



RENEWING CANADA'S SOCIAL ARCHITECTURE

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1 OUR WORLD HAS CHANGED, OUR SOCIAL POLICIES AND PROGRAMS HAVEN'T.

Canada looks very different than it did a generation ago. Our society, economy and labour markets have been reshaped by demographic shifts, new economic realities, globalization, emerging technologies and changing culture and attitudes. Many of the core social programs and policies designed in the middle of the last century have not kept pace with these broader changes.

The federal government, in partnership with the provinces, led the creation of our social architecture — the suite of programs that includes the Canada Pension Plan (CPP), Medicare, and Employment Insurance (EI), among others. While there have been numerous adjustments, many of the main pillars of Canada's social architecture have not evolved to appropriately address current economic and demographic realities.

Introduced in the middle of the last century, public pensions, medicare and employment insurance were designed for a particular social and economic context — low rates of female participation in the paid labour force and a labour market where someone with a high school education could get a stable, well-paying job with benefits. The labour market has shifted tremendously, with fewer people in the once “standard” forms of employment with stable hours, registered pensions and extended health benefits. Canada's aging population presents challenges to retirement security, the health care system, and families — now more likely to be dual-earner households — that face additional stress caring for aging relatives.

The purpose of this project is to support a conversation among policymakers and the public about the best ways to update Canada's social architecture. Researchers from the Mowat Centre, Caledon Institute for Social Policy, Institute for Competitiveness and Prosperity and Institute for Research on Public Policy have produced a series of papers exploring opportunities to strengthen Canada's social architecture. Each of these contributions provides an overview of a particular policy issue and presents some potential short-term and long-term options for consideration.



What do we mean by Canada's social architecture?

We use the term social architecture as short-hand for the broad array of social services, programs and benefits that provide insurance against risk and protection for the vulnerable in Canada.

These programs are based on the broadly-shared idea that every Canadian ought to be able to satisfy basic needs of housing, food and clothing; that they enjoy equality of opportunity; that the government ought to provide certain public and social goods; and that Canadians ought to pool risk collectively to more efficiently protect against risk of unemployment, disability, and sickness.

Social goods and services in Canada can be provided by one or more levels of government, employers, civil society organizations, or some combination of these.

Canada's social architecture is at a crossroads: fundamental challenges have been neglected for too long in favour of short-term fixes, resulting in large gaps that now threaten the well-being and economic prosperity of Canadians. The renewal of these programs and policies should be a priority of all Canadians in the coming years, starting with the federal election this fall.

2 THE EVOLVING CONTEXT — DRIVERS OF CHANGE

CHANGING NATURE OF WORK

Canada's labour market has changed dramatically since our social architecture was designed. Gone are the days of the traditional male-single-breadwinner, when many could anticipate working in the same job most of their life and receiving a pension at retirement. Globalization, structural and technological changes have helped to create new forms and patterns of employment. There are also polarizing trends in today's labour market that cut across job sectors and geographic regions.

Technological advances — like the growing replacement of routine-task jobs through computerized automation — have created significant structural changes in the labour market. From 1980 to 2005, the employment share of high-skilled jobs increased¹ relative to middle and low wage jobs — with the hollowing-out of middle-class jobs in particular. These structural changes have been accelerated² by globalization and the off-shoring³ of routine-task jobs to countries with lower labour costs.

