



Education and Training

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Education and Training

Introduction

In 1982, Canadians spent nearly 8 per cent of our gross national product (GNP) on education and institutional training programs. In view of the scope of these programs, their importance to Canada's future and, most of all, their importance to individual Canadians, we Commissioners believe that our work would be incomplete if we did not consider the future of education and training programs in Canada. We must acknowledge, at the outset, the difficulties faced in dealing with these programs. Given the importance of this sector to Canada's future, relevant data and analyses are very scarce. Beyond figures that record expenditures and enrolments, little information about programs or students is available at the national level. Curricula vary from province to province, and small attempt has been made to define interprovincial differences or to relate the efficacy of the programs to varying circumstances. A few detailed surveys of post-secondary students have been conducted on the basis of national samples, and these provide essential information for policy makers, but they are not complemented at the primary or secondary levels of education. Educational institutions and local boards continually conduct evaluations of courses, curricula and programs, but little of this material is aggregated at the national level. As a result, Commissioners must develop proposals based on far less information than we would wish.

Several issues tend to dominate discussion of the future of Canadian educational and training programs. One of the most pervasive of these provides the ground for debate between two groups which might be described as "generalists" and "specialists". The generalists hold that the primary, although not the exclusive, function of the educational system is to sharpen the individual's proficiency in critical reasoning, in problem solving, and in learning. They therefore maintain that the core of the curriculum should be a firm grounding in English and French, Mathematics, Science, Social Studies

and, possibly, basic Computer Science. This view was well expressed by the Toronto Board of Education in its submission to this Commission:

What does seem patently clear is that the school's role cannot and should not be limited to skill training for the labour force. Students must be provided with opportunities that enable them to be active participants in an educational process which increasingly must become life-long... Schools must bear a major responsibility for the development of language and communication skills, for the exploration and development of our culture and for encouraging our young people to become compassionate, conserving and critical members of a democratic society. (Toronto Board of Education, Brief, November 29, 1983, p. 1.)

In contrast to the generalists, the specialists hold that the labour market is beginning to require skills that are fairly specific and technical. They argue, therefore, that educationists should place more emphasis on practical preparation for specific occupations or clusters of occupations. For instance, several representations to this Commission, stressed the need for Canada's educational system to emphasize technical training, especially in skill areas affected by the micro-electronics "revolution". In addition, a recent study, conducted by the Ontario Institute for Studies in Education (OISE) found that 58 per cent of respondents thought that Canadian universities should place more emphasis on job-oriented programs.¹

These positions need not, however, be considered as totally opposed. As one intervenor told this Commission:

Of course the two points of view may be not irreconcilable: To raise the question of training or of vocational as opposed to basic training with generalists or specialists is [to start] a pointless argument. Sound basic training is a necessity for enabling anyone to profit from training in a special field. Similarly, worthwhile vocational training is only possible to the extent that its recipient has a good general grounding. If there is an important objective to reach, it is that of developing these concepts of training and education that complement each other. (Monique Simard, Transcript, Montreal, May 30, 1984 [vol. 1], p. 186.)

Other issues are also important. Not least of these is the question of how much to spend for education and training programs. We Commissioners were often told in the course of our hearings that Canada spends too little on post-secondary education and job-related training. The opposite view, that Canada overspends, was expressed less often, but higher-education programs do tend to be offered as a popular target for government restraint.

Closely related to the problem of establishing budgets for education and training is that of determining the appropriate balance between these two elements. Do Canadians, as is often alleged, spend too much for higher education and too little for vocationally-oriented training programs? Do we spend too much on institutional programs compared to on-the-job training? How might we accommodate, within our major post-secondary institutions, the need to provide programs directly oriented to economic development, while retaining another historic function of our universities as major repositories of culture and the primary centres of pure research in our society?

Another major issue—many would say the primary issue—is that of standards of education. Are Canadian educational standards declining? Are we failing our students and ourselves by not insisting on excellence both in the performance of institutions and in the performance of students? If there is a decline in standards, does it apply “across the board”? Or is it more severe in some parts of our system than in others?

Finally, among the foremost concerns which this Commission wishes to consider is flexibility. Canada’s colleges and universities and, to a lesser degree, its primary and secondary schools are often accused of failure to adapt to present requirements. The accusation raises a number of questions: Is this charge true? If it is even partially true, can Canadians deal with it without abrogating institutional autonomy? How is our society to handle the training needs of students who leave school early and of mature persons who wish to return to training or education programs later in life? In the pages that follow, we shall turn our attention to all of these important questions.

Note

1. D.W. Livingstone and D.J. Hart, *Public Attitudes Toward Education in Ontario* (Toronto: Ontario Institute for Studies in Education, 1981), p. 31.

Primary and Secondary Education

We Canadians have a tendency, in considering education and training at the national level, to ignore primary and secondary education. This is understandable, given our federal government's heavy financial participation in post-secondary education; the very considerable attention paid to primary and secondary education at the local and provincial levels; the lack of national aggregate data; and, of course, the fact that we have always considered primary and secondary education to lie entirely within provincial jurisdiction. In view of the importance of these levels of education to Canada's future, however, some consideration of them is called for here.

Indeed, it is often suggested that primary and secondary schooling are more important to our nation's future than are higher levels of education. This Commission believes that all three categories are important and thus, although we have devoted the bulk of our analysis to post-secondary education and training, we also wish to make some comments on lower levels of education. The fundamental reason for paying careful attention to educational programs at the primary and secondary levels is simply that for the majority of Canadians, formal education and training does not extend beyond the latter level. Only about one-third of Canadians ever study in post-secondary institutions. Tests of achievement in core subjects and skills taught at primary and secondary levels (mathematics, reading, vocabulary and language expression, abstract reasoning and creativity) forecast future earnings more accurately than do other forms of assessment that measure personal attributes. Tests administered early in a student's academic career appear to predict occupational and educational attainment as accurately as later testing. Cost/benefit analyses generally attribute higher net benefits to additional dollars spent on primary and secondary education than to those spent on post-secondary education. These data suggest that whether Canada's policy makers see formal education as intended primarily to help people to adjust to the effects of technological or other types of change, or as a means of creating a generally more literate and adaptable population, they should direct particular attention to the "quality" of basic education provided in our primary and secondary schools.

Until a few years ago, Canadian educators seemed to be moving towards a more "liberal" education: a wider choice of courses, a greater flexibility of curricula, new teaching methods and de-emphasis of formal exams were the norm. This Commission's hearings would suggest that the results of that trend are now widely perceived as undesirable. However, while Canadians seem to favour a more structured educational format, they also show considerable ambivalence about whether curricular changes should emphasize a "back-to-basics" approach or place greater emphasis on direct preparation for the labour force. Thus 59 per cent of a sample of Canadians polled in 1983 opted for a "back-to-basics" program, while 73 per cent of respondents polled in another survey, conducted by the same firm in the same year, agreed that "our education system places too much emphasis on purely academic education."¹

While the popular perception, well represented to this Commission in briefs and hearings as well as through popular surveys, is that standards have deteriorated in our schools, the evidence does not unequivocally support this view. One major survey of these studies² found that student performance had improved almost as often as it had declined. The authors also reported that chief educational officers surveyed across the country believed that standards had risen in the sciences, remained almost steady in mathematics, and declined somewhat in literature and language. Little evidence exists, however, based on nation-wide testing in Canada. In the United States, widely used scholastic aptitude tests have demonstrated a long decline in the achievement levels between 1960 and 1980; there has been some recovery during the last four years, but standards have not yet risen to pre-1960 levels.

Concern with the quality of primary and secondary education is hardly new. One historian of Canadian education notes that even prior to 1960:

What the delegates did discuss at conference after conference was the threat of declining academic standards . . . As the continuing debate at the NCCU [National Conference of Canadian Universities] meetings during these decades illustrated, there were wide-spread complaints about the inadequate preparation of matriculants in all subjects . . . The main bone of contention was the poor preparation of the students entering universities, which was attributed to poor teaching in the elementary and secondary schools, and, by extension, to the failure of the universities to assume any responsibility for the adequate preparation of the teachers in these schools.³

Commissioners wish to express particular concern about the educational curricula often followed by female students, particularly at the secondary level. For various reasons, these students appear to take fewer courses in science and mathematics than do their male counterparts. This situation reinforces the tendency for women to be under-represented in technology-based jobs. To rectify it may require special attention, but that requirement does not necessarily translate into an extensive range of government programs. Changing student, parental and societal attitudes, combined with attention by teachers and counsellors to achieving a better female-male balance in these areas of study, may be more appropriate responses.

For well-established reasons both of tradition and of jurisdiction, the federal government has not intervened in primary and secondary education, except to mount relatively small official-language programs, to provide supplementary or remedial education as part of job-training programs and to support English as a Second Language and Heritage Language programs. Federal equalization payments can also be viewed as providing indirect support for all levels of education in poorer provinces; indeed, the original justification of equalization payments was based, in part, on the importance of providing adequate standards of education across Canada.

Commissioners do not believe that the federal government should become more deeply involved in primary and secondary education, but we are convinced, in view of general public concern about educational standards and quality, that there is need for a national body to develop achievement-testing

procedures and to monitor standards of achievement across Canada. Nowhere does this need appear more plainly than in this Commission's inability to find reliable comparative data, kept over time and across provinces, by which to compare educational attainment and standards.

Our situation with respect to this lack contrasts sharply with that of the United States. There the federal Department of Education conducts research itself and sponsors such semi-autonomous institutions as the National Institute of Education. There have been numerous national task forces on education, and private foundations regularly sponsor independent studies. In particular, studies which trace student performance over time and in different teaching situations are readily available in the United States and virtually non-existent in Canada.

The national body we recommend for Canada should consist of some members who have direct experience in education and some who have had no direct connection with the sector. It must represent both Canada's charter-language groups, and it must be sensitive to the importance of formal education in maintaining the cultural integrity of French Canada. It should have a substantial independent research capacity, and it should report publicly, preferably each year. It must have a sufficiently large permanent staff to provide continuity in its operations, but it would also benefit from secondment of education officials employed by provincial and local governments. Although it could be formed under the aegis of the Council of Ministers of Education, its credibility might be enhanced if it were not directly financed by government. In the United States, private foundations have supported such bodies, and a similar funding base would be ideal in Canada. Indeed, by providing active financial and planning support for such an institution, the private sector could demonstrate in an admirable way its concrete interest in matters of educational policy. Alternatively, since it has typically been quite difficult in Canada to obtain financing for public policy-research institutions from the private sector, an endowment fund provided by the provincial and federal governments might be an appropriate way to guarantee such a body a suitable degree of independence. Commissioners do emphasize, however, our preference for private sector funding.

Notes

1. Information supplied by Decima Research Ltd., Toronto.
2. See Verner R. Nyberg and Brigitte Lee, *Evaluating Academic Achievement in the Last Three Years of Secondary School in Canada* (Toronto: Canadian Education Association, 1978).
3. Robin S. Harris, *A History of Higher Education in Canada 1663-1960* (Toronto: University of Toronto Press, 1976), pp. 376, 377, 384.

Post-Secondary Education

While jurisdiction over post-secondary education (PSE) rests with the provinces, and jurisdiction over occupational training is shared by the provincial and federal governments, total federal expenditures for post-secondary education and occupational training were approximately \$8 billion for 1984–85. In the same period, 330 000 students were in full-time attendance at Canadian community colleges, 462 000 students attended university on a full-time basis and 283 000 on a part-time basis.

There is a variety of reasons to account for the broad support that Canadian governments have given post-secondary education and training. They have supported training programs in order to provide employers with a skilled labour force and would-be employees with the skills necessary to participate to the fullest extent possible in our economy. The objects of supporting post-secondary education are more diffuse; they involve teaching, research, the maintenance of cultural values, and the provision to the community of a broad range of information and advisory services. The weight which different observers attach to the achievement of each of these objectives will vary, but most would agree that our universities should serve them all, and that our community colleges should concern themselves primarily with teaching and training.

Since education is an acknowledged area of provincial responsibility, the heavy federal financial involvement in post-secondary education may appear anomalous. It was not so viewed, however, by most intervenors who appeared before this Commission, for the great majority of those who spoke on this subject believed that there was a national role to be played in post-secondary education, and that in consequence, the federal government should be involved.

The reasons for this belief were many. Some intervenors held that the tendency of the Canadian labour force to cross provincial boundaries made higher education a national concern. Some noted that the federal government's overall responsibility for economic management would demand that it play a greater role in education and training in the future as the nature of our economic base becomes significantly more knowledge intensive. Others considered that the out-of-province benefits devolving from the research and cultural activities of Canada's universities made federal involvement imperative. Some were concerned that smaller provinces would be unable to provide appropriate levels of services without federal help. Still others expressed the view that students should be free to attend any Canadian institution of higher learning they might wish and voiced the concern that fee differentiation for out-of-province students might preclude this possibility if the federal government were not to be involved. These views were expressed by people from all provinces and from both major language communities. Where there was opposition to the federal presence, it seldom precluded federal participation, but rather advocated that the federal role be restricted to unconditional financial support.

This Commission agrees with virtually all of these reasons for federal involvement and firmly believes that there is a major part for the Government

of Canada to take in supporting post-secondary education and training. While Commissioners would certainly stop short of suggesting that universities should become national institutions under the jurisdiction of the Government of Canada, as some of the intervenors who appeared before us proposed, we do believe that it is important for our national government to maintain its presence in post-secondary education, and we wish to review the form that that involvement should take.

Prior to 1951, our federal government shared in the cost of some occupational training delivered by provinces and provided direct support for education of veterans. From 1951 to 1967, the Government of Canada provided our universities with a flat subsidy per student. Grants were proportionate to enrolment figures and were delivered directly to the institutions through the agency of an inter-university granting council; they were not channelled through provincial governments. In contrast, between 1968 and 1977, the federal government transferred to provincial governments 50 per cent of the operating costs of post-secondary educational institutions or, in 1968, \$15 per capita, escalated. From 1972-73 onward, it limited year-over-year increases in the contribution rate to 15 per cent. The actual disbursement of funds to Canadian universities was then handled by the provincial governments.

In 1977, under the Federal-Provincial Fiscal Arrangements and Established Programs Financing (EPF) Act, federal support was once more radically transformed, taking on, essentially, its present form. In place of open-ended grants based on institutional expenditures, provincial governments were to receive block payments based on provincial populations and made up of cash and tax-point transfers. These payments were ostensibly intended to support post-secondary education. They were, however, only distantly related to actual levels of post-secondary spending in each province. Thus, although the size of the total national transfer was originally related to the overall operating costs of post-secondary institutions in 1975-76, provinces were not required to spend any particular amounts on post-secondary education in order to qualify for the federal grant. Moreover, the entitlement was increased annually by an amount related to increases in population and gross national product, rather than to PSE operating costs.

Whether in consequence of the EPF Act transfer mechanism or not, the years since 1977 have seen a decline in constant dollar-per-student expenditures on post-secondary education in almost all provinces; the most extreme examples of this trend have occurred, over the long term, in Ontario and, very recently, in British Columbia. It should be noted, however, that because of the very large numbers of post-secondary students in Ontario, that province's per capita expenditures on PSE are relatively high, in spite of its low per-student transfers. Overall, federal cash and tax-point transfers, nominally in support of PSE, made up 70 per cent of provincial government operating grants to universities and colleges in 1977-78, and 80 per cent in 1984-85. In five provinces, Newfoundland, Prince Edward Island, New Brunswick, Manitoba and British Columbia, the nominal federal transfer for PSE is actually greater than the provincial operating-grant transfer to institutions.

This situation has led to accusations that provincial governments have been diverting to other uses large sums that Parliament intended to be spent on PSE. As a result, many people, both inside and outside post-secondary institutions have expressed concern that the EPF mechanism may not offer the most appropriate means of providing future federal support for post-secondary education.

Provincial governments have developed a wide variety of systems and procedures for disbursing funds to institutions of higher education. Most university funding therefore tends to be discretionary: provinces distribute whatever funds they can “afford” on the basis of relative historical levels of support for different institutions, modified somewhat to reflect recent changes in enrolment. In this situation, the tuition fees paid by students often represent almost the only financial incentive for universities to respond to changes in enrolment demand. Even this incentive is limited, however, because provincial governments exercise heavy control over fees, which, in any case, cover only about 15 per cent, on average, of the universities’ general operating expenditures. Under these circumstances, Canadians might well anticipate some lack of response to enrolment demand at the post-secondary level.

Yet in spite of this situation, some fairly significant changes in the composition of enrolment at Canada’s universities and colleges have occurred over the last two decades. During those years, there has been a steady rise in part-time enrolment. Thus, between 1962–63 and the present, the proportion of part-time students has risen from 23.7 per cent of total post-secondary enrolment to 37.6 per cent. Over the early and mid-1960s, enrolment in both Arts and Sciences increased considerably, relative to that in other faculties. After 1970, however, the proportion of students in Arts faculties began a decline which has continued to the present. In 1970–71, 14.6 per cent of Canadian undergraduates were enrolled in Humanities programs, a figure which declined to 8.5 per cent by 1982–83. In 1965–66, almost 32 per cent of undergraduate enrolments were in Faculties of Education. While the absolute numbers of students enrolled in these programs has not declined, these faculties did not share in the remarkable growth of the universities that occurred in the 1970s. Thus, by 1983–84, only 12.9 per cent of undergraduate enrolments were in Education. Since the early 1970s, undergraduate enrolment in Science has risen only from 10 to 11 per cent in proportion to overall enrolments, while Business Administration has greatly increased its share of total registration. In 1983–84, for example, 15.7 per cent of full-time undergraduates were registered in Business or Commerce programs, while in 1970–71, the corresponding figure was just 8.3 per cent. Commissioners find this increase encouraging.

Before the recession of 1981–83, many Canadians believed that enrolments in Engineering and Computer Science were not growing quickly enough to meet the needs of our economy. Indeed, intervenors have argued before this Commission that Canadians should still be concerned about this problem. Between 1977 and 1981, however, the number of Canada’s engineering graduates rose at an average annual rate of 9.1 per cent. In those same years, overall university-enrolment increases averaged about 1 per cent per year.

It would seem from these figures that in spite of funding rigidities and public perceptions, the universities were at least somewhat responsive to broad changes in enrolment demand during the 1960s and 1970s. Whether they were sufficiently responsive, however, and whether the quality of instruction rose along with enrolment numbers are harder questions to answer. It is even more difficult to evaluate the responsiveness of community colleges, where reliable data are even scarcer.

Whether or not the performance and adaptability of Canada's post-secondary sector has been adequate during the past two decades, we must realize that much of what it achieved was accomplished while the system was expanding. If our PSE systems contract because enrolment decreases or funding is restricted, their future adaptability is likely to be considerably more limited. Thus the potential effect of enrolment trends on the adaptability and, indeed, on the very nature of our post-secondary institutions is both very important and potentially difficult to deal with.

Currently, 86 per cent of Canada's full-time undergraduates are 18 to 24 years of age. That "source population" for our post-secondary institutions peaked in 1982-83; it will decline steadily until 1997 and remain constant thereafter. Whether enrolment will also decline will depend on participation rates, particularly of 18- to 24-year-olds. Twenty-four per cent of Canadians in that age group now attend post-secondary institutions, and 13.5 per cent of these students are studying at universities. Only the United States has a higher rate of university attendance, at 18.5 per cent.

By the mid-1990s, Canada's 18- to 24-year age group will number 2.6 million persons, representing a reduction from the present 3.3 million. If we assume a constant PSE participation rate, there would then be approximately 168 000 fewer full-time post-secondary students than the current total of 792 000. About a 6 per cent increase in participation rates or a compensating increase in enrolment of older age groups would be required to maintain a constant student population.

There are several important caveats to be noted here. First, assumptions are built into any enrolment projections. It is quite possible that enrolment rates of over-24-year-olds will increase. Indeed, Commissioners hope that they will, since we believe that lifetime learning is highly important. Female participation rates, which already come very close to equalling those of males, may continue to rise. Since children of parents with degrees are about three times as likely to enter university as children of parents without degrees, total participation rates for 18- to 24-year-olds may increase as the children of the growing numbers of parents with post-secondary education reach the 18- to 24-year age group. Unless some of these possibilities actually occur, however, enrolments will decline. In any event, given the very great importance of enrolment-trend data for post-secondary educational planning, it will be essential to maintain a sound data base and substantial analytical capacity.

Secondly, adaptability has more to do with the resources available to the education sector and with the flexibility of the institutional base than with the total number of students. There is no reason why the overall resources available to educational institutions must be directly related to that number. Indeed, in the past few years, funding increases have not kept pace with

growing student enrolment, perhaps because of the assumption that registration will decline, and that there should not, therefore, be a major build-up of resources in the sector.

The issue of whether or not the Canadian PSE and training sector is currently "underfunded" received a lively airing in this Commission's hearings. To assess whether government's current overall scale of support for education and training is the "right" size is an extremely difficult policy problem, one, indeed, which can have no definite solution. While some features of the Canadian tax system discourage investment in human capital, and some students and trainees still have difficulty in financing their studies, there are, in total, very large subsidies supporting education and institutional training. It is even conceivable that the overall result of government action in this sector is to encourage too much investment in education and training relative to that in physical plant.¹

Comparison with other countries provides no definite answer. Canada spends on education close to the average amount spent by other members of the Organisation for Economic Co-operation and Development (OECD): OECD figures indicate that our expenditures in 1981 represented 6.2 per cent of gross domestic product (GDP), compared to the OECD average of 6.1 per cent.² While Canada ranked eighth out of ten in 1960, well-above-average growth rates from 1965 to 1970 brought our standing to fifth out of twelve in 1975. The Scandinavian countries have consistently ranked as top spenders, while Germany and Japan have lagged behind; the United States spends slightly less than Canada. Expenditures dropped in all major OECD countries, except Italy and Japan, between 1975 and 1981, chiefly, apparently, in response to declining enrolments.

The suggestion is often put forward that greatly increased expenditures on education and training will be necessary in order to help Canadians adapt to the labour-force implications of new technologies. There is considerable uncertainty about the probable employment effects of the new technology likely to be introduced over the next ten or 15 years. Thus, according to one school of thought, the occupations and industries where the new technology will be most heavily applied include almost all office work, much manufacturing, financial services, communications and, perhaps, wholesale and retail trade. Employment may shift from these areas to others such as personal services (the provision of restaurant meals, for example), health care (because of the eventually higher proportion of the elderly in our population), construction, and leisure industries. While some of these areas of employment may require a fairly high level of education, it is far from obvious that the *average* educational requirement is likely to be higher than in the past. In fact, it may well be lower.

A further indicator of the uncertainties to be dealt with in this field is to be found in the implications of a recent Canada Employment and Immigration Commission (CEIC) projection of medium-term labour requirements. Those projections suggest that workers in occupations likely to experience the highest employment-growth rates include analysts of organizations and methods, chemists, physicists, architects, several types of engineers, advertising salespersons, and business-service salespersons. Such occupations

start from a relatively small employment base, however. For example, in 1983, only 9000 Canadians were employed as organization-and-methods analysts, and only 4700 as business-service salespersons. Thus high rates of growth do not necessarily produce many new jobs, and they do not necessarily indicate requirements for much more advanced levels of higher education. The largest absolute numbers of new job openings are likely to occur in occupations such as secretarial and stenographic services, bookkeeping, truck driving, janitorial services, public dining services or nursing. Similarly, while there will certainly be significant shifts in Canada's labour force, engendered by the increasingly competitive international environment, it is highly uncertain whether their specific effects on the requirements for particular kinds of education can be predicted.

