

Viewpoint

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The Debate on Universality: A Missed Opportunity*

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This article addresses an issue that may unfortunately seem both serious and dry but I have chosen to discuss it because it is a subject of such vital importance that it cannot be ignored. The issue is the control and reduction of government spending. Speaking plainly, unless drastic measures are taken in the very near future, I believe we are headed straight for disaster.

Given the growth in size and number of government programs, I could address the issue in a variety of ways. However, because of the role I was called upon to play in the past in the social affairs sector, I will restrict myself to an analysis of certain aspects of the major social programs. In any case, it is not possible to discuss a reduction in public spending with any credibility without addressing the issue of social programs, as the costs of these programs are so high.

Most of this discussion will deal with federal programs, not because the deficits of the provincial governments are any less worrisome but because, for several reasons, it is up to the federal government to take the initiative. If the initiative is to be successful, however, the governments of the provinces must be willing to co-operate.

To begin, let us look back at certain aspects of the creation of the major Canadian social programs. For a fuller understanding of the current situation, it is also necessary to highlight some of the fundamental changes which took place at the end of the 1970s and the beginning of the 1980s.

The Establishment of the Social Programs

In the period following the end of the Second World War, the federal and provincial governments established a wide range of social programs which today account for a major portion of their budgets. The Family Allowance Programme appeared in the mid-1940s. Then, at the beginning of the 1950s, the federal government introduced its Old Age Pension Programme. Both programs are universal and involve spending by the federal government. In the 1960s two

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major social initiatives were developed as cost-sharing programs between the federal and the provincial governments: the hospital insurance and health insurance plans. Finally, in the 1970s various job-creation programs and a major modification of the Unemployment Insurance Programme (which became more accessible and much more generous) were introduced.

One of the major characteristics of these programs is their universality. The federal government and, in the case of the cost-sharing programs, the provinces, adopted a common philosophy: social programs would be made available to all citizens without distinction. They adhered to the fundamental principle that every citizen was entitled to a certain basic level of services that were considered essential. The former “means tests” were abandoned and no systems for verifying either need or eligibility were set up.

These decisions were based on principles of social justice and equality but this philosophy also enabled major programs to be set up without the development of a large bureaucracy to control them. Program administration was simplified and, from the outset, these basic services were set up with a minimum of friction between the people and their governments.

Universality was adopted to ensure that, for example, the average citizen would not be “ruined” by hospital or health-care-related debts following a disaster such as a major illness. The universal social programs were designed to provide a system of public insurance which would reduce the financial consequences of misfortunes such as illness or unemployment and provide citizens with such essential services as education. Because of the sharply progressive personal income tax rates, individuals earning higher incomes would, and do, pay significantly more for these programs.

All surveys indicate that the principles on which universality was based continue to be acceptable to the large majority of Canadians. However, we must recognize that the context has changed significantly and that certain questions can, and must, be asked about the social services provided by the government. A review of our social history from the early 1950s (when the major social programs were put in place) to the middle of the 1970s shows us that:

- During this period we experienced almost uninterrupted economic growth and relative price stability, so that the cost of new programs could be readily absorbed by rising government revenues. Governments even had a certain amount of room to manoeuvre so they could increase their revenues without seriously affecting economic growth.
- In an economic climate of abundance and growth, the accent was on universality. There seemed no need to even consider how services could be reduced. Furthermore, no one could, or did, foresee the direction that labour relations would take in the public and parapublic sectors or the extent to which they would influence service distribution modes and production costs.

- Finally, while social programs were intended, from the beginning, to provide a number of essential services to all citizens, no one foresaw that government involvement in health care and other services would, under the impetus of elected governments and pressure from the public, lead to an across-the-board broadening of the range of services offered by the two levels of government.

The Turbulence of the 1970s and the Recession of 1982

The 1970s were marked by a definite slowdown in economic growth and a rapid rise in inflation. There was vigorous economic growth between 1971 and 1974. Then, in 1975, the first shock waves of the energy crisis produced one of the worst recessions the country had experienced since the end of the last war. This recession marked the shift from a high-growth economy to an economy reeling under the double handicap of slow growth and high inflation (stagflation).

