funding health and higher education: danger looming

a report by the
national council of welfare

spring 1991

Canada

FUNDING HEALTH AND HIGHER EDUCATION:

DANGER LOOMING

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SUMMARY

Health care and post-secondary education are undertakings vital to the well-being of Canadians. Most of the money for these endeavors comes from taxpayers through their federal and provincial taxes.

Since 1977, the federal government has supported health and higher education through a combination of "tax transfers" and cash payments. The tax transfers are taxing powers that were shifted from Ottawa to the provinces and territories.

Originally, federal support for health and higher education was to keep pace each year with overall growth in the economy. Since 1986, however, the support has been cut back as a result of a series of unilateral decisions by the federal government aimed at reducing the deficit.

One of the unavoidable consequences of the cutbacks is that the cash portion of basic federal support has begun to decline. If the current trend continues, every last penny of federal cash for health and higher education under the 1977 fiscal arrangements will disappear within a few years.

The consequences would be particularly severe for medicare. Instead of a national system of public health insurance that is more or less the same everywhere, we could wind up with 12 vastly different provincial and territorial medicare systems. Extra billing by doctors and hospital user fees - practices all but wiped out by the Canada Health Act of 1984 - would almost certainly reappear in some jurisdictions.

Without substantial federal cash payments, regional disparities would be magnified, and people in poorer provinces

would have to make do with health care services which are inferior to the services enjoyed by Canadians who happen to live in richer provinces.

The National Council of Welfare believes that new fiscal arrangements should be negotiated as soon as possible to maintain a strong federal presence in health and post-secondary education.

INTRODUCTION

Health and higher education are two of our more important undertakings as a nation. They play a crucial role in the well-being of Canadians individually and collectively, and they also contribute to the well-being of the Canadian economy.

Taken together, health and higher education account for approximately 11 percent of the value of all goods and services produced in Canada. They provide skilled jobs for about five percent of the country's paid labour force, as well as numerous jobs for support staff and others who are not in direct teaching or care-giving roles.[1]

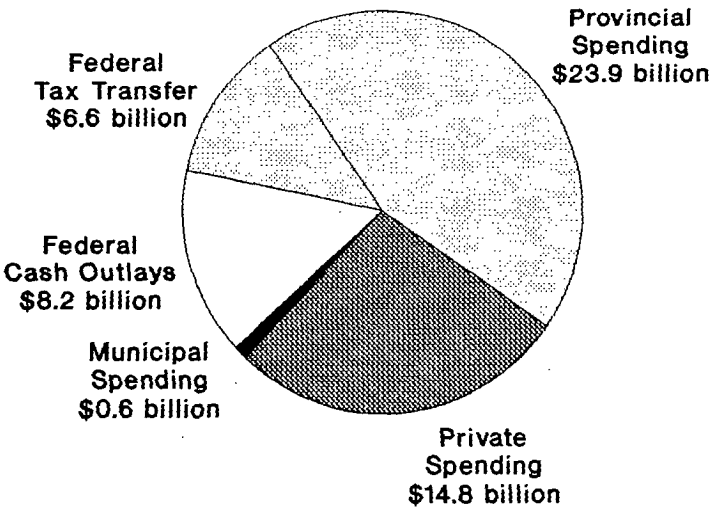
Canadians spent more than $54 billion on health care alone during the 1988-1989 fiscal year or an average of $2,091 for every man, woman and child. Close to three-quarters of the money was collected by governments from taxpayers to run the public health insurance plan we call medicare. Slightly more than one quarter of the money was spent directly by individuals for items such as dental care, drugs, eyeglasses, hearing aids, and other goods and services that were not covered by medicare. Some of these costs were reimbursed by supplementary insurance plans.[2]

Graph A on the next page gives more detailed information on the sources of funds. In fiscal 1988-1989, the federal government provided almost $14.8 billion - $6.6 billion in the form of a "tax transfer" and $8.2 billion in cash. Most, but not all of the money went to provincial and territorial medicare plans. The tax transfer refers to taxing powers that were transferred from Ottawa to provincial and territorial governments in 1977. It is shaded the same color on the graph as provincial spending because of continuing differences of opinion between the two levels of government concerning the "ownership" of this share. Tax transfers are discussed in more detail later in this report.

Provincial spending, including spending on medicare, subsidies to defray the cost of prescription drugs, workers compensation, and other provincial health care programs aside from medicare, totalled $23.9 billion. Direct local government spending, excluding money transferred from provincial governments, amounted to roughly $600 million.

Private spending was estimated at $14.8 billion. It included direct spending by individuals and spending by voluntary and non-profit groups. Some of the direct spending was reimbursed by insurance plans other than medicare.

Sources of Funds for Health Care, 1988-1989

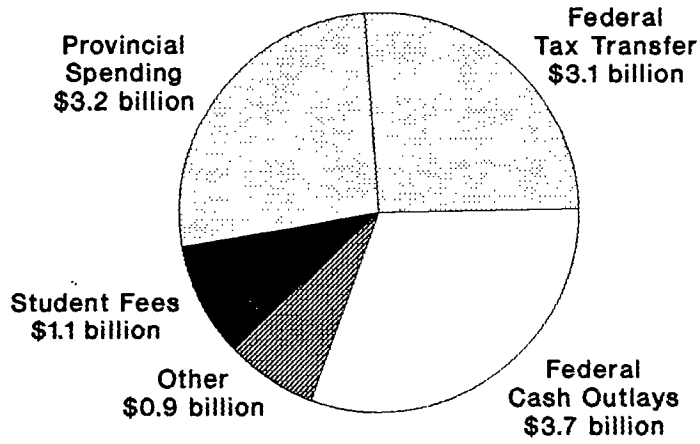


Graph A

In the field of post-secondary education, Canadians spent $12.1 billion or $466 per capita in the fiscal year 1988-1989. About 1.3 million people were enrolled in universities, community colleges and collèges d'enseignement général et professionel (CEGEPs), and 62 percent of them were full-time students.[3]

As in the case of health care, much of the money for higher education comes from governments, as shown in Graph B. In fiscal 1988-1989, the federal government contributed nearly $6.9 billion - $3.1 billion in tax transfers and $3.7 billion in cash. The cash portion included $677 million for research and $551 million in student loans and assistance.

Sources of Funds for Higher Education, 1988-1989



Graph B

The $3.2 billion listed as provincial spending included financial support to institutions and also scholarships and student aid provided directly by provincial governments.

Tuition and fees covered $1.1 billion of the cost of higher education, and roughly $900 million came from other sources, such as endowments and interest on investments.

THE NEED FOR FEDERAL INVOLVEMENT

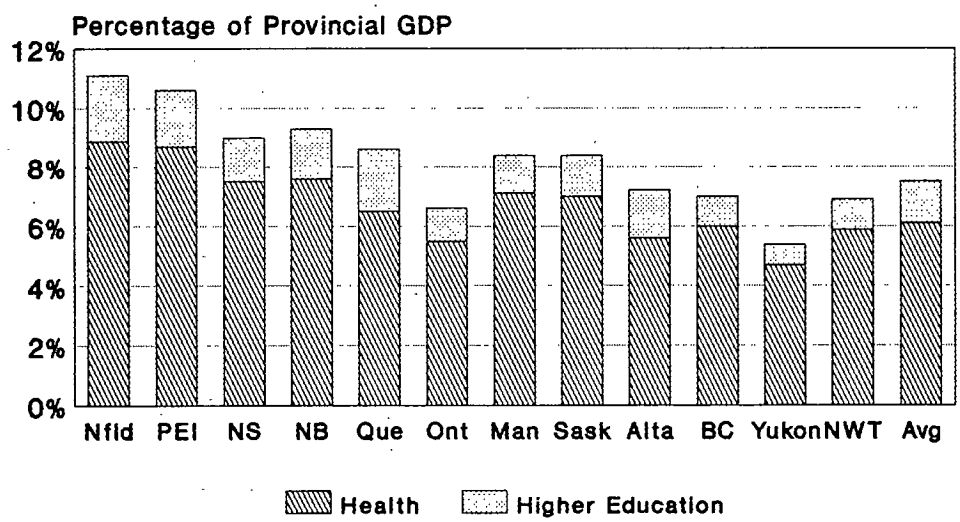
The National Council of Welfare has consistently supported a strong federal presence in social programs to ensure that Canadians have access to similar services and similar benefits no matter where they live. In our view, a strong federal presence is impossible without a strong federal financial commitment.

