Canadian Policy Research Networks
Réseaux canadiens de recherche en politiques publiques

Commentary

A New Cycle of Investment Begins ...

Judith Maxwell

A new era of social investment has finally begun after two decades of public sector restraint and restructuring. We must now turn the page from "getting our economic house in order" to "getting our social house in order."

There was not much controversy about what "getting the economic house in order" meant – reducing deficits and debt, lower interest rates, more employment, less inflation. But "getting the social house in order" is far less predictable. We are not aiming to get back to the golden era of the 1960s, but are striving to meet the social needs of Canadians in an era when work, family life, and the age of the population are radically different from the 1960s. In short, we are building a new social paradigm for the 21st century.

With the benefit of hind-sight, we can divide the post-War period into two big swings of the pendulum.

From 1945 to 1975, the focus was on nation-building. Governments – mainly the federal government at first, but in later times the provinces were major players – adopted a proactive approach to both economic and social policies which was unprecedented. After the hardships of the Depression and the successful mobilization for the war, there were two challenges. One was to send soldiers and war industry workers "back to civil life." This amounted to one-third of the work force. The second challenge was to avoid another economic slump.

Building on the emerging consensus about Keynesian economic policies, governments therefore took more responsibility for supporting economic growth and redistributing income. Over a 25-year period, the federal government reduced taxes, paid down its debt, and constructed a fairly comprehensive social safety net (pensions, medicare, some social services, and more generous unemployment insurance, for example).

No wonder we look back on this as a golden era. Economic and social goals were more or less in harmony. Economic progress made it possible to invest in greater security to the lives of Canadians. Economic growth was strong, unemployment and inflation were low, and living standards increased considerably. No wonder that Canadians were hopeful and optimistic in those days.

But the gears of economic growth began to grind more slowly in the early 1970s. The oil shock provoked a period of higher unemployment and inflation (stagflation), budget deficits began to mount, and productivity slowed down. For a while, the pendulum in public policy paused. Then, when the 1981-82 recession hit hard and the federal deficit and unemployment rates went through the ceiling, a new era began.

The notion of fine tuning the economy was replaced by a much more market-oriented philosophy, and a more restricted role for the state. The era of spending cuts, deregulation, and the targeting of social programs began.

At the same time, the changing economic environment began to produce greater inequality. Employment began to polarize into good jobs and bad jobs. Wages for younger workers fell drastically in real terms. And we only learned recently that poverty became more concentrated in inner cities during the 1980s – mirroring the trend in American cities in earlier decades.

In the 1980s, policy advisors were bewildered by the rapid increases in welfare case loads and struggled to understand the "cost drivers" that were making long standing social programs so expensive. Their policy changes were primarily focused on cutting back on eligibility in order to control costs.

Meanwhile, the world economy was also changing fast. More open trading arrangements, including the Canada-US trade agreement and NAFTA, increased import competition and created new export opportunities. World financial markets became highly fluid, and new technologies altered the way international business was organized.

It was the 1990-91 recession that finally provoked drastic action – first in the private sector as industries began to deal directly with their lagging productivity and the intense pressures of world competition. Then in the public sector as those fluid financial markets began to take flight from high debt countries, including Canada.

Budget cuts were deliberately designed to reverse the role of government – shifting responsibility and insecurity back to citizens. Although the political rhetoric and the severity of the cuts varied from one part of the country to another, governments of Liberal, Conservative, and NDP origins were all caught up in the process of "getting the economic house in order."

Hospitals were restructured, unemployment insurance became less generous, public pensions became more costly, social services were cut, and social programs became more and more targeted, leaving gaps in the social safety net. As people began to fall through those gaps, the social deficit increased.

The first food banks appeared in the late 1980s. By the late 1990s, homelessness was painfully evident on the downtown streets of most Canadian cities.

Now, finally, Canada is poised on the threshold of a new era in the balancing of risk between citizen and state. The fiscal crisis is largely behind us, and we have the luxury of planning ahead. The federal budget each February has become one of the key levers for social investment.

Both the education budget in 1998 and the health budget in 1999 took important initiatives to flow money into starving systems. But they did not "fix" either post-secondary education or health. Those fixes will be a long, hard slog in the years ahead. It will be a lot easier to modernize and adapt these systems when there is some discretionary money to invest. But it takes political will to move the money to the new priorities rather than feed the claims from the old ways of doing business.

And now, the competition is on for prime billing in budget 2000. Will it be children? The environment? Productivity? Or tax cuts? Or will it be a combination?

These theme budgets make sense -- if they enable governments to concentrate their resources on the implementation of a long-term strategy. If the next budget addresses children, for example, it will require a well-articulated strategy for supporting parents in achieving healthy child development. No single budget could possibly "fix" the problem; we will need a ten-year agenda. The same challenge holds for the other possible themes.

In my view the decisions about priorities should be selected to maintain harmony between social and economic goals.

We must all recognize that the task we face on each of these issues is fundamental, difficult, and long term. The new investment cannot take us back to where we were in the mid-1970s, it has to take us forward to where we should be in the 21st century.

While there are parallels with 1945, the challenges are rather different. Rather than "getting back to civil life", we will have to build a "civil society" – a society that shares risks and responsibilities and lives within its means.

The way people earn their living, and the way they look after each other will be different going forward. As will the role of the state.

Perhaps the most important lesson we can learn from the post-war period is to avoid the extreme pendulum swings. If the social budget gets over-extended the pendulum will have to swing back. If the market oriented philosophy is taken too far, the policies are not politically sustainable.

In future, we want to keep both social and economic policies under the same roof, and resting on the same solid foundations.

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(May 1999)