# Do We Know Where We are Going? The New Social Policy in Canada

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A new paradigm has come to dominate social policy in Canada.[1] As in many western nations, the understandings that underpinned the postwar welfare state have given way to new ideas about the social problems facing us in a global era and the appropriate responses to them. At its heart, this new paradigm represents a different conception of the sources of security in an insecure world. The fundamental purpose of the postwar social contract was security. The touchstone for the builders of the welfare state was the Depression of the 1930s, with its mass dislocation and widespread economic insecurity, and their aim was to protect citizens from what they saw as the universal risks associated with a market economy. A rapidly growing education system would expand equality of opportunity, and comprehensive health insurance would spread the benefits of health care to the population as a whole. And a full range of income transfer programs – unemployment insurance, workers' compensation, disability benefits, old age pensions, survivors' benefits, children's allowances and social assistance – would protect citizens from the economic risks associated with life in a market economy.

Fast forward to today. In contemporary policy circles, security no longer means protection from market disruptions. Such security as is available in the contemporary

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[1] This commentary summarizes a much longer and more fully documented analysis forthcoming as "Disembedding Liberalism: The Social Policy Trajectory in Canada," in David Green and Jonathan Kesselman, editors, *Dimensions of Inequality in Canada* (Vancouver: University of British Columbia Press, in press). I would like to thank Andrew Sharpe and an anonymous reviewer for helpful comments on this article.

world is seen as flowing from the capacity to adapt to a changing global economy. At the level of ideas, the transition is from security as protection *from* change, to security as the capacity *to* change; and at the level of policy design, the emphasis has shifted from income transfers to investment in the knowledge and skills required to prosper in a knowledge-based, global economy.

According to this perspective, education and training are now the real source of security. Knowledge workers are likely to enjoy rising incomes, challenging work, mobility on an international level and a secure future; low-skill workers are likely to face declining real incomes, precarious employment and an uncertain future. As a result, a country's learning systems are seen as critical to both economic competitiveness and social equity. Policy attention, according to this approach, should focus in particular on children, to ensure that they have a rich learning environment, especially in the early childhood years. Young people should be educated to higher levels than in the past, and learning should become a life-long process. Citizens should continually upgrade their skills, and training programs should re-equip older workers displaced by the forces of "creative destruction" inherent in economic growth. Wherever possible, contemporary understandings suggest, the primary goal of policy reform can become to invest in human capital rather than redistribute income.

The pervasiveness of these core ideas in the policy-making circles in OECD countries is striking. The perspective informs thinking on both the political left and right. In attempting to chart a third way for British and European social democrats, for example, Anthony Giddens argues that social expenditures should be switched as far as possible from income redistribution to investment in human capital, replacing the traditional welfare state with a "social investment state" (Giddens 1998, 2000, 2001). In Canada, Tom Courchene argues "we are presented with a historically unprecedented societal window, since a commitment to a human capital future is emerging as the principal avenue by which to succeed on both the economic competitiveness and social cohesion fronts" (Courchene 2001: 154; see also Courchene 2002). Canadian governments have also embraced the new discourse with enthusiasm. Canadian social policy is seldom made in large, radical steps, but the broad directions of incremental change in our social programs parallel this approach.

Whenever a set of ideas gains such predominance, it cries out for evaluation. Is this strategy simply a new means of pursuing traditional goals of economic and social security, by deploying instruments better suited to a global, knowledge-based economy? Or does this new paradigm retreat from the postwar commitment to social protection and economic security for the population as a whole? I would like to suggest that formidable challenges confront our policy trajectory. Most importantly, investment in human capital is being asked to carry to much weight in current debates, and needs to be reinforced by attention to long-standing issues of poverty, inequality and income redistribution. To make this argument, I would first like to look at what we have done in terms of income transfers, and then ask whether investment in human capital can take up the load as an instrument of economic security for Canadians as a whole.

