

*Revised*

# REFERENCE COPY



## Economic Council of Canada Conseil économique du Canada

### PLANNING PERSPECTIVES FOR THE 1980'S

Notes for a Talk

to

National Consultation of Social Planning Organizations

Arranged by the Canadian Council on Social Development

Bond Place Hotel

Toronto

Ontario Ministry of Treasury,  
Economics and Intergovernmental  
Affairs Library  
OCT - 6 1980  
80/5186  
LIBRARY



March 27, 1980

DAVID W. SLATER  
Acting Chairman

IN EXTENDING AN INVITATION TO PARTICIPATE IN YOUR CONSULTATION, GEOFF NORQUAY ASKED ME TO PRESENT VIEWS ON THE KEY SOCIAL POLICY ISSUES I SEE FOR THE NEXT DECADE, AND ON THE SOCIAL, POLITICAL AND ECONOMIC ATMOSPHERE IN WHICH THESE ISSUES ARE LIKELY TO BE ADDRESSED. SOME SPECIFIC ISSUES THAT I HAVE BEEN ASKED TO SPEAK TO INCLUDE: ENERGY COSTS; DEMOGRAPHIC SHIFTS; LABOUR FORCE TRENDS; EMPLOYMENT/ UNEMPLOYMENT/INCOME DISTRIBUTION; FEDERAL-PROVINCIAL FINANCIAL AND PROGRAM RELATIONSHIPS.

WHILE I HAVE BENEFITED FROM THE WORK OF THE ECONOMIC COUNCIL, YOU SHOULD NOT ATTRIBUTE MY REMARKS TODAY TO THAT BODY. I HAVE TO TAKE PERSONAL RESPONSIBILITY. I CONFESS ALSO, TO A DEEP SENSE OF HUMILITY OF A PERSON WHO HAS BEEN IN LONG-RANGE FORECASTING FOR A LONG TIME, AND OFTEN HAVE MISSED MAJOR DEVELOPMENTS AND BEEN WRONG. THAT BEING SAID, I WILL TURN TO A FEW OF THE PROSPECTS THAT MAY BE PARTICULARLY INTERESTING TO YOUR WORK.

THOUGH I SEE LESS OPPORTUNITIES AND MORE DIFFICULTIES IN THE DECADE AHEAD THAN IN THE EXPERIENCE BEHIND US DURING THE LAST QUARTER CENTURY, MY MAIN THEME IS OF ACHIEVABILITY OF GOOD ECONOMIC AND SOCIAL PERFORMANCE FOR CANADA. I EMPHASIZE ECONOMIC AND SOCIAL PERFORMANCE, NOT THE ONE AT THE EXPENSE OF THE OTHER. I HAVE BEEN ARGUING WITH MY COLLEAGUES ON THE BOARD OF THE CCSD THAT WE MUST THINK IN THESE DUAL TERMS. THERE ARE APPROACHES WHICH ARE GOOD ECONOMICALLY AND BAD SOCIALLY; OTHERS WHICH ARE GOOD SOCIALLY AND BAD ECONOMICALLY; STILL OTHERS WHICH ARE BAD FROM BOTH POINTS OF VIEW. BUT THERE ARE APPROACHES WHICH ARE GOOD, IF NOT IDEAL, IN BOTH ECONOMIC AND SOCIAL TERMS, AND IT IS THOSE TOWARD WHICH WE SHOULD AIM.

I WILL BEGIN WITH SOME OBSERVATIONS ON

- (1) POPULATION AND LABOUR FORCE DEVELOPMENTS,
- (2) TURN NEXT TO ASPIRATIONS,
- (3) FOLLOWING WITH DISCUSSION OF ECONOMIC GROWTH,
- (4) TOUCH ON INFLATION,
- (5) CONSIDER INCOME AND WEALTH DISTRIBUTION,
- (6) OFFER A FEW REMARKS ON HEALTH, EDUCATION AND WELFARE,  
AND CONCLUDE WITH A FEW COMMENTS ON
- (7) FEDERAL-PROVINCIAL FINANCE

POPULATION AND LABOUR FORCE TRENDS:

FOR OUR PURPOSES, THE PROSPECTIVE POPULATION TRENDS WHICH ARE MOST INTERESTING ARE:

1. THE PERSISTENCE OF LOW BIRTH RATES, FURTHER MODEST DECLINES IN DEATH RATES, AND SLOW NATURAL INCREASE OF THE CANADIAN POPULATION;
2. THE PERSISTENCE OF LOWER THAN AVERAGE BIRTH RATES AMONG THE BETTER-OFF URBAN POPULATION;
3. MODEST AVERAGE RATES OF NET IMMIGRATION TO CANADA, WITH GEOGRAPHICAL MIXTURES CONTINUING TO BE BROADLY SIMILAR TO THOSE OF RECENT YEARS;
4. A CONTINUATION OF MORE RAPID GROWTH IN THE LABOUR FORCE THAN IN THE POPULATION DURING THE NEXT DECADE, MAINLY DUE TO INCREASES IN THE PARTICIPATION RATES OF THE YOUNG AND OF ADULT FEMALES; THOUGH WITH LABOUR FORCE GROWTH RATES IN THE 1980'S BEING DISTINCTLY BELOW THOSE OF THE 1970'S;
5. THE BEGINNINGS OF THE INCREASE IN THE PROPORTION OF THE CANADIAN POPULATION WHO ARE OLD, AND WHO ARE OLD OLD - TRENDS WHICH WILL CONTINUE FOR SOME DECADES THEREAFTER;

6. THE EXPECTATION THAT THE INCREASED FLEXIBILITY AND TRANSITORY NATURE OF HOUSEHOLD AND FAMILY LIFE WILL CONTINUE;
7. THE PROPORTIONS OF FEMALES WHO ARE RELATIVELY HIGHLY EDUCATED WILL CONTINUE TO INCREASE SUBSTANTIALLY; AND
8. THE TREND TOWARD LARGER PROPORTIONS OF THE CANADIAN POPULATION LIVING IN LARGER METROPOLITAN AREAS WILL ALSO LIKELY CONTINUE.

