# Highlight Summary

# Promoting Equity for a Stronger Canada: The Future of Canadian Social Policy


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**Introduction:**

Since the 1990s, tax cuts and restrictive federalism have diminished the federal government's role in social programming, and federal fiscal contribution to provincial social programs is expected to decline. The current Conservative government envisions a future for social policy based upon a form of restrictive federalism in which programs delivered by different levels of government are distinct within their own jurisdiction.

The decentralization of social policy which this implies will reduce the federal government's accountability to the provinces and create discrepancies between provinces' services. Furthermore, it undermines a social contract between the federal government and the Canadian people based on a notion of shared rights and responsibilities. There is, in short, no pan-Canadian vision for social policy in this country.

CASW is deeply concerned about the impact these 'hands off' policies and practices will have on the health care, social inclusion, and social protection of Canadians. In this report, CASW reaffirms the importance of a pan-Canadian vision of social policy based upon a concept of coordinated federalism in which the federal government negotiates with the provinces and territories and helps to finance social programs under certain guiding principles. It is a vision ensuring that all Canadians have basic rights to a common minimum standard of service across the country.

Coordinated federalism does not preclude provinces and territories from administering their own programs or establishing their own goals. It follows the lead of the European Union which uses an open method of coordination which has a proven record of bringing governments of widely different perspectives and persuasion together to tackle common problems. Coordinated federalism is also grounded in two fundamental principles: constitutionality and economic viability.

While the constitution of Canada clearly gives the provinces primary responsibility for social, health and educational services, it does not preclude the involvement of federal government in promoting pan-Canadian equity. A fairly well defined social contract between government and citizens developed in the twentieth century and is partially enshrined in the Charter of Rights and Freedoms as well as the Constitution Act of 1928. Moreover, it is obvious from recent polls that a significant majority of Canadians highly value public programs like health care, social services and income security.

In terms of economic viability, it is sometimes stated that even though social programs are good and many Canadians value them, they inhibit economic growth. This belief is based on the slow or no growth experience of many of the European countries with advanced social programs in the 1980s. Since then, however, many studies have challenged the assumption that social programs discourage growth. In fact, some programs actually stimulate growth while others act as a robust safety net and still others reduce social problems associated with recessions.

**Three Equities:**

CASW outlines the importance of pan-Canadian equity in three social policy areas: basic income security: the Canada Social Transfer; and health care. We label these as income, social and health equity.

1. Income Equity

In terms of income equity, Canada has developed a complex and often confusing array of income support programs over the last hundred years. They have developed in a somewhat ad hoc and incremental fashion, and have varied in their purposes and target populations.

Some have been geared to specific age brackets (e.g. children and seniors). Others have provided support to individuals with conditions of sickness, work-related injury, or disability. Still others have been based on economic challenges related to family (e.g. widowhood or single parenting responsibilities) or one's status in the labor market (e.g. insurance against unemployment, workfare programs, and tax credits for the working poor).

Despite this broad array of income security programs in Canada, poverty persists and individuals lacking income and/or economic resources frequently fall through the cracks of our current social safety net. As a result, there are increasingly frequent calls for a broad scheme of a "basic" income to eliminate complexity and overlap in the delivery of income security through the provision of more comprehensive and unconditional support.

In Canada, there have been a variety of proposals for what has usually been called a guaranteed annual income. Some have been targeted at specific age groups (typically children or seniors). Others have been intended as a supplement to replace labor market income for those unable to work. There are two general ways in which a basic income can be paid – through a universal demogrant or through a negative income tax.

In one form or another, a basic income has been advocated by the Social Credit Government of Alberta, the Economic Council of Canada, a special Senate committee on poverty, the Castonguay-Nepveu Commission of Quebec, the Royal Commission on the Status of Women, the Royal Commission on the Economic Union and Development Prospects for Canada, a Senate committee on cities, the chief economist of the Conference Board of Canada, and Senator Hugh Segal.

A major challenge in developing a basic income is a concern about cost. But cost, in turn, is based upon the extent of coverage of the basic income. For some, it may simply be individuals with differing abilities. For others, it may be seniors. For others still, it may be families with

young children. Preliminary studies by Lerner, Clark and Needham of the cost for a relatively generous basic income for all citizens and permanent residents in Canada suggest that it would be extremely high. By contrast, Human Resources Development Canada proposed a modest basic scheme which was far less costly. More recently, two economists – Derek Hum and Wayne Simpson – also came up with estimates that were well within the fiscal reach of federal and provincial governments.

