The Size and Costs of Reduced Social Transfers

DISCUSSION PAPER

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CITIZENS *for* PUBLIC JUSTICE

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Summary

Canada's social transfer system was dramatically reduced during the federal government's effort to eliminate the fiscal deficit. This has contributed to a growing social deficit in the country. Canada is in a time of rebuilding. The elements of a more robust national system of social investment funds are in place. They need to be enriched and the terms of their use strengthened for them to fulfill the potential of creating greater social and economic security.

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Introduction

In the 1995 federal budget, then-Finance Minister Paul Martin announced that the federal government was eliminating the Canada Assistance Plan and creating a single block grant for health, post-secondary education and social services transfers to provinces. While the new Canada Health and Social Transfer was framed as a way to give provinces greater flexibility in using federal transfers, it also brought a deep cut in cash transfers.

This CPJ discussion paper estimates the change in cash transfers to the provinces between 1992-93 and 2002-03. The estimates are based on figures from Budget 2003, announcing the replacement of the CHST with two new federal transfers -- the Canada Health Transfer and the Canada Social Transfer.

What we find is that, while the federal government has increased CHST cash transfers several times since 1995, by 2002-03 the funding for post-secondary education and social services remained well below the levels of 1992-93, while health spending has increased.

The backgrounder provides several examples of the cost to Canada of this decline in social transfers. It concludes by examining new frameworks for a stronger, more transparent system of social investment funding.

Cash Transfers 1992-93 to 2002-03

In 1992-93, the federal government transferred $753.22 per person to the provinces for health, post-secondary education and social assistance through two programs: Established Program Financing (EPF) and the Canada Assistance Plan (CAP). Prior to the introduction of the Canada Health and Social Transfer, cash transfers for health and post-secondary education were combined in the EPF fund. Transfers for social programs (including social assistance) were made via CAP. These cash transfers were augmented through equalization payments to poorer provinces and a system of tax points (whereby the federal government reduced its income tax and allowed the provinces to collect income tax directly to help pay for health, post-secondary education and social assistance). The system of equalization payments and tax points remained after the introduction of the CHST.

Table 1
Per Capita Cash Transfers
(2002 $)

	1992-93
Health	$335.70
Post-secondary	$136.38
Social	$281.15

The 2003 federal budget announced that the CHST would be replaced in April 2004 by two new transfer programs: the Canada Health Transfer and the Canada Social Transfer. *The Budget Plan 2003* noted that "Current estimates are that health represents 62 per cent of programs supported by federal transfers, while the proportion related to post-secondary education and social assistance is 38 per cent (p. 83)." This represents a change in the proportion of funding from 1992-93 when health accounted for 45 per cent of transfers while post-secondary education and social assistance accounted for 55 per cent -- of which approximately two-thirds went for social assistance and one-third for post-secondary education.

If we divide transfers to post-secondary education and social assistance in 2002-03 according to the proportion that existed in 1992-93, we can compare spending levels in both periods. As we see in Table 2, cash transfers for health have increased by $1.29 billion while transfers for post-secondary education and social assistance have declined by $1.86 billion and $3.35 billion, respectively. Overall, this amounts to a total decline of $4.12 billion in cash transfers for health, post-secondary education and social assistance between 1992-93 and 2002-03. That is not a trivial decline. And it has had real consequences for the lives of many people, as we see below.

Table 2
Total Cash Transfers: 1992-93 and 2002-03

	1992-93	2002-03	Change 92/93 - '02-03
Health	$10.55	$11.84	$1.29
Post-secondary	$4.28	$2.42	($1.86)
Social[1]	**$8.83**	**$4.84**	**($3.35)**
Total	**$23.66**	**$19.10**	**($4.12)**

The Costs of Reduced Social Transfers

The case of children in care

The Child Welfare League of Canada reports a dramatic increase in the number of children taken into care across Canada (Farris-Manning and Zandstra, 2003). Part of this increase is driven by "reports of neglect and exposure to domestic violence as well as by a shift to a more interventionist approach," write the authors of *Children in Care in Canada*. But the trend is also due to "an overall reduction in the social, health and educational services available to families."

The Child Welfare League has pointed out how the funding framework for child welfare services actually creates an incentive to take children into care. Funding for community-based prevention and support services to families is scarce. "In an era of reduced community social supports, often services are inaccessible to children and families until they come into care."

