

THE MODERNIZATION MANTRA: TOWARDS A NEW ARCHITECTURE FOR CANADA'S ADULT BENEFITS

The modernization mantra

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

Some progress on the modernization agenda has been made or is underway, mainly in elderly benefits and public pensions, health care (albeit a vexed and controversial area), family policy (including child benefits, early learning and child care, and parental leave) and tax benefits to ease the often onerous costs imposed on persons with disabilities and their caregivers. Ottawa and the provinces/territories are trying to work out a more collaborative sharing of roles and responsibilities in social policy, most successfully to date with the National Child Benefit's radical restructuring of federal and provincial/territorial child benefits – a major reform that also could set the stage for the broader reform of benefits for working age adults, the subject of this short paper. Recent federal Budgets have announced modest but promising initiatives on a range of social policy fronts, including increased assistance to persons with disabilities, caregivers, seniors, communities and postsecondary education.

Reforms in these various areas of Canadian social policy reflect a growing recognition that investing in sound social infrastructure is essential, and not only for social justice: Strong social programs also can contribute to the nation's economic strength, productivity and international competitiveness.

While Canada has been making some progress on several social policy fronts, the same cannot be said for a vast field of social and economic policy that cries out for radical reform - income security programs and allied services for working age Canadians. This field is so large and diverse that it doesn't even have a name; for simplicity's sake, Caledon is calling it 'adult benefits.'

Drawing upon published and ongoing work by the Caledon Institute¹, this short paper is intended to make an agenda-setting case for 'transformative reform' (to borrow the Prime Minister's term) of adult benefits - an admittedly complex and controversial area that many politicians don't want to touch with the proverbial ten foot pole. But without a new architecture of adult benefits, Canada's social security system will remain deeply deficient.

What are ‘adult benefits’?

Part of the challenge of reforming what we have christened ‘adult benefits’ is to identify them, since as we noted earlier they have no accepted collective name. So we have to start by enumerating the current programs and services individually.

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

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

We also include in adult benefits a range of employment-related services and supports access to which typically is contingent upon recipients being on income security programs such as welfare or Employment Insurance. These allied supports include employment services (e.g., training, upgrading, placement and counselling), disability supports (e.g., technical aids and equipment, personal assistance and accessibility measures) and supplementary health care (health, dental and drugs not covered by medicare). Child care is another important service not only for children but also for adults, since its objectives include allowing parents to work or train or advance their education; traditionally provinces and territories provided subsidized child care mainly for families on welfare, but ongoing federal-provincial/territorial early learning and child care agreements are aimed at building a broad-based, stand-alone system of services independent of income security programs.

Critique of adult benefits

This uncoordinated and unconnected mix of income security and allied employment-related services and supports for working-age adults delivers inconsistent and often inadequate benefits, and fails in its core purposes of protecting the unemployed and helping to develop a skilled and educated workforce. Adult benefits constitute a swamp, not a playing field, and too many Canadians fail to make it to high ground.

the welfare wall

Over the years, the welfare system in Canada “developed into a subtle form of micro-colonialism of poor people by the state, disempowering them and deterring them from acting to improve their lives. Whether generous or meagre, welfare is not progressive social policy”.²

Welfare grew from a last-resort safety net to a major front-line program that everyone hates: voters, administrators, governments and recipients. Among its many deficiencies:

- provides little real help to get recipients back to work
- repeat and long-term recipients risk rusted employment and social skills, loss of self-confidence
- stigmatizing (treats recipients as dependants, quasi-children/criminals), lacking in public legitimacy, a political whipping boy
- unable to provide people who cannot work with adequate incomes and dignified lives
- asset-stripping and benefits restricted to people on welfare (e.g., supplementary health care) construct a 'welfare wall' making it difficult to get over once in
- many unemployed persons not eligible for EI become tangled in welfare
- many employable Canadians with disabilities are forced onto welfare to get disability supports they need to live independently
- welfare workers waste time and energy policing the system and doing paperwork
- complex, hard to understand, rule-bound maze
- benefits have been cut overtly and eroded by stealth (non-indexation)
- often punitive and inconsistent in its treatment of recipients

The National Child Benefit (NCB) reform is lowering that part of the welfare wall that was created by welfare-embedded child benefits: Welfare families used to receive about twice the amount of child benefits as working poor families, so welfare families lost thousands of dollars in child benefits if they left welfare for work. The NCB is dis-embedding welfare child benefits and replacing them with federal and provincial/territorial income-tested programs that deliver the same payments to all low-income families, working poor and welfare alike. But the welfare wall remains in other ways, in the form of supplementary health benefits for welfare recipients that typically are not available to low-wage workers; disability supports tied to welfare; employment-related expenses (e.g., clothing, transportation and child care) that burden the working poor; and low taxpaying thresholds (income and payroll taxes) that erode their low earnings.

