CALEDON INSTITUTE OF SOCIAL POLICY

Social Programs: Reconstruction Not Restoration

Brief to the Standing Committee on Finance

by

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October 2000

ISBN 1-894598-33-4

The Context

A strong system of social provision is as vital to Canadians now - and will continue to be so in the future - as it was in the early post-World War Two decades when most of our 'welfare state' was constructed. In a globalizing economy, social programs remain an essential ingredient of both economic success and national identity. Canada must have the courage to continue shaping its social security system, grounded in its unique history and political economy, to meet the demographic, social, economic and political realities of life in the early 21st century. Meeting these challenges means that our social programs cannot be treated as museum specimens, locked away, never to be tampered with or changed: Exactly the opposite strategy is needed if we are to maintain a robust social security system reflecting our own national needs. In order to renew and revitalize our social security system, many social programs doubtless will continue to require substantial change and, in some cases, fundamental restructuring.

The 'universalist' welfare state model that inspired and guided the development of social policy in the early postwar decades in Canada placed much of its emphasis on replacing employment earnings lost as a result of illness, unemployment or retirement, as well as supplementing wages of family breadwinners through child benefits. The model family had father in the workforce, mother caring for the children and the home, and several children.

The economy was viewed as the chief source of income and essentially healthy, though occasionally hit by downturns caused by the business cycle - when Unemployment Insurance would provide a cushion for the unemployed who required some help until they found another job or were recalled to their workplace after a layoff. Universal health insurance ensured that one of the most precious resources - health care - would be available to all Canadians at no direct cost and financed collectively through taxation. Social services and welfare would serve the minority of families and individuals that had special needs or for some reason (e.g., lack of sufficient work or exhausting maximum benefits) did not qualify for mainstream social programs such as Unemployment Insurance.

Canada has changed a lot over the past few decades. Demographic, social and economic shifts are placing heavy burdens on social programs designed for and largely during an earlier era. The population is aging rapidly as the leading edge of the baby boom generation nears 65. Marriage breakdown is commonplace. The large majority of women - including mothers, even those with preschool children - now work in the paid labour force. Parents - whether in couples or single - run hard and often struggle to balance workplace, parenting and household responsibilities.

The assumption that social policy would rest on the bedrock of a strong economy and a labour market that could provide jobs, careers and income for everyone who was willing to work proved to be shaky: Our economy, though growing again after the worst recession since the 1930s, is also generating greater inequalities of earned income as people with the advanced education and specialized skills required to claim opportunities leave those with limited education and outmoded skills farther behind.

The labour market is becoming increasingly insecure and unrewarding for many Canadians forced to work in nonstandard jobs - many part-time, contractual or self-employed - that offer few if any benefits, little stability or career prospects. The federal-provincial dynamic in Canada's highly decentralized federation, in which both levels of government have major responsibilities in social provision, creates both difficulties and opportunities in a world in which tough social and economic problems transcend political boundaries.

While the traditional objectives of replacing and supplementing earned income remain important, the new social policy is also increasingly concerned to help educate and train a skilled, re-educable workforce. In the buzzwords of the time, we want to pursue 'active' rather than 'passive' social policies, to invest resources in preventing problems - e.g., poverty and unemployment - that place so heavy a burden on our social programs. Governments want to create sustainable and cost-effective social programs. But governments cannot do the whole job alone; other actors - employers, unions, schools, communities and social groups - must play an important role in helping design and deliver social programs.

The process of fundamental change to Canada's social policy began in the late 1970s with the creation of the refundable child tax credit - a *de facto* negative income tax mechanism which set the important precedent of using the tax system to deliver cash benefits to families below the taxpaying threshold (modest- and middle-income families received their child benefits in the form of tax reductions). The transformation of our tax and transfer systems gathered momentum in the mid-1980s with structural changes to the personal income tax system, child and elderly benefits.

Change continued in the 1990s with the creation of the Goods and Services Tax and its associated refundable tax credit, as well as cuts in federal social transfer payments to the provinces and territories culminating with the replacement of the Canada Assistance Plan and Established Programs Financing by the Canada Health and Social Transfer (CHST). Access to and benefits from Unemployment Insurance were reduced, followed by yet another round of belt-tightening when the program was renamed Employment Insurance. The financing of the Canada Pension Plan is being fundamentally restructured through a shift from pay-go to partial funding.

The arrival of the new National Child Benefit marked the end of the tough federal anti-deficit campaign and its cuts-through-a-thousand-nicks-and several-slashes. It ushered in a Restoration period that, to date, has seen progress on family policy (child income benefits, early childhood development services and improved parental leave under Employment Insurance), income tax cuts and restoration of federal funding for health care under the CHST.

But these changes in many cases have been controversial, and not necessarily all for the better. Cuts to federal social transfer payments, Ottawa's withdrawal from social housing and the partial deindexation of the income tax system and child benefits from 1986-1999 had a generally regressive effect, falling hardest on low- and modest-income Canadians and calling into question the federal commitment to its traditionally powerful role in social policy. Employees still have to pay Employment Insurance premiums, but most of them cannot qualify for benefits if they become unemployed. All provinces have frozen or cut their welfare benefits, and social services have suffered in many provinces.

While the seriousness and causes of its ailments are debatable, there is no question that health care has suffered from reduced and erratic government funding, as governments have abruptly and with little planning cut health funding, only to turn around a few years later and once again pour money back in. The financing changes to the Canada Pension Plan - especially important to lower- and modest-income Canadians who rely so heavily on the public parts of the retirement income system (elderly benefits and the C/QPP) because they get little or nothing from employer-sponsored private pensions or RRSPs - were needed to sustain the plan fiscally and politically in the face of the aging baby boom generation. But the rapid ramp-up of contribution rates fall heaviest on those least able to pay.

There are other issues that are suffering from neglect. Governments' rhetorical flourishes to the contrary, Canadians with disabilities and their families struggle along with precious little help from government and what they do get is often of the wrong kind. While publicly financed welfare, for example, may provide special assistance in respect of health- and disability-related needs, it is a classic case of 'Catch 22.' The provision of this 'income-in-kind' makes it difficult to move off welfare for fear of losing special supports. An improvement in financial circumstances through employment, inheritance or other source means that persons with disabilities risk their security, and possibly their lives, if they cannot gain access to these supports.