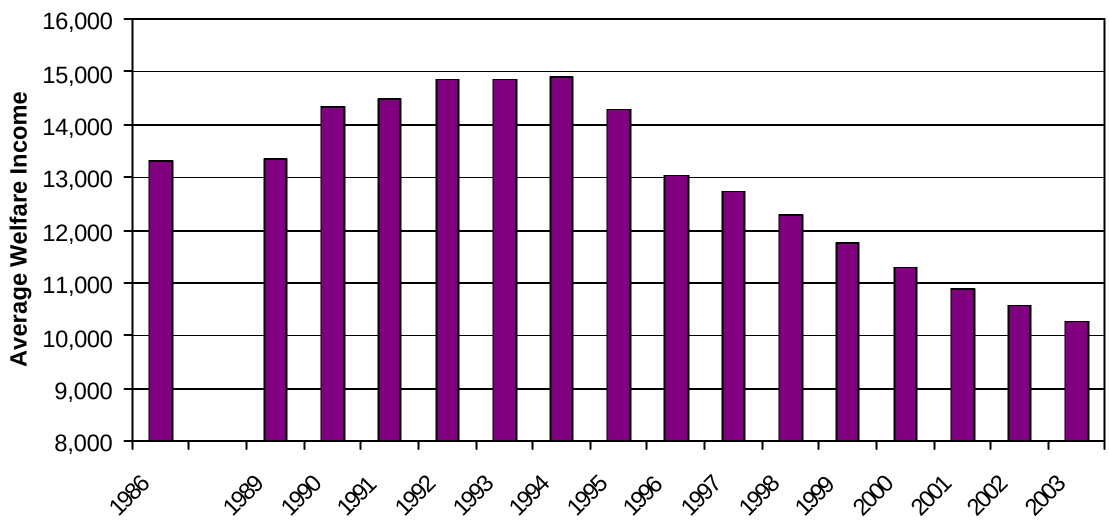
*Income Transfers:*

Canada has emerged as a poster child for the new social policy in the field of income transfers. While pension programs for the elderly have changed little, virtually every program with more direct implications for labour market performance has been restructured in important ways, reducing the levels of economic security provided to beneficiaries. Within this process, unemployment insurance and social assistance have changed most. While many analysts continue to complain about regional disincentives embedded in the Employment Insurance, especially in Atlantic Canada, the national picture is one of a seriously diminished program. In part, the problem is that EI has failed to evolve with changes in the nature of work in Canada. But policy changes have also weakened the program: eligibility conditions have been tightened and benefit levels have repeatedly been reduced. As a result, the proportion of the unemployed receiving regular unemployment benefits has dropped from approximately 80 per cent in the 1970s and 1980s to approximately 40 percent in the 2000s; and the benefit replacement rate has been cut from 66 per cent of previous earnings in 1971 to 50 per cent for repeat beneficiaries in 1996 (although offset for some recipients by an increased family supplement). In Canada west of Quebec, a program that was once significantly more generous than its U.S. counterpart is now leaner than the one prevailing in many U.S. states (Boychuk and Banting 2003). Employment insurance is a broken system.

Outside of Atlantic Canada, social assistance is becoming the primary unemployment benefit program. However, welfare incomes have also declined seriously in the last 15 years, even when the enrichment of Child Benefits is taken into account. The real value of benefits have fallen, in many instances by large amounts; eligibility rules have been tightened in most provinces, especially for new entrants; and administrative procedures were toughened with the employment of additional monitors and the opening of 'snitch' lines (Finnie, Irvine and Sceviour 2004; National Council of

Welfare 2000). Figure 1 tracks the evolution of the average welfare income (social assistance and child benefits) in the case of a single parent with one child. The national average rose in the early 1990s, reflecting the enrichment of the program in Ontario, but then declined sharply, falling well below the level prevailing in the mid-1980s.

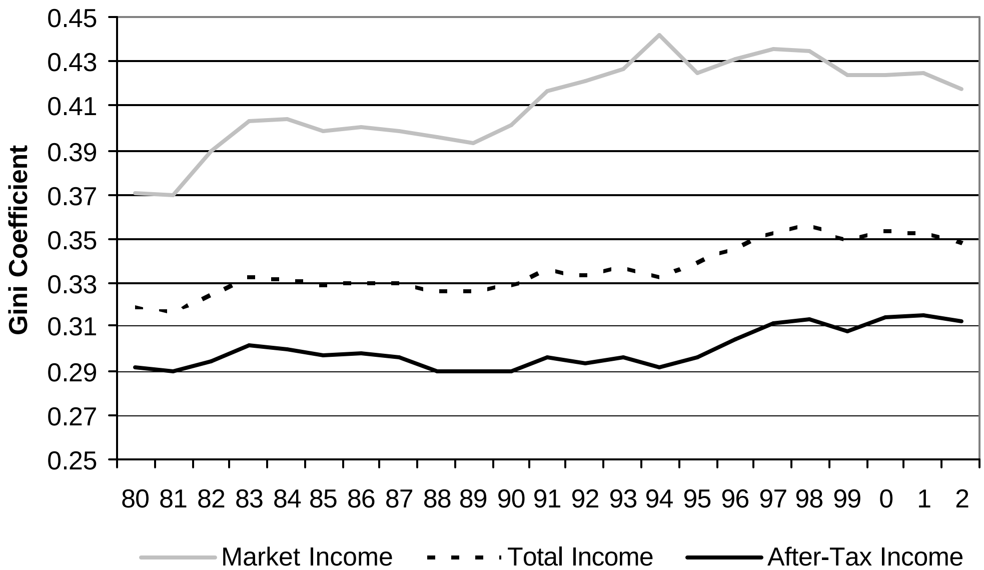
**Figure 1 Average Welfare Income, Single Parents and One Child (2003 constant dollars).**




