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The "Dance Of The Deficit" And The Real World Of Wealth: Re-Thinking Economic Management For Social Purpose

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Francis G. Winspear, whose gift to the University of Victoria made possible creation of the Francis G. Winspear Chair for Research in Public Policy, began his independent professional career on the basis of innovative ideas about accounting procedures for better identification of cost and value in production activities. He extended these ideas throughout a business life directed toward creation of increased value through reorganization of producing enterprises, particularly in the resource-based economy of Western Canada. The fruits of this work he then re-directed towards strengthening the educational and cultural institutions of the society in which he lives.

This present paper, dedicated to Francis Winspear, is written in the hope of encouraging similar innovative thinking about the foundations of value and wealth in an increasingly knowledge-based global service economy. It is drawn from a longer working paper in preparation with Kim Balfour, whose work on the project was supported by the National Forum on Family Security. Helpful criticisms and encouraging comments by Bruce Kennedy, Carol Matthews, Michael Prince, Brian Scarfe and Tom Shoyama on a much earlier draft are gratefully acknowledged. Responsibility for views expressed and any remaining errors rests solely with the author.

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TABLE OF CONTENTS

THE "DANCE OF THE DEFICIT" AND THE REAL WORLD OF WEALTH: RETHINKING ECONOMIC MANAGEMENT FOR SOCIAL PURPOSE

INTRODUCTION:

". . . the State would acknowledge the duty to maintain individuals and their children at all times, and to ensure for them the necessities of a healthy life. Individuals, in their turn, would acknowledge it to be their duty to devote their best efforts to the production of the wealth whereby alone the welfare of the community can be maintained." [Rhys Williams, 1943, p. 145, cited in Atkinson (1993). Amended from original to gender-neutral language.]

In this paper, we survey briefly the argument that a welfare system founded substantially on a central government commitment to a policy of continuing full employment is no longer plausible, and conclude, with others, that the evidence is persuasive. Something better is needed as a framework for social policy. Fifty years after the last major reformulation of the welfare system, and two hundred years after the main principles of our present market economy were articulated and the sources of national wealth (as seen at that time) documented, it is time to rethink what an appropriate social or institutional response might be to the challenges of the economic world as we now understand it.

The key point is that the forms of wealth or capital central to the knowledge-based, innovation-driven service economy and global information society in which we now live go far beyond raw labour and financial or physical capital: they include skills, knowledge, information and intellectual property; institutional, social and cultural capital[1]; and ecological or natural capital. The creation of wealth in fact rests fundamentally on the increase of social and natural capital. It is the claim of this paper that these are the crucial investments our society must make in the current and coming decades. Yet our commercial institutions and our accounting systems lead us astray: we count as "unproductive"--as contributing to deficits--almost all the investments we make for these purposes.

The evidence is now conclusive that we must view the economy more broadly than does conventional economic analysis. Economic mechanisms must be seen as set within the structure of social institutions (including family, household, voluntary sector and civil society generally) within which much of the work of society is conducted--but not in any formal paid fashion that brings it into market transactions or economic accounts. Recognition of this broader concept of work extends economic decisions into a public or social sphere, and underlines the importance for economic performance of relationships and investment decisions in this realm. The "economically inactive" should not continue to be "policy-irrelevant".

It is also becoming both clear and widely accepted that the ultimate foundation for economic performance is established by the natural systems of the biosphere, and that to understand economic performance and assure a competitive economy we must extend economic reasoning to take into account the ecological systems and underlying resources on which all material well-being is finally based. Thus we have to see the economy within its social framework, and this as set in turn within the ecological systems which surround us. Some--for example, Quinn (1992) or Wilson (1992)--would argue for going much further, to see our interests as a species as set within the co-evolutionary processes governing life as a whole.

In particular, the argument of this paper is that our concept of social support should be based on a social contract, not social insurance. The creation of a social contract, it is argued, is not an act of charity born of compassion, but a necessary investment in a market economy which can support internationally competitive enterprises. It is thus an investment born of enlightened self-interest for the community as a whole. The social contract we envisage assures a basic income paid as an economic return to all citizens for two reasons: first, as participants in productive social networks and active contributors to social wealth creation; and, second, as owners of the social capital, represented by social networks and community knowledge, and of the scarce natural capital, represented by the ecological commons, which together form the foundation for market activity. The affordability of the social contract emerges partly from essential repricing of the services of those resources; partly as a result of the revised conceptual framework which will result from better bookkeeping; and partly simply as a recognition that we who are comfortable are going to have to pay something for an essential social commitment that goes beyond simply an insistence on individual responsibility for individual well-being.

The balance of this paper outlines three groundswells in the social and economic world which dramatically alter the context in which welfare provisions must operate: labour market restructuring, our approach to ecological carrying capacity, and the emergence of a networked, increasingly global, civil society. In light of these transformations, a reorientation of social policy towards sharing the costs of economic adaptation and pooling the risks of adjustment in an innovation-driven society, one which is buffeted by storms of change in a large, growing and increasingly integrated global economy pressing against ecological limits, seems essential. Specifically, this paper argues again for a guaranteed annual income, or basic income. This idea, not new then, was widely discussed in the 1960's, when growing problems of poverty amidst plenty began to be widely debated. It was almost embraced in Canada in the mid-1970's, when labour market problems began to appear as enduring rather than simply cyclical concerns; and saw a resurgence in the mid-1980's, when the structural difficulties of a polarized labour market and inequalities in income distribution associated with the transition toward a knowledge-based service economy began to be evident. (See Wolfson, 1986; Atkinson, 1993.)

A brief review of the evidence suggests that some integrated tax-transfer scheme offering a reasonable assured minimum income to all citizens is feasible, and that it is possible to finance the necessary outlays--in part by shifting some of the present tax burden from income to consumption through the repricing of ecological resources. For this writer, at least, the implied balance of responsibilities amongst governments and other organizations, relying largely on markets but increasingly on voluntary organizations and quasi-market mechanisms, seems plausible; the relationship is consistent with what we need to do in any case in pursuit of ecological and social sustainability. Perhaps the problems are now sufficiently severe, and the urgency sufficiently widely recognized, as to generate the political will to overcome the predictable resistance of the organizations--academic, professional, bureaucratic and union--which will strive mightily to protect privileged positions against any such obligation to share in the adjustment costs of an innovative, adaptive, and open economy.

None of this is new, but it seems we still have a very long way to go in facing up to the consequences of these technological developments and maturing social movements for the way we approach economic decisions.

NEW WORLD, NEW CIRCUMSTANCES

I. Economic change and labour market restructuring

"We are suffering, not from the rheumatics of old age, but from the growing-pains of over-rapid changes, from the painfulness of readjustment between one economic period and another." [Keynes, 1930, p.358, cited in Cordell (1985)]

The story of our changing economy, centered on processes of endogenous technological change and the diffusions of ideas, knowledge and innovation, and the impacts of such changes on skill requirements, has been rehearsed in many places. Lipsey (1993) offers a wide-ranging account of the forces underlying contemporary economic transformations. Osberg, Wolfe and Baumol (1989) explore some implications for labour markets. Evidence that the move toward a knowledge-based economy is increasing labour market polarization is itself increasing (Morissette et al, 1993). In addition, the degree of inequality in the distribution of primary incomes or overall earnings is increasing, and only partially offset by transfers. (Wolfson, 1993; Beach and Slotsve, 1994.) The problems of long-term unemployment associated with older workers and unskilled younger workers seems likely to grow and to aggravate further these trends.