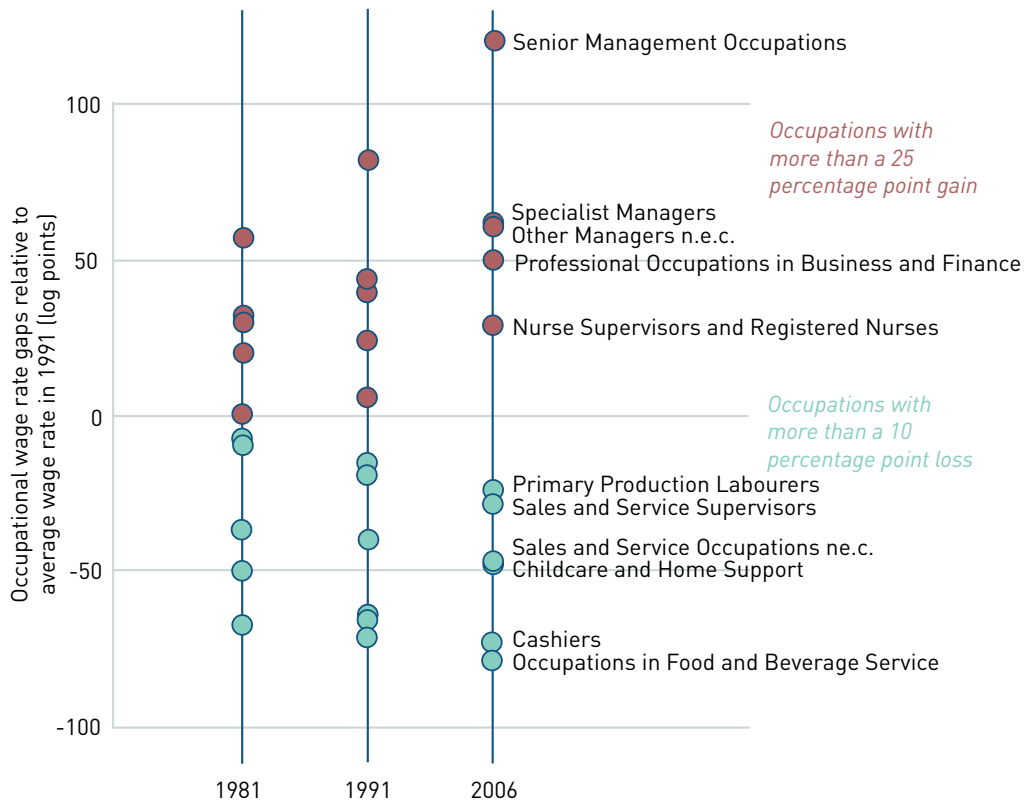
As a result, Canada's labour market is more polarized now than when the core components of the social architecture were designed. Wages have risen significantly in certain occupations,⁴ such as those in senior management, while they have stagnated or declined in others, particularly in retail service sectors.

1 Green, D. A., and B. Sand. 2011. *Has the Canadian Labour Market Polarized?* Human Resources and Skills Development Canada.

2 Nicole Fortin, David A. Green, Thomas Lemieux, Kevin Milligan. 2012. "Canadian Inequality: Recent Developments and Policy Options." *Canadian Public Policy* 38(2): 121-145; Bank of Canada. 2008. *Offshoring and Its Effects on the Labour Market and Productivity: A Survey of Recent Literature*. Accessed online at: <http://www.bankofcanada.ca/wp-content/uploads/2010/06/cheung.pdf>

3 Ibid.

4 Miles Corak (2014), "Two facts about the prospects for this generation in an unequal world", presentation to the Keith Davey Forum on Public Affairs, University of Toronto., based upon data from David Green and Benjamin Sands (2013, Table II).



SOURCE: CHART BY MILES CORAK, BASED ON DATA FROM DAVID GREEN AND BENJAMIN SANDS⁵

Overall, jobs in Canada have shifted away from “permanent, full-time employment paying a family wage, benefits to cover unexpected expenses, and a retirement plan to provide for old age”⁶ towards increasingly precarious employment relationships such as self-employment, part-time, temporary or contract work.⁷ This work is considered precarious because it is less stable, has limited job security, the hours are often erratic and the associated income is often insufficient to allow for workers to save for retirement or emergencies.

While some people choose to work part time or on contract for greater flexibility, at least one quarter are doing so involuntarily and would prefer⁸ more hours of work. As a percentage of Canada’s job market, part-time positions have grown from 12.5 per cent in 1976 to nearly 19 per cent in 2013 — and in the past year, part-time jobs accounted for 80 per cent of net job creation.⁹ Traditionally, families have relied on standard employment relationships to provide supports like dental care, prescription drugs and pensions through employer-based benefit plans to

⁵ Ibid.