Note: Welfare income includes social assistance and child benefits. Average welfare income is the average of provincial welfare incomes weighted by provincial populations.
Source: Data on welfare income are from National Council of Welfare 2003. Data on provincial populations are from Statistics Canada, Table 051-00011 ,2

The cumulative impact of the changes has been a weakening of the redistributive role of the Canadian state. This can be seen in Figure 2, which tracks the level of inequality among Canadian families from 1980 to 2002 for three definitions of income: market income which includes earnings and other sources of private income; total income which includes government income transfer payments; and income after tax which reflects the impact of both taxes and transfers. As in virtually all western nations, inequality in market incomes has grown over the last two decades in Canada. The Canadian state offset this growth in market inequality until the mid-1990s, when the most significant reductions in income transfers took place. After that, inequality in after-tax income began to drift upwards. Figure 3 is perhaps even more revealing. The index of economic security developed by Osberg and Sharpe tracks the decline in the level of economic security assured through income transfers to those hit by critical risks inherent in modern life, such as unemployment, ill health, becoming a single parent, and so on.[2]

**Figure 2 Inequality among Families, 1980 to 2002: Gini coefficients for three measures of income**




Source: Statistics Canada 2004

Clearly, Canadian policy-makers have embraced the new discourse in income security programs. The commitment to economic security through income transfers has weakened over the last 15 years, and working-age Canadians face the future with a more limited version of the income security system developed by the postwar generation. They will increasingly have to look elsewhere for the well-springs of economic security in an uncertain world. Is investment in human capital filling the gap?

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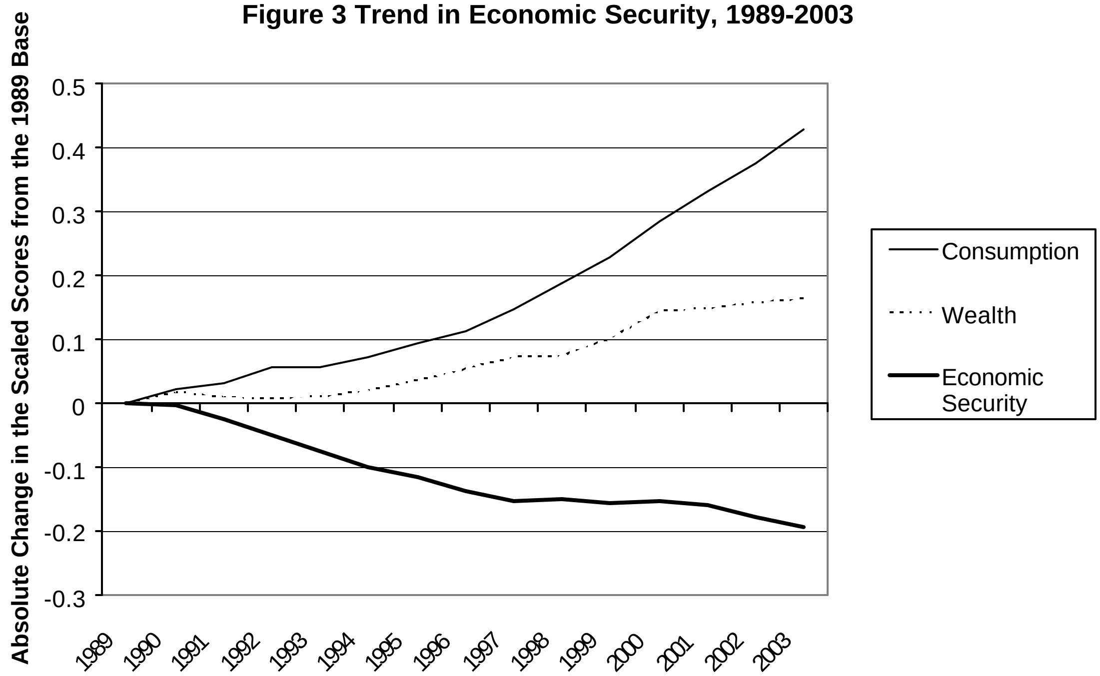
[2] For details of the index, see Osberg and Sharpe (2002).