Since its creation in 1992, the Caledon Institute of Social Policy has offered many proposals for strengthening public policy. Several of our ideas have been implemented by governments - the National Child Benefit, a national framework for supports and services for persons with disabilities, reindexation of the tax system and child benefits, improvements to disability-related tax provisions and support for community capacity building. Another of our good ideas - the Seniors Benefit - was taken up and advanced by the federal government but eventually withdrawn because of strong political opposition from influential interest groups on both the left and the right, proving once again that pension reform is a minefield where governments tread at their peril.

Most Canadian social policy has come to be announced in federal budgets. Our purpose here is to offer the Standing Committee on Finance our thinking and recommendations on several important issues of social and tax policy that could be advanced in the next and succeeding budgets.

What Can We Afford?

For the past several years, Canadians have been told repeatedly that their governments could not afford to consider better funding for social programs; to the contrary, we had to cut back to get our fiscal house in order. Now, due partly to economic growth and partly to good fiscal planning, Canada is in the enviable position of having to decide what to do with surpluses, rather than having to stem deficits. Private sector forecasters have been talking about surpluses in the order of $20 billion a year over the next five years. This past year has seen a surplus of $12 billion, far beyond planned levels. It is therefore clear that we have fiscal room. The question is, what to do with it?

Now is not the time for huge across-the-board cuts in taxes. The economy in Canada is growing at a reasonable pace, and very large tax cuts would over-stimulate the economy, likely causing problems of capacity, increasing imports (and thereby decreasing our current account balance) and threatening higher inflation. Doubtless the response of the Bank of Canada would be to raise interest rates. The effect of an increase in interest rates would be to offset the tax cuts. This offset would not simply be a 'wash.' The chief victims of higher interest rates likely would be the marginally employed and others who are economically vulnerable, while - depending on how deeper general tax cuts were implemented - the wealthy could benefit disproportionately.

Caledon has advocated a mixture of tax cuts and social investments for the emerging post-deficit era, as illustrated by the title of our recommendation for the 2000 federal Budget: *How to Do a Tax Cut Budget and a Children's Budget in 2000*. But we have been careful to advocate strategic and well targeted tax relief and government spending, starting with lower-income Canadians and then expanding to the population at large. The 2000 Budget announced a package of changes that, on the whole, closely reflected our recommendations - e.g., reindexation, raising tax thresholds and credits, lowering the middle tax rate, improving tax assistance for persons with disabilities and investing further in the Canada Child Tax Benefit.

The 2000 Budget set minimum targets for tax relief, and recently the Minister of Finance indicated that he intends to accelerate the implementation of tax reduction measures because of the favourable fiscal outlook.

Recommendation*: While Caledon supports broad income tax relief, we place the targeted tax and spending proposals outlined below - aimed at strengthening family policy (the Canada Child Tax Benefit, early childhood development services and paid parental leave provisions), a National Employment Development Strategy, a Personal Supports Fund and other improvements for Canadians with disabilities, social housing, the refundable Goods and Services Tax credit, the tax credit for Canada and Quebec Pension Plan contributions, and loans for postsecondary education - ahead of accelerating income tax reductions for all taxpayers in all income groups*.

National Child Benefit

The federal and provincial governments have made significant and commendable progress on fundamentally restructuring the child benefits system since the National Child Benefit was announced in the 1997 federal Budget. Ottawa redesigned the Child Tax Benefit into the Canada Child Tax Benefit and by 2004 will have pumped close to $4 billion more in real dollars into the child benefits system, allowing provinces and territories to reduce welfare spending on behalf of children and redirect these savings as they see fit into a range of alternatives - income supports (income-tested child benefits and employment earnings supplements) and services (health, early childhood development) - for low-income families with children.

But the National Child Benefit is a work in progress and should be further developed. Caledon and other social groups have proposed that the maximum Canada Child Tax Benefit - projected to reach at least $2,400 for the first child and $2,200 for each additional child by 2004 - be redesigned and enriched so that it can grow into a strong family income security system for all children, poor and non-poor alike. We have set a $4,200 maximum payment per child as the provisional target for a more powerful child benefit.

Caledon, with financial support from the Joseph Rowntree Foundation in the UK and Human Resources Development and Finance Canada, is undertaking a comparative study of child benefit systems in Australia, Canada, the UK and the US that will be published late this year. Two findings stand out already: Canada leads the way in child benefit reform in terms of the basic objectives and design of its system. However, we lag behind Australia and the UK in terms of the adequacy of our benefits. Both countries pay larger maximum child benefits than the $4,200 long-term target proposed by Caledon, and much more than what our current system will offer in 2004 ($2,400 for one child, $2,200 for each additional child).

Designing a 'big bang' child benefit for Canada is easier said than done. Australia and the UK have had to make some compromises in order to pay large maximum benefits to lower-income families. They both utilize 'stepped' or tiered designs resembling several plateaus (paying similar benefits to large groups of families) and cliffs (where benefits decline sharply for small groups of families). Such a design is less expensive than a smooth, geared-to-income approach in which benefits decline gradually as incomes increase - i.e., the design of Canada's basic Child Tax Benefit (though not the National Child Benefit Supplement for low-income families, which employs a steeper reduction rate). But there are disadvantages to a stepped approach: They impose high effective marginal tax rates on families whose incomes fall within the range where benefits are sharply reduced. Moreover, families with similar incomes just on either side of the 'cliffs' receive substantially different amounts of child benefit, while families on either end of the long plateaus receive similar payments even though their incomes are very different.

A big bang child benefit using a single tier with a modest reduction rate on benefits for non-poor families would cost more than a stepped model. But its strengths are the opposite of the latter's weaknesses: It would avoid high effective marginal tax rates and would gear the amount of payment for non-poor families rationally according to their income level.

