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The Dangers of Block Funding

The problem

For all intents and purposes, the federal government has already converted the Canada Assistance Plan (CAP) into a block fund. CAP is the financing arrangement that allows Ottawa to share 50-50 with the provinces in the cost of their welfare programs (social assistance) and social services. The conversion from a cost-shared to a *de facto* block fund occurred in 1990 when Ottawa unilaterally placed a limit on its contributions to Ontario, Alberta and British Columbia. Now the federal government is set to go all the way and formally replace the cost-shared Canada Assistance Plan with some form of block funding.

But the conversion process is not likely to stop there. The federal Finance Department – for now apparently in the driver's seat of the Social Security Review – wants not only to 'block' CAP but also to combine it with funds for postsecondary education and possibly health (both of which are already block-funded under the Established Programs Financing arrangement). The result would be a 'mega-block' for human services.

Funds would go directly from the federal to provincial finance ministers. Federal and provincial departments responsible for social programs would have to scramble and compete for their share of the block fund with each other – and conceivably other government departments as well. And that's precisely where the dangers begin.

The dangers

Danger #1. Block funding is really being used as the fall guy for fiscal restraint. If, as rumoured, Ottawa slashes additional billions from its transfers to the provinces, then the inevitable result will be substantial cuts to welfare programs, social services, postsecondary education, and possibly health care. In the past, the federal government used its spending power to help build the infrastructure of welfare programs and social services throughout the country. The ongoing withdrawal of federal funds inevitably will weaken and erode that system. Fewer federal dollars also mean a reduced federal presence in human services – and a greatly weakened ability to ensure any form of national standards or conditions.

Danger #2. Transfers with no enforceable conditions or 'strings' cannot guarantee that the funds will be spend for their intended purposes. The federal funds slated for human services could very well end up filling potholes – or other black holes, including provincial debt financing charges. This is already a problem with block-funded transfers – especially in the area of postsecondary education which has no conditions associated with federal cash transfers.

Danger #3. Even if Ottawa attaches strings to the funds to ensure their proper use, there is no guarantee that provinces will continue to make their respective contributions. At least CAP required provinces to make an initial donation to the cause. Granted, the up-front requirement was onerous for the 'have-not' provinces. But there was a guarantee of provincial dollars, just as there was of federal matching funds. Block funding, by contrast, removes all assurances of provincial input; at best it can only see that *federal dollars* are used for certain purposes.

Danger #4. The conversion of CAP to a block fund means that there will be no guarantee of a safety net in the country. It is true that CAP set no standards or 'baseline' for the adequacy of welfare benefits. As a result, welfare incomes fall well below poverty levels throughout the country and vary considerable from one province to another. In fact, some provinces now appear to be in a race to hit a new floor – called rock bottom – with respect to their welfare rates.

Despite the threadbare patchwork quilt of welfare benefits, at least CAP ensured that provinces have a welfare system in place. They had to by virtue of the Cap requirement that financial assistance be provided to any Canadian on the basis of need. The *cause of financial need is irrelevant*. It doesn't matter whether the person is disabled, is a single parent with a young child or is one of the many thousands of unemployed workers who exhausted or do not qualify for Unemployment Insurance; the fact is that they qualify for welfare if their needs exceed their resources.

This CAP requirement represented a profound advance in social policy when the Act was introduced in 1966. The relatively obscure 'needs' criterion has had a powerful impact in ensuring the presence of an income safety net. Now, close to 30 years later, its end could be in sight.

There is no question that the safety net is in need of major repair. It was referred to as a 'tangled safety net' in a report issued by the National Council of Welfare in 1987. The safety net is 'tangled' because it is an extraordinary complex system with a myriad of rules and regulations set within a framework of extraordinary administrative powers and discretion.

But despite its complexities, the safety net has served an essential function over the years. And it is all the more important in today's turbulent labour market which has created unemployment and low wages for millions of workers.

If CAP is gone, there will be nothing that requires provinces to have a last resort safety net in place. Given the option on the table, a tangled safety net is much better than no safety net at all.

Danger #5. The dangers inherent in block funding – be it a CAP block fund or a mega-block fund – could be mitigated through associated changes to other social programs. Block funding makes sense only in the context of related forms. An integrated child benefit, for example, which replaced existing federal spending on the Child Tax Benefit and the portion of provincial welfare paid in respect of children; would go a long way toward offsetting the potentially dangerous impact of dismantling provincial welfare systems.

When Caledon discussed the possibility of block funding in our recent reports and commentaries, *we did so within a context of comprehensive reform* – within a framework of interconnected changes that would improve current programs overall. The end result would be a stronger and more adequate *package* if social programs.

The strengths

This is not to deny the potential strengths of block funding – because there are some distinct advantages to this type of fiscal arrangement. Block funding makes sense from the perspective of community-based service delivery; it would remove – at least at the federal level – the artificial distinctions now in place that tend to compartmentalize human needs as though they parallel the bureaucratic structure of governments.

There are also some points to be scored in the constitutional game. Ottawa would be seen as 'granting' more flexibility to the provinces through an even looser arrangement for fiscal transfers than now in place. Nothing like a looming referendum to set the social reform stage.

The bottom line

The dangers of block funding – introduced in and of itself without any changes to related social programs – clearly outweigh its advantages. Whatever the precise design of the new financing arrangement, welfare and social services in particular are likely to suffer irreparable damage. The impact will be felt not only by the poor but by all Canadians. Human services are the most valuable investments any society can make; we reduce, retract and remove – at our peril.

The bottom line of fiscal restraint has become the bottom line for social reform. Canada no doubt will be a very different country – in the aftermath of late February.

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