

Eric J. Hanson Memorial Lecture, University of Alberta

Social Dimensions of Economic Growth

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January 25, 1996

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Eric J. Hanson Memorial Lecture

Traditionally, Canadian governments and their advisors have placed economic policy and social policy in two separate, and often conflicting, boxes. The purpose of this paper is to explore the interdependence of economic and social policy and to outline the new roles and responsibilities of state, employers and citizens as they begin the integration of economic and social policy decisions. To do this, I want to try to set out two different notions of competitiveness and to demonstrate that competitiveness and social cohesion are complementary. Economic growth, in the long term, depends on the investments we make in human and social capital – in the resilience of Canadian citizens.

Introduction

To begin the discussion, however, it is important to set the scene by describing the "regime" shift which has taken place in economic policy since the late 1980s. Over the period from the early 1970s to the late 1980s, the dominant approach to economic policy in Canada was one of accommodation. In this regime, inflation was accommodated so citizens would be protected from increases in the cost of living; industry was protected against competitive pressures by a mix of subsidies and trade barriers;¹ and fiscal policy became mired in debt because the right moment to balance the budget never seemed to exist, whether the economy was expanding or contracting. Governments were preoccupied with short-term economic performance.

The regime shift began with the reorientation of monetary policy in 1987-88:² the Bank of Canada stopped accommodating increases in costs and leaned hard against rising rates of inflation. Then, the signature of the Canada-US Free Trade Agreement in January 1989 signalled the end of the policy of tariff and subsidy protection and opened an era of aggressive search for new markets for Canadian exports as well as vigorous competition from imports. Finally, the accumulation of fiscal pressures led most provinces and then the federal government (in February, 1995) to really focus on deficit reduction.

The cumulative effect was a long and invigorating cold shower for some firms, and a severe case of hypothermia for others. The payoff – somewhere down the road – was to be a stronger competitive position and more robust economic growth. Some of the payoffs are visible now – the remarkable surge in net exports, the emergence of many new Canadian-based multinationals, and the rebound in southern Ontario, for example. But the adjustments required to adapt to this new economic climate have been more difficult and taken far longer than most experts anticipated, and they are not over yet.

What did not happen while this regime shift was underway was a change in social policy – in part because it was politically difficult to admit that the policy shifts would cause hardship. But probably also in part because no one could calculate what the cumulative effect of these changes in monetary, fiscal and trade policies would be. The assumption was that the safety net designed for the high growth years of the 1960s and 1970s would be appropriate for the effects of the cold showers of the 1990s.

That assumption has been clearly demonstrated to be wrong. The old safety net is not appropriate for the 1990s. It is based on outdated perceptions of the labour market and of family structure. It therefore offers the wrong kinds of support, and misses out on key social needs of Canadians – such as those of children. [Maxwell, 1995]. As a result, federal and provincial governments are making difficult, incremental (some would say ad hoc) changes in a large number of social programs.

In short, we are now in the middle of a second regime shift, this time in social policy. Where this regime shift takes us is absolutely critical to the health of the Canadian economy. If we stick to the old ways of thinking about social programs, while cutting back on public spending – the combined effects of economic and social policies will polarize society into haves and have nots, and damage much of the social capital we have built over the post-war period. There is the potential to do great harm here.

But I want to argue in this lecture that there is now a convergence of ideas which opens up another kind of future for Canadians – a society built upon resilience. The new model is in our heads and in the theory, but it is not yet accepted in the key bastions of economic power – ministries of finance and corporate boardrooms.

This second regime shift is also linked to the national unity question, for social policy involves important questions of intergovernmental relations.³

The first regime shift was driven by the federal government. The provinces had no say about the change in monetary policy; they were consulted on the free trade agreement and most of them supported it in the end; and they have been in a reactive mode with respect to federal fiscal policy decisions – even the decisions that affected transfers to the provinces.

But the second regime shift is far more complex for two reasons. Federal and provincial programs such as unemployment insurance, social assistance, social services, education and training, health care, and the retirement income system are deeply entangled. Changes in UI push more people onto social assistance. Inadequacies in social services or training make people more dependent on both UI and social assistance.

Unfortunately, the federal-provincial working relationship has been so poisoned by the first regime shift and the failure of the federal government to reach out with cooperative approaches to decision-making, that they have been unable to work together on the second. That will have to change if Canada is going to find a new safety net for the 1990s.

As we grapple with the second regime shift – creating a new social safety net that suits the economic climate of the 1990s – the major challenge is to integrate the social and the economic. Ironically, both the theoretical literature and the ordinary citizen are ahead of governments and many of their programs, as I shall explain later. But next I want to bring in the notion of competitiveness.

Two Notions of Competitiveness

One of the buzzwords that characterized the first regime shift was competitiveness. It became the rationalization for almost every change in the economic indicators. And to many citizens it became the C-word – a sign of bad news. But there are two rather different notions of competitiveness.