SEVERAL IMPORTANT ECONOMIC AND SOCIAL ISSUES ARISE DIRECTLY FROM THESE POPULATION PROSPECTS. AMONG THE MORE IMPORTANT ARE THESE:

1. AFTER A LONG PERIOD IN WHICH THE BURDEN OF THE SOCIAL PROBLEMS OF THE AGED HAS BEEN MUCH LIGHTER IN CANADA THAN IN OLDER INDUSTRIAL COUNTRIES, WE FACE THE BEGINNINGS OF AN EXTENDED PERIOD OF TIME IN WHICH THE BURDEN IN CANADA WILL INCREASE QUITE SUBSTANTIALLY;

2. WITH RESPECT TO EDUCATION, WE FACE THE PROSPECTS OF HAVING TO DEAL WITH SLOWER GROWTH IN, FOLLOWED BY DECLINING, UNIVERSITY ENROLLMENT, CONTINUED DECLINES IN SECONDARY SCHOOL ENROLLMENT, DECLINES AND THEN THE BEGINNINGS OF SOME RECOVERY IN ELEMENTARY SCHOOL ENROLLMENTS;
3. THE PROPORTIONS OF THE POPULATION EXPERIENCING FAMILY SPLITS, SINGLE PARENT ARRANGEMENTS AND PERIODIC RECONSTITUTION OF HOUSEHOLDS ARE LIKELY TO CONTINUE TO INCREASE;
4. NO REDUCTION IS EXPECTED IN THE FORCES OF ETHNIC CHANGE AND ADAPTATION, PARTICULARLY IN LARGER CITIES;
5. THE OPPORTUNITIES AND THE PROBLEMS WILL PERSIST OF ADAPTING TO NEARLY FULL ADULT PARTICIPATION OF WOMEN IN THE LABOUR FORCE; WITH THE FURTHER ADJUSTMENT OF ROLES, PAY, MODES AND STYLES OF LIVING THAT SUCH PARTICIPATION WILL INVOLVE.

## ASPIRATIONS AND EXPECTATIONS

ONE OF THE KEY QUESTIONS IS WHETHER THIS EXPANDING AND CHANGING CANADIAN POPULATION WILL GENERALLY HAVE LESS DESIRES FOR INCREASES IN THE ECONOMIC ASPECTS OF THEIR STANDARD OF LIVING. IF THEY DID, THE EMPHASIS ON ECONOMIC GROWTH AND THE WILLINGNESS TO UNDERTAKE THE SACRIFICES OF ECONOMIC GROWTH WOULD BE LESS. IF CANADIAN LIFE-STYLES CAME GENERALLY TO REFLECT "SMALL IS BEAUTIFUL", "BACK TO THE LAND", AND CO-OPERATION, THEN THE NATURE OF AND THE APPROACHES TO CANADIAN SOCIAL AND ECONOMIC PROBLEMS WOULD BE QUITE DIFFERENT THAN THE TRENDS WHICH HAVE EMERGED DURING THE LAST THREE OF FOUR DECADES. WHILE I ADMIRE SOME OF THESE IDEAS, AND WOULD HOPE THAT THEY FLOURISH, MY GUT FEELING IS THAT THEY WON'T AMOUNT TO MUCH IN THE OVERALL SOCIAL AND ECONOMIC LIFE OF CANADA IN THE NEXT DECADE.

ONE OF MY WORKING ASSUMPTIONS IS THAT ASPIRATIONS FOR INCREASING REAL INCOME REMAIN HIGH IN CANADA. AMONG MY OTHER WORKING ASSUMPTIONS ARE THAT THE SETTING FOR DEALING WITH THE PRINCIPAL ECONOMIC AND SOCIAL PROBLEMS WILL BE ESSENTIALLY A MARKET-ORIENTED ECONOMY, WHICH IS HIGHLY SPECIALIZED,

WITH MOST PEOPLE AS PAID EMPLOYEES OPERATING IN AN UNSTABLE WORLD, MOSTLY IN BIG CITIES. SOCIAL AS DISTINCT FROM PRIVATE APPROACHES TO DEVELOPMENT WILL STILL HAVE TO DOMINATE THE SCENE, IN MY OPINION. THESE SEEM TO ME TO BE THE MAJOR FORCES SHAPING THE KIND OF SOCIETY WE WILL CONTINUE TO BE.

