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Accountability Versus Conditionality: the Future of the Canada Social Transfer

The Canada Social Transfer should be made into an effective instrument for the continued transformation of Canada's income security system. That bold step forward will require resurrecting the principle of conditionality in federal transfers to the provinces,[1] the tool that helped build provincial social programs in the past. However, a challenging conceptual step first must be undertaken – to distinguish between the symbolic and the real in the world of federal-provincial transfers.

Until the late 1990s, transfer payments were classified as matching grants, such as the Canada Assistance Plan; conditional block grants, as in health funding under the Canada Health and Social Transfer; and unconditional block grants, like Equalization. Nowadays a different type of transfer program has evolved: federal transfers that provide formally designated funding for targeted areas. In this type of transfer, the federal government gives the provinces money, but instead of matching funding or meeting conditions, provinces are expected to spend the federal money for a designated purpose, supposedly to direct Ottawa's dollars to specific targeted areas. In place of conditions, the federal government seeks to ensure that its money is spent as designated through accountability measurement.

The early childhood services transfer agreements of recent years (the Early Childhood Framework Agreement of 2000 and the 2003 Budget's additional financing to improve quality early learning and child care) as well as the National Child Benefit's reinvestment formula (whereby the provinces/territories reinvest federally-enabled savings from welfare child benefits into a range of other programs and services for low-income families with children) are prominent examples of the new style of designated federal transfers. This new form of 'designated transfers' has snuck up on us over the last several years, and it has not yet been subject to much analytic scrutiny.

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But can Ottawa really target its social transfers to the provinces through designated funding?

One of the primary characteristics of money is that it is perfectly fungible. This means that any Canadian dollar is fully substitutable for any other: Five dollars are exactly the same as five one-dollar coins. But since money is perfectly fungible, once a sum enters an account with other money, there is no sensible way in which we can 'track' what happened to any particular money in that account, any more than we can track a bucket of water thrown into a bathtub.

To illustrate the implications of the fungible nature of money, consider the following example: Imagine that every week you spend $100 on groceries, of which $10 is spent on milk. This week I give you $5 and I say, "I want you to spend *my* $5 on milk." Now you do your regular shopping trip and you buy your regular $100 worth of groceries, including $10 on milk as usual. When you return I ask, "Well, did you spend my $5 on milk?" You reply, "Yes, I sure did. I wrote a little "M" on it and circled it and if you go to the till of the grocery checkout you will see that it is in there." So, I am satisfied that you spent *my* $5 on milk. I am happy and presumably Canadian citizens are happy, too, to see that the provincial governments are spending *those* designated federal dollars on child care or health care or whatever the federal government said the provinces were supposed to do with those dollars. But nothing has actually changed except that you are now $5 richer and I $5 poorer. There is no more milk being bought.

In fact, the question 'what did you do with *my* dollar' does not make sense. Rather, we should ask 'how did my giving you a dollar change your spending?' To return to my grocery-shopping example: Imagine that upon receipt of my $5 you spent $105, including an extra $5 for a chocolate bar that you would not have otherwise bought. You might insist that you had spent my $5 marked with the little 'M' on milk, just as I asked, but did you? Even if you conscientiously bought the milk as a separate purchase using my $5 bill, the real effect of the $5 grant was that you bought a chocolate bar. If I ask what affect my grant had on your *behaviour*, milk had nothing to with it. So how can we make sense of the question: what did you do with *my* money?

The whole notion of accountability through tracing how dollars are spent is nothing but an illusionist act, although this would not prevent hordes of auditors from spending large quantities of public funds in efforts to penetrate the illusion. Both Ottawa and the provinces have reasons to be complicit in maintaining this illusion. Ottawa has been anxious to perpetuate the perception that it is doing something about health funding (substitute 'child care' or any other designated area) without getting into a fight with the provinces by attempting to demand matching spending or to apply enforceable conditions. The provinces are pleased to maintain this fiction because they then get federal money without real strings attached.

You know the old joke about the Soviet Union? 'In the Soviet Union we have a social contract: we pretend to work and they pretend to pay us.' Well, Canada has it's own version: 'In Canada, Ottawa pretends to give the provinces money for health care and the provinces pretend to spend it on health care.' The same joke could be made about child care or any of the other areas where Ottawa is providing unconditional funding, except that the funds must supposedly be spent on a specially designated service. Nevertheless, the illusion remains alive and quite seductive, since it offers a seeming compromise between provinces' stiff resistance to conditionality and simply leaving Ottawa's money with no strings attached at all. The compromise, however, is no compromise at all; it is just a way to appear as if we are doing something when we are not.