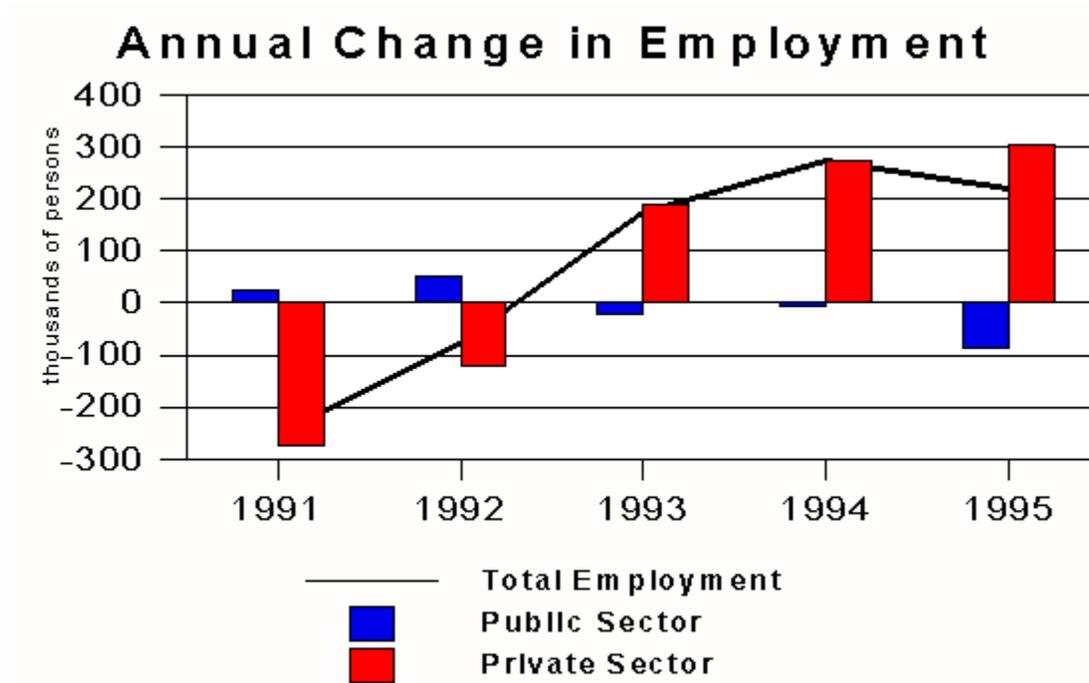
The first notion of competitiveness is cost-minimization. It has a clear short-term focus – survival of the enterprise in the current and next fiscal year. One of the first costs to be minimized is the wage bill. Corporate restructuring has led to dramatic increases in permanent layoffs, a persistent trend toward non-standard work, and uncounted costs of underemployment (especially of younger workers). Productivity appears to have increased in the short run, but I have yet to find convincing evidence that downsizing really creates wealth in the long term. The business literature, for example, is now putting more emphasis on building a loyal work force.⁴

What is clear is that cost-minimization leads to growing economic insecurity for Canadians, and a trend toward the polarization of jobs and incomes. Many professional and technical skills are in high demand and are well compensated. Most manual and clerical skills are in excess supply, and poorly paid, with little or no security.

Just as the corporate downsizing began to subside in 1993 (it continues, but at a slower pace), the public sector started streamlining its operations in a desperate effort to bring expenditures into line with revenue prospects. Again, we see the same story of layoffs, nonstandard work and rising economic insecurity for public sector employment (16 percent of employment in 1995), as well as cuts in transfers and services to citizens.

For a while, this notion of competitiveness was associated with the prospect of jobless growth. Now we can see that creation has indeed been slow, relative to previous decades, but one of the hidden stories in the data now is the divergence between private employment and public employment. The private sector created about 300,000 jobs in 1995, while the public sector (broadly defined) eliminated almost 90,000 (see Chart 1). It is just as well that the private and public restructuring did not coincide, but it does mean that the recovery from corporate restructuring is obscured by the streamlining in the public sector.

Chart 1



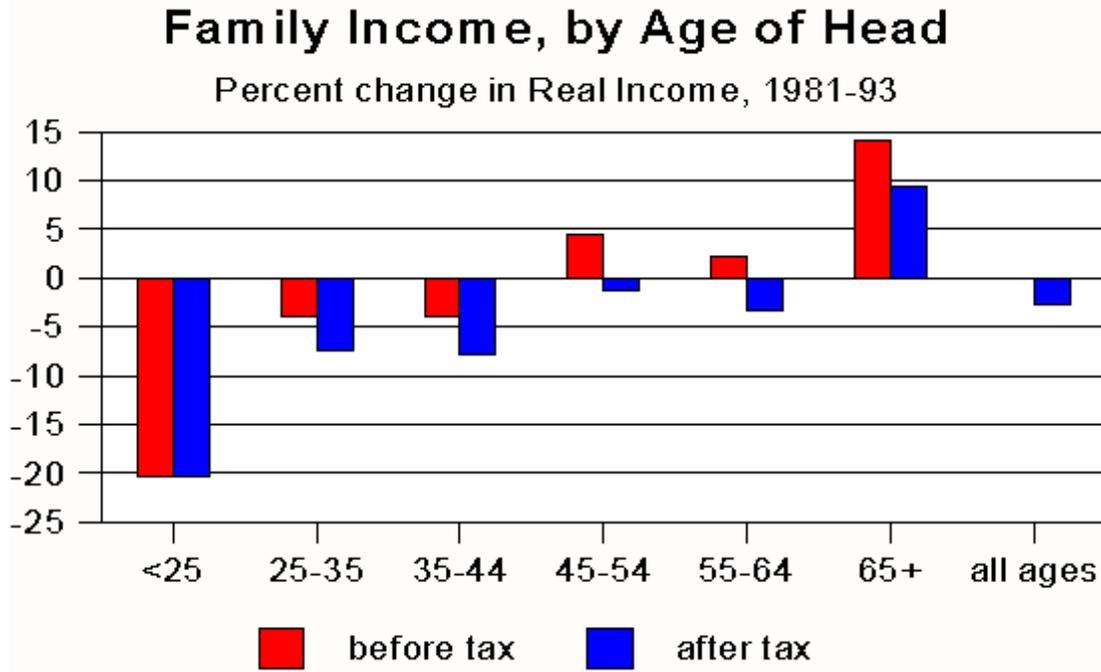
Until 1994, there was surprising stability in the distribution of income, after taxes and transfers, despite clear evidence of polarization in employment and earned incomes.⁵ Evidently, the old social safety net – through unemployment insurance, social assistance and related programs – was robust enough to prevent an increase in inequality, up to a point.

But, as the public sector restructuring continues, and deficit reduction proves to be more and more intractable, the social safety net is being curtailed.⁶ The federal government has taken \$3.6 billion out of the Unemployment Insurance system in recent years, and is now proposing a major overhaul. Provincial governments are tightening up on social assistance. Tuition fees for post-secondary education have already increased and are expected to rise significantly. Labour market programs are in a state of flux.

