

WILL THE PRIME MINISTER DISPLACE THE FINANCE MINISTER? PAUL MARTIN'S SOCIAL POLICY FOR A "NEW ERA"

Jane Jenson

Many of the social policy challenges that the new prime minister will have to overcome are of his own making: the emphasis on labour market participation and on children, a preference to use the tax system as the delivery mechanism, which limits the federal government's role to providing income transfers and has largely constrained its influence over policy, and a poisoned intergovernmental atmosphere. Martin has promised to improve intergovernmental relations, but that won't be enough, argues Jane Jenson, one of Canada's leading social policy experts. In order to ensure that all Canadians can fully participate in the mainstream, the Martin government will have to take on a new role that will rely on neither conditionality nor unilateralism, but will instead provide leadership. It will also have to expand intergovernmental relations to include municipalities, and adopt a true social vision that "does more than alleviate poverty."

Plusieurs des défis sociaux qui attendent le nouveau premier ministre résultent de sa propre action : l'accent mis sur la participation au marché du travail et sur les enfants, l'utilisation préférentielle du régime fiscal comme mécanisme d'intervention, restreignant l'influence d'Ottawa et limitant sa capacité d'agir aux transferts en espèce, et la détérioration des relations intergouvernementales. Paul Martin a certes promis de s'attaquer au climat empoisonné qui caractérise les relations avec les provinces, mais cela ne suffira pas, soutient Jane Jenson, réputée spécialiste des politiques sociales. Pour assurer la pleine participation de tous les Canadiens, son gouvernement devra endosser un nouveau rôle fondé non pas sur la conditionnalité ou l'unilatéralisme, mais sur un vrai leadership. Il devra de surcroît étendre les relations intergouvernementales aux municipalités, et se doter d'une authentique vision sociale qui ne se limite pas à soulager la pauvreté.



In his acceptance speech as the new Liberal leader on 14 November, Paul Martin promised that the traditional Liberal stance of helping the underprivileged would not be forgotten. But the virtually uncontested leadership campaign produced few details about what he thinks that tradition demands of him today. So, what can we expect from the new prime minister? What will be the social policy of the man who many describe as a "modern liberal," and who himself promises to introduce a "new era"?

Some look to his past behaviour for an answer. This is because Martin himself is particularly proud of the main

item in that history, the taming of the federal deficit in the mid-1990s. Hence, they argue, when faced with a choice, we might expect financial and fiscal prudence to rule. But Paul Martin has also promised *change*, a theme that dominated his acceptance speech. Therefore, the notion that he will try to innovate in social policy needs to be entertained, at least.

If we were, for the sake of argument, to accept that Prime Minister Martin will try to make change, his first challenge will be to overcome the legacy of the policy actions of previous governments. But that legacy is very much one of *his own making*. Thus, the challenge for Prime Minister

Martin is to deal with the legacy of Paul Martin, minister of finance.

What is the legacy and how much policy room is there to move beyond it?

Despite having headed the Department of Finance from 1993 until 2001, Paul Martin's *social policy legacy* is huge. Decisions made in that department under his leadership have remade the basic principles and objectives of the social policy regime. We now live with a very different philosophy. Whereas ensuring income security for those excluded from the labour market might once have been a primary objective of social assistance programs, the goal is now to design policies and programs that will "make work pay." If the goal of unemployment insurance was to provide a replacement income so as to ensure a counter-cyclical economic intervention, according to the tenets of Keynesianism, the goal of employment insurance is to re-insert claimants into the labour market as soon as possible, on the principle that "any job is a good job."

More than any other decision since the mid-1960s, the 1995 Martin budget reshaped the world of Canadian social policy by redesigning financing and delivery. The seven subsequent budgets and financial updates reinforced the new principles.