In spite of these preliminary studies, however, CASW is of the opinion that detailed and rigorous costing of a range of contemporary basic income options is social policy work that has yet to be done.

2. Social Equity

The Canada Social Transfer, first suggested in 1994, was accompanied by the termination of the Canada Assistance Plan and with it all but one of the standards which were a part of that legislation. Since then, there has been a lack of federal leadership. CASW would like to see a renewal.

In announcing the termination of the Canada Assistance Plan, the federal government was signalling its intention to provide the provinces with the flexibility that several governments had been asking for over the previous decade. It was also a partial response to two Quebec government reports recommending greater provincial autonomy particularly in social programs.

This new arrangement, in which provincial governments are regarded as having considerably more latitude in authority over such areas as health, social services, social assistance, and post-secondary education, was justified by the need to control expenditures.

In fact, this economic argument was stretched to initiate a significant transformation in federal provincial relations that culminated in the signing of the Social Union Agreement in 1999. While the federal government has retained its role in program areas that have become constitutionally the authority of the federal government (such as the Old Age Security, Employment Insurance and the Canada Pension Plan), it has devolved its role in areas that were historically provincial responsibilities.

In spite of this trend, the Canada Social Transfer still plays an important role in the funding of income security (particularly social assistance), social services (including child development programs) and post-secondary education. The active engagement of the federal government in future developments is important, not only to ensure funding, but also to encourage pan-Canadian initiatives.

Under the Social Union Agreement, the federal government can no longer introduce conditional program funding without the agreement of the majority of provinces. While this has not made new programming impossible, it does mean that the federal government cannot proceed as it did in the past by introducing a program and then trying to obtain individual provincial cooperation.

At the same time, the agreement does recognize that the federal government can continue to have a direct relationship with individuals in the country. The federal government can also introduce new benefits to individuals as it sees fit. While the agreement appears to have fallen into disuse, these principles appear to have remained a guiding force in relation to new federal provincial social programs. It is the reason that CASW supports reform of the Canada Social Transfer based on an open method of coordination.

In 2012, CASW explored, along with a group of scholars and practitioners, several historical, current, and potential roles, policies, and practices related to the Canada Social Transfer, which have major implications for the well-being of all Canadians and for the sustainability of Canada's social programs.

Each of the participants in the project was aware of the current debates about the limited role of the federal government in relation to health care as well as the virtual lack of federal leadership with respect to the Canada Social Transfer. Currently the Canada Social Transfer provides funds in three broad areas: post-secondary education, social assistance, and various social services (including child care). CASW focuses on the latter two areas.

A major concern of the participants was the lack of accountability in relation to the Canada Social Transfer, either on the part of the federal government or the provinces and territories. One participant suggested that the Canada Social Transfer could be used to further human rights standards as a backdrop to social programs since Canada is a signatory to the International Covenant on Economic, Social and Cultural Rights, which guarantees individuals an adequate standard of living.

Another participant suggested that some aspects of the Canada Social Transfer, particularly the component related to income security and poverty reduction, should be transferred in its entirety to the federal government since the federal government is currently responsible for the bulk of income transfers to individuals. The Caledon Institute of Social Policy believes that before conditions and standards are applied to a financing instrument like the Canada Social Transfer, there is a need for a shared vision of what Canada's income security system should look like. CASW agrees with that position.

More broadly, participants in the project felt that there were several options that could be introduced by the federal government in order to ensure some degree of accountability for the billions of dollars transferred to the provinces through the Canada Social Transfer, including a clarification of objectives, principles, standards and conditions.

3. Health Equity:

The health care system is one of the hallmarks of equitable social policy in Canada. Without ongoing federal leadership and funding, its future is at stake.

The question of how to fund and address growing health costs is the topic of significant debate and discussion across the country. In response to that debate, the federal government has drawn a line in the sand and unilaterally announced that its contribution to health care spending will substantially decline over the next 30 years.

CASW proposes that this position is fundamentally flawed, not only because it passes the burden of health care funding to the provinces and territories, but also because it undermines the capacity to achieve national health care standards that enable Canadians to be treated fairly and similarly across the country regardless of where they live.