Employment Insurance: the incredible shrinking social 'insurance' program

Several bouts of belt-tightening in the 1990s contributed to a dramatic drop in coverage of the unemployed by Employment Insurance, the Orwellian name for the former Unemployment Insurance. The numbers are extraordinary, and indicate a decimation of one of Canada's key social security programs:

- UI/EI coverage of the unemployed plummeted from 82.9 percent nationally in 1990 to 43.8 percent in 1997, though it has remained around that level since (43.9 percent at last count, 2004).

- All provinces have experienced a decline in UI/EI coverage, though with wide variations. In 2004, more than half the unemployed in Quebec and Atlantic Canada received regular EI benefits, ranging from 52.1 percent in Quebec to 93.3 percent in Newfoundland. Less than half the unemployed got EI in the rest of the country, ranging from a low of 29.7 percent in Ontario to 44.0 percent in Saskatchewan.
- EI coverage also varies widely from one city to another, though it is generally low in urban Canada. In 2004 it ranged from 21 percent in Regina to 50 percent in Chicoutimi-Joncquieres; the figures for most cities are in the 20s or 30s.
- The UI/EI cuts have widened the gender gap in coverage. In 2004, only 39.7 percent of unemployed women received regular EI benefits, as opposed to 46.1 percent of unemployed men.
- In Quebec, Ontario, Manitoba, Saskatchewan and BC, welfare – the supposed ‘residual program of last resort’ – now spends more than Employment Insurance – the supposed social insurance program of first resort.

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

Employment Insurance ‘creams’ the unemployed, in the sense that it covers only workers with significant attachment to the workforce. EI excludes many workers who cannot accumulate enough insurable hours of work due to their type of employment, own job preference and activity limitations due to disabilities. These include the long-term unemployed, the underemployed, new workers, part-time workers (including persons with disabilities and Canadians working part-time due to family care responsibilities), precarious workers and a growing group in the workforce – the self-employed.

Employment Insurance ‘creams’ the unemployed in another sense: It restricts access not only to income benefits (including paid parental leave), but also employment services that many unemployed Canadians need to find and keep a job. Eligibility for a range of skills and learning services (labelled Employment Benefits and Support Measures, including skills development and self-employment assistance, wage subsidies and job creation partnerships) depends upon eligibility for EI. Thus unemployed Canadians who cannot meet EI’s tougher eligibility rules are denied the EI-linked employment services that many so desperately require.

Employment Insurance has broken the social insurance contract that Canada’s social policy founders saw as a crucial element of a modern social security system. Virtually all employees pay EI premiums, but only a minority can draw upon the program’s income supports and employment services when they become unemployed. Moreover, the flawed social

insurance contract effectively discriminates against low-wage workers, many of them in nonstandard jobs.

Towards a New Architecture of Adult Benefits

It is impossible in so short a paper to put forward anything more than a very general and tentative sketch of the broad functions and structures of a proposed new adult benefit architecture – the ‘big chunks’ of a new system of adult benefits. Caledon’s ongoing work on this daunting task is intended to stimulate discussion. At this early stage, we deliberately are not dealing with the political and economic dimensions of this ambitious and controversial reform, nor the many difficult issues of policy and program design, financing, jurisdictional division of labour, implementation strategies and the other necessary tasks of policy making.

A proposed architecture is illustrated in the diagram below.

A New Architecture for Canada’s Adult Benefits					
support for low-income workers	provincial & federal	minimum wages, employment standards, tax credits & working income supplements	Social Fund (provincial)	Federal Canada Child Tax Benefit and provincial child benefits	Drug, dental and other supplementary health benefits, disability supports (provincial)
Tier 1: short-term support for ‘employable’ adults	federal	Employment Insurance (EI) Temporary Income (TI)			
Tier 2: medium-term support for ‘employable’ adults	provincial	Employment Preparation (income support & employment services)			
Tier 3: long-term support for adults not expected to be employed	federal	Basic Income (BI)			

The core of the proposed adult benefits architecture is a three-tier income security system, highlighted in bold borders. The program names are illustrative only.

Tier 1 would be an Unemployment Assistance program providing time-limited income support for the temporarily unemployed. There would be two basic components: A new temporary income (TI) benefit would serve unemployed Canadians who are excluded from the current Employment Insurance program (e.g., non-standard workers, the self-employed, new entrants to the labour force, recent immigrants, some persons with disabilities). A reformed Employment Insurance program (with no regionalized eligibility and duration rules and stronger earnings-replacement power) would serve the same clientele as the current EI - i.e., unemployed Canadians with strong labour force attachment. The new TI component would be a non-contributory benefit funded out of general revenues, while EI would remain a contributory social insurance program - analogous to the different financing methods for Old Age Security/Guaranteed Income Supplement and the Canada and Quebec Pension Plans.