Under these conditions, it seems unlikely that the safety net will continue to offset the trend toward inequality in earnings. Moreover, the evidence is piling up that generations born after 1960, especially families with children, are experiencing more than their share of the fallout from this restructuring. The safety net is less focused on their needs, and they are the most vulnerable to economic insecurity. Chart 2 shows that the real incomes of younger families have fallen dramatically since the early 1980s, while the incomes of the elderly families have been protected. Chart 3 shows that the incidence of poverty has risen dramatically for children since 1989. And Chart 4 compares the depth of poverty for

different households. Note that the incomes of families with children who are poor fall about \$8,000 short of the low income threshold, whereas the shortfall for elderly households is \$4,000.

Chart 2



Chart

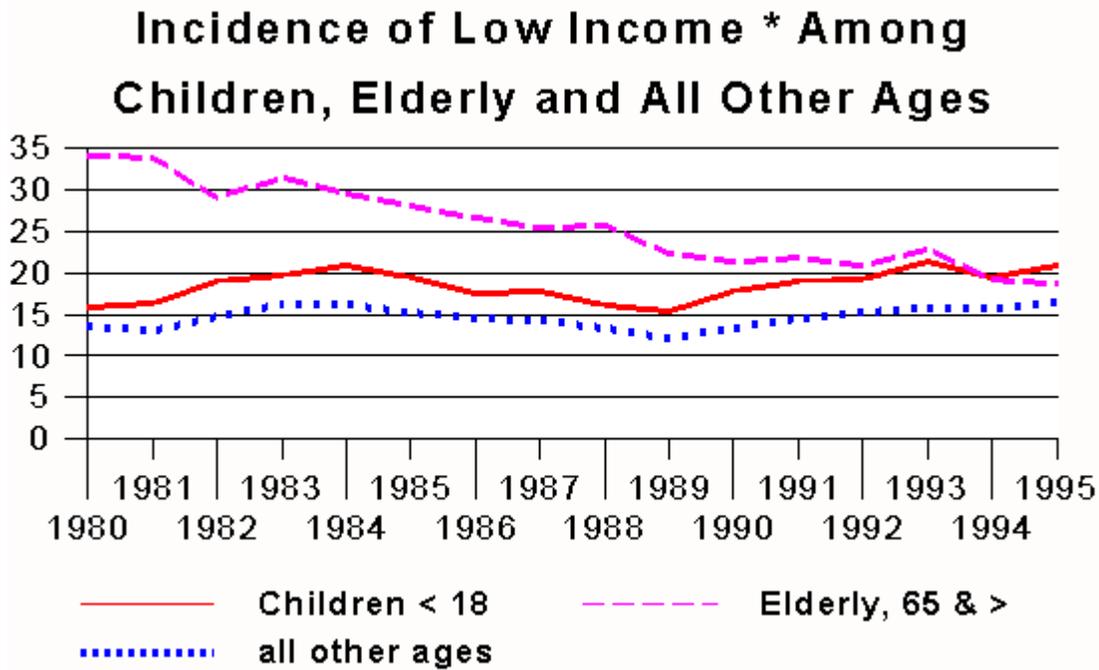


Chart 4

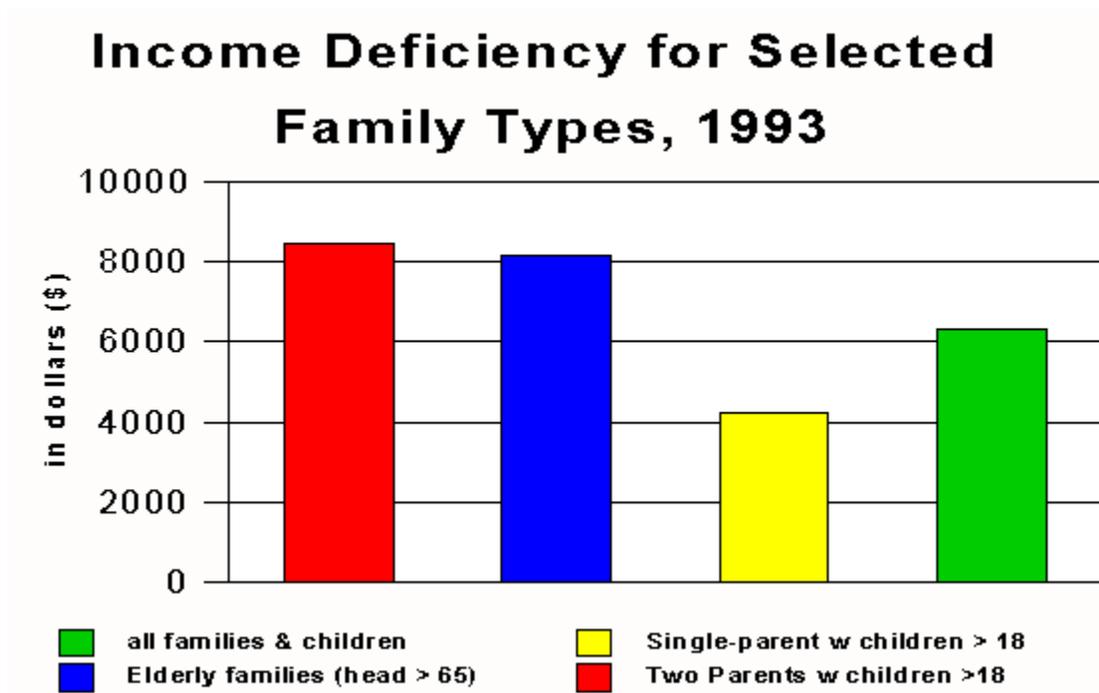
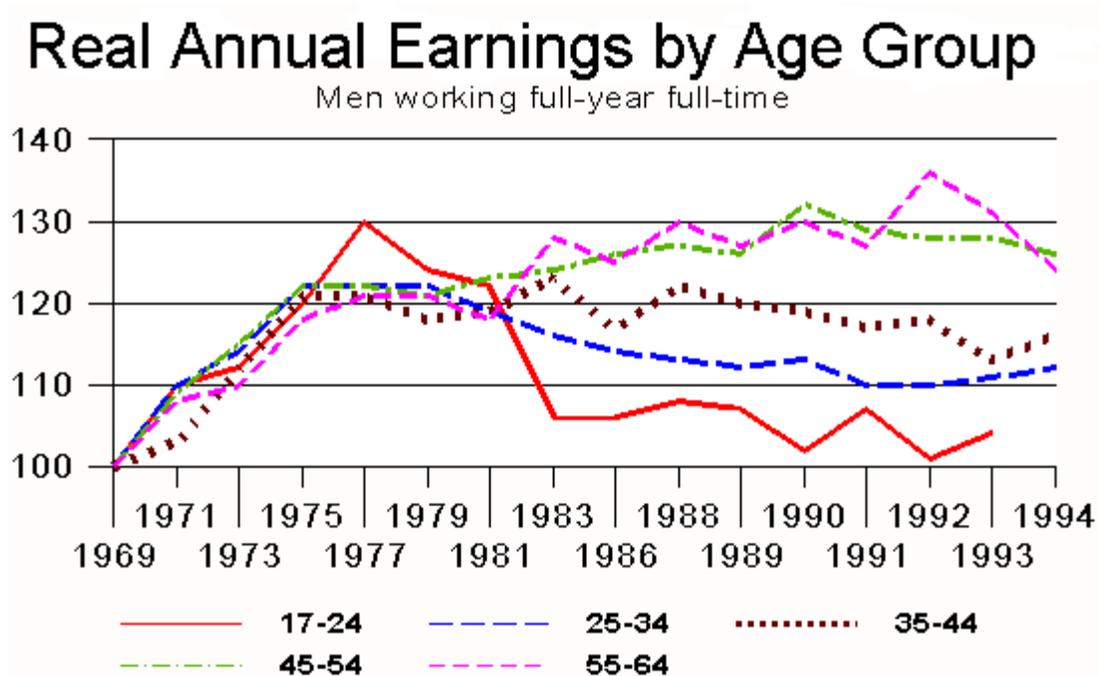