Without significant federal leadership and funding, there will be no pan-Canadian health care system. Without a national vision, Canada's international ranking in health care performance will continue to slide. Without federal leadership, the conditions of the Canada Health Act will be undermined. Without adequate federal funding, the health care system is unsustainable.

A debate still rages today about the affordability or sustainability of public funding of health care services. While it is not a new debate, it grows louder as governments grapple with budget shortfalls, slow economic growth and declining revenues.

Opponents of the current system of financing argue that healthcare costs are being progressively pushed to levels of expenditure that cannot be sustained. They largely base their analysis on the fact that the growth in health care costs is outstripping total government revenues and unchecked they will absorb an increasing share of all expenditures.

Looking at government health expenditures in relation to government revenues, however, is only part of the equation. A more balanced picture can be obtained by comparing expenditures to gross domestic product or GDP and economic growth (which are better measures of our overall capacity to pay).

Robert Evans, a well-known health economist, suggests that public health care is as sustainable as we want it to be; it is a matter of the political choices we make. He acknowledges that provincial spending on health care has taken an increasingly larger share out of provincial budgets in recent years but that this shift is a simple consequence of substantial cuts in personal and corporate income taxes, leading to lower revenues. Tax cuts between 1997 and 2004 alone led to $470.8 billion in lost government revenue. There have been more tax cuts since then.

Interestingly, countries with higher public expenditures generally had lower overall health expenditures. Hence, if the federal government remained actively engaged in funding, it could

continue to encourage cost containing strategies. Also, in 2010 and again in 2011, the growth rates in health expenditures in OECD countries began to stagnate. In Canada health spending growth slowed by 3.0% in 2010 and 0.8% 2011.

The recent slow pace in health care expenditures does not mean that they will not increase in the future. A report by the C. D. Howe Institute projects health care spending (public and private) from 2013 to 2031. Based on factors known to drive up costs (such as demographic changes, technology, and personnel), the study suggests that by 2031, health care costs will bring the ratio of expenditure to GDP to a range of 15% to 19%.

The implication of this increase is not that it is overwhelming; the increases do not eat up "all or even a majority of the gains in income" over that same period of time. And the lower projected range is even less than the percentage of GDP currently spent on health care in the United States. But it does suggest that governments are going to have to increase their revenues and improve health care delivery if they want to continue financing health care at current or higher levels of service.

Most worrying in that respect is the recently announced shift of the burden of health care costs from the federal to the provincial and territorial governments. If federal contributions to health care were maintained at the rate of increase provided in the 2004 health accord (6% annually), the Parliamentary Budget Officer estimated that the federal cash transfer would average 21.6% of provincial territorial health spending from 2011 to 2035 and even higher after that.

By contrast, the federal government's unilateral decision to change the cash transfers means that the share of federal funds to the provinces and territories will only grow 3% to 4% annually and payments to provincial-territorial spending will decrease substantially from 20.4% in 2010-11 to an average of 18.6% from 2010-2011 to 2035-36 and even less (13.8%) over subsequent years.

**Recommendations:**

CASW recommends that:

(i) the federal government initiate a process to review and renew the income security system in Canada with a view to the possibility of developing a targeted and affordable basic income.

(ii) the federal government follow the lead of the European Union and initiate discussion about the future of the Canada Social Transfer using a technique such as the open method of coordination to ensure some level of convergence of programs across the country.

(iii) income security and social services programs be guided by the following principles: need; comprehensiveness; accessibility; fairness; portability; universality; and public or non-profit administration.

(iv) the federal government take action to ensure that the conditions of the Canada Health Act (public administration, comprehensiveness, universality, portability and accessibility) are met in order for the provinces and territories to receive federal funding.

(v) the federal government take the lead in providing financial incentives for the provinces and territories to transform the health care system into one that is patient centered, community-based and cost efficient. One way to do this is to fund a pan-Canadian initiative to provide benchmarking indicators that will support accountability and stimulate change.

(vi) in terms of overall funding, the federal portion of health care costs cover, in the short term, 20% of total public expenditures and that the proportion of public spending to total spending should remain around 70%. Both targets are realistic within the current economic environment. They have been achieved in recent years and surpassed in earlier years.

(vii) in the long term, the federal increase its portion to 24% of total public health expenditures, a level that was achieved in the 1980's, and a target that is realistically manageable if the federal government were to continue the 6% escalator beyond 2017.