Ironically, cutbacks to social services aimed at reducing government expenditures end up costing more. A Toronto Children's Aid Society study into housing as a factor of children taken into care estimates an annual cost of $18 million for those cases (Centre for Urban and Community Studies, 2001). But even if it were to cost the same amount to provide the community services, income supports and affordable housing as it does to put children in foster care or group homes, does it not make more sense to keep families together whenever possible?

Tuition climbs, enrolment gap grows

> Since the late 1980s, there has been a shift toward more private and less public expenditure on post-secondary education.... Between 1982-83 and 1998-99, government funding to universities has decreased as a percentage of operating revenue, from 74% to 55%. Over the same period, tuition fees have roughly doubled, increasing as a percentage of operating revenue, from *8% to 17%.*
>
> *Education Indicators in Canada, p. 62*

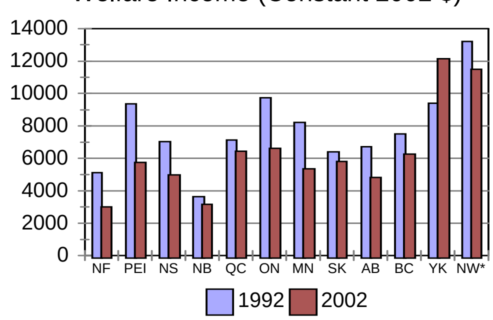
Post-secondary education is a major determinant of employment prospects in today's economy. University participation rates have risen among all socio-economic groups during the 1990s. However, the smallest gain in participation rates was for those from the lowest socio-economic background. This has opened up a gap in participation between those from low and middle income backgrounds. This should not be a surprise given that incomes stagnated for low-income households, income inequality increased and the burden of funding university education has shifted more to tuition. Statistics Canada recently reported that tuition rates across Canada have nearly doubled in the ten years from the 1993/94 to 2003/04 school years (*The Daily*. August 12, 2003).

Declining Social Assistance Incomes

Provincial social assistance, once co-funded by the federal government on a cost-sharing basis through the Canada Assistance Plan, serves as Canada's income security program of last resort. People relying on social assistance have not fared well between 1992 and 2002. In virtually every jurisdiction, welfare incomes declined for single employables and persons with a disability. Even with the Canada Child Tax Benefit, welfare incomes for families with children declined during the decade. There are notable exceptions. Welfare rates increased in the Yukon. In New Brunswick, where the National Child Benefit Supplement is not clawed back, the incomes of families with children have increased.

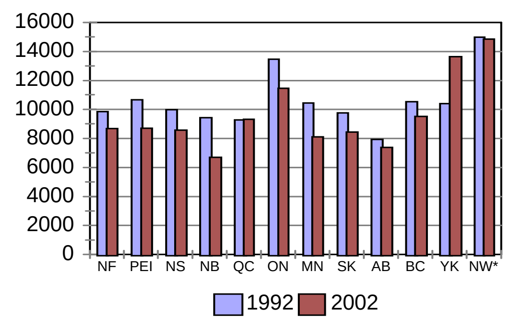
Single Employable

Welfare Income (Constant 2002 $)



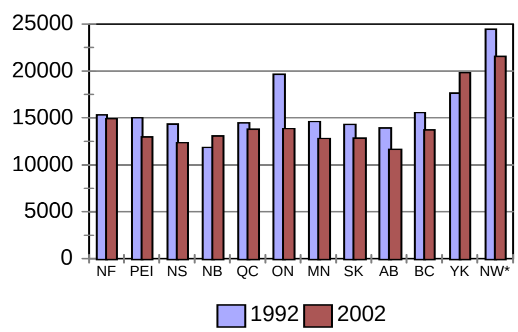
Person With a Disability

Welfare Income (Constant 2002 $)



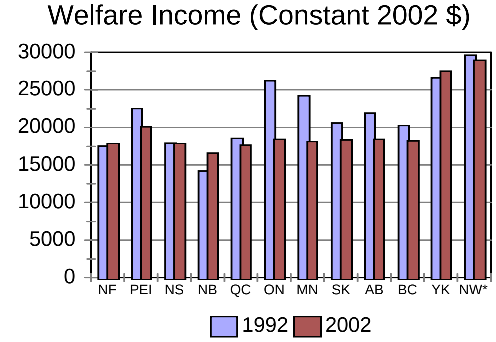
Single Parent, One Child

Welfare Income (Constant 2002 $)



Couple, Two Children

Welfare Income (Constant 2002 $)



Source: National Council of Welfare. *Welfare Incomes 2002*.

