

Explorations
No. 9

**GOVERNING IN THE MILLENNIUM:
HOW *MUCH* LESS GOVERNMENT?**

Arthur Kroeger

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**CANADIAN CENTRE
FOR MANAGEMENT
DEVELOPMENT**

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CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

A WORD FROM CCMD

The following paper was originally delivered as one of the Bell Canada Papers at Queen's University in November 1995. It will appear in the forthcoming volume, "Policy Frameworks for a Knowledge Economy," sponsored by the John Deutsch Institute. However, because of Arthur Kroeger's high stature within the Canadian public service, and because of both the relevance and thoughtfulness of his reflections for ongoing policy development, CCMD has been authorized to prepublish his paper in its own publication series, and thereby to encourage its wide circulation within the public service. We are most grateful to Professor Tom Courchene and the John Deutsch Institute of Queen's University, as well as to the author himself, for their kind permission for this republication, in both official languages.

In his paper, Arthur Kroeger surveys the course of Canadian economic and social policy since the publication of the *White Paper on Employment and Income* of 1945. He observes that the era of confidence about the possibilities of economic and social engineering that followed Prime Minister King's retirement is drawing to a close, and the country seems to be returning to a more modest and circumspect outlook in public policy matters, similar to that held by King himself. However, as we move backward to the future, he cautions that governments cannot forget the need to develop a contemporary moral framework for society, and to provide the leadership for this purpose that only they can provide.

The scope of Arthur Kroeger's survey, both in time and in breadth, displays both the wisdom and the elegance of expression for which he is well known. He shows us that long experience at the top of the Canadian public service can go hand in hand with intellectual rigour, and that public service, at its best, is still one of the learned professions.

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CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

I

INTRODUCTION

King Canute is a much maligned figure. The well-known story of him commanding the waves to cease and finding that they wouldn't has become a paradigm of the foolish self-importance of people in government. I have, however, heard another version of the legend which shows the good King in a considerably more favourable light.

According to this version, Canute was having increasing trouble coping with the activists in his Cabinet – or the eleventh century version thereof – who wanted to embark on all sorts of ambitious ventures. Finally, in exasperation he had the Cabinet accompany him to the edge of the sea, where several retainers had placed his throne. The King seated himself and shouted a command for the waves to cease. After an interval of a minute or so, he turned to his activists and said, "See? There are some things that governments just can't do."

In Canada and other Western countries today, the same lesson has been learned, but it has taken some fifty years and a lot of money has been spent in the process. The experience has also left governments with the considerable dilemma of determining what they *should* do in the future.

Canada's equivalent of King Canute was Prime Minister Mackenzie King. Like Canute, Mr. King has not been treated kindly by history. The conventional image of him is that of a fussy, superstitious, small-minded, uninspiring leader whose chief skill was equivocation. Recently, however, a process of reassessment has got under way. Michael Bliss, for example, has expressed the view that Mr. King was the most intelligent of all our Prime Ministers, as well as being the best educated. More to the point, he won six general elections.¹

Viewed from the vantage point of the present, Mr. King's circumspection about what government should let itself be drawn into, his strict observance of constitutional limits on the federal role, and his fiscal conservatism look more appropriate than they have for some decades. I think it likely they will be among the principal components of our governance in future years. Let us hope as well that those who govern us in the coming millennium will also be endowed with Mr. King's shrewd sense of what works, because there are some growing problems that governments are going to have to find ways of addressing.

In dealing with the subject of governance in the year 2000 and beyond, I want first to look at the events that brought us to the present.

II

HOW WE GOT HERE

At the end of World War II, political thought was dominated by three major factors: the searing experience of depression and a determination to ensure it was never repeated; the extraordinary industrial achievements brought about by government management of the war effort in collaboration with the private sector; and Keynesian economics, which provided a theoretical basis for an active government role in the management of the economy. In Canada, these factors were reinforced by our history as a country in which continental geography and economics had been successfully defied by a succession of governmental actions going back to Confederation.

No single individual had a greater impact on social policy in the post-war world than Britain's William Beveridge, whose reports of 1942 and 1943 were widely disseminated in a number of countries, notably including Canada. In his report on employment he wrote, "Full employment cannot be won and held without a great extension of the responsibilities and powers of the State exercised through organs of the central government....Acceptance of this new responsibility by the State...marks the line which we must cross, in order to pass from the old Britain of mass unemployment and jealousy and fear to the new Britain of opportunity and services for all."²

In Canada, the *White Paper on Employment and Income* published by the Minister of Reconstruction in April 1945 was somewhat more circumspect. It committed the government only to maintaining "a high and stable level of employment and income," and assigned a greater role to the private sector than Beveridge had.³ Nevertheless, the course on which the Canadian government embarked, especially after Mr. King's retirement, was broadly similar to that of Britain and a number of other Western countries: a discarding of *laissez-faire* and the assumption of greatly increased responsibilities by governments in both the social and economic spheres.