Chart 5



The strength of the polarizing trend is demonstrated in the dramatic divergence in real wage levels identified by Morissette, Myles and Picot. Real earnings of 25-30 year olds with full time jobs have fallen 20 percent relative to those of mature workers since 1974. (See Chart 5). Here in Canada the divergence occurs between young and mature workers, while in the United States, the divergence is between high skill and low skill workers.

The second notion of competitiveness focuses on the long run success of a society in generating economic growth and well-being for its citizens. Costs are still important, but the dominant theme is investing in human capital. Corporate and government strategies are preoccupied with creating a learning culture, where workers acquire technical knowledge, problem-solving skills, and the capacity to work autonomously. In the workplace, we see new compensation systems emerging which stress pay for performance. We also see a breakdown in hierarchy information and decision-making are shared among colleagues.

In this model of competitiveness, both individuals and institutions invest in learning. Learning occurs in the family, in education institutions, and in the workplace. And there is a strong sense of building human and social capital which will serve the needs of the economy and of society not only in this fiscal year, but in generations to come.⁷

The question we have to address is whether in fact the two notions of competitiveness can co-exist. Is it possible to run a successful knowledge-based economy as part of a society where firms are focused only on cost minimization? Or, do the social, political and economic costs of polarized earnings eventually poison the prospects for the

knowledge-based economy? Or, can the growing success of the knowledge economy be used as the lever to overcome polarization? If so, under what conditions would this be true?

For the moment, most economic policy thinking (in finance ministries and in corporate boardrooms) is still fixed on the first notion of competitiveness – the need to drive costs down. In the meantime, much social policy innovation is beginning to focus on the nexus where economic and social policies meet – welfare to work programs, active supports for learning, school to work transitions, and early childhood development. At the same time, responsibility for social well-being is shifting away from a total dependence on the state to a combined responsibility for individuals, families, employers, and the state. Box 1 sets out some of the new directions emerging in social programs. My thesis in this lecture is that the way toward economic success will depend upon an integration of social and economic objectives as well as a new division of responsibilities.

Box 1

Some New Directions in Public Policy

Welfare to work

1. Income supplements for long-term welfare recipients if they find a full time job (Federal pilot project in N.B. and B.C.)
2. Continuing access to selected health, dental and eye care benefits for welfare recipients who find work (B.C. and Quebec)
3. Access to welfare payments for employable people conditional upon community work. N.B. (youth only), Alberta

School to work

1. Internships for young people to provide practical experience. (Federal, Alberta, B.C.)
2. Learning partnerships of employers and school districts to develop programs for school to work (Ottawa, Toronto, Vancouver, other)
3. Cooperative education¹⁵

Early childhood development

1. Home visitors (private foundations, such as Kids Help)
2. Kindergarten for three year olds (Ontario Royal Commission on Learning)
3. Child support enforcement and child maintenance programs (federal and provincial)

Integrating Social and Economic Programs

Citizens see quite clearly that the economic and the social are interdependent. They need learning to find a job, they need a job to support themselves and their families, and the purpose of social programs should be to maximize their chances of learning and of finding a Job. Citizens understand that people with high incomes are healthier and that they invest more in education and training, which gives them better prospects for the future.

Even the most vulnerable people included in the CPRN Family Network discussion groups on *Exploring Canadian Values* argued that, while the welfare cheque is important, it is not the solution to their problem. They want long-term solutions. They involve getting a proper education, or finding a job, or finding good child care so that one can use the education and get to the job.

