The 1995 Budget and Block Funding

A Report by the
National Council of Welfare

Spring 1995

Canada

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TABLE OF CONTENTS

		Page
INTRODUCTION		1
I.	YESTERDAY AND TODAY	2
II.	FROM COST-SHARING TO BLOCK FUNDING	8
III.	THE WORST FEATURES OF THE CANADA HEALTH AND SOCIAL TRANSFER	13
	Patterns of Welfare Spending	13
	Spending and the Needs of the Poor	16
IV.	MAKING THE BEST OF BLOCK FUNDING	19
CONCLUSION		26

INTRODUCTION

The federal budget speech of February 27, 1995, marked a giant step backward in Canadian social policy. Followed through to its most likely conclusion, it would dismantle a nation-wide system of welfare and social services that took a generation to build. Sadly, the policies of the 1990s would take us back to the 1950s.

The budget proposals would repeal the Canada Assistance Plan, the federal legislation passed in 1966 that enables Ottawa to share the cost of welfare and social services with the provinces and territories. The end of CAP would also see the end of any semblance of national standards.

In place of the Canada Assistance Plan would be a loose financial arrangement called "block funding" that would cover medicare and post-secondary education as well as welfare and social services. Substantial cuts in federal financial support for all these programs is an essential feature of the new arrangement.

This report describes welfare in Canada prior to the birth of the Canada Assistance Plan and the huge advances that came about because of CAP. It analyzes the 1995 budget proposals and the disastrous impact they would have on real people with real needs. It outlines a better alternative for funding welfare and social services. And it concludes with an appeal for openness and flexibility rather than secrecy and rigidity in the making of public policy.

I. YESTERDAY AND TODAY

Prior to the creation of the Canada Assistance Plan in 1966, welfare was a collection of hit-and-miss programs that varied greatly from one part of the country to another. Most of the programs were intended only for people who fell into specified categories of need.

During the 1950s, Parliament passed four pieces of legislation that allowed the federal and provincial governments to share the cost of helping some of these people. The Old Age Assistance Act of 1951 was designed for low-income seniors 65 to 70. The Blind Persons Act of 1951 and the Disabled Persons Act of 1954 provided for sharing the costs of allowances to blind people 21 to 70 and severely disabled people 18 to 65. The Unemployment Assistance Act of 1956 covered some of the people not eligible under the other three programs.

During this period, provincial governments operated their own programs of mothers' allowances for single-parent mothers, and provincial and local governments had relief programs for other people temporarily down on their luck.

People who did not qualify for any of these forms of assistance were left to rely on church and charitable groups.

In a 1987 article in the Canadian Review of Social Policy, Duncan Rogers, a former deputy minister of the Alberta social services department, recalled the problems associated with the old categorical assistance programs:

> By their very nature they were exclusive rather than inclusive, but their most serious fault was their lack of relationship to the need or needs of the people they served. In practice it meant that many could not get by without additional help from family, friends or charity - or failing all else had to apply for public assistance.
>
> The provision of public assistance at that time was not as well organized, administered or received, as were the pensions, and certainly did not enjoy any of their status. Indeed it was usually a demeaning experience even to have to apply. At best it was inadequate, had no standards, and was fragmented administratively by residence requirements among municipalities, the province,

> other provinces, the RCMP as well as public charities. It was really the remnants of the old relief days of the 1930s.
>
> In some cases it was quite harsh. It was not uncommon for children, particularly from larger families, to be apprehended as neglected and become wards of the Crown, simply because there was insufficient money available to the family. One could further mention the plight of unmarried mothers having to decide the fate of their infants, the plight of separated wives who were often not eligible for any assistance payment by the voucher system and the problems of inter-municipal and inter-provincial repatriations. There surely was a need for reform.

Reform came in the 1960s. The biggest advance for seniors was the federal government's decision in 1966 to introduce the Guaranteed Income Supplement for low-income people 65 and older. Seniors with little or no income aside from the federal Old Age Security Pension qualified for substantial additional benefits on the basis of a simple income test. The Old Age Security Pension was universal at the time, and the Guaranteed Income Supplement was added to the monthly pension cheques of seniors who qualified. People did not have to humiliate themselves to apply for benefits, and no one else ever had to know they received the supplement.