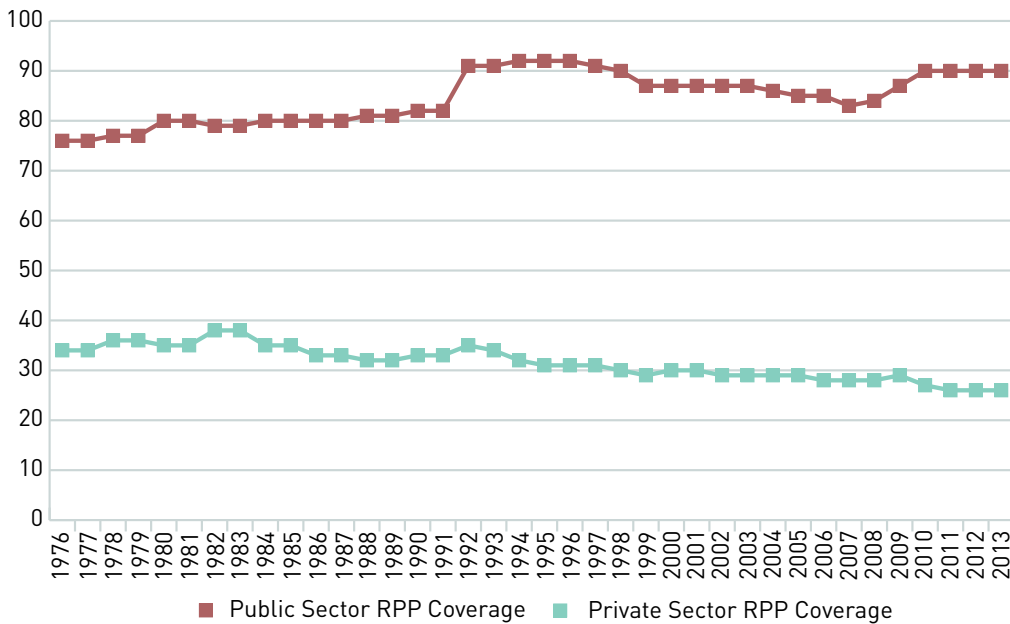
⁶ PEPSO. 2013. *It’s More than Poverty: Employment Precarity and Household Well-Being*.

⁷ David A. Green and James Townsend. 2014. Drivers of Increasing Market Income Inequality: Structural change and policy. In (eds.) Keith Banting and John Myles. *Inequality and the fading of redistributive politics*.

⁸ Grant, Tavia. October 4, 2014. “The 15-hour workweek: Canada’s part-time problem.” *The Globe and Mail*.

⁹ Cansim Table 282-0001; Grant, Tavia. October 4, 2014. “The 15-hour workweek: Canada’s part-time problem” *The Globe and Mail*.

Diverging Trends: Pension Coverage in the Public/Private Sectors



SOURCE: MOWAT CENTRE BASED ON STATISTICS CANADA DATA.

cover gaps in the public system. The increasing share of part-time and contract work means that more households face more exposure to the risk of not having a steady retirement income, and major challenges in case of illness or disability. Women, recent immigrants, members of racialized groups, people with disabilities and Aboriginal people are all more likely¹⁰ to hold precarious jobs.

Young workers have also been particularly affected by structural changes in the labour market. Workers entering today's labour market face lower entry-level wage rates¹¹ than previous cohorts. While young people are earning more education and skills credentials than in the past, the returns on those investments are more uncertain in a polarized job market. With tuition fees for some of the most lucrative credentials like law and medicine increasing at far higher rates, this can make family background a prominent factor in access to some of the best opportunities. Today's young people are entering the labour market with greater debt burdens and will likely have to work into later years than previous generations.