Very considerable uncertainties confront predictions of specific educational requirements, and many, if not most, Canadians will have to undertake considerable retraining during their lives. These realities lead Commissioners to emphasize the value of a solid general education—of learning how to learn—so that Canadians may be well equipped to adapt quickly and efficiently to the changing realities of the labour market. With this consideration in mind and with full awareness of the continuing need for very considerable levels of specialized training, Commissioners were deeply concerned to hear so many intervenors state that under current levels of funding, PSE institutions are experiencing very great difficulty in maintaining the general quality of their teaching, the quality of research, and the viability of their physical plants. Provincial governments, as we noted earlier, have been very reluctant to increase the funding of these institutions, because of the current need for restraint and the belief that enrolments are likely to decline in the future. Moreover, all levels of government have tended to take the position that the total amounts of funding for all types of education and training should be either fixed or reduced in proportion to GNP. This view has meant that spending increases in one part of the sector have had to be financed from decreases in another part, at the same time that the proportion of GNP devoted to education is static or declining. While this policy is understandable, it is not necessarily desirable. There are many benefits to be gained from a strong post-secondary educational system, and Canadians did, in the 1960s, make a major national effort to build up a system of very high quality. In retrospect, that decision still seems to have been correct, and it may now be very short-sighted to allow that system to decay to the point where it becomes second-rate.

Most of this consideration of the post-secondary sector has focused on changes that have occurred over the past ten to 20 years, but in one respect, change has been lacking during this period. A much larger proportion of young people from high-income families than from low-income families has always participated in post-secondary education. In 1974, for example, Statistics Canada found that "55 per cent of children from well-off families (annual income over \$25 000) attended post-secondary institutions while only 11.6 per cent of children over 18 from poor families (*i.e.*, income under \$5000) did so."³ A more recent study of the distribution of benefits from the Ontario university system concluded that:

The principal net gainers from the university system are the middle- and upper-income groups at the expense of the lower-income groups. In this sense the university system is a large public expenditure program in which the relatively poor groups tend to subsidize the relatively rich.⁴

While the final data were not available at the time this Report was written, it is this Commission's understanding that the 1983 Student Survey by the Secretary of State found that essentially the same distributional pattern persists in the 1980s. This finding was further corroborated in the brief presented to us by the Association of Universities and Colleges of Canada:

Much remains to be accomplished if members of all socio-economic strata in our society are to enjoy equal opportunity of access to higher education. Despite the federal and provincial programs of loans and grants for needy students, members of the lower socio-economic groups are still under-represented in universities. Recent reports indicate that economic considerations are only one of many factors influencing a student's decision to undertake work at the postsecondary level. The home environment, place of residence, ethnic group membership and gender all are significant factors which affect a person's likelihood of attending university.

(Association of Universities and Colleges of Canada, Brief, November 1, 1983, p. 6.)

Increasing the funding of training programs, which are more frequently used by lower-income Canadians, might compensate to some extent, for this situation. The provision of higher levels of support to low-income Canadians who wish to attend post-secondary institutions might also help to rectify the present imbalance. It would not, however, in Commissioners' opinion, be appropriate to increase funding for training programs by reallocating money from universities. Moreover, family-socialization patterns will remain a significant barrier to post-secondary education for many low-income students, regardless of the financial support to which they may have access.

Finally, while Commissioners were concerned to hear of the difficulties created for the PSE sector by low levels of funding, we were also concerned that representatives of the sector itself tended to deal less with how they could help Canadians adjust to a changing world than with how badly they needed more money. Representatives of the sector devoted considerably less attention than we had hoped to suggesting how that money might be spent to solve the very real problems of the sector. Any innovative ideas we did hear about post-secondary education tended to come from outside the sector. Thus we feel obliged to observe that significant problems seem to lie within the sector itself. The combination of faculty unions, the tendency to draw administrators from within the institutions, an aging and tenured faculty, uncertainty about the role of PSE institutions in society, all combined with a somewhat defensive attitude toward the *status quo* does not seem to us to provide a healthy situation. We were disappointed not to hear more creative ideas about its own future from a sector which must be at the creative forefront of society.

Commissioners are well aware from studying public-opinion data that Canadians generally support post-secondary education and do not believe that its programs, facilities and funding should be cut back. We suspect, however,

on the basis of our hearings, that the person-in-the-street would wish to see our PSE sector undergo more significant reforms than would the incumbents of the institutions themselves. For this reason, we have considered a broad range of reform options for the sector, and we have analysed in some detail relatively radical reform possibilities.

Reform Options for post-Secondary Education

A good number of the many concerns about post-secondary education expressed to this Commission cannot be rigorously evaluated; others are not properly the concern of the federal government. However, the financing mechanisms used by the federal government to support post-secondary institutions have an important effect on the actual operation of the sector and constitute the chief means by which federal influence may be exercised. There are four major interrelated sets of issues with which PSE-funding mechanisms may deal: levels of funding, quality of the system, flexibility and adaptability, and accessibility. Among these issues, the most difficult to handle are probably those related to flexibility and adaptability of the institutions, and the achievement of excellence within the system. If these are the areas of greatest concern, and if Canadians believe that major improvements are necessary, then quite significant changes in funding mechanisms may be needed.

While educators' sense of responsibility and the threat of government action may induce considerable response to present problems, these forces may fail in critical ways. Institutions may fail to recognize or adapt to the educational implications of rapidly changing technology, or they may be unable to make the difficult internal reallocations of resources required. They may also tend to make adjustments which governments or the public can easily monitor, while sacrificing quality or neglecting other dimensions of service which are harder for outsiders to observe. In view of Commissioners' concerns in these matters, it seems appropriate to consider ways in which methods of financing post-secondary institutions may be adjusted to encourage the attainment of greater flexibility and excellence.

Provincial governments may be able to encourage universities and colleges both to achieve excellence and to become more adaptable by allowing them to raise tuition fees without facing a corresponding reduction in provincial subsidies. The most important effect of "freeing-up" tuition fees in this way could be to induce much greater response to enrolment demand: universities could charge higher fees for higher-demand or higher-cost programs, and the prospect of acquiring additional revenue by this method will induce them to provide more places in such programs. Another likely consequence, however, would be a considerable increase in average fees. Such increases would erode equality of access to post-secondary education if countervailing action were not taken. To prevent such erosion, borrowing limits under the Canada Student Loans Program (CSLP) might be extended, or a contingency loan-repayment program might be established and more generous scholarship and bursary arrangements offered.

To give PSE institutions greater control over their fee structure might also induce greater variation in fees across programs and, particularly, among institutions, reflecting differences in costs and in the nature of programs provided. Some institutions would be likely to offer low-cost “no-frills” education, while others would provide more intensive, higher-level education intended to set very high standards of achievement. Both approaches are entirely appropriate and desirable, since both serve a real social need. Some institutions would serve large numbers of average students and do that job well. Others would serve smaller numbers of exceptional students and perform high-level/research functions, again, doing their job very well. In short, a much more heterogeneous post-secondary system, efficiently serving the highly varied needs of different categories of post-secondary students could well evolve over time. It could be politically difficult, however, for any one provincial government to take unilateral action to allow a substantial increase in tuition fees. For this reason, such changes on any but a national scale are rather unlikely. Means of ensuring federal-provincial co-operation would therefore be a crucial consideration in planning such a move.

If a variable fee structure were to be introduced, the effect could be considerably augmented by channelling federal support to post-secondary education through students, rather than through provincial governments. By funding students rather than provinces, the federal government would automatically direct its support to the programs that students demand. Provincial governments would be able, simultaneously, to permit tuition-fee increases, thus allowing post-secondary institutions the flexibility to respond effectively to enrolment demands.

What form should direct federal support to students take? One option might be for the federal government to institute a partial tuition-fee voucher or tax credit as a form of direct income transfer to students. The basic federal transfer would cover some fixed proportion of all tuition costs of formal schooling, including occupational training in institutions, between some minimum fixed deductible and a ceiling. This arrangement would be equivalent to making cash grants to students, differentiated according to program costs. An education-expense tax credit or transfer would divert federal PSE support from lump-sum EPF grants to direct aid to students, in such a way that provinces would have an incentive to respond by increasing tuition fees. To a ceiling level, a large proportion of each increase in tuition fees would be offset by increased federal aid to students. While it would not necessarily be politically easy for a province to allow tuition-fee increases, such an arrangement should make it quite possible.

There is no reason to believe that the average net cost to students would *necessarily* increase. In general, the federal transfer payment could compensate for fee increases. It is quite possible, however, and perhaps even desirable, that some increases could occur. Private sector contributions (including student-tuition fees) are now extremely low by historical standards, and it may not be inappropriate to expect the direct beneficiaries of post-secondary education, including students and employers, to bear directly somewhat more of the cost. This increased cost could be expected to

constitute a heavier burden for some universities than for others. It would presumably reflect such market factors as the expected return to the student of receiving an education in that institution. The essential factor is that low-income students who are academically qualified not be excluded from the system by financial barriers. To this end, it would be particularly important that the CSLP or its income-contingent/repayment replacement be readily available to support qualified low-income students.

The federal credit would replace the cash-transfer portion of EPF. In 1985–86, that transfer will amount to approximately \$2 billion. However, the Province of Quebec also receives a tax-point remission for post-secondary education, and if the federal government were to provide a comparable remission to other provinces, the funds it could allocate for direct-to-student transfers would be reduced by approximately \$450 million. In that academic year, there will be approximately 850 000 full-time post-secondary students to receive the equivalent of the transfer payments in direct aid. The average size of the individual educational credit could therefore amount to approximately \$1850.

Commissioners also recommend that the federal government consider a somewhat different version of direct-to-student funding. It might be argued that graduate students, because of the high level of their training, make a disproportionately large contribution to our national economic and cultural development. Graduate students and alumni of graduate programs are also likely to be more mobile than undergraduates and alumni of first-degree programs. Thus it may be appropriate for the government to consider providing considerably higher levels of support for students enrolled in graduate programs and proportionately less support for undergraduates. For example, if the credit or voucher available for undergraduates were reduced to an average of \$1500 per student, then about \$450 million would be available for transfers to over 53 000 full-time and 34 000 part-time graduate students. If we assume that these groups are equivalent to 64 000 full-time graduate students, the voucher amount per student could approach \$7000. This distinction would greatly fortify the consumer power of these students and thus strengthen the competition among universities to attract them and consequently encourage the development of centres of excellence. Given the generosity of such provisions, it would be important, of course, to monitor these programs carefully in order to ensure that academic standards are maintained and that too many students do not undertake graduate studies. While we make no recommendation concerning the appropriate level of graduate-student vouchers, we do recommend that this possibility receive some consideration.

Commissioners' proposal for direct-to-student funding is congruent with the assumption that support for post-secondary institutions is provided, primarily, to underwrite teaching costs, although the graduate-student option would also add significant support to research projects. In fact, as we noted earlier, post-secondary institutions, particularly universities, provide a variety of other benefits to society, of which the most important are research, the maintenance and development of culture and knowledge, and the provision of other community services, such as those offered by public speakers or paid

and volunteer consultants. A funding formula based strictly on undergraduate enrolment would not fully reflect the value of these services. Extra grants could therefore be provided to institutions with higher-than-average publication rates or with greater-than-average success in obtaining research grants from the private sector. Alternatively, funds provided by the various granting Councils might cover the overhead costs of research projects, as now happens in the United States, or the universities themselves might be able to work out a national formula for the distribution of funds to support research and student services. Of course, transferring money from the direct-to-student grants for these purposes would raise the effective cost of education for students and, to some extent, shift the balance of emphasis in universities towards research.

In order to retain, and perhaps improve, the access of low-income students to PSE institutions, the Canada Student Loan Program would have to be retained and its loan limits increased for those students who qualify academically for higher-cost programs. Alternatively, the CSLP could be replaced by an income-contingent/loan-repayment scheme of less universal nature than that referred to above. The income-contingent/repayment loan, while not an attractive option to cover all direct-to-student financing, does have advantages for providing support to students who require extra financial assistance. It lowers the financial risk of post-secondary education for lower-income Canadians by assuring them, in effect, that if their increased education does not produce a relatively higher income, its cost to them will be reduced correspondingly. Perhaps equally important, it removes the necessity to consider, before the terms of the loan/grant arrangement are settled, whether or not a student could be supported by his or her parents. The provision in the current CSLP arrangements that requires this information has always been difficult to administer, and many students have learned to manipulate it to minimize the cost of loans to themselves, whatever their family financial situation. The income-contingent/repayment feature does not require any "needs" test before the loan is granted, since repayment will be tailored automatically to post-education income, and not to current need.

Not surprisingly, a shift to direct-to-student funding has significant ramifications affecting the distribution of revenues among provinces. Table 18-1 indicates the extent of the changes (interprovincial dollar shifts) which would have occurred in the flow of funds to provinces if the program proposed had been in effect in 1982-83. If 1984-85 figures were available, the current dollar amounts would be about 11 per cent higher, but the initial distribution shown in Table 18-1 would be essentially unchanged.

Ontario, Quebec and Nova Scotia would each receive somewhat more money if the relative numbers of students remained unchanged. The largest percentage gain of 5.1 per cent would occur in Ontario. British Columbia would lose about 9 per cent of its current federal funding, while Newfoundland, Prince Edward Island and Saskatchewan would lose about 8 per cent each. These changes would occur because of the real distribution of students for, unlike the current EPF formula, a direct-to-student/funding arrangement would distribute the money across Canada on the basis of student population, rather than on that of a simple per capita formula. Moreover, funding figures

TABLE 18-1 Interprovincial Dollar Shifts from Replacement of EPF by Direct-to-Student Funding

	1982-83 EPF (\$ 000s)		Total	Notional Cash* After Equivalent to Abatement Distribution	1982-83 ^b Full Time PSE Enrolments	Total Direct Transfers to Students in Province ^c	Total Gain (Loss) in Province	Percentage Change from Current Cash Transfers	Percentage Change from Current EPF Total Entitlement
	Cash	Tax							
Newfoundland	47 186	37 339	84 525	29 400	11 470	22 221	(7 179)	-15.2	-8.5
P.E.I.	10 150	8 032	18 182	6 300	2 500	4 843	(1 466)	-14.4	-8.1
Nova Scotia	70 486	55 777	126 263	43 900	23 870	46 236	2 336	+3.3	+1.9
New Brunswick	57 932	45 842	103 774	36 100	15 320	29 675	(6 425)	-11.1	-6.2
Quebec	334 843	623 129	957 972	334 800	181 280	351 139	16 339	+3.0 ^d	+1.7
Ontario	667 834	610 188	1 288 022	448 200	265 100	513 499	65 299	+9.8	+5.1
Manitoba	85 621	67 752	153 373	53 400	23 400	45 326	(8 074)	-9.4	-5.3
Saskatchewan	84 179	61 124	145 303	50 600	20 100	38 934	(11 666)	-13.9	-8.2
Alberta	130 854	211 913	342 767	119 300	57 740	111 842	(7 458)	-5.7	-2.2
British Columbia	195 062	217 024	412 086	143 400	54 910	106 361	(37 039)	-19.0	-9.0
Yukon & N.W.T.	5 160	5 263	10 423	4 900	0	0	(4 900)	—	—
Total	1 699 307	1 943 383	3 642 690	1 270 300	655 690				

Source: Canada, Secretary of State, *Support to Education by the Government of Canada* (Ottawa: Minister of Supply and Services Canada, 1983).

- a. "Notional Cash" is calculated by assuming that the federal government surrenders to all provinces the equivalent of the Quebec Abatement for post-secondary education. Its value is calculated by multiplying the total entitlement by the ratio of Quebec cash to total entitlement.
- b. Part-time students are not included. They add approximately 10% to the total of students in each province.
- c. The value of the transfer is approximately \$1937. Inclusion of part-time students will reduce this to about \$1750 (in 1982 \$). The total dollars going into a province will be equal to the transfers to students, plus the value of the abatement. The abatement value will be equal to current cash, minus the Notional Cash.
- d. To calculate this percentage, the Quebec cash figure was adjusted to include the approximate value of the abatement. The adjustment value is approximately \$537 275 000.

would change in response to fee differentiation and shifting student population; these changes would be both inevitable and intentional in a more directly market-oriented system.

On the basis of this review of the present problems and possibilities relating to post-secondary education and its financing, options open to Canadians include:

- A return to the pre-EPF funding formula whereby the federal government transferred to provincial governments 50 per cent of the operating costs of PSE institutions. This move would produce a decrease in federal contributions, but would exert some leverage on provincial governments to increase contributions, since larger provincial transfers to universities would elicit larger federal transfers to the provinces.
- Provision by the federal government of an amount equal to provincial "own source" funding, exclusive of the tax points transferred under EPF. This action would reduce federal contributions by \$600 – \$900 million, and at least part of this decrease might well be passed on to the PSE institutions in the form of cuts by the provincial governments. After the initial decrease, this formula, too, might be expected to exert upward leverage on provincial expenditures.
- A freeze of basic federal contributions at current or slightly lower-than-current levels, with 50/50 federal matching of incremental provincial PSE spending. Since provincial spending increases would be accompanied by equal federal increases, this arrangement, also would exert upward leverage on provincial expenditures.

While the third option is perhaps preferable, it also has significant disadvantages. It tends to fix federal contributions at the historically high current level. It allows those provincial governments which have provided relatively less to PSE institutions to retain a very high share of federal funding, while financing any increments from this very low base level on a 50/50 basis. In effect, therefore, it may tend to consolidate the benefit to provincial treasuries of what some would regard as previous provincial government underfunding. If it triggers an initial reduction in contribution levels, that reduction might be passed on to the PSE institutions by provincial governments. All of these options rely on the premise that provincial governments will respond to "fifty-cent dollars" by increasing spending in areas where those dollars are available. While this possibility has undoubted theoretical appeal, empirical evidence in its support is derived from a period when public sector budgets were expanding, and when spending on educational programs was highly popular.

Commissioners have also considered a variant of the third option outlined above. The freezing of federal cash contributions to provincial governments at 1984–85 levels would generate quite substantial savings: these would be in the order of \$130 million in 1984–85 and, depending on rates of nominal growth of GNP, over \$200 million in 1985–86, and well over \$300 million in 1986–87. If the federal government used this money to support research activities in Canadian universities by covering the overhead costs of research, freeing accomplished researchers from teaching loads, and underwriting purchases of

capital equipment, a very substantial impetus could be provided for Canadian research efforts, and very important centres of specialization and excellence could be created. Commissioners believe that this option also deserves serious consideration, although the shifting of such sums from general support to research support might have negative effects on undergraduate programs and on community colleges. It may be more desirable, therefore, to provide one-half the incremental funding to support university-based research and to use the other half to match, on a 25/75-federal/provincial basis, provincial increases in transfers to post-secondary institutions.

Since all the options for changing funding formulae have flaws, the temptation becomes very strong to accept the *status quo*. That temptation must be offset, however, by the high levels of dissatisfaction with the current situation expressed during this Commission's hearings, both by those within the system and by the broader interested public. Since all the standard intergovernmental mechanisms of fiscal transfer that are available have been tried in this sector, and since all have been found wanting, Commissioners recommend that Canadians seriously consider more significant reforms involving direct-to-student transfers by the federal government and "freed-up" tuition fees in PSE institutions. To cover the overhead costs of research, we recommend that some of the funds currently transferred under EPF be shifted to the granting councils: the Medical Research Council, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council; we further recommend that the Councils award research grants generous enough to provide full funding for the overhead costs of research. We believe that the other options, too, merit serious consideration. Most particularly, however, we are convinced that it is important for federal and provincial governments to begin a serious set of negotiations with respect to post-secondary education. For too long now, Canadian governments at both these levels have been avoiding the very serious need to reconsider the financing and structure of PSE institutions and programs.

Finally, Commissioners wish to make two further comments on this subject. First, we wish to draw attention to the wide range of means of delivery of higher education made possible by modern communications technology. While there are undoubted advantages to on-campus training, this experience is not possible for millions of Canadians who do not live near a PSE institution. The provision of television courses, whether satellite- or cassette-based, the transmission of educational information through on-line home computers, and the supporting use of correspondence material, all constitute noteworthy innovations in providing education to many Canadians who could not otherwise expect to have access to it. We wish to express our admiration and support for those Canadians who have pioneered in these areas, and to recommend that governments continue to underwrite their efforts and encourage the expansion of their work.

We also wish to comment on the state of university-based social science research in Canada. We do so on the basis of our own experience, for it is largely from this source that we recruited our research personnel and the research expertise which is one of the corner-stones of this report. We

discovered, as we inaugurated our research effort, that Canada has available a very substantial body of researchers with a remarkably extensive knowledge of Canadian society and the economy. We found no shortage of people capable of conducting research into Canadian topics and of expressing their findings in ways accessible to this Commission. We found a lively interest in almost all of the major issues this Commission wished to confront. But we also became aware of some shortcomings.

Canadian social science appears to be characterized by considerable parochialism. While there exists extensive knowledge of things Canadian, the ability to compare Canadian situations or policies with those of other nations often seemed to Commissioners to be distinctly limited. We have had some difficulty, for example, in finding Canadian academics who could provide up-to-date information on foreign domestic developments. We have learned that Canadian academics do not always participate as extensively as they might in international research networks, and there appears to be relatively little "leading edge" Canadian research in some of the fields with which we were most concerned. It seemed surprising to us that we could find rather few economists deeply concerned with resource policy and almost no political scientists specializing in the politics and government of the United States. In part, this general parochialism might be explained as a reaction against the domination of Canadian social science by U.S. concepts and by American-trained social scientists of the 1960s and 1970s. Nonetheless, that consideration does not make it a desirable feature of Canadian academic life. We have also discovered a considerable degree of disciplinary isolation. Economists, political scientists and lawyers working with this Commission were happy to try to work together, but it became obvious at an early stage of our project that they had had little experience in doing so. This situation left Commissioners and staff with significant problems in trying to devise an integrated approach to the materials available.

Commissioners' suggestions emanating from these concerns are almost self-evident. Canadian scholars and institutions should be encouraged and supported in pursuing interdisciplinary research and in conducting investigation which will extend our nation's horizons beyond our own borders. Government granting Councils and programs designed to encourage research in the social sciences should pay particular attention to developing this aspect of Canadian university-based research.

Notes

1. In the 1960s and 1970s, economists devoted considerable effort to estimating rates of return on education. Their chief purpose was to see whether there was overall under- or over-investment in education. Such studies typically suggest that the rate of return on education is quite high (for example, between 10 and 15 per cent), although a decline in rates of return is believed to have occurred in the 1970s. While such estimates had a considerable impact in the 1960s, their influence declined in the 1970s.
2. Organisation for Economic Co-operation and Development, *Social Expenditure 1960-1990: Problems of Growth and Control* (Paris: OECD, 1985). Note that OECD comparative data are for educational expenditures. When publicly financed training is added, total expenditures approach 8 per cent of GNP.