Galbraith (1994) recently suggested that "there should be no doubt that our expectations, or perhaps more accurately, our habits of mind, exceed reality. We have to face the fact that substantial unemployment is normal." In 1930, Keynes anticipated unemployment as the result of the immense productivity increases caused by technological developments. Yet as the British White Paper (1945), United States Employment Act (1946) and Canada's White Paper (1946) made clear, western governments felt that it was their responsibility to assure full employment in the post-war world. In 1994, after nearly 50 years of bruising social and economic change, the Organization for Economic Co-operation and Development (OECD) takes a somewhat less presumptuous view and advises that there is no single recipe for full employment, but rather "a menu of measures that can help move OECD economies towards higher employment with good jobs." [OECD, 1994] It is the OECD's contention that high unemployment is the direct result of the inability of economies and societies to adjust and adapt to rapid change.

One of the difficulties for most modern economies is that their insurance-based models of social security, which assume that something close to full employment will normally prevail, actually hinder the adaptation to change which is so desperately needed for economic and social survival in a post-industrial world. The current concept of social insurance assumes steady economic growth and assured prospects for full employment in the formal labour force. It functions best in a society where there are numerous and relatively prosperous employed earners; where income inadequacies arise primarily from short-term interruption to earnings; and where entitlement is related to previous contributions and contingency rather than income. The percentage of unemployed people receiving social insurance in most OECD countries has decreased sharply since the 1960's, a result directly attributable to new contingencies not recognized by the traditional social insurance model. These include long term unemployment, sustained youth unemployment, the growth of non-standard employment, and the tightening of contribution requirements--attributable in large measure to the social learning on the part of both employees and employers that enables the individual production costs associated with fluctuating demand for labour to be shifted to the collective pool. Furthermore, with the growth of employer-provided benefits and pensions, as well as private income among the elderly, the original contingencies of old age, illness, death of the breadwinner or unemployment are no longer automatic determinants of need.

It is estimated (OECD, 1994) that there are 35 million people unemployed in OECD countries and that another 15 million have either given up looking for work or have unwillingly accepted part-time work. The link between work and wages as the basic mode of income distribution is clearly inadequate for most modern economies. People continue to define their social role primarily in terms of participation in production, and to derive substantial self-esteem and meaning from work. But the range of productive work far exceeds the range of employment, and a new social contract must recognize a broader concept of contribution; it must include income from both formal and informal work and benefits that are not contingent solely upon participation in the formal labour market.[2] Lerner (1994) surveys these issues and possible policy responses in some detail.

In a prescient analysis, Rotstein (1984) makes a case for government policies that support the informal economy. He argues that the three primary forms of economic activity--reciprocity, redistribution and market exchange--all take place in the informal economy. To the extent that redistribution in the formal economy has been taken over by the state, and that the current welfare state is only viable within the context of stable, decently paid jobs, Rotstein questions our dependence on market networks to the exclusion of other forms of exchange. "It is precisely the ability of informal networks to identify and address new social and economic needs outside a formal, price and cash-oriented context that makes possible the creation of new circuits of production and consumption. These networks coexist with and feed into the formal market. The informal economy can thus serve as the source of a series of potential new economic activities upon which policymakers can draw to supplement and expand the number of registered and wage-remunerated employment opportunities." It is also worth noting that it is in the activities of this "third sector" that the comparative advantage of humans over machines in dealing with variety and situational complexity, as Nakamura and Lawrence (1994) describe, is likely to have its greatest impact in increased employment.

II. Sustainability and the Full World Economy

"The evolution of the human economy has passed from an era in which man-made capital represented the limiting factor in economic development (an "empty" world) to an era in which increasingly scarce natural capital has taken its place (a "full" world)....But few until now have recognized that we have not only reached an economic turning point, we have passed it." (Daly, 1993, p 79-80)

The publication of the World Conservation Strategy (1980) introduced an emphasis on sustainability as a key feature in public policymaking. Work in environmental economics has since argued for much broader acceptance of methods to integrate environmental considerations in economic decisions, by pricing resources and ecological services more appropriately. But that, although it represents important progress, still has the basic relationships backwards. Ecological economics, by contrast, integrates economic decisions within broader recognition of social institutions, and sets all those within the framework of the biosphere, the network of natural dynamics which forms the life-support system for humanity.

The failures of price systems, financial accounting systems and systems of national accounts to capture essential features of transactions involving natural capital or environmental amenities are widely recognized (Pearce et al, 1989; Wolfson, 1994b, 1995). So is the necessity of correcting flawed markets with fiscal instruments like "green taxes", or creating new markets for trading in new property rights, or implementing "polluter pay principles" of the sort advocated by the OECD since the early 1970's. Such measures are now seen as essential to correct otherwise misleading market signals and misinformed economic decisions (Hawken, 1993). Kennedy (1989) anticipates much of the central argument of this paper in emphasizing the importance of public assets in attempts to achieve real reform in income security. Beyond the simple correction of market calculations and social performance indicators, some more profound restructuring of social decision-making is also occurring with the attempt to find consultative procedures and processes of shared decision-making designed to assure adequate preservation and renewal of scarce natural capital (CORE, 1994).

What these developments mean for public policy is that, along with investment in social infrastructure to assure opportunities for individual participation in useful social roles, public investment activity designed to protect or restore the foundation of natural capital on which the economy rests is also a critical infrastructure investment--a key investment in a productive resource base. The consequence, which has perhaps not yet been fully recognized, is that there must be dramatic adaptation of markets and production structures to more informed recognition of these costs through the widespread introduction of user charges and "green taxes". While these attempts at repricing are designed primarily to improve market information, they do offer new revenue sources as well. These revenues can be earmarked to employ large numbers of people in the work of conservation, preservation and adaptation of the economy to the massive structural changes which must follow when the repricing and revaluation necessary in the pursuit of sustainable development is more properly reflected throughout the price system and in market mechanisms generally.

The transition to a "full" world, one that is feeling the pressure on limits to carrying capacity, reflects the scale problems arising from both global population growth, primarily in the "South", and intensive consumption and production activity, primarily in the "North". As natural capital becomes scarce, it must be priced and rationed in production; its value must be accounted for in wealth estimates and national accounts, and the incomes generated by its use must flow to its owners. The owners of these resources are the citizens of the nation, who share in the returns to the resource as a matter of right, based on market relationships--as dividends to wealth holders, not as a matter of redistribution.. This profound transformation in pricing mechanisms and production structures necessary when the role of natural capital is recognized as one factor leading to a radical revision of the conceptual bases for a minimum participation income.

Concepts of wealth creation and the sort of work which represents wealth creation thus have to be substantially broadened. A conservation corps, for example, or habitat improvement activities, which might never pass a standard test of commercial viability to the satisfaction of local bankers, nevertheless have to be recognized as wealth-creating. High rates of return on forest ventures that rest on practices which destroy salmon habitat and erode forest lands, or profitable fishing ventures harnessing technologies that strip the seabed but utilize only minuscule proportions of a massive by-catch, must, on the other hand, be seen as wealth-destroying. With this broader notion of wealth creation, we are in a position to see participation in the economy, and contribution to society, in a wide range of activities contributing to the sustainability and increase of ecological, human and social capital.