Restoring Canada's Social Safety Net

It is one thing to identify the funding shortfalls that have emerged over time. Closing that gap requires more than simply increasing funds for the new Canada Social Transfer.

Prior to the CHST, the Canada Assistance Plan (CAP) included national standards for welfare programs. The original 50/50 cost sharing formula that lasted from 1965 until 1990 also ensured that federal transfers built on provincial funding, rather than displacing it.

Things have changed. In fact, it is not clear how the allocation between post-secondary education and social assistance in the CST is being used by provinces and territories today. In 1992-93 two dollars of cash transfers were spent on social programs for every one dollar on post-secondary education. But just as the proportion of cash transfers spent on health has changed between 1992-93 and 2002-03, so too the proportions between post-secondary education and social programs may have changed.

One option would be to return to something like CAP, with national standards and federal cost-sharing. While it is unlikely that the federal government would welcome a return to open-ended cost sharing or that the provinces and territories would accept a new set of national standards, nonetheless we can identify some key elements for a renewed CAP-style transfer. First, there needs to be sustainable and predictable funding. Second, there does need to be a clearly stated set of national standards or at least principles to which all parties adhere. Third, there needs to be effective accountability on the part of both levels of government to the public on how the funds are used. Among other things, this would entail separating post-secondary education transfers out of the CST.

Things have changed in other respects, too. The National Child Benefit Supplement was introduced with the aim of replacing means-tested welfare benefits for children, with an income tested refundable tax credit. The provinces and territories, for their part, agreed to re-invest welfare "savings" – the money deducted from the social assistance benefits of families with children – for programs and/or income supports for low-income families with children. In a way these re-investment funds amount to a de facto increase in transfers for social assistance.

The Early Childhood Development Agreement, signed by Canada's First Ministers in September 2000, likewise added to transfers for social and health services through the CHST.

Social policy analysts, though, have found that transparency and accountability of both the NCB and the ECDA wanting. It is hard to sort out how those funds are used and whether they are displacing provincial spending or adding to it, as the agreements intended. The same issue of accountability bedevils the affordable housing agreement, reached in November 2001 (*Canadian Housing*, 2003). Federal funds are supposed to be matched in each province and territory. But some provinces have actually decreased investments in affordable housing in the wake of the agreement.

Finally, the 2003 federal budget introduced a separate transfer for early learning and child care, followed by the signing of a multi-lateral framework agreement on early learning and child care by Federal, Provincial and Territorial Ministers of Social Services in March 2003.

Though the federal-provincial/territorial transfer landscape may appear more confusing than in the pre-CHST era, we can nevertheless discern the elements of a potentially stronger transfer system than CAP and EPF provided. Part of this reflects changes in the conception of programs and services funded through transfers.

What is emerging is a framework of national social investments. Elements of a social investment framework were suggested by Campaign 2000 as National Infrastructure Funds for early childhood development services, social housing and post-secondary learning (Novick 1999).

The Canadian Centre for Policy Alternatives and CHO!CES (1999) have laid out a more comprehensive framework of National Social Investment Funds: 1) The National Health Care Fund; 2)The Post-Secondary Education Fund; 3)The Income Support Fund; 4) The Child Care Investment Fund; 5) The Housing Investment Fund; and 6) The Retirement Fund.

And, in fact, we find parallels to each of these social investment funds in existing federal programs. There is the new Canada Health Transfer. Post-secondary education and income supports are bundled together in the new Canada Social Transfer. Budget 2003 included a separate budget line for early learning and child care. Federal-Provincial-Territorial Ministers of Social Services subsequently reached a multilateral framework for early learning and child care which laid out the terms for using the federal funds. Federal funds for housing flow through the affordable housing agreement, signed in November 2001. And the Canada/Quebec Pension Plans, Old Age Security and the Guaranteed Income Supplement make up the backbone of Canada's retirement income system.

Comparative Frameworks for National Social Investments

Campaign 2000 National Infrastructure Funds	**CCPA/CHO!CES** National Social Investment Funds	**Federal Government** Existing Social Programs
	• National Health Care Fund	• Canada Health Transfer
• Post-Secondary Learning	• Post-Secondary Education	• Canada Social Transfer
	• Income Support	
• Early Childhood Development Services	• Child Care Investment	• Multilateral Framework on Early Learning and Child Care
• Social Housing	• Housing Investment	• Affordable Housing Agreement
	• Retirement Fund	• C/QPP, OAS/GIS

Some obvious steps exist for improving Canada's system of social transfers. For instance, the same rationale of increasing transparency and accountability which underlies the creation of the Canada Health Transfer applies equally well for breaking the Canada Social Transfer into a Canada Post-Secondary Education Transfer and a Canada Income Security Transfer. Also, the multilateral framework agreements for affordable housing and for early learning and child care need to be strengthened. The affordable housing agreement, for example, provides for capital grants for rental building at market rent. The problem is that market rent is not affordable for large numbers of tenants. Nor have all provinces/territories stepped up to match federal funds.