THE ECONOMIC GROWTH POSSIBILITIES FOR  
OUTPUT AND INCOME

LET ME NOW TURN TO THE PROSPECTS FOR ECONOMIC GROWTH. IN CONSIDERING WHAT WE MAY HAVE TO WORK WITH IN ECONOMIC TERMS, IT IS IMPORTANT TO DISTINGUISH BETWEEN OUTPUT POTENTIALS, OUTPUT REALIZATIONS, AND THE INTERNATIONAL TRADING, INVESTMENT, AND WEALTH TRANSFERS THAT PERMIT US TO USE MORE OR LESS THAN OUR OUTPUT. TO ILLUSTRATE USING STYLIZED NUMBERS, CANADA MIGHT, IN THE FIRST HALF OF THE 1980'S, POTENTIALLY BE ABLE TO ACHIEVE \$160 BILLION OF OUTPUT (1971 DOLLARS), ACTUALLY REALIZE \$140 BILLION, BUT, BECAUSE OF FAVOURABLE OR UNFAVOURABLE INTERNATIONAL TRANSACTIONS, BE ABLE TO USE DOMESTICALLY \$5 TO \$10 BILLION DOLLARS MORE OR LESS THAN ITS REALIZED OUTPUT.

I WILL TURN FIRST TO THE POTENTIAL OUTPUT. THE EVIDENCE IS MOUNTING THAT THE GROWTH OF THE POTENTIAL



OUTPUT FOR THE CANADIAN ECONOMY HAS SLOWED DOWN. GROWTH OF PRODUCTIVITY PER MAN-HOUR IN THE 1970'S HAS BEEN LESS THAN HALF WHAT IT WAS IN THE 1960'S. GROWTH IN OUTPUT PER EMPLOYED PERSON DURING THE LAST FIVE YEARS HAS BEEN WELL UNDER HALF OF WHAT IT WAS IN THE FIRST HALF OF THE 1970'S.

THE SLOWDOWN IS NOT WELL UNDERSTOOD AS YET, BUT A NUMBER OF TENTATIVE AND PARTIAL EXPLANATIONS HAVE BEEN OFFERED. THE SLOWDOWN IS MORE THAN CAN BE EXPLAINED BY SHORT-RUN CYCLICAL FACTORS; IT DOES APPEAR TO HAVE A LONGER-RUN STRUCTURAL CHARACTERISTIC.

MOST OF THE INDUSTRIALIZED COUNTRIES HAVE HAD A PARALLEL EXPERIENCE IN PRODUCTIVITY GROWTH, AT LEAST TO SOME EXTENT. NOT SURPRISINGLY THEREFORE, SOME COMMON EXPLANATIONS ARE OFFERED FOR THIS INTERNATIONAL PHENOMENON, WITH DIFFERENCES OF DEGREE AMONG COUNTRIES:

E.G. THE CHANGE FROM SOME DECADES OF DECLINE TO A PERIOD OF INCREASE IN THE REAL PRICE OF ENERGY IN THE 1970'S; A PROLONGED PERIOD OF RELATIVELY SLUGGISH BUSINESS INVESTMENT; PERHAPS THE USING UP OF CHEAP NATURAL RESOURCES; THE INCREASED BURDEN OF THE "NEW REGULATION" TO PROTECT THE ENVIRONMENT AND OCCUPATIONAL HEALTH AND SAFETY; PERHAPS SOME SLOWDOWN IN R AND D AND IN

TECHNOLOGICAL PROGRESS; A RELATIVE EXHAUSTION OF THE STRONG PUSHES TO WORLD-WIDE PRODUCTIVITY ARISING FROM THE EXTRAORDINARY PERIOD OF INCREASE IN INTERNATIONAL SPECIALIZATION AND TRADE WHICH HAS TAKEN PLACE SINCE WORLD WAR II. IN TURN, THE SLUGGISHNESS OF INVESTMENT IS VARIOUSLY ATTRIBUTED TO THE IMPACTS OF INFLATION AND TO A DECLINE IN THE SHARE OF INCOME GOING TO PROFITS.

IN CANADA, THE MOST COMMON CANDIDATES FOR EXPLAINING THE SLOWDOWN OF PRODUCTIVITY ARE THE DECREASE OF OIL AND GAS PRODUCTION, THE SLOW GROWTH OF PLANT AND EQUIPMENT EXCEPT FOR ELECTRICAL GENERATION CAPACITY, AND THE RELATIVE DECREASE IN THE SKILL AND EXPERIENCE LEVELS OF PARTS OF THE CANADIAN LABOUR FORCE. SOME DECLINE IN THE REAL RATE OF RETURN TO BUSINESS INVESTMENT AND INCREASES TO THE REAL COSTS AND RISK PREMIUMS ON THE SUPPLY OF SAVING APPEAR TO BE AN UNDERLYING FEATURE OF OUR SITUATION. WHILE NOBODY CLAIMS TO FULLY UNDERSTAND THE DECLINE, AND THEREFORE CANNOT BE CERTAIN ABOUT THE PROSPECTS FOR THE FUTURE, THERE IS A VIRTUALLY UNANIMOUS VIEW NOW THAT CANADIAN PRODUCTIVITY GROWTH IN THE HALF DECADE AHEAD WILL PROBABLY AVERAGE ABOUT 1.2 PER CENT A YEAR COMPARED WITH MORE THAN 2-1/2 PER CENT IN THE 1960'S.

A HALVING OF THE POTENTIAL GROWTH IN PRODUCTIVITY PER MAN IS A SERIOUS ENOUGH CHANGE IN CANADIAN ECONOMIC PROSPECTS. HOWEVER, THE CHANGE IN WHAT WILL BE POSSIBLE IN THE 1980'S COMPARED WITH THE 1960'S AND THE EARLY 1970'S IS EVEN MORE SEVERE THAN THE PRODUCTIVITY FIGURES INDICATE, BECAUSE OF OTHER FACTORS IN PLAY.

THE FIRST IS THAT, BECAUSE OF THE FEAR OF ACCELERATING INFLATION, THE CANADIAN ECONOMY LIKE THAT OF MANY OTHER INDUSTRIALIZED COUNTRIES, CAN BE DRIVEN LESS CLOSE TO THE POTENTIAL NOW THAN IN THE PAST.