What does this mean for the Canada Social Transfer?

Whether the Canada Social Transfer is divided into two or three or ten funds, called social or post-secondary or whatever, is merely symbolic so long as the transfer has no effective conditions and makes no demands on the provinces to adapt their behaviour – what provinces *do* – in order to receive a full transfer payment. A Canada Social Transfer requiring only that the money be 'spent' on social assistance or services is nothing more than symbolism, although possibly expensive and bureaucratic symbolism as governments set up all kinds of paper exercises to try and 'trace' how the money is spent.

So what do we think should be done with the Canada Social Transfer?

First, we should admit frankly that there is not and has not been for many decades a post-secondary transfer in anything but name. As an unconditional block grant to the provinces, the so-called post-secondary component of the CHST and its predecessor, the EPF, was simply a fiscal transfer into provincial coffers. The jealousy with which provinces guard their Constitutional prerogatives in the education field makes it difficult to imagine there ever being real conditions associated with a federal transfer. We would therefore suggest that federal spending for post-secondary education should instead be directly for research funding, and for students and their families, and not a transfer payment to provinces.

In contrast, in the field of income security, federal and provincial responsibilities are entangled and both levels of government play significant roles. Ottawa delivers Employment Insurance and the Canada Pension Plan, but only by courtesy of a moderately restrictive Constitutional amendment. The provinces run social assistance and workers' compensation, and Quebec also operates the Quebec Pension Plan. Both levels of government deliver child benefits as well as a variety of refundable tax credits.

There is a strong precedent for substantive conditionality associated with matching grants – the Canada Assistance Plan, which operated for three decades from the mid-1960s through the mid-1990s. So we would argue that it is possible to designate the Canada Social Transfer as a transfer for income security *and* apply effective conditions.

But what kind of conditions, and what kind of income security?

We do not think it is possible to say what the Canada Social Transfer should do with respect to income security unless we first develop a vision of what we want Canada's income security system to be, and its necessary links to employment, training and learning services. We cannot design a means without knowing what ends we want to achieve.

The Caledon Institute advocates a transformation of Canada's social programs for the non-elderly from an unconnected mélange that discourages effective employment and training, while providing inconsistent and often inadequate support and services, into a coherent system that encourages employment and lifelong learning, while providing fair and adequate income security for all Canadians. In the buzzword of today, we must design a new 'architecture' of social security.

The joint federal-provincial reform of child benefits through the National Child Benefit is taking a large – though often unappreciated – step forward in dismantling and rebuilding income support, starting with children. This successful model of reform can be extended to the reform of other income security and employment programs, kick-started by a comprehensive cooperative review of social security programs under the joint leadership of the federal, provincial and territorial governments. The reform of child benefits could not be accomplished by one level of government acting alone; the same holds for the broader and much more complex project of change called for here.

Caledon sketched the broad outlines of such a comprehensive system of income security, employment and learning in its September 2002 report *Social Policy That Works: An Agenda*. Employment Insurance and social assistance need to be reformed together, so that they each play a defined role within a coherent income security system. This might mean, for example, that Employment Insurance provide more generous and accessible wage replacement, but only for a short term. Social assistance would provide longer-term support and be divided into two main streams – one for employable Canadians in the form of wage substitution, focussing on employment and training; the other a program of basic assistance to fulfil welfare's originally intended roles as an emergency safety net until people in need get into mainstream programs and/or employment, and as a stable source of adequate, dignified income support for those who cannot work and who do not qualify for other programs. Other programs also should be included in such a comprehensive review, including minimum wages and employment-related services.

Granted, such federal-provincial exercises are difficult and time-consuming, not to say costly, but from time to time they are necessary in a bifurcated social security system like Canada's. And, given the recent and impending changes in political leadership in Ottawa and several provinces, the timing could hardly be more propitious.

Therefore we would suggest that the Canada Social Transfer component of the CHST continue as is, as an equal per capita block fund, with only one condition – no residency restrictions. But this CST should function as a temporary program only for a defined and limited period of time, say three years, with the understanding that a federal/provincial-territorial exercise would in that time develop a new vision of our social security system. The Canada Social Transfer would be renewed in a new format at the end of that time as one of the critical instruments contributing to the achievement of that long-needed new vision.

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Endnote

1. In this paper, I include the territories when I write 'provinces' or 'provincial.'

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