

Why Canada Needs a Federal-Provincial Social Security Review Now

There have been three substantive federal-provincial attempts at comprehensive reform of Canada's social security system in the last 40 years.¹

The first, in the mid-1960s, gave us the Canada Assistance Plan, the Canada and Quebec Pension Plans, the Guaranteed Income Supplement and other important advances. The second, in the mid-1970s, was kicked off by an increase in the then non-taxable universal Family Allowance from \$12 per child per month to a taxable \$20 per child per month effective January 1974, with subsequent indexation to the cost of living. However, beyond this single large increase in child benefits, the second federal-provincial process – with its quest for a new system of income support and supplementation, community employment and other innovations – eventually died stillborn due to increasingly constrained fiscal circumstances and failure to forge a federal-provincial consensus.

The third federal-provincial review took place in the mid-1990s and produced a Discus-

sion Paper and several wide-ranging reports on possible reforms of social security, the most substantive of them exploring different options for reforming child benefits. But the federal government basically ignored its own Review and went ahead with little more than a few fiscally induced reductions in unemployment insurance and the replacement of the Canada Assistance Plan and Established Programs Financing by the Canada Health and Social Transfer block fund. Nevertheless, out of the ashes of the 1990s review arose the impetus for the federal-provincial/territorial National Child Benefit, which is the most important structural reform to Canadian income security policy in the last three decades.

These three federal-provincial reform exercises have had mixed results, but they have all been driven and tempered by the same inescapable reality: Meaningful comprehensive reform of social security in Canada is only possible through a joint federal-provincial process. Social security in Canada is a responsibility of both Ottawa and the provinces, and these

responsibilities overlap and intertwine in complicated and sometimes irrational patterns.

Canada's system of income and employment supports for adults is today in dire need of modernization.² It was conceived and built largely on the paternalistic premise of 'looking after' the needs of those who are assumed to be unable to look after themselves. As such, the system often does not systematically support beneficiaries' attempts to engage in the labour market. Indeed, in some ways it hardly recognizes the existence of the labour market. Moreover, Canada's social security system for non-elderly adults has failed to gather sufficient popular support to succeed even in its primary mission. It does not provide reliable and adequate income to those who must rely upon it. Canada needs a modern social security system, which supports a flexible and dynamic labour market while at the same time providing adequate income, employment and learning support to those who require it.

Ottawa's unemployment insurance program (renamed Employment Insurance) has become less adequate and more difficult to access for unemployed Canadians. A flexible labour market implies periods of transition between jobs, mobility between regions and non-standard forms of employment, including self-employment. If these needed elements of flexibility in the labour market are not to be fought tooth and nail (and so undermine the capacity of the Canadian labour market to respond rapidly to change) and, equally, if the burden of this kind of flexibility is not to fall only on the workers caught up in its requirements, then the unemployment insurance system needs to provide generous support for short periods of transition, as well as retraining. The unemployment insurance system also must be able to cope with contracted and self-employment and other non-standard jobs.

Canada needs a labour force able, willing and enthusiastic about risking job changes, retraining and retooling. If Canada is to have a modern, successful economy *and* provide high and secure living standards, the role of unemployment insurance is to sustain the workforce as it adapts to the rapidly changing requirements of a vibrant economy.

But if 'Employment Insurance' is not quite succeeding, it is nothing but a wonderful and stellar success compared to the other salty pillar of income security in Canada – provincial welfare.

Provincial welfare recipients often inhabit a kind of Kafkaesque netherworld within our liberal democratic state. In the welfare world, almost every recipient is breaking some rule at any given time, because the rules are so complex and so unrealistic that it is all but impossible to obey them. But when everyone is guilty, the ordinary protections of civil society are lost and every recipient lives in permanent fear and worry. The fundamental protection of an independent and well-funded appeal system has been lost in many provinces, as appeal systems were in the first place only reluctantly constructed as a condition of cost sharing under the now defunct Canada Assistance Plan. In the Kafkaesque world of welfare, recipients are at the mercy of the whims of bureaucrats: Most are dedicated and fair, but some are not. Even governments with the best will in the world have not found it possible to transform welfare into a platform into the workforce; instead, almost all welfare reforms have become punitive money-saving expeditions, whose real incentive structure is fear, hunger and homelessness.

One of the essential missing elements in Canada's social security system is to rethink the benefits we provide to adults. With the contin-

uing enhancement of the federal Canada Child Tax Credit, and provincial child benefits, it will soon be possible to detach child benefits from entitlement for unemployment insurance or welfare or any other program in the income security system. This will leave us free to redefine the ‘adult’ side of the social security system, away from the outmoded paternalistic family budget model. Instead, we can think of generous short-term assistance that provides *wage substitution*, during periods of transition – the role of unemployment insurance. And we need a complementary program that provides *wage replacement* on a longer term, including if necessary a job, for those few who need it – the role of what is now welfare.

But we cannot reconstruct a rational and modern system of adult social security without Ottawa and the provinces working together. Canada should once again set in motion a major federal-provincial social security review, as the Caledon Institute called for in its September 2002 report *Social Policy That Works: An Agenda*. Unemployment Insurance has to stop being the social safety net of last resort for the chronically underemployed and unemployed, and welfare cannot function as a short-term program providing temporary assistance to people in the process of job search or retraining. Ironically, welfare reform may be the key to transforming Unemployment Insurance and, equally, Unemployment Insurance reform may be necessary to transform welfare. The federal government and the provinces need each other.

The moment is uniquely propitious for a new federal-provincial social security review. First, the provinces today – more so than any time in the recent past – have governments, some with new mandates, willing to tackle a major review in a spirit of pragmatism, compromise and good faith. Second, there is an established record of

accomplishment and cooperation with respect to the National Child Benefit. Furthermore, the Canada Child Tax Benefit and provincial child benefits have for the first time made it possible to isolate the adult component of the income security system and transform it into a labour market program. Third, most advocacy and interest groups have also seen the futility of just arguing automatically for increases in welfare rates and are willing to play a positive role in defining something better.

Fourth, Ottawa has promised to divide the Canada Health and Social Transfer into two components, one of which will be the Canada Social Transfer. But what is the purpose of the Canada Social Transfer? Is it meant to accomplish anything, or is it just another block transfer to the provinces? The provinces should be acutely aware of the extreme vulnerability to future cuts of a substanceless Canada Social Transfer.

Fifth, while federal fiscal circumstances are not today offering much room for new initiatives, fiscal light will start to reappear in three or so years, just about the time when the results of a social security review should begin to be implemented. Finally, with a new Prime Minister taking office soon, and a new mandate around the corner, there is time to complete a two-year review process, make the necessary legislative and administrative changes, and introduce reforms all within the coming mandate.

The stars are aligned. It is time for governments in Canada to take on the challenge of modernizing our social security system. Like it or not, in this area Ottawa and the provinces are bound up inextricably with one another. Reform will require another concerted effort to work together towards the common good. None of the previous federal-provincial social security reviews have been judged wholly successful,

although that of the late 60s came close, but all have eventually resulted in lasting improvements in Canada's public programs. The 2004-05 review could be the most successful of all.

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Endnotes

1. We include the territories when we write 'provinces' or 'provincial.'
2. We are talking about income security and employment programs for non-aged adults, not children or seniors.

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