Federal funding plays a vital role in offsetting regional disparities and the difficulties poorer provinces have in providing a full range of programs and services to their residents. Federal funding in the field of health was the incentive that led to the development of medicare in all provinces and territories. It also provides a financial lever to deter doctors and hospitals from demanding out-of-pocket fees from their patients for services covered by medicare. Federal funding in post-secondary education helps keep tuition fees from being unaffordable for most Canadians and ensures better access to higher education for low-income people.

Regional disparities have been a problem throughout our history. Without substantial financial contributions from the federal government, they would be much worse. It would be much more difficult for poorer provinces to provide accessible and affordable health care and higher education to their residents.

Graph C on the next page shows the share of provincial gross domestic product - the value of all goods and services produced within a province - that governments spent on health care and post-secondary education in the fiscal year 1988-1989. The cross-hatched portion of the bars represents spending on health care, and the gray part represents spending on post-secondary education.[4]

Government Spending on Health and Higher Education as % of Provincial Gross Domestic Product, 1988-1989



Graph C

Even with considerable financial support from Ottawa, the governments of Newfoundland and Prince Edward Island spent about 11 percent of their provincial gross domestic products on health care and higher education. Ontario, which has a larger and stronger economy and less difficulty raising tax revenues on its own, spent less than seven percent.

Without federal support, poorer provinces would be left with essentially two options, neither of them appealing. They could either raise provincial taxes to intolerable levels to support health and higher education as they now stand, or they could eliminate all but the barest of medical and educational services and lay off thousands of people now at work in the two fields in the process.

Turning specifically to the field of health, it is federal financial support for provincial and territorial medicare programs that makes it possible for Canadians across the country to have ready access to a wide range of medical and hospital services without paying a cent in out-of-pocket fees.

In 1984, amid concerns about the "erosion" of medicare, Parliament passed the Canada Health Act. The legislation restated the basic principles of medicare and gave the federal government the explicit power to withhold cash payments for medicare from provinces or territories which fail to respect those principles.

The Act is generally credited with eliminating extra billing by doctors and hospital user fees that were being levied on patients in parts of the country. Some supporters of the legislation believe that the financial penalties imposed by Ottawa under the Act saved medicare from degenerating into a two-tiered system, with one tier to serve the well-to-do and the other for everyone else.

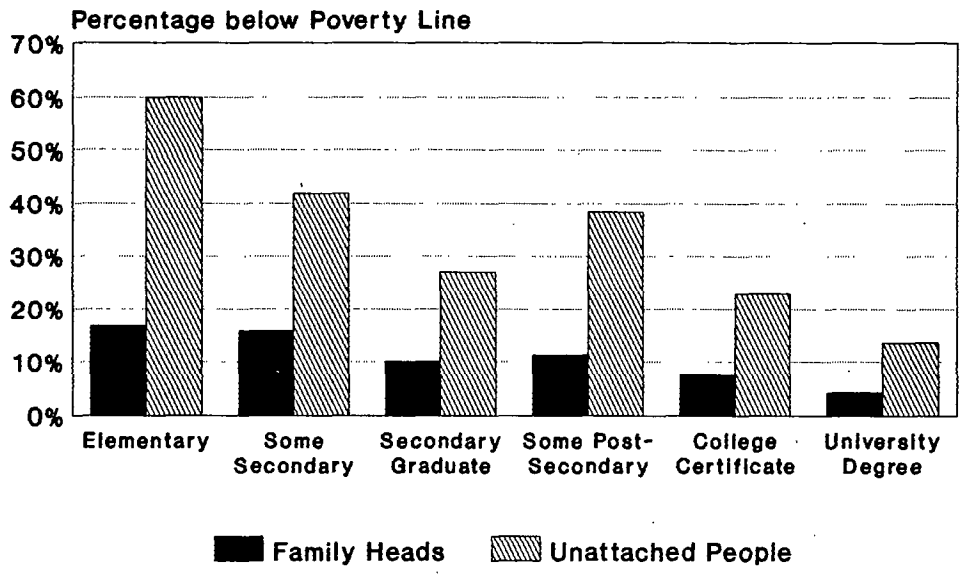
Without federal cash to use as a lever against "wayward" provinces, there is every reason to believe that the principles of medicare would be compromised once again. Out-of-pocket fees could reappear in some provincial medicare programs. Provinces also could remove certain medical and hospital services from medicare coverage. They could refuse to honor the medicare plans of other provinces for out-of-province residents who get sick on holidays or business trips. They could even turn portions of the system over to private companies.[5]

All these problems have arisen to a limited degree in some areas under the current system. Without the financial leverage of the Canada Health Act, they would certainly become more widespread.

In the field of post-secondary education, federal funding has helped make it possible for a large number of colleges and universities to provide higher education to young and old alike without exhorbitantly high tuition fees.

Although education is outside the mainstream of the mandate of the National Council of Welfare, it remains an area of concern because of the link between poverty rates and levels of education. As our successive Poverty Profiles have shown, the higher the level of education, the lower the risk of being poor.[6]

Poverty Rates for Family Heads and Individuals by Level of Education, 1989



Graph D

Graph D shows the latest available data for 1989 for heads of families and unattached individuals - people living on their own or with non-relatives. The lowest poverty rates by far were the rates for university graduates. They were roughly one-quarter as high as the rates for people with no more than an elementary school education.

The demand for higher education has risen in recent years, partly because of relatively high youth unemployment rates and partly because of changes in the nature of Canada's job market. Colleges and universities are still catering to the needs of young people continuing their education after high school, but they are also playing the relatively new role of helping older people who are preparing for new or different careers.

THE EVOLUTION OF FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

The federal government has long played an important role in defraying the cost of health care and post-secondary education, even though both areas are under the constitutional jurisdiction of the provinces. Prior to 1977, there were separate fiscal arrangements for health and higher education, which are explained in this section. Since 1977, most funds have been delivered under combined arrangements, as discussed in the next section.[7]

In the field of health, the federal government long supported hospital construction, public health, the control of tuberculosis, mental health, professional training, cancer control, medical services for crippled children, and child and maternal care.

The federal role grew enormously with the coming of public health insurance, popularly known as medicare, following passage of the Hospital Insurance and Diagnostic Services Act of 1957. By 1961, all provinces and territories had public insurance plans for hospital services that were cost-shared 50-50 by the federal and provincial governments.

With the passage of the Medical Care Act of 1966, public health insurance was expanded to cover visits to the doctor. All provinces and territories were participating in this part of medicare by 1972.

Under cost-sharing, the federal government paid half of the cost of insured medical and hospital services. Provincial and territorial governments paid the bills in the first instance and submitted their accounts to the federal government. Ottawa checked the accounts and reimbursed the provinces and territories for half the total that qualified under the law.

The history of funding for higher education is quite different. The federal government's role in technical and vocational training dates back to 1919, but it got involved in higher education in a major way when it started to provide student grants to military personnel returning from the Second World War. The grants led to a rapid expansion of colleges and universities in the postwar years.

After 1950, direct grants to individuals were replaced with grants to universities. However, the provinces increasingly objected to direct federal funding in an area of provincial jurisdiction. Under a 1959 federal-provincial agreement, the grants were paid to the provinces, which passed them on to universities.

In 1966, faced with evidence of the tremendous pressure that "baby-boomers" were placing on university enrollments, the federal government proposed a system of tax transfers and cash grants which was adopted in the Federal-Provincial Fiscal Arrangements Act of 1967. The act combined the funding of technical and university education and established a system of federal support which lasted until 1977.

THE ESTABLISHED PROGRAMS FINANCING ARRANGEMENTS OF 1977

The fiscal arrangements between Ottawa and the provinces that were made during the late 'fifties and 'sixties turned out to be relatively short-lived, partly because of the high cost of medicare and partly because of general economic concerns about inflation and government spending that arose in the 'seventies.

