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Speech

The Canada Social Transfer

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Today, I want to argue that the announcement of the Canada Health and Social Transfer creates an opportunity to write a new social contract for the next generation of Canadians.

The origins and the design of the CHST go to the heart of the nexus of issues in Canada which I have called the fiscal and social deficits.

The fiscal deficit is well-understood. Governments are short of money. Their debt burdens have become intolerable. Citizens do not wish to pay higher taxes. Many citizens have found ways to avoid paying taxes. And lenders have become increasingly uneasy about Canada's dependency on debt.

The social deficit is not widely understood because we have no single bottom line to measure it. Incomes are polarizing, there are high levels of unemployment and underemployment, children arrive at school hungry and distressed so they are not ready to learn. Young people cannot find a career job.

In short, people are being marginalized and inequality is rising. One very rough indicator of the dimensions of the social deficit comes from a recent Ekos survey. It indicates that 19 percent of the population are Outsiders – living outside the mainstream of society. Another 22 percent are Disengaged Dependents. Poorly educated, with low levels of full-time employment, they see governments as their sole source of support. This means that 41 percent of the population are living at the margin of society.

When the federal government decided to replace the EPF and the CAP[1] with a new single transfer, it was part of a major reconfiguration of federal spending commmitments designed to reduce the fiscal deficit. The response to the social deficit will unfold in the next year as federal and provincial governments design this new transfer, and as they revise health, social and education programs to absorb a sharp reduction in federal cash transfers.

For decades, Canada has used fiscal largesse as the way to avoid making difficult tradeoffs. Rather than choose between two claims for attention, the tendency has been to give something to everyone. In the years ahead, we will have to face those tradeoffs head-on. Some of the choices are tough, and many of them are between generations:

- Do we try to protect people from the circumstances that create ill-health – i.e. poverty?
- Do we invest more resources in the elderly (the dominant users of health care) or in young people (the dominant users of social assistance and education)?
- Do we continue to pay Old Age Security to people with adequate incomes or do we invest in greater capacity to provide all the elderly with the care they will need in their fragile years?
- Do we invest in children and youth as a means to reduce poverty, marginalization, and criminality in the future?

The answers to these questions, whether they are explicit or not, will determine the nature of the new social contract.

The Social Contract

The social contract of the post-war period could be roughly summarized as follows:

> Citizens made a commitment to work and to pay taxes in return for state-funded insurance against temporary unemployment, old age, poor health, and certain family responsibilities. The state also committed to introduce policies that would ensure high levels of employment.

Today, we would probably be happy with such a contract, if we thought that governments could ensure high levels of employment, that unemployment was temporary, and that families were functioning the way they did in the 1940s and 50s.

However, we live in the 90s. And, in the 90s, the labour market offers far less security; families depend on two incomes and have to contract out many of the homemaking and care-giving work which used to be done within the home; and there is extraordinary pressure on workers to commit to lifelong learning IMaxwell, 1995]. These conditions demand a social contract which not only pools the risks in the labour market, but also supports the nurturing and care-giving of families and children, and fosters investment in human capital. The key concern becomes the capacity of new generations to be healthy and productive citizens.

Some Ideas for the Single Transfer

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[1] That is, Established Programs Financing and the Canada Assistance Plan, which cost-shared with the provinces for health, post-secondary education, and social assistance. The original agreements in the 1970s called for 50-50 sharing, but a number of distortions have occurred in recent years, including the 1991 cap on CAP, which reduced cost-sharing for Ontario to 28 percent of social assistance costs.

To make the CHST a sustainable and credible successor to the old system of transfers, both the federal and provincial governments must bring a new mindset and a new set of commitments to the table. The four key ingredients are, in my view: 1) an ongoing federal cash transfer; 2) a joint commitment by federal and provincial governments to a set of values and principles for social programs; 3) a system to monitor the outcomes from social programs; and 4) an appeal process within each province. Let me deal with each of them in turn.

- First, the federal government will have to set out a long-range statement of its social role and back that up with a long-range commitment to a cash transfer, even if it is much less money than in the past. This means disengaging the cash transfer under the CHST from the tax points that were transferred to the provinces in 1977 under the Established Programs Transfer and the Canada Assistance Plan (for Quebec only). The agreement with the provinces will require a new formula which shows a sustained federal engagement on transfers to the provinces.
- Second, the provinces and the federal government have to come to the table prepared to make a statement of the fundamental values they will respect in the redesign of their programs to accommodate the reduction in federal funding. In launching that dialogue, they might want to turn to some of the language which was included in the Economic and Social Union sections of the 1992 Charlottetown Agreement. My sense is that there was a remarkable consensus around the values expressed in the debate on the Social Charter, and that much of that consensus still exists – in the sense that we can articulate what we mean by a sharing community and what will be the mutual obligations of citizen and state. The agreement could be described as a code of conduct or a joint declaration.
- Third, responsibility has to be assigned to some agency in Canada (Parliament? a federal provincial agency? a research institute?) to monitor the outcomes from this new approach to the social contract. In the past, there has been considerable tolerance for wide variations in actual program design from one province to another, but there has always been the assurance that the federal government was providing a basic level of support, through transfers to provinces or through its own programs In the future, we will want to encourage innovation in the provinces, but I think that Canadians will want some reassurance that outcomes will be monitored and exposed to public scrutiny.
- Fourth, each province should create an ombudsman so that citizens who are denied access to a program have an opportunity to test the ruling with an alternative authority.