THE SECOND IS THAT, THE INCREASE IN LABOUR FORCE PARTICIPATION IS BECOMING LESS STRONG. AS A RESULT, THE PAST EXPERIENCE OF MUCH MORE RAPID INCREASE IN PER FAMILY OR PER HOUSEHOLD INCOME THAN IN PER WORKER PRODUCTIVITY, REFLECTED IN INCREASED PROPORTIONS OF FAMILIES OR HOUSEHOLDS WITH TWO, THREE AND MORE PAY-CHECKS, IS RUNNING OUT OF MOMENTUM. PER HOUSEHOLD INCOME WILL INCREASE MORE RAPIDLY THAN PER WORKER PRODUCTIVITY, BUT THE GAP WILL BE MUCH SMALLER IN THE FUTURE THAN IN THE PAST -- A MATTER TO WHICH I WILL RETURN IN A MOMENT.

THIRD, PARTICULARLY IN THE FIRST HALF OF THE 1970'S THREE OTHER FACTORS ON THE INTERNATIONAL SCENE,

PERMITTED CANADIAN INCOMES TO GROW MORE QUICKLY THAN CANADIAN PRODUCTIVITY. CANADA CHANGED FROM A RATHER SMALL TO A LARGE NET USER OF THE SAVINGS OF FOREIGNERS; PRICES OF CANADA'S EXPORTS INCREASED MORE THAN HER IMPORTS (TECHNICALLY CALLED AN IMPROVEMENT IN THE COUNTRY'S INTERNATIONAL TERMS OF TRADE); AND CANADA'S NET ENERGY EXPORTS INCREASED. ALL OF THESE PERMITTED CANADA TO CARRY ON A LARGER LEVEL OF INVESTMENT OR PUBLIC AND PRIVATE CONSUMPTION THAN WOULD BE PERMITTED BY OUR OUTPUT. IN THE EVENT, INVESTMENT IN ELECTRICAL GENERATION AND TRANSMISSION AND PUBLIC (GOVERNMENT AND GOVERNMENT-AIDED) CONSUMPTION ACTIVITIES WERE THE BIG BENEFICIARIES. NONE OF THESE SPECIAL FACTORS APPEARS LIKELY TO ALLOW US TO HAVE A GROWING GAP BETWEEN OUR PRODUCTION AND OUR USE OF RESOURCES IN THE FUTURE AS IN THE DECADE LEADING UP TO THE MID-1970'S.

MY ARGUMENT IS THAT THE GROWTH OF OUTPUT AND THE INCOME AVAILABLE TO CANADIANS IS LIKELY TO PROVIDE US A MUCH NARROWER ROOM FOR MANOEUVRE FOR EXPANDING INVESTMENT AND PUBLIC AND PRIVATE CONSUMPTION IN THE DECADE AHEAD THAN THEY DID IN THE POSTWAR PERIOD. BUT WE ARE STILL TALKING ABOUT GROWTH IN REAL OUTPUT AND INCOME FOR CANADIANS. AND THERE ARE BRIGHT SIDES TO THE CANADIAN PROSPECTS.

THOUGH DEFICIENT IN OIL, CANADA IS AND IS LIKELY TO CONTINUE TO BE IN SURPLUS IN ENERGY, AT COMPARATIVELY NOT HIGH COSTS BY WORLD STANDARDS. CANADA HAS A LONG TRADITION AND INSTITUTIONAL ENCOURAGEMENT TO HIGH PERSONAL SAVINGS RATES. INCREASES IN DOMESTIC ENERGY PRICES CAN BE USED IN PART AS A SOURCE OF REVENUE FOR INVESTMENT IN ENERGY DEVELOPMENT AND CONSERVATION. CANADIAN COSTS AND EXCHANGE RATES ARE NOT UNCOMPETITIVE IN WORLD TERMS NOW. CANADIAN EXPORT INDUSTRIES ARE PRESENTLY ENGAGED IN THE DEVELOPMENT OF NEW PRODUCTIVE CAPACITY WHICH SHOULD YIELD LARGER OUTPUT, JOBS AND SALES BEFORE MANY YEARS HAVE PASSED. CANADA'S ELECTRICAL GENERATING CAPACITY MAY LOOK TO BE EXCESSIVE BY CANADIAN STANDARDS NOW, BUT THE DEFICIENCIES IN THE UNITED STATES PRESENT ATTRACTIVE MARKETS.

TO REALIZE ON THESE BRIGHT PROSPECTS, HOWEVER, IT WILL BE ESSENTIAL TO WORK OUT:

1. A SOLUTION TO THE INCREASE IN THE PRICE OF ENERGY IN CANADA, AND A DIVISION AND USE OF THE FUNDS THAT SUCH INCREASES WILL GENERATE;
2. A PATH THROUGH THE ADJUSTMENTS WITHOUT A BIG ACCELERATION OF INFLATION IN CANADA;
3. MAINTENANCE OF HIGH SAVINGS RATES IN CANADA;

4. A HIGH PRIORITY TO INVESTMENT AS COMPARED WITH PUBLIC AND PRIVATE CONSUMPTION;
5. PROBLEMS PROVIDED BY A LIMITED ROOM FOR MANOEUVRE BY GOVERNMENTS IN CANADA, ASIDE FROM THE RESOURCE INCOME-RICH GOVERNMENTS, UNLESS THEY ARE PREPARED TO RAISE TAX RATES.