III. Re-emergence of Civil Society: Home Realm of the New Social Capital

"Institution-building, collective action, co-operation, and social learning towards a new environmental ethic are some of the ways in which social self-organization may help us adapt rapidly enough to meet the constraints of sustainability. We can use the great creative activity of the current energy-rich world and the pervasive information network to find 'a prosperous way down' to sustainable steady-state societies." [Berkes and Folke, 1994, pp.145-6.]

Liberal democracy has always required the existence of a third realm, independent of the market and state, to act on behalf of community and societal interests. Historically, it has not been treated as a system because of its lack of a strong, unique form of organization equivalent to the hierarchical institutions of government or the competitive markets of the economy. However, information technologies and related innovations in management and administration are enabling the network form of organization to gain strength.

In a provocative recent paper Ronfeldt and Thorup (1993) argue that the advent of information technologies has led to the erosion of hierarchy, diffusion of power, blurring of boundaries and opening up of closed systems, all of which combine to challenge the supremacy and efficiency of both government institutions and atomized markets, while at the same time increasing the power and effectiveness of informal social and economic networks. The information revolution is making it possible for many previously small, weak and isolated actors to communicate, consult and co-ordinate with one another as never before. This trend heralds the transformation of society into a more complex, interconnected structure--a multi-organizational network--resulting in a new balance of power among the state, market and civil society. This will in itself force greater attention to the real importance of non-market activity and non-profit institutions, and will have significant impact on the way economic decisions are made (Dorais, 1995).

Some implications for policymakers are clear. First, they can expect an explosive growth of activity in the realm of civil society across North America, with opportunities for co-operation, competition and conflict in and among the state, market and civil society. Second, they can expect an increase in public and citizen diplomacy with the need to rethink and reorganize the interface between government and civil society at all levels. And finally, the integration of civil societies as well as markets will require governments to develop new criteria for successful international relations, embedding trade and commercial relations more explicitly within international commitments on environmental and social principles.

More concretely, however, these developments underline the importance of the cultural or social (institutional) capital within which productive activity is organized. As Ostrom (1992) points out, the development of social networks, and the rules and understandings on which they operate, are themselves critical to production. This social wealth has measurable economic value. The skills and knowledge which are widely acknowledged as key to future prosperity are exercised within the framework of this institutional capital or social infrastructure. It is this collective institutional capital--the capacity to build and effectively utilize individual skills and knowledge--that forms the basis of the wealth of nations or regions. And it is this social or cultural capital that determines whether the critical interface of our human activities with our natural home--the biosphere--will be effectively managed. In a widely-cited recent book, Putnam et al (1992) make a similar point on the basis of work on government, civil society and economic develoment in Italy. And again, in the world of evolutionary economics, with the heavy emphasis on institutional aspects of the innovation process suggested, for example, by the perspective offered by Miller (1994), the significance of social capital in determining the effectiveness of investment in innovation and learning seems evident.

Ostrom (1992) observes that "if human operators do not follow regular patterns of behaviour that are expected and understood by others, especially system users, the potential flow of income from the physical [and human, natural and intellectual] capital will be severely impaired or even eliminated." The same holds true in relations among institutions at the level of a market as a whole. She also notes that "all forms of social capital involve spending resources--at least time and energy--in conducting transactions with others." This expenditure results in the build-up of a stock of accumulated investment that yields an income flow attributable, in principle, to that capital. That stock is not infinite; it needs constant replenishment, and losses may be irreversible.

RETHINKING SOCIAL POLICY: THE NEW SOCIAL CONTRACT

"The bureaucratized transfer of income among strangers has freed each of us from the enslavement of gift relations. Yet if the welfare state does serve the needs of freedom, it does not serve the needs of solidarity. We remain a society of strangers." [Ignatieff, 1984, pp.18]

In 1930, Keynes predicted that society would probably experience a type of nervous breakdown in adjusting to rapid technological change and globalization. "I think with dread of the readjustment of the habits and instincts of the ordinary man, bred into him for countless generations, which he may be asked to discard within a few decades." [Keynes, cited in Cordell (1985)] A high degree of social consensus will be needed to move forward with the necessary changes. Some people will have particular difficulty in making these changes. Yet by excluding those slower to adapt, or precluded by circumstances from doing so, mainstream society risks creating social tensions that could carry a high human and economic cost for all. Refusal to share the costs of adjustment broadly forces persistent recourse to all the work rules and rigidities that impede necessary adaptation. By refusing to address human security we force an obsolete clinging to job security throughout an economy that should be more flexible.

The foundation of a social contract provides the security from which risks of economic competition can be more readily assumed, individually and collectively. The pooling of risks through social insurance, social assistance, or regional adjustment is the natural response of any community observing the problems individuals face in adapting to changing circumstances. This bargain entails accepting the need for social investment in human capital formation, in institution building, and in restoration and preservation of renewable resources as a legitimate charge on the public purse. In the new economy, public support for services such as education, health and social welfare--and, indeed, provisions for career development and job transition--are not forms of social policy representing non-productive consumption, but are investments in human capital which contribute directly and significantly to economic growth, development and productivity. They generate their own tangible economic returns in the future, and they should no more be treated as a burden on future generations than should corporate borrowing for new plant.

The spectre of declining real incomes in a highly indebted North America will demand new strategies and mechanisms for maintaining social cohesion. The polarization of income distribution will also demand other mechanisms to bridge the enclaves created by sustained high unemployment and the "good jobs, bad jobs" phenomenon. In an era of economic quick fixes and short-term solutions to dogged social problems, the prolonged adjustment period which will be required to move us onto a new track of ecologically and socially sustainable development will also necessitate an openness and responsiveness to market signals which can only be achieved by pooling the risks and shocks of an uncertain world through new mechanisms of income redistribution. This, in turn, will force us to re-examine the nature of participation in the family, neighbourhood, school, workplace, province or region, nation and global community. Where productivity is more broadly defined in both the formal and informal economies, it will be seen that a social role and a productive place in the economy can be found through paid employment, self employment, education and training, voluntary work, community development or environmental conservation.

And finally, we will need to examine distributional issues arising around questions of access to the infrastructure and media of the information society. Economic or educational barriers to use of communications technologies, databases and gateways, or network services can not only exacerbate problems of income distribution, but also raise even more fundamental issues of democratic participation and civic roles. The challenge is to develop a policy framework within which all of these issues can be seen as part of the whole rather than separate sectoral concerns, and through which we can examine the impact of the repricing and restructuring of market activities in the direction of social cohesion and ecological sustainability which seems inevitable.

For this, the social contract must reflect the features enunciated 50 years ago by Rhys Williams in the quotation which heads this paper. That social contract entails personal obligation and commitment, a responsibility to participate and contribute in an evolving economy which has forfeited much of its apparatus of job security. But it does so on the basis of a social commitment to a "minimum participation income" reflecting that contribution and the inherent claims of all Canadians to a share of the returns to the social network and ecological commons which make up Canada (Strong, 1994).

RETHINKING THE MECHANICS OF DISTRIBUTION: THE CANDIDATE SCHEME

"In my opinion, there is one general approach . . . . Unemployment insurance and social assistance will have to be replaced by some form of guaranteed annual income or negative income tax. . . for people clearly unable to work, the level of support would obviously need to be higher." [Castonguay, 1993, pp.113]

The idea endorsed in this paper is essentially the guaranteed income with a simple tax (GI/ST) developed by Wolfson (1986). Similar principles are found in the basic income guarantee with partial integration of the tax and transfer system (BI 2000) developed by Parker (1989), and reflected also in the concept of "participation income" discussed by Atkinson (1992). They can be found in the support-supplementation proposals of the Federal-Provincial Social Security Review of the early 1970s, and in the Universal Income Security Program (UISP) proposed by the Macdonald Commission. Dobell (1985) sketched the need for some such general approach to sharing the burden of adjustment costs and redistributing income as an essential prerequisite for an efficient, flexible and adaptive economy. That general argument is developed and extended in Wien (1991).