Contrary to some current hyperbole, this expanded role yielded a number of positive results. The Trans-Canada Highway, the St. Lawrence Seaway, and the national airports system provided the country with essential infrastructure. The federal government's National Health Grants Program of 1948 was the first step towards the establishment of what today is one of the most strongly supported programs in Canada, national medicare. Old age pensions in 1951, with the addition of the Guaranteed Income Supplement in 1966, virtually eliminated dire poverty in the elderly population.⁴ Measures such as these brought into being much of Canada as we know it today.

These things tend to be taken for granted, and what we are apt to be more conscious of today are the things that governments demonstrated they were *not* good at. The list of these lengthened with the passage of time.

Governments in the post-war period got progressively further away from the circumspect observation in the 1945 *White Paper* that, "The deliberate use of public investment expenditures as a permanent instrument in employment policy has to be undertaken experimentally. There is, as yet, no working model...."⁵ Whether there is one even today, fifty years later, remains a matter of dispute.

One of the most disappointing experiences of the post-war period was the defeat of efforts by successive governments from the 1960s onwards to create economic activity and employment in depressed parts of the country. The billions that were spent in pursuit of regional development constituted an attempt to deal with some realities of Canada's vast geography and resultant disparities in the living standards of its population. Much useful infrastructure was put in place; highways, sewage systems, and rural electrification enabled people in poor regions to live better. These were useful results, but they fell well short of what had been looked for. Lasting impacts on income and employment proved elusive. The landscape of Cape Breton is strewn with industrial ventures that were opened with large infusions of government money, only to close after varying periods of operations, usually brief.

Disappointing experiences in regional development were only one facet of a wider demonstration of government incapacity in the field of micro-economic management. Socialists in Saskatchewan and free enterprisers in Alberta alike committed large sums year after year in quest of industrial diversification. Successive Liberal and Conservative governments in Nova Scotia poured hundreds of millions into keeping the archaic mills of the Sydney Steel Company in operation. Four decades after the end of the war, the federal government was spending \$1 billion on industrial subsidies and another \$1 billion on "job creation" projects each year.

Not only did these expenditures prove ineffective in themselves, they often also served to retard and sometimes block necessary adjustments in the Canadian economy, as governments took it upon themselves to prevent bad things from happening anywhere. Up to a point, this is a basic function of government, but in Canada it was carried to excess: no railway branch line should be abandoned, no one should have to move in order to find work, no government service should be reduced, and Canadians should not have to pay high world prices for oil. When the uneconomic Halifax shipyard finally closed in the 1970s, government money was used to reopen it. Quotas and high tariffs protected the textile, clothing, and footwear industries from foreign competition. As a result of maintaining the 1897 Crow's Nest Pass freight rates for the best part of a century, Canada ended up with an inefficient and high-cost grain transportation system. Governments recognized there was a price to be paid for their interventions, but the prevailing view was that the Canadian economy was so strong that it could readily sustain considerable interference with market forces and still function very well.

The optimism of the times was well captured in the 1971 legislation that greatly enriched and restructured the unemployment insurance program. A key component of the legislation was that the costs of the program would be borne jointly by employers, employees, and government, but only so long as the unemployment rate remained below four percent; beyond that level, the costs were to be entirely borne by the government. The underlying premise was that governments were quite capable of keeping unemployment below four percent, and if it went higher, the premium payers in the private sector should not have to pay for the government's mismanagement.

A number of disagreeable things have been learned since those heady days. The late 1970s demonstrated that Keynesian economics had no answers to double-digit unemployment when combined with inflation and interest rates that are also in double-digits. Yet the persistence of high unemployment left governments open to criticism if they sought to reduce expenditures, and deficit financing became a routine practice. When the Minister of Finance brought down his budget in 1983, he replied to a reporter's comment about the need for stimulation to deal with unemployment by asking, "\$24 billion isn't enough?" His successors went on to deficits of even greater magnitude, but without materially greater success in reducing unemployment.

Experience with income support programs also proved to be mixed. In the case of the elderly they were a clear success; elsewhere there was room for doubt. The unemployment insurance program provided a fundamental underpinning for the Canadian labour market, but it also produced distortions in work habits and social patterns, most notably in Atlantic Canada. Social assistance programs consumed steadily increasing amounts of money without any discernible impact on poverty.

