

# THE SOCIAL DEMOCRACY OF CANADIAN FEDERALISM

Tom Kent

To the end of his days, our Founding Editor was a man of provocative ideas for improving the lives of Canadians. Here, in a paper written for the Broadbent Institute, Tom Kent offers a blueprint for social democracy in Canada. It is what amounts to a political testament, covering the waterfront of social policy from health care to early childhood education and post-secondary education. Of course, all of these issues go to the heart of the debate on Canadian federalism. Where do provincial jurisdictions end and where does the national interest begin? As Ed Broadbent has observed: "Tom Kent was an extraordinary Canadian and a committed social democrat."

Jusqu'à la toute fin, notre rédacteur fondateur a nourri d'audacieuses idées pour améliorer le sort de ses compatriotes. Dans cet article écrit pour l'Institut Broadbent et qu'on peut considérer comme son testament politique, Tom Kent élabore pour le Canada un avant-projet de social-démocratie couvrant tout le spectre des politiques sociales, des soins de santé à l'enseignement supérieur en passant par l'éducation des jeunes enfants. Autant d'enjeux qui sont évidemment au cœur du débat sur le fédéralisme canadien. Où prennent fin les compétences provinciales au regard de l'intérêt national ? Toute sa vie, la question aura passionné cet « éminent Canadien et social-démocrate convaincu », selon le mot d'Ed Broadbent.

Our unusually decentralized federalism creates a distinctively Canadian obstacle to social democracy. The delivery of services crucial to it — notably, health care, education, social assistance — is, for the great majority of recipients, an exclusively provincial jurisdiction. That is why we were laggards in the development of the welfare state after the Second World War. It was not until the 1960s that we contrived the instruments of cooperative federalism required to catch up with more centralized political systems.

They were effective instruments, for their time. But that time was short, and use soon blunted them. Our social transformation of the 1960s was followed by decades when there was little further advance. The political cooperation essential for such advance has been replaced by confused conflict in the relations between Ottawa and the provinces.

In this paper I suggest a new initiative that could break the deadlock. I propose how, within our federalism, all Canadians could be directly empowered to obtain the educational and welfare services critical to social democracy. Further, I suggest how federal-provincial sharing of costs could be redirected to sustainable, positive care for health.

Social democracy, as I understand it, is a society where the enterprise of productive employment in a market economy is joined with active government to secure the public

interest in equality of opportunities and fairness of outcomes. Much of that activity is the same in a federation as in a unitary state. Elsewhere I have suggested various improvements to it. This paper is concentrated, however, on those programs that have to be tailored to our special Canadian federalism.

The cooperation of the 1960s took a distinctive form for pensions, because they are the one area of concurrent jurisdiction with provincial primacy. Ottawa and Quebec were able to negotiate, and all other provinces accepted, identical Canada/Quebec Pension Plans. Not only has it endured for half a century, it remains so popularly entrenched that any discussion of change is about enriching it.

In other areas, however, the problem was to give national scope to services in provincial jurisdiction. To that end, Ottawa undertook to reimburse 50 percent of provincial spending on physician and hospital health care, on post-secondary institutions, on social services and assistance, provided only that the program expenditures conformed with broadly defined principles. Some provinces grumbled about being pressured, but took and used the money. Outstanding social reforms quickly resulted. But the very success of the device was soon its undoing. The popularity of the programs made the cost-sharing device politically flawed.

In the beginning, federal ministers glowed with pride, especially for their role in making medicare nationwide. But as the programs became familiar, the predetermined financial transactions behind them became routines without media attention. Federal boasting about them could not prevent federal money fading from public attention. The political credit for the services was increasingly concentrated on the provinces that delivered them.

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The federal politicians of the 1970s, Prime Minister Pierre Trudeau not least among them, developed a strong resentment of having to levy taxes to provide money for provincial politicians to spend.

The way they got far away from the commitment was ingenious. It is also why cost-sharing can never again be the instrument for starting programs. Under 1977 legislation, federal taxation was reduced in order to make room for equivalent provincial revenue. Some actual transfer of money continued as a supplement, but the total was no longer tightly linked to provincial costs. Moreover, the supplement would diminish as provincial revenues from the formerly federal taxes increased with economic growth. Eventually, at dates that varied according to the different fiscal situations of the provinces, the federal obligation to transfer money for medicare faded away entirely.