Medicare was still in its infancy when serious questions started to be raised about cost-sharing. Provincial governments complained that cost-sharing was distorting their priorities in health care. One common complaint was that too many elderly people were being kept in acute-care hospital beds because cost-sharing did not extend to nursing homes or home care.

Meanwhile, the federal government complained that cost-sharing made it almost impossible to manage its own finances. Ottawa was obliged to pay half the bills submitted by provincial governments, but it had no way of knowing from year to year how large those bills would be.

In 1976, the federal government proposed a new set of fiscal arrangements. It would continue to pay a substantial share of program costs, but the payments would no longer be tied to specific provincial expenditures on health. These new arrangements for medicare would be combined with the somewhat similar arrangements that already existed for post-secondary education.

Details of the funding framework were embodied in the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act of 1977, commonly known in government circles as the EPF legislation.[8] Under the new system, the federal government would make annual per capita contributions to cover a substantial

share of the cost of provincial and territorial programs for health and post-secondary education.

The system was based upon federal payments in the 1975-1976 fiscal year. Increases in the per capita entitlements from year to year were to be calculated on a three-year moving average of increases in the gross national product. In other words, federal support for medicare and higher education was to grow at the same rate as growth in the economy as a whole.

The total federal contribution was to be made up partly of cash and partly of taxing powers that were transferred to provincial and territorial governments. As part of the EPF deal, the federal government lowered its tax rates, and provincial and territorial governments raised their rates accordingly. In Saskatchewan, for example, the federal government lowered its personal income tax rate by 9.1 percent on January 1, 1977. The province raised its rate from 40 percent of basic federal tax to 58.5 percent. Although the increase appears larger than the decrease, the amount of revenue involved was actually the same.

In order to ensure that poorer provinces had the same capacity to pay for services as richer ones, the value of the tax transfers was fully equalized, so that the total federal entitlement per capita is exactly the same for the richest and poorest province. If equalization had not been built into the EPF legislation, the taxing powers transferred to the provinces would have been worth more to richer provinces than poorer provinces.

The amount of cash paid by the federal government each year is total EPF entitlements minus the current value of the tax transfers.

For the federal government's own accounting purposes, 67.9 percent of the total EPF package is considered a contribution

to health care and the other 32.1 percent a contribution to post-secondary education. In reality, spending priorities on health and higher education vary greatly from province to province.

Finally, an additional amount of $20.00 per capita was included in the EPF arrangements to defray the cost of extended health care services. This amount was also indexed each year by the three-year moving average of GNP. The extended care grant was intended to cover part of the cost of nursing home care and home care for all Canadians. It replaced arrangements under the Canada Assistance Plan that covered only people in financial need.

Under the Established Programs Financing legislation, total federal support for health and post-secondary education rose sharply in nominal terms in the years after 1977. EPF entitlements in the 1977-1978 fiscal year were nearly $6.7 billion, while estimated entitlements in 1991-1992 are $20.4 billion.

The rise in federal support is much less dramatic, however, when all the figures are expressed in constant 1991 dollars to factor out the effects of inflation. Seen this way, the total went from $16.4 billion in 1977-1978 to $20.4 billion in 1991-1992.

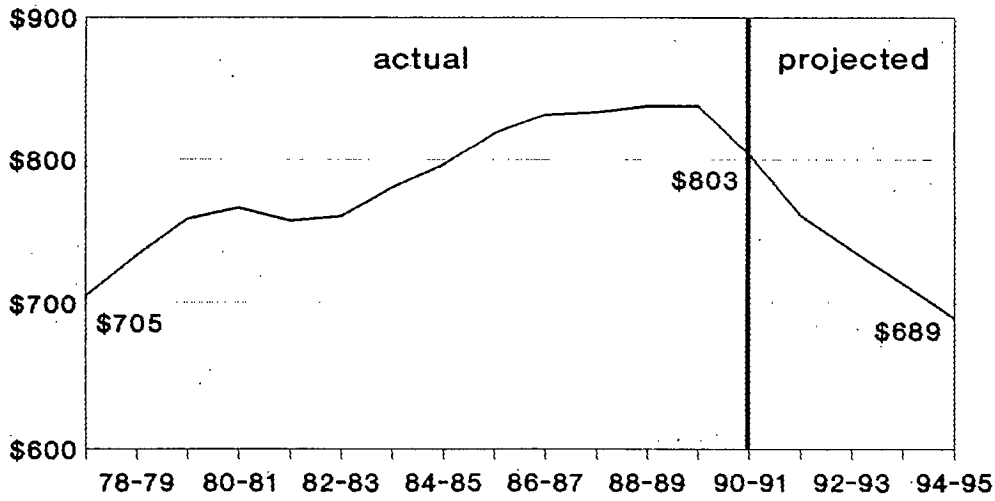
An even better perspective comes by calculating EPF in constant dollars per capita. This reflects the fact that the population grew by more than three million between 1977 and 1991.

As Graph E shows, federal EPF entitlements in constant 1991 dollars rose from $705 for every man, woman and child in Canada in 1977-1978 to $803 per capita in 1990-1991. Per capita support was down noticeably in 1990-1991 because of a freeze in entitlements that was announced in the 1990 federal budget. In the 1991 budget, the government said the freeze would be extended to the end of the 1994-1995 fiscal year.

The right side of Graph E gives projections by the National Council of Welfare about the impact of the freeze. We will have more to say about this in the next section of the report, but it is obvious that the freeze will mean drastic cuts in federal transfers for health and higher education.

By 1994-1995, we estimate that federal support will be down to an estimated $689 per capita in 1991 dollars. That is lower than per capita support of $705 at the beginning of Established Programs Financing in 1977-1978. In effect, a five-year freeze on EPF entitlements would wipe out all the increases in funding made by successive federal governments since 1977.

Federal Transfers for Health And Post-Secondary Education In Constant 1991 Dollars Per Capita



Graph E

ERODING THE EPF FORMULA

Within a few years of the EPF legislation, the federal government started backing away from its original commitments. The problem started at the end of the 'seventies, when interest rates soared to levels that would have been inconceivable a few years earlier. That was followed by the recession of 1981-1982, the worst in half a century. Unemployment and inflation were both excessively high. It all added up to economic disaster for the federal government, with interest charges on the public debt making any early hope of a balanced budget impossible.

During this same period, rising health care costs were adding to the financial pressure on provincial governments. Some budgets for post-secondary education were frozen or reduced, while some budgets for health increased at a rate in excess of overall economic growth.

The first federal inroads against the Established Programs Financing arrangements came as part of the "six-and-five" anti-inflation program of the federal government that was announced in the 1982 budget speech. After an initial proposal to limit the entire federal EPF payment, Ottawa decided to apply controls only to the post-secondary portion of the program.

The increase in federal transfers for higher education was limited to six percent in 1984 and five percent in 1985. The initial loss to the provinces and territories was relatively small, but it eroded the base for future entitlements and led to permanent reductions in federal contributions. The Canadian Association of University Teachers estimates that the cumulative losses through fiscal 1990-1991 were nearly $2.4 billion.[9]

The first change in the overall EPF formula came in the 1986 budget as part of the federal government's efforts to reduce the size of the deficit. Ottawa announced unilaterally that EPF entitlements would no longer grow with the economy as a whole, but would be held to economic growth minus two percentage points.

In the 1989 budget speech, the government said it would reduce the formula to increases in the gross national product minus three percentage points.

This was modified in the 1990 budget, when Ottawa announced a total freeze in EPF entitlements for two years, to be followed by a formula of GNP minus three percentage points beginning in the 1992-1993 fiscal year. Despite the latter restriction, the government promised that the annual increase in EPF entitlements from 1992-1993 on would be no less than the rate of inflation.

Even more drastic measures came in the 1991 budget. The Finance Minister announced that the freeze on EPF entitlements would continue through the end of the 1994-1995 fiscal year. After that, the formula of GNP minus three percentage points would apply.

To get an idea of the long-term impact of these changes, we calculated normal EPF entitlements and compared them with entitlements under the cuts in the overall formula imposed by the federal government. The results are shown in Table 1 on the next page. All the figures have been rounded to the nearest $100 million.