The current Canada Child Tax Benefit lies somewhere in between: It is a two-tiered system with a modest reduction rate for the basic Child Tax Benefit that goes to almost all families and a steeper reduction rate for the National Child Benefit Supplement for low-income families, so that it largely avoids the 'cliffs and plateaus' problem of the Australian and UK systems. But Canada's maximum benefit is still relatively modest, even with several years of significant increases under the National Child Benefit reform.

Two things are needed. Most immediately, the federal government should accelerate the schedule of increases and build in a small increase to reach a $2,600 maximum Canada Child Tax Benefit effective July 2001, not 2004 as proposed in the 2000 Budget. Looking farther ahead, we need to debate, discuss and assess alternative options to grow our child benefit into a stronger system that can rival those of Australia and the UK.

Note that further improvements in the Canada Child Tax Benefit will advance the balanced spending/tax cut and pro-family approach that has guided the government's use of the fiscal dividend. Though a social program, the Canada Child Tax Benefit is counted as a tax expenditure, and helps account for the fact that families with children will enjoy an estimated 30 percent cut in their federal income tax in 2004, versus 22 percent for all Canadians, from tax reduction measures since 1997. Whether classified as a direct or tax expenditure, the bottom line is that families with children - particularly low- and middle-income families - will benefit from a more secure and adequate income. Income security provisions, such as child benefits, are crucially important in offsetting the growing inequality of market incomes that threatens Canada's economic health as well as social integration.

Recommendation: *The federal government should accelerate the pace of investment in the Canada Child Tax Benefit by announcing a $2,600 maximum benefit for July 2001, which basically would reach the crucial intermediate goal of an 'integrated' child benefit system that largely replaces welfare-delivered child benefits. Over 10 years, Ottawa should gradually expand the system to achieve the ultimate target of a $4,200 maximum Canada Child Tax Benefit by 2010.*

Early Childhood Development Services

There is more to effective family policy than income support. Families also need a wide range of supporting services - social, health, education and employment - to help parents balance their responsibilities at home and work, enhance their parenting capacity and assist them in dealing with problems that income alone cannot solve. Children can benefit from a head start on learning and development during their critical early years.

In today's knowledge economy, whose primary resource is human capital, cradle-to-grave lifelong learning is a national imperative, not a luxury for the fortunate few. Yet public funding is aimed mainly at school-age children and largely ignores the formative period of learning - the early years that comprise the foundation for children's future performance at school and work. Supports for families with young children are inadequate in supply, scope and quality. The problem has been exacerbated by cuts in federal social transfers to the provinces.

The term 'early childhood development' encompasses three major areas. *Pregnancy and early parenting services* include assessment of maternal and fetal health, home visits and infant stimulation. *Parenting and community supports* refer to play groups, parenting classes and respite to provide occasional relief from caregiving. *Child care and early childhood learning* promote child development and help parents cope with their often conflicting responsibilities as workers and parents.

The federal government recently announced an agreement with the provinces "to improve and expand early childhood development programs and services over time." Ottawa will provide a cumulative total of $2.5 billion over five years to help provinces invest (over and above what they already spend) in four areas: promoting healthy pregnancy, birth and infancy; improving parenting and family supports; strengthening early childhood development, learning and care; and strengthening community supports for families with children.

Caledon welcomes this agreement, though it does not go as far as we had proposed in our reports *Ottawa Should Help Build a National Early Childhood Development System* (February 2000) and *A Proposed Model Framework for Early Childhood Development Services Within the National Children's Agenda* (September 2000). While the agreement provides stable and predictable federal funding over five years, it falls far short of the financial commitment that we think Ottawa could afford and should make to help build this largely undeveloped part of Canada's social infrastructure for families.

The federal money will be spread thin on a national basis, and provinces will be able to invest the money as widely (and thinly) or narrowly (and more deeply) as they want. It is not at all clear how this limited-money approach will build the comprehensive, accessible and high quality system of early childhood development that Caledon and children's experts and advocates support.

In the world of the Social Union Framework Agreement, the federal government can no longer firmly attach pullable strings to its financial assistance to the provinces. But a sizable and growing federal fund would enable the provinces to build more quickly and, hopefully (over time), more broadly. They would have more to account for to social advocacy groups that monitor their provincial government's action on early childhood development services. One feature of the agreement that will help make provinces more accountable is the commitment to an institutionalized system of regular public reporting on expenditures and services in the four major areas, as well as common outcome indicators of children's well-being.

Recommendation: *The federal government should up the ante by providing to the provinces for early childhood development investment $500 million the first year, $1 billion the second, $1.5 billion the third, $2 billion the fourth and $2.5 billion the fifth year, after which funding at a minimum would be indexed (if not increased further through another five-year agreement). Over the first five years, Ottawa would spend in total $7.5 billion - three times more than the announced $2.5 billion total.*

Refundable GST Credit

Caledon led the way over the years in analyzing and decrying the pernicious effects of partial deindexation of the personal income tax system and child benefits, so the 2000 Budget's decision to restore full indexation came as a welcome surprise. Low- and middle-income Canadians will benefit most from this important change, since partial deindexation had an overall regressive impact.

Partial deindexation imposed a *de facto* annual GST increase on those least able to pay: low- and modest-income families and individuals. As the value of their GST credit eroded each year, their net GST outlays - i.e., the amount they pay minus the credit - increased. Moreover, relief from the regressive GST was targeted lower and lower down the income ladder each year because the income threshold for maximum payments also fell steadily to inflation.

However, the Budget only stabilized the GST credit at its current value, which has fallen considerably over the years. It did not make up for the losses that accumulated between the credit's introduction in 1991 and 1999. The newly reindexed credit will be $202 this year but would have been $226 if it had been fully indexed since its creation; the children's amount and single's supplement will be $106 but would have been $119 if fully indexed throughout. The income threshold for maximum benefits will rise to $26,284 under reindexation but would have been a substantially higher $29,475 if not subject to partial deindexation. Partial GST credits will be payable up to net family income of $38,604 for a couple with two children, but would have gone as high as $43,275 if the program had been fully indexed since its inception in 1991.