The clearest demonstration of the limitations to what governments can accomplish by spending money is in the field of Aboriginal programs. If one puts aside theories heard in some quarters about white racist conspiracies and the endemic incompetence of all government administrators, the bare facts are very sobering. For several decades now, Aboriginal expenditures have been one of the fastest growing areas of the federal budget, and they currently stand at nearly \$5 billion. In very round figures, federal program expenditures today represent approximately \$3,800 per capita for the population of Canada. To this figure must be added, in the case of the Aboriginal population, special program expenditures of approximately \$8,800 per capita, for a total of \$12,600.⁶ Yet all the familiar pathologies of suicide, alcoholism, unemployment, and violence remain, and it is highly questionable whether even doubling the per capita figure would have a material impact on them. No one can say with confidence what the solutions to Aboriginal problems are, but money alone does not appear to be one of them.

III

CONTEMPORARY CONSTRAINTS

The first three decades after the war demonstrated that, contrary to what had initially been thought, the competence of governments to manage social and economic trends was very uneven. More recently, some far-reaching changes wrought by technology and globalization have come to place increasing constraints on the powers that governments are able to exercise.

Much has been written about the erosion of the nation state, and with good reason. The specifics are quite well known. The so-called 500-channel universe will soon vitiate much of the ability of governments to regulate broadcasting for cultural and other national purposes. The control of information for almost any purpose is now an impossible task. Communications technology and international competition have undermined national regulation of telephone rates.

Many of the instruments of economic policy are also being taken out of the hands of national governments. The use of tariffs, trade quotas, and controls on energy resources for nationalist purposes is now virtually precluded for many countries by the provisions of various free trade agreements, customs unions, and the like. In prospect for the future are strengthened international regimes to govern trade in services under the new World Trade Organization.

Most important of all has been the increase in the international mobility of capital. The enormous sums that are available for trading every day are far in excess of anything that can be controlled by any government or, in most cases, by any combination of governments. The role of pension funds and other institutional investors is especially potent. Their endless quest for the most favourable combination of risk and return subjects governments around the world to daily scrutiny and acts as a major constraint on their freedom of action. In theory, sovereign governments retain their right to pursue such tax, fiscal, and monetary policies as they see fit; in practice, if they venture beyond some fairly narrow limits, they risk a depreciation in their currency and, in some cases, a requirement to raise interest rates.

In brief, the option of spending one's way out of social or economic difficulties no longer exists *de facto*, even for such governments as still believe it is possible to do so. The experience of the NDP government in Ontario with their first budget in 1991 provides clear evidence of the constraints on the use of traditional measures. In any case, large increases in expenditures for whatever purpose are now beyond the means of many governments, thanks to a long series of budgetary deficits, an increasing burden of debt service charges, and diminished revenues by comparison with earlier years in the post-war era. The federal and provincial governments in Canada certainly provide examples of this problem, although there are a good many others elsewhere as well.

IV

THE SHIFT IN PUBLIC ATTITUDES

During 1995, a major shift in Canada's political centre of gravity took place. It was foreshadowed by events in the preceding years that, as usual, are easier to interpret now than they were at the time.

The established view in Canada during the 1980s was that interventionist government and large-scale expenditures were not only desirable in policy terms, they were also a political imperative, and any government that attempted major retrenchment would be punished by the electorate. It was this premise that inhibited the Conservative government that took office in 1984 from effecting a major change of course and, in the last year or so prior to the 1988 election, led it to an outburst of new expenditures.

With the passage of time, however, there began to be an accumulation of evidence that public attitudes were shifting. The Peterson government in Ontario steeply increased its expenditures on health, education, welfare, and economic development, only to be turned out of office in 1990 by an unimpressed electorate. Evidence of growing resistance to taxation began to crop up across the country. In Newfoundland and New Brunswick, governments that preached and practised austerity were re-elected with healthy majorities. Then, in 1993, the new Klein government in Alberta embarked on an aggressive program of expenditure reductions, and its popularity actually went up. By the mid-90s, eight provinces were embarked on programs to achieve balanced budgets.

The exceptions to this trend were the two large provinces in central Canada and the federal government. Because of the collective weight of these three parties in the system, the dominant ethos in Canada remained largely unchanged from that which had prevailed since the end of the war.

