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INSTITUTE OF  
SOCIAL POLICY

# **Towards a New Architecture for Canada's Adult Benefits**

*by*

**Ken Battle, Michael Mendelson and  
Sherri Torjman**

**June 2006**

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## *Introduction*

Since its creation in 1992, the Caledon Institute of Social Policy has worked to modernize Canada's social security system. We have made the case for major changes not only to individual social programs, but also to the basic structures and functions – the 'architecture', to use the current vogue term – of social policy.

This paper advances our work on the modernization agenda in a large area of Canadian social policy that has for the most part defied successful reform – income security programs and supportive services for working-age adults, which Caledon has dubbed 'adult benefits.' The first part of the paper explains why current programs – especially welfare and Employment Insurance, the two core adult benefits – fail to meet the needs of working-age Canadians, and argues that fundamental and comprehensive reform is required. The second part offers our thinking on how to build a new architecture for adult benefits.

## *The Modernization Agenda*

Canada must modernize its social security system to meet the heavy demands of our changing economy, society and political system. Conceived in the 1930s and 1940s and built largely in the 1950s, 1960s and 1970s, our social programs require radical rethinking, reconstruction and (because some parts were never built) construction: We need a new 'architecture' of social policy for the 21<sup>st</sup> century.

A core tenet of the modernization argument is that building sound social infrastructure is essential for a robust economy as well as social justice: Strong social programs can contribute to a nation's economic strength, productivity and international competitiveness.

Some progress on the modernization agenda has been made or is underway, mainly in public pensions, health care and family policy (child benefits, early learning and child care, and parental leave). Ottawa and the provinces and territories have been trying to work out a more collaborative sharing of roles and responsibilities in social policy, most successfully to date with the National Child Benefit's radical restructuring of federal and provincial/territorial child benefits – a major advance that also could be the first big step towards broader reform of welfare and other programs for working-age adults, the subject of this paper. Recent federal Budgets have announced mainly modest but promising initiatives on a range of social policy fronts, including early learning and child care (though the new federal government's child care policy jeopardizes progress in that crucial area), persons with disabilities, caregivers, seniors, communities and postsecondary education.

Some of these reforms have proven controversial; their implementation is typically gradual and 'relentlessly incremental;'<sup>1</sup> and none goes far enough. Conflicts between the two senior orders of government periodically erupt over the level or formula of Ottawa's financial assistance to the provinces and territories for equalization, social assistance, health and postsecondary education. Canadians have become fed up with intergovernmental squabbles that thwart much-needed action on long-standing issues such as poverty, unemployment, child care and health.

Nonetheless, Canada has been making some progress in a number of social policy areas. The same cannot be said, though, for a vast field of social and economic policy that cries out for radical reform – income security programs and supportive services for working-age Canadians. This territory is so large and diverse that it doesn't even have a name; for simplicity's sake, Caledon has dubbed it 'adult benefits.'

### ***'Adult Benefits'***

Part of the challenge of reforming what we have labelled 'adult benefits' is to identify them, since as noted they have no accepted collective name. So we begin by enumerating the major current programs and services for unemployed and low-paid working-age Canadians.

The core adult benefit programs are intended to replace or substitute for employment earnings – among the social security system's oldest but still most important objectives. The twin pillars of Canada's adult benefits are Employment Insurance and social assistance (popularly known as welfare), intended for unemployed Canadians who are expected to work. Other income programs for working-age adults include Canada/Quebec Pension Plan disability benefits, workers compensation, paid parental leave and social assistance for those not expected to be able to work.

A second dimension of adult benefits consists of measures intended to 'make work pay' for low-wage workers. These tools include earnings supplements (offered in several provinces), tax credits (e.g., non-refundable tax credits to ease the burden of EI premiums and C/QPP contributions, though these help workers at all income levels) and minimum wages (established by all provinces and territories as well as the federal government).

We also include in adult benefits a range of employment-related services – access to which typically is contingent upon recipients being on income security programs such as welfare or Employment Insurance. These services and supports include employment services (e.g., training, upgrading, placement and counselling), disability supports (e.g., technical aids and equipment, personal assistance and accessibility measures) and supplementary health care (for health, dental and drug benefits not covered by medicare).

While this paper focuses on adult benefits, the important link between family policy and adult benefits should be mentioned. Early learning and child care is an important service not only for children but also for adults, since its objectives include allowing parents to work or train or advance their education. Federal and provincial/territorial child benefits help fill the gap between income and needs for low-income families, and also recognize the contribution that parents make to society in raising the next generation. Parental leave helps parents to temporarily leave paid work in order to care for infants.

This paper proposes key elements of a new architecture for adult benefits. First, however, we briefly trace the development of Canada's social security system, identify major pressures on that system, and offer a critique of the current non-system of adult benefits.

## *What went wrong*

Welfare was intended to play only a minor role in the modern social security system envisioned by Canada's social policy pioneers of the 1930s and 1940s. In his landmark 1943 *Report on Social Security for Canada*,<sup>2</sup> commissioned by the federal government, McGill University's Leonard Marsh sketched a comprehensive architecture for a postwar social security system composed of three major elements: social insurance programs to protect against employment earnings lost due to unemployment, illness, accident, disability, death, maternity and retirement; national health insurance to provide all Canadians with a broad range of health services, preventive as well as curative; and child benefits to help fill the gap between wages and income needs for families with children.

Marsh also proposed a massive public investment scheme, in cooperation with the private sector, to ease the transition from a wartime to a peacetime economy, though this was to be temporary. Training, guidance and placement programs – what we now call employment development or skills and learning services – were to play a significant and permanent role in the postwar social security system. Marsh also envisioned a federal program for the long-term or chronically unemployed to complement unemployment insurance for the temporarily unemployed.

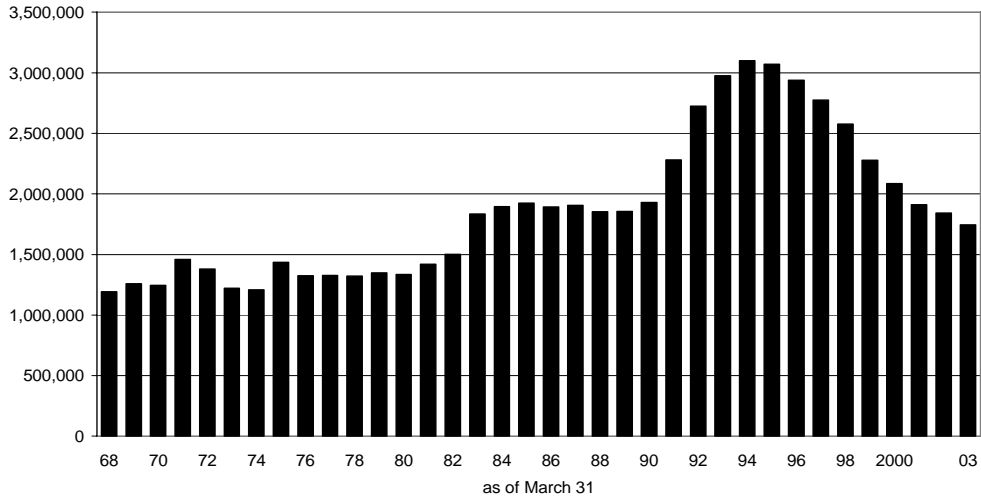
Welfare would serve a limited function as a last-resort safety net, for the relatively few people in need of temporary assistance or who could not be expected to work and had no other source of income. Social insurance programs, medicare, child benefits and employment services would deal with most Canadians' social security needs.

But things did not unfold according to the plans of the social policy visionaries. As we begin the 21<sup>st</sup> century, welfare remains a cornerstone of Canada's social security system, a major program that millions of Canadians have had to turn to over the years for their survival. While costs and caseloads have fallen since the mid-1990s due to a combination of government restraint and declining unemployment, welfare is still a bulwark of our income security system – much unloved, but important nonetheless.

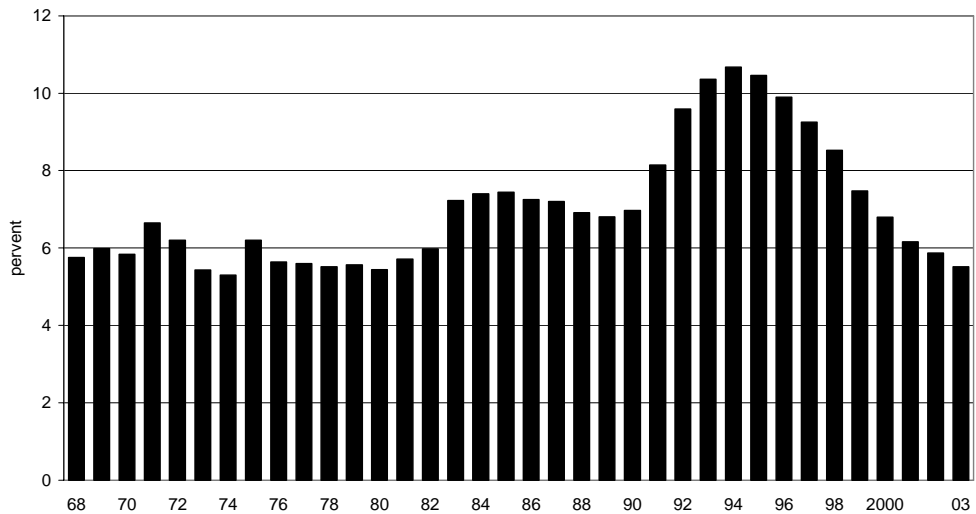
Figure 1 shows the trend in the number of welfare recipients and Figure 2 their share of the population, which were pushed up by the recessions that opened the 1980s and 1990s to peak at 3.1 million or 10.7 percent of all Canadians in 1994. The most recent data, for 2003, show 1.7 million children, women and men or 5.5 percent of the population on social assistance. However, these are point-in-time numbers that underestimate the true reach of welfare because they fail to reflect the fact that more people touch welfare at some time during each year, given the considerable movement on and off the system.

Figure 3 compares the trend in the percentage of Canada's population on welfare and the percentage of unemployed from 1968 through 2003. The trend in welfare follows quite closely the unemployment rate over time, except for the continuing decline in Canadians on social assistance after 2000 in contrast to the upturn in unemployment – suggesting that some of the unemployed either qualified for Employment Insurance (which, as we will show later, is more often not the case than it is) or were not eligible for or did not apply for welfare given its stringent qualifying rules and stigma.

