CALEDON
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**caledon commentary**

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# Green Light, Red Flag: Caledon Statement on the Social Security Review

The Social Security Review offers a once-in-a-generation opportunity to reform Canada's social programs.

Caledon called for a comprehensive review of social programs in its September 1993 memorandum to the next Prime Minister, *Federal Social Policy Agenda*, released during the federal election campaign. We argued that Canada's social security system is struggling to cope with unprecedented economic, social and demographic pressures at a time of severe fiscal restraint. After years and in some cases decades of studies and proposals from government commissions, researchers and social advocates, we said it was time for a public debate over the future of social programs, followed by action.

*Improving Social Security in Canada*, the federal Discussion Paper released today, launches just such a debate on reform. It puts forward many arguments, options and ideas for fundamental changes to a large part of the social security system, covering income security, social service and employment programs delivered by all levels of government.

We think the Discussion Paper contains many of the ingredients required for real reform. We support its core argument that the social security system must do much more than mainly dispense income security benefits and social services: It must devote greater resources and energy to improving the education of Canadians and raising the skills and credentials of the workforce.

We see the Review as an opportunity for governments to put their money where their mouths are when it comes to fighting child poverty and helping parents cope with the heavy and sometimes conflicting demands of work and family. The Review should help start the debate about ways to begin the long-awaited job of dismantling our ineffective welfare system. It will tackle the contentious issues of how to redesign the much-criticized Unemployment Insurance juggernaut and how the federal government should support post-secondary education.

While Caledon agrees with the need for fundamental change, and believes the Discussion Paper presents many worthwhile ideas, we disagree with the federal perspective of what is 'on the table.' Ottawa is not only looking at different ways to cut the social pie; it is also seeking ways to shrink the size of that pie.

It will be difficult, if not impossible, to succeed at true social security reform if the bottom line requires billions of dollars in cuts to social spending. There are some important ingredients missing in the recipe for social policy reform – notably the vast sums of public funds that are spent through the income tax and pension systems. The tax system and pensions should be part of the Social Security Review.

The Social Security Review is a very public undertaking that will encourage and support widespread discussion and debate amongst Canadians over changes to social programs. We welcome such a public consultative process: It marks an end to the Conservative politics of social policy by stealth whereby major changes were imposed on social programs with little or no public debate or understanding.

Unfortunately, the Discussion Paper is rich in ideas and proposals but, on the whole, thin on specifics. Social security reform requires more than vague statements with good intentions. It means presenting clear and explicit proposals for achieving these goals, including information on the cost and potential impact of alternative options for change.

The Discussion Paper is a menu of options with no price tags – except the bottom line, which is at least several billion dollars less than the federal government currently spends on social programs.

### *Fiscal framework*

While Caledon supports the need for fundamental changes to the social security system, we object to the fiscal straight jacket that has been forced upon the Social Security Review. The cuts threaten to strangle social security reform.

The Finance Minister's February 1994 Budget made it clear that the Review must adhere to substantial spending reductions; $1.5 billion are to be removed from federal social transfers to the provinces by 1996-97. In addition, the recent round of changes to Unemployment Insurance announced in the 1994 Budget will cut $725 million from the program in 1994-95 and $2.4 billion in 1995-96 and in 1996-97. On a cumulative basis, between 1994-95 and 1996-97, the cuts to federal social transfers to the provinces and to Unemployment Insurance will total $7.5 billion.

The Discussion Paper notes that there will be "significant additional reductions" in Unemployment Insurance as a result of the Review. Moreover, the 1995 Budget could detail "further measures...to achieve the government's fiscal target" of reducing the deficit to three percent of GDP by 1996-97.

Caledon acknowledges that social programs represent the largest share of government expenditures and that social expenditures overall are rising. We recognize that the renewal of social programs requires more cost-effective administration and delivery.

At the same time, we do not believe that it is possible to set out an ambitious plan for reform – for investing in Canadians and fighting child poverty – with substantially *less* than what we currently spend. That would be akin to burning the village in order to save it.

We need to devote *more* resources, energy and ingenuity to improving the skills and credentials of the unemployed in particular and the workforce in general. Improvements to child benefits, child care and child development services required to combat child poverty and ease the heavy burden on Canadian families will cost *more* money than we now spend in those areas.

But that does not mean that we have to increase public spending and thereby add to the deficit. Instead, we have to look carefully at our existing social expenditures and consider how they could be reallocated to support social security reform.

There are three sources that can be tapped in order to pay for improvements to employment, learning and children's programs – Unemployment Insurance, the tax system and the pension system.

Savings from changes to Unemployment Insurance should be reinvested in training, literacy and other employment programs.