3. Cited in Lars Osberg, *Economic Inequality in Canada* (Toronto: Butterworth, 1981).
4. O. Mehmet, *Who Benefits from the Ontario University System: A Benefit-Cost Analysis by Income Groups* (Toronto: Ontario Economic Council, 1978), p. 45.

Training

In our earlier discussion of general labour-market issues, Commissioners emphasized the need to help individual members of the labour force to adjust to changes and dislocations, whether caused by economic and market forces or by technological change. Governments may provide this help in the form of direct financial support, by facilitating the flow of information about opportunities, or by supporting training activities.

Governments have tended to provide most of their employment-training assistance through institutional training programs based primarily in *Collèges d'enseignement général et professionnel* (CEGEPs) and community colleges. Most such training, however, is, provided on the job without government support. The costs of this type of training are largely shared by employers, in the form of temporarily forgone production, and by their employees, in the form of temporarily forgone wages. What, then, is the appropriate balance between on-the-job and institutional training? No unequivocal answer to this question is possible, but a case can be made for some movement toward on-the-job training and away from institutional programs. Fortunately, federal policy is already progressing in that direction.

There are other important questions too, that need to be asked and, if possible, answered. For instance, how much training is required? What should be the level of specialization and sophistication of that training? Where should the balance lie between training early and later in life?

Commissioners raised the issue of the degree of specialization and sophistication of training required when we considered post-secondary education. There, we noted that the evidence that technological and economic change would require a more highly-skilled and sophisticated labour force was not necessarily compelling. Rather, it seemed that the skills required of our labour force over the rest of the century might be somewhat different in content from the current mix, but not a great deal more sophisticated. Nevertheless, there is no question but that Canadians should expect and plan for a continuing general increase in the education levels of our society.

We have already noted at many other points in this Report that economic forces will require Canadians to face significant and rapid changes, not least in the structure of opportunities for our labour force. When this reality is applied to post-secondary education, it argues for a solid and rigorous generalist approach, with some degree of specialization for some people. When it is applied to occupational training, it argues for something quite different: the need to be prepared to undertake some specialized training at more than one point in one's career. Commissioners believe, therefore, that both governments and the private sector must, in the future, be willing to devote a larger portion of resources to the training of Canadians.

Institutional Employment Training

The federal government, under the Adult Occupational Training Act (AOTA) of 1966 and its successor, the National Training Act (NTA) of 1982, has provided a significant portion of Canada's institutional occupational training.

Under the AOTA, it provided courses of training primarily for those Canadians who had discontinued formal schooling for at least 12 months; these courses, which were provided in provincial institutions, mainly community colleges, were limited to a year's duration. After 1974, each province was given a guaranteed minimum of funds for such training, indexed to the Statistics Canada Education Price Index. Under the National Training Act, the old Canada Manpower Training Program (CMTP) was replaced by a new National Training Program (NTP) to offer more flexible institutional training.

Until the inauguration of the NTP in 1982, the federal response to criticism of CMTP took two main forms. A decision was taken to reduce the proportion of CMTP trainees enrolled in the low-level Basic Training for Skill Development (BTSD) courses. In addition, the number of CMTP trainees relative to trainees in on-the-job industrial training programs was steadily reduced. Thus there was a shift of resources toward higher-level skill development and from institutional to industrial training.

The National Training Act has made several important changes in institutional employment training. For example, if there is a skills shortage, or if a trainee has no other opportunities to acquire a particular skill, he or she may enrol within fewer than 12 months of leaving school. Thus, in future, employment training may serve to provide young people with an additional bridge between school and work. In addition, the maximum length of a course offering instruction in higher-level skills has been increased from 12 to 24 months. Higher-income/support rates are now provided to encourage laid-off apprentices to continue training and to assist laid-off workers to retrain in "demand occupations". More extensive use of unemployment insurance (UI) benefits in lieu of the lower-level/training allowances has also supported this approach.

A further element is the development of a new system for overall allocation of training resources: the Canadian Occupational Projection System (COPS). This computer-based system draws on forecasts of occupational demand and supply, provided by employers, unions, governments, and educational institutions, to put together projections of the "balance" among a detailed list of occupations. Users access the system through computer links and may experiment with other combinations of the information available, using the data to assist them in making their career or training plans. Occupations in which there is a high level of demand, either nationally or regionally, will be designated "national occupations", and training resources will be directed to these on a priority basis.

Systems such as COPS may, in the future, become more widely available to individuals planning careers. It is important, however, to acknowledge that in the past, neither Canada's nor any other nation's attempts at occupational-demand projection have been very successful. Moreover, there are some dangers in using planning systems that are too broadly based, for today's "demand occupations" may be overwhelmed by new entrants if the same information governs too many training decisions.

On-the-Job Training

While there exists no precise way to measure expenditures for on-the-job training, some estimates suggest that they are as high as those for formal schooling, particularly for male workers. Recently there has been an increase in government support for this sector of our training system. One important impetus for this increase was the disappointing experience with institutional employment training in the 1960s and 1970s. More recently, a number of serious shortages of skilled workers in particular fields (machinists, machinery mechanics, tool and die makers, for example) and the fear that industry, unassisted, will be unable to retrain workers as necessary to meet the rapid technological changes of the 1980s have resulted in greater public interest in employment training.

Throughout the 1970s and into the 1980s, there was a gradual shift of federal training resources away from institutional training and towards the subsidization of on-the-job training. Programs specifically aimed at alleviating apparent shortages of labour in certain trades were also introduced. Finally, various other wage-subsidy programs have been initiated. These contribute to training by helping young people and other targeted groups to obtain jobs that will assist them to "get started" in the labour market.

Wage-subsidy programs to stimulate on-the-job training have also been introduced by provincial governments. The Ontario Career Action Program, for example, is intended to put to work, for up to 16 weeks, trainees from among unemployed 16- to 24-year-olds, at zero cost to their employers. The trainees receive training allowances (in effect, a full-wage subsidy) of \$100 per week, in lieu of salary. Another variant, the Ontario Training Incentive Program (OTIP) is intended to provide payments of \$1000 each to any employer and employee when the former keeps the latter in an on-the-job training course for a full year.

Although one ostensible purpose of diverting resources from institutional training to on-the-job training is to exploit the informal learning opportunities of the job situation, it has been alleged that the design of current federal programs restricts the extent to which this aim is realized. The programs provide a combination of wage subsidies and support to employers to cover the cost of training programs. However, support is provided only for formal instruction, that is "classroom" training within the firm, and not for the costs of informal instruction at the work station. This kind of support may therefore be less effective than lump-sum support as provided under some provincial programs in which employers are free to propose other ways of providing instruction.

Finally, it has been widely suggested that the diversion of training resources from institutions to on-the-job training and the intention, under the National Training Act, to concentrate on training for high-demand occupations represent a major change in the purpose and probable effects of federal support for employment training. Many analysts believe that the pursuit of "distributional" objectives, such as offsetting regional differences in unemployment rates, are beginning to take second place to an "efficiency"

focus, which directs resources to the areas where the largest possible increases in output can be generated per training dollar. This approach is consistent with the approach Commissioners have taken in this report. In general, we believe that distributional objectives should be pursued through programs intended specifically to provide income security, and that training programs should focus as directly as possible on improving the efficiency of our labour force.

Broadly speaking, then, the directions set out in the National Training Act, the agreements signed pursuant to that Act, and the increased emphasis given to on-the-job training seem quite appropriate, and Commissioners do not recommend any change of course. Nevertheless, a system as large and complex as that administered by the NTA typically suffers from a very substantial degree of inertia, and changes within it come only slowly and with difficulty. The federal and provincial governments will have to put forth a considerable continuing effort if this redirection is to be consolidated.

Employment Training for School-Leavers

While Canadian governments typically devote considerable attention to institution-based education and training programs, they have traditionally paid less attention to on-the-job training and to non-institutional vocational education for early school-leavers. Commissioners agree, in general, with the Chairperson of the Toronto Board of Education who commented to us:

What I believe we do is to make a significant public policy commitment to those students whose transition to adulthood is going to be fulfilled through the post-secondary education sector, either universities or colleges. What I believe we fail to do—our record is appalling—is to nurture the transition of those students that choose to leave school either before or immediately following the acquisition of a secondary school graduation diploma.

(Penny Moss, Transcript, Toronto, June 26, 1984 [vol. 13], p. 3245.)

Actually, both federal and provincial governments have already begun to change this situation. Not only has more support been made available for general industrial training programs, but there has also been some expansion of wage-subsidy plans to help young people obtain work. Under the National Training Program, the federal government has also moved to increase the scale of support for industrial and apprenticeship training, some of which goes to young labour-force entrants. In addition, for the first time, this support allowed early school-leavers to enter directly into non-apprenticeship employment training, without first spending a year in the labour force. However, the great majority of those entering the labour force directly from school still receive no government help in obtaining training.

More adequate encouragement for school-leavers to take on-the-job training might include expanding existing programs for these young people, particularly in apprenticeship training; encouraging them to participate to a greater extent in institutional employment training; and spending more on

wage-subsidy programs to promote “career action”. The institutionally-based programs have the potential flaw of substituting formal institutional training for practical on-the-job training that might prove more productive. Moreover, the institutional approach is selective: a minority of school-leavers receive intensive assistance, but the majority must do without help. This type of program also increases the danger that government assistance will encourage young people to crowd into high-demand occupations when it might actually be desirable for them to choose from a broader range of employment possibilities.

In view of the drawbacks of opting for selective support for vocational training of school-leavers, it may be desirable to consider a “universal” plan. The Swiss, West German and the British systems provide examples. Under the Swiss and West German systems, all young people between the ages of 15 and 18 who are not in regular schools or post-secondary institutions are engaged in some form of vocational training. Some of their training is provided by the state institutions, and some is offered by firms, in the form of apprenticeship programs. These schemes have their attractions. They may, for example, reduce the need for “remedial” employment training, on which Canadian taxpayers spend so much, by arranging to train people properly in the first place. However, they are unquestionably very expensive. Less-costly options should therefore be considered.

One universally applicable proposal would be to offer wage subsidies inversely related to age for all young workers. A program might, for example, pay \$1.50 an hour on behalf of 15-year-olds, \$1.00 an hour on behalf of 16- to 17-year-olds, and so on. A precedent for this type of scheme was the employment tax credit introduced into the corporate tax in 1978. This credit provided a \$1.50-per-hour wage subsidy (higher in designated areas) for new full-time employees hired for at least three months. Some will object that this scheme would merely lead to more “dead-end” jobs for the young because the jobs subsidized would lack a required training component. Some subsidy funds would no doubt go to support such jobs, but this disadvantage must be weighed against the benefits of the scheme: among these are reduced youth unemployment and more on-the-job training. The subsidy is particularly useful in rectifying situations where the minimum wage severely reduces on-the-job training for workers in the target age brackets. A general subsidy would have some of the same effects, but it would not provide a targeted advantage for those newly entering the labour force.

In a fiscally unconstrained world, Commissioners would recommend a generalized job-apprenticeship program along the German lines. Given the reality of fiscal constraints, however, we recommend reinstatement of the employment tax-credit program of 1978, which was targeted at youth, and the elimination of all specifically youth-targeted, direct, job creation. The tax-credit program should also be made available on behalf of women entering the labour force for the first time and of those who are re-entering the workforce, after dropping out for reasons of family responsibility. During phase-in, the program should be monitored to determine whether it displaces existing workers to an unacceptable degree.

Retraining and Paid Educational Leave

The new insight of our times, we suggest, is that education is not a program which can be added to or subtracted from the other patterns of national activity. Education is instead, a way of life within the community, a continuum of experience that progresses from pre-schooling to elementary and secondary schooling, to college and university, on to continuing education, *éducation permanente*, as our French colleagues wisely term it. Education must truly become education-for-life: that is, “life-long educational experiences, fitting Canadians to live in swiftly changing environments.” (David Johnston, Transcript, Montreal, May 30, 1984 [vol. 1], pp. 20–21.)

This Commission’s research has indicated that the tax system provides more liberal treatment for on-the-job training than for part-time or full-time formal education for prime-age workers and older Canadians. Given a stable technological and economic environment, this fact might be of little concern. After completing a formal education in their early years, Canadians would acquire general and specific skills through on-the-job training. The time devoted to such training would be reduced until, by late middle age, workers would be almost entirely engaged in earning a return on their accumulated skills and would spend little time augmenting them. Whether taxes and subsidies for highly-paid prime-age workers discouraged the acquisition of formal education in comparison to on-the-job training would be of little concern. Very few prime-age workers would, in any case, wish to return to formal schooling.

In fact, changes in technology and the structure of work often necessitate retraining and re-education at various points in an individual’s lifetime. Job-related changes can wipe out the value of a worker’s skills or create new opportunities, not originally present, for investment or human capital. Provided that a worker is not too old, such changes will often make a period of re-education a paying proposition. They may even make profitable a full-time return to study. Two recent proposals for assisting adult education and training are a levy/grant scheme of the type used for a time in Britain in the 1960s and 1970s, and the proposal for earned educational leave made recently in *Learning for Life*, the report of the National Advisory Panel on Skill Development Leave.¹

While there are strong proponents of a levy/grant scheme, many analysts have questioned its suitability. The 1981 report of the Canada Employment and Immigration Commission (CEIC) Task Force on Labour Market Development suggests several problems with the levy/grant system:

The original intention of the levy/grant system was to redistribute funds (i.e., the costs of transferable skill/training) from firms which did no training themselves but relied on recruiting skilled workers trained by others, to those firms which actually did the training. In practice, the system operated in such a way as to also redistribute funds for other reasons.

- *Firms within the same industry and which paid the same amount of levy (because their total payroll or employment was identical) recovered greatly*

differing amounts in grants because differences in the skill mix in their enterprises affected their ability to earn training grants.

- Firms which had low turnover among their skilled staff and hence did little training (because it was not necessary) recovered little from their levy and saw themselves as subsidizing less well-managed firms which had high turnover, conducted a great deal of training and hence attracted relatively large training grants.
- Highly specialized firms, with training carefully geared to their own requirements, received a low return on their levy (in the form of grants) because their training did not fit the training boards' grant criteria which were geared to common training standards for the industry as a whole.
- Some firms received a high return on their levy because they could arrange "training" activities which satisfied the boards' grant criteria, even though there was no real need for the training. (In this respect, a system intended to improve allocation of resources to training actually promoted a misallocation of resources.)²

Another important recent proposal for support of re-education and retraining is that for earned educational leave. Such an arrangement might, for example, provide every worker with the right to paid educational leave at the rate of one day off for every 30 days worked. Employers would be compensated by means of tax credits for the costs of hiring replacements. This earned time-off proposal put forward in *Learning for Life* offers high rates of subsidy for a short period of time. For example, an employee who had worked for five years would have earned about two months' fully paid leave. For workers who have access to satisfactory opportunities for re-education, however, this length of leave is insufficient, while for those with unsatisfactory opportunities, it is too long.

A third option proposed is the "Registered Education and Training Savings Plan" (RETSP) of *Labour Market Development in the 1980s*, or the "Registered Educational Leave Savings Plan" (RELSP) of *Learning for Life*.³ Under the RELSP, workers could save for re-education in the same way that first-time home buyers could once save for their first house. Each year, contributions up to a certain limit could be used to reduce taxable income, with resulting tax relief. Later, when the individual took time off to go back to school, the savings of the RELSP could finance educational and training costs.

RELSPs offer some major advantages over the earned educational-leave proposals in *Learning for Life*. The RELSP would provide approximately the right level of subsidy, given nearly equal marginal tax rates before and after training. It could be made even more flexible by allowing workers on leave to borrow against a RELSP account if educational/training opportunities occurred suddenly before sufficient funds had been accumulated to cover fully the costs of leave. It appears, therefore, that RELSPs deserve much closer attention than they have so far received as a possible device for increasing incentives for prime-age workers to return to formal schooling or to training on the job.

Notes

1. Canada, National Advisory Panel on Skill Development Leave, *Learning for Life: Overcoming the Separation of Work and Learning*, a report to the Minister of Employment and Immigration (Ottawa: Minister of Supply and Services Canada, 1984).
2. Canada, Employment and Immigration Commission, Task Force on Labour Market Development, *Labour Market Development in the 1980s* (Ottawa: Minister of Supply and Services, 1981), pp. 225–26.
3. See also Canada, Task Force on Skill Development Leave, *Learning a Living in Canada*, 2 vols. (Ottawa: Minister of Supply and Services Canada, 1983).

Recommendations

Post-Secondary Education

A number of options are available for dealing with post-secondary education. To some, the *status quo* will seem a satisfactory blend of federal financial support and provincial control. However, the majority of intervenors appearing before this Commission did not find the *status quo* acceptable. Commissioners therefore believe that reforms must be considered, and that serious federal-provincial negotiations to promote this end should begin immediately. Four major and related sets of issues call for discussion: accessibility, levels of funding, quality of the system, flexibility and adaptability.

Commissioners believe that financial problems should not be permitted to prevent otherwise-qualified Canadians from receiving post-secondary education. We therefore support the Canada Student Loans Program and its provincial equivalents, and we recommend that loan limits be changed, in consonance with other policy changes we propose, to remove any financial barriers that might exclude otherwise-qualified low-income students. We are concerned, however, that some aspects of the CSLP are not consonant with family structures currently developing in Canada: in particular, the tendency for university students to become, or claim to become, independent of their parents at an earlier age. An income-contingent/loan-repayment scheme, by treating all applicants alike and by avoiding the need to investigate parental income, could significantly alleviate this problem. It should be seriously considered during the course of the federal-provincial negotiations we have recommended. We also wish to emphasize the importance of continuing to grant scholarships for students who excel, no matter what their income level, and of offering bursaries for low- or moderate-income students with above-average grades who might otherwise be reluctant or unable to continue their education.

If Canadians see the equality and flexibility of our education/training system as a key concern, and if they are convinced, as are Commissioners, that the infusion of more money will not automatically ameliorate these problems, then, in the view of this Commission, a series of reforms designed to create a more competitive and adaptable system should be considered. The main leverage of governments in dealing with the PSE system is financial. The following financing changes should therefore be considered:

- The federal government should terminate the PSE-cash portion of its EPF grants to the provinces, replacing it with an education-expense tax credit or grant.
- Provincial governments should be encouraged to deregulate the fee structure of PSE institutions.
- Provinces may wish to consider basing their transfers to institutions on an equal grant/per-student figure which would be related directly to enrolment, and which would not differentiate among particular programs.
- The student should be responsible for a portion of education costs. Beyond that point, the federal credit should vary with the amount of expenses and

tuition fees, up to a given limit. The amount of the grant should vary only to correspond to fees and expenses directly related to education, and no attempt should be made to direct students into "demand" programs by means of a variable grant structure.

- A portion of the current EPF transfer should be reallocated to granting Councils such as the Medical Research Council, the Natural Sciences and Engineering Research Council or the Social Sciences Research Council, which should begin to cover overhead costs by means of research grants.

As a variation of this approach, it may be desirable to consider an alternative system in which much larger payments are made to graduate students than to undergraduates. Commissioners' preliminary calculations suggest that undergraduate and community-college grants, averaging about \$1500 per year, could be accompanied by graduate stipends in the order of \$7000 per year.

Commissioners' recommendation relating to direct-to-student financing is consistent with either increasing or decreasing the amount of funding for the education sector. If Canadians are persuaded that the major problem of the PSE system is underfunding, that the current intergovernmental-transfer mode of funding presents no problem, and that provincial governments have reduced their grants to educational institutions primarily because of the EPF funding formula, then other options should be considered. These include:

- A return to the pre-EPF funding formula
- Provision by the federal government of an amount equal to provincial "own source" funding, exclusive of the tax points transferred under EPF
- Freezing of *basic* federal contributions at current or slightly lower-than-current levels with 50-50/federal-provincial matching of incremental provincial spending on post-secondary education.

Variants of this last option would be either to direct the incremental federal dollars wholly to university-based/research funding or to dispense one-half for increasing research funding and one-half for matching increased provincial funding to PSE on a 25/75-provincial/federal basis.

Among all of the above options, Commissioners would recommend that the direct-to-student/funding variants deserve most serious consideration as the basis of federal support for post-secondary education. We also believe that if intergovernmental transfers remain the dominant mode of funding, then serious consideration should be given to freezing the basic federal contribution and dividing equally what would have been its incremental amounts between research and a fund to match increments in provincial contributions to PSE institutions, on a 25/75-provincial/federal basis.

Other Education and Training Programs

With respect to primary and secondary education, Commissioners recommend that:

- The private sector take the initiative to establish an independent national commission to monitor quality and standards in primary and secondary education, and to conduct and record research in related areas.

With respect to training, Commissioners recommend that:

- Progress be continued in the directions established by the National Training Act, with particular emphasis on on-the-job and job-related programs
- A special wage subsidy be provided for labour-force entrants who have not received other forms of vocational training or post-secondary education. The subsidy would normally be provided to persons 15 to 18 years of age and to people entering the labour force after absence for family-related reasons. The subsidy could be financed by eliminating other job-creation programs for young people.
- A Registered Educational Leave Savings Plan be authorized under the Income Tax Act, to be used by workers to help finance the cost of training. Careful consideration must be given to the type of program eligible for RELSP financing and to the possibility of requiring some performance standards such as successful completion of the program.



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The Income-Security System

Overview

Canada's income-security system is a complex mix of federal, provincial, and municipal programs comprising social insurance, direct government expenditures, and tax expenditures. The major programs in this system and their estimated 1984–85 gross expenditure levels are Unemployment Insurance (\$11.6 billion), Old Age Security (\$11.4 billion), tax exemptions and deductions for pension purposes (\$7.6 billion), Social Assistance (\$6.6 billion), Family Allowance (\$2.4 billion), Child Tax Exemptions (\$1.4 billion), the Child Tax Credit (\$1.1 billion), and married exemptions (\$2 billion). The personal Tax Exemption (\$14 billion) is sometimes included as well. Many other programs such as Veterans' Allowances, Training Allowances and Social Assistance to on-reserve Natives could also be included. A complete list is shown in Table 19-1.

If we except the personal tax exemption, the combination of tax expenditures, Unemployment Insurance (UI) account payments, and federal and provincial expenditures on direct transfers added up to approximately \$60 billion in 1984–85. Since this sum is equivalent to over 13 per cent of Canada's gross national product (GNP), it is obvious that income-security programs have very important macro-economic implications. Commissioners, having dealt with these implications and with Unemployment Insurance elsewhere in this Report, are concerned here with the design of the other income-security programs, for it is our conviction that the implications of program design are just as important as the questions relating to overall expenditure levels.