**Figure 1**  
**Number of welfare recipients**  
**in Canada, 1968-2003**



**Figure 2**  
**Welfare recipients as percentage**  
**of Canada's population, 1968-2003**





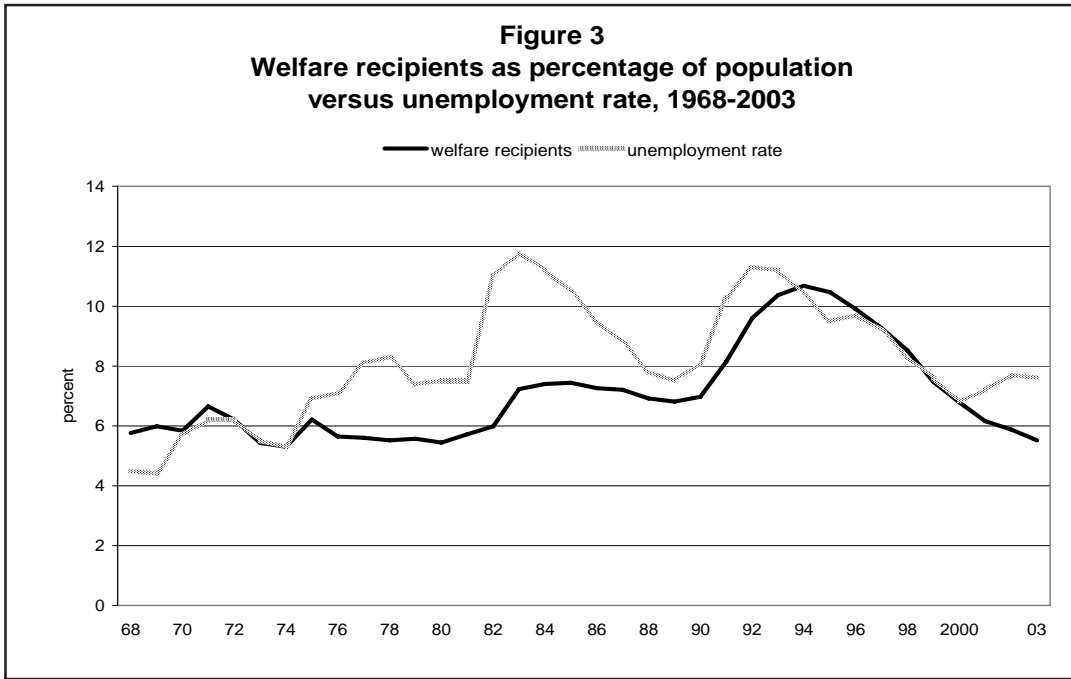
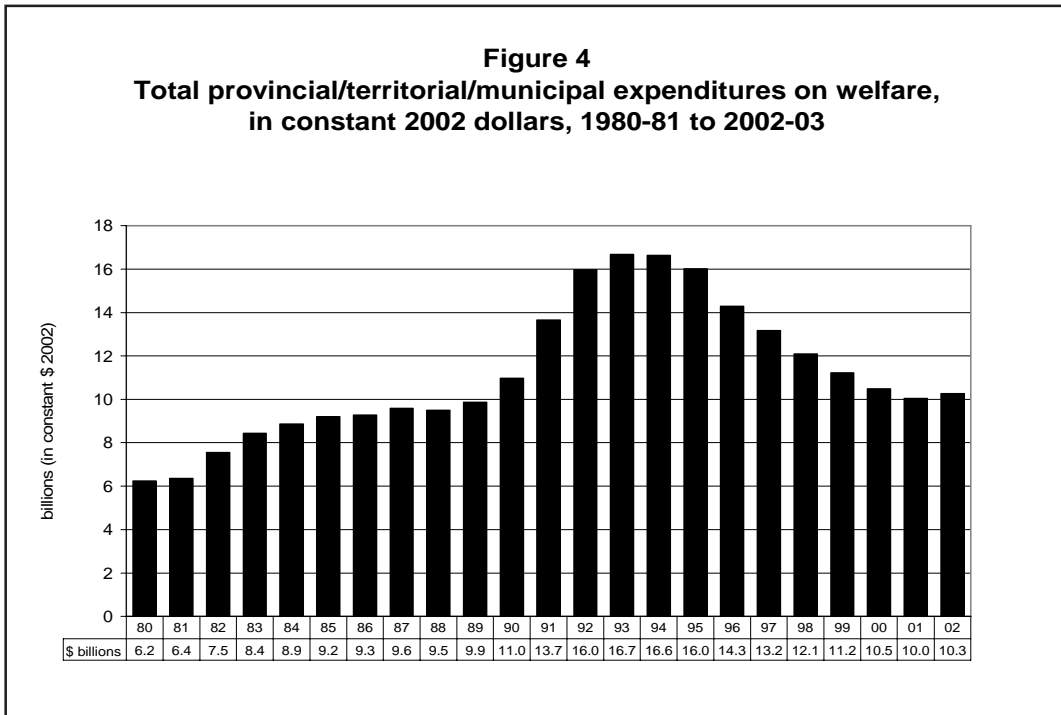


Figure 4 tracks the trend in total welfare spending by the provinces, territories and municipalities, which increased from \$6.2 billion in 1980-81 to a high of \$16.7 billion in 1993-94, declining to \$10.3 billion at last count, 2002-03 (all figures are expressed in constant 2002 dollars).



Why did welfare become such a bastion of Canadian social policy when it originally was intended to be a small, last-resort safety net for a relative few? There are two major and related explanations. First, the plans for building a comprehensive social security system were not fully implemented, so that welfare (however inadequately) helped fill the void. Second, a combination of profound economic, social, demographic and political changes exerted political and fiscal pressures on welfare, unemployment insurance and other major social programs; lead to reform-for-restraint in a variety of social programs in the 1980s and 1990s; and made it more difficult for governments to risk the radical reforms required to create an effective system of income security for working-age Canadians that can meet the challenges of our changing economy and society.

Despite significant growth in social programs and social spending, the ambitious architecture of comprehensive income security developed by leading social policy thinkers in the 1930s and 1940s was not fully constructed in the postwar era. With the notable exception of the retirement income system, which ensures a (debatable) minimal adequate income for seniors and has succeeded in dramatically reducing poverty among the elderly, the core objective of what the social policy pioneers termed a ‘social minimum’ (i.e., an adequate income floor for all Canadians) was never achieved or even attempted. Major areas of social security were left unbuilt or inadequately constructed.

Canada failed to build a comprehensive system of income security and social and employment services for persons with disabilities, many of whom have to rely on social assistance for income support and disability services. Far from shrinking, welfare grew to become a major front-line social program of first – not last – resort for millions of Canadians, including many of the unemployed. Welfare pays low benefits that have declined in value in recent years, but in some cases it still has provided a better standard of living than low-wage work, especially for families with children to support.

Minimum wages and above-minimum but below-average earnings cannot provide a living wage for many Canadians. The working poor make up about half of Canada’s low-income population and are typically not eligible for benefits such as supplementary health and dental care that most welfare systems provide (however inadequately).

Instead of a single program of child benefits operating independently of other social programs, what evolved over time was a two-tiered, uncoordinated collection of various child benefits delivered by the federal and provincial/territorial governments providing about twice the level of benefits to families on welfare as to the working poor. The wartime proposal for a federal program for unemployed workers who do not qualify for or who exhaust their unemployment insurance benefits never came to pass, so some of the jobless end up on provincial/territorial welfare or miss the social safety net altogether. Medicare never expanded beyond doctors and hospitals to provide the full range of mental and physical health care for all Canadians – including preventive care, home care, prescription drugs and dental care services – envisaged by its architects.

The rapid postwar expansion of Canada’s social security system began to slow in the mid-1970s as it struggled to cope with pressures imposed by significant economic, social, demographic and political changes that continue today. Most of these developments are (all too) familiar, so we simply briefly note the major ones, with little or no elaboration:

□ *economic and labour market factors*

- Starting in the 1970s economic growth slowed, unemployment rose, governments racked up deficits and financing charges escalated for mounting debt.
- Unemployment rates ratcheted up decade by decade from the 1950s (4.2 percent on average) to the 1960s (5.0 percent), 1970s (6.7 percent), 1980s (9.4 percent) and 1990s (9.5 percent), though they have declined overall since the mid-1990s to 6.8 percent in 2005.
- More Canadians experience unemployment during the course of a year than average monthly or annual rates would indicate; in recent years, one in eight workers were jobless at least once in the course of the year.<sup>3</sup>
- The real jobless rate (i.e., taking into account discouraged workers who have left the labour force and those working part time involuntarily) is about half again as high as the official rate.
- Canada has wide regional, provincial/territorial and local variations in unemployment, no matter what the state of the economy overall.
- Certain groups run an above-average risk of unemployment. These include young Canadians, the less educated, Aboriginal people, visible minorities, low-paid workers and recent immigrants.
- ‘Nonstandard’ work (aka ‘bad jobs’ or ‘precarious’ or ‘marginal’ jobs) has grown to about one-third of the labour force.<sup>4</sup> Nonstandard employment includes self-employment, multiple job holders, contract workers and part-time workers. Such jobs typically are associated with low wages, limited education and skills, higher risk of unemployment, no occupational pensions or supplementary health or disability benefits, no job ladder or career path, no union membership and no formal or on-the-job training. Groups at high risk of nonstandard work include young people who have less than or only high school education, women who leave the workforce for extended periods to care for their children or aging family members, displaced older workers with limited education and obsolete work skills, Aboriginal Canadians, visible minorities, persons with disabilities and recent immigrants. Some nonstandard jobs – e.g., self-employed consultants – pay well but are still insecure and offer few if any benefits. ‘Standard work’ (aka ‘core’ employment or ‘good’ jobs) generally provides the opposite to nonstandard employment (in terms of pay, benefits, career opportunities, on-the-job and formal training) and is typically found in large employers (public and private), while nonstandard jobs more often are located in small workplaces.
- The growth in nonstandard employment (self-employment, temporary and part-time employment) also means that some workers are not fully protected by labour standards legislation (e.g., minimum wages, overtime pay, vacations, maternity and paternity leave, notice of termination). Self-employed workers are typically excluded from labour standards laws. Employers may fail to comply with labour standards; some employers (especially new ones) and workers

(e.g., young workers, recent immigrants) may be unaware of their rights; the employment relationship may be ‘disguised’ (the worker may in fact be an employee but formally is considered to be an independent contractor); or employers may break labour laws to save costs.<sup>5</sup>

- One in four workers in Canada are low-paid, earning less than two-thirds of the national median hourly wage (under \$11). The incidence of low pay is higher among women (one in three) than men (one in five).<sup>6</sup> The US is similar, but some other advanced economies have a much lower incidence of low pay – e.g., one in twenty workers in Sweden and one in eight in Germany.<sup>7</sup> The proportion of low-paid workers in Canada has remained the same since 1980.<sup>8</sup>
- Technological change calls for highly educated and skilled workers and reduces prospects for those with low education and skills. Postsecondary education (not just university, but also community colleges and trade schools) has become the great divide in opportunities for good jobs. Four in ten working age Canadians have limited literacy and numeric skills.<sup>9</sup> Many Canadians are getting left behind, and the majority of workers have little or no access to the ‘lifelong learning’ required for good jobs. Employer-sponsored training is reserved mainly for highly educated professionals and managers; most workers have to fend for themselves to upgrade their credentials and skills.<sup>10</sup> Only one in five low-paid workers (those paid less than \$10 an hour) received employer-provided classroom training in 2001, in contrast to 45 percent of those earning more than \$20 an hour.<sup>11</sup>
- There are concerns about current and future shortages of skilled labour. A recent survey found that 66 percent of employers report problems filling jobs due to lack of qualified employees.<sup>12</sup> The onset of retirement among the baby boom generation could exacerbate skills shortages.