**Figure 3 Trend in Economic Security, 1989-2003**




Source: Based on data supplied by the Centre for the Study of Living Standards.

*Investing in Human Capital***?**

In the contemporary context, Canada might already seem to be an exemplar of the new social model. We have one of the most highly educated populations across advanced economies, especially when we focus on younger generations. Does this mean that education and training instruments represent a functional equivalent to income transfers in providing access to economic security for the population as a whole?

Here the difficulties begin to emerge. Although Canada may rank among educational leaders in the OECD, close to half of all young Canadians still do not complete postsecondary education, leaving them facing the future without the keys to the new economy and with diminished protection from transfer programs. If a human capital strategy is to be meaningful, it must go a lot further. But three constraints limit progress:

the public/private balance; issues of timing and sequence; and the social determinants of educational attainment. Each of these deserves separate attention.

*The Public/Private Balance*: Despite the rhetoric of a knowledge-based society, Canada's collective commitment to investing in human capital is uncertain at best. Recent policy seems to emphasize private rather than public responsibility, a pattern that emerges as early as the pre-school years. Contemporary research emphasizes the importance of childhood learning as a key to the long-term success of a human-capital strategy. Yet in the euphemistic words of an OECD review team, Canadian public policy on early childhood education is still "in its initial stages" (OECD 2004: 6). Canadian researchers have been in the forefront of research on the importance of early childhood development, but Canadian governments have been laggards in developing appropriate policy responses, as Table 1 suggests. Similarly at the other end of the educational ladder, postsecondary education is marked by a growing emphasis on private responsibility, as witnessed by policies related to tuition fees. Nor has the rhetoric of 'active' labour market policy led to greater public investment in retraining programs for adults; government expenditures on such programs represent a smaller proportion of GDP in Canada than the average across the OECD. As a result, training remains primarily employer-sponsored, and individuals already possessing high levels of human capital receive a disproportionate amount of training while those with low levels of human capital are under-represented (de Broucker 1997; OECD 1998b: 209-210).

*Timing and sequence*: Impatience has also marked our new policy trajectory. Whereas the postwar approach to income transfers responded directly to disruptions in income, in effect promising security now, human capital strategies hold out the promise of security in the future. Social investment requires long time horizons. Current research suggests that the largest pay-offs come from concentrating efforts on early childhood development, and the full benefits of new strategies will therefore take at least a generation to emerge, even if we make the right design choices now. However, we are not sure about what works here. We are still experimenting with different types and levels of intervention, and getting it right is likely to take time. In the meantime, the problems of low-skilled workers remain. In effect, the transition to a human capital strategy requires that most elusive of commitments, patient capital, on the part of normally impatient governments. Cutting income transfers before investments in human capital come to fruition is a recipe for lower levels of economic security among low-skilled workers in this generation and perhaps several to come. Yet that is precisely the pattern Canada has followed.[3]

*The Social Determinants of Educational Attainment.* We would all like to believe that Canada is a land of equal opportunity. But we cannot ignore the inescapable fact that the educational attainments and life chances of children are shaped by the social and family context into which they are born. While overall participation rates continue to climb among young people from all social backgrounds, a stubborn gap persists in the relative educational success of children from advantaged and disadvantaged backgrounds.

To be sure, the Canadian record is considerably better than in many western countries. Nevertheless, the National Longitudinal Survey of Children and Youth indicates that by the time children enter kindergarten, a significant socio-economic gradient has emerged in readiness for school, as measured by vocabulary development

[3] I am especially indebted to Jane Jenson and John Myles on the issues of sequence and timing.

and other capacities. Although the educational system reduces the gradients as children move from level to level, differences in participation levels persist right through to the university sector. Children from families in the bottom income quartile are half as likely to attend university as children from families in the top quartile.