Commissioners believe that a review and revision of Canada's income-security programs is an essential adjunct to the changes suggested elsewhere in this Report. Government income-security programs are a fundamental part of the social consensus by which Canadians live. They express, perhaps better

**TABLE 19-1 Estimates of Government Social Security Programs
in Canada, 1984 - 85**

Target Group	Costs in billions \$		No. of Persons (^{'000})
	Federal	Provincial	
Poor			
Canada Assistance Plan	4.1	4.1	3 000
Provincial Tax Credits	—	1.6	107
Veterans' Allowance	0.5	—	—
Social Assistance to on-reserve Indians	0.2	—	—
Guaranteed Income Supplement & Spouses' Allowance	3.1	—	1 440
Child Tax Credit	1.1	—	5 000
Social Housing	<u>1.1</u>	<u>—</u>	—
Total	10.1	5.7	
Families			
Child Care Expense Deduction	0.1	0.0	370
Family Allowance	2.4	—	370
Child Tax Exemption	0.9	0.5	6 600
Married & Equivalent to Married	<u>1.4</u>	<u>0.6</u>	3 230
Total	4.8	1.1	
Employment Assistance			
Unemployment Insurance	11.6	—	3 200
Training Allowance	0.1	0.1	64
Workers' Compensation	—	1.6	620
Employment Expense Deduction	<u>0.8</u>	<u>0.4</u>	—
Total	12.5	2.1	
Elderly			
C/QPP	4.4(CPP)	1.6	2 330
OAS	8.3	—	2 700
Tax Assistance RRSP, RPP, C/QPP	4.7	2.3	—
Age Exemption	0.3	0.2	0
Pension deduction	0.1	—	903
Veterans' Pensions	<u>0.7</u>	<u>—</u>	655
Total	18.5	4.1	
Total income security	<u>45.9</u>	<u>13.0</u>	
Grand total	61.6		

Source: Calculations supplied by Ministry of State for Social Development, based on 1984 - 1985 estimates and Department of Finance figures.

than any other collective activity, our commitment to equity, security and sharing. They should contribute to our ability to take advantage of opportunities, and they should lead us to take responsibility for our own

support whenever that is possible. They are a foundation of support for millions of Canadians and the safety net for millions more. If we are to achieve growth and a better society, we must not fail to ensure that these programs operate both efficiently and fairly.

The changes Commissioners propose elsewhere will call for major and sometimes difficult adjustments, and the effects of these will be felt by millions of Canadians. Many will gain in the short run; most will gain in the longer term. For those of us whose lives are altered by economic change, reasonable protection and security must be provided in such a way as to encourage us to grasp our opportunities. The gains to be reaped from economic growth must be shared with those who would, in any event, require income support, and a generous measure of assistance must be provided to help them live their lives in security and dignity.

Objectives

Commissioners noted earlier that two broad objectives underlie most of Canada's income-security programs:

- The sharing of our resources so as to provide an adequate income in relation to community standards
- The maintenance of an appropriate degree of income security or stability.

In keeping with the fundamental values outlined at the beginning of this chapter, income-security programs must also achieve four other broad goals. These are:

- The equitable treatment of individuals and families in different situations and with different levels of need
- The provision of an incentive to encourage people to take advantage of their opportunities
- The encouragement of people to take responsibility for their own lives and livelihood when they are able to do so
- Respect for the personal dignity of the beneficiaries.

There are other purposes, too, which Canada's income-security programs may be explicitly or implicitly intended to fulfil. These may include the maintenance of political support, the regional redistribution of funds, and support for newly formed families and for families raising children. Since not all of these goals are consistent with one another, the design of income-security programs necessarily involves compromise and a balancing process.

More concrete administrative considerations, too, will determine the effectiveness of programs to a significant degree. These include ensuring:

- The appropriate degree of responsiveness to income change
- A minimum of program abuse
- A high rate of use of the programs by eligible beneficiaries
- Administrative ease and economy.

Achieving the Objectives: Considerations in Program Design

Adequacy of Income

The provision of an adequate income to all citizens is perhaps the goal most commonly associated with modern income-security systems, and virtually all transfer programs address it to some degree. Some programs, such as social assistance, examine family or individual needs quite closely in order to determine appropriate levels of benefits. Others, such as the Child Tax Credit or the Guaranteed Income Supplement (GIS), simply ask for reports of income as a substitute for proof of need. Still others, such as Unemployment Insurance, Canada Pension Plan (CPP), or Old Age Security (OAS), assume that need will arise in certain circumstances such as retirement, older age or unemployment, and therefore make benefits available to all eligible residents in those circumstances. Relatively few transfer programs, however, have the alleviation of low incomes as their only major objective. The exceptions are Social Assistance, the Guaranteed Income Supplement, the Child Tax Credit, and various provincial “top-ups” to OAS/GIS.

Income Stability

The second fundamental goal is the protection of income stability or continuity. In Canada that objective is treated by a variety of more or less appropriate program designs. Since almost everyone faces declining income at retirement, this objective may be partially served by providing a universal payment, in the form of OAS, to all Canadians over age 65. OAS is now accompanied by the CPP, which is currently available to members of the labour force who have contributed to the latter plan. CPP payments to eligible beneficiaries start at retirement for those who are over age 60. The CPP, therefore, is specifically related to income stability, since contributions and benefits are related to earnings.

Drops in income are also, of course, associated with unemployment, and Unemployment Insurance is intended to deal with that source of income instability. Where the decline in income is related to a definite event such as retirement, contribution levels can be related solely to income, for everyone bears the same “risk” of requiring the benefits. Where the probability of decline in income varies from individual to individual, however, the pure insurance principle would require a contribution rate related to the risk of a given event’s occurrence. (In this case, of course, the “event” is unemployment.) At present, however, the UI program does not vary its premium rates according to degree of risk, even though the risk of unemployment varies from job to job; in that sense, therefore, it is not a pure social insurance program.

Equity

A requisite in the design of any income-security system is to ensure that the net effect of its programs is equitable. The net effect of the income-security

system on an individual or family results from the interaction of both tax and transfer programs. Equity in income-security design has two aspects:

- Horizontal equity, which involves applying the tax and transfer-payment system differently to different individuals or families, according to the various needs created by their particular characteristics or situation
- Vertical equity, which involves treating individuals and families with different incomes, but otherwise similar characteristics or situations, in proportion to the differences in their incomes.

The Family Allowance program, for instance, ensures that at any income level, families with children have more resources than those without children, thus contributing to horizontal equity. By contrast, the Child Tax Credit provides greater benefits to lower-income families with children than to higher-income families with the same number of children, thus contributing to vertical equity.

Equity considerations can become highly complex and are, by their very nature, value laden. Such considerations raise any number of questions. Does ownership of a home, for example, increase the "real" income of an elderly person in a way that should result in a reduction of transfers to that person? If it does, how are program designers to define the appropriate level of income to attribute to the value of the home? How much support should be provided to families with children, compared to couples and individuals with the same incomes, but without children? How much more tax should richer individuals pay than poorer individuals? The more program designers attempt to deal with equity considerations, the more they must consider the characteristics of claimants. To achieve a high degree of equity, particularly horizontal equity, requires a very considerable exercise of bureaucratic discretion and therefore may involve significant administrative costs.

Incentives and Opportunities

Income-security programs must not impair incentives for individuals to improve their own situation. This is important both to avoid impeding people's own efforts at self-improvement and to maximize the efficiency of Canada's labour force. Programs should therefore be designed to provide incentives that will encourage employable beneficiaries to try to find employment, participate in job-training and skills-upgrading programs, make appropriate use of occupational and geographic mobility, and form stable work attachments. Particular care must also be taken not to build into income-security programs incentives which may diminish family formation or lead to breakdowns in family structure.

Responsiveness to Income Changes

Income-security benefits must respond reasonably quickly to the changing incomes of individuals. It may be considered more important, however, for programs to respond more quickly to certain kinds of income loss than to

others, both to encourage flexibility in the labour market and to protect beneficiaries from extreme hardship. In general, the less predictable the source of income change, the more quickly the program should be able to respond.

What is the appropriate level of responsiveness for programs intended to provide temporary income replacement during periods of involuntary unemployment? What payments should these programs make to beneficiaries? The answers to these questions will depend on the respondent's views about personal responsibility for saving to bridge temporary income losses. A program which is highly responsive to recent income changes, and which distributes a high level of benefits may discourage personal savings and will certainly require a higher expenditure of public funds. In that vein, another question arises: Should individuals whose incomes are reduced for short periods and who later regain their usual higher incomes be required to repay some portion or all of the benefits they have received?

Accessibility

If a program is worth providing at all, then it is desirable that its benefits be readily accessible to those persons who fulfil the eligibility provisions. If administrative or discretionary barriers to program use must be erected, the program's fundamental benefit structure is flawed, and its administrative costs will be disproportionately high. Universal transfer programs, of course, generally have very high take-up rates, but the ideal selective or targeted program would also have a very high take-up rate among those who are eligible for its benefits. High take-up rates in targeted programs result from ready public access to program information and application procedures, ease of compliance with program conditions, program responsiveness to income changes, and absence of administrative "hassles" in establishing eligibility.

Discouraging Program Abuse

While eligible persons should be encouraged to take up the benefits of an income-security program, governments should discourage abuse of the program both by those not eligible to use it and by qualified beneficiaries who claim too high a benefit. It is obviously difficult to estimate abuses of income-security programs, since the essence of program abuse is that it be unreported. However, the highest estimates for social assistance abuse are in the 5 per cent range, and similar estimates are probably appropriate for Unemployment Insurance. This figure is almost certainly no higher than corresponding estimates for the abuse of the personal and corporate income-tax systems. Moreover, it is virtually impossible to abuse some of Canada's major income-security programs such as Family Allowances or Old Age Security (OAS), since it is obviously very difficult to "fake" eligibility in these instances, and since initial-benefit levels are independent of any factor other than eligibility.

Much abuse of income-security programs is the result of inappropriate program design, and it can be much more easily dealt with by correcting a

program's structure than by employing more people to police its beneficiaries. By far the most common abuse of social assistance programs, for instance, is the receipt of small amounts of unreported income by recipients. Commissioners believe that any person who is able to earn a small income to "top-off" benefits should be strongly encouraged to do so, even though the current program design explicitly discourages such initiatives. Indeed, any social assistance recipients who do find part-time work are likely to be penalized by dollar-for-dollar reduction of their benefits, after a small exemption for "work-related expenses". The solution, in our view, does not lie in more strenuous policing, but rather in a change of program design.

Inappropriate program design can, in fact, cost our economy far more and raise our governments' expenditures higher than any level of abuse. Very few of the thousands of Canadians who are presently taking advantage of the ease of re-establishing eligibility for Unemployment Insurance or of UI regional extended-benefits structure and very few of the businesses which employ these people are engaged in anything which could be called "program abuse". Yet the effect of their use of program benefits is to encourage the continuation of quite inefficient industries so that the real economic cost of this aspect of program design is very high.

When levels of social abuse are low, the extent to which it is worthwhile to pursue abusers is questionable. Often it costs governments as much—or more—to catch abusers as they could save by identifying them. This is not to argue that governments should take no interest in discouraging abuse of social welfare programs, and that no enforcement provisions should be implemented. No doubt the threat of detection is a powerful deterrent to abuse that governments cannot afford to surrender. It is important, however, to keep in perspective assessments of the cost-effectiveness of anti-abuse mechanisms.

Respect for the Dignity of Beneficiaries

Income-security programs should impose no unnecessary stigma or harassment on beneficiaries or potential beneficiaries. In general, social insurance, universal benefit- or income-tax/related schemes create the least stigma. As most employable beneficiaries are imbued with the work ethic, their dignity may be enhanced by providing support through employment programs or through premium-financed social insurance; for employable people, there is far less stigma attached to receiving Unemployment Insurance than to accepting Social Assistance. Programs are also likely to be more acceptable if establishing eligibility is simple and requires little probing into the personal lives of applicants. In the past, demeaning procedures have been imposed on applicants in response to taxpayers' concerns about work effort and budgetary economy. It therefore bears repeating that if reasonable incentives can be built directly into the benefit structures of appropriate programs, there should be no need to retain such expensive and inappropriate "safeguard" features.

Administrative Ease and Economy

Income-security programs should be as simple and economical to administer as their other objectives allow. They should not require vast bureaucracies and shelves of program manuals describing the delivery systems. Moreover, readily observable criteria should be used to determine the initial and continuing eligibility and benefit rates of claimants.

This Commission recognizes, however, that while this standard of program design should be held constantly in view, factors exist which must lead to some administrative complexity. The requirements for equity in the selection of program beneficiaries will sometimes require complex judgements about real similarities or differences in various situations. Again, since some abuse of social programs is inevitable, some policing will always be required. Moreover, no matter how adroit the program design, there will always be special cases. These must be dealt with individually, and that necessity, too, requires some administrative complexity.

The Current System

By the standards set out above, the Canadian income-security system demonstrates some serious shortcomings. Before we can deal with these deficiencies, however, we must note several of the major characteristics of the current system.

Categorization and Incentives: Employable and Unemployable Recipients

The current Canadian income-security system is essentially categorical, differentiating between groups which are not generally expected to be part of the labour force and those which are either part of the labour force or expected to be. The categories of people whom Canadians do not expect to participate in the labour force currently include the elderly, the disabled, and single parents with young children. These omissions probably reflect accurately prevailing Canadian values and do not, by themselves, impose unnecessary administrative complexity. Age is very easy for administrators to determine and very difficult for claimants to falsify. Disability can be assessed by means of physical and psychological tests, though some cases fall into an unavoidable "grey" area. Views differ about the point at which a single parent can be deemed employable: some Canadians maintain that the youngest child should be of day-care age, while others argue for school age or even older; the decision hinges, too, on the availability and cost of child-care facilities. Regardless of the different viewpoints expressed, it is feasible to establish reasonably clear-cut criteria for categorizing single parents as employable or unemployable, even if the grounds of decision vary slightly from one jurisdiction to another.

One of the most difficult questions for Canadians to face in dealing with reform of the income-security system is whether or not to provide, for

employable persons, benefits other than those provided by Unemployment Insurance. Benefits to employable recipients could take various forms, including “demogrant” or work-related supplementary provisions for the working poor, and the arrangement of special public or subsidized private employment for unemployed workers. The most important argument in favour of providing some benefits to employable recipients is simply that very great need characterizes this group. In 1985, there are over one million Canadians in families where one-half or more of total family income is derived from work, yet where total family incomes fall below Statistics Canada’s low-income cut-off points. Many of these people would be as well-off, or even better-off, financially to live on social assistance, and it is a tribute to their tenacity and to the strength of the work ethic that they continue at their jobs. They may well be forced into social assistance, however, by even small financial reversals.

There are many reasons based both in equity and in economics to consider providing more significant assistance programs for Canada’s “working poor”. There is, of course, the obvious humanitarian issue of sharing to provide for the needs of these people. Again, over one million Canadian children—one in every five—are members of low-income families, and the majority of these are in working-poor families. We may help these children now and all Canadians later if we provide a better standard of living for their families. We also stimulate our economy when we help working-poor families. They will, perforce, spend almost all of any income they receive, and they will tend to spend it on Canadian goods and services, rather than on imported luxury items.

This Commission believes that in an ideal system, programs would be designed to provide appropriate benefit structures for both employable and unemployable categories of recipients, and we are persuaded that this goal can be achieved. Unemployable persons, for instance, require benefits with a relatively high basic value, for transfers are their basic source of income. For them, program costs might be controlled by a relatively high, but not pre-emptive, reduction rate (that is, the rate at which benefits are reduced for each dollar of other income), since work incentives are less important for groups which society does not expect to work on a full-time basis than for employable persons. Benefits for low-income employable beneficiaries might have a lower basic value because we expect these people to receive some earnings from employment. These benefits should also be reduced at a relatively low rate as earned income increases, so that the effective tax rate on low-income earners—a “tax” rate made by combining income tax and reduction of benefits—does not become prohibitively high. In this way, the use of categories can be made to facilitate a desirable balance of work incentives, adequacy of benefits and program economy.

Delivery Mechanisms: Universality and Selectivity

The current system represents a mixture of “universal” and “selective” benefits. In keeping with the most widely accepted convention, we shall define

selective programs as those which impose a test of need, usually based on the beneficiary's income and situation, *before* the payment of a benefit, with the benefit rate then inversely related to the recipient's income level. Universal programs, in contrast, will be defined as those which distribute the same level of *gross* benefits to all persons with specified traits, irrespective of their incomes. In Canada, all such "universal" programs define their benefits as taxable income. For those programs, the income-tax system performs what is, in effect, an income test after the payment of benefits. If the regular marginal tax rate is not appropriate, then special tax-recovery or "claw-back" devices can be applied to the benefits, although no universal programs in Canada currently do this. Hence, by this definition, a universal program can be as highly redistributive in its net benefits as a selective program, and while it distributes greater amounts of gross benefits, its net budgetary requirements need be no larger than those of the selective program. All major Canadian income-security programs are subject to variation of benefit levels according to income either before or after taxes.

On purely economic or distributional grounds, there is no clear-cut case for preferring one payment method over the other. The issue is essentially one of delivery-system design. This conclusion differs from the popular view that selective programs are inherently more efficient, better targeted, and less expensive than universal programs—a view which fails to consider the taxation provisions that accompany the income-security system.

Since the economic factors are not decisive, other factors should determine the payment methods for benefits. Universal programs are usually superior for ease and cost of administration and compliance, but these advantages could be offset by complexities in the associated tax-back devices if other than normal marginal rates of taxation are considered necessary. Indeed, with special categorical benefits such as partial disability benefits, it will often be easier to apply the income test in advance of payments, using selective methods. The reason is that to be effective, a holdback must be integrated with tax withholding at source, and employers then have to know which of their workers are receiving the categorical benefits. This requirement would add to the complexity of the system, creating a problem which would bear particularly heavily on small business.

Other considerations tend to promote the use of universal programs. Universal payments are better suited to preserving the dignity of beneficiaries, and they have higher take-up rates. Recipients face no delays in the processing of benefit claims because gross benefits are paid on a continuing basis. Net benefits can respond quickly to income changes, since any income testing is performed often, through tax withholding at source. There are, of course, some advantages in selective programs. They reduce the visible cost of government services since, by performing their income-testing function before benefits are delivered, they minimize cash flows. They may also prevent the addition of some complexities to the tax system, and if governments are willing to establish the appropriate administrative structures, they can be made rapidly responsive to clients' needs.

The more purely political pros and cons of universal programs are more difficult to assess. Some observers argue that universal programs improve

social cohesion and engender broad support because initial benefits are paid to very large numbers of people. Others suggest that while this was true in a period when “big government” was acceptable and even popular, universally delivered benefits now serve as frequent reminders of the size of government for a middle class no longer supportive of very large-scale administration. While Commissioners are mindful that the public view of government is more uncertain than it once was, we think, on balance, that the arguments in favour of universality are more persuasive than those against it, for most types of program.

The preceding analysis of the principles of universality and selectivity pertains to income-support programs other than social insurance. This latter group of programs, including UI and the CPP, is based on a different rationale which makes a different type of benefit structure generally appropriate. The essential purpose of governments in paying social insurance benefits is not to redistribute income. Rather, in their classic form, these benefits are intended to provide a form of insurance, under which individual workers and their employers pay premiums which approximate the cost of the workers' *expected* future benefits. Individuals collect benefits by meeting pre-specified conditions, such as being unemployed or reaching retirement age; the benefits they receive, at least up to a maximum limit, vary directly with their previous income and are taxable as income.

Taxes and Transfers

Just as the current system of income support is a mix of universal and selective programs, it is also a mix of tax and transfer payments. We shall examine the relationship between Canada's income-tax and transfer-payment systems by using family benefits as an example. The family-benefits system consists of a mixture of tax exemptions, tax credits and universal or demogrant payments.

Child tax *exemptions* in the income-tax system perform horizontal equity functions by relieving families with children of some tax liability and by differentiating taxes according to family size. On the basis of a progressive set of tax rates, however, the exemptions provide larger tax savings for households with higher incomes and hence reduce vertical equity among families.

The refundable child tax *credit* is a selective program which has a more explicitly redistributive effect by paying out funds, or offsetting taxes due, for low- to middle-income families with children. Child tax credits are an example of “refundable” tax credits, payable even to families who actually pay no taxes. They are structured so that maximum benefits are paid to all families with children, up to a specified annual income (currently, just over \$26 000); above that point, they are reduced by \$5 for every \$100-increase in income. Since they pay higher net benefits to lower-income families, they are defined as “progressive” in their effect, and they contribute to vertical equity among families with children. They are selective, since income is considered before the size of the benefit is determined.

As “demogrants” or universal payments, Family Allowances are payable to all family units with dependent children, regardless of income, subject only to being accounted as taxable income. Since Family Allowances are subject to taxation in a progressive income-tax system, they provide smaller net benefits to higher-income families and are hence moderately progressive in their impact.

The three fiscal provisions for dependent children are a microcosm of Canada’s current income-security system. They use three different delivery systems, which differ in their distributional effects. They are highly complex in their interactions so that families have great difficulty in sorting out overall effects. One major component, the tax exemption, is strongly regressive in effect.

If we add to this arrangement the effect of another component of what might be called the “family-benefits system”, the overall result becomes even more curious. Canada’s personal income-tax system currently provides a “married” exemption with a value, in the 1984 taxation year, of \$3470. The married exemption is a deduction from the income of the breadwinning spouse in a single-earner family, apparently in recognition of the dependent status of the other spouse. In 1917, at the time that this exemption was put in place, Canadian society consisted largely of single-earner families with a dependent spouse at home. In these circumstances, the effect of the married exemption was beneficial; its effects are much less so, however, in a society where some 66 per cent of married women are members of the labour force. In effect, this exemption creates a situation where the first \$3470 of a second earner’s income is taxed at the first earner’s higher marginal tax rate, a factor only partially corrected by the personal exemption available to the second wage earner. Moreover, because this benefit is an exemption rather than a credit, it provides no help at all to really poor families which have incomes below tax thresholds. It cost the federal treasury approximately \$1.4 billion in 1984 with a further cost of \$0.75 billion to provincial treasuries.

Finally, the personal exemption deserves comment. In 1984, this feature of our tax system allowed a basic deduction of \$3970 from the taxable income of each individual taxpayer. The exemption does raise the tax threshold for individuals so that poorer Canadians may escape personal income taxation altogether. However, if it is intended to provide support or relief to individual Canadians, it has rather perverse effects. In fact, it delivers an effective benefit of nearly \$2000 to all higher-income individuals who are in the 50 per cent marginal tax bracket, while to very low-income individuals whose marginal tax rates are more likely to be in the 20 per cent range, it gives an effective benefit of only \$800. For very poor Canadians who have no income subject to taxation, it provides no benefit at all. It costs the federal treasury \$9.4 billion annually and provincial treasuries \$4.7 billion. As we shall see below, the vertical equity effects of the personal exemption might be considerably improved by converting this “benefit” to a refundable tax credit – in effect, a guaranteed income.

When the whole-family/personal-benefit structure is taken together, its effect is regressive. This fact, however, does not emerge clearly unless we view the structure as a combination tax and transfer-payment system. That system

provides less benefit than it might to those poorer families and individuals who really need help, and it distributes unnecessary benefits to high-income earners. Thus, for example, the combination of personal, married, child and work-expense deductions, Family Allowances and the Child Tax Credit yields a net benefit of approximately \$5035 per year to the \$100 000 single-earner/two-child family in Ontario. By contrast, a two-earner/two-child family with \$25 000 in total earned income receives from the system only \$2240 in net benefits. Moreover, the system constitutes a real disincentive to labour-force participation by lower-income second earners, generally women. It is an example of a piecemeal program put in place when our labour-force structure, based on single-earner families, was far different from that of the 1980s.

