

The Response of Government to the Economic Challenges Facing Canadians Closing Session

Remarks by Jim Lahey

K. Lynch Keith, thank you very much. That was excellent. Our third speaker is Mr. Jim Lahey. Jim is the Associate Deputy Minister for Human Resources Development Canada and the Vice-Chairperson of the Canada Employment Insurance Commission. Prior to that Jim served as the Deputy Secretary, Intergovernmental Policy in the Privy Council Office and prior to that he held a number of positions in the Human Resources Development Canada including Assistant Deputy Minister for Strategic Policy. He also was the co-chairperson of the Federal Government's Policy Research Initiative and has spent a lot of his time in the last couple of years on increasing the research capacity in the Government of Canada. Jim, welcome.

J. Lahey The only thing worse at a conference than being the first speaker is being the last speaker. Assuming that the Chairman means what he says about ending on time more or less, I shall have to be rather sketchy, so you'll forgive me. There are two points that I want to talk about briefly. The first one is that social infrastructure is critical to quality of life, both in itself and because of its impact on productivity and economic growth. And secondly, picking up the theme of institutions that is in Daniels' paper, in our federation the quality of social infrastructure depends importantly on constructive relationships between governments.

First, then on social infrastructure. Well, it's pretty obvious that an effective health care system, education system, crime free communities, etc., is almost by definition what you mean by quality of life. It's less obvious, but I think increasingly recognized, that there's in effect a feedback loop between the social and the economic domains. So much so that even economists, some economists, are starting to notice it. I refer to a paper by Robert Hall and Charles Jones of Stanford University, published in 1998 called "Why Do Some Countries Produce So Much More Output Per Worker Than Others". I really like that title. The quote is, "Differences in physical capital and educational attainment can only partly explain the variation in output per worker. At a deeper level differences in capital accumulation, productivity and therefore output per worker are driven by differences in institutions and government policies which we call social infrastructure."

Now, again I have to be brief, but it seems to me that the basic social and institutional infrastructure of society comprises the state, which creates a legal framework and provides certain programming and so on and that interacts with civil society, NGOs and communities, with firms and with

the family. Now the interaction of all of these yields what we could call social assets. An example is trust. If you have a society where trust prevails you can get things done. If you have a society where trust doesn't prevail you can't get things done. Physical safety, the health of the population, security of property rights, acceptance of change, networking capability, these are social assets. These social assets in turn contribute directly, it seems to me, to the capacity to accumulate human and physical capital and to the streamlining of our capacity to combine those for outputs of two types, both market outputs, straight production of goods and services, but also non-market outputs. And this in turn creates some degree of social cohesion, which then feeds back into the capacity to maintain and embellish the social and institutional infrastructure.

Now, with that as a backdrop, I can defer at least to one of the questions that were posed: what can government do. It seems to me that I would highlight, in the context of human capital in particular which has been mentioned by the other two speakers, the development of children and the development of skills and action to improve inclusion. Now I'm not going to go on about this in policy terms because there simply isn't time. However, I think it is becoming increasingly recognized that the development of children is not just something that starts when people get to school, it's something that starts much earlier on. It has to do (and there's a whole set of physical scientific literature around it), with the development of neurons and so on, which leads us to understand that it's critical that proper kinds of stimulation be available to children in their early years. And so this has investment implications for government, as well as for families obviously.

Secondly, in the area of skills, with all its warts we have a pretty good educational system in Canada that certainly churns out a lot of graduates. As I understand it, we produce more than anybody else proportionately. The problem though is that some of them don't actually learn that much and the literacy tests indicate that a significant portion of our graduates don't actually achieve the kind of literacy that you need to be effective. But secondly, of course, you have to keep learning. So this whole task of getting learning right in the first place and fixing our mistakes more effectively is an area where government needs to be involved as well.