The fiscally neutral GI/ST proposed by Wolfson harmonizes the personal income tax and transfer systems while also simplifying and consolidating existing programs, improving incentives and providing more support to the working poor. It starts from the simple idea of combining a guaranteed income with a flat tax embodying a constant marginal tax rate. If a flat tax is tied to an initial income guarantee the result is a progressive structure where average rates of tax increase with income, even though marginal tax rates are constant.

A guaranteed annual income already exists in piecemeal form for the elderly and families with children through the Old Age Security (OAS), Guaranteed Income Supplement (GIS) and Child Tax Benefit. The recombination of these into one program serves as the basis of the guaranteed income portion of the GI/ST. The Child Tax Benefit, GIS, federal expenditures on Canada Assistance Plan (CAP), marital and equivalent to marriage exemptions, basic personal exemption, age exemption and pension, employment and investment deductions would all be abolished and rolled into a basic income paid to all individuals without means test or formal work requirement.

The program could be further enriched by incorporating existing unemployment insurance provisions as well. A UIC scheme addressed to income continuity for those with generally secure opportunities in the formal labour market might be established on private, rather than social, insurance principles, with any public resources freed thereby flowing to the higher priority basic minimum income.

In place of the abolished programs and tax provisions, there would be a set of basic federal income guarantees intended to function as an income supplementation tier. The federal government would thus assume responsibility for the "working poor" and provide a nationally uniform minimum income for all Canadians. Provinces would then have full responsibility for providing the top-up income support to the poorest, and could tailor this income support to region-specific factors in ways that are perhaps inappropriate for the federal government.

To address the issue of progressivity, the GI/ST actually incorporates a two-step tax rate structure., rather than the completely flat tax described above. One single basic federal rate of tax, applied to net income, would replace all existing income tax brackets. A surtax on income above a certain threshold would then be levied on total income. With no personal exemptions, tax would start on the first dollar of net income. The federal-provincial tax collection agreements would be retained, but provincial tax rates as a percentage of the new federal basic tax (including the surtax) would be reduced to reflect the resulting, broader tax base. (It should be noted that the simplicity and attendant efficiencies of the flat tax rate of the GI/ST would be lost if provinces were to impose their own complicated rate structures.)

In terms of delivery and responsiveness, the GI/ST lends itself to the use of the source withholding system for income tax because the integrated basic flat rate of tax applies over the entire income spectrum and uses the individual as the tax paying/beneficiary unit. As income testing could be substantially integrated with the source withholding system, the issue of universality vs. selectivity becomes considerably less relevant. A more relevant issue is whether spouses who stay at home to care for children and elders should receive their own and their dependents' guarantees in full, or whether these should be netted against the working spouses' income tax liabilities.

The GI/ST could be more targeted to the upper and lower ends of the income spectrum, and also more targeted in its redistribution within and among family groups. Under the GI/ST design explored by Wolfson in 1986, just under half of all families would experience net declines in disposable income.

Wolfson contends that the conceptual changes involved in the GI/ST are more daunting than the practical changes in delivery systems. At the federal level there would no longer be any difference between income transfers and income taxes; both would be part of the same integrated system whose primary objective is redistribution. A possible obstacle, however, might be that "bureaucrats involved with the welfare and transfer system are unlikely to recommend substantial simplification to the current system because they would, in effect, be suggesting major disruption in their own [professional] lives." [Brander, 1992]. Also, potential beneficiaries of piecemeal redistributive programs will lobby hard for their continuance, and a proliferation of specific policies will typically generate more votes than a systematic overall redistributive system-- political incentives which are not easily ignored. However, the fiscal incentives may yet outweigh the risks. The GI/ST is more elastic with respect to real income growth than the current system. This means that the federal deficit would fall more quickly with GI/ST as the economy moved toward full employment and real incomes grew than under the current income security system. (Wolfson also notes that the netting of benefits against taxes owing can have a large impact on total dollar flows and a corresponding effect on the apparent size of the federal government, depending on whether the income guarantees are treated as direct spending programs or refundable tax credits.)

Parker (1989) argues for a similarly integrated tax and transfer system in Britain and puts forward a partial basic income guarantee as a feasible alternative to the residual welfare state. Under this system, an equivalent basic living standard is guaranteed to each person through a combination of partial basic incomes; income supplements for widows, expectant mothers, the elderly, the disabled, and home-based caregivers; and benefits provided by local governments through a mix of private and voluntary agencies. Individuals desiring a percentage of previous earnings during sickness, unemployment or old age would be expected to make the necessary provision through private insurance or collective agreements. This system reduces unit labour costs by lifting the lower paid out of net tax through earned income tax discounts and tax exemptions for work-related childcare costs. It reduces labour costs by abolishing all unemployment insurance contributions. It encourages the acquisition of new skills by providing income support during training, and it promotes labour market flexibility by minimizing administrative procedures.

Atkinson (1993) argues for a slightly different national minimum income for the United Kingdom which combines an improved social insurance system with a non-means-tested basic income, conditional upon participation in the work of society. He defines participation as working, being unemployed but available for work, engaging in approved forms of education or training, caring for young, elderly or disabled dependents, or undertaking approved forms of voluntary work.[3] The "participation income" would cover people who are absent from or unable to work due to sickness, injury or disability, or a failure of the system to generate a spot in the formal economy. The condition, therefore, is not paid work, but a wider definition of social contribution seen as a basic personal responsibility. As Selbourne (1994) argues, "individual co-responsibility for the condition of the civic order is not only as necessary to 'progressive order' as is individual right, but is ethically and logically prior to it, and, in the form of enforceable citizen obligation, is a foil to the a-civic and anti-social claims of dutiless right."

Overall, a minimum participation income, along the lines of either Atkinson, Parker or Wolfson, would function as the lubricant necessary to cushion the shocks of adjustment to and in the new world economy. It is the logical support to an emerging dual structure within the economy where a competitive, high productivity, high-income, technology and capital-intensive sector with its rapid redeployment of labour co-exists with a publicly financed, labour-intensive service sector which cannot justify comparable wages, especially while operating under conditions of continuing fiscal restraint. As Kennedy (1989) note it also promises much more efficient labour markets..

It is worth noting that this sort of scheme is not inconsistent with--indeed, complements well--an alternative approach based on recognizing the possibility of restructuring incentives toward reduced hours of work, particularly in the high-income enclaves of the labour market. The 1994 edition of the Human Development Report contains a brief reference (p. 39) to very positive experience with job-sharing as another avenue to reduced unemployment and improved income distribution. With the broader concept of work and participation advocated in this paper, implementation of this approach is in some sense simplified: it amounts simply to shifting the balance at the margin between contribution in the formal workplace and contribution in civil society or the informal workplace.

The minimum participation income, then, becomes a form of social consensus on fair ground rules for sharing the burden of adjustment costs. But the proposal is not without costl. Even though it might be made fiscally neutral in aggregate, the GI/ST does involve redistribution. Both Wolfson and Atkinson identify this clearly. The question then is whether there exists yet in Canada any appetite for such redistribution, or any prospect of the necessary tax changes. (Ignatieff (1984) reminds us that "in the welfare state, old divisions of class have been re-expressed as divisions between those dependent on the state, and those free to satisfy their needs in the market place." Such divisions may yet block any significant social policy reform in Canada, even in the longer term.)