Economic theory is also highlighting the linkages between social circumstances and economic outcomes. This new thinking in the academy includes neoclassical economists like Jeffrey Sachs, (best known for his advocacy of the "big bang" approach to economic reforms in Poland), as well as the growing number of economists working on new growth theory.

Sachs has analysed the economic growth performance of more than 100 countries. He demonstrates that the countries which consistently do better with respect to economic growth are those that have adopted market-based systems which are open to international trade. As more countries adopt these policies, a truly global economic system is emerging. But he acknowledged, in a speech in Montreal in June 1995, that this economic success places social and political stresses on the world system. He is concerned that if "political institutions" that could sustain citizens' commitment to open borders lag behind, the consensus in favour of market-based systems could disappear. For him, economic policy and political development go hand in hand.

Robert Putnam, a political scientist from Princeton University, comes at it from a different perspective and arrives at an even stronger conclusion. Based on an analysis of the success of regional governments in Italy since 1970, he found that governments in regions with strong social interaction were more successful than those in regions with a history of authoritarian regimes. Even after the transition to democracy, they lacked the trust and reciprocity which is essential to wealth generation.

Putnam concluded that social capital is the foundation for economic success. The logic is as follows: Social cohesion permits a society to mobilize the energy of a high percentage of the population. It also gives a society the capacity to get things done. Where there is trust and reciprocity, transaction costs are lower.⁸ Finally, social cohesion fosters efficient resource allocation – less poverty means less spending on public security.

Lars Osberg of Dalhousie University has surveyed the literature on the new growth theory, which has developed since the mid-80s. This literature places a lot of emphasis on

"path-dependence" – the notion that where you are on the learning curve determines what you can do next. It also highlights the importance of innovation and ideas in economic growth. He cites a number of articles concluding that "countries characterized by greater equality grow faster, other things equal." This is a remarkable shift from the 1960s, when economists were convinced that there was a tradeoff between equity and efficiency. [Okun, for example] According to Osberg, the shift is explained by three key points:

- Economic growth is strongly influenced by the inter-generational transmission of human capital. The logic here is as follows. Countries with better educated work forces tend to grow faster. This is because countries with a higher average level of education leave future generations a higher stock of knowledge about production processes. Also, greater equality of income will ensure that more families can afford to ensure that their children are well educated and thus contribute to economic growth in their turn.
- Dynamic efficiency over time is more important than is the efficiency of the production process at a point in time. Firms often face this challenge. For example, if they layoff workers today, they can be more "efficient" this year. But if they lay off workers with human capital essential to future growth, they may damage the potential for efficiency gains in the future.
- Social pressures, such as the cost of poverty over time, can influence economic growth. For example, poverty is associated with higher costs for health care, crime, and inner city decay.⁹ If crime is higher in a more unequal society, the state will spend more on police and prisons, and the private sector will spend more on security. These "defensive necessities", as Osberg calls them, will crowd out investments in human capital which clearly accelerate economic growth.

What the new growth theory cited earlier is saying to Canadians is that their instincts for prevention and for investing in the next generation are correct. The route to economic success in a knowledge-based economy is a road that requires investment in both human and social capital.

While thinking on these issues is still evolving, the message that I would distill is that we have to revise the old textbooks about how economies function. These textbooks used to talk about three factors of production: land, labour, and capital. The new orthodoxy would redefine the content of all three. The notion of land has to be expanded to include the quality of the environment. The notion of labour has to be expanded from units of physical labour like person hours, to include human capital, that is, technical knowledge, problem-solving skills, autonomy, and so on. And capital now includes not just the plant and equipment installed by the owners/bosses but also the social capital in the community/society in which the firm operates. Social capital includes institutions, patterns of behaviour, and the trust and reciprocity that enable citizens to solve problems, adapt, and grow.

At the same time, we must place much more emphasis on inter-generational effects. Decisions to invest or save today will have varying effects on economic growth depending on the legacy of human and social capital created in earlier times. The legacy

that a society creates for its children matters – in fact, it matters a lot. Hence, the irrevocable connection between social and economic policies.

Social Cohesion

Where does social capital come from? And how much do we have, here in Canada? Let's begin with the first question, and begin with a definition of social cohesion, which I would see as the outcome of robust social capital.

"Social cohesion involves building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprise, facing shared challenges, and that they are members of the same community." [Rosell] Where does it come from?

- Sometimes social cohesion comes from a time of shared hardships whether they are created by economic turmoil or by an external threat. The experience of the Depression and the Second World War forged a strong sense of cohesion in Canada in the post-war years, and provided the motivation for the comprehensive social safety net put in place in that era. Canadians believed they would prosper, in that environment, if they worked hard and "invested" in their schools, community, and family. The sense of shared challenges motivated a high percentage of the population.
- Often cohesion comes from ethnic or religious ties or from a shared ideology. The United States has been motivated by shared images of the rugged individualist sporting a rifle in frontier history. In Canada, where we have a commitment to multiculturalism and two founding peoples and where regional differences are pronounced, we cannot rely on history or cultural ties to create cohesion [Keating]. This means that we have to create and nurture social capital through other means.
- And finally, social cohesion can come from social institutions which help to build consensus around values, priorities and the overall goals of a society. If governments and citizens are clear about the goals they are pursuing; if citizens believe that public policy is informed by their priorities, if there are mechanisms in place to foster dialogue on difficult political and ethical issues; if citizens believe that governments/institutions are acting in good faith, then social capital is being strengthened.

For example, citizens do not like to pay taxes, especially if their own incomes are restrained. But, if they are convinced that the taxes are needed to provide services that are essential to well-being, the taxes become more acceptable. On the other hand, if they believe the money is being wasted, there is a strong incentive to avoid the tax and/or to vote for a different political party in the next election.

Social programs are another case point, especially in an era when technology, globalization, and fiscal restraint are eliminating jobs. People who have worked and invested in their communities for decades suddenly lose their ability to earn an income,

through no fault of their own. Some lose their home, others find they cannot help their children make a good start in life. They need social insurances – insurances that help them to make a new start in life – just as the law provides limited liability to protect investors in corporations. Social policy is part of trust and reciprocity – both the state and the citizen have obligations.