Then came the federal government's major change of course in February 1995, with a budget which made the deepest expenditure cuts of any since the war, accompanied by a new doctrine of limited government. The public response, echoing what had happened in Alberta, was an increase of five percentage points in the government's popularity, which suggested that the public across the country was now well ahead of the politicians. The budget was followed by the Ontario election in June, which saw the Conservative party achieve the unprecedented feat of overcoming a 20-point deficit in the polls to win the election on an ideological platform of tax cuts, less government, and major expenditure reductions, beginning with welfare. At that point the only government that was still refusing to come to terms with the realities of the mid-90s was Quebec, where some well-known special factors were in play. But even in Quebec, fiscal realities and the demonstrable limitations on what governments are still able to do cannot be waved away forever.

One of the things that is most striking is how quickly opinion has been changing. In early 1994, the C.D. Howe Institute published an article by William Watson entitled "The View from the Right." Its concluding thesis was that Canada's social programs were not working as well as they should, that taxes could not be raised any further, and that social programs therefore had to be reformed by reallocating funds from elsewhere. Mr. Watson went on to say, "This task may seem impossible, but it likely is not."⁷

Viewed from a vantage point less than two years later, and against the backdrop of the Republican sweep in the U.S. 1994 elections, this now sounds like the sort of thing an NDP government might say. What remains to be seen is how much further this trend will carry.

Opinions divide sharply about what has been happening. Labour and others on the left have criticized the "corporate agenda" of governments, but their inability to put forward any alternatives other than old nostrums has blunted the effectiveness of such criticism. Business circles for their part have widely welcomed the curtailment of past government interventions and the current emphasis on deregulation, privatization, and reduced taxes — although it could be added that some have put up a resistance to increased government cost recovery measures that would do credit to a social action group. Business is also enthusiastic about the increased opportunities in international markets produced by free trade. Among the public at large, there is no longer any serious dissent from the proposition that free markets are by far the most effective way of organizing production and distribution.

So where does all this leave governments today? Hard experience in recent decades has taught them their limitations, they have run out of money, the public are disillusioned with their efforts, and the increasing power of market forces has often made it more difficult for them to pursue what they perceive to be the public interest.

In a sense, Keynes' economic theories were too good to be true: they held out the prospect that government interventions could simultaneously be beneficial for social purposes *and* for the economy. Redistributing income could strengthen consumer demand and thereby give an impetus to economic growth; government deficits could reduce unemployment during a recession. Governments today realize that they face considerably starker choices, and that most propositions are of a win-lose character. Economics has reverted to its nineteenth century status as "the dismal science."

One option of course is for governments simply to accept that they will have to do a lot less and not to be unduly concerned about the consequences. As Ronald Reagan is said to have put it, "We fought a war on poverty and poverty won." Not everyone, however, will be ready to view this kind of outcome with the ex-President's nonchalance. And with some reason.

V

THE SOCIAL DEFICIT

Judith Maxwell has pointed out that today's fiscal deficits coexist with what she calls a social deficit, of which the manifestations include high unemployment, growing dependence on income support payments, instability in the family structure, an acute shortage of affordable day-care, and an inadequately trained work force.⁸ It may be that a real option for governments is to do relatively little about these problems, but a judgment has to be made about whether the price is acceptable.

One of the most marked trends in recent years has been increasing inequality in society. In most countries, income earners at the very top of the scale have done spectacularly well in recent years; as for the rest, some have managed to hold their own, while others have lost ground.⁹ In the U.S., the incomes of the top 1 percent of households increased by 60 percent in the 1980s, while the real incomes of the bottom 40 percent dropped.¹⁰ In Canada, the richest fifth of families earned 12.4 times more market income than the poorest fifth in 1981; by 1992, the figure was 22.1 times.¹¹ In Britain, the gap between the highest and lowest-paid male workers is at its widest since the 1880s.¹²

Two metaphors that have had much currency therefore need to be retired: the benefits of growth in high incomes are not "trickling down," and the rising tide is lifting only a few boats.¹³

Contributing to increased inequality has been growing polarization in labour markets. In most industrial countries, there has been significant growth in employment at the upper and lower ends of the employment scales, accompanied by a marked shrinkage in mid-range jobs.¹⁴ Nearly half of the new jobs created in the 1980s were what the Economic Council of Canada called "non standard": part-time or temporary, with very low wage scales and few if any benefits.¹⁵ Young people have been particularly affected. Real incomes of families under 25 were 22 percent lower in 1993 than for people in the same age group in 1980.¹⁶

A third phenomenon is growing public dependency upon transfer payments. In 1980, 18.3 percent of the labour force was in receipt of unemployment insurance and/or social assistance; by 1990, the figure had nearly reached 25 percent.¹⁷ In 1965, unemployment insurance and social assistance accounted for less than 1 percent of GDP, but then grew much more rapidly than the economy and reached 4 percent in 1991.¹⁸

It is a matter of conjecture how much of this growth might have been attributable to changed social mores and factors such as the significant increase in Ontario's welfare rates in the late 1980s. In any case, these were not the only factors. Some light can be shed on growing dependence on transfer payments by looking at trends in unemployment.