Overview

Canada's present income-security system has been criticized on a number of highly significant counts. In brief:

- It is ineffective. In spite of an expenditure of billions of dollars there are still many Canadians living in poverty, while many income-security payments are made to people who are not poor.
- It is too complex. There are too many programs and too many people administering them. It is often difficult for Canadians to discover what benefits they qualify for, and the interaction of programs results in many unforeseen pitfalls for beneficiaries.
- It creates work disincentives. This situation may derive from three problems. Benefits are unrealistically high for some recipients or are paid for too long a period. The marginal tax or reduction rate of the system is extremely high, sometimes over 100 per cent. The benefits paid may encourage people to remain tied to unproductive or non-competitive industries and may actively discourage them from taking advantage of better employment opportunities.
- It is inequitable. Because significant parts are based on tax exemptions rather than on direct transfers or tax credits, more benefits go to some high-income than to some low-income families. This anomaly appears, particularly, when the entire tax and transfer system is taken into account, including all of the tax breaks generally used by middle- and upper-class Canadians.
- The sustainability of the system is sometimes claimed to be uncertain because of the age structure of our population, projections of continuing high levels of unemployment, and assumed perverse effects of demographic change.

In sum, these considerations suggest that our Canadian income-security system is badly flawed. This is hardly surprising. Its provisions were constructed piecemeal, in combination with sometimes unco-ordinated adjustments to Canada's personal income tax. The amalgam may have been partially suitable for the Canadian society of 1950, but it is much less appropriate for that of the later 1980s. The issue is not whether reform is necessary, but rather, how deep and rapid that reform must be.

Reforming the System

There are a number of features which Canada should strive to incorporate in a better system of income-security. On the basis of the considerations raised above, the following aims should be among them:

- Better matching of benefits to needs
- More appropriate incentives for Canadians to participate in work, training or education
- Simplification of the system so that it becomes easier for Canadians to comprehend
- Appropriate integration of tax, income transfer and social insurance systems
- Ease of administration
- Provision for the personal dignity of the individual
- Rapid responsiveness to changes in situations.

Commissioners have not included lower cost among the imperatives just listed. While it is possible that a system rationalized along the lines suggested above could cost somewhat less than our present system, it must be remembered that there are a great many Canadians who do need some form of assistance. Moreover, as we have indicated earlier, while we do see short-term budgetary problems, we do not fear for the future sustainability of our income-transfer programs, and we do not believe that those short-term budgetary problems should be solved by large reductions in the resources redistributed through income transfers. Indeed, we view continued adequate levels of funding as essential to the achievement of those adjustments which will ensure a more prosperous future for all Canadians.

The features suggested might be achieved through a set of comprehensive reforms of the income-security and personal income-tax systems or through a more incremental series of reforms. They might depend on a demogrant delivery system which makes basic payments to everyone, regardless of income, and then adjusts net benefits to needs by way of taxation. Alternatively, they might be delivered through the tax system, by adjusting the taxes of members of the labour force and by providing refundable credits to those outside its bounds or those not subject to tax withholding at source. We have already seen that the difference between a demogrant and a tax-based delivery system is essentially one of mechanism; the benefit structure can be the same under either arrangement.

Partial Reforms

While Commissioners believe, for reasons to be detailed below, that it is desirable to consider a comprehensive reform of Canada's income-security system, the reform of several of its components or sub-systems could prove effective in bringing Canadians closer to achieving a number of the objectives set out earlier. For this purpose, the overall income-security system may be broken down into sub-systems directed to help:

- The elderly
- Families with children

- Unemployed, but employable, Canadians who are not receiving UI benefits
- Persons in need who are not expected to work.

The last two sub-systems are dealt with on a joint federal-provincial basis under the Canada Assistance Plan (CAP). Smaller sub-systems also exist to assist groups such as veterans or Native people, and a number of quite specialized programs and services provide help to relatively small numbers of individuals. While such programs are vitally important to those falling within their purview, this Commission cannot deal with them here; indeed, more general reform may make some of them unnecessary.

Pension Policy and the Elderly

No element of our income security system has been more actively debated in recent years than pensions. Since the late 1970s, a long series of reports by task forces, advisory bodies and Royal Commissions have analysed our retirement-income system and highlighted its deficiencies. Business associations, labour organizations, representatives of pensioners, welfare groups and women's organizations have all pressed their views on government. A National Pensions Conference was held in 1981, and government deliberations have continued since then. Canadians have, in effect, been engaged in a "great pension debate" for the better part of the decade.

This debate has been fuelled by a wide variety of concerns: the present financial plight of many elderly Canadians; the impact of inflation on private pension benefits; the long-term implications of demographic change for the financing of future pensions; the need to adapt our pension arrangements to the evolving role of women in modern society. Because of the diverse concerns underlying it, the debate has ranged widely, touching on both public and private pensions and on the appropriate balance between them. In the case of private or occupational plans, attention has focused on the incomplete coverage of the labour force, vesting and portability, and on the protection of benefits from inflation. Issues relating to public programs have ranged from the adequacy of benefit levels to the financial consequences of the aging of Canada's population over the next half century.

The scope of the pension debate itself has posed a major challenge, since pension reform in this country requires a particularly high level of consensus. This is because the division of authority over pension policy between the federal and provincial governments is exceedingly complex, even by Canadian standards. Most occupational plans are subject to provincial regulations; but the federal Pension Benefits Standards Act applies to sectors of the economy subject to direct federal jurisdiction, and the provisions of the federal Income Tax Act are critical to all private plans. In the area of public pensions, the federal government is responsible for Old Age Security and the Guaranteed Income Supplement. But amendments to the Canada Pension Plan require the approval of two-thirds of the provincial governments, representing two-thirds of the total population—a requirement even more exacting than the general amending formula for the Constitution. Moreover, the Quebec Pension Plan falls under the exclusive jurisdiction of the Quebec government.

It is not surprising, therefore, that the debate has been a protracted one, and that actual changes have been limited. Nevertheless, there are signs of emerging consensus. While the package of likely reforms is much more limited than the champions of major change have been advocating, it does represent an important advance on existing arrangements.

Points on which agreements seem possible include reforms to the minimum standards for private pension arrangements. Some of these are:

- **Earlier vesting.** Employees should have a right to benefit from their employers' contributions as well as their own. In most jurisdictions, the present regulations do not require vesting until an employee has ten years of service and has reached 45 years of age. There is widespread agreement on the need for earlier vesting although not, perhaps, on the exact formula. For the most part, the debate revolves around proposals for vesting after either two or five years. Most participants in the debate would seem to agree that the age standard should be eliminated.
- **Portability.** Important improvements in the portability of pensions are possible through such mechanisms as locking funds into personal retirement savings accounts, or devising better protection for deferred pension benefits. Both portability and vesting improvements seem particularly important to Commissioners, since we believe that in the future, Canadians are likely to face stronger requirements to change jobs or careers more frequently.
- **Inflation protection.** While this issue remains more controversial, the proposals for partial indexing of future pensions, advanced by the federal government and the province of Ontario in 1984, represent a solid basis for progress.
- **Survivor benefits.** Survivor pensions are not required under most of our pension-standards legislation, and many plans do not provide them. This is one reason for the financial plight of many elderly women, and any reform package must require adequate protection for survivors.
- **Credit-splitting.** The splitting of pension credits on marriage breakdown, unless the courts or the parties themselves provide otherwise, is in keeping with the contemporary principle that marriage is a partnership.
- **Part-time employees.** Pension benefits should be extended to regular part-time employees. This principle accords with Commissioners' earlier emphasis on flexibility of working time.

In addition, there is scope for greater flexibility in the provisions governing tax assistance to personal retirement savings.

Similarly, agreement seems possible on important elements of our public pension plan, especially the Canada and Quebec Pension Plans. These include:

- **Maximum pensionable earnings.** Government should ensure that these earnings reach the target level of the average industrial wage within the next two years.
- **Credit splitting.** Credit-splitting on marriage breakdowns, which is now voluntary, should be compulsory, unless both spouses formally waive the right.

- Contribution rates. Federal and provincial governments should agree to a schedule by which increased contribution rates can be phased in slowly, in order to avoid particularly sharp increases at the turn of the century.

Other proposals in this area, including the introduction of a pension for homemakers, are more controversial, and early agreement on them is less likely.

In light of the present extensive debate over the pensions system, this Royal Commission did not attempt another intensive study of this topic. The emerging consensus among governments will certainly not solve all the problems in our pensions system, but it does represent a step forward. Commissioners urge that the federal and provincial governments proceed as rapidly as possible to agree on reforms. It is time to move from debate to action on pensions.

With respect to OAS/GIS, this Commission believes that current provisions are only minimally adequate. The most recent round of GIS increases, raising the incomes of single elderly people to Low-Income Cut-Off levels should have relieved the most extreme cases of hardship. We do note the anomalous situation created by the pension income and the "over-65" deduction from income for taxation purposes. Like all deductions, these deliver benefits disproportionately to the better-off, but the scarcity of high incomes among Canadians over 65 makes their effect relatively minor.

Commissioners do wish to emphasize, again, however, that Canadian public pensions are very low by international standards. The combination of low income among the elderly and the low level of these benefits means that most governments should not look to these areas to effect reductions in government expenditures.

The Family-Benefits System

In discussing the interrelationships between our tax and transfer systems Commissioners noted a number of faults in the family-benefits system. This system, it will be recalled, consists of Family Allowances, the Child Tax Credit and the Child Tax Exemption. The Child Care Expense deduction and the "married exemption" may also be considered part of this system. The former is a very small program by income-security standards, with a budget of \$100 million and 370 000 beneficiaries; we shall consider it briefly below when we look at daycare. We shall also suggest the elimination of the married exemption as part of our comprehensive reform package. We might note in passing that to roll the tax expenditures from the married exemption into child-benefit reforms considered below would enrich the child-benefit package by nearly 30 per cent.

A range of options for dealing with family benefits has been discussed publicly, and in its 1985 discussion paper on benefits for children and the elderly,¹ the federal government has suggested two possibilities for reforms. Commissioners present here two examples of the type of change that has been under consideration. Option 1 is very close to the "alternative option" put forward by the federal government in its consultation paper.

Option 1: Providing Maximum Assistance to Low-Income Families. The set of options most often discussed for achieving change in the family-benefits system is one in which Family Allowances and Child Tax Exemptions are sharply reduced. The savings effected would be put into an increased Child Tax Credit. Let us consider, for example, changes which:

- Reduce Family Allowances from \$360 to \$240 per year
- Reduce the Child Tax Exemption from \$710 to \$240 per year
- Increase the Child Tax Credit from \$343 to \$770 per year
- Reduce the turning point (at which eligibility for program benefits commences) from an annual income of \$26 330 to one of \$20 000.

This option would target the system more sharply and still permit a Government of Canada cheque to be delivered monthly to all eligible mothers. Table 19-2 indicates the effect on one-earner/two-children families in Ontario. Single-earner families with annual incomes under \$29 000 would gain from this option, while higher-income families would lose.

TABLE 19-2 Illustration: Effects of More Selective Program on One-Earner/Two-Children, Ontario Family, 1983

(net)					
Family Earnings (\$)	Family Allowance (\$)	Child Tax Exemption (\$)	Child Tax Credit (\$)	Total Benefits (\$)	Change in Benefits (\$)
6 000	480	0	1 540	2 020	+650
12 000	359	121	1 540	2 020	+465
18 000	345	135	1 540	2 020	+443
24 000	338	142	1 340	1 820	+232
30 000	302	178	1 040	1 520	- 17
36 000	302	178	740	1 220	- 24
42 000	267	213	440	920	-111
48 000	267	213	140	620	-391
48 000+	267	213	0	480	-531

Source: Commission calculations based on Survey of Consumer Finances.

Overall, the distribution of “winners” and “losers” is about 50/50, with a fairly equal balance between amounts lost and gained. The system’s changes allow families with \$6000 or less in earned annual income to gain \$650 and families in the \$10 000- to \$20 000-income range to gain about \$450. Families with single earners and incomes over \$50 000 will lose slightly over \$530 per year.

Other variants of Option 1 might be developed by manipulating the various programs. For example, the elimination of Family Allowances and Child Tax Exemptions or the application of sharply increased tax-back rates to above-average incomes would greatly reduce program costs and improve overall

targeting, but sharply reduce benefits for families in middle-income ranges. Conversely, increasing Family Allowances while eliminating the tax exemptions and credits would permit some increase in net benefits to low-income earners and would also preserve some transfers, even to higher-income families with children. This arrangement would maintain some element of horizontal equity.

Option 2: Protecting Poor Families While Achieving Fiscal Savings. An option similar to Option 1, but also incorporating reductions in government expenditure, can easily be derived. Let us consider, for example, changes which would:

- Reduce Family Allowances from \$360 to \$240 per year
- Reduce the Child Tax Exemption from \$710 to \$240 per year
- Increase the Child Tax Credit from \$343 to \$563 per year
- Reduce the turning point (at which eligibility for program benefits commences) from an annual income of \$26 330 to one of \$20 000.

This option would reduce government spending by \$380 million per year, while maintaining most of the other features of the system. Table 19-3 indicates the effect on one-earner/two-children families in Ontario, and Figure 19-1 illustrates the same effect in graphic form: single-earner families with annual incomes under \$22 000 would gain from this option, while higher-income families would lose.

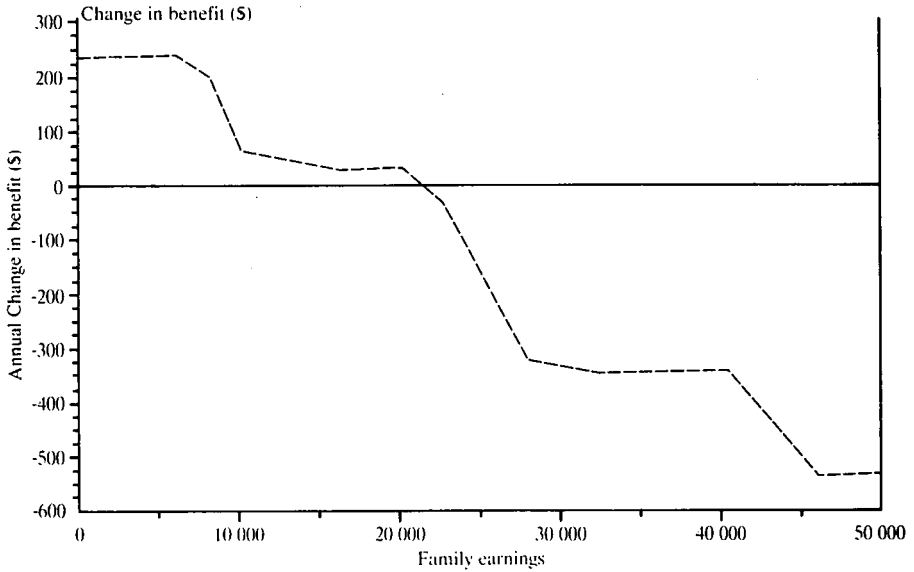
Figure 19-2 complicates the issue further – but makes it more realistic – by including two-earner families. These families do not become net losers in the system until they reach an income of \$34 000 per annum, and their losses are insignificant until they earn \$40 000 per annum. Overall, the distribution of “winners” and “losers” is about 60 to 65 per cent losers and 35 to 40 per cent winners. Many of the winners gain rather little; many of the losers forego

TABLE 19-3 Illustration: Effects of an Expenditure Saving Program which Protects the Poor in One-Earner/Two-Children, Ontario Family, 1983

Family Earnings (\$)	Family Allowance (\$)	Child Tax Exemption (\$)	Child Tax Credit (\$)	Total Benefits (\$)	Change in Benefits (\$)
6 000	480	0	1 126	1 606	+236
12 000	359	121	1 126	1 606	+51
18 000	345	135	1 126	1 606	+30
24 000	338	142	1 026	1 506	-282
30 000	302	178	626	1 106	-431
36 000	302	178	326	806	-438
42 000	267	213	26	506	-525
48 000	267	213	0	480	-531
48 000+	267	213	0	480	-531

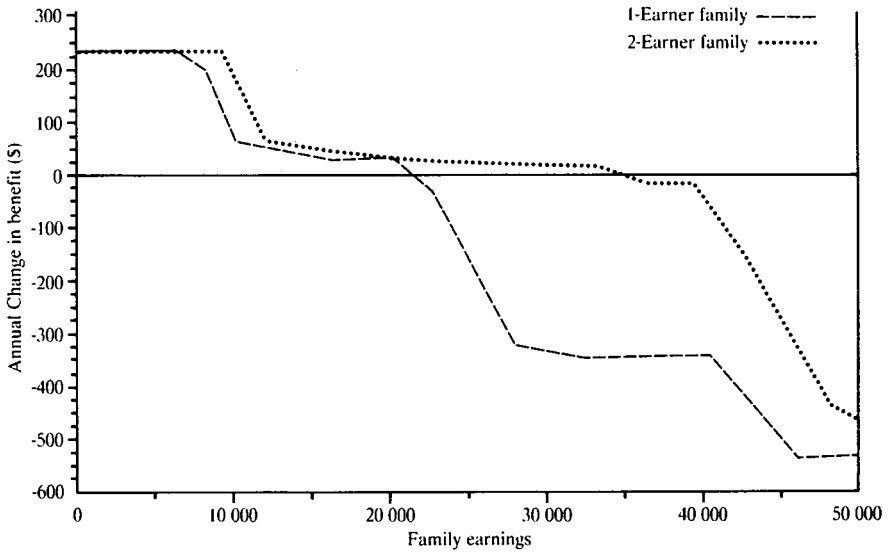
Source: Commission calculations based on Survey of Consumer Finances.

**FIGURE 19-1 Family Benefits, Option 2, One Earner/Two Child Ontario Family
(Changes in benefit levels in relation to family income, 1984)**



Source: Commission calculations based on Survey of Consumer Finances.

**FIGURE 19-2 Family Benefits, Option 2
(Changes in benefit levels in relation to family income, 1984)**



Source: Commission calculations based on Survey of Consumer Finances for Ontario families.

substantial amounts. As we saw with Option 1, to create a system where winners and losers are about evenly balanced, we must move very close to the point of fiscal neutrality where savings are eliminated. Given the relatively small amounts which can realistically be saved by systems such as Option 2, and given the very favourable redistributive effect of the previous option, this Commission favours Option 1. However, this and the other reforms suggested in this section are really relatively minor in an income-security system which could be much improved.

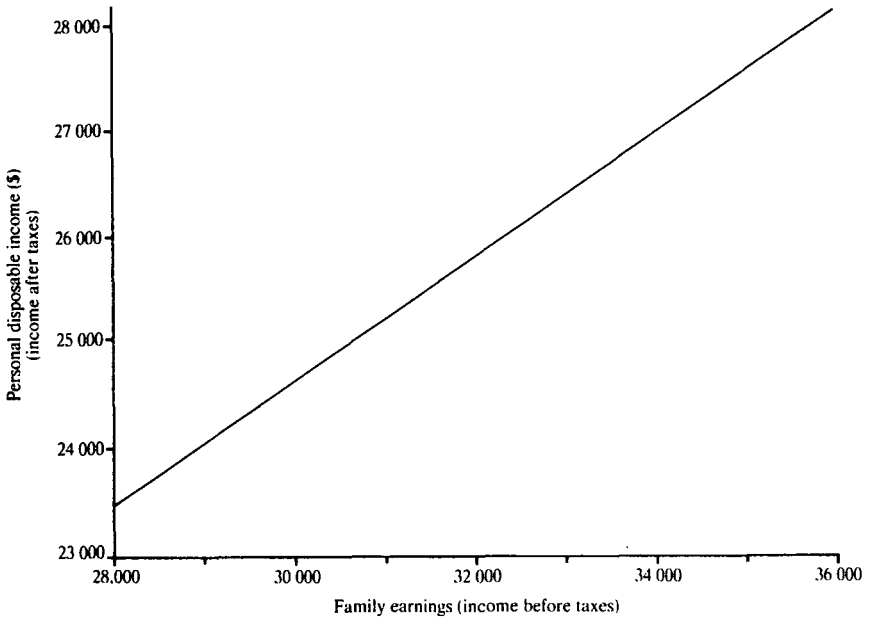
Option 3: The Wrong Way to Reform. Option 3 offers an extreme example of the Option-2 variant just described. It is presented here to illustrate what happens when simplistic “solutions” are applied to complex systems. It consists, very simply, of cutting off all child benefits from families with above-average earnings. To illustrate this measure graphically, we offer two figures. Figure 19-3 shows before-and-after-tax income for families with average annual earnings (\$32 000). Figure 19-4 demonstrates the effect of cutting off all child benefits when annual family income reaches \$32 000. The result is that disposable annual income (after tax) drops to \$24 500 from \$25 900 as the total family income rises from \$32 000 to \$32 001 and then climbs at the same rate as before from the new lower level. The result is that until family income rises above \$34 500, the family is worse off than it was with annual earnings of \$32 000. This “notch” effect was a common problem of early welfare systems, and it is still significant occasionally. For example, a family trying to earn its way off social assistance may face real “tax” rates which are greater than those faced by families earning over \$100 000 per year. The problem is created by a combination of reductions in their cash payments and elimination of their eligibility for some services such as non-insured medical programs. These “notches” in income security and social support systems are the classic example of the “poverty trap” which many low-income Canadians face.

Option 3 could be improved by applying graduated reductions in benefit levels to those whose incomes are above the average family level, but this modification would make it identical in effect to Option 2. In its simplest form, Option 3 does generate very large savings, amounting annually to approximately \$1.3 billion, but most of these savings are generated in the notch area. One might question the desirability of reducing the disposable income of the “average” Canadian family by over 5 per cent in order to implement a program design which creates no net winners, offers no redistribution of income to those who need it most, and establishes a potentially significant work disincentive. For these reasons, only options similar to Option 1 or 2 should be considered.