The refundable GST credit does not shield lower-income Canadians from the full burden of the GST. It was designed to make up for the tax increase when the GST replaced the old federal manufacturers sales tax. When the GST was introduced in 1991, a one-earner couple with two children and income of $25,000 received a refundable credit of $570 that offset 45.1 percent of its average $1,264 GST burden.

In 2000, this family's newly reindexed GST credit is worth $431 (in constant 1991 dollars) and so will shield just 34.1 percent of the GST burden. While a $139 loss in tax relief may not seem large, it is significant in terms of the weight of the net GST (i.e., GST after tax credit), which has increased by 20 percent in real terms. In any case, every dollar counts for low- and modest-income families which the refundable GST credit is intended to help.

Recommendation: *The federal government should raise the GST credit and its income threshold for maximum payments at least to make up fully for past losses, and preferably more, so that it shields low- and modest-income Canadians from a larger proportion of the regressive GST.*

Canada Pension Plan Tax Credit

The federal and provincial governments reached an agreement in 1997 to move the Canada Pension Plan from pay-go to 'partial funding.' Under partial funding, Canada Pension Plan contributions will increase substantially over seven years (from 1997 through 2003), but then will level off once they achieve the so-called 'steady-state' rate of 9.9 percent of contributory earnings (for the combined employee-employer payments) - with no further increases thereafter. Contributions will exceed expenditures, thus building up a fund that is being invested in the market in a diversified portfolio of assets, following the practice of large employer pension funds in Canada and other countries. Earnings on the investments are supposed to help reduce future contribution rates over what they otherwise would be.

The other financing change is a freeze of the Year's Basic Exemption, which in the past had been wage-indexed. In 1997, the Year's Basic Exemption was $3,500, calculated as 10 percent of the $35,800 Year's Maximum Pensionable Earnings (the latter remains wage-indexed). By freezing the Year's Basic Exemption, which will fall in value each year, the base of contributory earnings will increase (i.e., more earnings will be subject to Canada Pension Plan contributions) and thus future contribution rates can be lower than otherwise necessary. The Caledon Institute has calculated that the $3,500 Year's Basic Exemption will be worth $2,722 in 2003 and $822 in 2030 (in constant 1997 dollars). The federal government has estimated that, by freezing the Year's Basic Exemption, by 2030 the (pay-go) rate would be reduced by 1.63 percentage points.

Freezing the Year's Basic Exemption - a stealthy change that few Canadians will recognize or understand - proved irresistible to governments concerned about reducing future contribution rates. By comparison, the rapid ramp-up in contributions over the next few years will be very visible and might prove to be somewhat more difficult politically, partially offsetting income tax reductions.

The Year's Basic Exemption offers ('offered' is a more accurate term, since it will decline in future) two advantages to contributors with below-average earnings. First, it reduces their contributory burden because the first $3,500 of earnings is exempt. Second, retirement pensions are calculated on the full range of earnings up to the Year's Maximum Pensionable Earnings, not the narrower band of earnings (between the Year's Basic Exemption and the Year's Maximum Pensionable Earnings) on which contributions are paid. As a result, Canadians who earn below the average wage receive relatively more Canada Pension Plan retirement benefits in relation to their contributions than those who earn the average wage or higher.

Canada Pension Plan contributors can claim a non-refundable tax credit (calculated as 17 percent of the amount they contribute) to ease the burden of their contributions. Adding in provincial income tax savings, which vary from one province to another, on average the Canada Pension Plan tax credit is worth about 25 percent of contributions.

The move to partial funding and the freeze on the Year's Basic Exemption will impose a heavier burden on Canadians with below-average earnings than on those in the higher ($50,000-and-up) range. For example, a $20,000 employee's net (i.e., after-tax credit) contributions will rise from $337 or 1.7 percent of earnings in 1996 to $625 or 3.1 percent of earnings in 2003, the year that the steady-state rate will be reached. A $50,000 employee's net contributions will increase from $652 or 1.3 percent of earnings in 1996 to $1,181 or 2.4 percent of earnings in 2003. (All dollar figures are in inflation-adjusted 1996 amounts.)

Measuring the net increase in contributions (2003 versus 1996) as a percentage of earnings, the result ranges from a high of 1.6 percent for those earning just $6,000 to 1.5 percent for those earning $35,000 (roughly average earnings) and then declines with increasing income to just 0.5 percent of earnings for employees earning $100,000. The distributional pattern is identical for the self-employed - a growing group in the labour force - except that their increased burden is twice that of employees.

Women and younger workers will be hardest hit in relative terms during the seven-year transition to partial funding since they cluster at the lower end of the earnings spectrum. Among female Canada Pension Plan contributors, 79 percent earn less than the Year's Maximum Pensionable Earnings (i.e., about the average) and 43 percent earn less than half the average. The large majority of young contributors earn below the average.

On the other hand, Canadians with low or modest employment earnings stand to benefit most in the longer term from the financing changes. The steady-state contribution rate will reach 9.9 percent in 2003, and then is supposed to remain level, whereas the pay-go rate would have kept increasing. After 2016, the pay-go rate would exceed the partial funding rate and rise year after year.

Moreover, partial funding is intended to restore public confidence in the long-term viability of the Canada Pension Plan - a pension program that is crucial to low- and modest-income Canadians, who rarely work for employers offering private pension plans or save much, if anything, in individual retirement savings plan. The growth of a Canada Pension Plan fund that will be invested broadly in the market should appeal to the many Canadians who either do not understand or accept the pay-go system in which there was nothing more than a small contingency reserve. The baby boom generation, in effect, will be paying for part of its own pensions and Generations X, Y and Z will pay lower contributions than they would under the old (pay-go) system, which should to some extent address the issue of the Canada Pension Plan's alleged intergenerational unfairness.

Governments are unlikely to back down on freezing the Year's Basic Exemption because it is a stealthy and significant way of curbing future contribution increases, so there does not seem much hope in recommending its restoration.

