
Social Policy and the Budget

Speech to the CABE/OTTECA 1997 Policy Conference

Judith Maxwell

Introduction

Over the past decade, federal budgets have had overwhelming spillover effects on social policy. Deficit reduction has significantly reduced the resources available for social programs.

Now that we are close to the turning point in fiscal policy, when the virtuous circle of debt reduction begins to unfold, there is scope for a much more positive interaction between social and fiscal policy.

To put the issues in context, I want to present the framework of the Social Dimensions of Economic Growth (1996 Hanson Lecture).

The argument is that in future budgets we will need a more carefully thought through partnership between federal budgets and the reform and renewal of social policies.

Two Regime Shifts of our Time

The first is economic policy

- Monetary policy – price stability;
- Fiscal policy – debt reduction;
- Trade policy – open markets, rule of law; and
- Unfettered use of new technologies

The second is social policy

- Employment Insurance;
- Welfare cuts;

- Health costs shifting to individuals;
- Tuition costs rising;
- Efforts to encourage self-reliance, etc.

The bottom line is that employers are offering less employment security, and social policy is providing less collective security.

The cumulative effect is greater personal risk: We are creating a Risk Society. A risk society creates winners and losers. A lot of the losers are young Canadians.

Two Notions of Competitiveness

I. Cost minimization

- Layoffs and non-standard work reduce wage bill;
- Loss of job and security undermines loyalty;
- Firms lose institutional memory; and
- Create new deadweight costs for society

II. Long-run dynamic growth

- Firms invest in learning, build human capital;
- Society focuses on the well-being of future generations; and
- Invests in social infrastructure.

Question: Can you run a successful knowledge-based economy in a cost minimization society?

What Citizens Want

Efficient, affordable government, *and*

- Self-reliant citizens;
- A strong moral commitment to collective responsibility;
- Investment in the future, especially in children and prevention.
- Democratic engagement (to be part of the policy debate).

They see economic and social problems as requiring inter-connected, systemic responses.

Source: S. Peters, *Exploring Canadian Values*, CPRN, 1995.

What Scholars are Thinking:

Neo-classical economists worry about the capacity of political and social institutions to adapt to a global economic system driven by market forces, e.g. Jeffrey Sachs.

New growth theory in economics argues that dynamic efficiency over the longer term matters more than static efficiency (summarized by Lars Osberg):

- Countries characterized by greater equality, grow faster, other things equal;
- Growth is strongly influenced by inter-generational transmission of human capital; and
- Defensive expenditures on crime and poverty crowd out investments in human capital.

Political scientists emphasize that social capital is the foundation of economic success, e.g. Robert Putnam

What is Social Capital?

Social capital is the trust and reciprocity which creates the foundation for collaboration. It is based on:

- Shared values;
- Membership in a community;
- A sense of common enterprise.

It works at the level of the firm, and for society as a whole. Having a shared mission:

- Lowers transaction costs
Agreement on a handshake rather than through a formal letter or contract;
- Mobilizes energy
With all the players focused on the same goals
- Reduces deadweight costs
Fewer guards, gates, prisons; and less social assistance.

The challenge of the next few years will be to redesign social and economic policies to create a foundation for long-term economic growth. That redesign calls for the integration of social and economic policies across a wide spectrum.

Cornerstones of an Integrated Social/Economic Policy

- A learning society from cradle to grave, where education and training are regarded as an investment.
- The "caring" role of the family is valued and reinforced by supportive public policy and institutions.
- Public spending is focused on generating better outcomes for citizens and for society at large, in the context of a commitment to open markets and the rule of law.
- Shared responsibility for social investment, via new forms of collective action involving the state, employers, citizens, and nonprofit organizations.

These cornerstones are based on the second notion of competitiveness.

- They focus on the fundamentals of dynamic economic growth over the long term.
- They acknowledge the necessity of the economic regime shift.
- But they recognize that the marginalization of a generation of young Canadians has negative consequences for the longer term.

How Does the 1997 Budget Fit in this Context?

The budget makes some modest moves to reinvest in social policy.

Most of the reinvestment is consistent with the four cornerstones mentioned earlier:

Learning:

- Access to post-secondary education

Caring:

- Children's benefit will help working poor, and depending on adjustments in provincial programming, poor and middle class families as well.

Outcomes:

- Children's benefit will shift incentives to encourage the welfare to work transition

Collaboration:

- Incentives for charitable donations strengthen nonprofits
- Innovation Fund levers provincial and private funds to support social infrastructure
- Commitment to work with the provinces on an integrated policy for children strengthens the "social union."

But this is just a modest beginning.

Future Federal and Provincial Budgets Will Have to Work on:

Learning

- Savings and borrowing instruments to help individuals finance their own learning, throughout their life time.
- Job-oriented training opportunities for youth
- Active labour market programs for all contributors to EI
- Investment in better quality programs, and new delivery systems

Caring

- Tax policies that recognize the financial cost of caring for children
- An integrated approach to designing income, services, and community supports for families with children
- Support for family leave/flexible working arrangements
- Tax credits to recognize the contribution of caregivers and of volunteers

Outcomes

Identification of tax, spending, and regulatory practices that lead to social exclusion, e.g. program regulations that treat non-standard workers differently.

Collaboration

- A new federalism, involving full partnership of federal, provincial and territorial governments – to manage interdependence.
- Revised legal and contracting framework for nonprofit organizations to enable them to be "the best that they can be" in service to the community.
- Incentives for active corporate involvement in social investments
- New forms of collective action for nonstandard workers.

Conclusion

Getting fiscal policy back on track gives Canadians choices in both economic and social policy.

Even in an environment of stronger growth, market forces will continue to polarize Canadian society. Polarization undermines long-term dynamic growth.

This means that a growth strategy will demand responses from both economic and social policies.

Together, they will be responsible for implementing a new social contract

where all the stakeholders are dedicated to building social cohesion

In that world, federal budgets cannot continue to be the unilateral product of one ministry or one government. They will be part of a "national project" which sees economic and social goals as interdependent.

The net effect will be to shift attention from traditional macro measures to those which reflect the quality of life of Canadian citizens.

(March 21, 1997)