Social Assistance and the Canada Assistance Plan

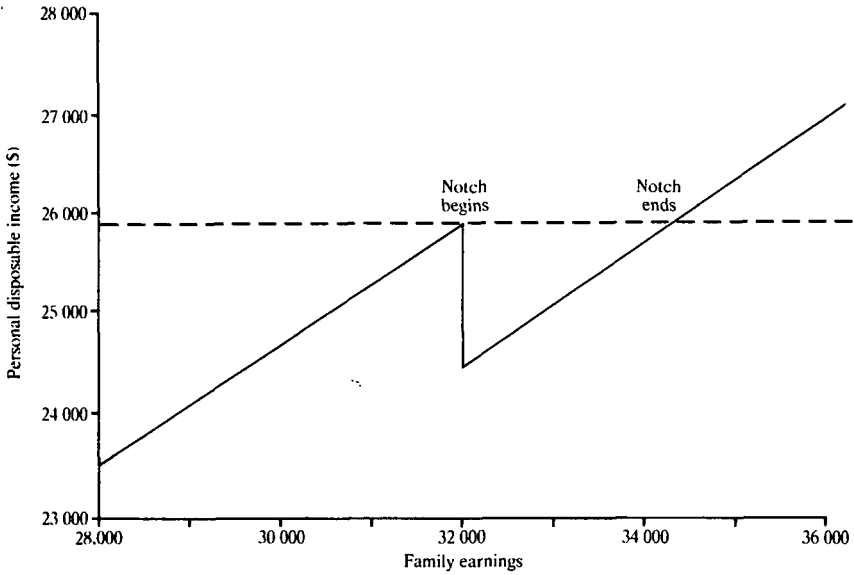
Under the Canada Assistance Plan (CAP), Canada’s federal government contributes 50 per cent of the cost of social assistance, welfare services and work-activity programs delivered by provinces and municipalities. Approximately 73 per cent of the federal transfer (\$3.1 billion) goes to support

FIGURE 19-3 Current Income Before and After Taxes and Transfers



Source: Commission calculations based on Survey of Consumer Finances based on a 1-child Ontario family.

FIGURE 19-4 Impact on Disposable Income of Cutting off Child Benefits from Families with Above-Average Income



Source: Commission calculations based on Survey of Consumer Finances based on a 1-child Ontario family.

income-security programs which supply basic needs such as food, shelter, clothing, fuel, nursing-home and some health-care needs to approximately two million persons. The remaining federal and provincial expenditures in this area (\$1.1 billion) support child welfare, children's institutional care, and such welfare services as day care, home care for the elderly, counselling, and community programs for the disabled and aged; they also fund research and administration.

Commissioners believe that there may be considerable scope for reform of the income-transfer (social assistance) component of CAP programs. Since social assistance is the recourse for many Canadians who are unable to gain income from employment, it is the ultimate "safety net" in modern income-transfer arrangements.

The Canada Assistance Plan was intended to contribute towards the costs of provincial social assistance programs that provided adequate assistance to persons in need, regardless of the cause of need. The exercise of wide discretion in the application of this criterion, however, has brought about an uneven and, for some groups, an inadequate system of assistance across our country. The result has been:

- Wide variation in assistance levels
- Significant increases in the numbers of people relying on charitably financed food banks and hostels
- Discriminatory treatment of some classes of recipients of assistance, which may contravene Sections 15 and 36 of the Canadian Charter of Rights and Freedoms in the Constitution Act, 1982.

In addition, social assistance benefits under CAP normally produce strong work-disincentives. Above a low exemption level, benefits are generally reduced, dollar for dollar, as earned income accrues, an arrangement which effectively imposes a 100 per cent tax rate on earnings. While this policy is in some ways consistent with a "last resort" program for beneficiaries who are not expected to work, the majority of social assistance recipients are single mothers and the disabled. Many of these people could earn modest amounts and would no doubt prefer to do so, but they are discouraged by the fact that, in contrast to better-off Canadians, they cannot really improve their situation by working. A number of reform possibilities should be considered for the CAP.

The social assistance components of CAP should be made somewhat more uniform from coast to coast. Variations in benefit levels of up to 100 per cent are not uncommon among provinces. In 1983, for example, average monthly social assistance levels for two-adult/two-children families varied from \$1171 in Alberta to \$689 in New Brunswick; for single employable recipients, these levels ranged from \$535 in Saskatchewan to \$103 in New Brunswick, \$180 in Quebec and \$226 in Newfoundland. While there are considerable discrepancies in cost of living and net per capita income for non-welfare recipients across Canada, they are far less extreme than variations in social assistance.

It seems clearly desirable to amend the current CAP stipulation that beyond the exemption level (\$190 per month for a two-adult family), federal cost-

sharing will assume a 100 per cent/tax-back rate. A more appropriate procedure would be to establish lower boundaries for the tax-rate (perhaps 75 or 50 per cent) of shareable benefits. Since social assistance programs are provincially controlled, the federal government should try to negotiate with provinces satisfactory arrangements to this effect; failing that, it might require provinces wishing to be eligible for federal cost-sharing to submit plans that would feature tax-back arrangements which would create work incentives for beneficiaries.

Twice in the late 1970s, federal and provincial governments came very close to agreeing to divide the social assistance and social service components of the CAP into separate financing arrangements. This was a worthwhile initiative, and Commissioners recommend that renewed attempts be made to achieve agreement so that the somewhat different program-design features required to deal appropriately with each of the two components may be accommodated, although Health and Welfare Canada has, by the creation of separate guidelines for cost-sharing under the social service provisions of the Act, already moved some distance towards this approach.

Comprehensive Reforms: The Universal Income Security Program

All of the proposals considered so far are essentially piecemeal reforms of a system built up over some 60 years. While there is much to be said for incremental reform, it also creates a number of problems. If, for example, only the family-benefits system is reformed, with the primary objective of distributing more money downwards to lower-income groups, the effect will be to shift money among different income classes of families with children, while single persons and families without children will share none of the burden. This rather narrow approach to equity and sharing may be undesirable unless Canadians believe that middle- and upper-income families with children should bear all the costs of reform.

The narrow base of most partial reforms limits the options available. If reforms are made only to the family-benefits system as narrowly defined, the total amount available for reallocation, provided that the married exemption is left untouched, is \$3.4 billion. While this is hardly a trivial sum, it represents only 5.5 per cent of the total of transfers and tax expenditures listed in Table 19-1, and it improves the system only for low-income families with children. While such a step is laudable enough, Commissioners believe that it is possible to do better.

A narrow base naturally limits the number of programs which can be reformed or replaced. A more "rational" set of social programs would replace many of our present tax exemptions (because they are regressive) and would perhaps apply higher-than-usual marginal tax rates at the high end of the scale to several universal transfers, in order to tax back the benefits accruing to high-income earners. This action would considerably simplify the system and effect a better distribution of benefits.

Commissioners believe that in view of these considerations, a more complete rationalization is a worthwhile target in the reform of our income-

transfer system. This will mean replacing much of the present complex range of programs with one transfer, delivered either through the tax system, adjusted to pay out benefits monthly, or through separate cheques, a method similar to that used in current Old Age Security programs. For design reasons to be considered below, where recipients depend wholly or almost-wholly on transfer income for survival, it will be necessary to add a second program or "tier" of benefits to "top up" payments. In keeping with our earlier analysis, Commissioners suggest that this system should provide:

- An adequate survival level of benefits to those who cannot be expected to work
- Income supplements for workers whose earned income is not sufficient to meet their family needs
- A simple, more easily understandable system of taxes and transfers
- A tax-back structure which will not discourage those who are able to work their way out of the need for benefit payments
- No increase in the costs of transfers and tax expenditures
- Assurance to Canadians that they will have an adequate "safety net" as Canada undertakes the adjustments necessary to compete successfully in the modern world
- Basic equity among Canadians in different family and life situations.

Comprehensive income-transfer/reform packages are usually described as "Guaranteed Annual Incomes" (GAIs). That term, however, is not entirely appropriate for the type of reform this Commission wishes to suggest. The term 'Guaranteed Income' often connotes a program with a very high "guarantee level" (that is, a high level of benefits for those who have no other income) and a relatively high reduction rate (effective tax rate) for beneficiaries. Commissioners believe that an option which delivers a relatively low guarantee level, but which also has a lower reduction rate combined with a special "top-up" for those who cannot be expected to work, will produce a more desirable combination of income support and work incentives. Such an option would not provide a payment high enough to encourage employable people to rely wholly on it, and it would not tax back benefits on earnings at a rate high enough to discourage the earning of income. We prefer to describe such a package as a "Universal Income Security Program" (UISP).

A wide variety of options of this type is available. It is not the purpose of this Commission to determine which is the best of them, but rather to indicate the direction in which we believe government might move. That direction might see the elimination of:

- The GIS (but not OAS)
- Family Allowances
- Child Tax Credits
- Married exemptions
- Child exemptions
- Federal contributions to social assistance payments
- Federal Social Housing Programs.

Commissioners believe that these programs should be replaced by a universally available income transfer. We note particularly, however, that current levels of OAS should be maintained. Among programs for the elderly, only GIS is replaced in this proposal, since it is the more directly income-tested component of the Old Age Security system. OAS payments themselves should be maintained since the vast majority of Canadians have based their retirement planning upon them. By way of example of overall reform packages, we provide here two possibilities, defined imaginatively as Option A and Option B.

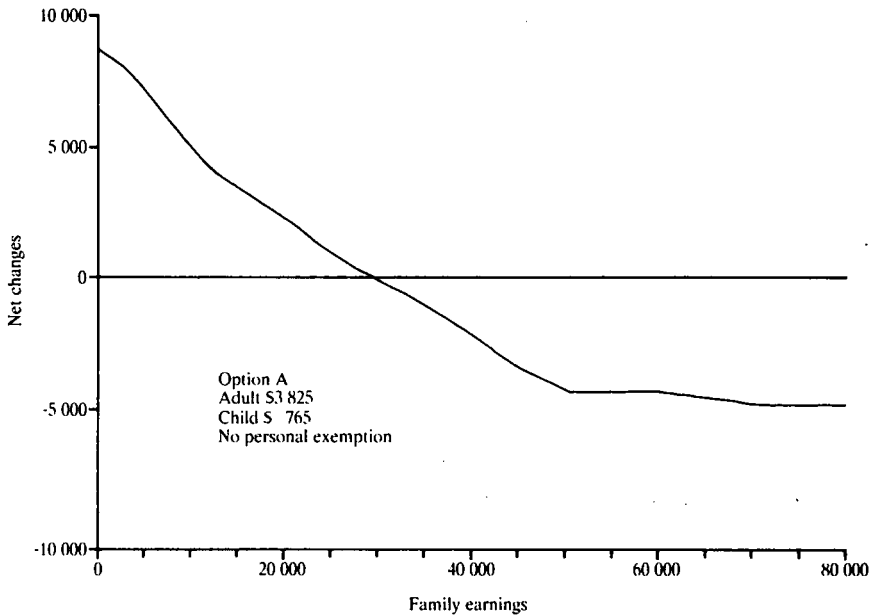
In Option A, the personal income-tax exemption would also be eliminated, and changes would be made to programs as listed above. Based on mid-1984 figures, a guaranteed income of \$3825 per annum for each adult and for the first child in a single-parent family, and \$765 for any other child can then be provided for all Canadians, without incurring any extra costs. In Option B, the personal income-tax exemption is left in place, which means that the guaranteed income would drop to \$2750 per adult (and for the first child in a single-parent family) and \$750 per child. In order to maintain at least the current income level of those elderly with no source of income other than OAS benefits, the basic guarantee for single persons over 65 years of age should be the same as that in Option A (\$3825); in addition, the tax-back provision should be waived for single pensioners. A tax-back rate of 20 per cent is applied uniformly to benefits in both systems, and the current personal income-tax/rate structure is assumed to remain intact.

Figure 19-5 illustrates that in Option A, one- or two-earner/two-children families with earned annual incomes below \$30 000 will gain. Gains of \$5000 to \$7000 are possible among those families with earned incomes in the \$8000 to \$10 000 range. However, gains at zero or very low incomes may well be overstated because the effects of loss of housing benefits and of part of social assistance are not included here. The losses can be quite substantial, approaching \$5000 for families with incomes over \$50 000. Figure 19-6 (Option B) illustrates that to leave the personal exemptions in place reduces this loss for upper-income families to the \$1000 range, but also reduces net gains in the \$8000 to \$10 000/earned-income family to \$4000 to \$5000.

Figure 19-7 illustrates that in Option A, two-earner/two-children families with earned annual incomes below \$30 000 will gain. Maximum losses of about \$3800 occur for families earning over \$40 000 annually. Most important, families in the "working-poor" range, with earned incomes of between \$8000 and \$12 000, will also gain amounts in the \$5000 to \$7000 range. Figure 19-8 illustrates that if we leave the current personal exemption intact, gains in the "working-poor" range are reduced somewhat, to the \$4000 to \$5000 range, but upper-income losses are sharply reduced to the \$1000 range.

These options are meant as illustrations only. An almost infinite variety of guarantee levels and tax-backs can be considered, and experience with the programs will doubtless lead, over time, to design changes. Indeed, it is an important feature of these comprehensive reform proposals that they are flexible, and that the parameters can be amended to provide predictable patterns of income redistribution which will contribute to the achievement of

FIGURE 19-5 Option A: Change in Personal Disposable Income in One-Earner/Two-Children, Two Adult Family, 1984

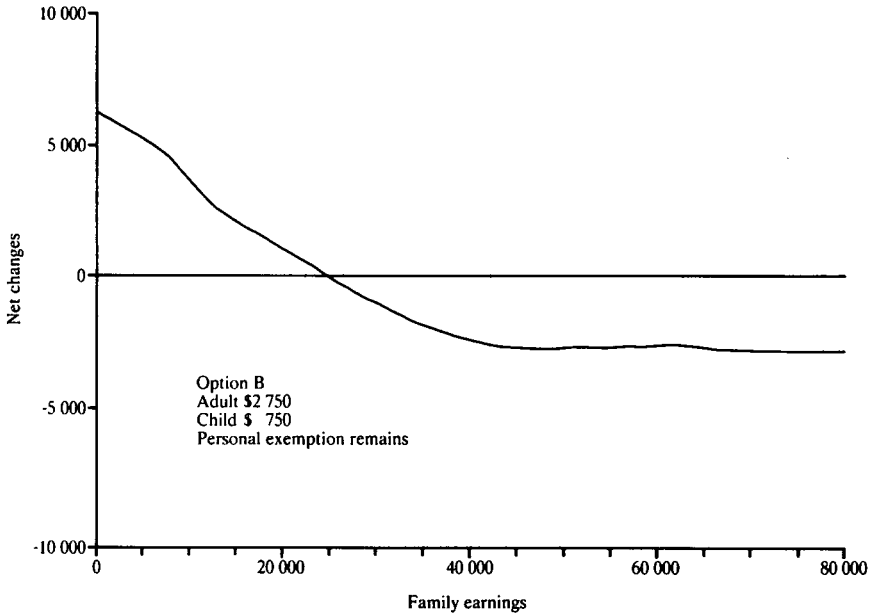


Source: Commission calculations based on Survey of Consumer Finances for Ontario families.

our goals of equity, security, sharing and opportunity, and hence to growth through consensus. The examples also illustrate that within existing cost limits, it is possible to design programs which will provide substantially enhanced levels of security for low-income Canadians, without necessarily imposing prohibitive costs on high-income earners. They also make quite clear another immutable fact: it is not possible to provide higher benefits at the bottom of the income scale without reducing net incomes at the middle and higher levels.

The income guarantees operative at very low-earnings levels are not necessarily adequate to meet all family needs unless some additional support is provided. This occurs because our preferred design options use relatively low levels of guaranteed incomes combined with relatively low tax-back rates in order to give desirable work-incentive features and in order to extend benefits to working-poor families. Individuals and, particularly, families, who have very little income except that provided by the UISP, would still be eligible for provincial or municipal social assistance top-ups as a second tier of benefits, since the funds that those governments currently contribute to social assistance are unaffected by our proposals. These top-ups could continue to be subject to high tax-back rates because they would constitute only about half the benefits for extremely low-income families; the other half would come from the federal supplement, with its low tax-back rate. Thus, for a two-

FIGURE 19-6 Option B: Change in Personal Disposable Income in One-Earner/Two-Children, Two Adult Family, 1984

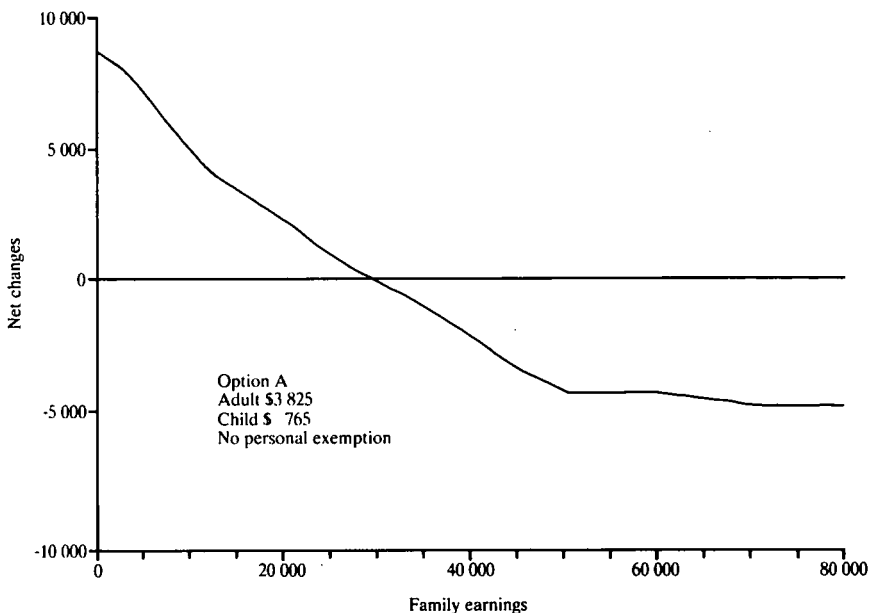


Source: Commission calculations based on Survey of Consumer Finances for Ontario families.

adult/two-child family with no other income, Option A would guarantee a basic annual income of \$9180 provided by the federal government and Option B a basic income of \$7000, under corresponding circumstances. Provinces might continue to provide social assistance top-ups in the amounts they now provide from their own funds, under CAP-supported social assistance. If they did so, provincial payments would add, on average, approximately \$3500 to \$4500 to the basic levels, making \$12 500 to \$13 500 available to Canada's poorest families under Option A or \$10 500 to \$11 500 under Option B.

Even with relatively low guarantee levels, there still may be concern about the work-incentive effects of these proposals, particularly with respect to young single recipients. If this is a public concern, it is possible to make receipt of benefits contingent on active participation in the labour force in the form of active job search, as defined by the Unemployment Insurance Commission (UIC), or by demonstrating some level of earned income or by participation in locally administered job-creation projects. In the mid-1970s, during consideration of such system designs, planners envisaged that provincial governments might share in these proposals and hence administer some form of "employment-availability" tests. A combination of UIC offices and National Revenue Taxation offices might also undertake appropriate screening. In pure efficiency terms, the cost of such screening is unlikely to be worth the money saved, but it might be difficult to mobilize public support for

FIGURE 19-7 Option A: Change in Personal Disposable Income in Two-Earner/Two-Children Family, 1984



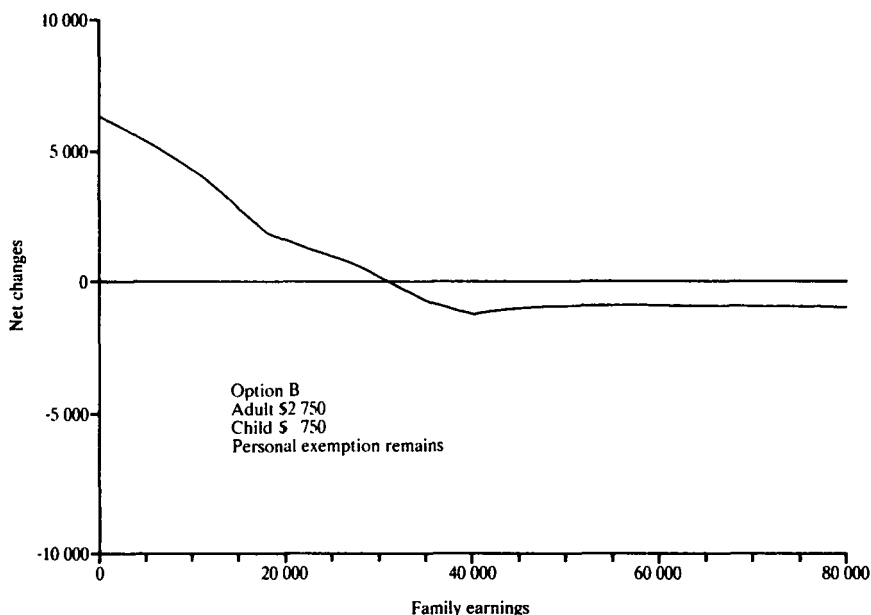
Source: Commission calculations based on Survey of Consumer Finances for Ontario families.

any program which does not include some form of work testing. Concern that younger people might tend to be program “abusers” might also be tempered by varying the guarantee levels for adults by age. Thus, for example, benefits for people 18 to 35 might be restricted to half of those for adults over 35 years of age.

Although the danger that there may be some work-disincentive effect for all classes of beneficiaries may be a public concern, evidence derived from U.S. experiments, which used program designs with larger work disincentives than those we have presented here, suggests that it is small. Nonetheless, Commissioners, too, are acutely conscious of this possibility, and it is partly for this reason that we suggest relatively low guarantee and tax-back levels. This concern also leads us to express a slight preference for some form of Option B, with somewhat smaller guarantees than Option A, even though vertical equity considerations might make A preferable.

There may also be a related concern that a general income supplement will constitute an impediment to labour-force mobility. Commissioners believe, however, that the combination of the changes to Unemployment Insurance and the Transitional Adjustment Assistance Program recommended earlier will have, on balance, highly beneficial effects on labour mobility, while also providing a fully adequate measure of income protection. The UISP will add substantially to this effect by guaranteeing to Canadians who do find new

FIGURE 19-8 Option B: Change in Personal Disposable Income in Two-Earner/Two-Children Family, 1984



Source: Commission calculations based on Survey of Consumer Finances for Ontario families.

work opportunities that their incomes will be supplemented in a manner which will enable them to fulfil their obligations to their families.

For reasons considered earlier, Commissioners recommend a universal demogrant-based delivery system, rather than a strictly tax-based system, although either one is workable. There is also a variety of far-from-trivial design considerations involved in implementing any such system. Care must be taken, in defining the eligible family unit, not to create incentives to family breakdown. A single benefit level for all children of all ages might prove insufficiently sensitive to family needs. The accounting period (that is, the period over which income and benefits should be reconciled) should not necessarily be annual. In our examples, we have used a 20 per cent basic reduction rate for benefits, in order to avoid unnecessarily pre-emptive levels of overall "taxation" as a client gains sufficient income to pay taxes. Integration of the arrangements with broader tax reform could produce more desirable benefit structures.

Federal-provincial considerations are particularly important in moving towards the UISP. Since the federal and provincial governments share the personal income-tax field, any reduction or elimination of exemptions provides increased revenues for both levels of government. Conversely, because family allowances are defined as taxable income, their elimination would reduce provincial revenues somewhat. As a rule of thumb, the effect on provincial governments of federal income-tax changes is equal to one-half the

effect on the federal government or one-third of the total. Moreover, because Quebec operates its own tax system, federal tax changes would not automatically affect the Quebec treasury.

The calculations used in the presentation of the UISP assume that *all* of the net yield from elimination of the various exemptions and family allowances is available for application to the program. Of course, this will not happen automatically as the federal government carries out its tax changes. In fact, without some alternative arrangement, only about two-thirds of the money can be captured by the federal government and converted to UISP benefits. Commissioners believe that virtually all of the available funds should be put into income-security programs; for their successful operation, a co-operative federal-provincial approach is, in our view, absolutely essential.