The tax system should be considered part of the Social Security Review not only because of the heavy and rising burden that income taxes impose on the working poor and the GST places on all poor Canadians. It is also crucial because of the substantial tax expenditures that can be captured to help pay for social reform. Billions are spent every year on tax breaks, some of which benefit high-income taxpayers most. Canada no longer can afford welfare for the wealthy.

Nor can Canadians and their governments continue to keep their heads in the sand on the subject of pension reform, no matter how controversial and politically explosive it may be. The aging of the population is inexorably pushing up expenditures on well-known programs such as Old Age Security and the Canada and Quebec Pension Plans and lesser-known programs such as the age credit, the pension income credit and the tax deductions for contributions to RRSPs and registered pension plans. These various programs cost upwards of $72 billion and distribute considerable benefits to upper-income seniors.

The Mulroney government made a momentous change by imposing a deviously-designed clawback which removed the universal foundation of Old Age Security; the present Liberal government made another cut by income-testing the age credit. Neither of these changes was made with any public consultation. The 1994 Budget announced a discussion paper on the impact of the aging population on pensions and social services, but so far it has not been sighted.

If we do not put the tax and pension systems on the reform table, there will be two unpalatable alternatives for the Social Security Review. One alternative is to cut the budget of social programs that serve one group of the poor (e.g., welfare for single employable people) in order to improve programs for another group of the poor (e.g., low-income children). The other is simply no action on promising proposals to fight child poverty and reduce stress on working families.

Investing in programs to fight child poverty, strengthen the family and improve the skills and knowledge of the workforce will pay fiscal as well as social dividends – in terms of reduced demand on costly social programs such as welfare and Unemployment Insurance, and increased productivity and tax revenues.

### *Jobs and learning*

While Caledon supports the need for social security reform, we must not lose sight of the fact that it is the precarious and polarized labour market that is generating profound pressures on social programs. Social programs – and social reform – can do only so much: The necessary partner to an effective social security system is an effective economic policy that creates a strong and stable labour market.

Caledon also supports the need to incorporate learning and training within the social security system. Most social spending is directed toward income programs that come into play after people lose their jobs. Income supports offer only remedial, temporary and short-term solutions that cannot possibly get at the roots of unemployment and poverty. Many social services are well-meaning but are essentially after-the-fact fixes that cannot cure the problems they are intended to address. Lifelong learning adds a critical and missing third dimension to our social security system – prevention.

Lifelong learning means many things. It includes – but moves well beyond – the traditional notion of formal education. It involves child development and head start programs for young children; parenting skills; high standards in education; competence in literacy and numeracy; programs that help young people move from school to work; high-quality vocational and skills training; upgrading to help workers renew or change their skills; and assistance in matching worker skills with job requirements.

*A comprehensive action plan*

The reform of social programs cannot be undertaken in a piecemeal fashion. Any change to one part of the social security system has an impact on other parts. Unless reform is undertaken in a comprehensive way, we fear that poor Canadians, in particular, could be hurt seriously by mindlessly dismantling pieces of the social safety net.

Outlined below are Caledon's ideas for social security reform. While we describe the key proposals under individual headings, they should be understood as a package of reforms. The Caledon 'action plan' would achieve the following:

- return UI to an insurance base
- create an employment assistance program for workers who have exhausted their UI benefits – and ultimately for employable welfare recipients – that would provide various forms of training and financial assistance
- reduce welfare to a truly residual program of last resort
- enhance the child tax benefit to reduce child poverty and remove children from welfare
- introduce legislation that supports integrated services for children – including child development, child care and child welfare
- redirect remaining CAP funds toward personal supports for persons with disabilities and the elderly.

These proposals represent a profound shift in program design and delivery. Clearly, the financing of these programs must change; certain components may be more appropriately funded through general revenues rather than employment-based premiums.

***i. Unemployment Insurance***

Unemployment Insurance (UI) requires reform. It has become an ongoing and major source of income for certain regions and communities, especially in Atlantic Canada. Yet it was not designed as an income support program or as a form of *de facto* equalization.

Unemployment Insurance subsidizes industries and workers with unstable employment patterns at the expense of those with stable patterns. It supports seasonal industries by encouraging layoffs rather than reductions in working hours. Regionally extended benefits effectively give workers an incentive to remain in high-unemployment areas and to stay in temporary or seasonal jobs.

UI should be returned to its original purpose of social insurance for people who are unemployed on a short-term and occasional basis. Benefits for illness, temporary disability and maternity/parental leave would remain. Eligibility would be extended to workers in 'non-standard jobs' that are a fast-growing part of the labour market, including part-time workers and people who work at several part-time jobs.