Volumes have of course been written on all these issues; several which have addressed specific design questions in the context of a complete simulation model have been cited above. Without going into specific features, the simple point of this section is that a reasonable case can be made for the feasibility and effectiveness of an integrated system for delivery of some assured basic minimum income.

REALITY CHECK: TAXABLE CAPACITY AND THE "RACE TO THE BOTTOM"

"Once the great dialectic was capital versus labour. Now it is the conflict between the comfortable and the deprived. And the comfortable see government as the threat because it is the only hope for the deprived." [John Kenneth Galbraith, **Mother Jones**, March 1994, p.38]

All the above is well and good, as thoughts for the longer term. But there is no denying the urgency of the current fiscal crisis, or the simple arithmetic of accumulating debt. We must address our foreign debt, as a basic constraint on sovereignty and government policy discretion. We must address our government debt more generally, because interest payments increasingly eat up program space. Addressing these obstacles, particularly the former, undoubtedly entails a considerable period of "underspending" as a nation, a course on which the federal government has embarked and to which it seems committed. But underspending need not mean underinvestment. Tax and spending changes both should aim at encouraging underconsumption rather than the abdication of social responsibilities or the loss of social investment. Much remains to be done along the lines discussed above, even now.

The threat of capital strike is everywhere. It is said that if we do not do what the gnomes of the rating agencies like in the way of budgets, essential capital inflows will dry up. If we do not do what corporations would like in the way of taxes, plants will move. This argument may be overdone. Survey data and anecdotal evidence suggest that location decisions are considerably more comprehensive than it implies. The location decisions of firms take into account the availability and character of skilled labour force. And a cohesive body of skilled people seems more likely to be available if the quality of life is there. Natural capital and social capital are not mobile (though both are exhaustible). The growth of a networked civil society makes it less likely that firms will see advantage in chasing each other in a "race to the bottom", where countries compete to offer the most lax regulatory environment or the most generous tax regime. Indeed, the relative lack of mobility of scarce natural and social capital provides a basis for the reintroduction of theories of comparative advantage, increasingly irrelevant as a basis for reasoning about social welfare in a world of mobile human and intellectual capital as well as financial capital, goods and services. (See IISD (1992) or Daly (1993) for an outline of the argument that in a world of mobile factors of production, analyses based on comparative advantage no longer serve.)

The notion of "taxable capacity" is a notoriously slippery concept. Colin Clark, a famous precursor of the "minimal government" school, is credited with what once was thought an "iron law of public finance": where government expenditure exceeds 25% of national income, you "hit some wall". Clark's conclusion was directed toward the dynamics of price formation: in a 1945 article he concluded that "where taxation (or taxation plus government deficit if it was significantly large) exceeded 25% of net national income at factor cost (*not* of gross national product), then forces were set in motion which resulted . . . in a general rise in costs and prices". But observers made the leap from the inflation problem to some more general "wall" fairly readily. Interestingly, Clark quotes Keynes in a personal letter to him dated May 1, 1944, "I should guess that your figure of 25% as the maximum tolerable proportion of taxation may be exceedingly near the truth. I should not be at all surprised if we did not find a further confirmation in our post war experience of your empirical law." [Clark, 1964, p.21]

In company with most other developed economies, we are, of course, considerably beyond that limit by now. Perry (1993) gives us--with many careful qualifications--some interpretation of international comparisons, using the OECD's annual compilation of revenue statistics (OECD, 1993). What he reports is that from 1990 to 1992, Canada moved from a ranking of 12th to 11th in the OECD tables showing the ratio of total tax revenues to gross domestic product (GDP) in each country. "In the first two years, Canada was below the average for both OECD and EC." These comparisons also show that despite all the talk of killer payroll taxes, Canada relies very much less on this revenue source (as a percentage of GDP) than other OECD countries. Moreover, in non-tax revenues, including charges for use of natural resources or ecological services, Canada ranked below 10 other OECD countries, including the United States. Despite predictable apprehensions about the distortion of market allocations, such charges are not bad in themselves just because they enter production costs--the question is whether they represent real costs. If so, they should be levied (and Canada may have more room for such charges because we have more natural capital at work and at risk).

Thus, it seems that Canadians are not in fact so heavily taxed relative to others as current rhetoric might suggest. Indeed, so far as a general social acceptability of tax burdens in industrialized countries is concerned, Canada occupies a rather traditional position near the centre of the OECD pack. Nevertheless, as Strick (1992) argues, it is the tax regimes of our particular "competitors", rather than more general comparisons, which set a limit on taxable capacity. In this case, we have to worry about levels of taxation in Japan and the United States, particularly the latter. Both fall very close to the bottom of the OECD tables. The issue, then, is not general social willingness to pay taxes, but the mobility of capital and labour, and the problem of "downward harmonization", the convergence of social and environmental policies toward some lowest common denominator. As with this issue in other settings, the response has to be to look at the evidence in context. "Pollution havens", for example, do not suck in all production activity (Trocki, 1991). And even if not valued symmetrically, the greater social wage payable from higher taxes must also be taken into account, as the plaintive laments of Mr. Iaccoca about the unfair competition of Canada's health system attest. Surveys of location decisions suggest at least some evidence that executive location may reflect quality of social, physical and natural environment, school conditions, and other such "non-economic" concerns at least as much as tax rates on personal incomes (despite recent protestations by the BCNI on behalf of allegedly restless senior executives dismayed by Canada's income tax).

It can of course be argued that one need not look further than current political action and electoral circumstances to verify that the willingness of the Canadian public to be taxed has reached its limit. But again, as with other conclusions drawn from electoral signals, it is not clear precisely what stimulus is provoking the observed response. There is scattered evidence of greater willingness to pay taxes earmarked for approved purposes, particularly in relation to environmental concerns, for example. "The Environmental Monitor research shows an energy tax, properly explained, would be supported by a majority in all regions of the country, if all resulting revenue was used to reduce air pollution." (Miller, 1995).

With "ecological tax reform", the tax base shifts substantially to the resource rents generated by natural capital as economic transactions are linked to their ecological setting [von Weizsacker and Jesinghaus, 1992; Costanza, 1994]. Rivlin (1992) notes that a case can be made for general public acceptance of taxes levied for visible environmental, ecological or health purposes, and Knetsch (1993) suggests empirical evidence which supports acceptance of such "earmarking" of tax revenues when public willingness to be taxed is so much in question.[4] Ecological taxes do not represent the introduction of new revenue instruments for their own sake, but rather the recognition of the need on the part of resource owners, including governments (Kennedy, 1989) to price resources and ecological services more realistically in order to reflect the growing scarcity (and hence growing value in production) of natural capital, and our increasing concerns for sustainability.

This appeal to improved market functioning thus is crucial not just from a distributional perspective, but for allocative efficiency as well. Nevertheless, the introduction of such ecological taxes could finance much of the local community activity in resource restoration and habitat enhancement which will be carried out by community conservation corps and similar entities, some possibly outside the existing formal economy. An increase in stumpage rates, or water rates, or other charges for ecological services is not to be construed as a cause for a taxpayer revolt--it is simply a reflection of decisions by the owners of the resource to price more appropriately services which others wish to purchase for inputs into production.