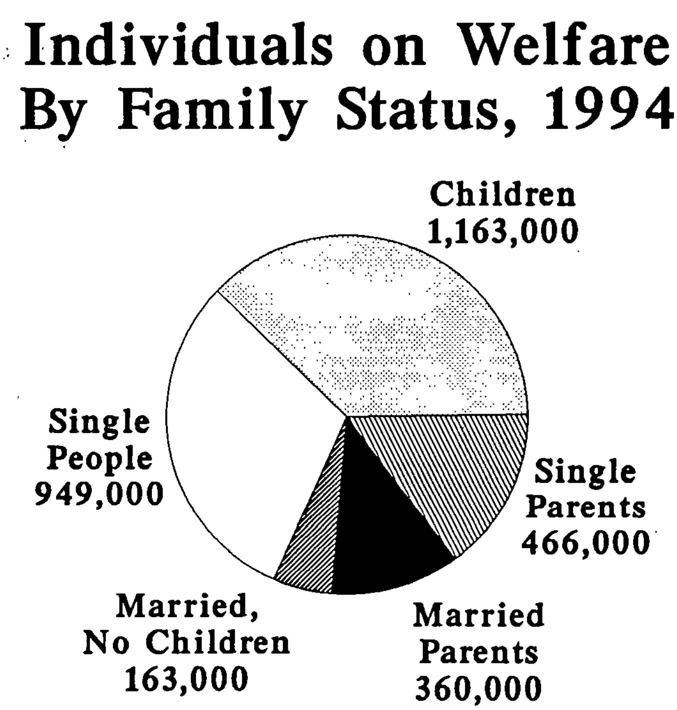
For people in need under 65, 1966 saw the birth of the Canada Assistance Plan to replace the patchwork of programs operated and funded by different levels of government. For the first time ever, welfare was available everywhere in Canada to all people who were unable to provide for their own needs. People no longer had to fit into a specific category or have a particular reason for their needs to be eligible for help. There were no longer any residence requirements for welfare. People who disagreed with decisions by welfare officials were guaranteed by law a right of appeal.

The welfare system that developed under CAP is often described as the social safety net of last resort, because it protects the children, women and men not protected by other social safety nets. It became the last resort for people who exhausted other sources of income, people who would otherwise face abject poverty.

The National Council of Welfare referred to welfare as "the tangled safety net" in a ground-breaking 1987 report on the welfare system. While quick to criticize the shortcomings of the system and quick to make recommendations for improvements, the Council regarded the

Canada Assistance Plan as a necessary feature of the social policy landscape and a true mark of a civilized society.

There were an estimated 3.1 million people on welfare as of March 31, 1994, or about 11 percent of Canada's population. Graph A gives a breakdown of individual recipients by family status.



Graph A

The largest single group of welfare recipients year after year is dependent children under 18. There were an estimated 1,163,000 children on welfare on March 31, 1994, representing 38 percent of all welfare recipients. An estimated 466,000 people or 15 percent of the total were single parents, mostly single-parent mothers. About 360,000 people or 12 percent were husbands and wives with dependent children, and another 163,000 or five percent were husbands and wives without children. The remaining 949,000 individuals or 31 percent were single people without dependents.

The welfare portion of the Canada Assistance Plan - including basic assistance, assistance for people with special needs, and legal aid in non-criminal cases - accounts for nearly two-thirds of total spending on CAP. Much of the rest goes to a wide range of social services that benefit some middle-income people as well as the poor.

At last count, there were about 1.1 million people who received social services cost-shared by CAP. Perhaps the best-known service is subsidized child care to enable parents to work outside the home or finish their schooling. Other social services under CAP include:

* adoption services;
* casework, counselling, assessment and referral services, including services to abused or neglected children and preventive services that children receive in their own homes;
* community development services;
* consulting, research and evaluation services on welfare programs;
* homemakers, home support and other services to help out in emergencies or as an aid to independent living for older people and people with disabilities;
* rehabilitation services, including life-skills training, job referral and placement services for the chronically unemployed and special help for the elderly and people with physical and mental disabilities; and
* administrative services related to the delivery of welfare and social services.

The latest CAP annual report refers to more than 6,000 provincially approved agencies involved in social services, including government agencies and non-profit organizations such as Children's Aid Societies, family service agencies and day care centres.

In addition to welfare and social services, CAP also provides money for more than 7,000 homes for special care, certain health care costs not covered by medicare or supplementary provincial programs, and child welfare services. The homes for special care include homes for the aged, shelters for battered women and their children, residences for people with disabilities, and rehabilitation centres for people with alcohol or drug addictions. The child welfare side of CAP is devoted primarily to maintaining children in foster homes.

All in all, CAP provides some kind of help to several million Canadians every year. Because welfare caseloads and the people who use social services are changing all the time, it is impossible to say what proportion of the current population of Canada has been touched by CAP at some time in their lives. It is reasonable to assume, however, that the impact has been extensive.

When the Canada Assistance Plan was first set up, the federal and provincial governments agreed to support welfare and social services through 50-50 cost-sharing. The provinces and territories provided the income support and other assistance in the first instance and submitted their accounts to Ottawa for verification. The federal government reimbursed them for half the cost of all eligible expenditures.

The original deal lasted until 1990, when the federal budget speech announced a "cap on CAP" in the three wealthiest provinces: Ontario, Alberta and British Columbia. Unilaterally, and without prior negotiations, Ottawa declared that it would not increase its share of the cost of CAP in the three provinces by more than five percent a year. Any increases above five percent had to be covered by the provinces themselves.

The National Council of Welfare strongly criticized the change in federal policy in a 1991 report entitled The Canada Assistance Plan: No Time for Cuts. We argued that the federal government should not be cutting support for welfare and social services at a time of increasing need, and we said poor people should not be asked to bear the burden of cutting government spending.