Regionally extended and fishermen's benefits, however, would be replaced by some form of income supplementation – possibly along the lines proposed by Newfoundland. Caledon also supports investment in community economic development in regions of high and persistent unemployment. The primary problem in these regions is not abuse of UI – but lack of jobs.

The problem of high repeat usage of UI would be addressed only partly through regional initiatives. A true insurance program does not pay benefits with such frequency to the same people. In order to reduce frequent use, we propose that limits be imposed on the number of times that workers can claim UI in a designated period – such as three times within five years. After the third claim, workers would be referred to a new program – *employment assistance* – which would provide unemployed individuals with the supports they need to enter or re-enter the labour market.

Employment assistance would focus primarily upon skills training. It would consist of information and referral; job counselling; apprenticeship; and language, literacy and numeracy programs. It also would include work sharing, mobility assistance and self-employment assistance. These programs could be supported through both UI developmental funds and general revenues.

Employment assistance would provide income-tested financial support for up to a maximum of two years. The federal government could assume responsibility for the income benefit (to ensure national consistency and adequacy) while the provinces could deliver the employment services. However, it is conceivable that Ottawa could enter into agreements with some provinces to allow them to operate both the income and employment services elements of employment assistance.

In order to make this program work, Ottawa and the provinces also must address the issue of labour market 'ownership.' The quality of employability programs has suffered because of unresolved jurisdictional disputes.

In proposing an employment assistance program for frequent users, we want to stress that the problem of frequent use is due not simply to excessive claims by workers. Certain employers are equally responsible in that they use UI as part of their compensation system. Caledon supports the need for some form of experience rating for employers; despite its problems, a creative form of experience rating would introduce financial penalties for the inappropriate use of UI.

### *ii. welfare reform*

Welfare was designed as a program of last resort – to provide short-term, emergency assistance to 'unemployable' households with no other source of income. Social security reform should return welfare to its original purpose.

Caledon proposes that a substantial proportion of the current and potential caseload be directed toward the employment assistance program. Unemployed workers who already have made three claims in five years would turn first to employment assistance rather than welfare. Welfare recipients considered employable also would be referred to employment assistance which would provide training and financial aid on an income-tested basis.

Freeing employable recipients from the welfare rolls would be a major component of welfare reform. Another component would be to remove children from welfare by means of the integrated child benefit proposed below. Yet another dimension of welfare reform would be to provide access to personal supports for persons with disabilities (discussed later); this would help many of them escape welfare.

### *iii. child poverty*

One in five Canadian children is poor. A major factor that contributes to child poverty – especially for single-parent families – is the high rate of default, instability and inadequacy of child support payments. Unless Ottawa and the provinces make a concerted effort to address this problem, many families will continue to depend on inadequate forms of public support – notably welfare.

Child benefits provide another means of bolstering the incomes of poor families. They help compensate for the fact that wages – especially low wages – do not take into account the costs of raising children.

The current federal child tax benefit has made only a minor dent in reducing poverty – partly because the design of the credit extends assistance to families relatively high up the income scale. When limited dollars are stretched over a wide band of beneficiaries, the amount per household not surprisingly is quite small.

One option for reform is to redesign the present federal child tax benefit so that it provides a substantially larger benefit for low-income families. For example, it would cost $1.5 billion extra to increase the child tax benefit for poor families from its present rate ($1,233 per child under 7, $1,020 for each child 7 to 17) to $3,000 for the first child, $2,500 for the second child and $2,000 for the third and each additional child. An enhanced federal child benefit would land a significant punch on child poverty.

A bolder reform is an integrated child benefit which would combine federal spending on the current child benefit with the amount that Ottawa and the provinces spend through their welfare systems in respect of children. The integrated benefit would be paid to all low-income families with children, including the working poor. The new benefit would remove children from welfare – hence the popular reference to a 'guaranteed income for children.' It would provide an incentive for parents to remain in the labour force because they would receive a significant boost to their income.

We recognize that an integrated child benefit would cost more than existing income security expenditures on behalf of children. Part of the cost would be offset by redirecting welfare expenditures. Additional funds could be harnessed by curbing costly tax breaks for high-income households. Canada no longer can afford a system of adult benefits – for the rich.

If no additional funds are made available for child benefits, we would target the existing federal child tax benefit even further in order to boost benefits for the poor. While fewer families would qualify, those that do get assistance would receive more than just a nominal sum.

It is essential that – whatever design we choose – the child benefit and its threshold be fully indexed. Under the current partial indexation formula, the child tax benefit drops in value every year: If inflation is three percent or more, child benefits lose three percent of their worth; if inflation is less than three percent, benefits decline by the amount of inflation. The resulting erosion of child benefits hits poor families hardest because child benefits make up a larger portion of their limited incomes. Over time, fewer poor families receive maximum benefits because the partially-indexed threshold falls steadily to inflation.