### INFLATION

I HAVE NEITHER THE TIME NOR THE INCLINATION TO GIVE YOU A LONG DISCOURSE ON INFLATION. I MAINLY WANT TO POINT TO THE IMPLICATIONS OF OUR INFLATION SITUATION FOR DIFFERENT GROUPS OF GAINERS AND LOWERS IN THE SOCIETY, TO COMMENT BRIEFLY ON HOUSING AND INFLATION, AND TO DRAW ATTENTION TO THE ENORMOUS IMPLICATIONS OF INFLATION PROSPECTS FOR CANADIAN POLICY REGARDING RETIREMENT INCOMES.

BEFORE TURNING TO THESE MATTERS, LET ME REMIND YOU OF A FEW GENERAL FEATURES OF OUR INFLATION PICTURE AND PROSPECTS. FIRST, THE CURRENT COMPARISON OF U.S., WITH MEASURED INFLATION IN THE HIGH TEENS OF INCREASE IN PER CENT PER YEARS, AND CANADA BELOW TEN, EXAGGERATES THE U.S. PROBLEM AND IS TOO TRANQUIL A VIEW OF THE

CANADIAN PROBLEMS. THE U.S. HAS, IN THE LAST YEAR OR SO, ADJUSTED TO ABOUT A \$6 PER BARREL INCREASE IN THE AVERAGE PRICE OF CRUDE PETROLEUM IN DOMESTIC USE AND EQUIVALENT DEGREES OF INCREASE IN NATURAL GAS PRICE. OUR BIG INCREASES LIE AHEAD. THE U.S. CONSUMER PRICE INDEX EXAGGERATES THE REAL EFFECT OF HIGHER INTEREST RATES ON HOMEOWNERS, AND OURS UNDERSTATES THE REAL EFFECT. THE U.S. HAS BEHIND IT A BIG CONSUMER SPENDING BOOM, ENCOURAGED BY CREDIT EXPANSION, WHERE MUCH OF THE RELATED INTEREST COST IS CHARGEABLE AGAINST PERSONAL INCOME TAXES. AS 1980 AND 1981 DEVELOP, CANADA PROBABLY HAS WORSE DAYS AHEAD IN MEASURED RATES OF INFLATION AND THE UNITED STATES BETTER DAYS.

SECOND, A CRITICAL ISSUE FOR CANADA IS WHETHER WE BUILD INTO OUR INFLATION, NOT PERMANENTLY, BUT IN AN ENDURING WAY, SIGNIFICANTLY HIGHER RATES OF INFLATION, BY EFFORTS OF VARIOUS GROUPS IN THE COMMUNITY TO PROTECT THEMSELVES AGAINST HIGHER ENERGY PRICES AND INTEREST RATES. CANADA HAS BY NOW A STRONGLY INDEXED AND QUASI-INDEXED ECONOMY, ONE THAT IS MORE SENSITIVE TO SPIRALS THAN IN THE PAST. FORTUNATELY, THE OVERALL SYSTEM OF INFLATION PROTECTION IS STILL PARTIAL RATHER THAN COMPLETE; THERE ARE LIMITS TO HOW MUCH AN UPWARD INFLATIONARY SHOCK WILL BE ACCENTUATED IN DEGREE AND EXTENDED IN TIME BY OUR SYSTEM OF, WHAT I CALL "INDEXATION-WRIT-LARGE". BUT THE ECONOMY HAS A FRAGILITY ABOUT IT WITH RESPECT TO INFLATION. PEOPLE CAN TAKE IT IN THEIR HEADS TO TRY TO GET MORE OUT OF THE ECONOMY THAN IS POSSIBLE.

PEOPLE CAN CERTAINLY GO ON A SPENDING SPREE TO BEAT INFLATION, AS THEY HAVE ON OCCASIONS IN THE PAST, AND AS MANY APPARENTLY DID IN THE UNITED STATES IN 1979.

HOW MUCH INFLATION ARE WE TALKING ABOUT? IN ITS SIXTEENTH ANNUAL REVIEW THE ECONOMIC COUNCIL OF CANADA WAS FAR FROM THE MOST PESSIMISTIC OF THE ANALYSTS. YET THEIR PREDICTION OF INFLATION AVERAGED 8½% PER ANNUM COMPOUNDED TO 1985, WITH HIGHER RATES IN THE EARLY THAN THE MIDDLE 80'S. SUCH INCREASES WOULD REDUCE PURCHASING POWER OF A 1980 DOLLAR BY CLOSE TO 40% BY 1986 AND CLOSE TO 60% BY 1990. IN REAL TERMS IF YOU WERE TO RETIRE ON A FIXED DOLLAR PENSION OF \$10,000.00 A YEAR IN 1980, YOUR REAL PENSION WOULD BE WORTH ABOUT \$4,000.00 1980 DOLLARS WITHIN A DECADE.

LET ME TURN TO SOME AREAS THAT MAY INTEREST YOU.