Thus, while production had increased annually by more than five per cent in real terms in the early 1970s, it declined, during the second half of the decade, to an annual increase of only 2.8 per cent. At the same time, the average inflation rate rose from 4.6 per cent to 9.1 per cent.

This transition from a growth economy to a stagflation economy soon began to have an impact on the financial equilibrium of Canadian governments. In 1974, the federal government had indexed personal income taxes in such a way as to prevent the tax burden from increasing too rapidly merely because of inflation. This measure was desirable both for taxpayers and the economy. However, the economic slowdown and the indexing of personal income taxes should have been accompanied by firm control by the government of its own spending practices to avoid the creation of an ever-widening gap between revenues and expenditures. Unfortunately, expenses were not very strictly controlled and the federal deficit rose steadily between 1975 and 1980.

An examination of just a few statistics reveals the emerging financial problems of the federal government. For example, in 1973, as amazing as it may now seem, the federal government had a surplus of \$176 million. In 1975, the \$1.7 billion cumulative deficit represented less than one per cent of the country's GNP. By 1979, the deficit had risen spectacularly to \$12.2 billion, or 4.6 per cent of the GNP. This was the first time in Canadian history that expenditures had been permitted to outdistance revenues so dramatically.

Social spending, including so-called "health and welfare" expenses, (family allowance, old age pension, health care, welfare, etc.) which had accounted for 30 per cent of total federal expenditures in 1970, increased to 36 per cent by the end of the decade and although government revenues increased by 60 per cent between 1974 and 1979, social spending during the same period rose by 104 per cent.

Thus, the federal government entered the 1980s in a difficult financial situation. Even before the major recession of 1982, it was widely felt that the federal

government should put its financial house in order as it no longer had room to manoeuvre. In 1981, the inflation rate reached alarming new peaks. Wages rose faster than productivity and the imbalance threatened to compromise seriously Canada's ability to compete in world markets. To halt this inflationary spiral, the government resorted to a drastic tightening of monetary policy. The objective was largely achieved but, as we now know, at the cost of the most severe recession of the postwar period.

This recession, which so profoundly modified economic trends, caused an even greater imbalance in the public finances of Canada. As a result, between 1981 and 1984, social spending rose by 37 per cent with no corresponding increase in revenues.

Even these few statistics show clearly that we are rushing at full speed towards a catastrophe unless active measures to control and reduce public spending are adopted in the very near future.

In the United States, the deficit issue has become a major concern of all sectors of society, yet their deficit amounts to only 3.5 per cent of their GNP. Furthermore, the recovery has been much more vigorous in the United States than in Canada; the labour market is much healthier (the unemployment rate hovers around seven per cent); and their taxation rate is considerably lower than ours.

In contrast, after more than two years of recovery, our unemployment rate remains above 10 per cent as compared to seven per cent in June 1981. Between the peak of expansion in 1981 and the beginning of 1985, only 69,000 new jobs were created in the Canadian economy. Most of the jobs created during our recovery period have merely replaced those lost during the recession.

Obviously, because of the financial burden imposed by the major increase in the deficit, the Canadian economy has been unable to create enough jobs to bring the rate of unemployment down to its pre-recession level. The unpleasant truth is that we now have, in Canada, record deficits and record unemployment levels. Clearly, this situation has demonstrated that, in the current economic climate, a high level of public spending does not lead to a reduction in unemployment; it has had just the opposite effect.