While there is widespread agreement that the social-economic status of families is important, the mechanism is the subject of heated debate (Finnie, Lascelles and Sweetman 2005: 300; see also Ma and Klinger 2000; Willms 1999). Some analysts emphasize the importance of poverty and economic inequality, and point to the clear relationship across OECD countries between the level of inequality in educational attainment one hand and the level of economic inequality on the other (OECD and Statistics Canada 2000). However, the cultural capital that different families bring to their children's development is also important. A long line of studies from a number of countries confirm that children's educational attainment and literacy levels are more strongly associated with their parents' level of education than their parents' income, and this relationship seems to be getting stronger over time. Families are critical to cognitive stimulus in early childhood, the aspirations that are nurtured as children grow, and the life choices at critical transition points (de Broucker and Underwoood 1998; Finnie, Laporte and Lascelles 2004).

Compensating for subtle social influences in the lives of children and young people is a difficult task. As Esping-Andersen observes, "we cannot pass laws that force parents to read to their children," (Esping-Andersen 2002: 49). We can seek to compensate through a major expansion of early childhood education, although, as we have seen, Canada has a long way to go in this field. But we also need to have realistic expectations. There has been a long history of compensatory intervention through Head Start in the United States and parallel programs elsewhere, and evaluations of such interventions have been decidedly mixed (Currie 2001). We have even less evidence about what works at later stages of the educational progress. We are still finding our way here.

The bottom line is clear. The accident of birth still matters in the educational world, and a social policy premised on investment in human capital raises the policy salience of the education gap exponentially. Undoubtedly, enriched learning systems can help; equal access to high-quality early childhood education is an obvious place to start. However, effective action to reduce the socio-economic gradient in educational attainment will require a wider range of policy instruments than purely educational ones. The cross-national relationship between economic inequality and educational inequality suggests that a successful strategy of investing in human capital cannot be divorced from a continuing concern about inequality and poverty, especially child poverty. Here Canada made no real progress in the last two decades.

*So what? By way of conclusion.*

Canadian governments have embraced the first side of the new social policy paradigm, restructuring income-security programs in ways that reduce the levels of economic security assured to working-age Canadians. But the second side of the new social policy faces formidable challenges. The transition to a new social policy has been weakened by an uncertain public commitment to investment in human capital and by problems of timing and sequence. While the postwar generation sought to establish a right to economic security, as they understood that concept, our generation is moving away from the idea of a right to the sources of economic security as we have come to understand that concept in our time.

Moreover, advocates of the new approach fail to come to grips with the policy implications of the socio-economic gradient in educational attainment. Education and training systems on their own cannot compensate fully for poverty and the differences in cultural capital that parents bring to their children's upbringing. On their own, education and training do not represent a pathway to economic security that is equally accessible to all Canadians. On their own, they do not represent the basis of a fair society.

Learning remains central to the new economy. But learning is being asked to carry too much weight in the new social discourse. A social policy premised on human capital is likely to fail, even in its own terms, if growing economic inequality is followed by growing educational inequality. We are led inevitably back to a debate about income redistribution. A successful strategy of investing in human capital cannot be divorced from action on child poverty and inequality. At a minimum, we need to repair the income security protections for current generations of low-skilled workers and their families, and adopt a more patient approach to the transition to a human-capital strategy. But more generally, a coherent social agenda will depend on the integration of income redistribution and investment in human capital. The key challenge is one that is largely being ignored: to design a redistributive complement to a human-capital strategy, one that makes meaningful the promise of education as an instrument of economic security, and compensates for its significant limitations.

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Table 1. Pre-Primary Education in Selected OECD Countries

| | Net Enrolment Rate % | | Expenditure |
|---|---|---|---|
| | 3-year-olds | 4-year-olds | % of GDP |
| Australia | 16.4 | 50.1 | .09 |
| Austria | 39.3 | 79.6 | .53 |
| Belgium | 98.2 | 99.2 | .48 |
| **Canada** | **0** | **39.9** | **.25** |
| Denmark | 71.8 | 90.6 | .78 |
| Finland | 33.9 | 41.9 | .40 |
| France | 100.0 | 100.0 | .68 |
| Germany | 54.8 | 81.4 | .57 |
| Italy | 97.6 | 97.3 | .43 |
| Japan | 59.8 | 94.9 | .18 |
| Netherlands | 0.1 | 99.5 | .36 |
| New Zealand | 80.5 | 93.1 | .19 |
| Norway | 70.9 | 78.1 | .80 |
| Sweden | 68.0 | 72.8 | .58 |
| United Kingdom | 53.9 | 100.0 | .42 |
| United States | 36.0 | 63.6 | .39 |

Note: Enrolment data are for 2000. Expenditure data are for 1999 and refer to direct and indirect public and private expenditure on educational institutions.

Source: OECD 2002: 34.