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Lest We Forget: Why Canada Needs Strong Social Programs

The race is on to decentralize the federal government and to slash social spending in order to save Canada. Unfortunately, the decentralizers and social program bloodletters may well destroy the country before they save it.

In the wake of the anemic no vote in the referendum, federal politicians will feel compelled to carve up pieces of Ottawa as a show of 'good faith' to Quebec. They are also under pressure from several provincial politicians who are chomping at the bit for more power. At least one premier has admitted that the sovereignty cause, by seeking to wrench powers from Ottawa, actually promotes the interests of provinces outside Quebec that want to take over areas of federal jurisdiction.

But what about the interests of Canadians? What about the interests of vulnerable Canadians?

In the rush to react to the historical event of October 30, politicians may forget all too quickly the history of the past 50 years. Remembrance Day cannot come soon enough.

lest we forget

Lest we forget why the generation for whom Remembrance Day is a living memory said never again to the economic devastation and social despair of the Great Depression. Lest we forget why they supported the development of a national system of social security as an antidote to hunger, helplessness and deprivation.

Lest we forget that social programs helped create the compassionate society and support the robust economy that now seem a nostalgic memory. Lest we forget that social programs greatly reduce the glaring inequalities between rich and poor Canadians and between have and have-not provinces. Above all, lest we forget that Canada's health care and social security system never would have come to be without federal leadership and federal dollars.

Questions have arisen in the past and are front-and-centre today about the appropriate role that the federal government can and should play in social policy – a large, complex and costly undertaking that it shares with the provinces. Yet before Ottawa runs to sell the shop, it should examine carefully not only who-does-what but also the issue of why-who-does-what.

Over the years, the federal government spent its way into social policy. The spending power provisions of the Constitution grant Ottawa the authority to direct funds towards purposes that support "peace, order and good government." This spending power has allowed the federal government to tread in areas that were neither within its constitutional territory nor envisioned by the founders of the nation. It was Ottawa's superior fiscal capacity - its capacity to tax and borrow – that enabled it to create its own social programs and help the provinces build theirs.

Ottawa delivers public pensions (Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance and the Canada Pension Plan), Unemployment Insurance, the Child Tax Benefit and veterans' programs. The provinces are responsible for welfare, Workers' Compensation, social services, medicare and education, and Quebec operates the Quebec Pension Plan. Both levels of government are involved in training and other employment development services, and deliver social benefits through the income tax system.

But Ottawa's role in social policy goes far beyond its own programs. For decades, it has shared a significant part of the cost of medicare, welfare, social services and postsecondary education. Without federal cash and federal leadership (in the form of conditions it imposes on medicare and welfare), many provinces never would have been able to build their health care systems and social infrastructure. The citizens of have-not provinces have especially benefited both from federal support for provincial social programs and federal programs such as old age pensions, Unemployment Insurance and child benefits. Federal equalization payments enable all provinces to provide public services at the level of the national average without having to resort to unusually high taxes of their own.

Canada's social security system is not without flaws, and it needs refurbishing to better meet the onerous demands of our rapidly changing society and economy. Social programs are struggling to cope with tough problems resulting from mass unemployment and underemployment, low wages, persistent poverty, marriage breakdown, economic upheaval and an aging population.

Unfortunately, we too often forget the remarkable accomplishments of social policy. This collective amnesia is understandably most evident among middle-aged and young Canadians, who have grown up taking social programs for granted.

The public pension system provides a *de facto* guaranteed income for seniors and plays a crucial role in meeting the retirement income needs of the majority of pensioners. Unemployment Insurance and welfare, however flawed these beleaguered programs may be, furnish a vital safety net for those who cannot find work or cannot work. The Child Tax Benefit delivers a badly-needed income supplement to low- and modest-income families with children, and the Working Income Supplement an additional benefit to working poor parents.

Universal medicare put an end to the bad old days of cash-register health care, when the kind and quality of care depended on what people could afford to pay, forcing the poor to rely upon charity medicine or – worse – to go without. Social services provide essential support to thousands of Canadians, including persons with disabilities, children of working parents and the elderly. Workers' Compensation protects employees who suffer injury or disability while on the job, and their employers from lawsuits.

Social programs are far more effective than most people realize in combatting the growing inequality that threatens Canada's economic health and social stability. The gap between rich and poor has widened in recent years in terms of their shares of income from the marketplace (i.e., employment, investments, private pensions and other private sources). But social programs and the income tax system greatly reduce the income gap, and have fully offset growing inequalities in income obtained from the labour market, stock market and private savings. Families in the highest income group have 22 times greater a share of market income than those in the lowest income category; the gap between well-off and poor families narrows to 5 times once income security benefits and the income tax system are factored into the equation.