One key budget decision was to end the Canada Assistance Plan, originally constructed in the 1960s as a shared-cost program with the provinces. Its design allowed the federal government to give significant shape to provincial decisions, and in particular to set rules about how money could — and therefore should — be spent. The Canada Health and Social Transfer (CHST), announced in the 1995 budget and implemented in 1996, released the provincial and territorial governments from any conditions; they would no longer, for example, have to meet the federal government's requirement that provinces provide for those "in need." The CHST thereby allowed for greater variation among provinces and

territories in social policy. It also limited the room for manoeuvre for the federal government. It would have to rely on the spending power to provide transfers and tax credits directly to Canadians. Intergovernmental transfers could no longer shape provincial choices.

This loss of influence over intergovernmental transfers was embedded in the design of the major *new* programs set up once the federal government was "back in the social policy business." The National Child Benefit (NCB) is exemplary here, over whose design the influence of the Department of Finance was not negligible, despite its having been overseen by the Department of Human Resources Development.

The NCB was innovative in two key ways. Beyond the new social policy

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commitments to "making work pay" and investing in children, themes not present earlier, use of the tax system as the delivery mechanism is significant. The design of the NCB *limits* the federal government's role to providing income transfers, via the Canada Child Tax Benefit (CCTB) and the National Child Benefit Supplement (NCBS). That is, it is confined to using the spending power directly to transfer or credit income to individual families. All decisions about the design and delivery of services for families and children have been ceded to the provinces and territories.

Why does this matter? Research into children and child outcomes finds over and over that, while adequate income is fundamental to child well-being, services are absolutely essential as well. Families, even middle-income fam-

ilies, cannot purchase all services if they are forced to pay full market prices. The Government of Canada is fully aware of this need, and has tried for several years to promote early childhood education and care (ECEC) services. It has tried via the NCB, again via the injection of extra funds such as the Early Childhood Development Initiatives in 2000, and most recently via the 2003 budget promise to provide \$900 million for child care over the next five years.

Each attempt by the federal government, however, to ensure Canada improves its international ranking on this key social program runs up against the refusal of some provinces to follow federal priorities. Quebec is by no means the most recalcitrant on this issue. The Harris government in Ontario systematically refused to spend its NCB "reinvestments" and ECDI funds on new services for early childhood education and care. It was like pulling teeth even to get an agreement on accounting for the 2003 funds explicitly targeted to child care to ensure that they would be deployed only for new spending on child care (rather than used to release provincial funds for other purposes).

Prime Minister-to-be Paul Martin promises to make improved intergovernmental relations the first item of business, and he met with the premiers at the Grey Cup. This is one area where his social policy legacy as minister of finance weighs particularly heavy. The 1995 Martin budget poisoned intergovernmental relations. Almost a decade later, they have not recovered. Freedom from conditionality did not make up for the unilateral cut-back of billions in intergovernmental transfers to the provincial and territorial governments. Provinces responded immediately after the budget by demanding both a return of the lost transfers and new institutions for intergovernmental co-operation. These have been slow in coming, and therefore the challenge facing the PM-elect is significant. He has promised to address this



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On April 27 Paul Martin addressed his first town hall meeting organized in Montreal by the *Chantier de l'économie sociale*, where he suggested the government should introduce incentives for investment that would lead to innovation in the social economy and would allow specific communities to create jobs in their regions. But Mr. Martin will have to face the same question confronting all modern Liberals, says Jenson: "How can the goal of ensuring opportunity for all be met, when social policy effort is concentrated primarily on fighting poverty?"

matter immediately, and an improvement in the atmosphere will have significant consequences.

W elcome as they will be, saner intergovernmental relations are not enough. The knock-on effects of the Government of Canada's deficit-fighting, led by the ex-finance minister, will also constitute a key challenge for the new prime minister, and this in two ways.

First of all, as provinces found themselves strapped for cash, they too cut back on spending and often downloaded responsibility to municipal authorities without a commensurate transfer of funds. Because so much social spending falls under provincial jurisdiction, the social consequences of this have been significant. Canada's safety net is much more tattered than it was in the mid-1990s. Paul Martin will govern a country in which income inequalities have widened since the mid-1990s, in

which the intensity of low income has increased, in which housing costs are swamping families, in which recent immigrants are failing to move into the mainstream, and in which Aboriginal people are still excluded.