Few people follow the intricacies of large-scale finance. Spin doctors got away with claiming that money the provinces raised through their own taxes was a federal gift, because it would have been so if Ottawa had not stopped imposing its taxes for the purpose. According to this myth, for years the federal government remained the champion of medicare against untrustworthy provinces, all the while pro-

gressively renegeing on the promise with which it had started the nationwide program.

The original cost-sharing for “welfare” under the Canada Assistance Plan (CAP) did continue through the 1980s, but the plea of financial stringency was used to limit the federal contribution to below 50 percent. Finally, in the 1995 budget, all pretence of commitment was abandoned. The federal contribution to provincial programs became whatever

Ottawa declared it could afford. In 1996 it was not 50 percent, but 15 percent.

With that, provincial indignation knew no bounds. The rhetoric of conflict became the dominant, indeed almost the only, relationship between the two levels of government. Politicians on both sides were more concerned with blame-shifting than with decision and action. The provinces have rightfully gained the upper hand in public sympathy, driving “the feds” to begin restoration. In 2004, reduced to minority status, the Martin government negotiated a health accord that committed Ottawa to 10 years of increasing funds, in exchange for much profession of intended improvements in medicare. The results have been little more than trifling.

Conservatives commonly claim that social democracy has been, and will remain, in abeyance because opinion has shifted to the right, that people want less government. The evidence is rather that they have lost faith in the capacity of our political system to deliver the kind of government most Canadians want. That is reflected both in the low turnout at elections and the recent strength, among those who did go to the polls, of the NDP, a party that had long gathered little more than a protest vote.

There will be no reforming government, however, until either the NDP or a revitalized Liberal Party has developed and taken to the electorate a realistic agenda for social democracy.

A major obstacle to this, perhaps for the NDP the one crippling obstacle, is that cost-sharing is still deeply revered, 40 years too late, as the necessary instrument of social action in our federalism.

Here, as is often the case, delusion is rooted partly in confusion. There are two kinds of cost-sharing, that for programs and that for projects. The second is and will remain a clear necessity. We will not clean up our environment unless Ottawa supports provinces and municipalities in the

extensive modernization of many infrastructures. Recent experience has also underlined how speed in such projects plays a role in fending off unemployment. Further, cost-sharing of projects has massive political appeal in that when the money is spent, the building done, federal MPs can also share in the glory of photo-op ribbon cutting.

Indefinitely financing continuing programs is utterly different politics. For Ottawa its dividend in popularity faded while the cost went on, and for the provinces it turned into a cheat. This does not prevent well-meaning reformers from demanding cost-sharing, because they know no other way to make their concerns seem realistic. It may not prevent a party in opposition from talking about a shared-cost program. But any idea that it can be implemented by politicians in office is idle fantasy.

Nevertheless, cost-sharing was once so successful, particularly for medicare in the beginning, that subsequent evidence goes unregarded. Politicians who have no new ideas still think of it as the natural way to go. Until that idea is finally broken, social democracy will continue not to go at all.

Breaking the idea should not be difficult. There are earlier precedents for what will work now. The first three measures in favour of social democracy

were purely federal, not federal-provincial, measures. Admittedly, two of them — unemployment and old-age security — required constitutional amendments to transfer jurisdiction to Ottawa. That procedure is not open now, nor is it likely to become so. But the third, the baby bonus, was a federal cheque mailed to all mothers and used the federal spending power for a benefit delivered directly to people. It was the first measure that was directed broadly against family poverty. While it has been replaced by the more sophisticated, and more avowedly egalitarian, child tax credit, the same purpose continues to be served by a directly federal program.

The CAP was, in concept, a more general measure against poverty, but its effectiveness varied with the differing provincial programs it supported. The inherent anomalies of such cost-sharing helped greatly to make its withdrawal politically viable.