Two general options can be suggested. The provincial governments might actually withdraw from some percentage points of personal income tax, vacating that tax room so that the federal government might collect the income. Although this approach is unprecedented in the recent history of federal-provincial/tax-collection agreements, yet at various times, many provincial governments have suggested that direct income transfers of the UISP type are a highly appropriate initiative for the federal government to take. Thus, surprising levels of provincial support for such a proposal may exist.

The second general approach would see provincial governments retain the \$5 billion in additional tax yield and use it to enrich their own top-up arrangements according to the configuration they consider most desirable. Some provinces might simply wish to follow the federal configuration, while others might take somewhat different routes. It would be important, in this Commission's view, to ensure that all of the available revenues remain in the income-security system, and federal-provincial negotiations should deal with that aspect, as well as ensuring proper co-ordination of the federal and provincial plans. This might be done through incorporating both federal and provincial benefits in a single cheque. While the problems of complexity which bedevil our current systems would not be cured under this arrangement, Commissioners recognize that some degree of provincial differentiation might be a necessary, and perhaps not an excessively high, price to pay for general agreement.

It is this Commission's view that all the problems we have considered can be solved. Given the importance of the other adjustments Canadians must make in the coming decades, and given the massive size and acknowledged deficiencies of Canada's current transfer and tax programs, we consider it important for the Canadian government to consider a bold step such as we have outlined here.

Phasing In Reforms

It may prove impossible for a government to move in a single step to a rationalized system of the type suggested here. In that case, Commissioners wish to recommend that the following two-stage approach be considered. In the first stage, the Family Allowance, Child Tax Credit and Child Tax

Exemption programs would be eliminated, to be replaced with a single, large, Family Allowance-type payment or a larger child tax credit, payable monthly. For the year 1985, an amount of \$1000 annually would likely be in the appropriate range. The choice between demogrant- and tax-system delivery should be made very carefully, since it would probably form the prototype for the second stage of reform. The tax-back structure on the enlarged child benefit would have to be somewhat different from the system used for the current child tax credit. The application of its 5 per cent reduction rate, which would start at a family-income level of \$26 000, to a benefit of \$1000 per child, would result in the payment of at least some supplement to all two-child families with annual incomes of less than \$65 000. A 10 per cent tax-back rate would reduce the application of this supplement to families with incomes in the \$45 000 range, and a 25 per cent rate to families earning in the \$35 000 range. The social assistance benefits covered by the Canada Assistance Plan should also be changed in structure, to permit the application of a lower tax-back rate, in the 75 per cent range, to those recipients who have some earned income beyond the current, very low, exemption levels.

At the second stage of program reform, all relevant exemptions should be eliminated from the tax system; the federal government would discontinue payment of its portion of social assistance; and the GIS would be incorporated into the system. The federal government or the federal and provincial governments in co-operation would institute the Universal Income Security Program, and provincial governments would provide social assistance top-ups, where necessary, for Canadians with little or no employment income.

The phasing in of UI systems and the TAAP should proceed in concert with the other changes that Commissioners have proposed. If our government is not to create undue hardship, however, it must ensure that the major elements of UI reform, aside from experience rating, are not fully applied before TAAP provisions can be implemented and, preferably, before UISP is in place. Since we believe that these reforms are a very important part of the changes necessary to help Canadians adjust to emerging realities, we urge that there be little delay in promoting them. We therefore strongly recommend that the first-stage reforms be implemented immediately, that the UISP/TAAP proposals be phased in over two to three years, and that the entire package be in place by the end of 1987.

Commissioners wish to repeat that we recommend these changes as representing the basic directions to be followed. We leave vital details of program design to the federal and provincial governments, for those details depend on two factors: the levels of benefits in the existing income-transfer programs at the time reforms are put in place; and decisions about the features of program design which can only be made by governments in close touch with the people of Canada, at the time the reforms are implemented.

Note

1. Canada, Minister of National Health and Welfare, *Child and Elderly Benefits*, Consultation Paper (Ottawa: The Department, 1985).

Recommendations

This Commission believes that the provision of a Universal Income Security Program with relatively low guarantee levels and tax-back rates is an appropriate long-term goal for the Government of Canada and the provincial governments to pursue, in order to reform the current income-security system. Such a system should replace the majority of current transfer programs and personal and family tax credits and exemptions.

The provision of the federal supplement is an appropriate long-range objective. In the shorter term, Canada's federal and provincial governments should:

- Rationalize the family-benefits system by redirecting money from the child tax exemption either to the child tax credit or to the Family Allowance and by adjusting the tax-back rates on those programs so as to ensure a uniformly progressive benefit system
- Improve the social assistance aspects of the Canada Assistance Plan by permitting the application of lower reduction rates to beneficiaries with earned incomes above exemption levels.

These latter changes, in combination with the experience rating of Unemployment Insurance premiums, should constitute the first stage in phasing in the general income supplement recommended above and should be implemented immediately. Commissioners believe that in view of the benefits to be gained from rationalization of the income-security system, the Universal Income Security Program should follow quickly upon this first stage and should be in place by the end of 1987. At this time, the remaining UI reforms and the TAAP should also be in place.



Social Services

General Services 807

Day Care 812



Social Services

General Services

Canada's social services comprise a broad range of programs dealing with child welfare, children's institutional care and welfare services, day care, home care for the elderly, counselling, community programs for the disabled and aged, distress centres, and a host of other services. They are delivered, in part, by provincial and municipal governments, but to a very large extent, through a range of voluntary agencies using a combination of professional and voluntary workers, as well as through other private profit-oriented and non-profit organizations. It has not been the purpose of this Commission, in preparing our Report, to provide an extensive analysis of Canada's social services. However, their importance to the future of many Canadians is critical, and there are, therefore, some aspects on which we do wish to comment.

Two potentially antithetical themes were expressed by groups and individuals who appeared before this Commission to present their views on social services. One was a call for more encouragement of the activities of the voluntary sector which participates in service delivery. The other was a fear that government was reducing its commitment to social services, partly through devolving responsibility to the private and voluntary sectors, and that significant damage to our social services could result.

Of course, these themes need not necessarily conflict: governments might go on providing financial support for social service agencies and, at the same time, continue to exercise regulatory or supervisory authority over them, while devolving the actual delivery of services to less bureaucratic and therefore potentially more responsive, structures. Commissioners believe that such a policy constitutes an appropriate resolution and direction for the future.

Other important themes relating to social services were also brought forward. If many Canadians considered that services should be more

frequently delivered by the voluntary sector, they often coupled that statement with a call for service delivery to be de-institutionalized; they prefer that service delivery be based in the local community and, where possible, on existing family structures. Some intervenors promoted this view as a means of saving money in providing service-program delivery. Others saw the suggestion as a way to improve the services themselves. The latter reason was proffered in presentations by several groups of users of the services.

The best judges of how a service ought to be delivered must be the users themselves. Not least for this reason, Commissioners find highly persuasive the suggestion that devolution of services can create improvements, provided that the transfer of responsibility involved is accompanied by adequate funding. The contention that this move could also make it cheaper to provide community- and family-based services gives us considerably more difficulty, however. Little solid empirical evidence exists to uphold this view as it relates to child care, adult psychiatric care and care for the disabled. While institutional costs will, of course, decline if people are removed from the institutions, direct and indirect costs to the community might increase. Most important, if patients are released before adequate community services are available to replace those currently in use, institutional expenditures will certainly decline, but at tragic cost to those who need the services and with considerable disruption to family and community life.

Information is more readily available on the costs of providing community-based care for the chronically ill and the elderly. The data seem to indicate that Canadians cannot expect to achieve really major cost reductions from turning to this type of care; under such an arrangement, indeed, costs often seem to be marginally higher. On the other hand, it must be emphasized that the clients themselves seem very pleased with the community-based service, and assuming that costs remain nearly equal or are not vastly increased, that itself would seem to be ample reason to encourage this arrangement.

A closely related theme was the call to provide services which would help users to become more self-reliant and to move completely from the need for service support. While this goal is ostensibly the objective of most forms of social services, it is one which, in practice, is not always given precedence. Although it seems obvious that governments and agencies which provide services should keep that objective constantly in mind, the frequency with which intervenors mentioned it as a reform needed in our service-delivery system leads Commissioners to emphasize it here.

This view was put to us very strongly in our Vancouver hearings:

As for social services, I believe in self-help groups. I work in the anti-poverty field; I work with a lot of self-help groups. There is a lot we can do for ourselves if we're allowed to do it . . . If you are going to have a group of poor people performing their own self-help, then you have got to give them the money . . . to do it. There are many things that we can do for ourselves much better than professionals can do for us. One of the things I really hate about the social services system is that they design their programs without any input from the people that they are supposed to be helping. They seem to have the feeling that they know what is best. It is a very paternalistic system, and I object to that.

(Gus Long, Transcript, Vancouver, June 11, 1984 [vol. 7], pp. 1705-6.)

Intervenors often stated, too, that continuing and increasing attempts should be made to achieve better integration of various types of social and medical services. While the Province of Quebec has tried to integrate medical and social services on a broad scale, elsewhere in Canada, examples of the "one-stop/shopping" approach to service delivery are more rare. Since many of the Canadians who need the assistance provided by social or medical services require more than one type of intervention, it is important that there be better communication among different types of service and, perhaps, that the services be brought closer together.

Another theme which emerged, though less frequently, was the potential value of privatization of service delivery on a supervised, but profit-making, basis. Some advocates of this approach assured Commissioners that market mechanisms could work the same magic in this area as in others. We must, however, express some reservations about an overly enthusiastic application of this approach. The delivery of services for profit is currently applied most widely in day care and, particularly, in nursing-home care. While there is no conclusive evidence of the effect of privatization on users of these services, staff/patient and staff/child ratios are lower in private facilities than in public ones. Moreover, some researchers have expressed reservations about services supplied on a profit-making basis. Particularly with respect to nursing-home facilities, private markets work best when consumers are both well informed about alternative sources of service and mobile. Since neither condition usually obtains for nursing-home residents, governments must, at the very least, continue to play a major supervisory role.

Another theme was the call for broader access to social services. The Canada Assistance Plan (CAP) allows the federal government to share in the provision of services to Canadians "in need or likely to become in need". This expression is interpreted to mean financial need, and in the past, it has had the effect of restricting the free availability of many government-supported social services to the poor, even though the requirement for these services is certainly not wholly related to income. In recent years the federal government has developed new cost-sharing guidelines for CAP-assisted social services. These will allow provinces to support the entire costs of social services used by recipients with incomes up to the Old Age Security (OAS) level plus twice the Guaranteed Income Supplement (GIS) level for adults and one-third of that amount for children. This means that in March 1985, full subsidy for a two-adult/two-child family may be made available, up to \$26 818 of annual, after-tax, family income. After that point is reached, recipients must pay 50 cents of each additional dollar of earned income to cover the costs of services. These guidelines appear to be fairly generous, but it remains true that in Canada, higher-cost medical services are "free" to all users, while the use of social services, which are often more cost-effective, involves a charge for middle-income clients. This anomaly often induces clients to substitute the higher-cost service for the lower-cost one. In addition, many provinces do not take full advantage of the guidelines, preferring, instead, to pass on a larger portion of the costs to clients.

Of course, calls for wider access to social services do contradict calls to limit the size of government expenditures. In the end, whether or not one

supports universal free access probably depends on how important one believes those services are, compared to the strength of one's views about limiting the size of government. It is difficult to estimate the cost to the public sector of any move towards broader access to services. In 1977, an attempt to renegotiate the social services component of the Canada Assistance Plan in order to provide more open access to its services put the program's cost at about \$225 million for the federal share. A realistic 1984–85 figure probably runs close to \$500 million.

Various individuals and groups have proposed, for a wide variety of reasons, that more use be made of volunteers and voluntary agencies. Such a change would:

- Provide more community involvement in service delivery
- Provide a more “human face” in service delivery
- Allow users and clients to have a more direct “say” in the provision of services
- Allow taxpayers to have a better view of what their dollars are providing
- Reduce citizen dependency on government
- Reduce the cost of service delivery
- Reduce general government involvement in the community.

This Commission also heard some arguments against greatly increased reliance on the voluntary sector. Governments, it was feared, might be seen as shirking their present mandate to help Canadians directly. Their ability to impose province-wide and national standards might be reduced. On the one hand, funding of services would be more haphazard and stand at greater risk, especially if it were dependent on volunteer donations alone. On the other hand, if government did continue to finance social services, fear might mount that the voluntary sector could forfeit its independence of government. Job security and existing wage levels for employees of service agencies could be reduced, and public access to services could be further restricted. Moreover, the ability of non-professionals to make optimal choices, maintain standards, and fulfil public-sector/accountability requirements might be questionable. Some consumers fear a return to “charity”: that is, a system in which services are defined by the rich and given selectively to those in need. Finally, the voluntary sector itself has expressed mixed reactions to any such proposed set of changes. For instance, the President of the United Way of Canada told this Commission:

I find it very hard to say, in black and white terms, “It is either government services or services initiated or managed by volunteer organizations.” I could say, “Yes, volunteer organizations have developed a capacity to be close to the people they serve and ability in administration, but I would say that that is [the result of] a developmental process and experience that is gained in business. Here again, I should probably be obliged to qualify my statement, depending on the volunteer organizations involved, just as one would make qualifications depending on the ability of this or that ministry to manage these programs. I find it hard to come down definitely on one side or the other by saying, “This

isn't the business of the government any more; this the business of volunteer organizations."

(André Mailhot, Transcript, Montreal, May 30, 1984 [vol. 1], pp. 99-100.)

Again, the United Way of Greater Toronto declared:

The choice related to the voluntary sector . . . is presented incorrectly as an either/or proposition . . . Given the emergence of the self-help movement, along with the climate of fiscal restraint, prevalent cynicism about government and large institutions, we can expect a continued shift towards voluntary delivery of services. This raises, though, some issues that . . . are important to address . . . First, the risk that reliance on the voluntary sector to deliver services will be used as an excuse to withdraw support for services genuinely the responsibility of government. Second, the risk that the benefits of volunteerism argument will be exploited and lead to the use of volunteers to displace paid workers, recently exemplified out of the Canadian Labour Congress convention and experienced in British Columbia. Third, the tendency apparent in some government departments to seize on the concept of voluntary action and introduce programs which rely on volunteers at the delivery level, but which have high overhead costs and are therefore not financially efficient . . . The key to working our respective roles in the delivery of social services is meaningful consultation in advance of policy decisions.

(Gordon Cressy, Transcript, Toronto, June 26, 1984 [vol. 13], pp. 3246-48.)

While these remarks counsel caution, they do not seem to constitute deep reservations about further use of the voluntary sector in service delivery. Commissioners believe that the balance of evidence indicates that governments should support and nurture such activity. The reservations expressed by these United Way representatives do, however, make a compelling case that governments must not adopt a totally "hands-off" approach to service delivery, but continue to provide extensive funding for, and careful supervision of, this process. We can find no justification for suggesting that the services themselves should be considered a primary hunting ground for reductions in government expenditure. We therefore propose that devolution to the voluntary sector of responsibility for social service delivery be accompanied by the maintenance of public funding levels. This recommendation is based on Commissioners' belief that by using the voluntary sector more, our governments ensure that public funds go further and are more effectively spent.

Commissioners believe, too, that in spite of the improved federal guidelines described earlier, the tying together of federal support for social assistance and social services in a simple "needs-based" funding mechanism, the Canada Assistance Plan, no longer permits the federal or the provincial governments the flexibility required to deal with either of these areas of responsibility. A strong incentive exists, therefore, for renewed federal-provincial discussion about the future of social service delivery and the appropriate funding mechanism to cover it.

Commissioners would be more than remiss if we left this section without making a more general comment about the voluntary sector. We have dealt here with its specific role in the delivery of social services, but we wish to emphasize its much broader role in Canadian society. In Canada, volunteers form the backbone of our activities in a variety of fields from young peoples' sports leagues to political parties. Indeed, except for the United States, in no other society in the world is the level of voluntary activity as high as in Canada. This valuable asset of Canadian society is one that governments should take care to nurture and support.

Commissioners also wish to emphasize that the voluntary sector made many representations to us on a range of subjects far broader than their own specific interests. We found these views particularly valuable, since they were so obviously free from self-interest, and we have leaned heavily on them in preparing all stages of our Report. In view of the voluntary sector's broad range of interests and the strength of its views, it would be no exaggeration to say that their perceptions suffuse our work.

Day Care

One of the most essential of Canadian social services is the provision of day-care facilities for children. Given the massive scale on which women have entered the labour force over the last two decades, more and more families now use day-care facilities for their young children, for all or part of each working day.

Many groups and individuals appearing before this Commission recognized the importance of day-care facilities. The provision of these facilities has also been of increasing concern to governments as they have felt the pressures generated by labour-market changes and evolving expectations about the role of women in Canadian society. Two major task forces on day care, one federal and one parliamentary, are currently at work in response to this concern. Since they can investigate the issues involved in much greater depth than we Commissioners have been able to do, it is not our intention to comment extensively here. We do, however, wish to make a number of points.

Canada's present day-care system is a complex mix of publicly provided, publicly funded and private sector arrangements. In some parts of Canada, municipal authorities provide day-care services, while in many areas, municipal or provincial governments fund community groups set up for this purpose. In several provinces, private-sector corporations provide day care. However, the great majority of children in day care are served by unregulated forms of care supplied by relatives and "sitters". Governments are willing to cover the cost of some publicly provided day care for lower-income and some middle-income families. The funding for this service is covered by the Canada Assistance Plan and is subject to the same income-testing guidelines as other social services. The federal and provincial governments also provide an annual tax exemption for day care, amounting to \$2000 per child, but like all tax exemptions, this one provides the greatest benefit to Canada's highest-income families. Families in the middle-income range therefore receive relatively

little support, with the result that organized day-care facilities which cost several thousand dollars per year often serve a mixture of lower-income and quite well-off families, but very few in the middle-income range. Of course, the greatest access problems are caused simply by the lack of places in supervised day-care centres.

Overall, this situation has the effect of driving the majority of Canadian parents into the unsupervised private sector to find baby-sitting or day-care services at reasonable cost. While the majority of such arrangements may be satisfactory, and while many parents will continue to prefer to use them, the cost to some parents and children, both in financial and in other terms, can be quite high.

Day care is a provincial responsibility, and therefore any solution to related problems must be provincial or federal-provincial in nature. Commissioners are concerned that without some federal involvement, poorer provinces will be unable to afford satisfactory arrangements, and some richer provinces may not be motivated to try to find solutions. We are, however, highly aware that day care could constitute a very costly social service area in which government is not now heavily involved. The cost of an even greater degree of government involvement would be higher still, and we Canadians must consider carefully whether or not we wish our governments to spend more public funds on providing day-care services.

Commissioners wish to make no specific suggestions, beyond recommending that the federal government convert the current child-care tax deduction to a tax credit (from which the value of any subsidized day care received should be deducted, in order to avoid double subsidies at the bottom end), and that the federal and provincial governments consider day care an area of high priority for future discussion. We propose the conversion to tax credits in order to alleviate the perverse distributional effects of the present tax exemption. If any tax provisions are to be retained after federal-provincial review, the tax-credit mechanism is to be preferred. We refrain from making more specific recommendations about the nature and desirability of any federal-provincial cost-sharing mechanism to support day-care services, pending public consideration of the two task-force reports mentioned above.

Conclusions and Recommendations

This Commission wishes to make a number of general observations concerning some of the issues we have reviewed in this part of our Report. Several of the major recommendations proffered in this section are best considered as a package. Thus the reforms Commissioners propose for Unemployment Insurance (UI), the new Universal Income Security Program (UISP) and the new Transitional Adjustment Assistance Program (TAAP) would have maximum efficacy if they were implemented together. The savings generated by the UI changes would finance the TAAP, and the UISP would provide financial assistance if some incomes were lowered by the adjustments. The TAAP would support the effect of changes in the UI system that would promote economic adjustment, while the UISP and some elements of TAAP would cushion any resulting difficulties experienced by individual Canadians.

Since the overall level of social policy expenditures in Canada is low by OECD standards, there is no strong general case for attacking the deficit by reducing social expenditures. However, reallocation and restructuring could greatly improve the system and would be valuable in providing help to those who most need it, while containing overall costs.

Looking forward, Commissioners can see no trends that will inevitably undermine the fundamental viability of social programs. Such factors as the aging of the Canadian population or the demands imposed by technological and economic change require careful planning, but none is likely to prove so large as to make our programs unsustainable, particularly if the reforms suggested in this part of our report are carried out.

We Commissioners are of the opinion that tax and transfer systems cannot be given valid consideration in isolation from each other. Thus, major reform of our income-security programs also requires reform of some aspects of personal taxation.

Labour Markets and Unemployment Insurance

After considering Canadian labour markets, Commissioners are of the view that Canada's most important goals are to create more jobs and to improve the situation of individual Canadians by eliminating any inappropriate incentives in current programs. We undertook our analysis on the assumption that current trends in participation rates will continue, bringing a steadily increasing proportion of women into the labour force. While these trends are basically manageable, particularly given our assumption, detailed in Part III, that labour supply itself creates demand for labour, they do portend continuing high levels of unemployment—and continuing preoccupation of policy makers with that problem—for the next five to eight years, and they do add significantly to the training requirements Canadians must face.

We note in our analysis of labour markets that the highest proportion of current unemployment is either created by deficiency of aggregate demand or by structural factors such as mismatches between available job requirements

and skills. A significant amount of unemployment is also created by "frictional" effects, that is the inevitable lags and delays as workers move from one job to another. We have dealt in Part III with aggregate demand deficiency. Here we recommend several measures to facilitate adjustment and training, thus reducing structural unemployment. We also recommend changes in unemployment-insurance and income-security programs which will lower frictional unemployment. Without undertaking changes such as those we are recommending, it will be almost impossible, even in the long run, to reduce unemployment below 6.5 to 8 per cent of the work-force, the current non-accelerating inflation rate of unemployment (NAIRU). Since we consider even those levels to be unacceptably high, we lay great emphasis on these types of reform.

Some increase in unemployment is also engendered by our existing UI programs. First, by making unemployment relatively "cheaper" for individuals, it has, in some cases, a negative effect on job search. Secondly, by providing, through its benefit structure, that individuals in some areas may qualify for 40 weeks of benefits by 12 weeks of work, it encourages regular cyclical unemployment; a feature taken advantage of by both employers and employees. Again, by providing extended benefits in some areas but not others, it discourages labour-force adjustment, while providing no extended benefits to large numbers of unemployed Canadians. Moreover, because its premium structure is unrelated to the risk of unemployment, it penalizes steady employers and employees and shifts benefits towards firms and employees with unstable employment patterns.

■ With respect to Unemployment Insurance, Commissioners recommend that the federal government consider a package of changes such as the following:

- Experience rating which establishes premium rates that are proportional to the risk of unemployment. These rates should generally be calculated on a firm-by-firm basis.
- A reduction of the benefit rate to 50 per cent of insurable earnings
- An increase of the entrance requirement to 15-20 weeks of insured work over the preceding year
- Tightening of the link between the maximum benefit period and the minimum employment period; for example, establishing a ratio of two or three weeks of work as qualification for one week of benefits
- Elimination of the extended benefit period based on regional unemployment rates.