***Recommendation**: The federal government should restructure the income tax credit for contributions to the Canada Pension Plan and Quebec Pension Plan to ease the rapidly rising burden of contribution increases on plan members with below-average earnings. Instead of the current (federal) rate of 17 percent of contributions for all contributors, Caledon proposes that the tax credit vary inversely according to income: Lower-wage workers would receive relatively more tax relief to ease their CPP contributions than higher-wage earners. Such a reform to the tax credit for Canada Pension Plan and Quebec Pension Plan contributions is particularly important for the self-employed, who carry double the burden.*

Boosting the tax credit for poor and modest-income contributors would increase the cost of the Canada and Quebec Pension Plan tax credit to the federal and provincial governments and, in effect, transfer part of the cost of rising contributions from labour force participants to taxpayers. However, the tax expenditure for C/QPP contributions will increase anyway under partial funding, though over the longer term not as much as under pay-go financing. The extra cost required to beef up the tax credit for Canada and Quebec Pension Plan contributors with below-average earnings is, in our view, well worth the price.

Employment Insurance and Welfare

Parental leave is a core element of family-friendly workplace policy. The doubling of combined maternity and parental leave provisions under Employment Insurance (EI) announced in the 2000 Budget is an important step forward in helping families care for children at home.

But there are some problems with these provisions. EI benefits pay only 55 percent of maximum insurable earnings (the latter was decreased in 1996). While the maximum weekly EI benefit is $413, the actual average weekly maternity benefit is much lower at $280 in 1999. Many parents would not be able to live on that amount – especially if they are single parents and EI is their only source of income.

Another problem is the discrepancy between federal and provincial parental leave provisions. Provinces include unpaid parental leave in their labour standards legislation, to protect the jobs of parents who leave the workforce to care for their newborns. But some provinces' leave provisions (e.g., Ontario, which allows up to 35 weeks compared to the new federal maximum of 50 weeks) are shorter than the recently extended federal paid leave. As a result, some parents might be unable to take their full paid leave under Employment Insurance for fear that their jobs would not be waiting for them when they return.

Although the federal government has adjusted the unpaid parental leave provisions in the Canada Labour Code to match the Employment Insurance parental leave extension, only 10 percent of the workforce comes under the federal provisions. While Quebec's parental leave provisions are more generous than Ottawa's and British Columbia will change its provisions to match the federal changes, other provinces will have to adjust theirs if the federal changes are to be successful.

Other concerns have been raised about Employment Insurance. The program does not cover the self-employed, thereby excluding a large and growing proportion of the Canadian workforce. Moreover, its overall coverage of workers who are eligible has dropped dramatically in the past ten years.

The problem can be traced to the shift from Unemployment Insurance to Employment Insurance in 1996. The new Act tightened up three key levers on the income side of the program: eligibility criteria, benefit levels and duration of benefits. Eligibility is now calculated on the basis of number of hours rather than number of weeks worked. The purported purpose of the change was to 'allow more flexibility' in the program and to enable more of the growing group of part-time workers to qualify for EI.

At the same time, however, the Act restricted eligibility by substantially increasing the number of required hours of work. To qualify for EI regular benefits, workers now must put in from 420 to 700 hours (the equivalent of 12 to 20 weeks), depending on the unemployment rate in the region. This measure represents an increase of between 180 and 300 hours over the former entrance requirement.

Claimants applying for sickness, maternity or parental benefits required 700 hours of work. The 2000 Budget made a significant change by reducing the number of hours needed to qualify for parental leave from 700 to 600 hours. New entrants to the labour market and those who have been out of work for some time must establish a reasonable attachment to the workforce - a minimum 910 hours - to be eligible for EI.

Employment Insurance also imposed a so-called 'intensity rule.' Recipients faced a penalty of a one percentage point reduction in their benefit replacement rate after each 20 weeks of benefits, reducing the rate from 55 percent to as low as 50 percent. This rule was intended to reduce the heavy repeat reliance on Employment Insurance by seasonal workers, encouraging them to seek full-time work.

Employment Insurance continued Unemployment Insurance's practice of imposing an income test. Better-off recipients must repay part of their benefits at the rate of 30 percent above $39,000 for those collecting benefits for 20 weeks or more, and above $47,750 for those with less than 20 weeks.

As a result of the stricter qualifying rules and other changes, insurance coverage for unemployed workers dropped dramatically. The percentage of unemployed workers covered by the program in 1997 was less than half its level in 1989 - falling from 74 percent to 36 percent of the unemployed. But drastically reduced coverage is not the only problem.

Most of these employees are not qualifying for EI and hence are not eligible for the work-related measures associated with the program. The long-term unemployed, the underemployed, new workers and part-time workers are finding it especially difficult to gain access to labour market measures that would help them improve their job prospects.

In response to concerns about the greatly reduced coverage under the program, Ottawa introduced legislation in September 2000 to amend the Employment Insurance Act. The proposed legislative amendments would eliminate the intensity rule and ease the benefit repayment provision.

Despite these proposed relaxed rules, the EI Fund will still be 'out of sync' with the scope of benefits it delivers. Ottawa has two choices: to lower premiums even more or to restore coverage of the program. We prefer the second option because of the crucial role that this program has played in the past and should play in the future as a source of income stabilization in uncertain labour markets.

However, the answer is not simply to restore Employment Insurance coverage and the duration and level of benefits. A more radical restructuring of income security for non-elderly adults is required, involving provincial social assistance as well as Employment Insurance. Such a far-reaching reform doubtless would take years to put into place, but the time and effort on the part of governments and social policy experts would be well worth it.

Recommendations: *The federal and provincial governments should launch a National Child Benefit-style joint reform of income security for adults. Employment Insurance could retain its (compared to Unemployment Insurance) more insurance-like features, providing assistance to those temporarily and infrequently unemployed. The outmoded and stigmatizing welfare system would be largely replaced by a system of income assistance and employment supports for persons who do not qualify for or who have exhausted Employment Insurance. The new system should extend coverage to the self-employed - a growing group of the labour force. Welfare would revert to its originally intended role as an emergency safety net until people in need got onto mainstream programs.*

Federal and provincial parental leave provisions should be harmonized to ensure that parents who take Employment Insurance parental leave do not have to worry that their jobs will not be protected. Coverage should be extended to the self-employed and benefits increased to allow more parents to take parental leave - especially those with low and modest earnings.