#### □ *social factors*

- The mass movement of women into Canada’s workforce was one of the revolutionary changes of the 20<sup>th</sup> century, with profound and continuing implications for social and economic policy – e.g., the need for strong family policies (e.g., child benefits, early learning and child care services, parental leave, family-friendly workplace practices), pressure on income security programs (e.g., welfare, Employment Insurance).
- Marriage breakdown and single motherhood are key causes of poverty and inequality, and increase demands on welfare and social services.
- Canada’s low birthrate and aging society mean that we must rely ever more on immigration for labour supply. Recent immigrants generally have higher levels of education than the Canadian-born population, but are faring worse in the workforce and run a higher risk of poverty, unemployment and underemployment. Many recent immigrants with professional degrees have trouble getting their credentials recognized.

□ *demographic factors*

- Canada's aging population and longer lifespan – the spectre of aging baby boomers – will exert rising pressure on the pension system, health care and social services. However, later retirement among some workers and increasing part-time work among old workers may mitigate these problems somewhat.
- Our birth rate is below that required to reproduce the population, placing increased reliance on immigration to sustain our workforce and society.

□ *additive and interactive economic, social and demographic problems*

- Marriage breakdown, unemployment and low earnings threaten to condemn a growing number of Canadians to poverty in old age.
- Child poverty brings a higher risk of a wide range of health problems and poor school performance that, in turn, can limit opportunities in adulthood, resulting in a greater likelihood of unemployment and low wages, increased demands for social programs and foregone tax revenues.
- Most low-income Canadians suffer poverty only once, but a persistent minority is at high risk of serial or long-term poverty. Groups at high risk include persons with disabilities, Aboriginal Canadians, visible minorities, people with less than postsecondary education, displaced older workers, recent immigrants and women who leave the workforce for extended periods to care for children or relatives). Chronic poverty can lead to 'social exclusion' – condemning the persistently poor to the margins of society and the economy.

□ *political factors*

- The federally-dominated 'cooperative federalism' of the 1960s and 1970s failed to achieve federal-provincial consensus on proposed fundamental reforms of social programs for working-age adults in the 1973-75 Social Security Review.
- Provincial efforts at welfare reform in the 1980s and 1990s failed in part because they were unilateral and could not ensure complementary reform of federal programs, especially Unemployment Insurance. Reforms of Unemployment Insurance failed largely for the same reason – lack of an acceptable alternative in regions with high UI use.
- The Ottawa-dominated so-called 'cooperative federalism' gave way to 'framework federalism' – shared federal-provincial/territorial power over social policy – in the 1990s and 2000s. Ottawa and the provinces/territories negotiate national framework agreements in areas of

shared jurisdiction (e.g., child benefits) or dominantly provincial/territorial but partly federally-financed jurisdiction (e.g., medicare, early learning and child care, labour market development agreements). Framework federalism can allow for considerable flexibility and asymmetry of action at the provincial/territorial level, within a set of mutually agreed, broad national objectives and principles.

- Governments can build on their (rare) wins in federal-provincial/ territorial joint reform of social policy. The success and lessons of the National Child Benefit are exportable to other areas requiring reform (e.g., early learning and child care, adult benefits). Canadians are fed up with federal-provincial bickering; they want their governments to work together to tackle tough, long-standing issues such as poverty, unemployment, lack of affordable child care, and problems accessing health care.

### *Institutionalizing welfare in the mid-1960s: reform that failed*

Far from withering on the vine, welfare developed into a major instrument of postwar social policy. The role of the federal government in this sphere of primarily provincial jurisdiction expanded as it bought its way into provincial turf by sharing the cost of the several ‘categorical’ welfare programs operated by the provinces for the blind, disabled, single mothers and unemployed. In 1966, Ottawa consolidated and broadened its support to the provinces by creating a single cost-sharing vehicle – the Canada Assistance Plan – that attached federal conditions to its financial support in order to build a national system of provincial social assistance and services based on the concept of need.

The Canada Assistance Plan embodied what at the time were the newest concepts of income security. It provided a single legislative structure intended to ensure a welfare safety net for all Canadians in need, regardless of cause of need, and to expand social services throughout the country.

With 50/50 cost sharing from Ottawa, provinces were expected to develop carefully calibrated needs-based budgets for welfare recipients. These individualized budgets ideally would reflect each family’s overall requirements for specific necessities – primarily food, clothing and shelter, but other items also such as personal care products and transportation – as well as their resources (such as earnings, savings, other social programs and assets). The provinces, it was supposed, would ensure that each family in need had all its basic necessities taken care of. Sympathetic, well-trained income maintenance workers would provide social assistance cheques to all in need regardless of cause of need, without stigma or judgment that recipients are deserving or undeserving of assistance.

The Canada Assistance Plan, though doubtless well intentioned, was based on a fundamentally paternalistic view of families in need. Provincial governments would calculate and then take care of a family’s needs, and the family would have few responsibilities beyond living within its assigned budget and reporting any changes in its circumstances.

In the earliest days of the Canada Assistance Plan, little thought was given to the relationship of social assistance to the labour market because welfare was meant primarily to provide short-term, emergency assistance to ‘unemployable’ households with no other source of income. The only labour market-oriented provision in the Canada Assistance Plan was for ‘Work Activity Projects’ that provinces could set up to pay wages rather than welfare benefits. Work Activity Projects were relatively few in number, with participation in the whole country at any time numbering only in the hundreds. In all provinces, recipients without disabilities were required to look for work, except sometimes for single parents (initially only single mothers) with minor aged children (in most provinces the maximum age of children for stay-at-home moms gradually decreased with increasing social acceptance of working women, falling from 16 years of age to 12 to 6 to a few months), though this requirement generally was only lightly enforced. Nor was there any provision for graduated reductions in social assistance as employment income increased. The expectation was that a recipient who managed to find work would simply leave welfare altogether.

In the early 1970s, provinces began to realize that there was often no financial incentive to leave social assistance – or worse, a distinct financial penalty because recipients and their families would lose substantial welfare-embedded income in cash (e.g., child benefits, benefits for spouses, a spousal-equivalent payment for the first child in a single-parent family) and in kind (e.g., supplementary health and dental care) – what the Caledon Institute in the 1990s dubbed the ‘welfare wall.’ However, there was no natural vehicle within the Canada Assistance Plan to provide for a bridging structure between welfare and the workforce. Special guidelines were developed, with little or no legal relationship to the Canada Assistance Plan Act, to ‘guide’ federal interpretation of the cost-sharing rules, allowing provinces to provide some continuing cost-shared welfare benefits to recipients who were working.

The resulting welfare-based work income supplementation was always at best an awkward add-on to a needs-based system. None of the provinces could come to grips with a core dilemma: On the one hand, a provincial government could provide working social assistance recipients with supplemental income in the form of some continued welfare benefits not available to other working poor (even though they could be working side-by-side on the same job) and so risk creating perverse incentives to go on and stay on assistance, as well as being criticized for the gross inequity of this arrangement. On the other hand, a province could pay every working poor person an income supplement, but this would be a huge expense and would necessitate high ‘taxback’ rates (i.e., benefits would be sharply reduced as earnings increased above a threshold level) if costs were to be kept affordable.

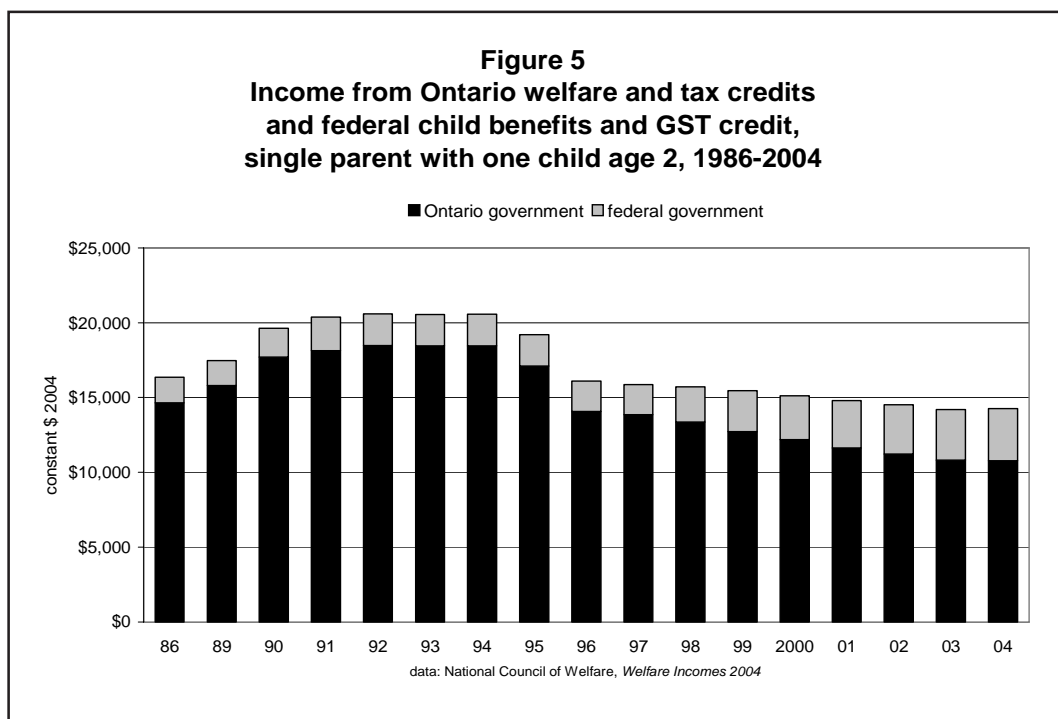
### *Welfare: the tangled safety net*

The Canada Assistance Plan vision was undoubtedly noble in intent, and for its time represented a potentially huge advance over previous categorical welfare programs. But retrospectively we can see that it did not live up to its expectations. Over the years, welfare in Canada “developed into a subtle form of micro-colonialism of poor people by the state, disempowering them and deterring them from acting to improve their lives. Whether generous or meagre, welfare is not progressive social policy.”<sup>13</sup> Welfare became the government program that everyone hates: voters, administrators, governments and recipients.