These changes would reduce UI benefit costs by at least one-sixth in respect of the reduction in benefit rates and approximately one-sixth in respect of the elimination of regional extended benefits. The cost reductions that could be achieved by the other changes are too sensitive to behavioural change even to be estimated by methods available to this Commission. However, total savings of at least \$4 billion at April 1985 rates of unemployment are probable.

- Commissioners therefore recommend that:
 - The savings in respect of the first three UI reforms be passed along as reductions in overall premium levels. (The regional extended benefits are financed from consolidated revenues.)
 - Personal and corporate taxes be raised by an amount equivalent to premium reductions to create a Transitional Adjustment Assistance Fund. The government savings from termination of extended benefits should be added to the fund.

- This Commission recommends that the Transitional Adjustment Assistance Fund be used to finance a Transitional Adjustment Assistance Program. This program would provide adjustment assistance for Canadians who have exhausted their UI benefits, or whose lay-offs appear permanent, provided that they were willing to move or to undertake retraining to improve their employment prospects. The program would provide greatly expanded support for:
 - Portable wage-subsidy programs
 - Mobility grants
 - Training programs
 - Early retirement.

In addition, the TAAP could be used to provide compensation for losses in assets, such as housing, which occur as a result of the decline of communities. It should also be possible for TAAP funds to be used on a pooled basis to assist workers to purchase equity in plants which would otherwise shut down or in other forms of local economic development projects. In general, the extent of entitlement of workers to TAAP funds should be proportional to their length of attachment to the labour force, since older workers will typically experience greater transitional difficulties than younger workers.

- Commissioners recommend that existing policies promoting equal pay for work of equal value should be maintained. However, these may involve some negative consequences. If they are used apart from affirmative action programs, for instance, they may actually result in reductions of employment opportunities for disadvantaged groups. Moreover, they can serve to move Canadians too far away from a market-determined to an administered wage system. Commissioners therefore recommend that legislation emphasize creation of equal employment opportunities through affirmative action, rather than the principle of equal value. Commissioners generally approve the approach put forward by Judge Rosalie Abella. This would involve:
 - Legislated requirements for affirmative action by all employers covered by the Canada Labour Code
 - Encouragement of all provincial jurisdictions to follow suit
 - Contract compliance action by the federal government and Crown corporations.

We are not convinced, however, that sufficient attention has been paid to the costs of equal employment-opportunities programs or, particularly, to the issues of equity among the various disadvantaged groups in Canadian society.

- We therefore recommend that the program be phased in following:
 - A three year experimental program of affirmative action in Crown corporations
 - Extensive consultations with the private sector to ensure effective but least expensive implementation to begin in three years' time.

This Commission believes that the programs are more likely to be effective if they are supported by legislation and backed by an adequate enforcement agency.

- We therefore recommend:
 - Legislated equal employment-opportunities provisions, rather than guidelines
 - Establishment of fully adequate levels of funding for the federal Human Rights Commission and equivalent provincial institutions.

■ Work schedules are necessarily established on the basis of understandings between employer and employees that will express a balance between the requirements of the work process and the desires of the employee. This Commission has found, however, that some factors exist which may interfere artificially with the achievement of this understanding. Any such factors should be eliminated in order to achieve fuller flexibility of labour-market arrangements, thus enhancing both employee satisfaction and productivity.

- Commissioners therefore recommend such changes as:
 - Basing Unemployment Insurance, Worker's Compensation and CPP premiums on hourly earnings, with a ceiling on contributions that applies to hourly rates rather than to weekly or annual compensation
 - Eliminating the bias against some categories of reduced hours in creating eligibility for paid holidays or termination notice
 - Encouragement of pro-rating of fringe benefits. □

Immigration

In the past decade, Canadian immigration policy has become more restrictive than our historical norm, both with respect to numbers of immigrants and with respect to the criteria for admission. We Commissioners do not believe that this narrowing is necessary or appropriate, given the long-term projections for Canada's population growth. We are concerned, however, about the overall implications of a more open immigration policy.

■ We therefore recommend:

- A major examination of Canadian demographic trends and their implications for our government's future immigration policies
- That the same study examine, by means of open debate and other methods, the cultural, linguistic and racial implications of other forms of immigration policy
- Establishment of a long-term plan for immigration that, depending on the results of the study described above, will move to higher numbers of immigrants over a number of years. This new plan should place less emphasis on narrow occupational requirements and more emphasis on broadly skilled and generally capable immigrants. □

Labour/Management Relations

■ This Commission notes the very great importance of the labour movement in Canada and throughout the developed world in improving the pay and working conditions of workers. To this end, we wish to recommend generally that all Canadian governments provide a supportive legislative environment for the labour movement and for collective bargaining.

The adversarial system of union-management relations needs to be re-examined. Management must respond to employee concerns about job security and job satisfaction, and to the often-untapped capability of all employees to contribute to improved productivity and product quality. Unions must find new ways to facilitate and to participate in this process; they should have and take the opportunity to do so, not by relinquishing their representation of employee interests, but by adding to it a responsibility for helping to achieve the levels of competitiveness essential to the survival of the enterprise.

Since reductions in strikes and lock-outs could be achieved by the following measures, Commissioners recommend that:

- Labour-relations boards be permitted to create multi-employer and multi-union bargaining units when this is likely to facilitate the bargaining process. Such units should not be imposed but, rather, could be permitted on the application of one or both sides.
- More information be shared by the parties to industrial disputes.

Commissioners are not persuaded that shorter contracts or forced centralization of bargaining structures are likely to improve labour-management relations significantly. Changes in these areas should therefore proceed on a voluntary basis. The right to strike or lock out must be rationally limited by the need to maintain the health and safety of the public.

Employer-employee relations in Canada seem likely to be most responsive to improvement at the level of individual firms, plants and union locals.

Overall solutions proposed at the provincial or national level seem unlikely to be as effective as local solutions.

- Commissioners therefore recommend that governments support, on a local and voluntary basis, such features as:
 - Preventive mediation programs
 - Quality-of-working-life programs
 - Gains-sharing/compensation arrangements.
- Occupational Health and Safety is an area of important and growing concern. Since great improvements can still be made, this Commission recommends:
 - Greater emphasis on these issues at higher levels of corporate management. Management failure in this area is bound to result in higher levels of government intervention.
 - More complete experience rating of Workers' Compensation premiums in order to provide direct financial incentives for firms to minimize health and safety problems, in order to ensure that the full social costs of hazardous work environments are reflected in prices
 - Continued and increased reliance on the internal responsibility system rather than increased government intervention. This requires:
 - Mandatory, joint health-and-safety/labour-management committees in all eleven jurisdictions, such as currently exist in nine
 - Vesting real responsibility in those committees rather than leaving them with only an advisory role.
 - Continual revision of standards by governments as new information about hazards becomes available. This is most important in dealing with occupational health problems. At a national level, these standards could most appropriately be developed by the Canada Centre for Occupational Health and Safety. The appropriate jurisdictions would then apply the standards.

Commissioners are particularly concerned with occupational health issues. Because occupational diseases typically have long incubation periods, it is often difficult to evaluate the effects of industrial processes on workers. That same factor makes it difficult to establish a direct link between occupational factors and specific diseases, and therefore current worker's compensation programs are not well adapted to handling occupational disease.

- In addition to our recommendation of continual development of standards and monitoring of processes, Commissioners also urge that:
 - The federal and provincial governments consider the immediate implementation of a comprehensive social insurance disability plan to deal with the longer-term effects of occupational health problems, as well as with other forms

of disability in the working-age population. This plan could be implemented either by expanding worker's compensation into a comprehensive disability scheme or by extending the present disability provisions of the Canada and Quebec Pension Plans. A federal-provincial working party is currently considering this measure, but progress in developing this idea has been slow. □

Education and Training

In Canada education and training programs discharge multiple functions. They constitute an important way in which young Canadians learn to live together in our community, and they are the most important means by which labour-force skills and knowledge are adjusted to labour-market demands. They also provide a major means of upward mobility. Our post-secondary educational institutions are also the major source of basic research and of much applied research, and they are important repositories of our culture.

Commissioners anticipate no diminution in the general importance of post-secondary education and training. Indeed, PSE is likely to increase in importance as the demand grows for high levels of knowledge and research. Training programs, particularly those relating to industrial training, are likely to become more important as Canadians adjust to the shifting realities of the labour market. The Transitional Adjustment Assistance Program, by providing greatly increased support for training, may be a particularly important factor in this adjustment.

Commissioners are concerned about several features of our educational and training system. In particular we are convinced that:

- Higher levels of excellence are desirable and achievable.
- More flexibility is desirable.
- Use of the PSE system by low-income Canadians is insufficient.
- The current federal-provincial transfer arrangements are inappropriate.
- The current balance between industrial and institutional training is still tilted too far towards the latter.
- There is inadequate provision for retraining and re-education in adult years.

With respect to post-secondary education, Commissioners believe that it is desirable to consider substantial changes in financing mechanisms in order to create a more competitive, dynamic and diversified system. The current EPF transfer arrangements are quite inappropriate for achieving those objectives. They should be changed to encourage reform of the system, but in a way that will minimize direct federal intervention in this area of provincial jurisdiction, while still allowing for the achievement of national objectives.

There has been very considerable informal discussion of the intergovernmental transfer arrangements for post-secondary education over the last five years, but there have been no formal federal-provincial negotiations. Commissioners believe that it is important for federal and provincial governments to enter immediately into serious discussion of other methods of funding than the current mechanism both because the present arrangements

are less than satisfactory, and because the uncertainty about possible future arrangements may be impeding necessary reforms to the sector. Several broad options are available. Our federal government could:

- Withdraw completely from this sector and cede enough tax points to the provinces to cover its current contributions
- Return to the pre-EPF funding formula
- Provide an amount equal to provincial "own source" funding, exclusive of the tax points transferred under EPF
- Freeze its basic contributions at current or slightly lower-than-current levels while matching on a 50/50 basis incremental provincial spending on education. Alternatively, incremental funding could be earmarked to support high-level university-based research.
- Undertake a form of direct-to-student financing, allowing for variable PSE fee schedules.

This Commission does not recommend federal withdrawal from PSE involvement. Many of the benefits of post-secondary education are national in scope, and provincial governments might tend to undersupply this sector unless there were some federal presence, particularly if they believe that graduates are likely to leave the province. Many representations and briefs emphasized the importance of involvement of the Government of Canada in this field.

Among the cost-sharing options are:

- A return to pre-EPF arrangements. This would be a step back to a basically unsatisfactory system.
- Provision by the federal government of amounts equal to provincial "own source" funding. This move would constitute a massive cut-back by the federal government, part of which would probably be passed on by provincial governments to already hard-pressed institutions.
- Freezing of basic federal contributions with cost-matching of increments. This stance would exert relatively little "leverage" on provincial government expenditures in this sector and would mean starting from a basically unsatisfactory base point. However it is probably the most desirable of the cost-sharing options, particularly if some of the incremental funds are used to support research.

With the possible exception of the final choice, none of the cost-sharing options seems likely to be satisfactory. None is likely to improve the incentives for institutions to achieve the flexibility and excellence which Commissioners think desirable. We believe that the complex institutional arrangements for PSE have created very considerable inertia in the system, to the detriment of the student and society as a whole. We therefore believe that the direct-to-student/funding option, although it is the most radical and thus difficult for PSE institutions and governments to accept, may be a preferable approach. In order to institute that approach, the following changes would be required:

- The federal government should terminate the PSE cash portion of its EPF grants to the provinces, ceding the EPF tax points plus further equalized tax

points in an amount equivalent to the Quebec abatement. All of the cash portion of EPF, including transitional adjustment payments, should be replaced with an education-expense tax credit or grant, to be increased annually at a rate equal to nominal GNP increase.

- Provincial governments should be encouraged to deregulate the fee structure of post-secondary institutions.
- Provincial transfers to institutions might appropriately be based on an equal per-student figure, without differentiation for particular programs, and be related directly to enrolment.
- Students should be responsible for a portion of education costs. Beyond that point, the federal credit should vary with the amount of expenses and tuition fees, up to a limit. The amount of the grant should vary only with fees and expenses directly related to education, and no attempt should be made to direct students into “demand” programs by means of a variable grant structure.
- A portion of the current EPF transfer (and some additional funding) should be reallocated to granting councils, which should begin to cover overhead costs of funded research.

A variant of this approach would provide much higher grants to graduate students than to undergraduates. This approach would greatly increase the “value” of graduate education for institutions and thus encourage specialization and excellence.

■ Commissioners strongly recommend that federal-provincial discussions aimed at rectifying an unsatisfactory situation should begin immediately, that they should consider a range of options such as we have suggested here, and that they should proceed with all urgency toward a conclusion. We believe that close further attention is merited for the options which:

- Replace intergovernmental transfers with direct-to-student transfers. Careful consideration should be given to the variant which makes much larger transfers to graduate students.
- Freeze current federal cash contributions. The federal government would match provincial expenditure increases on a 50/50 basis.
- Freeze current federal cash contributions while redirecting considerable amounts (perhaps one-half) of what would have been the incremental amounts into funding of university-based research. The rest of the funds should be used to match, on a 25/75 federal-provincial basis, larger provincial government contributions to universities.

■ With respect particularly to primary and secondary education, this Commission recommends the formation of an independent national commission to monitor quality and standards in primary and secondary education and to conduct and record research in related areas. We urge that the private sector take the lead in establishing and financing this commission. With respect to

occupational training programs, Commissioners believe that the direction of reform presently being followed by the federal government is generally appropriate. Increased attention to on-the-job and job-related training is to be encouraged.

■ This Commission also recommends that the federal government:

- Provide a special wage subsidy for labour-force entrants who have not had other forms of vocational training or post-secondary education. The subsidy would normally be provided to persons 15 to 18 years of age and to women entering the labour force after discharging family responsibilities. The subsidy could be financed by eliminating other job-creation programs for young people.
- Provide, under the Income Tax Act, for a Registered Educational Leave Savings Plan which workers could use to help finance the cost of training. Careful consideration must be given to the type of program eligible for RELSP financing and to the possibility of requiring completion of any training or education undertaken in order to qualify for the advantage.

Commissioners wish to point out that the TAAP described earlier might significantly increase training requirements in Canada.

Access to higher education by low-income students should be an important avenue of upward mobility in Canada. However, for a variety of reasons, low-income students make far less use of higher education than do middle-income students, thus impeding both their own upward mobility and Canada's labour-force efficiency. Several of the barriers faced by low-income students are not susceptible to immediate government reduction. Family-socialization patterns and peer pressures can be influenced only very indirectly. But governments can and should ensure that undue financial barriers are not blocking the educational prospects of low-income students.

■ This Commission therefore recommends strongly that further attention be paid to improving access for low-income students. At the least, therefore, we recommend continued support for the Canada Student Loans Program and its provincial equivalents, and we recommend that loan limits be changed in consonance with other policy changes proposed in this Report, to remove any financial barriers that might exclude otherwise-qualified low-income students. We also wish to emphasize the importance of continuing to grant scholarships for students who excel, no matter what their income level, and of offering bursaries for low- or moderate-income students with above-average grades who might otherwise be reluctant or unable to continue their education.

Commissioners are concerned, however, that the CSLP is increasingly unable to deal with the issue of student independence of parental support. Therefore we do not reject the concept of contingent-repayment loan schemes, and we recommend that governments continue to consider that possibility. □

Income-Security Programs

While this Commission does not view Canada's problems over the next quarter-century as unmanageable, Commissioners do believe that many – perhaps most – Canadians will have to face the need to make adjustments that will maximize their own opportunities in the face of the effects of economic change. For most Canadians, these adjustments will not be severe, but for some they will be very difficult. This is particularly true for low-income Canadians, families with children that lack income adequate to meet family needs, and workers in peripheral regions or peripheral jobs. Economic change has always caused these Canadians more difficulty than middle-income Canadians and it will continue to do so. Moreover, even without the impact of change, there are over one million Canadian families whose incomes are inadequate to cover any but the barest necessities, and many of these can be considered the “working poor”: families where one or more breadwinners are employed all or most of the year, but where incomes are still inadequate to meet their needs.

Middle- and upper-income Canadians get a great deal of public and private support as they adjust to economic change. They receive tax-supported education and training, and their employers often foot a substantial portion of their adjustment costs. Low-income Canadians receive relatively little such support. In general, it often seems true that the poorer one is, the more one is left to one's own devices to cope with the forces of change or destiny.

For these reasons, among others, Commissioners believe that all Canadians have a duty and a right to share the costs of adjustment and to provide help to those who need it. That has always been the basic rationale for many of Canada's income-security programs and it should remain so.

We Commissioners are also persuaded that there is enough money in our current personal tax-expenditure and transfer-payment programs to provide a comprehensive program of support for all deserving Canadians, but that current programs are often fundamentally flawed so that the current safety net is inappropriate. We believe that Canada can do much better than it has done in providing income support for our working poor and for those undertaking adjustments in their own lives in order to build a better future for themselves and their children.

■ The Transitional Adjustment Assistance Program would go some way towards providing assistance, but other reforms, too, are required. Thus Commissioners believe that the provision of a Universal Income Security Program with a universally available income guarantee, subject to reduction at a relatively low “tax-back” rate, constitutes the most appropriate foundation for Canada's income security programs.

- We therefore recommend that the UISP replace existing federal tax and transfer programs including:
 - GIS
 - Family Allowances
 - Child Tax Credits
 - Married Exemptions

- Child Exemptions
- The Federal Share of CAP Social Assistance Programs
- Federal Social Housing Programs.
- The replacement of these programs would make possible a universally available guarantee, in 1985, of approximately \$2750 per adult (and for the first child in a single-parent family) and \$750 per child with benefits reduced at a 20-per cent rate as other income was available. The elderly should receive an enriched option. A substantially larger guarantee of \$3825 per adult could be provided if the personal income-tax exemption were also included.
- The UISP should be put in place at the same time as the broad Unemployment Insurance reforms described above. The entire package should be in place in 1988. The package should be phased in, however, with a two-stage approach. In the first stage, which should begin immediately, the Family Allowance, Child Tax Credit, and Child Tax Exemptions should be eliminated and replaced with a single demogrant or tax credit of approximately \$1000 per year in 1985, payable monthly. The total amount should be available to families with a total annual income of up to \$26 000. Beyond that level, benefits might be reduced at a 25 per cent rate. Experience rating for UI should also begin immediately, and social assistance payments under the CAP should be restructured to replace the present pre-emptive reduction of benefits above the current work-related/expenses level with a 50 per cent reduction rate. At the second stage of implementation, to be completed by the beginning of 1988, the full range of UI, UISP and TAAP changes outlined above should be in place.

Commissioners wish to emphasize that recommended benefit levels and structures are indicative only. While we believe them to be correct and appropriate levels in mid-1985, they will change with time. Moreover, the interrelationship among such features as basic guarantees and tax-back levels can be varied to achieve a number of effects.

We also wish to emphasize that while the federal government could implement most parts of this proposal unilaterally, these reforms are likely to be far more effective if they are carried out in co-operation with provincial government changes. The major reason for this is that provincial governments automatically receive larger tax revenues whenever the federal government eliminates tax exemptions and deductions. If the full value of these programs is to be maintained for the social policy sector, it will be necessary for the provincial governments either to provide harmonized transfers or to cede some tax points back to the federal government in return for delivery of the income-transfer arrangements.

- Commissioners recommend, therefore, that these proposals be the subject of urgent and serious federal-provincial discussion. We urge the Government of Canada to introduce them to the

federal-provincial agenda at an early federal-provincial ministers' meeting and to move forward quickly towards implementation.

The UISP is not intended to provide fully adequate benefits for all Canadians who have no other earnings or income; it is primarily a supplementation program intended to compensate for the fact that there is often a considerable mismatch between earnings and needs. Commissioners therefore recommend that provincial governments continue to provide needs-tested social assistance as a top-up to UI and UISP benefits where these do not fully meet pertinent needs. The equivalent of the current provincial share of social assistance payments should be adequate for this purpose. In addition, provincial governments could reap a substantial increase in tax revenues from some of the tax changes which would accompany the inception of the UISP. It is desirable that these funds should also be used to support income-security programs; that arrangement would make provision of topping-up arrangements financially easy.

The UISP seems to Commissioners to be the essential building block for social security programs in the twenty-first century. Should governments not be able to implement it, a series of less complete reforms would at least ameliorate some of the worst features of the existing systems.

- Thus, failing the implementation of the UISP, Commissioners recommend:
 - Reform of the family benefits program to reduce or eliminate the child tax exemption and the family allowance program and to increase the child tax credit, which should also be made payable on a monthly basis
 - Reform of social assistance provisions of the Canada Assistance Plan to eliminate pre-emptive taxation of social assistance benefits as other income from employment, training allowances or similar sources is received. □

We wish to emphasize that these are partial reforms only, and that the more comprehensive UISP is a preferable choice.

Social Services

This Commission did not undertake an extensive review of Canada's social service programs. We did, however, receive many representations about them, and we did develop several recommendations.

- Commissioners support the continuing devolution of responsibility for delivering social services to the community level and to non-profit associations. We strongly recommend, however, that this devolution not be handicapped by a reduction in funding, and that governments retain sufficient staff to exercise their monitoring responsibilities. The maintenance of funding is particularly important, since we could see no evidence whatsoever that social services, which include support for children, the elderly, the

disabled and those with shorter-term social problems, are overfunded. Indeed, considerable evidence of underfunding was presented to us in our hearings.

- The major social services will also benefit from:
 - Further forms of assistance which will help users to become more self-reliant
 - Better integration of various forms of social and medical services at the community level.

Access to many social services in Canada is now impeded by the “needs-based” approach of the Canada Assistance Plan. Only those “in [financial] need or likely to become in need” have free access to services, so that many Canadians just above the poverty level are effectively precluded from receiving such important support as family, marital and financial counselling or child support services.

- This Commission recommends that the current federal-provincial financing arrangements be severed from social assistance financing and renegotiated to provide Canadians with broader access to these services.
- This Commission is not persuaded that extensive delegation of responsibility for social services to the profit-seeking part of the private sector is likely to improve significantly the services provided to Canadians. Where such privatization is practised, we recommend that it be done in the context of very careful government regulation of the provision of services. Profit maximization, in our view, is not always the best motive whereby to govern human transactions.

There are currently two major task forces working at the national level to review day care in Canada; therefore this Commission has not conducted research in this area. Commissioners do, however, wish to note that the current CAP day-care guidelines actually serve to make access to publicly supported day care quite difficult for middle-income Canadians and that the current \$2000 tax exemption for child-care expenses is much more valuable to upper-middle/class Canadians than to the majority of Canadian families. Both these provisions require reform.

- Finally, Commissioners wish to pay tribute to the hundreds of thousands of Canadians who work through the voluntary sector to help their fellow citizens. We recommend that all levels of government should continue to support and nurture such activity by providing fully adequate support and supervision for the programs dispensed through the voluntary sector. □