In reassigning revenue sources (except for "carbon taxes" or other "green" taxes introduced to meet international commitments, for example, on greenhouse gas emissions), the ecological tax revenues would presumably accrue principally to the provinces and be earmarked for ecological and social infrastructure investment, and the financing of plans for labour transition and retraining. Integrated sales taxes and the GST could be collected by the provinces with a rebate to the federal government. Income taxes, with perhaps a surtax above a certain income threshold for deficit reduction purposes, would continue to be collected by the federal government. Hawken suggests the political necessity of having every incremental dollar collected from ecological taxes used to reduce income and payroll taxes; others suggest that any such revenues must be allocated to deficit reduction (whatever that financial sleight of hand might mean); we remain more optimistic that the use of resource rents to finance the transition out of unsustainable activities and the maintenance of the natural capital base will prove persuasive and acceptable in the longer run..

Still, in the short run, we have a problem. Beneath the insistent beat of the Bay Street drums pounding out the dance of the deficit, another theme can be heard: that there is simply no choice--that we have, even at the level of the nation as a whole, simply no discretion left to continue a tradition of social policy based upon a sense of shared responsibility. Repeatedly we are warned that if we do not succeed in mounting a sufficiently vigourous assault on the social support system in which the leisured unemployed are said to be lounging, the hordes of the international financial bureaucracy will no longer wait outside our gates. We will have our social policy made for us.

This sense of impotence at the level of the sovereign state seems at times in strange contrast to a growing sense of self-sufficiency expressed at community level as groups increasingly come together to pursue common goals of community economic development and sustainability. It also seems a little premature in a nation like Canada. There is absolutely no doubt that existing structures do need reform, and that the deficit problem must be attacked vigourously and effectively. We do have to get debt service obligations down dramatically, simply in order to avoid a continuing structural budget deficit even while actual program outlays fall far short of tax revenues. But it is still possible to mount this attack on our own terms, in our own way, as Canadians, if we can marshal our resources more consciously.

There is, however, a practical problem. Even if we, amongst ourselves, could agree that much of what is considered government current expenditure would, in a more comprehensive analysis, be recognized as accumulation of productive capital, contributing to the wealth of the nation, and properly counted neither as a deficit nor as an intergenerational burden, we are still heavily mortgaged. Our external creditors might not agree with our investments in long-term productivity through human, cultural and natural capital. And, as every farmer knows, the name on the bottom of the mortgage has the last word (and frequently a short-term outlook). We lack discretion on fundamental policies and values for the crass but sufficient reason that we owe so much money to outsiders.

But why can we do nothing about this problem? If we are truly facing a national emergency, and we find it essential to reduce current levels of debt service, particularly on foreign debt, in order to have revenues for program outlays, let's consider some emergency measures.

A first and obvious step will occur to any member of a private club or partnership--a one-time capital levy collected by the federal government, payable over three to five years, say. The proceeds of this levy would be dedicated to retirement of the federal government's foreign debt as it matures or could be called, with any interim surplus held in trust for repayment as debt matures in the future. Such a measure has the advantage that it brings the big guns to play directly on the root problem behind the current crisis, the overhanging burden of foreign debt service, by drawing on the assets of the most well off rather than plodding along with the modest flow of expenditure savings that can be reallocated from annual flows by squeezing the least well off. In times of crisis, we perhaps should consider recourse to such unusual measures.

Other possibilities spring to mind. In this year 1995, fiftieth anniversary of the end of World War II, entrepreneur Bob Blair and a few other voices were heard suggesting that perhaps something like a Canada Social Responsibility Bond, modelled on the Victory Bond, might be able to draw out pools of capital willing to forego the final margin of optimized financial return, in support of a common national cause as important as reducing our foreign debt. One might contemplate withdrawing preferential tax treatment on RRSP or other pension funds invested in foreign assets, thus strengthening demands for Canadian assets and reducing the need for Canadian governments to borrow abroad. Vallee

(1995) suggests a much more dramatic and, as he notes, potentially controversial but also potentially very powerful possibility in switching from a philosophy of preferential treatment for contributions to RRSP and taxation of withdrawals to one of contributions out of after-tax income and tax-free withdrawals. In the flat-tax world envisaged above, there would be no disadvantage to tax-payers in such a switch--and, for Vallee, it opens up the possibility of a retroactive recapture of the accumulated funds lent by governments to taxpayers as a result of past preferential tax treatment, with substantial favourable impact on government debts and deficits..

Or still more fundamentally, recognizing that for a nation like Canada, the pool of foreign assets from which we borrow is very like a common pool resource, perhaps we need to control access more carefully in order to avoid traditional congestion problems. For each individual borrower or lender, access to international lending and borrowing offers individual benefits. Adverse impacts on credit ratings and policy discretion are congestion costs borne collectively. Administrative mechanisms for coordination or control of individual transactions, or an appropriate premium levied on such transactions, might serve to signal better the social cost of such individual optimizing decisions and bring individual market decisions more in line with collective welfare..

In addition to such emergency measures, or indeed the introduction of a more substantial wealth tax, one might consider a further step, to a continuing tax on international currency transactions. In the 1994 Human Development Report, Nobel Laureate James Tobin reminds us of his 1978 proposal for a uniform tax levied on all spot transactions in foreign exchange. He suggests that a .5% tax on foreign exchange transactions would focus attention on economic fundamentals rather than speculative opportunities, and would slow down speculative capital movements without deterring commodity trade or serious international capital commitments. Such a transactions tax, it is argued, would be designed to make international money markets compatible with modest national autonomy. (He does, however, note that such a tax would have to be worldwide in order to avoid widespread evasion simply by executing transactions in havens where the tax deliberately did not exist. The proceeds of such an international tax would, he argued, appropriately be directed to international purposes.) While the immediate practical relevance of this suggestion in the Canadian setting may be limited, Canadian support of efforts to reach international agreement on such a tax is perhaps an appropriate part of a longer-term strategy, and would have some significance in attempting to deal with concerns about a loss of national sovereignty in social policy fields.

Ide and Cordell (1994), as another example, advocate a "technology productivity tax" to distribute productivity gains inherent in the new technology, thereby maintaining an effective demand for goods and services. They argue that advances in productivity must be distributed more broadly if we are to avoid economic collapse. "With displacement, the productivity of workers is now to be found in the productivity of technology. . . .Some of the gains in productivity must be taxed to create and maintain [public] infrastructure. . .and to provide a basic level of income." Cordell and Ide (1994) make a case in particular for a "bit tax" levied on a new tax base, the 'bitstream'--"that myriad of transactions, images, voice, text, data--all carried over global telecommunication, cable, and satellite networks" (p. 33). And, as already noted, Costanza et al (1995) emphasize the crucial importance of ecological tax reform.

So as we look at the question of taxable capacity, and the feasibility of financing a continuing social contract in Canada, several avenues would seem to call out for some sceptical further examination, before we conclude that the social policy envelope must be gutted in order to solve the deficit problem.

1. Given that we are, in terms of ratios of total tax revenue to GDP, little higher than the G7 or OECD average, indeed just about the middle of either list, is it really true that we could find no support in Canada for increased taxes, particularly if earmarked for widely understood and endorsed purposes?

2. Given that we rely, in particular, relatively little on charges or indirect taxes on corporations, is it really true that we could find no acceptance for increased charges for infrastructure or ecological services rendered in production, recognizing that such charges would in themselves improve resource allocation and promote sustainable enterprise, while at the same time generating revenue to support investment in sustaining national wealth?