During the 1980s, attention began to focus on the fact that in every decade since World War II, unemployment in Canada had been higher than in the decade before: 4.2 percent in the 1950s, 5 percent in the 1960s, 6.3 percent in the 1970s, 9.3 percent in the 1980s.¹⁹ When unemployment rose again in the most recent recession, it was confidently predicted in many quarters that the jobs would come back once an overdue process of adjustment in the Canadian economy had run its course. Perhaps. But we are now halfway through the 1990s, and the average rate of unemployment has been ranging between 9.2 percent and 11 percent – higher once again than the average for the preceding decade. If one takes account of those who have dropped out of the labour force and involuntary part-time workers, together with those classed as unemployed, then “inactive workers” represent over one-quarter of the labour force.²⁰

Unemployment is also lasting longer. In 1980 the average duration was 14.8 weeks, in 1993 it was 25.1. In 1994, one-sixth of the unemployed in Canada had been without work for 12 months or more.²¹

Employment is the key to social well-being. The premise of any country's social safety net is that all but a small proportion of the population will be gainfully employed at any one time. If the numbers dependent upon social programs become too large, the cost becomes insupportable.

Governments now know that unemployment cannot be dealt with by industrial grants, make-work projects, or regional development programs. Unfortunately, ideas on how it can be dealt with are not in good supply. The most promising avenue identified to date appears to be the deregulation of labour markets. The OECD Jobs Study has pointed out that the complex of social programs and employment protection laws in Europe has had an adverse effect on job creation, and has contributed to relatively high levels of unemployment.²² The U.S. has achieved substantially lower unemployment, but at a price: limited legislative protection for the work force, and a minimal social safety net. This is not a formula that many governments will find attractive, although they may have little choice but to adopt it. To add to their dilemma, the Jobs Study also reported a positive correlation between social inequality and high rates of job creation. The dismal science, indeed.

VI

SOME SPECIFICALLY CANADIAN ISSUES

The erosion in the capacity of governments to deal with social and economic issues is a serious problem for many Western industrial countries. For Canada, it is especially so because of traditional Canadian reliance on government expenditures and legislative interventions to meet the needs of the federation.²³ Major examples include equalization payments and the use of the federal spending power to initiate and then sustain the network of social programs that many have come to regard as fundamental to the Canadian identity.

Possibly because of these factors, Canadian governments held out longer than most against encroaching fiscal realities. From the 1970s onwards, there was a slowing of revenue growth which gave rise to a long series of deficits. As one federal official privately put it, "The spending power was replaced by the borrowing power."

Over two decades, the consequences of this approach were to weaken the national government far beyond anything that might have been wrought by external forces. In 1975-76, the federal government's debt service charges were \$4 billion, or 12 percent of total budgetary expenditures.²⁴ Had this ratio been maintained, the equivalent figure today would be \$19.5 billion, instead of \$49.5 billion. The difference of \$30 billion for the current year alone is greater than the savings over three years that will result from the February 1995 budget. The inexorable growth of debt service payments has thus eaten away the federal government's ability to play the role it once did. In 1996-97, federal program expenditures will be just 13.1 percent of GDP, the lowest share since 1951-52.²⁵

In effect, Canadian governments over the past two decades have spent so much borrowed money on preventing bad things from happening that they may not have enough money to meet the fundamental responsibilities of a national government. In addition, they are now so bedevilled by the problems of deficits and accumulated debt that they have little time to focus on the question of how those responsibilities should be defined in twenty-first century terms.

The difficulty of dealing with various problems at national level has given rise to numerous proposals for decentralization.²⁶ There may be something to this approach, but it is also important to recognize some limitations. The forces of technology and globalization have eroded the power of all governments, and not merely those at national level. The federal government does not have a solution for unemployment, but neither do the provinces. It follows that inter-governmental transfers are something less than a panacea for Canada's economic and social problems.

This is a reality that sovereigntist leaders in Quebec have been especially reluctant to recognize. There is a naivete bordering on pathos to their repeated assertions that if they

could once get exclusive control of the "economic levers," problems such as unemployment and social dislocation would become readily manageable. The world is a different place now.