The cap on CAP was approved by Parliament nonetheless - over the objections of opposition MPs from the Liberal Party and New Democratic Party - and was later extended to 1995. Rising welfare caseloads in Ontario and B.C. caused by rising unemployment rates from the recession of 1990-1991 soon led to a huge increase in provincial costs. By the 1992-93 fiscal year, the federal share of CAP was down to 28 percent in Ontario and 36 percent in B.C. Alberta was not severely affected because the provincial government chose to cut back its welfare programs instead.

II. FROM COST-SHARING TO BLOCK FUNDING

The budget speech of February 27, 1995, proposed a radical change in the way the federal government contributes to the cost of welfare and social services. Instead of sharing the actual costs incurred by provinces and territories, the federal government would provide money under a new system of block funding.

The budget speech said there are two main reasons for the proposals: to cut federal government spending and to give provincial and territorial governments flexibility by reducing restrictions on the use of federal money.

Legislation to put the new system into effect for the 1996-97 fiscal year was tabled in the House of Commons on March 20, 1995, as Bill C-76, the Budget Implementation Act, 1995. The bill describes the block funding arrangement as interim. It is clear, however, that the new system is intended to be permanent and only a few details are still open for discussion with the provinces and territories.

The legislation has three key features: repeal of the Canada Assistance Plan, creation of a Canada Health and Social Transfer to help provinces pay for welfare and social services as well as medicare and post-secondary education, and cuts in federal financial support for all of these programs.

Repeal of the Canada Assistance Plan. The legislation would repeal the Canada Assistance Plan legislation passed by Parliament in 1966 and would effectively kill the plan as of April 1, 1996.

The bill says there would be no more cost-sharing of welfare and social services that are provided on or after April 1, 1996. Provinces and territories would be given four more years to settle their outstanding accounts with the federal government for amounts paid in previous years. The formal repeal of the Canada Assistance Plan would come on March 31, 2000.

The original 1966 legislation laid down the ground rules for the two levels of government to share the cost of welfare and social services. As a condition of cost-sharing, the legislation required provinces and territories to provide assistance to all people judged to be "in need." It required provinces and territories to provide by law a procedure for people to appeal the decisions of welfare officials. And it said provinces and territories could not require a period of residence as a condition of eligibility for assistance.

Only the last of the conditions with respect to residence requirements would remain under the Budget Implementation Act, 1995. The other two conditions would be dropped outright.

The budget speech said that the Minister of Human Resources Development would invite his provincial and territorial counterparts "to work together on developing, through mutual consent, a set of shared principles and objectives that could underlie the new Canada Social Transfer."

Creation of a Canada Health and Social Transfer. The Canada Social Transfer announced in the budget speech had been renamed the Canada Health and Social Transfer by the time the legislation was introduced three weeks later. Simply put, the new transfer would expand existing federal block funding arrangements for medicare and post-secondary education to cover welfare and social services.

Medicare and post-secondary education have been financed since 1977 under a block funding arrangement known as Established Programs Financing. The federal contribution to EPF is paid partly in cash and partly in "tax points." The tax points are taxing powers that were transferred by the federal government to the provinces and territories in 1977. Ottawa reduced its personal and corporation income tax rates at the time, and the provinces and territories raised their own rates proportionately.

Each year, the federal government calculates its total commitments under EPF to each province and territory. It then calculates the revenue raised that year by the tax points that were transferred to each province and territory, and it subtracts the tax revenue from total EPF entitlements. The amount left over is paid in cash by Ottawa.

The proposed Canada Health and Social Transfer would operate in much the same way as Established Programs Financing. All the federal government proposes to do is to add more money to the pot to cover a portion of the cost of welfare and social services.

All the cash paid by Ottawa under the Canada Health and Social Transfer would go into the consolidated revenue fund of each province and territory and would not be earmarked specifically for medicare, post-secondary education, welfare or social services.

The legislation says all or part of the cash portion of the Canada Health and Social Transfer could be withheld from a province or territory which imposes a minimum residence requirement for welfare or social services. The federal cabinet would have the power to determine the size of the amount withheld "having regard to the gravity of the non-compliance."

By way of comparison, there are no financial strings attached to federal support for post-secondary education under EPF and no provisions in the law for the federal government to withhold money intended for post-secondary education for any reason.

The federal approach to medicare is entirely different. Under the Canada Health Act passed by Parliament in 1984, provinces and territories have to maintain public health insurance programs that are universal, comprehensive, accessible, portable and administered in the public domain. Each of the five requirements is defined in the act, and failure to comply with any of them could lead to a loss of federal cash for medicare. The act also contains provisions designed specifically to discourage provinces and territories from allowing doctors to engage in "extra billing" their patients or hospitals to charge patients user fees for medical and surgical treatments.

All the provisions of the Canada Health Act would continue to apply after the Canada Health and Social Transfer came into being.

Cuts in federal financial support for welfare, social services, medicare and post-secondary education. Current federal spending on the Canada Assistance Plan and Established Programs Financing combined is estimated at nearly $29.7 billion. The 1995 budget set arbitrary figures of $26.9 billion for the Canada Health and Social Transfer in the 1996-97 fiscal year and $25.1 billion in 1997-98. The amounts represent a reduction in federal support of 9.4 percent from 1995-96 to 1996-97 and a further reduction of 6.7 percent in 1997-98. Both cuts are larger than foreshadowed a year earlier in the 1994 budget speech.