The more equitable way to transfer funds from Ottawa to provincial treasuries is, of course, so-called equalization. Constitutionally, the varying fiscal conditions of the provinces could be smoothed out entirely by federal transfers that are sufficient to finance “reasonably comparable” provincial services at common levels of tax. On that instruction, officials devised complex measures of differing fiscal capacities. They have foundered partly on the obscurity and uncertainty of the arithmetic, but chiefly because differences in revenue, from natural resources and from corporations, are far too great for fiscal equality to be politically acceptable. It would require Ottawa to extract from Albertans vastly more tax revenue than the value of the federal services they receive. Not only would it stoke the fires of western separatism, especially in Alberta, even more than the past cost-sharing against which federal politicians rebelled, but it would transfer to provinces generally the political credit for spending the proceeds of federal impositions on the electorate.

Certainly social democracy can and should be furthered by as much equalization of provincial finances as is politically sustainable. The practicable extent would be increased if, instead of through contentious government accounting, the transfer from federal taxes was related to people’s needs in a way that people can readily understand. For example, the transfer formula might be based on the extent to which income per person in, say, New Brunswick is below the national average. But there can be no realistic thought of a transfer that would bring other provincial revenues close to the level that is possible for Alberta.

A more focused transfer is necessary. The poverty we now tolerate is, in an economy as rich as Canada’s, an outrage to human dignity. To end it would require, for everyone, the kind of mini-

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imum that is now federally guaranteed by the Old Age Supplement and the Guaranteed Income Supplement for only the elderly. A social democracy must move on from such partial measures to a refundable tax credit for all. By that means Ottawa can do directly and more fully for people what it attempted indirectly and to a limited extent through the cost-shared CAP.

It still could not, alone, end poverty. The household income needed to do that would generally be far less in small villages than in big cities. What is barely adequate in Toronto would be a bonanza of wealth in Meat Cove, Nova Scotia. But a family cannot be entitled to different support from federal taxes just because of where it lives.

A realistic step for all would, I suggest, be to convert the present “basic personal amount” in the tax system to a refundable credit. Last year that was

\$10,382. As a refundable credit it would become, in effect, a guaranteed basic income for a single adult anywhere in Canada. Half that amount might be added to the guarantee for each dependant in a family. For a couple with two children, the total \$25,955 would be close to the poverty line for families living in villages and small towns. (The relevant Statistics Canada low-income cut-off for 2008 was \$26,007 after tax.) This is, however, only 75 percent of the income required for such families to be above the poverty line in cities with populations of half a million and more.

The political merit of this way of fixing a practicable income guarantee is that it uses a figure already established for tax purposes. Reasonable alternatives can be suggested. (I have made one elsewhere.) What is important for social democratic policy is not the precise formula that is chosen after detailed consideration. It is that, despite the wide variations in the living costs of Canadians that come especially with community size, the federal government should assure a minimum income high enough for the varying rest of the need to be within the capacities of provincial governments. The provinces with big cities are best able to cover the higher costs, notably for housing, of their residents.

In short, Ottawa can play its essential role against poverty without reverting to anything like the CAP, to the anomalies and confusion of responsibilities that are inevitable with intergovernmental transfers, whether cost shares or block grants. The federal government can provide a substantial measure of direct assurance to Canadians of all ages, just as it used to do with its cheques to mothers for children.

Refundable tax credits are the primary move to a more equitable society. There are other important steps.

Except for status Indians and some federal employees, education in the sense of compulsory schooling is strictly provincial business. So is the delivery of preschool care and postsec-

ondary education to those who want and qualify for the services. The federal government, however, has long encouraged them through some financial assistance. Its limitations come from poor policy, not necessity.

For child care, the present program is limited to working couples and is regressive — a tax deduction significant for high but not low incomes.

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Loans for post-secondary education are subsidized, by being partially free of interest, regardless of need. In consequence, they are necessarily clumsy in administration but often accumulate to become crippling burdens whose discharge is in practice highly erratic. Present finance for training and retraining in employment skills is too tied to unemployment to provide the needed stimulus to productivity.

In all these respects, our federalism does not have to be an obstacle. What has to be overcome is political timidity.

The present sharp distinction between post-secondary education and skills training is a snobbish error. Both are crucial to productivity, and the same kind of national financing is appropriate for equality of opportunity. Students and trainees should be able to draw advances from the federal treasury for up to the full amount of their fees, whether at a provincial or registered private institution. The advances would bear interest, at a little above prime bank rates, from the date they are received. Repayment of capital and interest would begin as soon as the beneficiary has moved on to earn income above the national average wage for full-time work. It would be obtained by a surtax graduated to income level. An ex-student who soon had good earnings would thus discharge the debt faster than others who did not.