Something that might be usefully achieved by decentralization of current federal responsibilities would be to increase the scope for local action to deal with local problems, and to give a greater role to non-governmental organizations. Some writers have also spoken of "citizenship" benefits from giving the public a greater role: individuals gain a sense that their actions make a difference.²⁷ For such results to be achieved, transfers from Ottawa should in many cases be passed on to municipalities and community groups by provincial governments. Simply transferring a function from one bureaucracy to another is not likely to advance matters very much.

All of this runs rather counter to what is rapidly becoming conventional wisdom. The subject is therefore worth pursuing a bit further.

In some fields, a simple withdrawal of the federal government could well make current social problems worse, particularly for those at the lower end of the social scale. For example, the sole remaining federal power in the field of social assistance is the ban on residence requirements. Removal of this provision would free provincial governments to impose barriers on welfare recipients who chose, for whatever reason, to move from one province to another.²⁸ Similarly, repeal of the *Canada Health Act* would open the way to two-tier health systems. To the extent that such systems have adverse effects, they would be felt first by those unable to pay for first-tier care.

If vocational training is to be transferred to the provinces, consideration should be given to transferring the job placement and unemployment insurance functions at the same time, since the three are mutually supporting components of government labour market programs. Whether the creation of ten unemployment insurance systems in lieu of a national program would be of net benefit to the unemployed remains to be demonstrated. A further potential problem would be the loss of interregional equity that is a feature of the present national program.

In brief, the impacts of technology and globalization, combined with increasing burdens of indebtedness, have reduced the ability of the federal government to play a national role on the scale it once did. In consequence, it may be that some decentralization measures would be appropriate, but a careful examination of the specifics in each case is required. The enthusiasm of provincial premiers about receiving federal powers and funds is not an adequate criterion for determining the public interest.

VII

SOME SPECULATIONS ABOUT THE FUTURE

The changes sweeping the world today are so far-reaching that they deserve some sober reflection about their possible implications in the medium term.

Thomas Hobbes is best known for his thesis that a major function of government is to protect people from the selfish instincts of their fellows. Today, however, the ability of governments to discharge this responsibility is markedly reduced.

At the G-7 Jobs Summit in 1994, President Clinton said, "The market with all its unruly energy and all of its dislocations is still an unstoppable and indispensable force for progress."²⁹ Few would quarrel with that view. What is increasingly evident, however, is the dark side of that unstoppable force: growing inequality, rising unemployment, and increased insecurity at all levels of society. The middle class is becoming what Robert Reich has called "the anxious class." Every month brings fresh reports of "downsizing," "delaying," and "reengineering" in the private and public sectors alike. Assembly line workers and middle managers who are displaced face very uncertain prospects for re-employment; their erstwhile colleagues who remain wonder who will be next; and their children graduating from university encounter increasing difficulty in finding places in the labour force.

What no one can be sure of is whether the deterioration in labour markets will continue. There is no convincing evidence, however, that the end is in sight. On the contrary, it appears that technology, having effected major reductions in the manufacturing work force, is now making increasing inroads in the service sector. In a single month of 1994, there were 108,000 layoffs by large companies in the U.S., nearly half of them in four service industries: communications, insurance, banking, and finance.³⁰ One area where some particularly large reductions in employment are beginning to take place is in the largest service industry of all: governments.

To insecurity in the work place must be added the factor of prolonged stagnation in personal incomes. The internationalization of markets has produced what is sometimes described as a global maximum wage.³¹ For the past two decades, the real incomes of all but a small minority have failed to grow, which provides a ready explanation for public anger about taxation, and indeed of a general hardening of public attitudes towards social issues. We may be seeing the beginnings of the "unemployment and jealousy and fear" that Beveridge warned against.

Polling in both Canada and the United States has identified particular resentment of welfare recipients and others at the bottom of the social ladder.³² We have here another force which will shape governance in the millennium, which is class bias. It is a reality that those at the lower end of the social scale dispose of relatively little political power. They tend to be

poorly organized and many of them do not vote, which has led some governments to conclude, correctly, that their benefits can be reduced with relative impunity. The middle class, on the other hand, are a force to be reckoned with, and have a demonstrated capacity for defending their interests, including the benefits they receive from governments. There is thus a prospect of a further polarization of society and an increase in social tensions.

The question that arises is how much further the hardening of social attitudes will go. In the United States, as Richard Gwyn has observed, the point has been reached where many Americans now actually hate each other.³³ Canada is likely to be spared such extremes, partly because our social problems are largely free of the racial dimension that has so poisoned attitudes in the U.S. Nevertheless, there are few grounds for complacency even here. Some writers, for example, have begun to raise questions about the implications of polarization and employment instability for the functioning of democratic institutions.³⁴

More immediately, we face the prospect that shrinking real incomes, losses of employment, and increased social dislocation will push individuals into crime and other anti-social behaviour, which in turn would generate increased costs for governments.³⁵ Even today, public security stands out as one of a small number of fields in which the public are demanding that governments do more, not less.