We must now face reality and acknowledge that the size of the government deficit is largely responsible for the high real interest rates plaguing the Canadian economy. We must acknowledge that the growth of demand is being significantly slowed down by the heavy tax burden borne by Canadian households. *No matter how we look at the problem, the conclusion is the same: a major review of government spending is necessary if we are to find ways to lessen its negative impact on the economy.*

A thorough reassessment of all government spending will be required if we are to reduce the deficit without increasing the already crippling tax burden borne by individuals and businesses. That reduction must occur, not only for the reasons

I have cited, but because the lower taxes, reduced trends in public spending and prospects for tax reform in the United States are producing a more favourable economic climate there. Needless to say, the more favourable the economic climate becomes south of the border, the more likely it is that our own situation will worsen if we do not act to improve the economic climate here.

We must, therefore, ask ourselves whether the various spending programs introduced over the past 30 years are still truly necessary or appropriate in their present form. Clearly we can no longer afford all these expenditures, *a certain number of programs must be abandoned*. However, a reduction of the deficit does not merely imply the elimination of certain expenses. A thorough examination of *the way in which services or benefits are provided* is also necessary.

As I have stated, all government expenditures, including those related to international affairs, must be reviewed. This is the mandate of a committee set up under the chairmanship of Deputy Prime Minister Erik Nielson and we must hope, not only that this committee will not neglect a single aspect of that mandate, but that the government will have the will to act on the committee's report when it is submitted.

Because social expenditures account for more than a third of all federal spending, a review of these expenses must be a major part of the deficit-reduction exercise. Last fall's debate on the universality of social programs was a recognition of this reality. Unfortunately that debate was a failure, but it will be necessary to come back to this issue.

The debate did, however, make it clear that our political leaders are afraid to inform the public fully about the realities we face. For example, the opposition and the press were quick to denounce the fact that the middle class might be adversely affected by the changes under consideration, and the government immediately backed down. Yet the problem remains and we must face the fact that the measures required to reduce spending will necessarily affect the vast majority of us, whether we like it or not.

I believe, however, that it is still possible to reduce the financial effects of social spending without necessarily abandoning the principle of universality. Certainly, it is desirable, for a variety of good reasons, to retain the principle of accessibility to most social programs. Let us examine how these two objectives might be achieved in each of the three broad categories of programs.

Flat-Rate Cash Benefits

In the case of flat-rate cash benefit programs (family allowance, old age pension), it is possible to achieve a substantial reduction in costs without subjecting people to a means test. Moreover, in my opinion, such a test is undesirable both as a matter of principle and because it would inevitably lead to abuse and to a burden on the bureaucracy which would reduce any financial gain that might otherwise be achieved.

Rather than abandoning the universality of these programs, it would be prefer-

able to increase the progressive individual tax rates applicable to the benefits received. Since these benefits are already taxable, all that needs to be done to reduce the net cost of the programs would be to raise the applicable tax rates. Given the present low rate of inflation, this would also be an appropriate time to eliminate the indexing of benefits. (And, as an aside, the indexing of civil service pensions should be eliminated at the same time.) There is no justification whatsoever for indexing payments from the public purse.

Health Services

Maintaining accessibility also seems to me to be a fundamental principle that should apply to health care services. There has been much talk about "user" fees for these services. Quite aside from the difficulty and expense of collecting such fees, a reduction in the costs incurred by the few abusers of the present system would not make a substantial difference to the total budget. Nor is it possible to recover substantial amounts through progressive taxation.

The following proposals for reducing health program costs are based on the premise that it is possible to change the product offered without undue public hardship while continuing to provide the basic services. Consideration of such new proposals becomes even more necessary when we remember that our aging population trends will increase the demand for services and add to the already obvious pressures on the system.

Modifying the Methods of Production

1. The management of human and other resources will now have to take into account to a greater extent basic economic principles. In an era of tightened budgets, we cannot afford duplication of the same human resources and sophisticated equipment in a number of institutions serving the same population. A much greater degree of rationalization is required.

Institutions serving any given population will have to become more specialized so that we no longer support competition between institutions, each trying to offer the broadest possible range of services to the public. Clear political directives will be imperative for this process of rationalization. For example, it will not be sufficient to force hospitals to reduce their overall budgets, some will have to close down entire departments and become more specialized in other areas. Transitions like this should be made slowly but surely and I believe such restructuring could be accomplished without major inconvenience to the public.