In fairness, the surtax liability would remain unchanged if former students and trainees lived outside Canada. This fits with a broader tax reform needed for other reasons: all Canadians, like Americans, should continue to be liable for home-country income taxes, wherever they live (subject, of course, to any tax-sharing agreement with the country of residence).

This way of supporting post-secondary education and training has an advantage in addition to its equity and efficiency. It is a genuine public investment properly financed by borrowing. A budgetary charge is necessary only to the extent that surtax collections fall short because the earnings of some recipients are restricted by ill health or other problems.

Early childhood education requires a different approach. Its value is becoming so widely understood that it may not be long before optional kindergartens are replaced by school at the age of two. Meantime, the demand for many more child care spaces, both better and more available, for preschool as well as school-age children, will press harder than ever on provincial governments. Well-meaning child advocates will call more loudly for cost-sharing.

Political realism aside, that would be unfair to parents who prefer to look after children themselves or to enlist the aid of relatives or neighbours. In a free society such preferences must be respected until they are democratically overruled by compulsory schooling. (How far that should be qualified by private schools and by home schooling is a separate issue.) Cost-sharing of early education would also be unfair to people in remoter areas, for whom its sophistication would be impracticable unless the children spent the rest of their days in buses.

Again, national policy within our federalism calls for Ottawa to deal financially not with provincial treasuries but with people individually. To set and monitor standards and fees for all levels of care, whether provided by public or by private agencies, is a provincial responsibility. The proper federal role is to finance the diverse consumer demand. Parents would pay the fees for the care they choose. Ottawa would reimburse them, on a sliding scale according to income. I would suggest that it range from a maximum 90 percent of the fee to zero for very wealthy parents.

In sum, national standards for the educational services that are vital, both before and after schooling, can be achieved without the clumsy and divisive process of channelling federal revenues through provincial treasuries. For this, as for the assurance of basic income levels, the money can go directly to individual Canadians. It can thereby serve their varying needs and wishes more precisely and fairly. Politically, it is thus reliable as cost-sharing can never be.

No such simplification is possible, however, for another program central to social democracy. Health care is far too costly for all provinces to deliver it, at anything near a consistent standard, from their revenues alone. The problem is to make necessary federal funding secure by linking it directly to its benefits for people.

Medicare began because the cost of treating a significant sickness could be financially ruinous for all but the very rich. It has remained the most appreciated of public services because advances in medical science and technology have vastly increased the scope for treating, or at least alleviating, the ills to which we are heir. Availability raises expectations. They seem sure to go on rising faster than provincial revenues. While Ottawa has remained far from the fixed sharing of costs with which it brought all provinces to medicare, since 2004 it has been rapidly increasing its contributions from the

miserable level to which it was cut in the late 20<sup>th</sup> century. In return the provinces declared — through the health accord, which that runs to 2014 — their good intentions to use extra money to improve service, notably by shortening some wait times. In practice, the net progress has been slight indeed.

It will not get much better as long as federal funding continues to be a block grant virtually unrelated to the way health care is delivered. Little of it is directed to making people healthy, as distinct from “just patching them up when they’re sick.” Those were the words of Tommy Douglas long ago. He warned that, unless there is less sickness, the cost of all its treatments will escalate beyond the willingness of people to pay all the taxes required.

There are two obstacles to reform of the health system: doctors and administrators. Over time, prevention is cheaper than cure. But immediately, preventive measures are additional costs on top of coping with today’s ills. They do not get priority from the harassed people managing a financially strained system. And they are not, in the system as it is, where doctors can make their money. The fees with which doctors are remunerated come from treating sicknesses.

Fee-for-service remuneration is rooted in the decades for which a family doctor, almost alone, was the sum of health care short of hospitalization. Now the complexities of medicine make it impossible for one person to be on top of all the diagnoses and treatments available. Much, even of the primary care now possible, must either be passed on to hospitals or be left undone.

