

SOCIAL SECURITY REFORM

Canada has begun a comprehensive effort to improve the effectiveness of its social programs while restraining their spiralling costs. In 1994-95 the federal government will spend almost \$40 billion on social programs, not counting support for senior citizens and health care.

Human Resources Minister Lloyd Axworthy launched a wide-ranging public debate in October with the release of *Improving Social Security in Canada*, a discussion paper that presents options for fundamental changes to federal spending on unemployment insurance, social assistance and post-secondary education. Health care and pensions will be reviewed separately.

Mr. Axworthy told Parliament that Canada's social security system is "no longer in tune with a quickly changing world....(It) should create opportunity, not dependence. It should invest in people, not programs. It should encourage mutual responsibility, not overreliance on the system. It should put people's needs first."

In proposing the creation of "a new social pact," Mr. Axworthy said the government has three major goals: helping Canadians find and keep jobs; supporting society's most vulnerable people, particularly children living in poverty; and making programs more cost-effective and affordable. The minister said the discussion paper is not only about changing programs but about changing the way government works. "The most effective role of government is to put resources into the hands of people and let them make choices."

Canada's social safety net took shape during the Depression and Second World War and expanded during the prosperous 1960s and 1970s. While parts of the system have evolved considerably, its "fundamental approach has remained fairly static—to furnish basic income support to people and families in need, supplemented by an array of government services." The discussion paper outlines some specific areas in which the system traps people in a cycle of dependence. For example, provinces are prohibited from using federal social assistance funds for training, job creation or literacy programs. People on welfare who find jobs have 75 per cent of their income taxed back, and the disabled must declare themselves unemployed to receive benefits.

Canada's social security programs have also become unsustainable fiscally,

Mr. Axworthy told Parliament. Combined spending on Unemployment Insurance and social assistance has grown as a proportion of Gross Domestic Product from 2.7 per cent in 1972 to 4.8 per cent in 1992. The discussion paper makes clear that "the reform of social security must take place within the fiscal parameters required to meet the government's target of reducing the deficit to 3 per cent of GDP by 1996-97."

Unemployment Insurance

Unemployment Insurance (UI) was introduced by the federal government in 1942 and expanded significantly in 1971. The program was originally designed to provide temporary assistance to workers between jobs and to pay for itself through premiums from employers and employees. Workers in areas of high unemployment qualify after working for a shorter period, and they receive higher payments.

As unemployment rates have risen, the number of long-term unemployed people has also increased significantly. Almost 40 per cent of those receiving Unemployment Insurance in 1993 had claimed benefits at least three times in the previous five years. Costs to employers and employees will reach \$17.2 billion in 1994, with an expected deficit of several hundred million dollars that the federal government must make up.

To put the UI program back on a sound financial footing and to make it fairer and more responsive to the needs of workers, the government is proposing a two-tier system. Frequent claimants would receive lower benefits than those who make claims only occasionally, but they would get more training and help in finding a job. The paper also discusses options to reduce costs and make funds

available so that premiums can be cut to encourage job creation and child care programs improved. These options include reducing benefits, increasing the minimum number of weeks required to qualify and raising the premiums for industries with frequent layoffs or seasonal unemployment.

Welfare

The federal government shares the costs of welfare with the provinces and territories through the Canada Assistance Plan (CAP), which pays for food, shelter and special needs such as wheelchairs.

The federal government also provides a Child Tax Benefit under which low-income families receive up to \$1,020 for each child under 18 and all families with incomes under \$65,000 get some assistance with the costs of raising children.

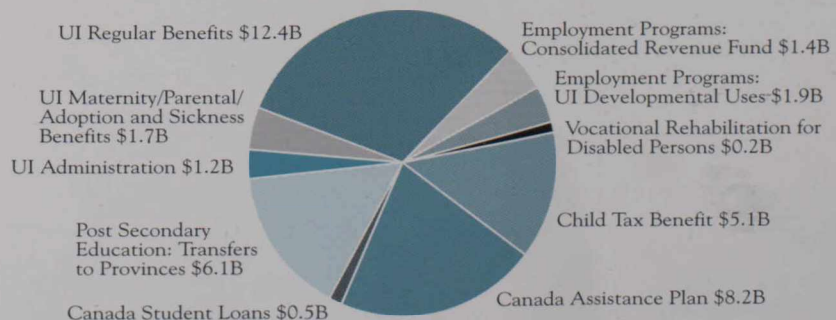
Spending on CAP has almost tripled in the last 12 years, from less than \$3 billion to more than \$8 billion annually. The Child Tax Benefit costs more than \$5 billion a year.

The paper presents options designed to make welfare more flexible and more targeted to the most needy, including replacing CAP with an annual grant to the provinces which they could use to design their own welfare systems. Other options include redirecting some of the money now spent on CAP and the Child Tax Benefit so that the neediest families get more, increasing the supplement for the working poor, changing the rules to allow people with disabilities to work, and targeting more support for children through nutrition programs and counselling for parents.

Education

Canada spends more of its national income on post-secondary education and training than any other country.

Federal Expenditures on Social Security Programs 1994-1995



Total: \$38.7 Billion (1994-1995)

Source: Human Resources Development Canada