Therefore, the social policy agenda is laden, and the problems have no easy solutions. They tend, moreover, to cumulate, so that a single individual or a single neighbourhood ranks poorly on several indicators of inclusion or well-being. These are an accumulation of disadvantage, and social policies in the next few years will have to deal with this multiplication of difficulties, especially as they are spatially concentrated.

Beyond the difficulties faced by many individual Canadians, these cut-backs in funding with backward linkages to deficit cutting have put many cities in an extremely difficult position. Municipal governments and other local authorities deliver many social programs,

even when they do not have full responsibility for their design. They are the places in which more and more of the social problems associated with immigrants' inability to thrive, rising poverty and skyrocketing housing costs are physically located. They also have authority over some of the solutions, such as public transit that can ensure all workers can get to work, social housing, recreation and in many cases early childhood education and child care. Innovation gurus, such as Richard Florida, hasten to explain that world-class cities capable of fostering and supporting innovation are those in which inclusion is maximized and the diversity index is positive.

The new PM will need to get beyond the legacy of the minister of finance, and answer the cities' call for new partnerships to address the gaps in social as well as physical infrastructure. He has promised to bring them into the room, but what will be on offer?

Many Canadians, policy-makers in Ottawa and in provincial and territorial capitals as well as ordinary citizens, are watching what Paul Martin will do in the area of social policy. The signals are not clear, and the room for manoeuvre left by the redesign he undertook as minister of finance is not large. Nonetheless, it is possible to identify some directions for change. But there are also a number of identifiable points where he is at risk of bumping up against his own competing values, those he espoused in the past and those he promotes today.

It is now a fundamental truth in Canadian politics that nothing can be done in the social policy realm without improving intergovernmental relations. With the NCB and the Social Union Framework Agreement (SUFA), a commitment was made to new governance practices, based on transparency and accountability as well as fiscal prudence. The latter may have been achieved. The first two, however, are no more than a shadow of what they must become a national social policy — and Paul Martin promises to deal with national problems — is to be achieved.

Angry at past treatment by the Government of Canada, the provinces and territories are doing the bare minimum to report on their spending and to develop meaningful indicators. And they have not granted the Government of Canada the space to do much itself. Thus, its actions have continued to be unilateral (the Millennium Scholarships, for example) or limited in their effects (the ECDI, for example). The provinces' and territories' position is easy to understand and appreciate. Why play ball with a federal government that insists on changing the rules?

Improving intergovernmental relations is an important first step to a social policy agenda, then. But that said, what will the role of a Martin government be? A continued commitment to past practices, albeit in an improved intergovernmental atmosphere, will

limit the Government of Canada to use of the spending power, that is, to taxes and transfers such as the CCTB, employment insurance, health care transfers, and so on. Important as ensuring adequate income is, transfers

Innumerable studies of social policy regimes and population health, as well as the newer literature on innovation, demonstrate that the well-being of everyone depends on everyone being able to count on much more than simply an income that is — slightly — above the poverty line. It involves being able to participate in a significant way in education, community activities, recreation, and work.

to low-income Canadians are not sufficient, even for fighting poverty. Other interventions are necessary, whether they are services (such as training, ECDC, home care, and immigrant integration) or programs to ensure a supply of affordable housing and the like.

Therefore, a key challenge for the Martin government — and one about which we have few clear signals — is the way the Government of Canada will play its role in the post-CHST era. Will it seek to lead, without imposing? For example, will it make use of its intellectual resources by focusing on good knowledge transfer about policy possibilities and best practices? Will it be able to bring all governments to the table to discuss and negotiate? In other words, will the Government of Canada seek to move toward a method of coordination similar to that emerging in the European Union — another fractious and fragmented polity, but one that has made good strides at moving a common employment and social agenda forward?