FIRST, A FEW WORDS ON GAINERS AND LOSERS FROM INFLATION. JUDGED BY INCOME LEVELS, OUR EVIDENCE CONTINUES TO SUGGEST THAT THE POORER PEOPLE HAVE NOT BEEN RELATIVE LOSERS FROM THE INFLATION EXPERIENCE OF THE 1970'S IN CANADA. MANY POOR PEOPLE ARE STILL POOR. BUT INDEXATION OF THEIR INCOME MAINTENANCE AND WELFARE PROGRAMS, AND THE PATTERNS OF TAX AND EXPENDITURE CHANGES, ETC. HAVE AT LEAST PREVENTED THEM FROM BECOMING POORER DUE TO THE INCIDENCE OF INFLATION. OUR EVIDENCE ALSO SHOWS THAT THOSE MIDDLE INCOME PEOPLE WHO WERE HOMEOWNERS WITH SOME SIGNIFICANT BUT INCOMPLETE EQUITY IN HOUSES, DID NOT LOSE OUT EITHER; BUT MAINLY BECAUSE INFLATIONARY GAINS ON THEIR HOUSING OFFSET INFLATIONARY LOSSES ON OTHER INCOME. HIGHER INCOME PEOPLE LOST IN THE 1970'S, MAINLY BECAUSE THEIR INVESTMENT INCOME DID NOT KEEP UP WITH INFLATION.



JUDGED BY AGE, THE BIGGEST GROUP OF LOSERS FROM INFLATION WERE THE OLD, THOUGH THE POOR OLD WERE PROTECTED BY THE INDEXATION OF THE OAS, THE INCREASES IN THE GIS AND FOR SOME, THE INDEXATION OF THE CPP AND QPP. THERE CONTINUE TO BE MANY POOR AMONG THE OLD, BUT THEY DID NOT BECOME EVEN POORER FROM INFLATION DUE TO THE INDEXATION PROTECTION.

THE PROBLEM OF HOUSING AND INFLATION IS ON THE MINDS OF MANY CANADIANS NOW, PARTICULARLY THOSE WHO ARE FACING RENEWAL OF AHOP MORTGAGES AT CURRENT HIGH INTEREST RATES. FOR THE VAST BULK OF CANADIAN HOMEOWNERS, INFLATION HAS BEEN A HELP IN THE 1970'S. HOUSING PRICES HAVE INCREASED. MORTGAGE FINANCE HAS BEEN PLENTIFUL. AND, IN GENERAL, MORTGAGE INTEREST RATES HAVE NOT FULLY REFLECTED INFLATION. PROVIDING THAT THE HOMEOWNERS COULD COPE WITH THE CASH FLOW PROBLEM OF FINANCING THE FIRST FEW YEARS OF LARGE MORTGAGES, WHAT APPEARED AS SUBSTANTIAL REAL GAINS OF WEALTH COULD BE ACQUIRED BY HEAVY INVESTMENTS IN HOUSING. NOW HOWEVER, PARTICULARLY FOR AHUP MORTGAGES, BUT ALSO FOR MANY OTHERS THAT ASSUMED A HIGH MORTGAGE DEBT SERVICE RELATIVE TO THEIR INCOMES, A SEVERE CRUNCH HAS APPEARED. MORTGAGE RENEWALS THAT REFLECT CURRENT HIGH INTEREST RATES AND INFLATION EXPECTATIONS HAVE GREATLY INCREASED THE IMMEDIATE BURDENS OF DEBT SERVICE.

INCOME PROSPECTS MAY NOT KEEP UP WITH INFLATION OVER THE NEXT TWO OR THREE YEARS. EXISTING EQUITIES IN MUCH OF THE MEDIUM AND LOWER PRICED HOUSING BOUGHT IN THE 1970'S ARE SMALL. IN THE HOUSING MARKET, MANY WILL HAVE TO BE DISPOSED OF IN A DEPRESSED PERIOD.

THE THIRD MATTER OF PARTICULAR CONCERN TO YOU WILL BE RETIREMENT INCOMES AND INFLATION. LET ME SIMPLY NOTE FOR YOU THE BIG DIFFERENCES BETWEEN THE PUBLIC SECTOR OF CANADA'S PENSION SYSTEM (UAS/GIS, AND C/QPP) AND THE EMPLOYER-BASED PART OF THE SYSTEM. AS YOU KNOW, THE PUBLIC PART OF THE SYSTEM HAS WIDE COVERAGE IN CANADA, THOUGH IT HAS SOME HOLES, PARTICULARLY IN THE TREATMENT OF WOMEN. IT IS PREDOMINANTLY PAY-AS-YOU GO. THE EMPLOYER-BASED SYSTEMS ARE A MUCH MORE MIXED BAG. THEY ARE MAINLY FUNDED SYSTEMS. LARGE PROPORTIONS OF CANADIANS ARE NOT INCLUDED AT ALL.

FOR THOSE IN THE SYSTEM, VESTING AND PORTABILITY CHARACTERISTICS VARY FROM GOOD TO VERY POOR. THOSE COVERED RECEIVE INCOME REPLACEMENT FROM THEIR PENSION, VARYING FROM A PITTANCE TO 70 PER CENT, SOMETIMES MORE, OVER AND BEYOND WHAT THEY RECEIVE FROM THE PUBLIC PART OF THE SYSTEM; BUT THE MEAN LEVELS OF REPLACEMENT INCOME OF PEOPLE WHO HAVE RETIRED FROM SUCH PENSION PLANS IN RECENT YEARS IS ESTIMATED TO BE BELOW 20 PER CENT.