And then thirdly. My former Minister, Pierre Pettigrew has stated recently an interesting point. Keith was talking about history and, in the old sort of Marxist context the workers were exploited and that was the bad thing. Well, in the modern world the problem which is worse, is to be excluded because we actually have the phenomenon of people who don't fit in the economy and in the society. So that's the other area which I think we need to address.

Now, what's the nature of the difference that governments can make? Well it seems to me that the basic thing that governments need to be trying to do is adopting policies which can make what I might call doing the right thing by individuals and firms and institutions easier. And so for example, in the National Child Benefit the aim is to assist people to be able to go into the labour market without having to penalize their children because they lose secondary benefits or they lose income associated with being on welfare. Or another example would be the provision of information in an accessible and useable form so that people can make intelligent choices, and so on.

So I'm going to stop there. But just to reiterate: the social infrastructure is critical in itself to quality of life as well as to improving the economic performance; in order to enhance that in the world that we're moving into it seems to me that selected emphasis in the areas of kids, skills and inclusion ought to be the priorities; and the way it should be done is not to substitute for the action of individuals, but to make it easier for individuals, families and firms to make the right choices.

So, moving onto the second point I wanted to discuss. I reiterate the point that in our federation, given the roles of the federal government and the provinces, being effective requires constructive relations between governments. Now, I understand that Professor Gilles Paquet yesterday basically was arguing that the social union framework agreement that was concluded by all but Quebec among the provinces and the federal government in February was a step backward because it would give the federal government the opportunity to "stick its nose" into more and more areas of social policy and that this was bad. Well I don't agree.

It seems to me in general that the argument that what we need to do is clarify roles and responsibilities and somehow or other create watertight compartments where it's really clear who's accountable for what and people get on with doing what is needed and we're all going to live happily ever after isn't realistic. Which isn't to say that we couldn't clean up our act in some areas. It's true that in some areas the two orders of government do have competing and overlapping programming which is confusing. Clearing that up would be in the public interest. But more generally, all aspects of policy are so interconnected that you can keep clarifying roles and responsibilities, but you keep running into areas of interaction. For example, it was said that the federal government should get out of manpower training, as it was called in the past, and the provinces should do that because they run the education system and they should run systems to improve skills as well. And so we'll clarify things and the provinces will do that and the federal government will get out. So that's a clarification, except that the federal government still runs the income-support system for unemployment insurance. And of course

there's a big connection between when you're on unemployment and when you need skills so there needs to be coordination. Well then, some people say, let's get the feds out of unemployment insurance. Let's put it together in the provinces that would all have their independent systems and so on and so forth and we'd clarify that. Well, once you do that you still have a problem because the federal government still runs the tax system, which affects everybody and it still runs the immigration system and as you see it's not so easy to make these watertight compartments. So, if you accept this logic it seems to me that trying to restructure, except at the margin, is essentially a diversion of energy.

What we need is to work on how to improve coherence. Now coherence doesn't mean uniformity. I think at the minimum coherence means the absence of contradiction. I mean we do have in our system instances where the 2 orders of government adopt policies which cancel each other out, both of them costing money. These are probably not good investments for either. It is good to benefit from the opportunities that federalism provides to have experimentation, variation among provinces and so forth. But it is critical to have some institutional support for coherence. And it's in that context that the social union framework agreement crystallizes some principles that I think can move us in the right direction. And very briefly, because I'm really in trouble now as it gets to 5:00, joint objective setting and priority setting is one of the underlying themes. The federal government and the provinces should try to agree on what should the priorities be, what should the objectives be. The idea of notice on both sides before taking action allows there to be adjustment, discussion, dialogue and reduce the probability of adopting contradictory policies. A recognition of the value of local variation on the hows as opposed to the whats offers increased effectiveness. And finally a focus on results and reporting on results publicly, learning from experience and accountability complete the basics. Obviously, the social union framework agreement in seven months hasn't proven itself yet, but I think it's a necessary step towards the kind of coherence we require in order to ensure that we have the social infrastructure which will allow us to improve our quality of life. Thank you.