Consequently, there has slowly emerged a general agreement that primary care requires reorganization. Its efficient delivery calls for a group of doctors teamed with nurses and other health professionals, such as chiropractors and pharmacists. That transition is taking place but, despite the efforts of some provinces, slowly. Fee-

for-service remuneration in individual or small practices remains the preference of many doctors, and the political power of provincial medical associations has been forcefully demonstrated. The only force strong enough to make efficient group practice the norm, which the health of Canadians urgently requires, is federal money.

A government determined to sustain and improve medicare would negotiate, for 2014 and on, an arrangement very different from the block grant of recent times. Firm cost-sharing would return, but be conditional. Ottawa would reimburse a substantial part — I suggest 25 percent — of all the expense provinces provide for the operation of group practices. At the same time, it would cease to recognize, as a shareable expense, any penny provinces pay directly to individual physicians providing primary care. Medical associations would then beat their fists on the doors of Queen’s Park, and the rest, in vain. No provincial government could persuade its electorate that it should go on providing all the fee-for-service remuneration for individual doctors instead of using federal assistance for group practice. Lobbyists would denounce Ottawa but

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could not mount any retribution that chimed with the public interest. The same 25 percent sharing ratio would be appropriate for further care in hospitals and by specialists elsewhere.

There would be no need to set rules for how groups arrange their internal finances, and direct fee-for-service remuneration might well continue for surgeons and other specialists. But basic principles for the operations and expenses of the groups would require federal-provincial negotiation. Each group would be committed to accept, as patients entitled to all primary care,

everyone who registered with it (and no other). The amount of the province’s financing would depend primarily on the number of patients, but with some weighting according to age and allowance for unusual social conditions. Recognized costs should include house calls by physicians and nurses, which are essential for more and better home care. In thinly populated areas, the staff of a group cannot share one location, but financing must provide for close electronic communication among the group and with supportive services from the nearest hospital, as well as for prompt patient and staff transportation.

It should also be noticed that, precisely because it will make effective care more readily available, group practice reinforces the need for a restraint that I have always thought essential to sustain medicare. Entirely “free” doctoring is bound to be wasteful. Neither the providers nor the recipients of care have the knowledge or the motive to take much account of relative costs. Their decisions necessarily lean to doing too much, whether in haste or from the caution of “in case.”

The remedy often proposed is to charge a user fee as a condition of service. This would breach the fundamental principle of medicare. If it was big

enough to be more than an irritant to most people, it would deter some from a needed visit to the doctor. The fair alternative is to link usage to graduated income tax. With computerization, the year’s cost of the care provided to an individual or family could be readily calculated. It would be shown as additional income, but the most that would be taken into account, in calculating liability for tax, would be a small percentage addition (say, 10 percent) to the taxpayer’s other income. For people on low incomes, it would be little or nothing. Even for the richest, and however costly

the care they had received, it would be no more than a tax increase of 2.9 percent. But it would make doctors and patients much more aware of the bills they are writing for the public purse.

Whether with this refinement or not, group practice will make the treatment of sickness more equitable and more efficient. In itself, however, it will not put more resources into reducing the incidence of sickness. For that, medicare has to become

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truly comprehensive. Such was the aspiration 50 years ago. It will not now be realized in one great leap. The additional cost would be too heavy. But that is no reason to prolong yet further the complete inaction that is undermining medicare.

Fuller care must start where it will yield its greatest benefit. That is in youth. Good health through life is most effectively promoted the earlier illnesses are avoided. Pharmacare is the addition most frequently demanded, but optical and dental care are hardly less important. Regular check-ups for all purposes are essential. So, for full preventive care, are inoculations, nutritional supplements, exercise facilities.

Priority would best be set not by the kind of service but by age. In the first year or so, a full health service might best be developed for preschool children. Social democracy calls, however, for determination to extend coverage, at least to all preteens, as soon as resources can be marshalled. I would propose that the 25 percent federal share, as suggested above, be quickly extended to 50 percent for all care provided to preteen children.

Such a program is the investment that will best control future health and

social costs. It would also take much of the heat out of the federal-provincial conflicts that in recent times have so inhibited national policies. Much as each side likes to blame the other, neither could afford to be attacked for letting down the children. The provinces would not have to fear a repetition of Ottawa's past renegeing on its promises. Equally, Ottawa could be confident of public pressure for fair costing and efficient delivery of services to children. Its 50 percent commitment would not

serve as an invitation to waste.