THE FEATURE I WANT PARTICULARLY TO REMARK ON HOWEVER IS THE INFLATION PROTECTION OF THE PUBLIC AND THE EMPLOYER-BASED PARTS OF CANADA'S PENSION PLAN. GENERALLY SPEAKING, THE PUBLIC PART OF THE SYSTEM IS BY FORMULA OR DISCRETION, FULLY INFLATION-PROTECTED. NO PARTICULAR BURDEN ARISES FROM THIS FACT EITHER. AS I NOTED, THE SYSTEMS ARE ESSENTIALLY PAY-GO, OR BASED ON THE GENERAL REVENUE FUND, EXCEPT FOR A SMALL FUNDING PORTION TO THE CPP/QPP. UNDER SUCH SCHEMES, WITH INFLATION, BENEFIT LEVELS INCREASE MORE OR LESS IN STEP. BUT SO DOES THE CONTRIBUTION OR TAX BASE, SO THAT, WITH CONTRIBUTION RATES FIXED IN PROPORTION TO INCOME, OR THE WAGE BILL OR THE TAX BASE, CONTRIBUTIONS CAN ROUGHLY KEEP IN STEP WITH INFLATION TOO.

EXCEPT FOR CERTAIN PUBLIC SECTOR EMPLOYER-BASED SYSTEMS, GENERALLY SPEAKING THE EMPLOYER-BASED SYSTEMS ARE FAR FROM INFLATION PROTECTED. EITHER BY FORMULA, OR BY DISCRETION OR BY DESIGN, BENEFITS DO GO UP SOMEWHAT AS INFLATION GOES UP, MORE SO WHEN BENEFIT ACCUMULATIONS ACCRUE PRIOR TO RETIREMENT, THAN AFTER RETIREMENT WHEN BENEFITS ARE DRAWN. MOST EMPLOYER-BASED PENSIONS ARE FUNDED, AND EARNINGS IN NOMINAL DOLLARS MAY INCREASE WITH INFLATION AND HIGHER NOMINAL INTEREST RATES AND PROFIT LEVELS. BUT THE MATCHUP IS VERY FAR FROM COMPLETE, AND VERY DIFFICULT TO MANAGE UNDER THE BEST OF CIRCUMSTANCES.

WHILE NONE OF THE PROBLEMS OF IMPROVING THE EMPLOYER-BASED PART OF THE RETIREMENT INCOME SYSTEM ARE ALL THAT EASY TO SOLVE, THE MOST DIFFICULT IN MY JUDGEMENT, IS COPING WITH INFLATION. INDEED, THE OPINION IS WIDELY HELD THAT, EMPLOYER-BASED SYSTEMS, PARTICULARLY OTHER THAN THOSE OF THE FEDERAL GOVERNMENT, WILL NOT BE ABLE TO COPE WITH THE INFLATION PROTECTION PROBLEM BY THEMSELVES. THIS LEADS TO DIFFERENT RECOMMENDATIONS FOR THE PUBLIC ROLE IN PENSIONS.

ONE APPROACH WOULD INVOLVE THE DEVELOPMENT OF A GOVERNMENT-BASED SYSTEM OF INFLATION INSURANCE OR INDEXED BONDS TO PROVIDE INSTRUMENTS WHICH THE EMPLOYER-BASED SYSTEMS CAN USE IN THEIR EFFORTS TO COPE WITH THE INFLATION PROTECTION PROBLEM. THE OTHER -- AND THE ONE RECOMMENDED BY THE SENATE COMMITTEE ON RETIREMENT -- IS TO SUBSTITUTE IN LARGE MEASURE AN EXPANSION OF THE PUBLIC PART OF THE PENSION SYSTEM FOR THE EMPLOYER-BASED SYSTEM. DEPENDING ON HOW THIS MAY BE DONE, E.G. IF A PREDOMINANTLY PAY-GO SYSTEM REPLACES A PREDOMINANTLY FUNDED SYSTEM, MASSIVE CHANGES COULD BE INTRODUCED IN SAVINGS RATES, INVESTMENT AND ECONOMIC GROWTH IN CANADA.

ECONOMIC GROWTH VERSUS SOCIAL DEVELOPMENT

MY PENULTIMATE OBSERVATIONS CHIEFLY CONCERN SOME OF THE ISSUES OF THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND SOCIAL DEVELOPMENT. THE ECONOMIC GROWTH PROSPECTS I HAVE SKETCHED WILL ACT AS A CONTINUING CONSTRAINT ON TACKLING SOCIAL DEVELOPMENT ISSUES BY JUST ADDING MORE MONEY TO DEAL WITH THE PRESSING NEEDS, LEAVING THE EXISTING STRUCTURE LARGELY INTACT. PRESSING NEEDS THERE ARE, AND EACH OF US HAS OUR OWN LIST. MINE BEGINS WITH THE OBSERVATION THAT THE PRINCIPAL BENEFICIARIES OF MANY OF THE SOCIAL DEVELOPMENT POLICIES OF THE LAST THIRTY-FIVE YEARS HAVE BEEN MIDDLE AND BETTER INCOME GROUPS OF THE COMMUNITY RATHER THAN THE LOWER INCOME GROUPS. IT IS TRUE THAT THE MIDDLE INCOME GROUPS HAVE ALSO PAID A LARGE PART OF THE COSTS OF THE PROGRAMS THROUGH INCREASED TAXES. BUT THE HORIZONTAL EQUITY OF THE FISCAL SYSTEM IS ROUGH AND READY AND I SUSPECT HAS GOT WORSE IN CANADA DURING THE LAST SIX TO SEVEN YEARS. I BEGIN TOO FROM THE VIEW THAT MANY OF THE SOCIAL DEVELOPMENT POLICIES ARE QUITE GOOD IN SOCIAL TERMS AND AT LEAST TOLERABLE IN ECONOMIC TERMS.