The figures in the table do not take account of increases in the population during the 'nineties, nor do they include the losses in post-secondary education resulting from the six-and-five program.

TABLE 1

FEDERAL SAVINGS ON HEALTH AND HIGHER EDUCATION
FROM CUTS IN THE EPF FORMULA, IN BILLIONS OF DOLLARS

Fiscal Year	Normal EPF Entitlement	Entitlement With Cuts in Formula	Federal Savings
1986-87	$ 16.8 billion	$ 16.7 billion	$ 0.1 billion
1987-88	18.1	17.7	0.4
1988-89	19.5	18.7	0.9
1989-90	21.2	19.8	1.4
1990-91	22.8	20.1	2.7
1991-92	24.4	20.4	4.0
1992-93	26.0	20.4	5.6
1993-94	27.8	20.4	7.4
1994-95	29.6	20.4	9.2
1995-96	31.6	21.2	10.4
1996-97	33.9	22.2	11.7
1997-98	36.4	23.3	13.1
1998-99	39.1	24.6	14.5
1999-2000	42.1	25.9	16.1
TOTALS	$ 389.3 billion	$ 291.7 billion	$ 97.6 billion

The first column shows normal EPF entitlements from cash and tax transfers through the 1999-2000 fiscal year, assuming that the economy grows at an average rate of 7.5 percent a year. The second column shows the entitlements with the federal cuts. The third column shows the amount of money Ottawa saves each year.

The federal savings were in the order of a "modest" $100 million the first year, but build up year by year to more than $16 billion a year by the turn of the century. The cumulative amount shown in the table is a staggering $97.6 billion.

THE END OF FEDERAL CASH PAYMENTS

It goes without saying that a loss of close to $100 billion in federal support would put the squeeze on both medicare and post-secondary education. A less obvious problem is the growing shift in federal support in favor of tax transfers and away from cash payments.

Within a few years, every penny of federal cash for health and higher education under the 1977 fiscal arrangements could disappear, and both fields would be financed exclusively by taxes raised by provincial and territorial governments.

In order to see why this could happen, we return to our earlier description of EPF entitlements:

* In any given year, the first step is to calculate the entitlement for each province and territory using the EPF formula as specified in the federal legislation.

* Next, the current value of the revenue raised by the taxing powers transferred to the provinces and territories is determined for each province and territory.

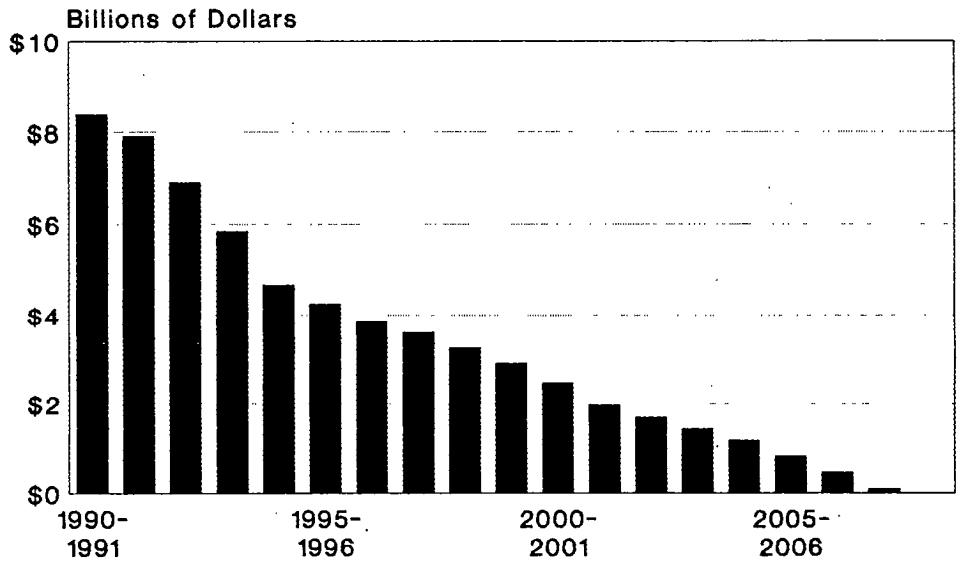
* The cash payment from the federal government, if any, is equal to the total EPF entitlement minus the current value of the tax transfer.

The key point is that the cash is a residual. As the tax transfers make up more and more of the federal contribution to medicare and higher education, the cash paid by Ottawa goes down. If the current trend continues, the cash will soon disappear. The federal government will have no further stake in medicare

and higher education and no say in either. Medicare will be effectively dead as a national health insurance system.

Graph F gives one possible scenario for the departure of the federal government from health and post-secondary education. It was developed with the help of a computer program on Established Programs Financing.

Federal Cash Outlays for Health and Higher Education



Graph F

We assumed that the federal government proceeds with its 1991 budget plans to freeze EPF entitlements per capita through fiscal 1994-1995 and uses a formula of gross national product minus three percentage points beginning in 1995-1996. We assumed that GNP

would grow by 7.5 percent a year over the long term, so the long-term EPF escalator would be 4.5 percent a year. Finally, we assumed that the value of the EPF tax transfers would increase by eight percent a year.[10]

With overall entitlements frozen or restrained to increases of 4.5 percent a year and the part of EPF funded through tax transfers going up eight percent a year, the cash part of the program is bound to keep shrinking.

Our forecast shows the last federal cash for medicare and post-secondary education in the fiscal year 2008-2009 - a token payment of $238,000 to Yukon. In 2009-2010, not one cent of federal cash under EPF would go to any province or territory.

Federal cash payments to Quebec would disappear by the fiscal year 1996-1997 - only five years from now - because of the unique fiscal arrangements between Ottawa and Quebec that are more heavily weighted in favor of tax transfers.[11]

Cash payments to Ontario would be gone by fiscal 2002-2003. Ontario would see the end come early because of the strength of its economy relative to other provinces and its higher-than-average ability to raise money through income taxes.

The rest of the provinces and territories would lose all federal cash for medicare and post-secondary education a few years after Ontario. Graphs for each province and territory similar to Graph F are contained in the appendix of this report.

Our calculations are based on fairly modest assumptions about the performance of the Canadian economy. As a result, our projection about federal EPF cash disappearing by 2009-2010 is also

modest. Other analysts with other economic assumptions say the end will come a few years sooner.

Whatever the assumptions, the end result is the same. As long as the EPF formula remains compromised, federal tax transfers for health and higher education will continue growing while federal cash outlays continue shrinking. Sooner or later, the cash will run out.

The federal government has never explicitly acknowledged that its policies will cause cash transfers for medicare and post-secondary education to disappear. The closest it came was in the 1991 budget speech, when the Minister of Finance announced plans to deal with this problem without explaining the problem in the first place.

"I recognize that limiting the growth of transfers under Established Programs Financing raises concerns about the ability of the federal government to continue enforcing national medicare principles under the Canada Health Act," the Minister said. "Legislation will be introduced to ensure that the federal government continues to have the means to enforce these national medicare principles."

Under the budget proposal, Ottawa apparently intends to withhold federal payments <u>other than payments for health care</u> from provinces and territories which do not respect the principles of the Canada Health Act once the cash portion of EPF runs out.

The National Council of Welfare cannot imagine provinces and territories letting this proposal go unchallenged. The delivery of health care services is within provincial jurisdiction under the Constitution. It is only the federal spending power that allowed

federal involvement in this area, and it is difficult to imagine how Ottawa could continue to maintain its presence once the money for medicare dries up.

In any event, it is obvious that the final word on the proposed legislation will come from the Supreme Court of Canada rather than from Parliament. We would much prefer to see the federal government reconsider its course of action and make such legislation unnecessary by negotiating new fiscal arrangements with the provinces and territories.

REVERSING THE TIDE

It is now abundantly clear that current fiscal arrangements must be revised if the federal government is to continue playing a meaningful role in health and higher education. This section of the paper outlines in general terms the kind of revisions the National Council of Welfare would like to see.

Recommendation #1: The federal government should continue to play a significant financial role in both health care and post-secondary education.