National Employment Development Strategy

The concerns with Employment Insurance are merely part of a broader set of problems that beset the employment development ‘system’ in the country. There is currently no continuum of service that meets the wide range of needs of people who are unemployed. Neither is there a systematic process that enables individuals to move from one step to another as they progress through different levels of employment preparation.

The policy framework that gives rise to the current patchwork quilt arrangement is embodied in the Labour Market Agreements signed by the federal and provincial governments, except Ontario. The agreements allow a portion of EI premiums to be turned over to the provinces in respect of employment benefits: wage subsidies, earnings supplements, self-employment assistance, job creation partnerships, and skills loans and grants.

The labour market agreements focus primarily upon the types of activities that provinces may undertake. But the agreements are purely instrumental documents. They provide no overall vision for the development of an employment system in Canada. They set out no framework for how this system might evolve. They simply turn administrative authority for employment measures from one level of government to another.

Moreover, the agreements say nothing as to how these activities should be carried out. They contain no enforceable guarantees of equitable access to training, prohibitions against commercialization, bans on needs-testing of workers who require training grants or an appeal procedure for claimants. Since there are no national or pan-Canadian standards embedded in these agreements, there are different rules and interpretations in virtually every regional and local employment office.

There is also a growing gap in services for persons not eligible for Employment Insurance. Certain groups - notably the long-term unemployed, older workers, young people and persons with disabilities - are having difficulty meeting the tightened eligibility criteria. New entrants to the labour market and the long-term unemployed are less eligible than three to four years ago for active labour market programs. These problems are outlined in the Caledon report *Survival-of-the-Fittest Employment Policy*.

To address this wide range of problems, we propose that the federal government engage with provinces in a National Employment Development Strategy that includes a statement of national vision as well as investment in a range of initiatives that help promote employability: assessment and training, health-related costs, workforce transition, community economic development and workplace best practice.

The research on labour market integration speaks to the need for a mix of job preparedness approaches for the unemployed. Some of these measures focus upon individual workers by ensuring that they have the appropriate skills to bring to the labour market. Other interventions are concerned with removing barriers to work, such as the lack of affordable child care or accessible transportation. Still other labour market approaches are directed towards the creation of jobs, through support for initiatives such as self-employment and small business development.

Each of these measures must be understood as a node on a continuum of possible interventions. Each approach has its strengths and weaknesses and, ideally, should be used in unique combination, depending upon the demands of the local labour market and the capacities and interests of the prospective worker.

But within this broad spectrum, recent evaluative studies of the policies of OECD member countries have found that certain active labour market approaches are more effective than others. Job search assistance, while the least costly intervention, has had consistently positive outcomes. Job search assistance includes counselling, initial and in-depth interviews, and collective job search, such as job clubs. The positive results appear to be linked to active work placement and raising the motivation of the unemployed.

While developed countries tend to make significant investments in training programs, these have not proven effective overall. General training that is not geared specifically to local labour market needs has been less successful in its outcomes than targeted approaches. Broad programs with 'one-size-fits-all' designs are inappropriate. The most effective measures involve a community-centred partnership arrangement with participation from employers, labour and other partners, such as community colleges.

One method of training that does appear to be succeeding is known as 'customized training,' described in the Caledon report *Reintegrating the Unemployed Through Customized Training*. Under this approach, a designated organization engages with local employers to identify the training needs for targeted jobs. The designated organization works alone, or in association with local training institutes, to provide short-term, intensive training that prepares individuals for the targeted jobs. The partner companies, in turn, use the designated organization as a hiring window because it already has pre-screened and trained prospective workers.

Despite the positive outcomes of this approach in relation to job placement and retention, the organizations currently engaged in customized training experience serious problems. The lack of sufficient and stable funding is a key impediment to continued success. There are not enough funds to support the training of all potentially interested clients.

Neither is there any training money available for prospective workers not covered under an existing income security program, such as Employment Insurance and welfare. Many unemployed - young people, new Canadians, those involved in the corrections system and the underemployed - do not come with training dollars 'attached' to them. Nor is there government investment in the infrastructure of the organization delivering the program. This lack of core support makes it difficult to serve the entire community.

There are also serious weaknesses related to the availability of comprehensive and up-to-date local labour market information. The federal government has primary responsibility for gathering and analyzing labour market information. But its methods of local data collection tend to rely inordinately on printed 'help wanted' ads without taking into account electronic labour exchanges and other types of postings. Current labour market information typically captures only a small proportion of available jobs and does not include emerging opportunities. It is essential to resolve these funding and information problems in order to advance this successful method of labour market integration.

But there are other reasons to pay attention to customized training - its relevance goes well beyond its role in labour market integration, especially of marginalized workers. Customized training has tremendous potential to ensure the continual upgrading of *all* participants in the labour market. It can be applied to existing as well as emerging sectors, such as the biotechnology field. Customized training is an especially important tool for small and medium enterprises that have neither the funds nor the capacity to engage in ongoing training.

The cost of health- and disability-related special needs also can present a major barrier to employment. The special assistance budget within provincial welfare systems typically provides for these needs in the form of wheelchairs, hearing aids, prosthetic equipment, medications and assistive devices for independent living or work. Because special assistance items are intended primarily for welfare recipients, this policy virtually 'ties' many individuals to welfare because they have no other source of support for the required aids and equipment. When recipients try to move off welfare, they may lose access to this vital health-related assistance.

Note that we are not talking here only of low-income persons with a disability. We also include the need for help in paying for prescription drugs, glasses and dental care, which virtually all Canadian households require at one time or another.

Prospective workers often are blocked from entering or re-entering the labour market because of the costs associated with job search or return to work. These costs include transportation for job interviews; work clothing; license to drive a vehicle for work purposes or to operate equipment; professional dues or license fees; and work tools or protective gear.

As part of a National Employment Development Strategy, Ottawa and the provinces could explore various models for a labour force transition fund to help low-income households enter and remain in the labour market. The fund, regardless of its design in different provinces, could cover the transitional period during which the unemployed and low-income underemployed establish themselves in the labour market or other work-related opportunities.