The 1996-97 spending limit of $26.9 billion is specified in the Budget Implementation Act, 1995. The limit of $25.1 billion for 1997-98 is a statement of government policy that would have to be confirmed by legislation at some future date. The budget made no mention of a formula for determining the size of the Canada Health and Social Transfer in subsequent years. If the recent past is any guide, however, either a formula or an arbitrary amount from year to year would be imposed on the provinces and territories by the federal government.

There is an added twist for 1996-97 that would add to the financial burden on Ontario and British Columbia. The Budget Implementation Act, 1995, provides that the new Canada Health and Social Transfer be divided among the provinces and territories based on their EPF entitlements in 1995-96 and their CAP entitlements in 1994-95. In other words, the losses suffered by Ontario and British Columbia from the cap on CAP would continue at least through the first year of the new transfer.

In the fall of 1994, the federal government conceded that the cap on CAP was unfair to the two provinces. As the discussion paper Improving Social Security in Canada issued by the Minister of Human Resources Development put it, "Fairness suggests a need to examine how the social security system can be redesigned to provide comparable levels of federal support for people on social assistance throughout the country."

Although the legislation refers to the Canada Health and Social Transfer as an "interim" arrangement, it seems likely that any permanent financial arrangement could turn out to be much the same.

As of April 1, 1996, the Canada Assistance Plan would be all but dead, and there would be no requirements in federal legislation for provinces and territories to follow in the areas of welfare and social services aside from the ban on residence requirements. The right to assistance for all persons in need and the right of appeal would both be gone.

Under the Canada Health and Social Transfer, provinces and territories would be receiving block funding for welfare, social services, medicare and post-secondary education. None of the money would be legally designated for any of the four areas.

Federal financial support for welfare, social services, medicare and post-secondary education collectively would be at its lowest level in years.

All this would make it extremely difficult for the two levels of government to negotiate a permanent arrangement that would be markedly different from the interim arrangement.

Provinces and territories feeling the pinch of the ever-increasing restraints imposed by the federal government would be in no mood to commit themselves by law to improving welfare and social services. In a perverse way, the flexibility to innovate mentioned in the budget speech could become no more than the flexibility to cut costs.

For its part, the federal government would be in no position to dictate standards for welfare and social services in addition to a ban on residence requirements. To pay provincial and territorial governments less money and make additional demands on them at the same time would be hypocritical in the extreme.

III. THE WORST FEATURES OF THE CANADA HEALTH AND SOCIAL TRANSFER

The federal government apparently made two underlying assumptions about welfare and social services when it designed the Canada Health and Social Transfer. Both of them were ill-advised.

The first assumption was that spending on welfare and social services, like spending on medicare and post-secondary education, need not vary greatly from year to year. The fact is that welfare spending is erratic and tends to increase sharply when the economy goes into a tailspin.

The second assumption was that spending on welfare and social services can be cut without regard to the actual needs of real people. In fact, the number of people on welfare, the number of people receiving social services and the level of benefits provided are all crucial factors in determining the cost of the system. The failure of the federal government to accept this simple truth is certain to cause grief for poor people everywhere in Canada.

Patterns of Welfare Spending

Welfare is a good example of a "counter-cyclical" social program. When the economy is strong, the number of people who are forced to rely on welfare tends to be relatively low. When the economy goes into a recession, the number of people on welfare shoots up.

Unemployment tends to be one of the main forces that drives the welfare system. The biggest increases in the number of people on welfare in recent years took place following the huge increases in unemployment caused by the recessions of 1981-1982 and 1990-1991.

Between 1981 and 1982, the average number of people who were unemployed rose by 46 percent in the worst economic downturn in half a century. Between March 31, 1982, and March 31, 1983, the number of people on welfare rose 22 percent.

Similarly, the average number of unemployed people jumped 28 percent from 1990 to 1991, and the number of people on welfare rose by 19 percent from March 31, 1991, to March 31, 1992.

Medicare and post-secondary education are entirely different, because the demands are reasonably stable from one year to the next. Their stability made them logical candidates for block funding under Established Programs Financing in 1977.

The basic "trigger" in the formula for determining EPF entitlements is economic growth as measured by increases in the gross national product. Under the original formula, federal support for medicare and post-secondary education increased more or less in line with increases in the production of goods and services.

Once the proposed Canada Health and Social Transfer became a permanent funding arrangement, it would presumably have a single formula for determining entitlements to federal funds, and the formula would likely be tied to economic growth. It is difficult to imagine a worse mismatch than using economic growth to determine how much money should be spent on welfare and social services.

To get an idea of the long-term financial impact of the budget proposals, the National Council of Welfare compared actual federal spending under the Canada Assistance Plan with the federal spending that would have taken place if CAP had been funded the same way as medicare and post-secondary education beginning in 1977. The results are shown in Table 1 on the next page.

The first column of Table 1 shows the actual escalation of federal support for medicare and post-secondary education in percentage terms from the 1978-79 fiscal year through 1995-96. The second column is actual federal spending on CAP under cost-sharing. The third column estimates what the federal share of CAP would have been if Ottawa had adopted block funding using the same formula as EPF. The last column shows the loss of federal funds for CAP that would have occurred if the EPF formula had been used instead of cost-sharing.

