend on new ideas about how we share the cost of more comprehensive coverage, and more robust governance systems.
- Canada's learning system reinforces the inequalities in the labour market. Across all ages and stages of life, people with low income face greater barriers to learning. Public and private actors must begin to insist on broader access and higher quality, and work together to find ways to achieve these goals. Well-being and

prosperity demand that Canadians have the best possible opportunities to become self-reliant and to be the best they can be as citizens, parents, and workers.

- Canada's policies of social protection need to adapt to the changing economic context and to reflect the Canadian balance between compassion and self-reliance. For the past 50 years, Canadians have expected self-reliance, but also invested in building self-reliance when people were in difficulty. To achieve that goal, we need to modernize Employment Insurance and social assistance, and continue to build a supportive environment for families with children.

Canada's common citizenship should dare to be different from its past and from its trading partners. This does not mean a lurch to the left or a lurch to the right. It means finding the radical middle.

Paying down the debt more quickly, being open-minded about methods of financing health care, getting the incentives and access to learning right, balancing social protection and incentives to work are one pathway to the radical middle.

Canada has the opportunity in the next few years to build a common citizenship that is consistent with economic success in the new economy of global markets and technological change. Let's use our new-found room for action to imagine and then build the Canada we want.



## Notes

- 1 I wish to acknowledge the contributions of colleagues past and present, especially Karen Jackson, Jane Jenson, Graham Lowe, and Peter Puxley, as well as four independent reviewers who took me to task for many errors and provided a lot of neat ideas, and Jodey Michael Derouin, who provided research assistance. Any errors that remain are the author's. CPRN also wishes to acknowledge financial support for this project from the Donner Canadian Foundation, the Laidlaw Foundation, and the Walter and Duncan Gordon Foundation.
- 2 Gordon Laxer makes the point that it is essential to get Canada's social house in order before the next economic slowdown. (Peer Review Comments.)
- 3 Quoting himself from 1947. See Martin (1993).
- 4 In addition, the courts upheld collective bargaining rights in the 1940s, with the entrenchment of the Rand formula. The traditional approach to governance in government and in the private sector is to divide responsibility into silos or boxes, known as divisions, departments, subsidiaries, or business units. Each unit hires its own specialists or experts. The minister or CEO makes decisions, based on the advice of expert staff. Sometimes the CEO will consult customers, clients or citizens about how they react to the decision before it becomes final. The decision is then announced. In this governance model, citizens are on the periphery.
- 5 Gordon Laxer points out that other industrial countries (such as Germany and the United Kingdom) introduced their welfare programs in times of economic distress, in contrast to Canada, which waited until economic prosperity provided the enablers of political consensus and greater public revenues. (Peer Review Comments.)
- 6 These civil, political and even some social rights were later embedded in the 1982 Canadian Charter of Rights and Freedoms.
- 7 In addition, the restructuring led to substantial layoffs of public servants, breaking with decades of job security. The federal government workforce decreased by 15 percent and the provincial workforce by 22 percent from 1991-96 (Peters, 1999).
- 8 Many commentators have blamed these departures on higher taxes in Canada, but a survey of 1995 graduates who moved there shows clearly that they moved for work-related factors – availability of jobs, higher salaries and the chance to gain skills. Lower taxes in the United States explained less than 10 percent of the work-related departures. See Human Resources Development Canada (2000), which cites the National Graduates Survey by Statistics Canada.
- 9 That is, not working and not studying.
- 10 One study estimates that one-third of the people counted as poor in the 1995 census has such low levels of education and skill that they would remain poor even if they were working full time (Gascon, 2000).
- 11 Comment by Wayne Helgason, Executive Director of the Social Planning Council of Winnipeg.
- 12 Middle income, defined as plus or minus 25 percent of median income, ranged from \$35,475 to \$59,125 for families and \$15,075 to \$25,125 for individuals in 1999 (Statistics Canada, *Daily*).
- 13 A province may offer excellent programs for autistic children, but little or no support for those with mental illness, for example.
- 14 See the newspaper coverage of the September 11 and 12, 2000, First Ministers' meeting, for example.
- 15 For citizens, mobility rights within the Union are guaranteed as border controls within the EU have been eliminated, the right to settle in – that is, to immigrate – to any Member State is possible, and many labour markets have been thrown open to any citizen of the Union.
- 16 The recent decision by Germany to reduce taxes may be the harbinger of a new trend toward lower taxes in the EU. See: Cook (2000), *The Economist* (2000) and Simonian (2000).
- 17 The State Children's Health Insurance Program (S-CHIP) was enacted in 1997. The federal government provides \$24 billion per year in federal funding to states over five years to cover uninsured children in families with incomes below 200 percent of the poverty line. Penner, Sawhill and Taylor (2000) say that the group now least likely to have health insurance in the United States are low-paid adults working for small employers (p. 108).
- 18 The two main conditions on the block transfer to the states (Temporary Assistance for Needy Families) were that from henceforward, Americans would be expected to work after two years on welfare, and they can only collect welfare for five years, over their lifetime. See United States, Administration for Children and Families (2000).

- 19 Italy also relies on the family for caregiving. National programs of social protection are designed to support the male breadwinner. See Esping Andersen (1999).
- 20 Canada's trade with the United States has increased significantly over the past decade. In 1990, Canada's total exports to the United States (\$107 billion) accounted for 74.2 percent of total exports or 15.8 percent of GDP. By 1999, total exports to the United States (\$308 billion) had risen to 32.2 percent of GDP or 86.8 percent of total exports. Source: Industry Canada, 2000.
- 21 Jeffrey Simpson argues that Canadians are more like Americans than they have ever been (Simpson, 2000).
- 22 See also <http://www.open.gov.uk/govoline/latest1.htm>.
- 23 Human Resources Development Canada (2000) cites a survey of Canadian graduates now in the United States, based on the National Graduates Survey by Statistics Canada.
- 24 Provinces may also reduce tax rates in their 2001 budgets, which would push the rates even lower.
- 25 These taxpayers will experience a significant tax reduction in 2001 because their income below \$100,000 will be taxed at lower rates.
- 26 In addition, the federal government has introduced Registered Education Savings Plans to help families save for their children's education.
- 27 All these federal measures do not create financial flows large enough to offset the cuts in provincial contributions to universities and to students.
- 28 For 16-year-olds, results range from 27.5 percent in Prince Edward Island to 57 percent in Quebec for mathematics problem solving in 1997 (Statistics Canada, 2000).
- 29 Rianne Mahon's (forthcoming) survey of policies for 6- to 15-year-old Canadians describes provincial systems that are under stress from a combination of fiscal restraints, increasing diversity in the school population, and abrupt changes in governance regimes.
- 30 A federal experiment in New Brunswick and British Columbia tested the effect of paying an income supplement to lone parents who had been on welfare for 12 months, if they worked full time. The program significantly increased full-time work, reduced poverty, and led to higher rates of marriage than were experienced by the control group who received no supplement. Further research continues to determine whether participants continue to work when the supplement ends and they must depend solely on their earnings. The Canadian experiment calculated the net cost to government after paying the supplement and collecting taxes on the earnings. For lone parents who had been on welfare for only 12 months, there was a net payback to the government. For those who had experienced dependency for longer periods, there was a net increase in cost to government (Michalopoulos et al., 2000).



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