While an enhanced child benefit would help offset child care costs, the funds spent on child benefits should not replace the monies directed toward child care – an essential component of child development.

***iv. child care and development***

The purpose of social programs is not simply to reduce poverty. Social programs represent an investment in people.

An investment in people should begin at the very earliest stages of life. The foundation for physical, intellectual, emotional and social competencies is established during childhood. The federal government can play a central role in child development by supporting lifelong learning in the form of heads tart programs and parenting education. Child care is another critical aspect of child development.

The need for high-quality, affordable care has been documented in countless reports, documents and briefs. Caledon supports an investment of funds in licensed child care centres and family day care homes, especially for children between the ages of 3 and 5.

The federal government should introduce a new legislative arrangement that forges the links between child care, child development and child welfare. Child care generally is regarded as a service for working parents; its potential impact upon child development is rarely recognized. Moreover, child care can provide preventive services that may reduce the need for child welfare services down the road. Comprehensive services for children could be financed partly by redirecting funds now spent on child-related services under the Canada Assistance Plan.

High-quality child care is only one piece of the puzzle. Equally important are the range of workplace measures (such as flexible hours, part-time work with pro-rated benefits, compressed work weeks, job sharing and family-related leave) that help employees balance their work and family responsibilities – notably caring for children and elderly parents.

### *v. Canada Assistance Plan*

Caledon proposes that the Canada Assistance Plan (CAP) be dismantled and its funds reallocated to other social programs. Funds currently spent through CAP on employable welfare recipients would be channeled into the new employment assistance program, which also would be supported through changes to Unemployment Insurance. Funds now spent through CAP on welfare benefits for children would be redirected to an enhanced child benefit, which also would be supported by reducing tax breaks for the well-off. The remaining CAP funds would be used for child care and child development as well as for personal supports.

'Personal supports' refer to a wide range of disability-related goods and services including technical aids, equipment, and homemaker and attendant services. While these supports may be construed as 'passive' within the current vogue of active and passive programming, they are anything but passive in terms of their impact. Persons with disabilities and the elderly require personal supports to participate in the labour market and to live independently in the community.

For many people with disabilities, in particular, the only way to gain access to personal supports is through the special needs provisions of the welfare system. The assistance is not assured; moreover, there is profound variability in the type and amount of supports available throughout the country. The irony is that many people must go on welfare and declare themselves unemployable in order to get the supports that would help them participate in the labour market.

Another problem arises from the fact that supports are usually not 'portable' – they cannot be taken from one locale to another. Current funding arrangements place restrictions on where and how personal supports are used. Caledon supports the need to replace CAP by a new funding arrangement that removes the rigidities inherent in the existing legislation.

Finally, unless we make a substantial effort to address the lack of personal supports, Canada will face a staggering problem in the not too distant future. There will be too few community-based personal support services to help the large numbers of elderly Canadians who may require these supports – one in five Canadians will be 65 or older by the year 2010. One of the chief weaknesses of the Discussion Paper is the fact that it does not present any clear vision or bold proposals to meet what likely will be the most pressing social need of the next century.

### *vi. post-secondary education*

The Discussion Paper considers the possibility of converting cash transfers from the federal government to the provinces for post-secondary education into direct transfers from Ottawa to students in the form of loans and grants. This could be positive if it means that the federal government intends to maintain its level of investment in post-secondary education. Cash transfers to the provinces are dwindling as a result of changes made in recent years to the Established Programs Financing (EPF) formula. By 2010, these cash transfers are expected to run out entirely. Their conversion to grants would preserve these federal monies in the system. Moreover, some people argue that a market-based approach to post-secondary education would reward universities and colleges that demonstrate excellence and high-quality standards in their education.

At the same time, there may be a danger in removing funds from the infrastructure of post-secondary education. There are questions about the extent to which post-secondary educational institutions can, and should, be expected to act like free agents competing in the marketplace; they are educating students, not manufacturing cars. The implications of such a change must be carefully thought out. Moreover, the proposed shift in financing doubtless would cause a hike in tuition fees – which, even with an expanded loan and grant system, could result in substantially higher costs for students and their parents. Informed public debate on these complex issues requires detailed analyses that we hope will be presented in forthcoming technical background papers.

***An essential investment***

If the Social Security Review achieves nothing else, at least it will have sparked public debate about social programs. The federal government will hear loudly and clearly about the importance of social programs and the need both to protect and strengthen them. Social programs contribute to the health of our economy and to the well-being of Canadians. As such, they are not simply a social safety net: They are an essential investment in our economy and society.

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