TABLE 1

COST-SHARING VS. BLOCK FUNDING FOR WELFARE AND SOCIAL SERVICES (IN BILLIONS OF DOLLARS)

Fiscal Year	Actual Increase in EPF	Actual Federal Spending on CAP	Federal Spending Using EPF Formula	Loss to CAP Using EPF Formula
1977-78	---	$1.562	$1.562	$0
1978-79	14.5%	$1.684	$1.788	-$0.104
1979-80	14.1%	$1.895	$2.040	-$0.145
1980-81	12.6%	$2.220	$2.298	-$0.078
1981-82	12.6%	$2.585	$2.587	-$0.002
1982-83	12.3%	$3.234	$2.906	$0.328
1983-84	9.4%	$3.682	$3.181	$0.501
1984-85	7.4%	$3.973	$3.415	$0.558
1985-86	7.6%	$4.291	$3.675	$0.615
1986-87	6.6%	$4.519	$3.917	$0.603
1987-88	5.8%	$4.862	$4.142	$0.720
1988-89	5.8%	$5.300	$4.380	$0.920
1989-90	6.5%	$5.765	$4.665	$1.100
1990-91	1.6%	$6.221	$4.741	$1.480
1991-92	2.0%	$6.780	$4.837	$1.943
1992-93	1.5%	$7.339	$4.909	$2.431
1993-94	1.4%	$7.719	$4.978	$2.742
1994-95	1.1%	$7.952	$5.034	$2.918
1995-96	1.2%	$7.952	$5.094	$2.858
Totals	226.1%	$89.535	$70.145	$19.389

Provincial and territorial governments would have been slightly better off with block funding for CAP the first few years. After that, they would have lost money year after year. The losses would have been modest at first, but they would have approached $3 billion a year by the 1994-95 fiscal year. The total loss to provinces and territories over the entire period would have been $19.4 billion.

The immediate losers would have been provincial and territorial governments. The ultimate losers would have been the children, women and men who depend on the programs funded under CAP.

Overall, Table 1 suggests that there could be a significant loss of federal funding for welfare and social services in both good times and bad times if they are funded the same way as medicare and post-secondary education.

Spending and the Needs of the Poor

If federal support for welfare and social services continues to be cut artificially, provinces and territories would be left with two choices: they could make up the shortfall in federal funds with their own money, or they could pass on the federal cuts in the form of reduced services or reduced benefits to the people who need help. There is no doubt in our mind that cuts would be the order of the day in most parts of the country.

When all is said and done, the burden would fall on the children, women and men who depend on welfare or social services. The ultimate cost of the Canada Health and Social Transfer would be paid by the poor.

Pressure on the provinces and territories to cut basic welfare rates would increase, and there could be cuts as well in the different forms of assistance that are given at the discretion of welfare officials. People with disabilities could find it harder to get the special help they need for daily living. Parents could find it harder to get subsidized dental care for their children or prescription drugs. Allowances for back-to-school costs, recreation, transportation and anything else that might be construed as non-essential would be threatened.

Without any requirement to assist all people in need, provinces and territories could exclude entire categories of people from welfare or social services. Single employable people would obviously be the most vulnerable. Once one or two provinces moved to exclude single employables, it would only be a matter of time before the race to the lowest common denominator spread across the country.

Spending on programs designed to help people escape from welfare would have a doubtful future. It makes perfect sense for governments to provide subsidies for eyeglasses, prescription drugs and dental care to low-income people as an incentive to get off welfare or to avoid welfare in the first place. Yet how many provinces or territories would introduce these subsidies or increase existing subsidies if they knew they would get no additional help from the federal government?

The same arguments apply to social services such as child care or non-criminal legal aid covered under the general assistance component of CAP. Affordable, high-quality child care is vital if women in poor families are going to be able to compete in the paid labour force, and legal aid is the only way most poor people can assert their basic democratic rights. How many provincial and territorial governments would be willing to finance major expansions of either program on their own?

Programs designed to prevent social problems would be at particular risk. Better nutrition programs and prenatal care for pregnant women, for example, could improve the health of newborns and save many millions of dollars in health care costs later in life. At the best of times, governments tend to pay lip service to the idea of prevention. In the worst of times, even the talk could disappear.

Finally, there is the danger under the Canada Health and Social Transfer that money now spent on welfare and social services would be diverted to medicare or post-secondary education. If the programs wind up competing with each other for the favours of government during times of spending restraints, we fear that welfare and social services and the people who depend on them for help would wind up as losers.

Even with cost-sharing under the Canada Assistance Plan, the provincial record on welfare and social services has hardly been unblemished. Some provinces, notably New

Brunswick, have welfare rates that are abysmally low. Prince Edward Island, Quebec, Ontario, Manitoba and Alberta have reduced some of their basic welfare rates in recent months. Alberta also cut tens of thousands of people from its welfare rolls.

Public opinion polls have long identified medicare as one of Canada's most popular social programs and welfare as one of the least popular.