BUT THERE ARE NOTABLE IMPERFECTIONS FROM BOTH SOCIAL AND AN ECONOMIC POINT OF VIEW -- FOR EXAMPLE IN SOME PARTS OF UNEMPLOYMENT INSURANCE SYSTEM, AND IN SOME PARTS OF THE MEDICAL AND PENSION SYSTEMS. IT SHOULD BE POSSIBLE TO DO A BETTER JOB FOR THE CURRENT OUTLAYS, THOUGH I RECOGNIZE THAT CHANGE WILL BE DIFFICULT BECAUSE THE CURRENT NET BENEFICIARIES OF ANY PROGRAM FEEL THEY HAVE A RIGHT TO THE CONTINUATION OF THOSE BENEFITS.

AGAINST THIS BACKGROUND, THERE REMAIN PRESSING NEEDS TO BE MET: E.G., THOSE OF OLD PEOPLE IN BAD HEALTH, WITH LOW ENERGY, AND LOW INCOMES; THOSE OF HANDICAPPED PEOPLE; SINGLE PARENT FAMILIES; THE SPECIAL PROBLEMS OF NATIVE PEOPLES. THE RETIREMENT INCOME SYSTEM IN CANADA WOULD HAVE TO HAVE MORE SUPPORT, EVEN TO MAINTAIN THE CURRENT LEVEL OF BENEFITS IN RELATIONSHIP TO INCOME, AS THE PROPORTION OF OLD PEOPLE TO WORKING AGE POPULATION INCREASES. AS YOU WOULD GATHER FROM MY REMARKS, THE RETIREMENT INCOME SYSTEM NEEDS CONSIDERABLE IMPROVEMENT IN BENEFITS, IN MY JUDGEMENT.

WELL, IF NEEDS ARE PRESSING, AND REFORM OF EXISTING PROGRAMS IS DIFFICULT, AND RESOURCES AVAILABLE ARE SCARCE, HOW ARE WE TO PROCEED? THOUGH IT IS REGARDED

AS HERETICAL BY SOME PEOPLE, I BELIEVE THAT WE ARE GOING TO HAVE TO REEXAMINE SELECTIVITY IN SOCIAL DEVELOPMENT PROGRAMS; AND ALSO WAYS OF PHASING OUT AND ADJUSTING SOME OF THE EXISTING UNIVERSAL SYSTEMS. WE ARE CERTAINLY GOING TO HAVE TO REEXAMINE THE FIT, I SHOULD SAY MISFIT, OF THE TAX SYSTEM AND THE INCOME MAINTENANCE SYSTEMS OF THIS COUNTRY.

#### FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

I CONCLUDE WITH A FEW OBSERVATIONS OF THESE ISSUES OF FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS, WHICH WILL HAVE PROFOUND EFFECTS ON BOTH ECONOMIC DEVELOPMENT AND SOCIAL DEVELOPMENT POLICIES IN CANADA. IN THE SIXTEENTH ANNUAL REVIEW OF THE ECONOMIC COUNCIL OF CANADA, WE SHOWED HOW THE FISCAL BALANCE OF CANADA WAS OUT OF WHACK, BOTH WITH HIGH CONTINUING DEFICITS FOR ALL GOVERNMENTS IN CANADA COMBINED, AND WITH A HIGH CONCENTRATION OF THOSE DEFICITS ON THE FEDERAL GOVERNMENT. WE SHOWED THE CHANGES BROUGHT ABOUT IN THE MID TO LATE 1970'S, WHICH ENTRENCHED THESE IMBALANCES INTO OUR ECONOMIC AND FISCAL STRUCTURE. WE SHOWED THAT SERIOUS PROBLEMS OF IMBALANCE EXISTED, EVEN BEFORE ACCOUNT IS TAKEN OF THE WEALTH TRANSFERS WHICH WOULD ACCOMPANY INCREASES IN THE PRICE OF ENERGY UNDER THE EXISTING FISCAL SYSTEM.

THE CENTRAL IMPLICATION OF THAT ANALYSIS IS THAT A NEW ERA IS UPON US. INSTEAD OF INCREASED TRANSFER OF FISCAL RESOURCES FROM THE FEDERAL GOVERNMENT TO THE PROVINCIAL GOVERNMENTS (AND LOCAL GOVERNMENTS AND HOSPITALS), PROVINCES WOULD BE FACED WITH CARRYING A LARGER SHARE OF EXPENDITURES OR TAKING SMALLER SHARES OF REVENUES IN THE FUTURE. A PARTICULARLY DIFFICULT PART OF THIS ISSUE IS THE ENORMOUS INCREASE IN THE FISCAL STRENGTH OF THOSE PROVINCES WITH LARGE AND EXPANDING NATURAL RESOURCE REVENUES, COMPARED WITH THOSE WHO DO NOT HAVE MUCH OF SUCH REVENUES.

WITH THE PRESENT ROOM FOR MANOEUVRE OF THE FEDERAL GOVERNMENT, IT HAS LIMITED ABILITY TO COPE WITH THIS PROBLEM; NOT HAS IT ADEQUATE ABILITY TO COPE WITH THE PROBLEMS OF FISCAL IMBALANCE THAT AROSE QUITE APART FROM THE NATURAL RESOURCE REVENUE QUESTION. THE UPSHOT IS A VERY DIFFICULT PERIOD OF REWORKING OF FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS IN CANADA, A SETTING NOT CONDUCIVE TO STRONG FEDERAL SUPPORT IN SOCIAL OR IN ECONOMIC DEVELOPMENT POLICIES (BY ITSELF OR IN CONCERT WITH THE PROVINCES).



HN/105/.P52/1980

Slater, David W

Planning

perspectives for the dlzy

c.1 tor mai