A reassurance is, however, necessary. Provinces will vary in the time taken to develop group practices and implement extended care for children, and therefore in how soon they benefit fully from the new funding. There must be a transitional commitment. Ottawa would provide, if necessary, a supplementary transfer so that no province gets less in total than it would if the existing block funding, with its annual increases, were to continue for, say, another two years.

It by no means follows that federal-provincial relations will turn to miraculous harmony. The change of temper will certainly be incomplete unless the federal government is flexible in the details of its arrangements with different provinces. Satisfactory group practices in Manitoba do not have to be identical to those in Newfoundland. What is included in primary care may differ in some ways from province to province without invalidating national medicare.

Realistic politicians will take some such asymmetries as the necessary price of federalism. They will also recognize that the more the federal government deals directly with people, in the ways

necessary for social democracy, the more it should refrain from currying-popular favour by unnecessary involvement in projects that are primarily provincial or municipal responsibilities.

There is, however, one major asymmetry that social democrats cannot in principle accept but might be wise to live with for a time.

Quebec or Alberta, under some parties, might raise an allegedly fundamental objection to any setting of conditions for cost-sharing. The argument would be

that if Ottawa is providing money for health care, it should do so whether a province has its doctors working alone or in groups, whether or not children receive special treatment.

While this claim has no basis, constitutional or practical, it could result in the confused uncertainty of prolonged controversy. The objecting provincial politicians would assert entitlement to the same federal transfer, for spending as they please, as they would get from the proffered cost-sharing. A social democratic government would refuse, but be ready with an interim alternative. It would not allow the people of a dissenting province to be deprived of the benefits of national policy. It would not compensate a provincial treasury but would make refunds of its personal income tax, or increases in tax credits, on a scale that would add up to the same amount of money for the province's residents that the provincial government was rejecting for their health care.

Provided that alternative is made clear in advance, there would be little public sympathy with provincial politicians demanding the proceeds of federal tax to spend as they wish.

There are, of course, many more considerations, both of program design and political strategy, that makers of progressive policy must explore. This article has gone only into sufficient detail to establish, I hope, the

realism of social democracy within the distinctive Canadian federalism of a country as diverse in its people and politics as in its geography.

Poverty can be most effectively countered by a refundable credit in federal income tax. Child care and early childhood education, provincially administered or monitored, can be made fairly available by federal empowerment of parents to purchase the service of their choice. Post-secondary education can be made universally accessible by federal advances of its cost, recovered as to capital and interest by a progressive surtax on subsequent earnings. A similar program could revolutionize the skills training that is now so inadequate for productively high employment in the globalized economy.

Though the mechanics of its financing are more complex, the rescue of medicare equally requires direct federal concern with service to people. Ottawa's amorphous block funding could be replaced by genuine cost-sharing conditional on the reform of

primary care delivery and the provision of comprehensive preventive care for children in a positive health policy.

In total, there is the same scope for social democratic programs in the later 2010s as there was in an earlier stage in the 1960s. The need, again, is political. There is no reason to doubt the popular appeal, subject to one massive if. That is, if its proponents are convincingly realistic about its financing. They have to say how they would make the substantial increase in revenue that social democracy requires.

Unfortunately, many get no further than talk of higher tax rates on corporate profits and incomes from them. The public generally has the common sense to recognize such unreality. Increases in present taxes, on the scale required, would be disastrous for the economy.

Federal revenues can indeed be much increased, but only by extending the bases from which taxes are effectively collected. How to do so has been widely and convincingly discussed. The indictment of the

NDP, as well as such left wing as remains in the Liberal Party, is that their politicians have been as yet too timid to embrace and popularize progressive tax reform.

To that our federalism is no obstacle. All means of taxation are constitutionally federal. The need in the next year or two is that thoughtful people close to politics develop practical details both for social programs of the kind suggested in this paper and for accompanying tax reform. The need in the following two years is that politicians develop the will and the skill to make such a package central to the federal election of 2015.

*Tom Kent, 1922-2011, was the Founding Editor of Policy Options, in 1980. Previously, he was senior adviser to Prime Minister Lester B. Pearson and architect of medicare and the Canada/Quebec Pension Plans, among other important social policy innovations of the 1960s. In retirement, he continued to contribute articles to the magazine he founded.*

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