While these ingredients set the framework for the CHST. The real test will lie in the redesign of programs for health, post-secondary education and social assistance.

The Social Program Reforms

Already, advocacy groups are in full cry about the destruction of Social Canada. The provinces currently spend a total of $ 87 billion on health, post-secondary education, and social assistance (including social services)[2]. The federal budget is rather fuzzy on the total size of the reduction in

[2] The $87 billion figure is total provincial expenditure (FMS) in 1993-94 on health and social programs plus the portion of education expenditure associated with post-secondary education (roughly 23 percent). In most provinces, except Quebec and British Columbia, these expenditure items are flat or falling. Allowance of a 1 percent per year increase over the period to 1997-98 would raise the total to $90.5 billion, but would not change the estimate of the percent cut in transfers.

the cash transfer, but it is in the range of 5 percent in 1996-97 to 8 percent in 1997-98[3]. This is partly offset by the rise in the value of the tax points, but, from the provinces' perspective, that money was already part of their base.

That is only part of the story however. The provinces themselves are trying to reduce deficits and pay down the debt. Since health, post-secondary education, and social programs account for about 50 percent of provincial budgets, we can only assume, that provincial restraint will be layered on top of the cut in federal transfers.

This is a tight squeeze, no doubt about it. But I do not see it as the end of Social Canada. Rather it is a mandate to renew and revitalize Social Canada by rewriting the objectives, terms and conditions for access to these programs. The nature of the reforms will be totally different in each sector, but I would like to venture a few thoughts on what is entailed.

In health care, where we have recently published a major study called Sustainable Health Care for Canada, the policy trend is to break down the compartments which lead to separate administration and delivery of each kind of health service – hospitals, the many components of continuing care, physician services and so on. The fragmentation of the system into highly specialized blocks is a major barrier to achieving cost-effective delivery of health care. The integration of services presents uncountable opportunities to reduce costs while maintaining the quality of care. The study gives several examples of the scope for cost savings -- more effective use of continuing care could reduce public expenditure by about 2 percent, for example.

In post-secondary education, there will be extraordinary pressure on colleges and universities to justify the way they spend their money. How much does it cost to produce a college or university degree in each discipline? Who is paying for it? What new methods of delivery are feasible and desirable in a knowledge-based economy? How many universities does a province or a region really need? What are the full costs of research? Who pays and who benefits?

In social programs, the key challenge is the inter-generational one. What is the legacy we are leaving to our youth? High fiscal burdens, underfinanced pensions, shrinking education budgets, falling wages, few new career jobs, tighter unemployment insurance, etc? What can and should be done to strengthen the supports around families, children and youth? How does their situation compare with that of the elderly?

More generally, what incentives are needed to encourage the thousands of employable people who have been on social assistance, or workman's compensation, or long-term disability in recent years to get back into the work force?

I have often argued that the existing design of unemployment insurance and social assistance creates a system of palliative care. We send people cheques so they can wait for something better to come up. The Ekos study points to the tragic consequences of palliative care – 41 percent of the population are not participating and not producing. Much can be done to improve the incentives and the support in these systems. Eliminating the conditions of the CAP will free provinces up to

[3] Cash transfers will be cut by $ 1.5 billion in 1996-97 and by 4.5 billion in 1997-98. A year ago, there was a cut of $1.5 billion to take effect in 1996-97. However, l have seen estimates of the impact in 1997-98 that range from $4.5 to $7 billion.

respond to the needs within their communities, and to introduce more positive incentives for people to become independent.

(A current example of the way in which behaviour changes in response to different incentives is the dramatic decline in high school drop out rates in the past few years - especially in Newfoundland and New Brunswick.)

Conclusions

A year ago, l would have argued that the most daunting task facing social security reform would be to change expectations about what we mean by economic and social security. However, the Ekos study I referred to earlier, indicates that a dramatic shift in expectations has already taken place. Fully 76 percent believe that "more and more people are going to have to stop depending on our federal government and learn to fend for themselves."

While Canadians are angry and resentful of governments, they have not given up on them – 58 percent of them say that, "for all its faults, Canada has the best system of government in the world today." In other words, they still adhere to the long standing sense that there is a special role for the state. Thus, the door is open for governments to redefine their social role.

What the federal and provincial governments cannot afford to do is to break trust with Canadians. They have to show a capacity for building and healing through sensible and far-reaching reforms to the social infrastructure at the same time that the deficits and debts are being reduced. This is something that they can only achieve together, as they seek the common solutions to the social and fiscal deficits.

The decision to break the old transfer model opens the door wide to innovation and to new thinking. The fiscal deficit made it happen, but the design and values embedded in the transfer will determine whether Canadians can build a sharing community for the 21st century.

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