One option is to create, with financial assistance from partners such as business, labour, local governments and foundations, a special fund to help former welfare recipients offset some of these costs. The fund also could be used by prospective employers for physical accommodation to the workplace or for the purchase of health- or disability-related equipment. The intent is to make these benefits available to all low-income households not currently covered by employer-supplied or individually purchased private insurance, notably most of Canada's working poor.

A National Employment Development strategy also should provide leadership for and investments in community economic development (CED). CED refers to a range of activities that integrate economic and social goals, often using the untapped resources and capacities of the community. Its primary purpose is to create local employment opportunities and generate income for persons with little or no financial security.

CED distinguishes itself from other business enterprises through its goal of meeting social objectives through economic development. Social objectives include job creation, poverty reduction, the rebuilding of marginalized communities, workplace accommodation for persons with disabilities and flexible schedules for workers with family responsibilities. These goals are achieved through a range of activities that include training and the provision of capital and technical assistance for business start-up.

A National Employment Development Strategy could support CED in several ways. The Strategy could provide direct investment for the creation of community businesses. It could support research to determine the most effective methods of financing and managing these businesses. The Strategy could ease access to capital through various financing arrangements, such as community loan funds or individual development accounts (restricted savings accounts established on behalf of low-income households).

Finally, a National Employment Development Strategy could help promote exemplary employment practices. These include flexible hours in respect of workers with family responsibilities as well as reduced work time options, such as part-time work with prorated benefits. The Strategy could invest, for example, in the formulation of guidelines for family-friendly workplaces and prepare profiles of model employers.

Recommendation: *The federal and provincial governments should launch a National Employment Development Strategy that includes a statement of national vision as well as investment in a range of initiatives to promote employability: assessment and training, health-related costs, workforce transition, community economic development and workplace best practice.*

Postsecondary Education

Recent changes to the Canada Student Loans Program have created serious financing pressures for students. Students continue to face high levels of debt upon completion of their studies. Concern about this problem is not new but is growing because of rapidly rising levels of tuition at postsecondary educational institutes. Average tuition fees for undergraduate arts programs, for example, increased by 125 percent between 1990 and 1999.

In addition to the student loan problems that have persisted for years, several new problems have arisen as a result of the 'Education Budget' that the federal government introduced in 1998. Its centrepiece was the creation of the Canada Millennium Scholarship Foundation.

While the new measure was touted as a means to help more Canadian students, the reality has not matched the expectations. In Ontario, for example, grants awarded through the Foundation are not paid directly to successful students. Millennium scholarships, which average $3,000, are applied to an Ontario loan reduction program.

Another concern is that the millennium scholarships are taxed as income. Students effectively are being taxed as though they actually receive these funds as cash. In fact, the monies are diverted to the provincial loan reduction program and are never received by the students at all. The 2000 federal Budget did increase from $500 to $3,000 the tax exemption for income from scholarships, fellowships and bursaries. This provision will help alleviate the tax burden but does not eliminate the source of the problem - i.e., the fact that the students themselves do not directly receive the loans.

The Education Budget also introduced new restrictions on eligibility. As of August 1999, students could be denied a loan if they were over age 22 and had missed a payment for 90 or more days on three separate occasions (on loans or debts of $1,000 or more) in the three-year period before they applied for a student loan.

Student loan debt holders are now banned from declaring bankruptcy for 10 years following graduation or leaving school. Debtors used to be provided the same protection for student debt loan as any other consumer debt. The 1998 federal Budget did introduce some interest relief and debt reduction measures. But debtors can access the debt relief program only after five years have passed since leaving school. Most repayment difficulties occur in the first two years after school completion. Moreover, in order to receive debt relief, students must lengthen their loan period from 10 to 15 years. While their monthly payments may be reduced, total repayments are increased due to interest charges.

Recommendation: *The federal government should take immediate steps to ease the burden created by the new rules for securing loans for postsecondary education and address the problems created through the procedures employed by the Canada Millennium Scholarship Foundation.*

Disability - Personal Supports

'Personal supports' refer to a range of goods and services that help offset the effects of a disabling condition. These can be classified into three streams: technical aids and equipment, personal services and brokerage.

Technical aids and equipment include such items as wheelchairs, visual aids, volume control devices and prosthetic appliances, and work-related equipment such as scanners, TTDs (teletypewriter devices) and large computer screens. This category also incorporates health-related goods such as special dressings, oxygen equipment, dialysis equipment and surgical dressings.

Personal services include several major components. Attendant services provide assistance with personal needs such as feeding, bathing and dressing. Homemaker services help with household tasks, such as meal preparation and home maintenance. Home health care provides health care services, such as dialysis, at home. Respite refers to assistance primarily for families caring at home for children with severe disabilities - and even aging parents. Interpreter, reading and other communication services are another important component of personal services.

Brokerage includes the information and counselling services required to identify, organize and manage disability supports. Brokerage services ideally are delivered independently from the provision of aids and personal services. Brokerage helps ensure that personal supports can be chosen and supervised in ways that respect the preferences, choices and dignity of the individual.

These supports would help respond to rising demands on the health care system. An adequate system of personal supports would fill a major gap - lack of community options for independent living - that is creating huge pressures for costly, hospital-based care. This concern applies to more than the 16 percent of Canadians - or 4.2 million people - identified as disabled by the 1991 Health and Activity Limitation Survey. It is of concern to the entire population.

The incidence of disability rises with age. Statistics Canada reports that nearly half of older Canadians experience some form of functional limitation. The disability rate for Canadians age 65 and older is 46 percent; it jumps to 70 percent for those age 85 or more. The costs will only increase with an aging population.

If the federal and provincial governments took action to ensure the availability of personal supports, they would be making great strides on both the disability and health care fronts. This lack of action is surprising, especially in light of a written commitment governments already have made.

In 1998, all governments except Quebec signed a national agreement on disability entitled *In Unison*: *A Canadian Approach to Disability Issues*. *In Unison* sets out a vision in which persons with disabilities participate as full citizens in school, work, culture, recreation and community life.

