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Saving the Review

The future of social policy reform is in the hands of Paul Martin. His next budget could cripple or even kill his colleague Lloyd Axworthy's one year-old and highly-public Social Security Review.

Ottawa is rife with rumours that the forthcoming budget will announce draconian cuts to federal spending on social transfers to the provinces and Unemployment Insurance (UI). Some newspapers already have published obituaries on the Social Security Review.

One doomsday scenario purportedly penned by the gnomes at finance would have the federal government replace the wounded Canada Assistance Plan – the 29 year-old legislation under which Ottawa shares the cost of provincial welfare and social services – with a single, giant block fund that also would include federal transfers to the provinces for health and post-secondary education (which already come in the form of a block fund). The provinces would be given leeway to spend and allocate this money as they see fit. This megablock fund probably would come with fed if any meaningful conditions as to where and how the provinces spend the money, except for the enforceable conditions of the Canada Health At to uphold the principles of medicare. The *quid pro quo* for increased flexibility is less money: Ottawa would severely cut the amount of its transfers to the provinces.

The notion of replacing the cost-shared Canada Assistance Plan with block funding did not spring afresh from the minds of the bureaucrats at Finance. It was proposed back in 1978 when Ottawa tabled a Social Services Financing Act that was scuttled due to its cost and provincial objections to certain federal conditions. The concept of block funding also figured prominently in the federal Discussion Paper on social policy reform. Its principal advantage is that it would help overcome the rigidities and limitations of CAP, giving the provinces a freer hand to overhaul the delivery of their social services and to provide income-tested benefits to their low-income residents.

However, the idea of combining all federal social transfers to the provinces into one ball of wax is fraught with danger: Our fears are spelled out in the accompanying release, *The Dangers of Block Funding*.

Unemployment Insurance likely will take another hard hit. The previous Conservative government subjected UI to two rounds of serious belt-tightening. The Liberal's first budget last year did the same, announcing $5.5 billion worth of cuts to UI. The 1995 budget is expected to make further substantial reductions to UI.

There has never been any questions that the Social Security Review had to take place in a climate of fiscal restraint. The Finance Minister and his officials have always been major players in social policy. Lloyd Axworthy knew this, as did his advisors, bureaucrats and knowledgeable observers of the social policy scene in Ottawa – and in provincial capitals, for that matter.

The Social Security Review has not been a failure in its first task of airing proposals for reform and encouraging public discussion debate. There has been plenty of both. Certain ideas have proved controversial – such as replacing federal transfers to the provinces for post-secondary education with direct loans and grants to students, and dividing UI into one stream for the occasionally unemployed and a different stream for frequent users of the program. The Human Resources Development Committee held hearings throughout Canada and listened to hundreds of suggestions as to how and hot not to reform our social programs.

The federal Discussion Paper and the debate it has sparked have furnished the elements for the kind of comprehensive and substantive reform and renewal of social security that Canada needs. These ideas include (among others): a serious attack on child poverty through an integrated child benefit and a stronger system of child support; better support to families with children through an expansion of child care and child development services as well as measures by employers and governments to recognize the problems facing parents in the workforce; investment in employment development services; and personal supports for Canadians with disabilities.

Unfortunately, we may lose this rare opportunity for serious social policy reform. It is not possible to invest in a stronger social security system while at the same time gutting its budget. Bleeding the patient is no cure. Social policy reformers can take only cold comfort in 'maybe next year' or 'when the economy improves.' There may not be a next year for progressive social policy reform. The economy may not improve next year – or the year after that.

It doesn't have to be that way. There is a way out of the apparent clash between the objectives of social security reform and fiscal restraint. The answer is to tap tax expenditures.

The federal and provincial governments spend huge amounts of money on a welter of benefits that are delivered through the tax system in the form of income tax breaks. The latest estimates from the Department of Finance, for 1991, show that Ottawa spent $33 billion on various social tax expenditures, and many billions more on other assorted tax breaks for individuals and corporations. Provincial governments also spend billions of dollars on tax expenditures because their income taxes (with the exception of Quebec) are based on the federal income tax system; Quebec also delivers benefits through its tax system. The total cost of social tax benefits to Ottawa and the provinces come to an estimated $51 billion in 1991, and doubtless is billions of dollars more today. This far exceeds the $39 billion in direct social expenditures that are under the microscope of the Social Security Review.

Tax benefits serve a smorgasbord of objectives and come in various forms. They include untaxed lottery and gambling winnings and preferential tax treatment of capital gains and dividend income; tax deductions for contributions to RRSPs and Registered Pension Plans and for child care expenses; tax credits for the aged, for persons with disabilities and for single parents; and dozens of other benefits for all number of groups and categories of taxpayers. Tax breaks provided in the form of untaxed income or deductions are highly regressive – they provide much larger tax savings to high-income taxpayers. Tax benefits delivered as non-refundable credits generally are fairer in that they usually distribute equal or similar benefits to all income levels.

Despite their phenomenal cost and in some cases regressive impact, tax expenditures continue to go largely unevaluated and unchallenged. Some of them are dubious and should be scrapped; others are still relevant and worthwhile, but may require redesign to remove their geared-to-the-affluent bias.

Tax expenditures should be subject to the same intense scrutiny and debate as more visible social programs. The cost and stated aim of each tax expenditure should be included in the forthcoming federal budget, along with the usual forecast of other program expenditures. Data should be provided to allow a comparison of the trend in tax-delivered programs and direct expenditure programs, and there should be projections for tax spending.

Tax expenditures should be part of the Social Security Review, along with UI, welfare and other social programs. The money required to finance improvements to child benefits, child care, employment development services and other necessary social investments can be found by eliminating some tax breaks and curbing others. In other words, there must be reallocation of spending to support a stronger social security system: Tax expenditures are an integral part of government spending.

That means, of course, that people who benefit from tax breaks that are curbed or eliminated will face tax increases, since their benefits come in the form of income tax reductions.

Canadians who grew up in the Depression were willing to pay taxes to build a network of social programs that would provide security for those in nee and health care for all. Although our social security system now faces unprecedented challenges and demands, it is as vital to the security and well-being of Canadians in the 1990s as it was to previous generations. Indeed, changes in the labour market and society mean that we must build a more effective social security system that will do more – that will invest in a skilled workforce as well as ensure a safety net for those in need. We must continue to support a strong social security system that we all may need at some point in our lives.

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