Social assistance is rooted in the long-discredited ‘residualist’ model of social policy that views poverty as resulting from individual failings rather than the complicated web of personal and systemic (economic and social) factors that entangle many Canadians in the welfare system.<sup>14</sup> The residualist approach tends to treat welfare clients as dependants, as quasi-children/criminals. “By basing eligibility on the presumption of incompetence, it reinforces the very behaviours and characteristics the program was intended to discourage.”<sup>15</sup>

Welfare’s benefits have proven more inadequate over the past two decades, through stealthy erosion by non-indexation exacerbated by overt cuts in some provinces – notably Ontario’s October 1995 night of the long knives with its 21.6 percent cut to welfare rates (for all but seniors and recipients with disabilities). Figure 5 illustrates the rise and decline in welfare incomes between 1986 and 2004, using the example of an Ontario single parent with a two-year-old child. Provincial welfare has declined, while federal benefits have increased both in value and share of income due to substantial increases in the Canada Child Tax Benefit. The politics of welfare are simple: Governments typically win votes by cutting benefits, and lose votes by raising benefits.

Welfare benefits fall far below poverty lines and average incomes. High shelter costs force many recipients to use food banks or skimp on food (or both). There are wide disparities in benefits (cash and in-kind) among and within provinces/territories. The significant role for discretionary decisions can result in inequitable treatment of recipients in similar circumstances, as well as contribute to the powerlessness and devaluation of recipients.





Welfare – vividly characterized as ‘the tangled safety net’ in a landmark 1988 report by the National Council of Welfare<sup>16</sup> – is a complicated, rule-burdened system that is secretive (very little information is made available to clients, researchers or the public), virtually impossible to understand, and often punitive and inconsistent in its treatment of recipients. There are complex rules governing eligibility, definitions of employability, amount and type of benefits, monitoring of clients and reporting requirements. Welfare can present a confusing maze to its clients, obscuring their rights and responsibilities. Welfare recipients are at the mercy of a harried and under-resourced bureaucracy, required to follow and enforce massive volumes of rules. Welfare workers waste time on policing and paperwork instead of helping clients. Moreover, the welfare appeal system in many provinces is flawed. The rules are so complex that virtually any recipient’s files will contain a number of ‘errors’, and recipients live in perpetual fear of sudden and arbitrary decisions affecting their very capacity to feed their families.

The needs test that forms the basis of Canada’s welfare programs can reinforce poverty and dependency, since applicants must deplete most of their liquid and fixed assets in order to qualify for assistance. The ‘welfare wall’ remains a problem, though the National Child Benefit is reducing that part of the wall caused by differential child benefits. Welfare’s high taxback on employment earnings (as high as 100 percent above a small band of exempt earnings) places a barrier in the path of recipients who want to work their way off welfare, as does the loss of cash and in-kind benefits if they do manage to move off welfare altogether. The lack of labour market supports (e.g., affordable child care, assistance with the cost of employment-related expenses, educational and training/retraining opportunities, supports for persons with disabilities) adds to the welfare wall and makes it difficult for many people to escape and stay off assistance.

Contrary to popular belief, many Canadians use welfare only once or infrequently and/or for a short period, so it is not a life sentence of guaranteed poverty and intergenerational transmission of poverty. There is considerable movement on and off welfare during the course of the year.

However, long-term and repeat use of the welfare system can reinforce if not worsen poverty and dependence. Welfare is deeply stigmatizing for adults and children. Canadians on social assistance often or for a long time risk rusting their employment skills and lowering morale and self-confidence. Many children of welfare families manage to thrive despite the disadvantages they have to face, but as a group they run a higher risk of health and behavioural problems and poor educational outcomes.

Social assistance is the victim of myths and misunderstandings that contribute to the public’s deep dislike of the program. Many people believe that welfare pays generous benefits and does not require recipients to look for a job. They believe that most recipients are ‘welfare lifers’, unwilling to get a job and raising a new generation of recipients, loafing all day while working people toil and pay the taxes that finance welfare.

To make matters worse, most governments tightened their welfare programs as the 1990-91 recession drove up caseloads (with more ‘unemployed employables’ on the welfare rolls) and costs. Cuts in federal social transfers added fuel to fire for provincial belt-tightening of social assistance. The abolition of the Canada Assistance Plan and its replacement by the Canada Health and Social Transfer in 1995

eliminated the federal funding conditions of providing assistance to all in need, providing an appeal system, and sending basic data and other information to Ottawa. With the elimination of the needs requirement, some provinces imposed work-for-welfare requirements or even disqualified certain groups from welfare. Appeal systems remained, but some became meaner or more rigid and legalistic. Most provinces increased their emphasis on welfare-to-work employability requirements, and some made their liquid asset exemptions tougher. Some jurisdictions increased surveillance, scrutiny and control of ‘abuse’ (a convenient political whipping boy, even if the data in fact show low levels of abuse).<sup>17</sup>

Welfare’s relationship to the labour market remains problematic if not unresolvable, despite perennial government efforts to offer all sorts of pasted-on incentives and workfare-like requirements to encourage or push people off assistance. But the fact remains that welfare – with all its rules and regulations and limitations on assets – is simply a poor program. It is an inadequate safety net for those who cannot work or cannot find work. It is also an inappropriate program to supplement the wages of the working poor.

Piecemeal add-ons have not worked, and cannot work. The core design of welfare is not amenable to fixing up. Nor can welfare be properly reformed without complementary reform of Employment Insurance, the other key income support program for working-age Canadians.

### *From UI to EI: creaming the unemployed*

Created in 1940 by the federal government, Unemployment Insurance (UI) is one of the Canada’s oldest social programs. It has seen a host of changes over time, including a name change to Employment Insurance (EI) in 1996 that heralded yet another round in what appears to be an endless series of reforms. Here we can only briefly describe the key changes to unemployment insurance over the years,<sup>18</sup> focussing on the current Employment Insurance program and its shortcomings.

The original Unemployment Insurance program was intended to replace lost wages for workers suffering temporary, infrequent and unpredictable bouts of unemployment. It covered mainly employees in occupations deemed to have a moderate risk of unemployment, largely in industry and commerce, which constituted 42 percent of the labour force at the time. It excluded the majority (58 percent) of the workforce, including agriculture and forestry, fishing, transport, teaching, health care and public service, as well as part-time workers and the self-employed. UI was financed mainly by employee and employer premiums, though Ottawa paid a 20 percent share plus administrative costs.

Unemployment Insurance expanded in 1955 by increasing the level of benefits, easing qualifying conditions and adding a benefit for seasonal workers. The 1971 ‘liberalization’ of Unemployment Insurance broadened coverage to most (93 percent) of the labour force, protecting almost all employees as well as self-employed fishermen. Program changes included easier work requirements; increased level (two-thirds of insurable earnings replacement rate), duration and range of benefits (adding sickness, maternity and retirement benefits); and a higher (75 percent) replacement rate for parents.

Unemployment Insurance came under attack in the 1980s and 1990s from economists and government officials alleging that it had grown into a multi-purpose and overburdened social program that did more harm than good – ‘part of the problem, not the solution.’ Critics accused UI of a multitude of sins. It was said to hinder adjustment of the labour force to economic change. It was criticized as fostering dependency by undermining the work ethic, eroding individual and community initiative, and discouraging self-employment and small-scale enterprise. It was attacked for lengthening the duration of unemployment; functioning as a badly designed income support and regional equalization program; and subsidizing industries and workers with unstable work patterns at the expense of those with stable work histories.

Economists estimated that the liberalization of benefits in the 1971 legislation increased the unemployment rate by between 1 and 2 percentage points by enabling UI beneficiaries to wait longer before taking a job, in the hope of finding better wages, and by raising the labour force participation rate (more people were now looking for work and counted as unemployed), especially among groups with a weak attachment to the labour force. UI was faulted for providing mainly passive income support and failing to offer the active skills and opportunities the unemployed need to get and keep a job.

Partly in response to the assault on UI and partly because the 1990-91 recession pushed up case-loads and costs, Ottawa unleashed a series of changes in the 1990s that tightened access to the program and reduced benefits. Specific changes included disentitling workers who quit their jobs ‘without just cause;’ cuts to the earnings replacement rate; increasing the minimum number of weeks required to qualify for benefits (variable according to the regional unemployment rate); tougher work requirements for new entrants to the workforce, re-entrants and repeat claimants; reducing the maximum duration of benefits; and partial clawback of benefits from higher-income recipients. Efforts were made to do more to improve employability through the ‘developmental’ use of UI to provide income benefits for claimants on approved training, job creation and work sharing projects. The federal government ended its sharing of UI costs, leaving the program financing wholly by employee and employer premiums.

In 1996 a rather Orwellian name shift from Unemployment Insurance to Employment Insurance signalled a philosophical shift in emphasis from a ‘passive’ program of income support to an ‘active’ program of employment support. Reform objectives (written and unwritten) included keeping more unemployed workers off the program, moving recipients off as quickly as possible, encouraging workforce participation through skills training and upgrading, fostering greater independence and self-sufficiency, removing work disincentives and inequities in the system and – last but surely not least – reducing expenditures.