Now the second question: How much social cohesion do we have in Canada? First of all, Canada has a lot of social capital (created in the post-war period) inherited from the past. A key component of that social capital is the set of implicit guarantees embedded in the social safety net. There is also a complex web of social interaction and community investment woven into voluntary organizations, the faith community, home and school associations, hockey leagues, and workplace friendships and associations. Neighbourhoods have traditions of block parties, garage sales and all the rest.

But, as people are marginalized by unemployment and poverty, as they are displaced from wider family and neighbourhood connections, social capital is eroded.¹⁰ When employers close a plant and leave a community, they leave behind a big hole in the social capital. When full-time jobs become part-time or non-standard jobs, important ties are broken. When governments introduce drastic cuts in social expenditures (health, education, social services), they can inadvertently break the systems which are intended to support citizens in times of hardship.¹¹

Unfortunately, there is no summary measure of social capital. But there is certainly anecdotal evidence that we have been eroding the capital base over the past ten years or so. That shows up in the high degree of alienation, frustration and angst among Canadian citizens in all the recent public opinion polls. There is deep disagreement within Quebec between federalists and separatists. There is mounting evidence of marginalization of young families and of the unemployed, to the point where they no longer see themselves as part of the mainstream of society. [Ekos]

In addition, Canada has more inequality than most countries (although less than the United States). With the new disclosure rules of the Ontario Securities Commission, it has been revealed that some CEOs earn \$3 to 4 million a year, while 52 percent of individuals (and 13 percent of families) earn less than \$20,000. Such wide gaps in earnings are difficult for most citizens to comprehend and accept.

However, when citizens are given the chance to think more deeply about their values, about what they hold dear, there is more common ground than you might expect. In discussion groups with randomly selected citizens and with recipients of social services in eight Canadian cities in 1995, Suzanne Peters, Director of CPRN's Family Network, found a surprising degree of consensus around the core values of self-reliance, compassion, and investing in the next generation (see Box 2).

Box 2

Preliminary Statement of Core Canadian Values

Self-Reliance Individual effort is ideal and necessary

Compassion leading to collective responsibility Moral responsibility to take account of others

Investment, especially in children In their own right, and as our future population

Democracy Highly valued, but not always realized Governments must listen harder

Freedom Choices make us who we are

Equality

Opportunities are essential to Canadian view of our society

Fiscal Responsibility Efficiency and effectiveness to reduce waste

Source: Suzanne Peters, Exploring Canadian Values, CPRN Study, FO1, Canadian Policy Research Networks, Ottawa, 1995.

Canadians want efficient and affordable government, but they also have a strong commitment to collective action and they give a high priority to investing in the next generation. They also express a strong desire for democratic engagement. They want to participate in the debate about social programs, and they want governments to listen to them carefully.

But perhaps the most powerful message from these discussion groups is the degree to which they see economic and social as one set of issues requiring systemic responses. They understand that existing programs require reform to eliminate inefficiency, to get the incentives right, and to concentrate support on the greatest needs in society. They are ready to rewrite the social contract between the citizen and the state. [Peters]

In summary, we cannot say how much social capital Canada has. But the polarizing forces in the market place, tell us two things. If we let things follow their natural course, social capital will erode just at the time when citizens need assurance that they are part of a common enterprise. Thus, I would conclude that this is a time when we should be quite deliberately trying to build social capital to create a more resilient society. We cannot roll

back the forces of technology and globalization. Instead, we must try to take advantage of what they offer, and develop mechanisms to help citizens cope.

Cornerstones of a Resilient Society

As individuals and families, Canadians are devising coping strategies around dramatically revised expectations (see the vignettes of two young families in [Box 3](#)). They see the need to rethink the social contract, but there are not many mental maps that attempt to flesh out what is meant by a new social contract.

Box 3

Revised Expectations of Young Canadians

Marie is 35 years old. She and her husband have a two year old daughter. They have two jobs, but they have to stretch to make ends meet. She graduated into the recession of 1981-82. That shattered the expectations for many of her generation: "In general, as a group, we have shuffled from one position to another looking for work and for new challenges." Here is her coping strategy:

- 1. We're re-evaluating what we consider to be important and focusing on the priorities.*
- 2. We are trying to build strong support systems of family, friends and community.*
- 3. We're accepting that change is inevitable and ... learning to ... live with uncertainty.*

Scott is a father of two children:

"In the six years that my wife and I have been married, one of us has been without steady employment for nearly two of them.... When work is available, it is often short term and often outside of our chosen field."

"Becoming financially stable before having children is not an option that many of my generation enjoy. Instead, the choice is between becoming parents in spite of a precarious financial situation or not having children at all."

"Parenting in the '90s is a giant leap of faith. But it's worth it."

Edited extracts from *Transition*, December, 1995 (The Vanier Institute of the Family)

In a recent article, I argued that Canada can choose between two conceptions of the future – polarization or resilience. [Maxwell, 1995] The polarization scenario does not need much further description. It already exists, to a significant degree, in the United States, where the middle class seems to be congregating in "gated communities", while the marginalized are concentrated in burned out inner cities.

In this scenario, the social safety net is gutted and no new techniques are found to build bridges from bad jobs to good jobs. New pools of poverty build up around young families. This in turn will foster crime and other social pathologies, which lead to greater government spending on fighting crime, protecting property and combating racism. That is not a route that any Canadian would choose deliberately, but it could happen by default, through lack of consensus and/or lack of political will.

In this section, I would like to map out the cornerstones of the resilient society. I will then go on to talk about the obligations they create for the state, for employers and for citizens, and then show how they might be translated into policy.