The lessons from the past provide important guidance for the future. Ottawa's financial fortunes have fallen on hard times, and the federal government is determined to put its fiscal house in order – mainly by making massive cuts to social spending. But we must not forget that the federal government alone has the fiscal capacity to ensure that all Canadians, regardless of residence, age or other circumstances, have an adequate system of income security, medicare and social services.

we forgot

The massive growth in Canada's social security system in the 1950s, 1960s and early 1970s was fuelled by an expanding economy that allowed governments to collect more taxes than they spent. But the oil shock in 1973 and rising unemployment and inflation in 1974 and 1975 ushered in a big chill in Ottawa's fiscal climate that has lasted to this day. Slowing economic growth, deepening deficits and escalating debt financing costs put a freeze on the expansion of social programs. The federal government began to look upon the sacred cow of social programs as a fatted calf.

Between 1984 and 1993, the Mulroney government stealthily dismantled much of the social security system that had taken decades to construct. While arguably some of these changes had merit, Canadians had no say in reshaping their social policy. Through skillful use of complex technical measures such as partial indexation and clawbacks, the Conservatives managed to transform social programs and slice billions in social spending while for the most part avoiding public debate and political controversy.

The Tories killed supposedly sacrosanct universal old age pensions and family allowances. They made two deep cuts to Unemployment Insurance and ended federal financial contributions to the program, placing the full cost burden on employees and employers. They reduced the social housing budget.

Partial indexation proved a powerful cost-cutting and revenue-generating tool. By only partially indexing income tax brackets and credits, the Conservatives built the well-hidden machinery to make automatic increases to federal and provincial income taxes each year that hit the working poor hardest. By partially indexing the refundable GST credit, they effectively imposed a hike in the GST for only one group in society - the very poor. The Child Tax Benefit, also partially indexed, is being steadily eroded by inflation every year.

While the Conservatives' efforts at formal constitutional reform failed resoundingly, they were quietly successful in making *de facto* constitutional change by eroding the federal spending power. They partially de-indexed and then froze federal transfer payments to the provinces for medicare and postsecondary education under Established Programs Financing (EPF). They capped federal cost-sharing under the Canada Assistance Plan (CAP) for welfare and social services in Ontario, Alberta and BC.

Ottawa's unilateral changes marked the end of the era of cooperative federalism and the beginning of the federal government's retreat from its social policy partnership with the provinces. The primary objective of Finance Minister Michael Wilson (and his successors) was to cut spending. But he set in motion changes that inevitably would lead to a reconfiguration both of Canada's social security system and Confederation.

When the Chrétien government took power in 1993, the federal social policy field already had been substantially narrowed. The Liberals kept in place the hidden mechanisms of stealth inherited from the Tories, but quickly strode much farther down the path of cuts and devolution. The Finance Minister's 1994 Budget carved the biggest slice out of Unemployment Insurance in history, removing a projected $5.5 billion between 1994-95 and 1996-97. His 1995 Budget instructed the Minister of Human Resources Development to cut at least $700 million more in 1996-97. Larger cuts are expected in soon-to-be-introduced legislation to restructure UI.

The most profound shift in postwar social policy was the 1995 Budget's announcement that the

Canada Assistance Plan and Established Programs Financing will be dismantled and combined into a single new block fund called the Canada Health and Social Transfer (CHST). The decentralizing CHST will bring three enormous losses - the loss of federal dollars, the loss of a national legislative base for welfare and social services, and the loss of Ottawa's ability to maintain medicare.

The CHST transfers to the provinces will total $26.9 billion in 1996-97 ($2.5 billion less than the old system) and $25.1 billion ($4.5 billion less) in 1997-98. The cash portion of the transfer (the rest comes in the form of taxing power that Ottawa gave the provinces) will fall from $16.3 billion in 1995-96 to $12.8 billion in 1996-97 and $10.3 billion in 1997-98. These losses will hit the provinces hard, weakening their capacity and inclination to sustain current budgets for health care, welfare, social services and postsecondary education.

But there is more to the story than large up-front cuts in federal transfers over the next few years. Cash payments will decline steadily if the CHST continues to use the Tories' partial indexation formula of growth-in-GNP-less-three percentage points. The money will disappear altogether within 12 to 14 years depending upon the design of the CHST.

Dwindling dollars will undermine Ottawa's ability to enforce conditions or standards for medicare, welfare and social services. It can do this only through the power of the purse; no cash effectively means no clout. This political fact of life was restated forcefully at the First Ministers' meeting last August, when the provinces told the federal government: "No pay, no play."