3. And, finally, given the growing importance and growing awareness of critical social and natural capital assets as determinants of long-term competitiveness and comparative advantage, do we really need to be as worried as we are that capital and enterprise will readily find greener fields outside our borders?

The point, ultimately, is the need to find effective institutions to think further ahead about mutual interests--to recognize, beyond self-interest as revealed by short-term market calculations, some longer-term shared interests signalled by ethical guidelines which have evolved over a longer history. Of course, it is easy to point to experience which suggests that "short-term pain for long-term gain" is not a very persuasive slogan in economic--and far less political--affairs. But economists like Card and Krueger (1995) or Knetsch (1995) also provide compelling evidence and argument that even on their own terms, conventional economic guidelines for the calculation of self-interest are not well-founded. Experience with processes of shared decision suggest some basis for optimism that longer-term social interests can sometimes be reflected in collective decisions which succeed in reconciling apparently conflicting short-term interests, even if these decisions demand that parties act as citizens in the public interest rather than economic agents pursuing indivdual interests.

RETHINKING FISCAL FEDERALISM: ROLES OF GOVERNMENTS

"[In response to] the increasing tendency to standardize social policy at higher levels of governments. . . I would suggest devoting resources to social health maintenance organizations based on either small geographic units or other ties (perhaps ethnic?)." [Vaillancourt, 1994]

For purposes of this paper, looking to medium- and longer-term issues, it has to be assumed that Quebec will remain part of a looser federation which has succeeded in a substantial disentanglement of existing programs and responsibilities. It has also to be assumed that it will be possible for federal, provincial, territorial and First Nations governments to negotiate cooperative arrangements both for the division of tax powers and the division of jurisdiction or responsibility.

In very broad-brush terms, without pretending to any exhaustive enumeration of program roles or calculation of financial balances, a general division of responsibilities emerges from the foregoing discussion, consistent with the disentanglement sought. In it, the federal government exercises its taxing and spending powers directly, to define the fundamental sharing and pooling of risks which flow from Canadian citizenship or membership in the Canadian community. Through an integrated income tax/transfer system, the federal government delivers a minimum participation income. Indeed, this program becomes in large part the defining rationale for the national government in a situation where its role may otherwise be seen as substantially eroding.

The federal government role will also include continued responsibility for equalization programs, for ensuring effective functioning of the economic union, and for the articulation of national standards as common goals for programs across the community.

Disentanglement of program responsibilities will achieved through devolution to provincial, territorial and First Nations governments of responsibilities for additional support for those clearly not expected to work, and for community-based social services, likely devolved or contracted in turn to organizations and groups in the volunatary sector or the informal economy.

In particular, with provincial and local governments will rest reponsibility for community economic development, resource management and sustainability. Programs for conservation, habitat restoration, environmental monitoring and the like, financed by increased resource rents and ecological taxes, will provide a foundation of skills development, retraining and experience which will support the transition from school to work, or from temporary unemployment to work.

The disparity between fiscal capacity and statutory social obligations has grown substantially over the past two decades, increasing the pressure on federal and provincial governments to undertake significant reforms for fiscal transfers and program designs. Courchene (1986, p. 123) cautions that this reform must be embraced in a collaborative manner: "It is far preferable for Ottawa and the provinces to fall back on co-operative federalism and develop a coherent, co-ordinated policy to meet these challenges while time is still on their side than to be dragged into a series of stop-gap policies in times of fiscal or social policy crisis." Eight years later, with crisis closer upon us, co-operation is still preferable.

For this purpose, an approach that seems persuasive has been outlined by Mintz and Wilson (1991). They suggest that the allocation of tax powers should reflect generally the division of expenditure responsibilities, and for this purpose that sales and excise taxes should be devolved to the provinces (ideally, one supposes, with a fully harmonized GST being collected at the provincial level, as a retail sales tax at the point of final sale), while wealth and capital taxes, tariffs and corporate income tax fields would be occupied by the federal government, and environmental taxes and the personal income tax co-occupied (with the latter collected by the federal government under appropriate agreements. As an illustrative exercise they explore what allocation of tax powers would correspond to the devolution of expenditure responsibilities envisaged in the Allaire report, and "estimate that a 50-50 sharing of personal income tax revenues, coupled with complete devolution of sales and excise taxes to the provinces, would do the trick". Of course, given the proposed introduction of the minimum participation income based on an integrated income tax/transfer mechanism, this calculation would be different. But the overall approach would seem appropriate still.

Canadian social policy has become increasingly important as a means of linking the country in some shared project. In attempting to deal with reform of the social security system in Canada, the federal government has a role to play in setting national standards for income security. The National Council of Welfare (1992) has suggested five guiding principles which are relevant to all existing provincial and territorial welfare systems: adequacy, simplicity, accessibility, equity and due process. These principles provide some common ground to satisfy the equity and efficiency requirements of policy reform by furnishing the economic union with uniform rules and benefits that establish fundamental citizenship entitlements, and by ensuring that economic choices in areas such as trade, investment and mobility are not prejudiced by non-market factors.

CONCLUSION:

"In order to make socially responsible decisions, a community requires three sets of books. One is the customary dollars-and-cents book....The second book relates to people and social impacts. It catalogues the human and community gains and losses as faithfully as the ongoing financial gains and losses documented in the first book. In the third book, environmental accounting is recorded. This is the place to give detailed accounts of the gains and losses in the health and viability of nature, as well as of the built environment." [Franklin, 1990, p. 129]

This paper has asked what sort of rethinking of economic management and social policy might emerge if we took seriously in aggregate what is increasingly widely recognized in bits and pieces--that our price mechanisms are seriously flawed in their representation of the values of ecological resources and services; that our accounting frameworks are dramatically incomplete in their failure to incorporate the values of natural resources or the significance of work in the home, the community or the voluntary sector; that our systems of property rights lack any satisfactory machinery for the conservation of natural capital and elements of the global commons; that our concepts of participation, contribution and wealth creation are distorted and dysfunctional; and that our distributional mechanisms fail to meet minimal standards of distributive justice.

Given these profound limitations of our present social performance indicators and economic calculus, our generally accepted tests of economic value or fiscal viability are, for all but short-term bookkeeping purposes, not simply meaningless: they are perverse. Tests of commercial viability are just that--they are momentary and myopic, almost certainly misleading as measures of wealth creation or enduring economic value. The market is the most effective social innovation imaginable to serve the needs of a human civilization wishing to decentralize almost all the tasks of economic management. The main claim of this paper, however, is that the market is <u>not</u> the fundamental reality with which we must deal in rethinking social policy. The deficits of greatest concern are not the fiscal deficits as measured by accountants, without reference to public assets, or by economists, without reference to social or natural capital. They are the social deficit, capturing the shortfall in our investment in people and social structure, and the sustainability deficit, revealing how far short we fall from maintaining the capital which is the common heritage of humankind. The "wall" with which we must be concerned for purposes of public policy in the long run is not the wall of debt service constraints, but the wall of ecological carrying capacity. It may be that this latter wall is not ultimately a binding constraint or a reason for pessimism about maintenance of living standards; it may be that a viable path of sustainable development based on continuing technological innovation can be found. But it will not be found without massive revision of our market models. (And one can doubt that it can be found without massive revision in life style in the industrialized "North". But that is another story.)