In our view, a significant financial role means significant cash contributions. Cash payments from the federal government made it possible in the past for Canadians to have highly developed systems of medicare and post-secondary education. A continuation of federal cash payments is absolutely essential to maintaining these systems for future generations.

The previous section of this report showed how quickly federal cash payments will disappear if current policies on Established Programs Financing remain in effect. The problem of declining federal cash was raised by Quebec in its 1987-1988 budget speech and has been known for some time within select government and social policy circles, but it has yet to have much of an impact on the thinking of the person on the street.[12]

The five-year freeze on entitlements under Established Programs Financing announced by the government in the 1990 and 1991 budget speeches would effectively end any meaningful federal role in medicare and would lead to an early end to medicare as a national system of health insurance.

As we said in the previous section, we are not reassured in any way by talk of new federal legislation to enforce the provisions of the Canada Health Act. A far better approach would be to find a way to continue federal cash payments for medicare and to use that money as a lever to enforce the existing legislation.

Recommendation #2: Any changes in the financing of health and higher education should result from federal-provincial negotiations rather than being imposed by Ottawa.

Federal-provincial relations have been set back in recent years by a number of unilateral changes in programs by the federal government. Most of these changes were announced in federal budget speeches without meaningful consultations with the provinces and territories and without any prior public debate.

The National Council of Welfare believes that changes should be negotiated between the federal and provincial governments and that the participants at the negotiating sessions should include Ministers of Health and Education as well as Ministers of Finance. Broadening the list of negotiators would help ensure that the departments of government which are directly concerned with health and education have a say in the outcome. In short, we believe it is wrong to make changes solely to suit Finance Ministers.

We are encouraged that the 1991 budget speech mentioned plans for discussions with provincial governments about Established Programs Financing and other programs of concern to both federal and provincial governments. We are also pleased that the government recognized the importance of hearing the views of individual Canadians before the process is complete.

Recommendation #3: Any new arrangements negotiated for financing health and higher education should focus on federal cash payments.

The federal government should give up any claim that the tax transfers made in 1977 represent federal support for medicare and post-secondary education. The reality is the taxing powers now are within provincial jurisdiction and should be regarded in years to come as part of the provincial contribution to health and higher education.

Any new deal should focus on the amount of cash that the federal government pays out to the provinces each year. Federal cash payments for medicare and post-secondary education will amount to about $7.9 billion during the 1991-1992 fiscal year. A new agreement could start with $7.9 billion and provide for reasonable increases from year to year. One possibility would be to have the federal cash increase in line with the Consumer Price Index.

The two levels of government could also agree to build an equalization component into the formula to help poorer provinces. There could be a base grant of x dollars per capita for wealthy provinces, for example, and slightly larger per capita grants for provinces which receive equalization payments from Ottawa.

An agreement along these lines would be simple and fair. Most importantly, it would ensure that federal support for medicare and higher education does not disappear. Federal cash payments would continue to grow year after year in step with the cost of living.

Recommendation #4: Federal funding for health care should be distinct from funding for post-secondary education. Federal legislation should stipulate that the cash received by the provinces for health and higher education is spent as intended.

The current funding arrangements for health care and higher education are part of the same piece of federal legislation only through a historical accident. It makes sense to us to have them split.

Since 1977, Ottawa and the provinces have bickered off and on with each other about the amount of federal money going to each of the two areas. The federal government presumes that 67.9 percent of total EPF entitlements are for health and 32.1 percent are for post-secondary education, but that split is entirely arbitrary.

Separate legislation for health care and post-secondary education would end this bickering. As well, taxpayers would know exactly how much money was coming from Ottawa for each area.

The thorniest problem to overcome is how the federal government should divide its contributions for health and higher education. Probably the fairest approach would be to have different splits for each province based on their individual spending priorities in recent years. If the ratio of spending in Province X was 85 percent on medicare and 15 percent on higher education, then the federal split for Province X would be 85-15. The splits in other provinces might be 80-20 or 75-25.

Any legislation to create distinct programs for financing health care and post-secondary education should also stipulate that the cash received by the provinces is actually spent on health care and post-secondary education.

It is only fair that a government which provides billions of dollars in cash for programs run by provincial and territorial governments should have at least some say in the way the money is spent. Under current arrangements, the federal money goes into

provincial treasuries as a lump sum and is spent at the absolute discretion of provincial governments.

In the field of health care, we believe it advisable to have specific conditions on the use of federal funds. For openers, Ottawa should continue to require compliance with the provisions of the Canada Health Act and the five basic principles of medicare - universality, accessibility, comprehensiveness, portability and public administration.

Beyond this, federal legislation should continue to provide additional money for extended health care programs such as nursing homes and home care and should require some general national criteria for these services similar to the criteria in the Canada Health Act. The current grants for extended health care under Established Programs Financing have no strings attached.[13]

CONCLUSIO

The National Council of Welfare believes that the recommendations we have made would ensure that the federal government, on behalf of all Canadians, continues to play a major role in the financing of health care and higher education.

In the case of health care, Ottawa would continue to guarantee certain minimum standards for medicare and still leave provinces and territories ample room to carry out their constitutional responsibilities for delivering services in accordance with the needs of their residents.

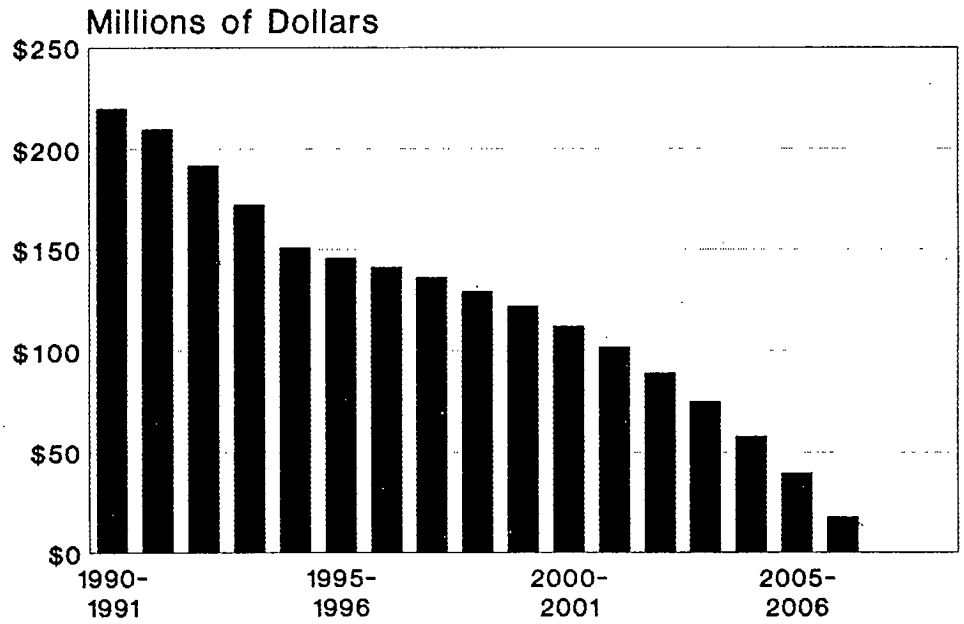
We realize that our views will not be welcomed by those who would have Canada devolve into a loose collection of provinces and territories where Ottawa has no real say in the government programs that matter most to individual Canadians.

We make no apologies for holding to a view of Canada that is vastly different - a Canada that offers its citizens regardless of where they happen to live ready access to one of the world's best systems of public health insurance and ready access to institutions of higher learning for young and old alike.