The 1995 Budget called upon the Minister of Human Resources Development to "invite all provincial governments to work together on developing, through mutual consent, a set of shared principles and objectives" for the new transfer. However, the provincial Premiers have stated in no uncertain terms that *they* will take responsibility for setting standards for the delivery of welfare programs and social services which fall, after all, within their constitutional purview. These 'stand-ards' could be so vague as to be meaningless or, worse, will be used to justify even lower levels of social provision than currently exist. British Columbia just announced that it will defy the sole remaining condition for welfare - the prohibition of residency requirements.

The CHST also will bring a loss of the legislative base for welfare and social services, the implications of which are profound. The new arrangement will transfer funds as a block – which is more palatable to provinces than cost-shared arrangements which 'tie their hands.'

However, there is a problem with no-strings-attached federal money. The dollars intended for human services could be used for whatever purposes the provinces desire – for social programs or otherwise. Welfare and social services will be particularly vulnerable under the CHST. Already the poor cousin of social policy, they likely will fare much worse in the scramble for shrinking funds than health care and postsecondary education, which are much more politically popular and seen as serving the needs of all - rather than only the undeserving few.

But even medicare is in jeopardy. If federal transfers continue to fall, even before they disappear, Ottawa will lose its political authority and fiscal stick to enforce the conditions of the Canada Health Act. A double-standard two-tier health care system – one for the rich, one for the rest – will be the inevitable and lamentable result.

strong social policy for a strong Canada

Social programs played a major role in building Canada's society, economy and political system over the past 50 years. It is social programs that made Canada a distinct society. They have an equally important part to play in rebuilding Canada.

Social programs must change, along with our political institutions, to meet the shifting demands of society, the labour market and the economy. But governments have for the most part weakened social programs in response to the fiscal crisis. We need strong and efficient social programs for a strong Canada.

We cannot and should not turn back the clock to the social programs of yesteryear, but we do need a revival of the spirit and practice of cooperative federalism in order to build an effective new social security system. While some decentralization makes sense, the federal government should maintain a stable fiscal presence in provincial social programs and should augment its role in the crucial area of income security.

Ottawa should cede to the provinces responsibility for labour market policy, which currently suffers from wasteful duplication of efforts between the two levels of government. Training and other employment development services logically should be integrated with the education system, a provincial jurisdiction, and delivered at the community level through partnerships among government, educational institutions, labour and employers. However, mechanisms are needed to ensure interprovincial coordination of resources and training standards.

The federal government will reap billions of dollars in savings when it brings in the Canada Health and Social Transfer in 1996-97. It must not allow the fund to dry up after that. Instead, Ottawa should deliver the CHST as a cash transfer that is tied to the performance of the economy as measured by the full change in GNP. It should restore the traditional and vital counter-cyclical economic function of welfare by building into the transfer formula some indicator of demand.

An alternative would be for Ottawa to give the provinces greater revenue-generating capacity by ceding to them additional taxation power. But this form of fiscal decentralization would lead to widening inequalities among provinces with varying revenue bases - not to mention leaner federal coffers. Poorer provinces and those slammed by recessions would suffer; the social safety net would become a thin and frayed patchwork quilt, and universal medicare would be no more. Only the federal government, with its national taxation base, can redistribute revenues from strong to weak provinces through social programs and equalization payments.

The federal government must continue to play the central role in income security through public pensions, Unemployment Insurance, child benefits and veterans' pensions. Income security is one area of social policy where decentralization does not make sense. Only the federal government can ensure consistent benefits for all Canadians wherever they live and move throughout the country. In future, Ottawa should expand its role in income security by delivering benefits (e.g., for persons with disabilities, employable welfare recipients and children) that are currently provided by provincial welfare programs, so that welfare can revert to its original role of emergency, short-term support for a smaller number of people in need.

A stronger child benefit is needed to help deal with the growing and dangerous problem of child poverty. One in five children in Canada is poor; child poverty is at the highest level since Statistics Canada began publishing estimates in 1980.

While bolstering and re-indexing the federal Child Tax Benefit would help, a better reform is a fully-indexed 'integrated child benefit.' It would combine federal expenditures on child benefits with the amount that the provinces spend through their welfare systems in respect of children. The integrated benefit would be paid on behalf of all low-income children, regardless of their parents' sources of income, and would constitute a form of 'guaranteed income for children.' The new benefit would provide a badly-needed boost to the working poor, and would represent the first step in dismantling the much-maligned welfare system.

Unemployment Insurance should return to its original purpose as short-term insurance for the occasionally unemployed. Benefits for illness, temporary disability and maternity/parental leave would remain. Regionally extended and fishermen's benefits could be replaced by some form of income supplementation.

While UI reform is essential, a sole focus on income support misses the key point. The primary problem is not abuse of UI - but lack of jobs. The most effective social policy is an effective economic policy that invests in job creation, community economic development and skills development.

