

The social fundamentals

BY KEN BATTLE, SHERRI TORJMAN,
AND MICHAEL MENDELSON

Ken Battle is president of the
Caledon Institute of Social Policy.
Sherri Torjman is vice-president and
Michael Mendelson is senior scholar
with the Caledon Institute.

**Following the
pattern set in the
1998 budget,
the 1999 budget
bestows relatively
small tax breaks
that will lose
ground to inflation
as early as next
year. Income taxes
will dip a bit for
a year, then
resume their
upward climb.**

Achilles' heel in the new transfer package is that it has not been indexed to keep pace with changes in inflation or economic growth.

The funds announced in the budget will ease some of the hospital horror stories—overcrowding, long waiting lists for surgery, bed shortages, and exhausted staff—that have dominated the headlines of late. And the new cost-sharing formula for the distribution of the CHST will resolve some of the un-

fairness inherent in the original formula. The budget redresses this problem by distributing the new money in the CHST so that, by the end of three years, every province will have an equal per-capita allotment.

However, new funds, even with a fairer distribution, will do little to tackle the fundamental problems in health care. The underlying structural problems will remain unaddressed unless there is a strategic reconfiguration of the health care system.

There is no clear process for determining the specific services that, in future, will be “insured” or financially covered under medicare. Additional funds may enable the purchase of expensive diagnostic and treatment technologies but will not resolve the problem of how to evaluate and keep pace with rapid technological change. And there is the pressing problem of how best to meet the health needs of an aging population.

SLEIGHT-OF-HAND TAX CUTS

The budget does not get the fundamentals right when it comes to the tax system. Following the pattern set in the 1998 budget, the 1999 budget bestows relatively small tax breaks that will lose ground to inflation as early as next year. Income taxes will dip a bit for a year, then resume their upward climb.

The small tax breaks are all fatally infected with the partial deindexation virus—the income tax system remains partially deindexed, as it has been since 1986. As a result, the tax reductions offer only temporary, modest, and—perhaps worst of all—sleight-of-hand tax relief.

Ottawa estimates that last year's tax reductions removed 400,000 low-income Canadians from the federal tax rolls, with another 200,000 taken off this year, for a total of 600,000. This is a

The social fundamentals, page 62

Canadians have endured several years of tough fiscal medicine in the quest to slay the deficit. Programs were cut, taxes raised, and new spending put on hold—all in the name of “getting the fundamentals right.” The fiscal fundamentals may be right—or at least getting there—but the social fundamentals are far from right and the 1999 budget moves only very slowly in restoring the social infrastructure.

MODEST SPENDING WON'T HURT

Spending more or taxing less will not endanger the struggle against the debt. The debt burden, as measured by the ratio of debt to gross domestic product (GDP), is falling rapidly and will continue to fall, even if the economy turns out to be relatively stagnant next year.

A debt model developed by the Caledon Institute looks at the impact upon the debt burden of two scenarios: modest and extensive spending and tax cuts. In both cases, the debt burden falls steadily and dramatically over the coming decade.

Even very large spending increases and tax cuts result in a debt-to-GDP ratio of 30 to 40 percent by 2008-09—still among the lower ranks in the G7. The debt burden is on a long-term downward escalator even if there is an economic downturn or, still worse, a recession. Although the budget begins to restore parts of Canada's social infrastructure, it can and should do much more.

HEALTHIER MEDICARE

The budget's injection of \$11.5 billion into health care over the next five years will repair some of the damage of the sudden and huge cuts to health care ushered in as part of the Canada health and social transfer (CHST), which took effect in 1996. But despite the substantial increase in expenditure, the transfers still will not fully restore the pre-cuts level. Moreover, the

laudable achievement, but it still does not fully make up for the fact that more than one million working poor Canadians were pulled into the tax net as a result of more than a decade's worth of partial deindexation, which steadily lowers the tax-paying threshold.

GROWTH IN NATIONAL CHILD BENEFIT

The budget announces important improvements in the Canada child tax benefit that forms Ottawa's commitment to the federal/provincial national child benefit system.

The maximum benefit, which was previously increased from \$1,020 to \$1,650 for one child and \$1,450 for each additional child in July 1996, rises again to \$1,805/\$1,605 in July 1999, and to \$1,975/\$1,775 in July 2000. The net family income level above which families do not qualify for the larger benefit for low-income families will increase from \$25,921 to \$27,750 in 1999 and to \$29,590 in 2000. The budget also announced an additional \$300 million to begin restoring losses in child benefits for non-poor families.

The budget demonstrates Ottawa's continuing commitment to the national child benefit, itself the first substantive model for the new partnership federalism embodied in the recent social union framework agreement. The provinces and territories, which reinvested the first \$850 million increase in federal child benefits in a range of income programs and social and health services for low-income families with children, will have another \$850 million to build on those initiatives and/or undertake new ventures.

UNEMPLOYMENT ASSURANCE

It is time to look yet again at one of Canada's most important social fundamentals: unemployment insurance. The budget makes reference to the small premium reductions introduced over the

The 1999 budget takes some small steps toward restoring the social fundamentals, especially in its enhancement of funds for health care, child benefits, and modest tax breaks. But the social fundamentals have been thrown so far off course over the past few years that nothing less than deep structural reforms are required at this time.

years. But serious problems remain with both its coverage and financing.

As a result of a series of changes, the rebranded program—employment insurance—paid benefits to only 41.7 percent of Canada's unemployed in 1997. No other social program has seen such a drastic slashing of its clientele. But reduced coverage is not the only problem. Workers who must leave the program earlier than ever and those who do not even qualify in the first place have no access to the training funds tied to the "active" labour market measures embedded in the program.

DEAFENING SILENCE ON DISABILITY ISSUES

The budget did precious little in respect of disability issues. There were merely some small additions to the medical expense tax credit.

The lack of action on the program front is disheartening, given the landmark document that Ottawa signed in October 1998 with all the provinces (except Quebec). *In Unison: A Canadian Approach to Disability Issues* sets out a vision for advancing the dis-

ability agenda from the perspective of full citizenship for persons with disabilities. It is incomprehensible that the government could not find one single measure to support from this historic agreement.

OTTAWA SHELTERS ITSELF

The federal government's recent policy on social housing has succeeded only in sheltering itself from this pressing national concern. Ottawa can no longer hide from the fact that it should be playing a leading role in tackling this national crisis—an international embarrassment.

THE BOTTOM LINE

The 1999 budget takes some small steps toward restoring the social fundamentals, especially in its enhancement of funds for health care, child benefits, and modest tax breaks. But the social fundamentals have been thrown so far off course over the past few years that nothing less than deep structural reforms are required at this time. On this count, the 1999 budget falls short. ♦