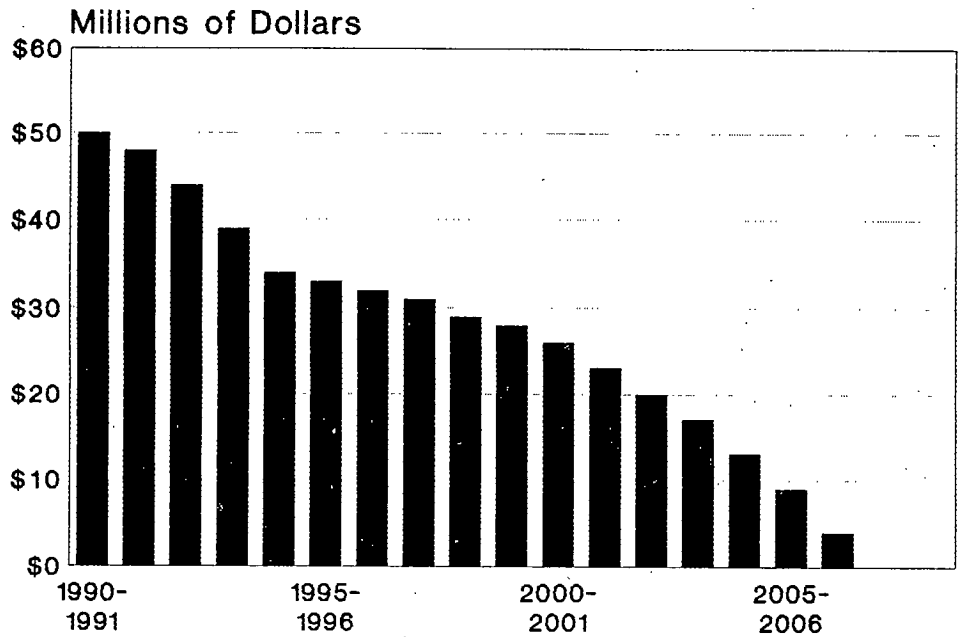
Our continuing hope is equality of opportunity for all. Our continuing fear is that poor people in all parts of Canada and Canadians generally in poorer regions of our country will be denied equality of opportunity if the federal government backs away from the leading role it has played for so many years.