In addition to a reformed UI, the federal government should create a new program of income-tested support – let's call it 'employment assistance' – for those who exhaust their UI benefits and would have qualified for regionally extended benefits under the old scheme. Employable welfare recipients also would be eligible, in the process cutting welfare rolls almost in half.

The employment assistance program would help the long-term unemployed gain access to the supports they need to enter or re-enter the labour market. While Ottawa would deliver the income benefits, employment assistance must be linked to a wide range of employment development services (including skills training, information and referral, job counselling, apprenticeship, and language, literacy and numeracy programs) which would be delivered by the provinces.

The aging of the population and current climate of fiscal restraint have created apprehension among many Canadians about their future pension prospects. To ensure that old age pensions do not end up on the endangered species list and that the Canada Pension Plan does not go broke, changes are required to maintain the fiscal and political integrity of the public pension system.

Ottawa should keep the Guaranteed Income Supplement but replace Old Age Security, the Spouse's Allowance, the age credit and the pension income credit with a single, family-income tested old age benefit delivering the same level of net benefits for average-income pensioners and below, a smaller benefit to better-off seniors and nothing to the affluent. The new old age pension's benefits and income threshold must be fully indexed to the cost of living in order to prevent erosion of its value and a loss of benefits over time for middle-income pensioners.

The Canada Pension Plan could be strengthened by bolstering its earnings-replacement capacity and levying contributions on a wider range of earnings. All workers would benefit, most of all those with average wages or lower who rarely belong to employer-sponsored pension plans or can afford to contribute to RRSPs.

Social services - such as child care, child welfare, homemaker assistance and counselling – constitutionally belong to and are delivered by the provinces. However, Ottawa has played a crucial role by supporting the capacity of provinces to deliver a range of social services. Under the soon-to-be-defunct Canada Assistance Plan, the federal government helped build social services throughout the country by sharing 50 percent of their costs.

There must be stable federal transfer payments to ensure relative equity throughout the country in the availability and quality of social services. One way of offsetting the negative impact of the CHST block fund on social services is for Ottawa to transfer funds to the provinces for designated purposes, such as child care. Federal funds for this support of social infrastructure could be used for operating and/or capital costs - whatever provinces require to build a solid network of service. However, the funds would be tied to certain conditions (e.g., non-profit child care) that must be respected.

In short, Ottawa could use its constitutional spending power to build a better infrastructure of social services throughout the country. Every few years, the federal government could provide a one-shot injection of funds for different purposes, depending on national priorities. The latter could include personal supports for the elderly and persons with disabilities, child care, child welfare, children's mental health and juvenile justice services. This periodic infusion of funds should not replace the funding currently being directed under the CHST – especially since the latter likely will not be used extensively for social services.

However, the federal government could do more than simply support traditional social services. Relatively few dollars are directed towards 'natural' or preventive supports. Very little is spent on activities considered to be social investments, such as family resource centres or programs in which younger parents are matched with more experienced parents.

Even with the various cost-cutting moves over the past decade, social spending has continued to increase - mainly because of population aging and the precarious labour market. Some of our proposals, such as a larger child benefit, would require 'new' dollars. Our suggestion for a new old age benefit would slow the future growth of this large part of federal spending, but could not produce absolute cuts because of the aging population. At least some of the savings from a tighter UI program would be required to finance an employment assistance program. But 'new' dollars don't exist any more; there are only old dollars, and these are in short supply.

Clearly, a strong social security system cannot be built within a couple of years. The pace and extent of rebuilding will depend not only upon the trajectory of federal-provincial relations, but also upon the state of the economy and federal finances. The 1995 Budget forecast a growing operating surplus (thanks to a massive $25 billion cut in spending over the next few years), robust economic growth and a rapid slowdown in the rate of increase of the debt, which actually will ease slightly as a percentage of GDP. But political stability is required if there is any hope of stemming Canada's crippling debt financing costs, which rob money required to strengthen social programs.

The partially-indexed income tax system will continue to provide Ottawa and the provinces with the fiscal dividend of hidden tax increases that will become even more lucrative if unemployment eases and real wages improve. But there are fairer ways of apportioning the tax burden. A wealth tax would tap some of the massive and growing transfers in the form of inheritances from affluent seniors to their children. The many billions of dollars in benefits delivered through the tax system should be placed on the same reform table as social programs like pensions and Unemployment Insurance.

If Canada is to survive, Ottawa must provide courageous and effective leadership along the arduous road to rebuilding Confederation. In the difficult months and years to come, we need to consider how social programs have helped define this country. It is social programs that embody the values of a civil society - one in which people care for and about each other. It is social programs that civilize capitalism.

Most importantly, in these unstable political times, it is crucial to remember how much social programs have contributed to Canadian unity.

Lest we forget.

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