Early Learning and Child Care

Early learning and child care is an area where a complete re-conceptualization is due. In the era of CAP and CHST, child care was conceived as a residual program, providing support to low income families to purchase, primarily, custodial care for their children so parents could find paid work. Today, it is almost universally recognized that age-appropriate, play-based learning in group environments is beneficial for all pre-school children (Organisation for Economic Co-operation and Development, 2001). Child care is no longer viewed as simply custodial care. Rather, there is a move, world-wide to provide universal systems of early learning and child care services with high-quality play-based learning as a central feature. While Canada is far from a world leader in this field, the multi-lateral framework agreement on early learning and child care reflects this new understanding. Likewise, Quebec's $5 a day child care system was based on the view of providing a universal service for all families with young children. Indeed, it may be more helpful to think of pre-school programs in universal terms as we do for elementary and secondary school. In the 21st century then, it would be more appropriate to design transfers for early learning and child care as a universal service rather than the residual service funded through CAP and the CHST.

Income security

The major flaw in the conceptualization of the National Child Benefit was the thought that replacing means-tested benefits for children with income-tested benefits would remove children from welfare or from poverty. The fact remains that children live in families. And if their parents can not earn a living in the labour market for whatever reason, the family relies on social assistance or disability benefits to keep body and soul together. The problem is that welfare rates across Canada have languished. In some provinces they were cut dramatically. Eligibility rules have become more restrictive. And the sentiment in some circles is that declining welfare rolls, in and of themselves, are a sign of successful social policy. Unfortunately, the reality is that the steep drop in welfare recipients has translated into growing line-ups at food banks and longer waiting lists for social housing. Canada's income security system needs to be rebuilt. And this will require more than simply raising welfare rates. Minimum wages should be high enough that a single person working full-time, full-year should earn enough to rise above the poverty line. Employment insurance should be available for those who have contributed to the E.I. fund when they lose their job. And benefit levels should be enough to keep people from going hungry. More inclusive eligibility rules and income adequacy need not undermine an active employment insurance system.

Post-secondary education

Federal transfers for post-secondary education played a crucial role in building Canada's post-secondary education system and facilitating a high rate of participation in post-secondary education. Participation rates have grown during the 1990s, as more jobs require higher levels of education, and lower levels of education are associated with poorer paying and less secure employment. However, public funding for post-secondary education declined during the deficit-cutting 1990s. This resulted in rising tuition costs. The federal government has turned to the tax-system, through more generous Registered Education Savings Plans (RESP), as a way to allow parents to save for their children's education. This presumes, however, that parents have adequate income to put aside for post-secondary education. In addition, the federal government has proposed changes to the student loan program to provide debt relief to post-secondary graduates having difficulty repaying their student loans. Nonetheless, there is a growing gap in the post-secondary education participation rate of students from low-income households compared to their peers in middle- and higher-income households. Thus, it seem that RESPs and student debt relief are incapable of providing more equitable access to post-secondary education than lower tuition rates (funded through higher public funding of post-secondary education) can deliver. This suggests a stronger post-secondary education transfer is needed -- increased federal funds matched by provincial/territorial commitments to freeze and/or lower tuition fees. This should be supplemented by a needs-based grant system to assure equitable access to post-secondary education.

Conclusion

Canada's social transfer system was dramatically reduced during the federal government's effort to eliminate the fiscal deficit. This has contributed to a growing social deficit in the country. Canada is in a time of rebuilding. The elements of a more robust national system of social investment funds are in place. They need to be enriched and the terms of their use strengthened for them to fulfill the potential of creating greater social and economic security.

Notes

[1] In addition to cash transfers delivered through the CHST, under the National Child Benefit system provinces and territories are allowed to deduct the amount of the NCB supplement paid to families on social assistance, provided those funds are re-invested in services for low income families with children. The portion of NCB supplement thus

reinvested could be considered as part of the federal cash transfer for social assistance. In 2002-03, this amounted to approximately $642 million dollars (*National Child Benefit Progress report: 2002*). This amount has been included in the calculations for Table 2.