This would be a new role. It would rely neither on the conditionality of the first post-1945 decades, nor the unilateralism of recent ones. An alternative to this innovation is simply to continue as is, albeit in an improved intergovernmental atmosphere, targeting federal programs via the spending power and exhorting the provinces to use their transfers wisely, whether in the health or social realms. Paul Martin has given few signals about which he will choose,

but his choice will have a major influence on the social policy future.

Canada is a country of cities, but the governments with considerable responsibility for stewarding this space are not at the table with the other two

levels. A second major governance factor shaping social policy is expanding intergovernmental relations to include municipal authorities. Increasingly, social policy-makers are challenged to develop new strategies and instruments for coping with a conjunction of flows into our major cities, flows of people, capital and ideas. Cities are the spaces where innovative economic activities and social inclusion challenges co-exist. Despite almost three of every four of Canada's new immigrants heading to only three cities, those municipal governments have no channels for considering the social policies that will ensure the integration of new immigrants and their children. Despite general agreement that innovation in the knowledge-based economy not only happens in cities but depends on a healthy social fabric, city governments have not been involved in the key decisions.

Again Paul Martin faces a choice. Will he, as he has already promised, endeavour to ensure a more solid financial footing for Canada's cities, and leave it at that? Or, will he act in recognition of the best knowledge about the social foundations of economic well-being, and push his innovation agenda in the direction of ensuring all governments can act in an integrated and coherent fashion to develop and maintain the social infrastructure of our cities?

Thus far, the new prime minister has not placed a great deal of stress on the economic benefits of good

social policy. In part, this is because he has not said much about social policy at all. However, when he has made pronouncements, they have tended to be of the traditional sort, for example, that he will not allow concern with fiscal responsibility to undercut transfers to the “underprivileged.” Indeed, under his watch at Finance, the bulk of new money for federal spending under the NCB went to the supplement for families with the lowest incomes.

The result of this traditional approach is that the economic development agenda and the social policy agenda remain quite distinct entities. Economic development is seen to be about competition, innovation and investing in human capital. Social policy is described as about ensuring programs are effective (he has announced another program review) as well as limiting some transfers in a significant way. Yet, social policy is also about ensuring opportunity

for the disadvantaged, with the target groups being Canadians living with disabilities, children and Aboriginal people. While these groups certainly merit significant and sustained policy attention, Paul Martin and his team must still face up to a significant question confronting all “modern liberals”: How can the goal of ensuring opportunity for all be met when social policy effort is concentrated primarily on fighting poverty?

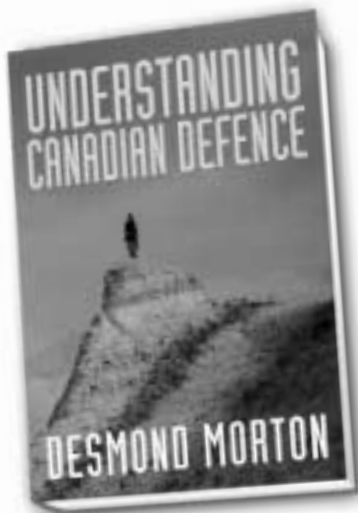
Many other countries have come to the conclusion that a society that wishes to ensure its own well-being must follow a strategy that does more than alleviate poverty. It must be able to provide high quality ECEC, healthy cities, good schools, safe and affordable housing, good working conditions, and leisure and recreation opportunities to all its citizens. They must all be able to participate in the mainstream via political or community activities as well as via employment.

In other words, innumerable studies of social policy regimes and population health, as well as the newer literature on innovation, demonstrate that the well-being of everyone depends on everyone being able to count on much more than simply an income that is — slightly — above the poverty line. It involves being able to participate in a significant way in education, community activities, recreation and work.

There are, however, few signs that Paul Martin has taken this knowledge on board in his vision of the new Canada. He must do this, however, if he truly wants to introduce a “new era.” To do so he will need to acknowledge, and then move beyond, his legacy as minister of finance.

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