There is an element of "back to the future" about the present situation. During the course of the nineteenth century, there was rising concern in many quarters about the workings of unfettered capitalism and the growing prospect of class conflict. The first steps to put in place a social safety net were taken in the 1880s, not by a socialist, much less a Marxist, but by the conservative Chancellor of Prussia, Otto Von Bismarck, whose principal objective was to head off social turmoil.³⁶ The experience of the past century has demonstrated the limitations of Bismarck's approach, but the reality remains that the adverse effects of market forces should be everybody's business.

Thus far, corporations have not recognized any responsibility for the social consequences of their employment reductions and their increasing recourse to non-standard employment. It is claimed, in many cases quite justifiably, that there is no other option because of intense competitive pressures. If, however, globalization is to dictate an indefinite continuation of what we have seen in the past two decades, then corporations should in their own medium-term interests consider substantially increasing their support for community-based activities that are directed to local social needs.

There is also a need for further efforts to increase the effectiveness of governance at international level. The environmental and labour protection provisions of the North American Free Trade Agreement (NAFTA) and the Social Charter being developed by the European Union represent the first, halting steps to mitigate some of the effects of latter-day unfettered capitalism. The complexities that will inhibit progress in such endeavours for a

long time to come are enormous, but this is not a reason for abandoning the efforts that are now beginning to get under way.

VIII

CONCLUSION

It is scarcely possible to conclude on a strongly positive note. Several conclusions are, however, warranted.

First, there is little prospect of an early return to the kinder, gentler approach to governance that characterized much of the post-war period. Generosity was for an era when broad annual increases in prosperity were the natural order of things; today, much of the public is in a survival mode.

Second, it is time to begin developing a definition of the functions of government that will fit the realities of the twenty-first century. Thus far, most prescriptions have been expressed in negatives: cut spending on this, abolish restrictions on that, turn various functions over to the private sector or a province or a non-governmental agency. All well and good, but it only takes us so far. Sooner or later, the question has to be asked, "How *much* less government?" Markets have a number of virtues, but they cannot tell us what our values should be.

In their intense preoccupation with downsizing, governments risk losing sight of their other responsibilities. Leadership is needed on the question of, as Robert Heilbroner put it, "Which way is up?" It is essential that governments address the need for a contemporary moral framework, because there is no one else who can provide such leadership on the scale required.

Specifically, is the promotion of social equality still an appropriate activity for governments? What about equalization payments within the federation? Accepting that self-reliance is now the order of the day, which individuals should still receive support from the state, and in what form? Is there anything that governments should try to do about unemployment, beyond well-known formulas about "getting the fundamentals right"? If non-governmental agencies are to be given greater responsibilities, what changes are required in the tax system and the relationships between governments and such agencies? In sum, are there ways of dealing effectively with the social deficit even with reduced financial resources, or does one simply accept it as a disagreeable contemporary reality?

These are questions about which Mr. King would have reflected long and carefully. He would have been circumspect, and fiscally prudent, but he would also have been alive to possible solutions. Such measures as he adopted would have been less exciting than some of those attempted by his successors, but they would have had the virtue of being practical and suited to the realities of his times. To do as much today will be a taxing undertaking.