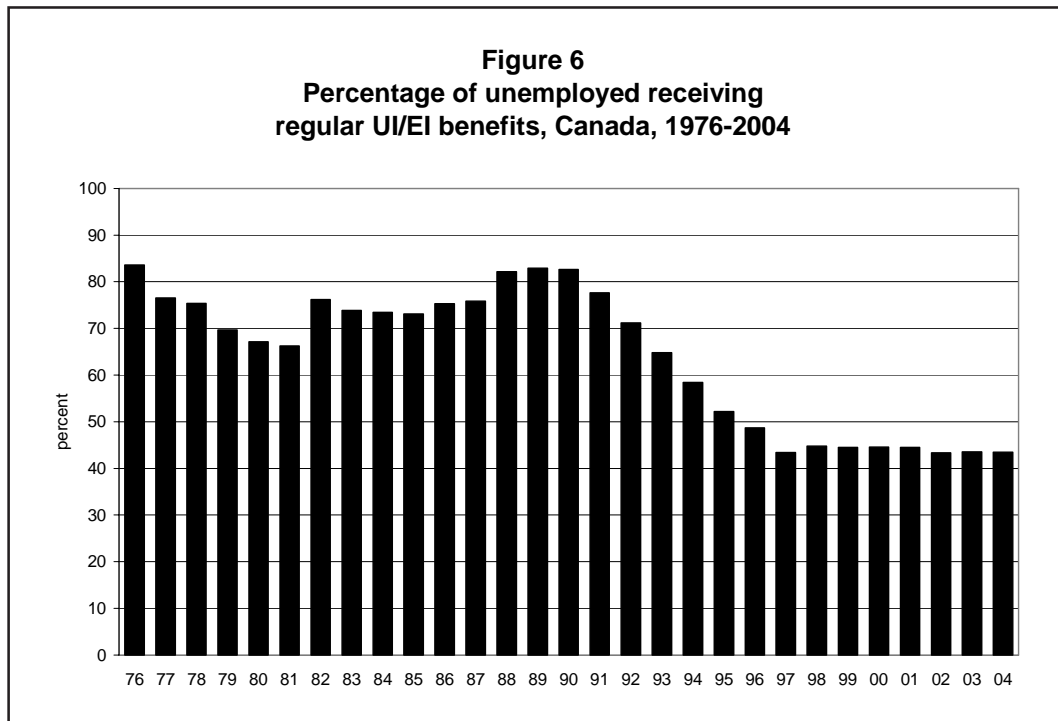
The new legislation shrank UI to EI by changing the same three key levers used by previous restraint changes – eligibility (work requirements), benefit levels and maximum duration of benefits. Savings generated through reductions in income support were redirected to employment services intended to help workers prepare for and find a job – including wage subsidies, earnings supplements, self-employment assistance, job creation partnerships, and skills loans and grants. EI premiums no longer financed a social insurance fund dedicated solely to paying for the program’s expenditures; the EI surplus was counted in general revenues and helped defeat the federal deficit. In 2004, the cumulative surplus was estimated at \$46 billion, though this is not money that was squirreled away as some form of endowment fund. However,

steady annual premium reductions mean that premiums now approximately equal the amount of benefits paid out.

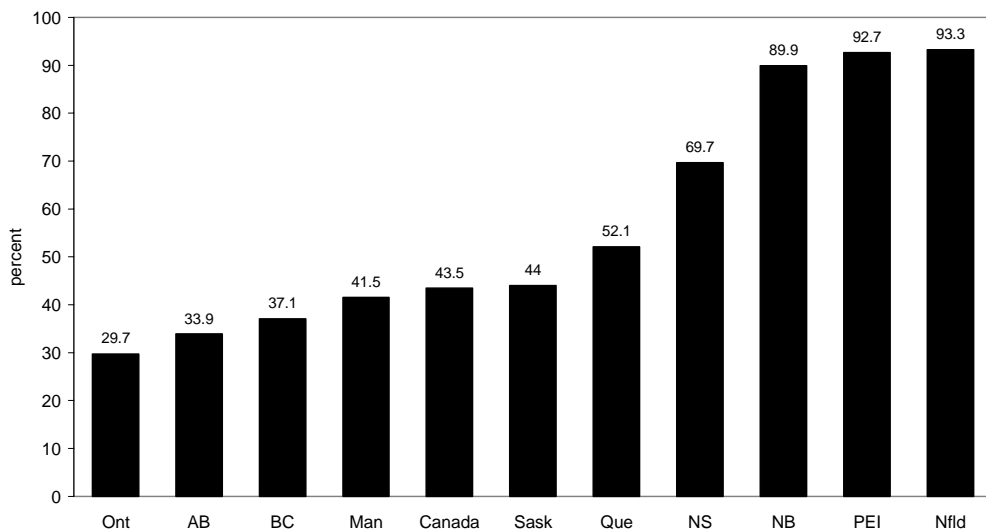
The various cuts to UI/EI in the 1990s, along with an unemployment rate that fell from 11.4 percent in 1993 to 7.2 percent in 2004, resulted in a dramatic drop in coverage of the unemployed. The numbers are extraordinary, and indicate a decimation of one of Canada’s key social security programs. Figure 6 shows that UI/EI coverage of the unemployed plummeted from 82.9 percent in 1989 to 43.4 percent in 1997, though has remained around that level since (43.5 percent in 2004).

All provinces have experienced a decline in UI/EI coverage, though with wide variations. In 2004, more than half the unemployed in Quebec and Atlantic Canada received regular EI benefits, ranging from 52.1 percent in Quebec to 93.3 percent in Newfoundland. Fewer than half the unemployed got EI in the rest of the country, ranging from 29.7 percent in Ontario to 44.0 percent in Manitoba. Figure 7 shows the results for each province.

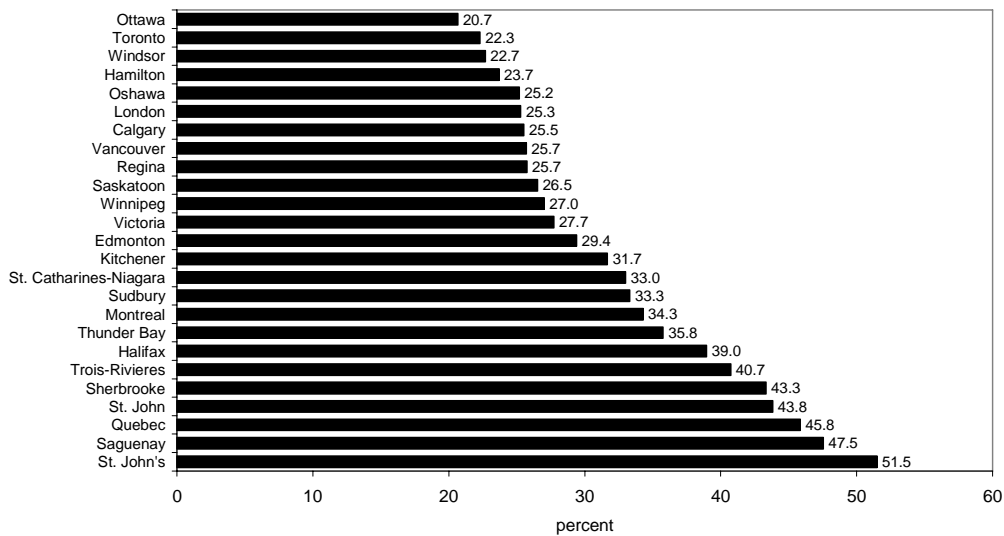
EI coverage also varies widely from one city to another, though it is low in all urban areas. Figure 8 gives the results, ranging from 20.7 percent in Ottawa to 51.5 percent in St. John’s; most cities are in the 20s or 30s.



**Figure 7**  
**Percentage of unemployed receiving regular EI benefits, by province, 2004**



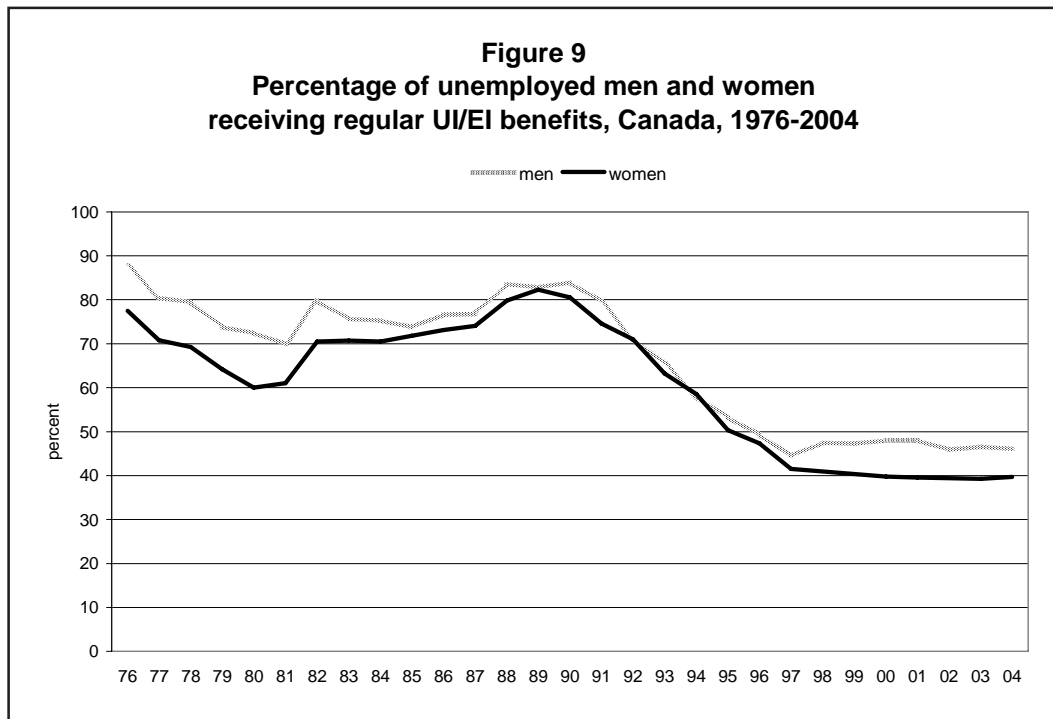
**Figure 8**  
**Percentage of unemployed receiving regular EI benefits, by major city, 2004**



These provincial and city differences in EI coverage reflect in part the wide variation in work requirements and maximum duration of benefits according to the program’s 58 regional unemployment rates. Another likely factor is the composition of the local labour force; for example, areas with proportionately larger groups of new entrants to the labour force (e.g., recent immigrants) – who face a higher work requirement – could see lower EI eligibility rates.

The gender gap in UI/EI coverage has widened in recent years. Between 1996 and 2004, the gender gap tripled. UI/EI coverage for men fell from 49.3 percent in 1996 to 47.3 percent in 2004, but dropped even more for women from 47.3 to 39.7 percent during the same period, so that the gender gap grew from 2.0 percentage points in 1996 to 6.4 points in 2004. Figure 9 plots the trends.

The number of recipients of regular UI/EI benefits tends to move up and down with the unemployment rate, but there is no doubt that program changes have played a major role as well. Figure 10 shows that the UI/EI rolls jumped during the recessions that opened the 1990s and 1990, then dropped from 1,156,010 in 1991 to 486,380 in 2000. Rising unemployment helped raise the number to 563,548 in 2003, though a decline in the jobless rate between 2003 and 2004 saw the number of regular EI beneficiaries fall to 541,626 in 2004.