APPENDIX: PROJECTED FEDERAL CASH OUTLAYS TO PROVINCES AND TERRITORIES FOR HEALTH AND HIGHER EDUCATION

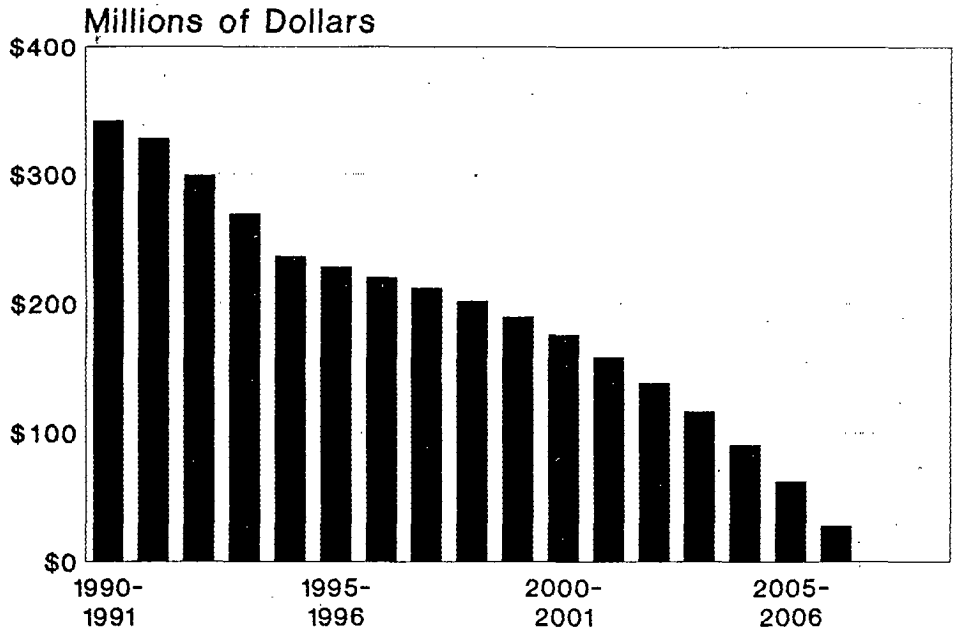
Newfoundland



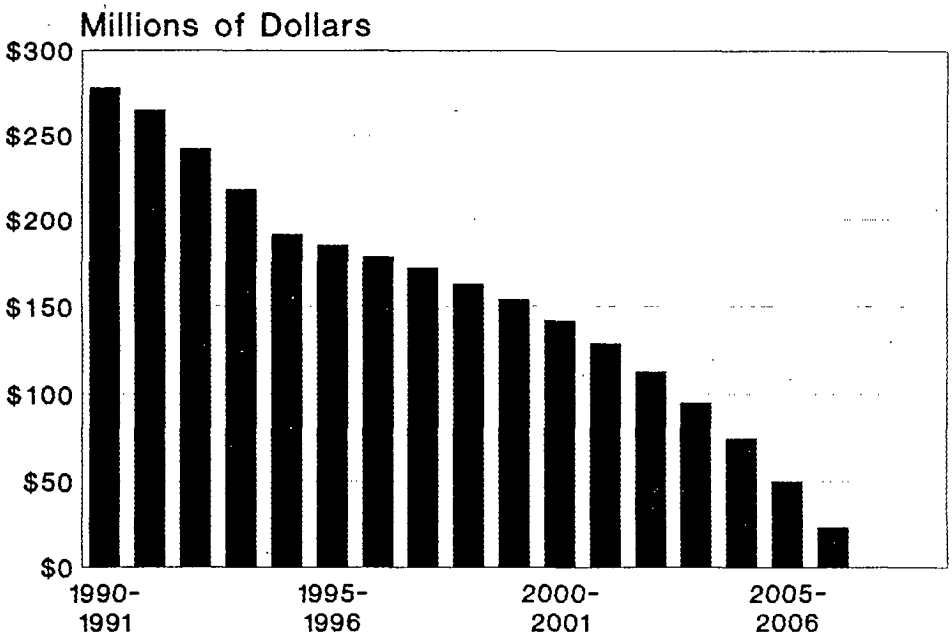
Prince Edward Island



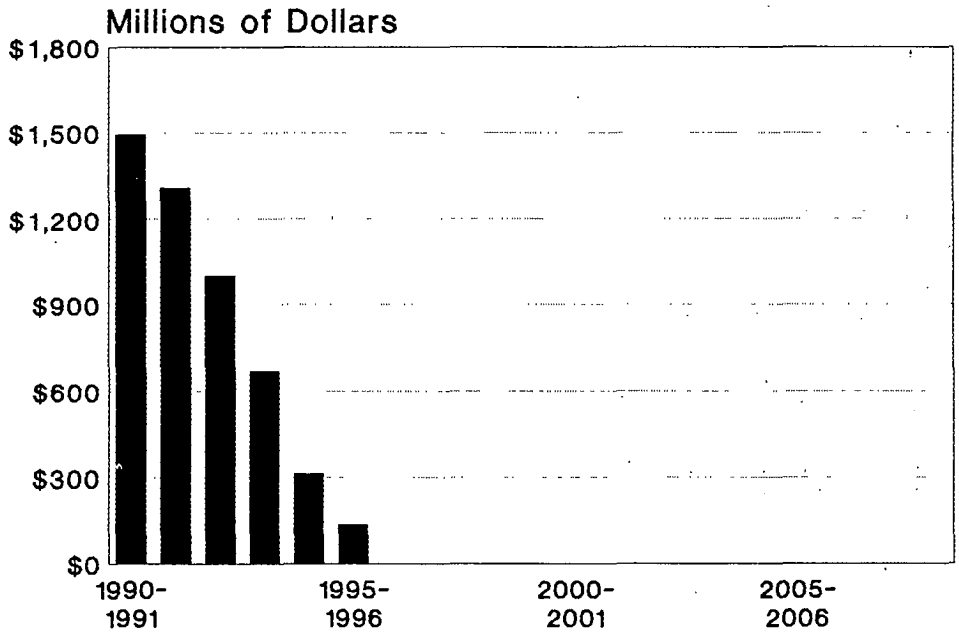
Nova Scotia



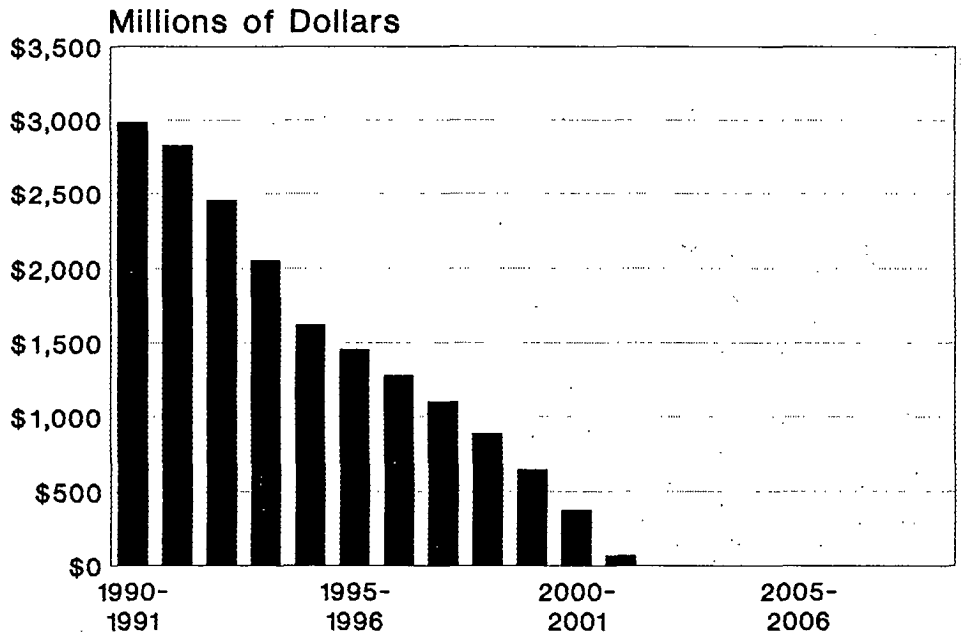
New Brunswick



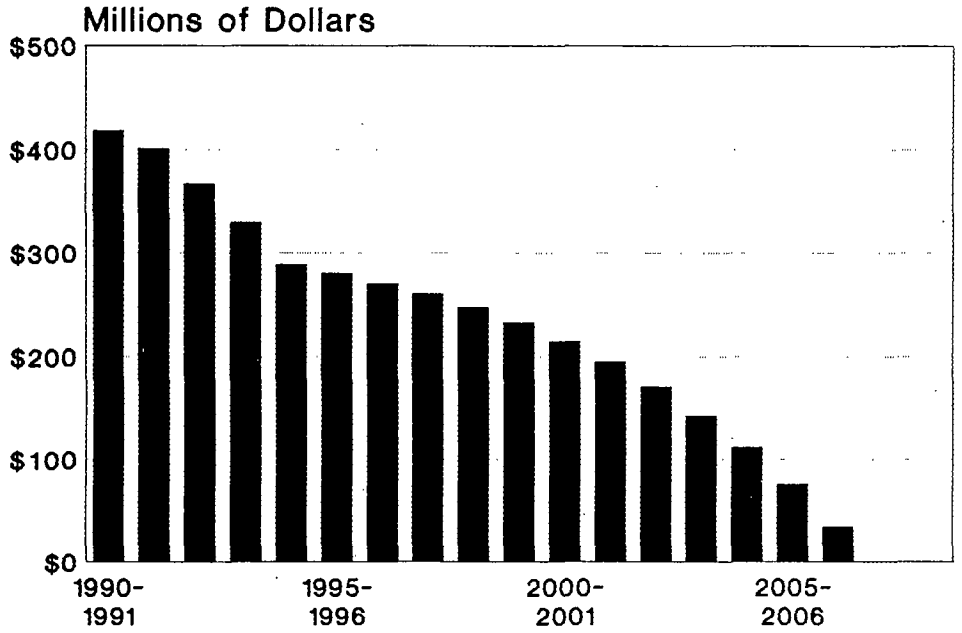
Quebec



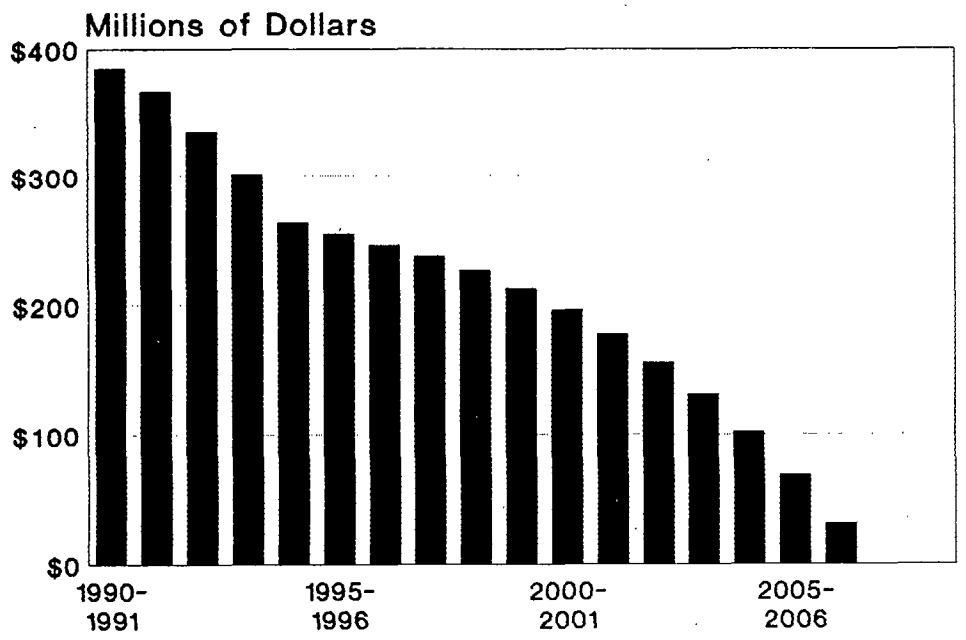
Ontario



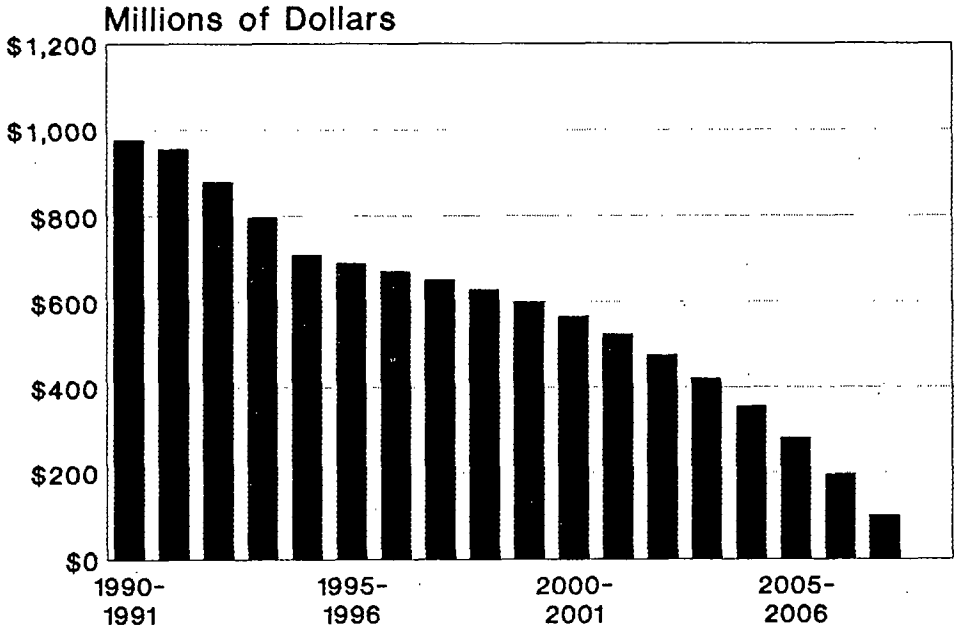
Manitoba



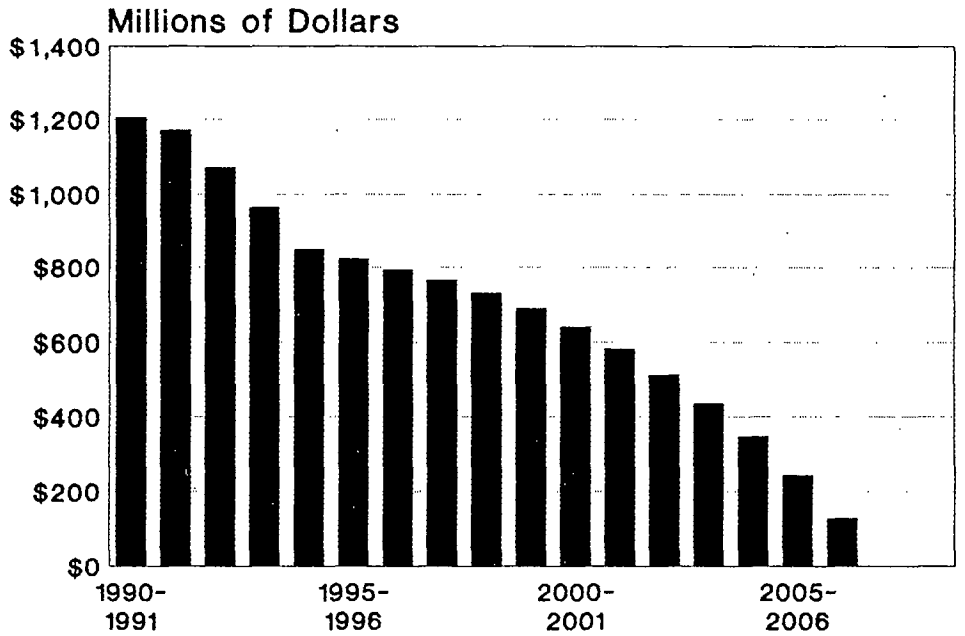
Saskatchewan



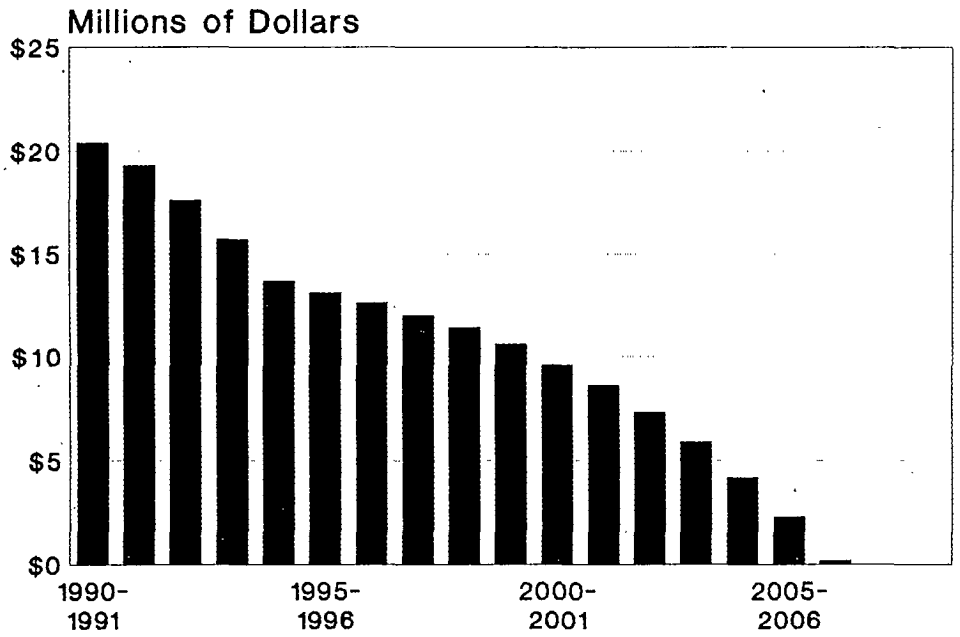
Alberta



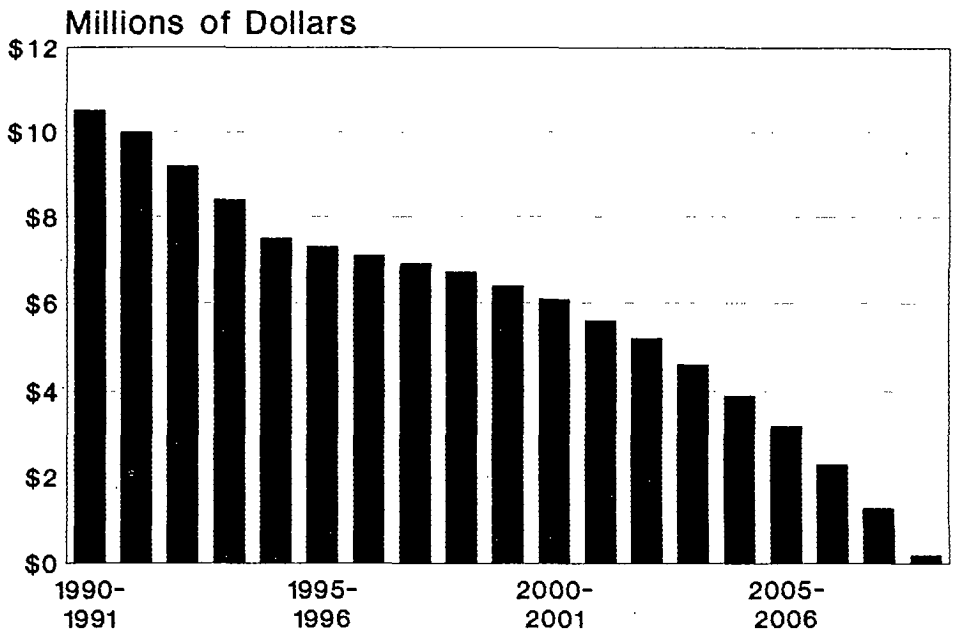
British Columbia



Northwest Territories



Yukon



FOOTNOTES

1. Spending on health and higher education of $66 billion was 10.9 percent of the 1988 gross domestic product of $603 billion. The 1986 census showed some 612,000 professionals in the two fields, but that figure excludes most support staff. The average size of the labour force in 1986 was 12.7 million.

2. The figures on health care spending, including the figures in Graph A, were calculated by the National Council of Welfare using data in Health and Welfare Canada, National Health Expenditures in Canada 1975-1987 (September 1990) and data from the Finance Department and Statistics Canada. The per capita figure in the text comes from $54,134 million divided by a population of 25,887,500.

3. The basic data comes from Secretary of State of Canada, Federal and Provincial Support to Post-Secondary Education in Canada: A Report to Parliament (Ottawa: Supply and Services Canada, 1990). The per capita figure is $12,070 million divided by 25,887,500.

4. The totals for health exclude private spending. The totals for post-secondary education include federal transfers under Established Programs Financing, but exclude direct federal spending in other areas as well as tuition fees and income from endowments. Provincial GDP is from Statistics Canada, Provincial Economic Accounts, Annual Estimates, Cat. No. 13-213 (March 1990).