NOTES

- 1 Michael Bliss, *Right Honourable Men: The Descent of Canadian Politics from Macdonald to Mulroney* (Toronto: HarperCollins, 1994).
- 2 William H. Beveridge, *Full Employment in a Free Society* (New York: W.W. Norton & Company, inc., 1945).
- 3 Minister of Reconstruction, *Employment and Income with Specific Reference to the Initial Period of Reconstruction* (The Queen's Printer, 1945).
- 4 *The New Face of Poverty: Income Security Needs of Canadian Families* (Ottawa: Economic Council of Canada, 1992).
- 5 Minister of Reconstruction, *Employment and Income*.
- 6 Federal program expenditures in 1995-96 were forecast to be \$114 billion. Dividing this figure by the total Canadian population of 30 million (rounded) yields a per capita figure of \$3800. The aboriginal population of Canada for which the federal government is responsible consists of something over 550,000 status Indians and Inuit. The federal government's Main Estimates for 1995-96 provide for expenditures of \$3.85 billion under the Indian and Inuit program and a further \$994 million for Indian and Northern health programs, for a total of \$4.8 billion or \$8,800 per capita.
- 7 William G. Watson, "The View from the Right," *The Case for Change* (Toronto: C.D. Howe Institute, January 1994). See also "Harris Rides on Ideological Wave Without Getting his Feet Wet," *The Globe and Mail* (Toronto: October 28, 1995).
- 8 Judith Maxwell, "The Social Role of the State in a Knowledge-Based Economy," in Patrick Grady, Robert Howse and Judith Maxwell (eds.), *Redefining Social Security* (Kingston, Ont.: School of Policy Studies, Queen's University, 1995).
- 9 Edward Luttwak, "Why Fascism is the Wave of the Future," *London Review of Books* (April 7, 1994).
- 10 Cobb, Halstead, and Rowe, "If GDP is Up, Why is America Down?" *The Atlantic Monthly*, October 1995, p. 72.
- 11 *The Globe and Mail* (Toronto: February 9, 1995), p. 2.
- 12 "Inequality: For Richer, For Poorer," *The Economist* (November 5, 1994), p. 19.
- 13 Cobb, Halstead, and Rowe, "If GDP is UP."
- 14 See for example C.M. Beach and G.A. Slotsve, "Polarization of Earnings in the Canadian Labour Market," in *The Bell Canada Papers on Economic and Public Policy*, (Kingston, Ont.: The John Deutsch Institute for the Study of Economic Policy, Queen's University, 1993).

- 15 Gordon Betcherman, *Employment in the Service Economy: A Research Report*, (Ottawa: Economic Council of Canada, 1991), Chapter 5.
- 16 Maxwell, "The Social Role of the State," p. 16.
- 17 Based on data from Statistics Canada, *Unemployment Insurance Statistics, Annual Supplement* (Ottawa: Statistics Canada, 1985) catalogue no. 73-2025S, and from Human Resources Development Canada, Social Program Information and Analysis Directorate, Strategic Policy Group.
- 18 Claude Castonguay, "Income Support and Social Dependency," in E.B. Reynolds (ed.), *Income Security in Canada* (Montreal: IRPP, 1993) p. 111.
- 19 *The Historical Labour Force Statistics*, (Ottawa: Statistics Canada, 1974-1990) catalogue no. 71-201, and "Historical Statistical Supplement 1993/94," *The Canadian Economic Observer* (Ottawa: Statistics Canada, 1988) catalogue no. 11-210.
- 20 Maxwell, "The Social Role of the State," p. 22.
- 21 *The Labour Force*, (Ottawa: Statistics Canada, December 1980 and 1984) catalogue no. 71-001, and *The Labour Force Annual Averages*, 1993, catalogue 71-529.
- 22 *The OECD Jobs Study, Employment in the OECD Area, 1950-1995*, (Paris: OECD, 1994).
- 23 See Thomas J. Courchene, "Celebrating Flexibility," The 1995 Benefactor's Lecture (C.D. Howe Institute) and Blair Williams, "Liberals Pitch Their Tenet," *The Ottawa Citizen* (March 15, 1995).
- 24 Canada, *Public Accounts of Canada*, 1976, Vol. 1, p. 6.4.
- 25 Canada, *Budget Plan*, The Minister of Finance (February 27, 1995), p. 10.
- 26 One of the most articulate and persuasive proponents of decentralization is Tom Courchene. See for example his "Celebrating Flexibility," and *Social Canada in the Millennium* (Toronto: C.D. Howe Institute, 1994).
- 27 See for example Peter Drucker, "The Age of Social Transformation," *The Atlantic Monthly*, November 1994.
- 28 B.C. in fact has moved to impose a residence requirement, notwithstanding the prohibition in federal legislation. See *The Globe and Mail* (Toronto: November 10, 1995).
- 29 White House press release, March 14, 1994.
- 30 Arthur J. Cordell, *Information Society Trends* (January-May, 1994) editions 11-15.

- 31 Courchene, *Social Canada in the Millennium*, pp. 241-2.
- 32 See "A Revolution, or Business as Usual?" *Harper's Magazine* (March 1995).
- 33 Richard J. Gwyn, "Canada as a Post-modern State," The D.G. Willmot Distinguished Lecture (November 23, 1994).
- 34 E. Luttwak, "Why Fascism". See also Sally Lerner, "The Future of Work in North America," *Futures* (March 1994), and Lester Thurow, "Why Their World Might Crumble," *The New York Times Magazine* (November 19, 1995).
- 35 This observation and others in this section have benefited from discussions with Judith Maxwell, President, Canadian Policy Research Networks.
- 36 See Peter Drucker, *Post-Capitalist Society* (New York: HarperCollins, 1993), p. 32.