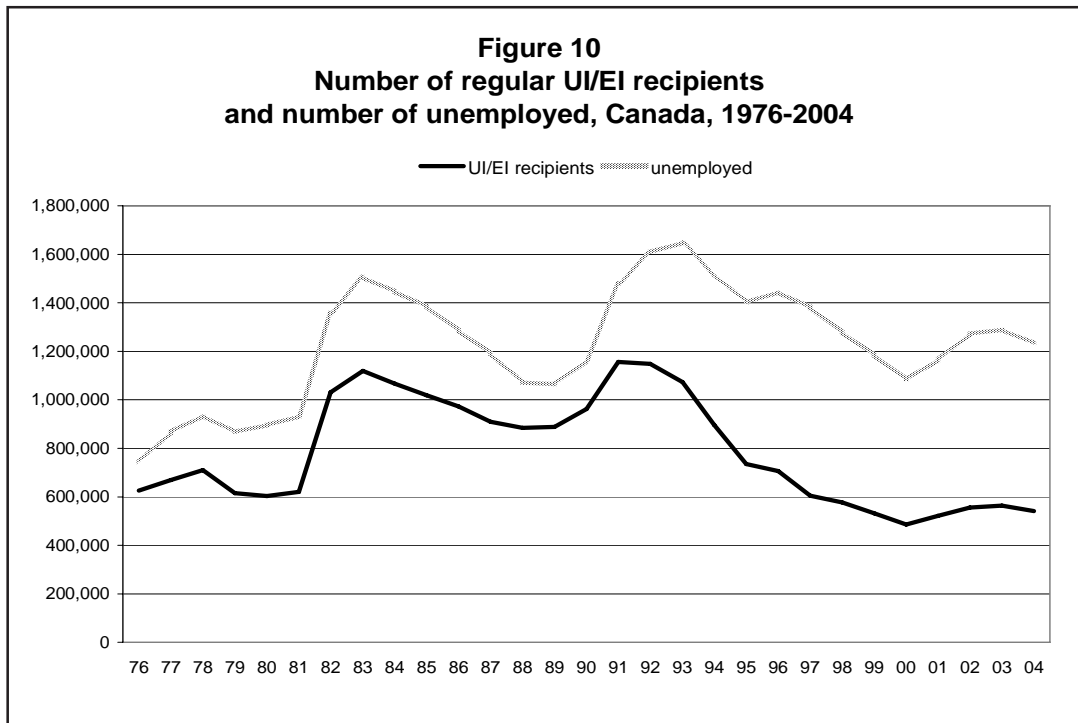
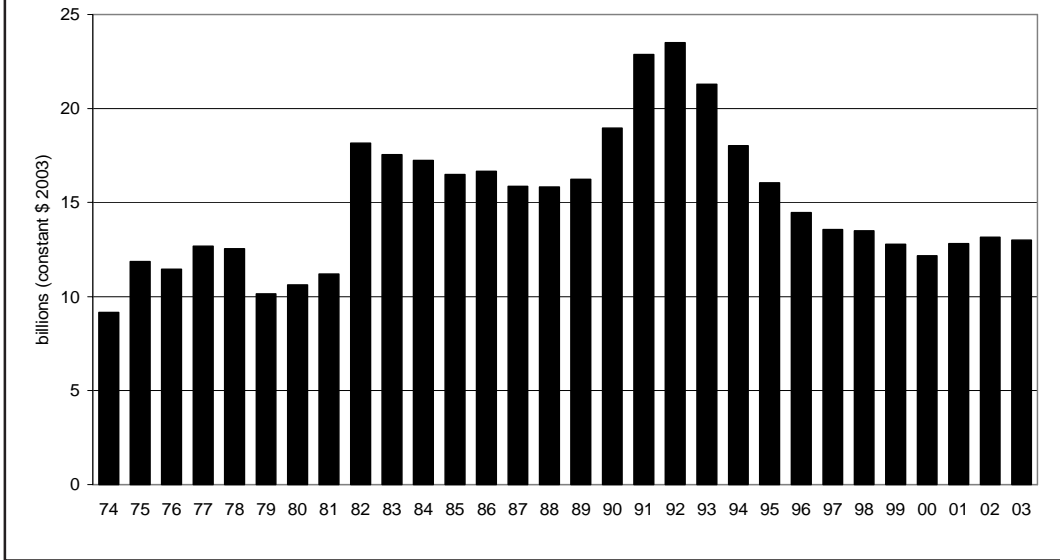


Figure 11 plots the trend in expenditures on regular UI/EI benefits. Outlays peaked at \$23.5 billion in 1992-93 (expressed in constant 2003 dollars) and stood at \$13.0 billion in 2003-04. The two key driving factors behind the trends are the unemployment rate and program changes, which together account for the steep decline between 1992 and 2000, after which expenditures pretty much levelled off (the small increase from 2000 to 2002 is explainable by an increase in the number of jobless).

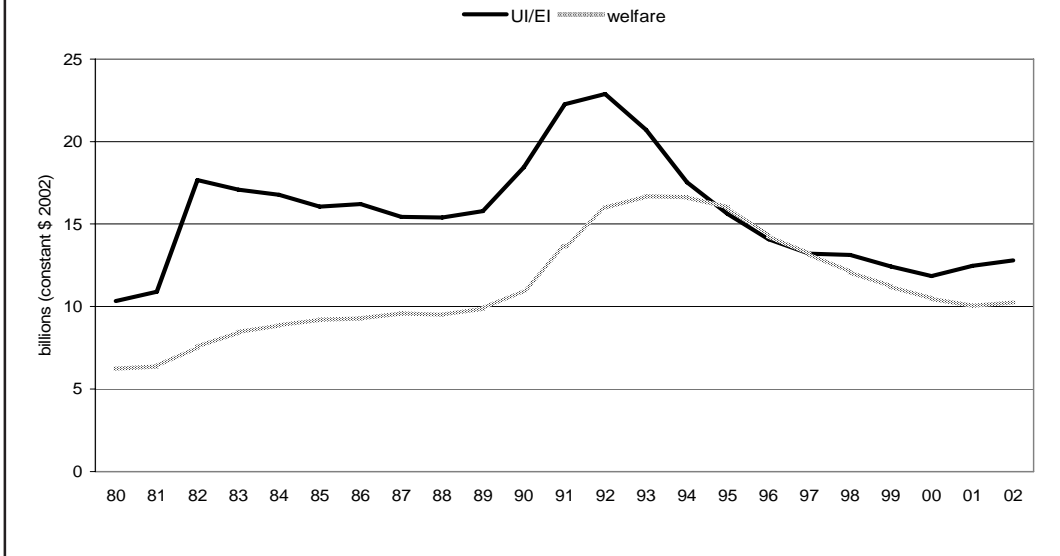
Despite cuts to welfare over the past two decades, that supposed ‘program of last resort’ has grown into a major adult benefit. Figure 12 compares the trends in spending on welfare and regular Employment Insurance benefits. From 1980 through 1994, EI substantially outspent welfare, but the gap disappeared with the cuts to EI; since 1997, regular EI expenditures again have outpaced welfare, though the gap is relatively small.

In several provinces that together account for the majority of the population – Quebec, Ontario, Manitoba, Saskatchewan and BC – welfare has become the dominant adult benefit, outspending Employment Insurance. In Canada’s largest province, Ontario, EI expenditures were larger than welfare up to the late 1980s, but social assistance has exceeded regular EI spending in the 1990s and 2000s – despite that province’s draconian cuts to welfare in the mid-1990s. Figure 13 compares the trend in spending on welfare and regular UI/EI payments in Ontario.

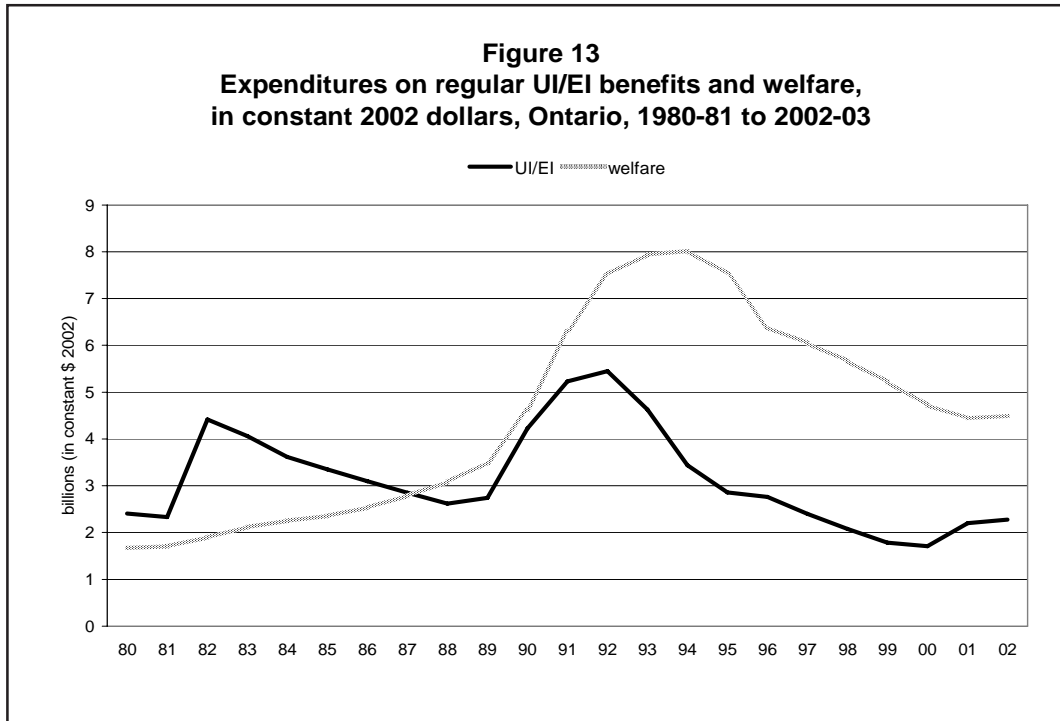
**Figure 11**  
**Expenditures on regular UI/EI benefits,**  
**in constant 2003 dollars, 1974-2003**



**Figure 12**  
**Expenditures on regular UI/EI benefits and welfare,**  
**in constant 2002 dollars, Canada, 1980-81 to 2002-03**







Employment Insurance ‘creams’ the unemployed, in the sense that it covers only workers with significant attachment to the workforce. EI excludes many workers who cannot accumulate enough insurable hours of work due to their type of employment, own job preference and activity limitations due to disabilities. The excluded number as many as one million workers, many of who have paid EI premiums for many years. An estimated 12 percent of Canada’s 13 million paid workers – some 1.5 million – would not have qualified for EI regular benefits had they lost their job in December 2000.<sup>19</sup> EI tends to exclude the long-term unemployed, the underemployed, new workers, part-time workers (including persons with disabilities and Canadians working part time due to family care responsibilities), precarious workers and the self-employed.

Employment Insurance can ‘cream’ the unemployed in another sense: EI has restricted access not only to income benefits, but also training and other employment services that many unemployed Canadians need to find and keep a job. Eligibility for a range of skills and learning services (Employment Benefits and Support Measures, including skills development and self-employment assistance, wage subsidies and job creation partnerships) depends upon eligibility for EI. Thus unemployed Canadians who cannot meet EI’s tougher eligibility rules have been denied the EI-linked skills and learning services that many so desperately require. Both for income benefits and skills and learning services, EI has favoured the unemployed who have standard jobs and effectively excluded those in nonstandard employment.