In Unison identified three 'building blocks' - personal supports, employment and income - in which changes are required to promote full participation. There is no question that *In Unison* embodies a broad agenda, made more complex by the fact that its essential parts are closely intertwined. One way to start is for governments to ensure that personal supports are more readily available.

The availability of personal supports varies widely throughout the country. Affordability creates problems of access. The cost of personal supports can be prohibitive and only limited assistance is in place to help offset these costs.

The cost of certain supports can be reduced by various income tax measures. The medical expense tax credit helps offset the cost of a designated list of personal supports. The disability tax credit also provides some tax relief for the additional expenses associated with disability.

Households that have no access to technical aids and equipment through an existing program or that derive no benefit from current tax provisions must purchase these goods and services on their own. Those that cannot afford to make the up-front payments generally must rely on provincial and territorial welfare programs to help with these costs.

Recommendation: *In the short term, the federal government can take actions to help offset the cost of personal supports. Specific reforms include enhancing the value of the medical expense tax credit, increasing its refundable portion and expanding the list of items that may be claimed. The disability tax credit also can be made refundable to provide some assistance to persons too poor to pay income tax. Its eligibility criteria can be relaxed somewhat to ensure that persons who could qualify are not left out. The rules now require that the impairment be continuous for at least 12 months, effectively eliminating many individuals with severe and prolonged disabilities that happen to manifest themselves episodically or intermittently rather than chronically. The infirm dependant tax credit can be enhanced and gradually extended downward in terms of ages covered.*

A more far-reaching proposal for reform focusses upon building the supply of personal supports. One way to augment this supply is through the creation of a Personal Supports Fund that would encourage investment in the network of provincial and territorial services. This proposal is described in our report *Proposal for a National Personal Supports Fund*.

The purpose of a Personal Supports Fund is to consolidate existing programs and promote the development of a comprehensive network of goods and services throughout the country. The Fund would achieve this objective by expanding the quantity of existing supports, reducing their cost, improving their quality and ensuring their portability across sectors and regions.

The proposal recognizes that the federal and provincial governments already invest in a wide range of personal supports. The proposed Fund would help generate new and continued investment over a sustained period of time in all three streams of personal supports.

Recommendation: *Ottawa should create a new Personal Supports Fund toward which it would contribute in the order of $1 billion a year over a five-year period. Federal funds would be divided among the provinces according to a negotiated formula. The federal investment is intended to lever similar provincial contributions derived from a combination of sources: provincial revenues, municipalities, community funds and geared-to-income fees. The proposed financing would take the form of a block fund that would ensure flexibility in design and delivery, and would enable the integration of disparate supports. Despite the flexibility in program design and delivery, provinces would be expected to respect a clear set of principles in order to receive federal funds: self-determination, comprehensiveness, accessibility, portability and accountability.*

Housing

There is a crisis in affordable housing in Canada – particularly in major urban centres throughout the country. The picture is starkly clear, however measured. Thousands of Canadians live on the streets in major urban centres. Shelters are full and turn away hundreds every week, including families with young children. Many Canadians may be fortunate to have a roof over their heads but are 'hanging' on month by month, skimping on food to pay rent.

There is another important indicator of need: the thousands of households on waiting lists for social housing. In Calgary and Edmonton, for example, there were 3,005 and 2,440 households, respectively, on waiting lists in 1998. At last count, 9,159 households were in line for affordable housing in Vancouver and 1,360 in Victoria. Montreal had 8,000 households on lists for social housing while the Regional Municipality of Ottawa-Carleton counted 15,000. Toronto is truly at a critical level with a whopping 41,139 households requesting social housing.

The 2000 federal Budget restated an announcement that Ottawa already had made in December 1999: a $753 million investment over three years to help alleviate and prevent homelessness. The Budget also introduced a new infrastructure program that provides for sharing with municipalities and other partners the cost of roads, sewers, 'green infrastructure' and affordable housing. The infrastructure program is worth $400 million a year over the next four years. An additional $150 million a year over four years is intended for highways. Ottawa recently announced its intent to bolster by $2.65 billion the funds it directs toward infrastructure.

Despite the infusion of funds, affordable housing needs will have to compete with roads, sewers, 'green infrastructure' and other 'physical hardware. The new investment will not go a long way when spread over so many competing demands and across hundreds of municipalities. The funds may or may not make their way into desperately needed affordable housing.

But both the already-announced homelessness money and the new housing money (if it goes towards housing at all) hardly compensate for the damage from the federal withdrawal in 1993 of support for affordable housing. As further compensation for a social housing stock left in shambles, the federal government could have taken far more bold steps than it did.

Recommendation: *Ottawa should develop a National Housing Policy that includes a package of policy options focussed explicitly upon affordable housing. The mix of policy options would help respond to the diverse needs of communities. One possibility is the creation of a nonprofit foundation, using funds earned through the sale of mortgage insurance and mortgage-backed securities. The monies would be used to lever investments by other sectors for the construction of new social housing units.*

The federal government also could expand even further its Residential Rehabilitation Assistance Program (RRAP) to extend the life of existing affordable housing. (RRAP provides renovation funding for rental units and rooming houses with rents affordable for low-income Canadians.) Tax changes could encourage investment in the construction of rental housing. The federal government could help promote private market choice by increasing funds for rent supplements provided by provinces.

Despite the need for additional investment in affordable housing, a growing body of international research shows that housing policy should view this need as far more than a question of bricks and mortar. The availability of affordable housing is being considered in terms of communities that are healthy in the broadest sense of the word - economically, socially and environmentally. Governments in several industrialized countries are exploring ways to support the capacity of communities to rebuild and revitalize themselves - especially for communities that have faced major economic shifts that may have resulted in serious financial crisis, depopulation and crime. This thinking is consistent with the concept of sustainable development that the federal government has committed itself to uphold and promote.

Recommendation: *That the federal government support the creation of a Community Improvement Fund that would be targeted to vulnerable communities. The Fund would be used for the development of a wide range of initiatives to rebuild and revitalize vulnerable communities and regions, including investment in affordable housing*.