Medicare benefits virtually every man, woman and child in Canada year after year, while welfare helps a relatively small minority of the population at any given time.

Supporters of medicare can solicit additional money by public appeals. Many people already make generous donations to hospitals and medical research agencies because they can relate to the needs of the health community. Welfare rights advocates have to contend with a litany of myths and misconceptions about "welfare bums" who abuse the system.

If the Canada Health and Social Transfer forces provincial and territorial governments to choose between spending scarce dollars on medicare or spending them on welfare, what government would choose adequate funding for welfare?

IV. MAKING THE BEST OF BLOCK FUNDING

Our criticism of the proposed Canada Health and Social Transfer should not be taken as blanket criticism of block funding in all its forms. Properly done, block funding could provide sufficient support for welfare and social services and give the provinces and territories some flexibility to experiment with innovative programs.

This chapter sets forth the conditions that the National Council of Welfare believes the federal government should meet if it wishes to proceed with block funding on a long-term basis. We recommend a separate block fund covering only welfare and social services, a reasonable formula for federal cash transfers, and guarantees from all levels of government against arbitrary changes in policy. We suggest that the Canada Assistance Plan be kept alive - at least until a new framework for welfare and social services is established in federal law - and that provinces and territories be required to accept certain principles and standards as a condition of receiving federal money under block funding. We also return to the larger dilemma that has haunted governments for more than a decade: finding ways to support social programs without adding to the pressures on the public purse.

A separate block fund for welfare and social services. Some of the worst features of the Canada Health and Social Transfer arise from the federal government's decision to lump welfare and social services together with medicare and post-secondary education. All these programs are important, and all deserve reasonable federal financial support in their own right.

The best way to ensure reasonable support for welfare and social services under block funding begins with the creation of a separate fund for these programs. For most provinces and territories, the block fund would consist of cash only rather than a combination of cash and tax points. Quebec already receives some federal support for CAP through tax points, and that arrangement could easily continue under block funding.

Arrangements for funding medicare and post-secondary education under Established Programs Financing could be left in more or less their present form for the immediate future. That should not be construed as an endorsement of the status quo, however. The National Council of Welfare has grave reservations about whether EPF can be sustained in its present form. Our 1991 report Funding Health and Higher Education: Danger Looming made a number of proposals about EPF to safeguard block funding that we still believe should be explored by the federal, provincial and territorial governments.

A reasonable formula for long-term financing. Any block-funding formula for welfare and social services should be calculated in a way that ensures a reasonable amount of federal cash year after year to support programs run by the provinces and territories. In our view, this is impossible if the formula is based primarily on economic growth.

Reports by the National Council of Welfare have shown a strong link between unemployment and reliance on welfare, so it would make sense to have a formula for block funding that takes this into account. Two obvious possibilities are formulas based on the unemployment rate or the ratio of employed people to the population at large. There could be one formula for all provinces and territories or different formulas based on individual unemployment or employment indicators for each province and territory.

Our overriding objective is a formula that relates federal funding to the actual needs of people, rather than a formula that merely works to the convenience of the federal treasury.

Any formula must also redress the legitimate grievances of Ontario and British Columbia with respect to the loss of federal funds because of the cap on CAP. This will be no easy task, given the huge amounts of money involved. It may even take several years to get the two provinces back on the same footing as the others, but a new block funding agreement should take the first steps toward fair funding and provide a timetable to complete the process.

Without a commitment by the federal government to assume full financial responsibility for the mistake it made in 1990, it would be impossible to ensure fair treatment for all provinces and territories. Either Ontario and British Columbia would be forced to live permanently with reduced federal funding, or funding for other provinces and territories would have to be cut to provide fair funding to Ontario and B.C. Neither alternative is acceptable.

Protection against arbitrary changes in federal policy. Any long-term agreement on financing welfare and social services must protect the provinces and territories from arbitrary changes in federal policy, and any protection must be solid enough to stand up in court.

The cap on federal payments under CAP imposed in 1990 on Ontario, Alberta and British Columbia clearly violated the requirements of federal law as it then existed. British Columbia, with the support of Ontario, Alberta, Manitoba, the Native Council of Canada and the United Native Nations of B.C., challenged Ottawa's right to make unilateral changes in CAP without provincial consent. When the case reached the Supreme Court of Canada, the court ruled that the federal government could breach its own agreements as long as it passed legislation to back up the changes.

One of the few social programs to escape unilateral federal cuts in recent years is the Canada Pension Plan. Although the CPP is a federal-provincial undertaking, federal law specifies that changes in the plan must be approved by Parliament and two-thirds of the provinces containing two-thirds of the population. Perhaps a similar arrangement could be reached on funding welfare, social services and other social programs that are supported by both levels of government.

Protection against arbitrary cuts in provincial and territorial spending on welfare and social services. Under the Canada Assistance Plan, provinces and territories have to spend their own money on welfare and social services before getting the federal government to reimburse them for a portion of the total outlay.

Under the proposed Canada Health and Social Transfer, none of the federal money is earmarked for any particular use. A province or territory could use the portion of the transfer intended for welfare or social services to build highways or help retire its deficit.