Tier 2, Employment Preparation (EP), would serve unemployed Canadians who are unemployed for a longer time and have exhausted the time-limited TI or EI. It would replace the current welfare system for employable clients and link them to employment services. Unlike welfare, the new program - as its name suggests - would focus on active job search and preparation for work: Benefits would be contingent upon clients agreeing to an individually tailored employment preparation plan in cooperation with 'opportunity planners' (to borrow a term from the classic 1988 *Transitions* report on welfare reform in Ontario). The benefit structure would be much simpler than welfare and wage-like, with biweekly, flat-rate payments and, possibly, C/QPP contributions to treat recipients as workers. While there would be no fixed time limit, Employment Preparation would not be expected to provide permanent income support.

Tier 3, Basic Income (BI), would be an income-tested safety net for those who cannot reasonably be expected to earn most of their income from employment. It would be analogous to the current Old Age Security system, which is income-tested and delivered by Ottawa. Many - though not all - of its clients would be persons with severe disabilities, who currently are on welfare. This program would provide long-term support, with no time limits. It would pay out *after* other income programs such as C/QPP disability benefits and private disability benefits.

An adequate adult benefits architecture requires more than core income programs. It also needs a range of policy instruments to extend supports to the working poor, in order to break down the welfare wall and provide better and equitable help to all low-income working-age Canadians. These allied services and benefits include:

- an adequate child benefit (equal to the cost of raising a child in a low-income family) and affordable, quality child care services
- supplementary health, dental care and drugs
- disability supports and other social services
- a 'social fund' to meet emergency needs currently supplied by welfare
- supports for the working poor (e.g., wage supplements, minimum wages, labour standards, targeted tax relief)

The architecture sketched above suggests a division of labour between governments for the three-tiered core income programs, with Ottawa handling the first tier Employment Assistance (EI and TI) and the third tier Basic Income and the provinces and territories responsible for the second tier Employment Preparation system. Such a realignment would free up considerable funding for the provinces and territories - money which could be reinvested (a la National Child Benefit) in a range of adult benefits including Employment Preparation and its associated employment services, wage supplements for the working poor, disability supports, supplementary health care and an emergency social fund.

However there is nothing sacred about our suggested division of labour in adult benefits, and other arrangements could be negotiated - conceivably on a bilateral basis if some provinces wanted in right away but others preferred to wait and see. For example, provinces could deliver Temporary Income (Saskatchewan has pioneered such a program, called Transitional Employment Assistance). Or there could be a federal TI program with a provincial opt-out formula for those provinces that preferred to run their own TI. Conceivably a province could opt out to run Basic Income (they already do, in the form of their long-term welfare), though they would save a lot of resources if Ottawa took over this important function. We think wage supplementation is best operated at the provincial level, in concert with provincial minimum wages and other provincial tax/transfers, but it might be delivered by Ottawa; indeed, the Finance Minister's November 2005 mini-Budget proposed such a scheme.

The modernization of adult benefits is more than good social policy. It holds out great promise for economic and political reasons as well. Bold innovation could:

- improve the lives and prospects of many working-age Canadians who are temporarily or permanently in need
- contribute to economic prosperity by strengthening labour markets and permitting flexibility without increasing insecurity
- strengthen federalism by forging new agreements using a reasonable division of responsibility in a crucial area of public policy that cries out for deep structural reform
- respond to Canadians' desire to see their governments work together to tackle tough, long-standing problems such as poverty, unemployment, underemployment and disability
- provide substantial presence for the federal government across Canada through major new direct programs to citizens, especially though not only in cities which are currently largely excluded from EI
- put part of future federal surpluses to good use by making Canada stronger and increasing social cohesion.

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¹ See, for example, *Relentless Incrementalism: Deconstructing and Reconstructing Canadian Income Security Policy*, September 2001; *Brief to the Standing Committee on Finance: Proposal for a National Disability Supports Initiative*, December 2001; *Social Policy That Works: An Agenda*, September 2002; *Architecture for National Child Care*, November 2002; *Minimum Wages in Canada: A Statistical Portrait with Policy Implications*, January 2003; *The 2003 Budget: Political Legacy Needs Policy Architecture*, February 2003; *Why Canada Needs a Federal-Provincial Social Security Review Now*, December 2003; *The Disability Supports Deduction: A Big Small Step*, March 2004; *R-e-s-p-i-t-e Spells Respect*, May 2004; *The Vote or Veto Budget: An analysis of the 2005 federal Budget*, March 2005; and the draft paper *A New Architecture for Canada's Adult Benefits*, March 2005.

² Saskatchewan government official Rick August, from an unpublished paper provided by the author.