5. For a more detailed account of problems facing medicare after the Canada Health Act, see the National Council of Welfare, Health, Health Care and Medicare (Autumn 1990), especially Chapter 10.

6. The information in Graph D is from Statistics Canada's Income Distributions by Size in Canada, 1989, Cat. No. 13-207. The poverty lines used are the 1986 base low income cut-offs for 1989.

7. Much of the information in this section was summarized from Fiscal Federalism in Canada, the August 1981 report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements.

8. The name of the law was eventually changed to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act.

9. The loss during the fiscal year 1983-1984 was only $117 million. It had grown to $406 million by 1990-1991 because of the continuing erosion in the base of federal support.

10. One of the key variables in the calculations is the value of the tax transfers. Information from the Finance Department shows that the average increase in tax yields under EPF has been in excess of ten percent a year, but that was primarily because of very large increases in the early years of the program. Recent increases have been smaller, and we chose eight percent to avoid overstating our case.

11. Quebec had taken up an earlier federal offer of a tax transfer to cover part of the cost of medicare. After 1977, it wound up with an EPF tax transfer that was 8.5 percentage points larger than the transfer to other provinces. For more details, see Fiscal Federalism in Canada, especially pages 67-71.

12. See Quebec's 1987-1988 Budget, Appendix F, Health and Post-Secondary Education: Evolution of Expenditure and Financing.

13. For more information on extended health care, see Chapter 12 of Health, Health Care and Medicare.

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The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

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