In this paper, we have sketched very briefly the emergence of three new features of the economic and social context within which the system of social support must now operate, arguing:

a) that economic and social restructuring has meant that neither labour markets nor family structures nor income generation mechanisms are what they once were, so that we have entered a world of unprecedented uncertainty, insecurity and vulnerability in employment and family support;

b) that the present scale of human activity has brought us up to the ecological limits or carrying capacity of the biosphere, so that we have entered the "full world economy" where ecological resources and natural capital are scarce and crucial to production; and,

c) that the same information revolution which has moved us to the knowledge-based economy has also moved us to the borderless market and the information society, where trans-boundary influences give rise to the globalization of civil society (though perhaps not, sadly, the civilization of global society), and put immense premium on democratic and social participation through access to the machinery of the information society--in effect, the distributional concerns arising out of restricted or unequal access to information and communications capabilities have become increasingly central.

What becomes clear in this setting is that social policy is a concern for us all, needing security in an uncertain and volatile adaptive process, and not just a concern for the destitute, needing a hand out of poverty. Social policy must be directed toward assuring for all the opportunity for a recognized and respected role in society, for participation in the "democratic discourse of the Internet" and in the emerging civil society in which the wealth creation activities of the informal economy are themselves recognized. At the same time, the distributional issues arising out of concern for future generations, the concern for sustainability, must also be addressed. What this analysis makes clear is that we must create the social institutions in which the machinery of the market can be properly directed, and must set these social institutions properly in the context of the natural systems which support them, so that economic, social, and ecological sustainability are all pursued in human decision-making. The concept of human security makes sense in no other context.

This paper argues that a rethinking of social policy and family security in this setting leads to a rejection of the contribution-based social insurance approach and the narrow economic framework of the current welfare state, in favour of a broader concept of wealth creation, economic participation and social contribution. Adopting such a social contract leads to familiar proposals for an integrated guaranteed income/negative income tax, often offered, but so far not embraced. The case for such an assured minimum, paid to citizens as a matter of right, is put on a stronger footing as an essential feature of a resilient and adaptive economy. It recognizes their contribution to wealth creation and competitiveness in the economy, and their claims as owners of the ecological systems and common pool of resources without which there would be no economy, and from which tangible rental streams should be drawn.

Is such a scheme really feasible? This note makes no attempt to construct and validate a fully articulated scheme; it does, however, make reference to detailed studies where the numbers seem broadly to work. The arguments here suggest where additional revenues might ultimately be found to finance any necessary increase in outlays under the proposed scheme; and notes that some of these proposed (and earmarked) taxes would also have the virtue of moving us closer to allocative efficiency, environmental quality and ecological sustainability. And finally, on the question of "who would do what?", the possibility of a rational realignment of government responsibilities is suggested, involving considerable devolution to local governments, self-governing First Nations and community organizations. So we see no compelling reason to think that moves toward this approach would not be feasible, even in the near-term while priority is given to reduction of government debt held abroad. And the approach does fit with emerging ideas about the reassertion of individual responsibility.

In summary, we argue for what appears to be a paradox--a universal entitlement to a guaranteed minimum income paid to citizens by right, but contingent in principle upon participation in the work of the society, upon a contribution to wealth creation (but not simply to paper wealth or an individual contribution account). We argue, however, that the paradox largely disappears with a sufficiently comprehensive view of wealth and social contribution. With the minimum participation income in place, other existing support programs can be eliminated as individuals are assured of the basic pooling of risks and mutualization of returns. Labour markets can be freed up. By moving from the individual orientation and market-driven contributory concepts and insurance orientations, towards a more general social contract, we in fact create maximum room for individual opportunity and realization of individual role and potential.

The maturing over the postwar years of two major social movements--feminism and environmentalism--has resulted in dramatic change in the way the world is now viewed. Recognition of features of the world that matter outside of the relatively small bit contained in the traditionally male-dominated formal world of business has been a preoccupation of feminist literature in the last few decades. Recognition of the crucial role of natural capital, and more generally of the embedding of human activities in a broader world which must be preserved, has finally moved from an environmental fringe to broad acceptance. But not much seems yet to have penetrated conventional economic calculation, and certainly nothing has yet found its way into the generally accepted but economically misleading accounting principles by which government deficits are measured and rating agencies live. In the rethinking of economic management for social purpose, it is time it did.

With a caring nation of strangers finding expression of their solidarity in a social contract governing income flows through the national government, and disentanglement of programs through devolution of decisions and contribution to the real world of wealth at the community level, perhaps Canada will prove still to have the social resources to create an economically competitive and sustainable economy to serve a socially responsible state. The feminist revelation and the land ethic, resting on the real world outside, may yet come to influence the glass bead games of the academic model-builders and the paper board games of commerce.ψ

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ENDNOTES

1In this paper, the expression "social capital" is used in the formal sense suggested by Elinor Ostrom: institutions or "rules in use" represent social capital, the creation of which demands expenditure of effort and resources, and the presence of which assures a greater stream of returns to given stocks of physical, human and natural capital. As Ostrom points out in the context of the collective activities involved in irrigation systems, "If human operators do not follow regular patterns of behaviour that are expected and understood by others, especially system users, the potential flow of income from the physical capital will be severely curtailed or even eliminated. Productive patterns of behaviour do not just happen. . . . The presence of this social infrastructure, embodied in people and their social networks, is what makes possible a cohesive and competitive economy.

2. Informal work encompasses the non-market economic activities of household and communities. It includes the legal production of food, clothing, shelter and heat for personal, familial and community use, child rearing, housework, home maintenance and renovations that are not contracted out, volunteer activity, mutual aid, barter, skills exchange and co-operative or collective enterprises. There are certain characteristics of production and exchange in informal work that are highly suited to the current economic environment, such as less money involved in transactions, decentralization, locally controlled production, more emphasis on co-operation, egalitarian information flows and strategic alliances, increased participation by women and youth, less emphasis on the profit motive and capital accumulation, and greater sensitivity to the effects of economic activity on the environment and on personal well being and relationships with others at work, home and in the community.

3. It should be noted that over the last decade, the profile of voluntary work and the "typical" volunteer has changed significantly. Today's volunteers are usually employable and/or employed youth and adults seeking an alternate route to skill and career development. They are educated, committed people with full lives who manage their voluntary activity in much the same way that they upwardly mobile workers manage their careers. Many NGOs work closely with post-secondary educational institutions to provide supervised, on-site job training to students through volunteer placements. Other organizations work with outplacement counsellors in the corporate sector to provide early retirees and displaced workers with volunteer activities that facilitate their transition into new careers or to meaningful community involvement. These types of volunteers often apply their professional expertise to voluntary sector management through board management and fundraising (which links them with a broad network of potential job contacts), and to service delivery through programs such as youth mentoring, leadership training, tutoring or foster grandparenting.

4. An interesting example of the kind of public policy to which such reasoning can lead is offered by British Columbia's Forest Transition Strategy, the essence of which is to earmark revenues from increased stumpage and royalties to be paid for use of publicly-owned forest resources, and to direct those earmarked revenues to financing the adjustment process in the forest industry. The flaw in the economic reasoning here, of course, is that the owners of the resource are not

only those in the forest industry, but all the residents of the province, and the use of the revenues should underwrite the process of economic adjustment throughout the province. But political realities dictate that at this stage, those in the woods of British Columbia be treated as having a unique claim to assured lifetime employment, and at least the present plan provides both an illustration and a precedent which can, with luck, be broadened to a more consistent framework in the future