With a separate block fund for welfare and social services, it would be reasonable to require provinces and territories to spend the money provided by Ottawa on welfare and social services. An even better idea would be to require them to spend twice the amount of the federal transfer. That would be the equivalent of the total amount spent on welfare and social services under 50-50 cost-sharing.

Breathing life back into the Canada Assistance Plan. Repeal of the Canada Assistance Plan would destroy a long-standing arrangement for welfare and social services that has served Canadians well over the years despite its shortcomings. It would also weaken the federal government's bargaining power in any future negotiations with provincial and territorial governments.

We urge the federal government to keep CAP alive - at least for the time being. Even if Ottawa is intent on proceeding with the proposed Canada Health and Social Transfer in the 1996-97 fiscal year, it makes little sense to repeal CAP simply to accommodate an "interim" financial arrangement.

Keeping CAP alive would greatly assist the federal government in making a smooth transition to permanent new financial arrangements. The Budget Implementation Act, 1995, would strip away most of the federal government's bargaining power with provincial and territorial governments even before negotiations got under way. Provincial and territorial ministers would certainly not be eager to accept conditions proposed by a federal government that plans to reduce its financial support for welfare and social services.

In the longer term, the Canada Assistance Plan legislation could be amended or replaced by new federal legislation on block funding. However, we believe that this should be done after - not before - a new federal-provincial agreement on welfare and social services is reached.

<u>National principles and standards for welfare and social services</u>. As a condition of block funding from the federal government, provinces and territories should be required to follow certain principles and standards in the operation of their welfare and social service programs. National principles and standards are vital to guarantee reasonable levels of support to Canadians regardless of where they happen to live.

Principles and standards for welfare and social services should be roughly comparable to those in the Canada Health Act that apply to federal block funding of public health insurance programs. While they would place some overall limitations on the operation of welfare and social service programs, they would also give provincial and territorial governments considerable flexibility in the design and delivery of programs and freedom to experiment with new kinds of programs.

The following principles and standards should be part of any block funding arrangement for welfare and social services:

* Accessibility. As under the Canada Assistance Plan, income support should be available to all low-income Canadians with no other means of support. Provincial and territorial governments should not be allowed to exclude certain categories of people from their social assistance programs. There should also be guarantees of reasonable access to social services and to social supports such as assistance for basic dental care, eyeglasses and prescription drugs. Residence requirements should not be allowed.

* Adequacy. Income assistance should be sufficient to cover basic living expenses, and adequacy should be measured by the cost of a "market basket" of goods and services available in the community. Subsidies for social services and other social supports should be geared to the incomes of recipients and should reflect their ability to pay.

* Right of Appeal. As a matter of law, all applicants and recipients should be able to appeal the decisions of welfare and social service officials. Appeal tribunals should operate in a non-bureaucratic, non-legalistic manner and render their decisions speedily.

* Respect for the Individual. Welfare and social service programs should respect the differing needs of different individuals. Recipients of benefits should not be forced to submit to invasions of privacy or be required to accept specific jobs as a condition of assistance.

* Accountability. Provincial and territorial governments should provide the federal government with a full accounting of their spending on welfare and social services and detailed statistical data on beneficiaries at least once a year. The two levels of government should agree on standards for reporting so that the information provided is compatible from one jurisdiction to another.

* Full Disclosure. Provinces and territories should provide the general public with complete and up-to-date information about welfare and social service programs and policies. At least once a year, governments should publish comprehensive welfare and social service manuals written in everyday language.

* Simplicity.

Use of tax expenditure money to support welfare and social services. Many of the improvements in welfare and social services that have been proposed by the National Council of Welfare over the years would involve additional spending in the short term to achieve additional savings in the long term. We believe that the federal, provincial and territorial governments could find this extra money by winding up or restricting tax expenditures or tax "loopholes."

Our 1994 report A Blueprint for Social Security Reform offered a short list of tax expenditures which benefit primarily upper-income Canadians and which cost federal and provincial governments an estimated $10 billion a year in lost tax revenues. Eliminating these loopholes would make our tax system fairer and would free up valuable funds to be used for the benefit of disadvantaged Canadians.

The 1995 budget mentioned the need to make the tax system fairer and promised a fresh look at tax expenditures. "If we must constantly scrutinize government spending - as we must - then let it be clear we must also constantly scrutinize the fairness and effectiveness of the tax system," the budget speech said.

With the threat to welfare and social services from spending cuts already in the works, we believe that mere scrutiny of tax expenditures is not enough. It is time for the federal government to act to correct obvious inequities in the tax system and provide more money for social security reform.

In short, the National Council of Welfare recommends that the federal government:

* abandon the proposed Canada Health and Social Transfer as a long-term policy option;

* open negotiations with provincial and territorial governments on a separate block fund for welfare and social services with an adequate funding formula that recognizes the counter-cyclical nature of these programs;

* keep the Canada Assistance Plan alive pending amendments to the plan or new federal legislation to serve as the basis for long-term block funding;

* insist as a condition of block funding that provinces and territories meet the following national principles or standards: accessibility, adequacy, right of appeal, respect for the individual, accountability, full disclosure and simplicity; and

* recapture money wasted on tax expenditures and use it to foster the continued growth of welfare and social services.