The cornerstones are:

- A resilient society is a learning society. Education and training are regarded as an investment, to be financed by students, families, taxpayers, employers, and employees. Learning takes place from cradle to grave, in the home, in the school and community, and in the workplace.
- A resilient society values the caring role of the family. That role is reinforced by thoughtful and supportive public policies.
- A resilient society evaluates its progress by tracking outcomes, not how much it spends. The notion of equity is focused on creating opportunity, not on equal treatment or fixed notions of universality.
- A resilient society protects and nurtures its social capital. Thus, there is a shared commitment to finding new forms of collective action, which depend less on the state and more on partnership arrangements involving the state, employers, citizens, and nonprofit organizations. Such collective action could embrace work sharing, joint ventures for key social investments, etc.

These cornerstones would create the foundation for a new social contract – a contract which would place new responsibilities on citizens, employers, and the state.¹² Each will have to give up some old habits and adopt some new ones.

The state has already given up, for the most part, subsidies, trade protection, command and control regulation, short-term job creation. Governments also need to give up the territorial battles that prevent collaboration across departments or between governments.

The state (i.e., federal and provincial governments) must declare to citizens what it will continue to do by way of social investment and last resort support systems. It must also begin to articulate the difficult tradeoffs between generations and between objectives in

such a way that citizens can understand that choices are being made deliberately and with the best interest of society in mind.

Rather than paying for every service, governments need to see themselves as participants/partners with citizens who need help. Programs should be designed with incentives (to work, to save, to invest). They should also present citizens with conditions: the state will provide this service or support on the condition that you will contribute your share.

Rather than constructing a delivery system for every department or program, governments should think about bundles of transactions (whether economic or social) to be provided at a single window – where the citizen can not only apply for UI but also access a data bank on job vacancies, meet a job finding club, speak to a counsellor, find out the training requirements for a job, get referrals for child care services, pick up registration forms for a college credit.

Finally, the state has to become more accountable for outcomes from its activities. It must demonstrate that programs have economic and social value – even if the payoffs are longer term.

The employer

Employers have given up most of the state subsidies and trade protections. They no longer think about passing each new cost along to the customer, they think about adding value and decreasing costs.

Those who do train have begun to show a real commitment to the learning culture. [Betcherman, forthcoming] Many have begun to see the value to the enterprise of family-friendly work arrangements.

But employers must now step up their commitment to the next generation and to society at large. Here are four examples:

- Actively creating new forms of school to work transitions through cooperative education placements and youth internships.
- Investing time and energy in defining the training requirements for their employees so that schools and colleges know how to structure their programs.
- Performing new roles as partners in the community. Often, their money, expertise, or cast off equipment can be the lynch-pin for a successful social investment with major payoffs for the next generation of workers.
- Reorienting charitable contributions from bricks and mortar to investments in social cohesion – school breakfasts, for example, or ensuring that every classroom is hooked into the Internet.

The citizen

Citizens have already begun to revise their expectations about their own security and standard of living. Young people face an entirely different set of prospects from those of their parents (see Box 3); adults recognize that their potential draw on the retirement income system is at risk; the core social values identified in *Exploring Canadian Values* place a high priority on self-reliance. At the same time, people in seasonal industries are being forced to give up the open-ended commitment to income support in the old safety net. And the old notion of automatic adjustment for inflation at every salary review is out the window.

In the future, citizens will have to accept more conditions to gain access to social programs. They will face more co-payment for higher education and possibly for health care. They will have to think through the consequences of the current inter-generational contract which protects the elderly from economic hardship, but not children. As they make these adjustments, however, they will insist on more efficient government and more opportunities for democratic engagement. [Peters]

Turning Points in Social-economic Policy

In creating the resilient society of the future, Canadians are not likely to see a new blueprint which covers the whole spectrum of social-economic policy. But we can already see early indicators of important changes in obligations of both citizen and state, as program changes occur, piece by piece, in different jurisdictions. Here are a few key turning points to watch for. They involve post-secondary education, early childhood education, youth crime, and the relationship with the nonprofit sector.

Such changes in social investment have a long-term pay off, admittedly, but there is strong empirical and theoretical reason to expect those pay offs to occur.

Post-secondary education

The federal decision to cut transfers to provinces in support of health and post-secondary education combined with provincial spending cuts is forcing a major review of the way in which universities and colleges are financed and held accountable for their performance.

University tuition fees, adjusted for inflation, were lower in the early 1990s than they had been 20 years earlier. But tuition fees have been rising quickly in recent years and could well double in the next few years. From the stand point of accountability, this is a good idea. Students will be more conscious of the resources they are consuming, and undoubtedly become more demanding with respect to quality and access. From the standpoint of inter-generational investment and a learning society, however, there are some real risks that talented students without means will be excluded from higher education. This would have negative consequences for dynamic efficiency and thus for Canada's long term growth potential. Thus, for economic efficiency reasons, it is essential to begin to construct alternative forms of financing higher education – scholarships,

bursaries, registered saving and borrowing schemes, and/or income contingent repayment systems.

Early childhood development

Two provinces – Alberta and Ontario – have recently curtailed access to junior kindergarten (for four year olds), although Alberta has now changed its mind. Meanwhile the Ontario Royal Commission on Learning has recommended that kindergarten be extended to three year olds because of the solid evidence that learning during these early years has a profound effect on longer-run success in school.

Other forms of prevention are known to have big payoffs. Early childhood experts such as Paul Steinhauer of the Sparrow Lake Alliance argue that if there is one intervention that society can make to break the downward spiral of poverty it is the simple mechanism of home visitor programs for mothers with newborn babies. As mentors and coaches, the visitors can make a striking difference in outcomes for those infants in the longer term.

The real challenge for society is to reallocate relatively modest sums of money from the huge education and health budgets in this country to ensure that these youngest citizens will have a good start on living and learning.