Fortunately, governments recognize this problem and are taking steps to solve it. In November 2005, the federal and Ontario governments signed a Labour Market Partnership Agreement (LMPA) that will invest \$1.368 billion over six years “to fill key gaps in labour market programming, by assisting individuals who are not eligible for EI programming.”<sup>20</sup> The agreement covers six areas: expansion and enhancement of apprenticeship, labour market integration of recent immigrants, literacy and essential skills, workplace skill development, assistance to Aboriginals and help for people facing labour market barriers (including older workers, displaced workers and persons with disabilities). Ottawa hopes to negotiate Labour Market Partnership Agreements with other provinces and territories.

Over the past few years, the federal and most provincial governments have signed Labour Market Agreements for Persons with Disabilities. Ottawa shares half the cost of provincial programs and services intended “to improve the employment situation of Canadians with disabilities by enhancing their employability, increasing the employment opportunities available to them, and by building on the existing knowledge base.”<sup>21</sup>

Employment Insurance has broken the social insurance contract that Canada’s social policy pioneers cherished as a crucial element of a modern social security system. Virtually all employees pay EI premiums, but only some can draw upon the program’s income benefits and employment services when they become unemployed. Moreover, the flawed social insurance contract effectively discriminates against low-wage workers, many of them in nonstandard jobs.

Employment Insurance, like the Unemployment Insurance program it replaced, varies both work requirements and maximum duration of benefits according to regional unemployment rates. Claimants must work between 420 and 700 hours, depending on the regional unemployment rate where they live (ranging from 13 percent and over, to 6 percent and under). The maximum duration of benefits varies from 14 to 36 weeks (depending upon number of hours worked) in low unemployment (6 percent and lower) regions to 32 to 45 weeks (again, depending on number of hours worked) in high unemployment (13 percent-plus) regions, with variations in between. This regional unemployment feature can be very unfair: For example, two unemployed Canadians with the same work record but living in regions with different unemployment rates can receive vastly different treatment; one claimant may receive EI benefits for a shorter period than the other or, at the extreme, no benefits at all.

Like welfare, Employment Insurance is a complex, rule-bound program that is difficult to comprehend. Few working-age Canadians can understand clearly the ‘rules of the game’ and what their entitlements are. Eligibility requirements and benefit amounts are based on a variety of requirements that examine each claimant’s work history over periods ranging from 6 months to 2 years, depending upon the provision in question. Once a claim to EI is established, there is a variety of factors that can affect the amount of benefits, as well as eligibility for a future claim. The regional variability of work requirements and duration of benefits creates a multi-dimensional labyrinth of individual entitlements.

## *Welfare and EI: two solitudes, common failings*

We can turn the conventional wisdom of the critics of Unemployment Insurance on its head and argue that the expansion of the program in 1971, and its forced contraction in the years since, reveal a crucial truth of public policy and lesson for would-be reformers: No single social program can adequately meet the income security and skills and learning needs of today's working-age Canadians. The liberalization of UI, with its expanded coverage and the addition of regionally extended benefits and paid parental leave, sought to respond – however unsuccessfully – to the changing needs of the Canadians workforce. So also have some provincial governments tried, in vain, to expand welfare's mandate beyond ensuring a safety net of last resort to also provide a transition to the workforce. One program just cannot do it all.

Instead of rebuilding welfare and Unemployment Insurance into a new national social insurance system to meet the diverse needs of the contemporary workforce, Canadian governments in the 1980s and 1990s retreated from the philosophy of collective provision that inspired the founding architects of our social security system. Provinces tightened (but retained) their archaic welfare systems, and Ottawa shrank Unemployment Insurance coverage and benefits, while providing 'regional' benefits that had little or nothing to do with the actual experiences of unemployed Canadians, and everything to do with regional politics. Neither level of government responded adequately to the growing need for training and other employment services for all workers who need them, whether unemployed or employed.

Visitors to Canada likely would be astonishing to learn that the twin pillars of our income security system for working-age men and men – welfare and Employment Insurance – operate as two solitudes with little connection between them, even though in theory they share the common core goal of assisting the unemployed to get back to work. There is little movement between the two systems. Only a tiny percentage (3.8 percent in 2001-02) of people who exhaust their EI benefits end up on welfare,<sup>22</sup> perhaps because they cannot meet welfare's stringent qualifying rules or they do not want to use such a stigmatizing program. There is little or no coordination between welfare and EI, except to discourage double dipping.

However, welfare and EI share some characteristics, including:

- complexity, lack of transparency
- stigma, no public legitimacy (probably more for welfare than EI)
- inequitable treatment of recipients in the same circumstances
- benefit reductions and tightened access over the years
- sensitivity to the economic cycle.

## *Towards a New Architecture for Adult Benefits*

Neither welfare nor Employment Insurance can be adequately reformed without the other, to build a new system of income security for working-age Canadians. This paper argues that Canada must plan and build a new architecture of adult benefits to replace welfare and reform Employment Insurance. By 'architecture' we mean the major elements that would make up a new system – their functions and structures, and how they would fit and operate together.

The new architecture for adult benefits must be designed from the start as a part of the labour market, not as an afterthought. Unlike welfare and EI, which both make some provision for children, the new system should not pay benefits adjusted according to family size, since wages are not paid according to family size and benefits must remain lower than wages for those who are expected to work. Instead, income to reflect familial responsibilities should be paid through a separate program on behalf of children, whether their parents are in or out of work. This child benefit program already exists and is functioning effectively – the federal Canada Child Tax Benefit, which Ottawa has boosted in recent years in order to drive the National Child Benefit reform. The Canada Child Tax Benefit – a geared-to-income, broad based program (serving nine in ten families, excluding only the very well-off) – makes it possible to establish a system of adult benefits that is not based on the paternalistic premise of calculating a family’s needs.

There is another example of a non-paternalistic income benefit now working in Canada, the income security system for seniors. The federal government pays cash benefits through the income-tested Guaranteed Income Supplement, Allowance and Old Age Security programs, and a number of provinces provide income supplements for low-income seniors. The sole eligibility requirements for these programs are age, marital status (in the case of the Guaranteed Income Supplement and Allowance) and level of income – the latter determined according to income tax records. No one thinks to ask what a senior’s budget is for rent, or whether someone aged 70 should have a bigger food allowance than someone aged 80. The old age pension system treats elderly people as competent adults, capable of making their own decisions about their budgets. Of course, it is easier to design a system for the elderly, as they are not generally expected to be employed and their income tends to be more stable. But working-age adults are no less competent in managing their own lives. Building a system that assumes anyone needing assistance is also in need of having their life supervised by government is degrading and ultimately self-defeating, by draining recipients of their confidence. It is time for a new architecture that reflects and maintains independence, while ensuring that recipients remain full participants in Canada’s labour market.

Our purpose here is to tackle the architectural challenge not by thinking only in terms of the broad objectives, principles and values that make up a vision for a better system – essential as these elements are – but also by proposing broad functions and structures of a new system.

Reforming adult benefits is a daunting task that has been attempted several times before, with little success. The issues involved are complex and often controversial, and raise difficult ethical, political and technical questions. The very fact that we have had to invent a new term – adult benefits – to refer to social security programs for working-age Canadians indicates another problem, since we must be able to tell people what it is that we are trying to reform.

The best way to explore a new architecture for adult benefits is to draw an illustrative design, offering some suggestions or options as to how such a system actually would operate. The rest of this paper offers a first pass at this ambitious task.

Our aim is to spur debate and thinking about a new architecture for adult benefits; our proposals and ideas are not etched in stone. Caledon is in the process of developing, revising and elaborating its work on a new architecture for adult benefits as we receive reactions and questions. At this early stage, we deliberately are not dealing with the political and economic dimensions of this ambitious and controversial

reform, nor the many difficult issues of policy and program design, financing, jurisdictional division of labour, implementation strategies and the other necessary tasks of policy making.

***Fundamental purposes of modern adult benefits***

A modern system of adult benefits should serve four basic purposes:

1. Temporary earnings replacement for unemployed Canadians.
2. Long-term income support for people with severe disabilities and others who cannot reasonably be expected to earn most of their income through employment.
3. Access to essential services (e.g., training and other employment-related services, supplementary health and dental care, disability supports) for all low-income Canadians, whether on income assistance or in the workforce.
4. Policies and programs to ensure that ‘work pays’ for the working poor.

These four purposes underlie the proposed broad architecture for adult benefits set out below.

<b>A NEW ARCHITECTURE FOR ADULT BENEFITS</b>							
<i>Support for low-income workers</i>	Provincial/territorial and federal	Minimum wages, working income supplements, tax credits and employment standards		Federal Canada Child Tax Benefit and provincial/territorial child benefits	Disability supports and supplementary health benefits (provincial/territorial)	Early learning and child care services (provincial/territorial)	Emergency Social Fund (provincial/territorial)
<i>Tier 1: Short-term support for ‘employable’ adults</i>	Federal	<b>Unemployment Assistance</b>					
		<b>Temporary Income (TI)</b> general revenue funded income-tested benefits	<b>Employment Insurance (EI)</b> contributory benefits paid according to social insurance principles				
<i>Tier 2: Medium-term support for ‘employable’ adults</i>	Provincial/territorial	<b>Employment Preparation</b> financial support and employment services					
<i>Tier 3: Long-term support for adults not expected to be employed</i>	Federal	<b>Basic Income</b> financial support					

## *A broad architecture for adult benefits*

A proposed architecture is illustrated in the diagram. Although we focus on income security as the core of our proposed architecture, services (employment, health and social) also play an essential role in a modern system of adult benefits.

The primary structure of our proposed adult benefits architecture is a new three-tier income security system, highlighted in bold borders in the figure above. The basic concept of the three tiers is to provide income support programs that are most appropriate for the needs of both the recipients and of society, and that mesh with the realities of a modern labour market. Program names are illustrative only, but are necessary to facilitate the discussion.

### ***Tier 1: Unemployment Assistance (TI and EI)***

Tier 1 would consist of two unemployment assistance programs providing time-limited income support for the temporarily unemployed. The two programs would work together to provide income security for working-age adults – analogous to the way that the non-contributory Old Age Security/Guaranteed Income Supplement/Allowance and the contributory Canada and Quebec Pension Plans work together to provide income security for seniors.