CONCLUSION

The National Council of Welfare has argued for years that budget speeches are no place for the federal government to make changes in social policy. The 1995 budget speech proves our point beyond any reasonable doubt. Bluntly put, the proposed Canada Health and Social Transfer is the worst social policy initiative undertaken by the federal government in more than a generation.

The secrecy surrounding budget preparations precludes any serious consultations with interested parties - in this case, the millions of Canadians who rely on welfare and social services and the provincial and territorial governments who have the constitutional authority to deliver these programs.

By tradition, budgets are the exclusive domain of the Finance Department. Social policy experts in the Department of Human Resources Development and other federal departments often have little or no say about what goes into a budget speech.

Finally, budgets are considered the ultimate test of Parliament's confidence in the government of the day. Governments are loathe to make the slightest change in policy once a budget speech is delivered, no matter how ill-conceived the policy was in the first instance.

The National Council of Welfare strongly criticized the federal government for the 1990 budget speech that announced the cap on Canada Assistance Plan payments to Ontario, Alberta and British Columbia.

Five years later, nothing has changed for the better. The Finance Department still appears to be insensitive to the needs of the poor. It is still trying to balance its books by offloading its own financial responsibilities on the provinces and territories. It still seems obsessed with the deficit as the only issue of public policy worth addressing. And it appears to attach little importance to federal leadership and federal money in ensuring that our most important social programs are available to Canadians everywhere in Canada.

The proposed Canada Health and Social Transfer and related measures in the 1995 budget would destroy the legislative and financial base of our system of welfare and social services. Repeal of the Canada Assistance Plan would usher out meaningful national standards. Federal financial support for welfare and social services would be cut, regardless of the needs of the children, women and men these programs were designed to help. Our "tangled" safety net would be tattered beyond recognition and could even disintegrate.

Meanwhile, the budget speech hinted at major changes ahead in other social programs, notably federal income security programs for seniors and the Canada Pension Plan. Cuts rather than improvements seem to be the order of the day, and there is little doubt that the agenda will be driven once again by the bottom line of the federal government's balance sheet rather than the well-being of vulnerable Canadians.

Cuts may ease the financial pressure on governments in the short run, but they would add to government spending in the long run. Neglecting health care, education, welfare or social services would invariably create a host of problems which would be extremely costly to cope with in years to come.

The future of social policy in Canada does not have to be so bleak. Even with the financial pressures squeezing the federal government, there are reasonable ways of preserving and improving our social programs. Ensuring that reason carries the day will be difficult, however, as long as the only social policy options that matter are the social policies dictated in federal budget speeches.

The United Nations has declared 1996 as the International Year for the Eradication of Poverty. The National Council of Welfare believes the federal government should mark the occasion by committing itself to major improvements in the programs that benefit poor people. It should stop making arbitrary cuts in social programs, and it should embrace an approach to social security reform that gives top priority to the needs of disadvantaged Canadians.

RECENT PUBLICATIONS

Incentives and Disincentives to Work (Autumn 1992)

A comparison of welfare incomes and take-home pay from earnings for five family types in each province: a single employable person, a single person with a disability, a single parent with one child, and one-earner and two-earner couples with two children. The report includes data from the Labour Market Activity Survey of Statistics Canada for the years 1988 through 1990 highlighting the uncertainties of the job market.

Social Security Backgrounders (Summer 1994)

Five short papers designed to provide basic information on social programs:

1. First Thoughts About Reforming Social Programs: Unemployment Insurance and Welfare
2. Who are the People on Welfare?
3. Income Assistance for Families with Children
4. Working for Welfare
5. Welfare and Other Income Support Programs

A Blueprint for Social Security Reform (Autumn 1994)

A response to the federal government's discussion paper Improving Social Security in Canada. It recommends a work income supplement for low-wage parents with children and a number of improvements in welfare and unemployment insurance. The report also calls for an end to a variety of tax breaks that benefit mostly upper-income Canadians. The extra money would be used two ways: half to improve social programs and half to reduce federal and provincial deficits.

Legal Aid and the Poor (Winter 1995)

An exhaustive analysis of the extent and quality of legal services available to low-income Canadians in each province and territory. The report concludes that the current system does not meet the needs of the poor and recommends sweeping changes.

Welfare Incomes 1993 (Summer 1994)

Estimates of the incomes of typical welfare recipients in each province and territory for four family types: a single employable person, a single person with a disability, a single parent with one child, and a two-parent family with two children. Also included are comparisons with the poverty lines and average incomes and data on welfare incomes as far back as 1986.

Poverty Profile 1993 (Spring 1995)

An explanation of Statistics Canada's low income cut-offs and a comprehensive analysis of national and provincial poverty statistics and trends. The report includes information on the depth of poverty and typical sources of income for poor people. There are also short sections on poverty among low-wage workers, children, women and seniors.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the federal government. It advises the Minister of Human Resources Development on matters of concern to low-income Canadians.

The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, Pièce 1876, Immeuble Jeanne Mance, Ottawa K1A 0K9.