The whole question of labour relations in the health care sector needs close examination. In the 1960s and 1970s, labour relations principles derived from industrial practices of the 1950s were applied to the health care sector, even though they were clearly unsuited to the production of health services. Through collective labour agreements, excessive rigidity has been introduced into the health care production systems. This rigidity makes the economic management of personnel and the flexible allocation of available resources virtually impos-

sible. As is the case in factories, each task is strictly defined, and employees assigned to a certain task are forbidden by the collective agreement to perform another task, even if they are qualified to do so and have the time. This system of employee allocation has forced institutions to increase the number of jobs so as to compensate for their lack of flexibility. As a result, the ratio of total payroll to services rendered has risen significantly without a corresponding increase in services. (It might be useful to point out here that hospital costs account for the largest part of health care expenditures.)

Under present conditions, it is simply not enough to reduce or cut total budgets within health care institutions without a thorough re-examination of the way in which health services are produced. Current complaints that budget cuts in the hospital sector have led to lower standards of service should not surprise us since the rigid system of staff allocation has not been altered. By rationalizing the production of health care services, the government should be able to save money without reducing the basic level of services, providing proper personnel management can be achieved.

2. Further savings are possible if we apply the “contracting-out” principle to the production of health services. At the present time, most of our health services are seen as public services. This approach was originally based on the principle that health services could be produced as efficiently by the public sector as by the private sector. We have since learned, with numerous examples to prove it, that the government, and public agencies generally, are rather inefficient producers. In fact, the whole rigid system of collective agreements with its multiplication of rigidly defined jobs or tasks was only possible in an environment sheltered from competition. We should, therefore, identify all the hospital-related services which could be turned over to private enterprise and begin putting them out for tenders as soon as possible.

3. The development of necessary resources and equipment could be improved by allowing and encouraging the private sector to build and administer certain types of institutions.

It is a well-known fact that the number of chronically ill patients and people requiring nursing home accommodation is rising rapidly as the population ages and advances in medical technology are made. The lack of appropriate resources is such that many of those requiring only palliative care remain in general active treatment hospitals, placing increasing pressure on the hospital system and leading to needlessly high costs.

It has been clearly demonstrated in the United States and in other provinces in Canada that the private sector is capable of developing highly adequate resources to meet a large part of the needs of the elderly and the chronically ill. To achieve this objective, there should be a revision of existing legislation and regulations and tax incentives should be used to stimulate the development of private services.

In summary, this new approach to health services management would be based on:

- imposed production systems which would increase productivity;
- modified collective agreements which would take into account the types of services rendered; and
- the transfer of responsibility for the production of certain services and the development and management of certain types of establishment to the private sector.

This new approach will most certainly be met by a great deal of resistance from labour unions. However, as we have seen elsewhere, when there is a crisis, labour unions can, and do, revise their thinking. In any event, the suggested reforms are in the best interest of union members as well as all other Canadians.

Programs for Specific Groups

Programs such as the guaranteed income supplement and unemployment insurance benefits must also be reviewed. Certainly, the underlying principles on which these programs are based remain valid: we must continue to provide assistance to the aged who are in need and we must also maintain a basic level of income for workers who are truly unable to find employment.

However, during the last decade, I believe these programs have given rise to abuses that were surely not foreseen by legislators at the time they were created. Their eligibility requirements and the way in which they are administered have to be thoroughly reviewed.

The increase in unemployment and welfare benefits paid out over the years plainly illustrates the need for review. For example, in 1973 the federal government paid out \$2.1 billion in unemployment insurance benefits. In 1983, this figure had risen to approximately \$11 billion!