Youth crime

If the interventions are not made in early childhood, the risk of large numbers of young people, especially young men, drifting into a life of indolence, or, at worst, violence and substance abuse, are high. [Tremblay, 1994] But even at that stage of life, it is not too late. The worst choice is to put these young people in an adult prison, at a cost of as much as \$70,000 per person per year. The best choice, in many cases, is to provide mentoring, counselling, training, and job opportunities.¹³ Such programs require a collaboration of stakeholders in the community, working with well-trained professionals. But they do require a diversion of funds from correction services to community-based services. Internships, for example, probably cost \$10-15,000 per person per year, and usually lead to a steady job.

The nonprofit sector

The other major turning point is the way in which governments deal with the nonprofit sector. This sector offers a myriad of opportunities for collective action, in a society which needs to build social cohesion. Existing nonprofit organizations are under considerable stress because of funding cuts and the escalating needs of Canadians. But the role of this sector is not clearly defined – we think of it as a residual, what is left over after governments and corporations have done their thing. Yet it has the potential to be a vibrant sector in its own right, creating opportunities for citizens to come together for social purposes. The three key areas where public policy has to evolve with respect to the nonprofit sector in the next few years are:

First, to develop an overall conception of the potential role it will have in Canadian society; second, to examine carefully the tax and legal frameworks which govern the actions of nonprofits; and, third, to rethink the ways in which governments make grants to or contract with nonprofit organizations.¹⁴

In short, policies on these topics are in a state of flux which will test the mettle of federal and provincial governments. The stress of fiscal restraint forces cuts in public expenditure. Simple cuts, however, can only accentuate the trend toward polarization. If we are to change direction toward resilience, some programs will require a redesign. At the same time, some of the gaping holes in the safety net will have to be filled by diverting some funds to new priorities – social investments which obviously have a short run cost, but also have a long run payoff in terms of stronger economic growth and much higher levels of individual well-being. If we ignore these contributions to future economic growth, Canada will fall far short of its potential in the 21st century.

Concluding Comments

In the 1940s, three factors converged to create a new synthesis in economic and social policy. The hardships of the Depression and the War convinced governments that they had a more activist role to play in supporting citizens and stabilizing the economy. The analytical underpinnings of John Maynard Keynes provided governments with a frame of reference for such action. And the relative abundance of revenues flowing from the new taxes instituted to finance the War provided the funds to finance new activities and pay down the War debt, even after major tax cuts were implemented.

I would like to suggest that a new convergence is within our grasp. The hardships of restructuring since 1981-82 have profoundly altered the expectations of Canadians. We adhere to the same core values as the post-war period, but they would implement them rather differently – placing more emphasis on self-reliance and on affordability than in the past. We still see an active role for government, but there is a much stronger sense of the individual and family responsibility. (There should also be a stronger sense of employers' responsibility.)

At the same time, the new growth theory, combined with the ideas of Robert Putnam and other political scientists, force governments to consider inter-generational aspects of economic growth and the condition of the social fabric.

The missing element, all too evidently, is money. Governments do not have the luxury of bounteous revenues from strong economic growth and a new tax base. But they are all being forced to rethink priorities, and to make dramatic changes in the design of programs in order to reduce their debt burdens.

Straight line cutting of the old safety net programs will push Canada further down the road of polarization. It will take an act of political will to divert some of the money from program cuts into the new public priorities – the cornerstones of a resilient society.

Already, in a variety of federal and provincial decisions, we can see that the new thinking is beginning to permeate public policy decisions (see Box 1). But we have not yet established a "new orthodoxy".

The new orthodoxy will come when public and private decisions are based on an understanding that social and economic policies work hand in hand. That understanding will lead us away from polarization and build the foundations for a resilient society.

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Footnotes

(1) Tariff rates had been falling for decades as a result of multi-lateral trade negotiations, but the culture of protection through non-tariff barriers and subsidies was still deeply entrenched.

(2) That policy shift was heralded in John Crow's Hanson Lecture of 1987.

(3) CPRN will publish a paper by Margaret Biggs on Governance and Accountability in the Social Union, in the spring.

(4) See, for example, "The Shredder", in Business Week, January 15, 1996 and Betcherman et al., *The Canadian Workplace in Transition*.

(5) See, for example, Economic Council of Canada, *Good Jobs, Bad Jobs*, and Ross et al., *The Canadian Fact Book on Poverty*.

(6) The safety net is being curtailed in many industrialized countries, not just in Canada.

(7) No country provides a full-blown model of this notion of competitiveness, but Japan and Germany both have a long-tradition of public and private investment in a learning culture. Indeed, for them, it appears to be second nature. Japan and Germany also have a culture with a long-term perspective – future generations matter in their calculus.

(8) The lack of trust and reciprocity between federal and provincial governments, for example, consumes huge amounts of time and energy and prevents effective problem solving on issues like the social safety net which are of great consequence for the well-being of citizens.

(9) The Manitoba Centre for Health Policy and Evaluation has recently provided striking evidence of the impact of socio-economic status on the utilization of health services. People with lower incomes use more health services. They also die five years earlier than high income people, on average. [Manitoba]

(10) In his speech introducing the International Adult Literacy Survey report, Ivan Fellegi pointed out that a substantial number of people, in all six countries, appear to have lost their acquired literacy after leaving the formal educational system. Similar problems can occur with social capital. It has to be used to be sustained.

(11) The most vivid example of the economic consequences of the destruction of social capital is the economic collapse of the Aboriginal peoples of Canada after their traditional way of life disappeared.

(12) They would also lead, eventually to new forms of taxation in order to create the pools of funds needed to finance social investments.

(13) Some of the most successful interventions for youth with problems of unemployment, delinquency, or substance abuse focus on creating active economic opportunities. On a Micmac reserve in Cape Breton, for example, an economic development grant was used to build a hockey rink which permitted young people to gain some work skills, and the rink then created a new focus for community activity on the reserve.

(14) Canadian Policy Research Networks has launched a project examining the tax and legal frameworks and the potential scope and role of the sector.

(15) Federal funding to cover administrative costs has been cut.