The unemployment assistance program analogous to Old Age Security/ Guaranteed Income Supplement/Allowance would be a new Temporary Income (TI) that would pay income-tested benefits to unemployed Canadians, many of whom are not entitled to benefits from the contributory Employment Insurance program, as we have seen in the previous analysis (e.g., non-standard workers, the self-employed, new entrants to the labour force). TI would pay unemployment benefits for working-age adults who are unemployed but actively seeking work and in financial need. TI also could provide social benefits such as parental leave and sickness benefits. TI would be designed to be as non-intrusive as possible and would have a simple, flat-rate benefit structure, income-tested through a straightforward income test. TI would not be accompanied by employment services, as most temporarily unemployed Canadian are able to find jobs quickly without assistance. (Those who felt they were unable to find employment on their own could go immediately to the tier 2 Employment Preparation program, described below.)

TI would be available for a limited time period (say six months every three or four years), like the current EI program. Unlike EI, the new TI program would be a non-contributory benefit funded out of general revenues. TI is proposed in recognition that many people actively seeking work are now excluded for one reason or another from contributory EI and, if they are in financial need, may have no recourse other than welfare.

The Tier 1 program analogous to the contributory Canada and Quebec Pension Plans would be a reformed Employment Insurance that would continue to provide wage replacement for unemployed Canadians, but based more firmly on their contributory record. The regional preferences rules could be removed from EI and, if governments thought it necessary, built instead into the TI program. The TI

program is more appropriate for regional and other benefits, since it is funded from general revenue and therefore does not represent a kind of regional equalization scheme financed by employer and employee contributions. The social insurance principles of EI could therefore be strengthened, with benefits more closely linked to contributions. It should also be possible, on this basis, to strengthen the EI earnings-replacement ratio from its current 55 percent to 70 or 75 percent of average weekly earnings.

### ***Tier 2: Employment Preparation (EP)***

Not everyone who is unemployed is going to find work or has adequate skills to maintain employment. Tier 2, Employment Preparation (EP), would serve working-age adults who are likely to be unemployed for a longer time and are in financial need. For most employable clients, EP would replace the current welfare system. Unlike welfare, the new program – as its name suggests – would focus on preparation for work and active job search: The role of EP benefits would be to support clients while they pursue an individually-tailored employment preparation plan in cooperation with ‘opportunity planners’ (to borrow a term from the classic 1988 *Transitions* report on welfare reform in Ontario).<sup>23</sup>

EP would turn welfare on its head. In the current welfare system, the main purpose is to dole out financial assistance; while some recipients may get some employment services or training, typically serious training is not allowed for people on welfare. In EP, the main purpose would be to prepare people for employment, including through longer-term training if necessary, and recipients would be financially supported to allow them to pursue their employment preparation. The benefit structure could be much simpler than welfare and wage-like, with biweekly, flat-rate payments and, possibly, C/QPP contributions to treat recipients as workers and link them to the public pension system.

EP might continue for several years for some recipients, but it would not be expected to provide permanent income support. The expectation would be that, at the conclusion of a plan, the recipient would get a job. A very small and residual welfare system would remain as an ultimate fallback for those who can reasonably be expected to earn their living through work, and who have had an employment preparation plan but still do not find work.

### ***Tier 3: Basic Income (BI)***

Some people, however, cannot reasonably be expected to earn an adequate income from employment. Tier 3, Basic Income, would be an income-tested safety net for these people.

Most Canadians who cannot reasonably be expected to earn an adequate income through employment have a severe and prolonged disability. But there are other instances where it might be unreasonable, economically, to expect a person to be able to earn an adequate income from employment, even if that person does not have a disability. For example, it likely makes no sense to attempt lengthy retraining for an

older unemployed worker who is skilled and experienced only in his or her former employment and has no necessary skills for any conceivable present job.

Tier 3 could be designed like the Seniors Benefit<sup>24</sup> proposed in the mid-1990s, as an income-tested program delivered by Ottawa. Many – though not all – of its clients would be persons who are now on welfare. Basic Income would provide adequate long-term financial support, with no time limits.

### *make work pay*

Supporting this three-tier income security system would be programs to ‘make work pay’. These measures include improved minimum wages and employment standards, as well as tax credits, working income supplements and other measures to reduce the income and payroll tax burden on low-income workers and supplement low earnings.

As well, the new adult benefits architecture requires a range of policy instruments to ensure that supports to persons on income assistance are available as well to the working poor, in order to break down the welfare wall and provide better and equitable help to all low-income working-age Canadians. These allied services and benefits are diagrammatically displayed down the right hand side of the ‘new architecture’ figure. They include:

- an adequate child benefit (equal to the cost of raising a child in a low-income family) and affordable, quality early learning and child care services
- supplementary health, dental care and prescription drugs
- disability supports and other social services
- a ‘social fund’ to meet emergency needs currently supplied by welfare.

### *jurisdictional division of labour*

There are many ways in which responsibilities could be divided between the federal and provincial/territorial governments, but the most logical division is for Ottawa to take full responsibility for unemployment assistance in Tier 1. This arrangement would permit the federal government to design TI and EI to work seamlessly together. Constitutionally, TI is firmly within existing federal Constitutional competence. There is no prohibition on the federal government making payments to Canadians or residents of Canada. Our proposed Temporary Income program would not be a social insurance – its benefits would not be related to prior contributions – so it would not be excluded from federal Constitutional competence by way



of the ruling on property rights that required the federal government to obtain a Constitutional amendment to operate the unemployment insurance program started in 1940.

Logically, provincial/territorial governments would be responsible for the Employment Preparation (EP) program in Tier 2. EP would not be simply a ‘cheque-writing’ program. Rather, its opportunity planning dimension would require substantial, individual casework and on-going intensive administration. As well, because EP would necessarily have a significant training component, it needs to be designed to work with the training and education programming in each province/territory. The provinces and territories would save substantial costs due to the federal government taking responsibility for what is now short-term welfare through the new Tier 1 TI program: The provinces and territories could use this financing to pay for the added training and adequate benefits in the much-reduced remaining EP caseload.

The third tier, Basic Income, would most logically be a federal responsibility. The Basic Income program could be administered through the tax system, as was the plan for the Seniors Benefit, and its benefit levels could be tied to those in the Old Age Security/Guaranteed Income Supplement – except that the full benefit would be income-tested, like the proposed Senior Benefit, rather than using the complex mixed clawback/income test in the current Old Age Security/Guaranteed Income Supplement. Since it could be anticipated that income levels of recipients would be relatively stable over time, the retrospective nature of the tax system would not be problematic, in the same way as it is not problematic for seniors. If some recipients of Basic Income did earn income, their benefits would be commensurately reduced by a portion of their earnings (e.g., 50 per cent as is the case for the Guaranteed Income Supplement). This feature would retain the capacity to improve income by earnings or other sources, without creating the necessity to do so.

There would be considerable savings to provinces and territories from the federal introduction of a Basic Income since a substantial number of welfare recipients would move to the more adequate (hence more expensive) BI. The provinces and territories could use their savings to introduce a separate disability supports program – which has been identified as a key priority by disability organizations in Canada – to provide a full range of employment and living supports to Canadians with disabilities. The combination of a Basic Income from the federal government and disability supports from the provinces and territories would considerably improve the living standards of Canadians with disabilities.

### *phasing in reform*

The introduction of a new architecture would represent as sweeping a change of Canada’s income security system as we have ever attempted. Necessarily, it would have to be undertaken in negotiation between the provinces and territories and Ottawa. Obviously, it could not be implemented in one fell swoop. Nevertheless, there are relatively manageable steps that could be undertaken to phase in the new architecture. The TI program could first be piloted in a few experiments – as was the Self-Sufficiency Project in New Brunswick and BC – to learn about its effects, how to administer it and how it can be optimally designed.

With respect to the Basic Income, the federal and Quebec governments already administer a contributory disability benefit through the Canada and Quebec Pension Plans. The Basic Income could be phased in initially as a non-contributory extension of the Canada and Quebec Pension Plans, using the existing mechanism for testing eligibility but a new general revenue-financed mechanism for payment of benefits. Granted, the Canada and Quebec Pension Plans' eligibility testing is not ideal from the perspective of persons with disabilities, and is also not available to anyone except those with severe and permanent disabilities. However, this proposal would represent a starting point from which governments should feel relatively comfortable, as all the administrative apparatus is already operational and has been for many decades. Further, the Basic Income could initially be restricted by age – say to people over 55 years of age – as a way of ensuring that the administration and financing are sound prior to further expansion.

Quebec could be compensated for running its own Basic Income extension of the Quebec Pension Plan. This 'opt-out' alternative could also be available to any province or territory that wished to opt out of the Canada Pension Plan under the rules that have been available equally to all provinces since 1966.

### *cost*

This paper has purposely attempted to keep to a broad description of the key structures and functions of a new architecture for adult benefits. We cannot at this stage deal with design features and parameters, such as the level and configuration of the various benefits, the cost to implement provincial/territorial opportunity planning capacities, and so on. We cannot therefore here provide estimates of the cost of the new architecture.

While there would be substantial additional government costs, the new architecture would better contribute to Canada's economic prosperity, especially as we – along with the rest of the industrialized world – face increasing labour shortages. It will be even more vital in the future than today to ensure that all Canadians are employed or actively training towards employment.

Moreover, the introduction of new federal income security programs would address some of the perceived fiscal imbalance between provinces and the federal government, by relieving some of the governmental burden currently carried from the provinces and supporting it at the more appropriate federal level. Our proposed architecture would have a considerable positive impact in Canadian cities with significant immigration and younger work forces, where Employment Insurance is not an effective instrument.

Finally, again from an economic perspective, at the inevitable downturns in the business cycle, the increased cost of income assistance for the unemployed would be more fully borne at the federal level, where programs could be better and more appropriately financed.

## *Conclusion*

We have here described a radical (some might say revolutionary) redesign of Canada's income security system for working-age adults – a new architecture suited for the 21<sup>st</sup> century based on individual autonomy and interlinked with the labour market. This new architecture would provide more adequate benefits while meeting the needs of working-age Canadians for assistance when in need.

The new architecture would require improved child benefits, at about a \$5,000 maximum payment per child, so as to permit a simple adult benefit without adjustment for family needs. In some more expensive locations, some forms of shelter allowance might also have to be considered. The new architecture could function without these further reforms, and still represent an improvement over today's welfare-based system, but a fully adequate safety net – functioning as part of and not in competition with the labour market – would also require these reforms.

All of this is a daunting task. Some will doubtless argue that Canada is not capable of taking on a challenge of this size and complexity: This is the politics of resignation and defeat. Past generations of Canadians survived wars and depressions, and went on to build medicare, old age security, the Canada and Quebec Pension Plans, unemployment insurance and the other important social programs that we have today. Are we less capable? Do we not also have a responsibility to reform and modernize the institutions that we have inherited, so as to leave another generation a legacy of well-functioning programs that they can once again adapt to the needs of their time?

## Endnotes

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