The increased generosity of the unemployment insurance system has obviously diminished the incentive for unemployed people to look for work. The fact that after-tax wages are sometimes only slightly higher than unemployment insurance benefits is obviously a problem. A White Paper produced by the Quebec government examined this disincentive with respect to welfare payments; the federal government should address this issue with respect to unemployment insurance. We should also keep in mind that the societal model on which the legislation pertaining to unemployment insurance, welfare and income supplement programs was based was the family with a single breadwinner. This model has undergone some profound changes.

Finally, easy access to unemployment insurance has led some workers to develop attitudes at variance with the original objectives of the program. Cases have been reported of people working just long enough to qualify for unemploy-

ment insurance benefits, then withdrawing from the labour force and drawing benefits as if they were taking “short-term retirement” or on extended holiday. In this respect, even the provincial governments have not always set a good example when, for example, they have created second-rate job programs that have as one of their aims the employment of workers just long enough for them to qualify for unemployment benefits.

Our current budgetary difficulties show clearly that these abuses must cease. The eligibility requirements under the unemployment insurance program must be tightened. In addition, the relationship between taxation and unemployment insurance and welfare programs must be reviewed with a view to increasing the incentive to work. In fact, one of the main objectives of a reevaluation of these programs should be to create a strong incentive to work. In this way, they would again achieve the social objective for which they were created, that is, the protection of workers against involuntary loss of employment.

Some people will say, “this is all very well, but there are not enough jobs for everybody”. In my opinion, this argument is not only false but dangerous. We have surely not yet attained the ultimate quality of life in Canada. There are all sorts of needs and desires which are not adequately satisfied. There are considerable differences among regional standards of living. I believe there are plenty of opportunities and an enormous potential for job creation.

Job Creation Programs

Which brings us to the consideration of government job creation programs. These programs began to appear in the early 1970s. Instead of following the traditional Keynesian policy of stimulating overall demand so that the market would create more jobs, the state intervened directly to “create jobs” through direct spending programs.

According to the first budget speeches made at the time this concept appeared, these programs were intended to be purely temporary. Their cost was not supposed to be a recurrent item in the government’s financial obligations. In practice, however, this has not been the case .

The expectations and public pressure created by these programs, their high political visibility, the subsequent slowdown in economic growth and a certain lack of imagination or unwillingness to adopt the policies which are necessary to reduce unemployment, transformed these temporary expenses into recurrent obligations. From a figure of about \$100 million spent by the federal government for job creation programs in 1972, the cost has risen progressively to the current level of more than \$1 billion.

These programs have sometimes been called “disguised welfare programs”. This description may be exaggerated. It must be recognized that more than money is received. The workers, particularly the young ones, who participate in these programs may sometimes be enabled to upgrade their skills or, at least, retain their self-confidence. However, it must also be recognized that these

programs are not a real solution to the unemployment problem. Jobs created from “scratch” add nothing to the economy’s production potential and are purely temporary in nature. In fact, the borrowing or taxation required to cover the cost of these job creation programs may contribute to a reduction in private spending and, thus, to a reduction in permanent jobs and taxable revenues in the private sector.

Governments should, therefore, gradually withdraw from their present job creation programs so as to reduce the level of public spending and allow the private sector to resume its responsibility for creating jobs as a result of profitable economic activity.

The Debate on Universality: A Missed Opportunity

This article has focussed on the necessity for reducing the level of social expenditures. However, I would like to stress once again that what is required is a very thorough reassessment of *all* public spending so as to reduce the burden of government expenditures in Canada.

In summary, the reduction of government deficits necessarily involves a re-examination of the role of the state in our economy since I believe the state has now become a burden on the economy, rather than a generator of economic activity. The kind of reassessment and reduction in spending I have described cannot be achieved without hurting anybody and most sectors of society will be adversely affected. However, if properly planned and managed, the transition can be accomplished fairly and without undue disturbances. The people should be clearly informed about the problem, and the necessity for action and while this will require a high degree of political will I believe that if it is done with candour and skill, it could even be politically profitable.

The debate on social programs must be reopened while this time avoiding the politically sensitive issue of universality and concentrating instead on the achievable reviews and reforms I have outlined. Time is running out!