Unions have traditionally been successful in achieving higher wages, improved conditions and benefits for workers, but union density — defined as the proportion of paid employees who are union members — declined from 38 per cent to 30 per cent between 1981 and 2012.¹² In recent years, while public sector

10 Law Commission of Ontario. 2012. *Vulnerable Workers and Precarious Work Project*.

11 Green, David A. and Townsend, James. 2010. "Understanding the wage patterns of Canadian less skilled workers: the role of implicit contracts." *Canadian Journal of Economics* 43(1): 373–403.

12 Statistics Canada. *Study: Long-term trends in unionization, 1981 to 2012*; David A. Green and James Townsend. 2014. Drivers of Increasing Market Income Inequality: Structural change and policy. In (eds.) Keith Banting and John Myles. *Inequality and the fading of redistributive politics*. p. 74.

union density has held fairly constant (hovering around 74 per cent from 1997-2013), private sector union density has continued to decline, reaching 17.5 per cent in 2013.¹³ As fewer new entrants to the labour market are unionized, we are likely to see union density continue to decline — and with it access to benefits like employer-sponsored extended health insurance.¹⁴

Fewer than 40 per cent of employees are covered by a Registered Pension Plan. The decline in so-called standard employment relationships means fewer Canadians are now covered by generous pension plans. Again, these declines are more marked in the private sector, where only 26 per cent of workers were covered in 2013, down from 34 per cent in 1976.¹⁵

There has also been a recent prominent shift towards Defined Contribution plans — which put the market risk on the retiree, and provide an uncertain amount of income upon retirement — from Defined Benefit plans — which pay an established amount each year after retirement and have market risk taken on by the plan or the employer. For workers in the private sector with a pension, Defined Benefit coverage has dropped¹⁶ from 74 per cent in 2001 to 51 per cent in 2011.

The polarization of Canada's labour market is not only a consequence of globalization and technological change. The commodity boom in some Canadian provinces has led to different growth tracks in different regions, though recent trends underscore the precariousness of commodities as a source of prosperity. Over the past decade, the full-time employment rate of men aged 25-34 in Alberta, Saskatchewan, and Newfoundland and Labrador increased¹⁷ two per cent, while all other provinces averaged a four per cent decline.

2.2 DEMOGRAPHIC SHIFTS AND FAMILY CHANGES

A number of major demographic trends are changing the demands that Canadians place on our social architecture in a way that has not been reflected in our programs:

- Canada's population is aging.
- Women participate in the workforce in far greater numbers.
- More people than ever live in urban centres.
- The population is far more diverse thanks to a constantly shifting stream of new immigrants.

13 Cansim Table 282-0077.

14 Statistics Canada. *Study: Long-term trends in unionization, 1981 to 2012*; David A. Green and James Townsend. 2014. Drivers of Increasing Market Income Inequality: Structural change and policy. In (eds.) Keith Banting and John Myles. *Inequality and the fading of redistributive politics*. p. 74

15 Mowat Centre calculation based on data from Statistics Canada.

16 Government of Canada. *Registered Pension Plan (RPP) and Retirement Savings Coverage (Canada)*.

Accessed online at: http://www.osfi-bsif.gc.ca/Eng/oca-bac/fs-fr/Pages/FS_RPP_2013.aspx

17 Parliament of Canada. 2014. *Youth Employment in Canada: Challenges and Potential Solutions*. Accessed online at: <http://www.parl.gc.ca/content/hoc/Committee/412/FINA/Reports/RP6658485/finarp06/finarp06-e.pdf>



The Origins of our Current System

The drivers of change highlighted in this section were not envisioned when the current system of income security and social programs were designed. In response to the challenges of the First and Second World Wars and the Great Depression, Canada shifted away from a system of social supports that had been provided by charities, local governments and provinces, to a new system led in many cases by the federal government and with some element of common national standards. New programs emerged to mitigate risks of sickness, job loss and disability, and to help address market failures in housing and retirement savings.

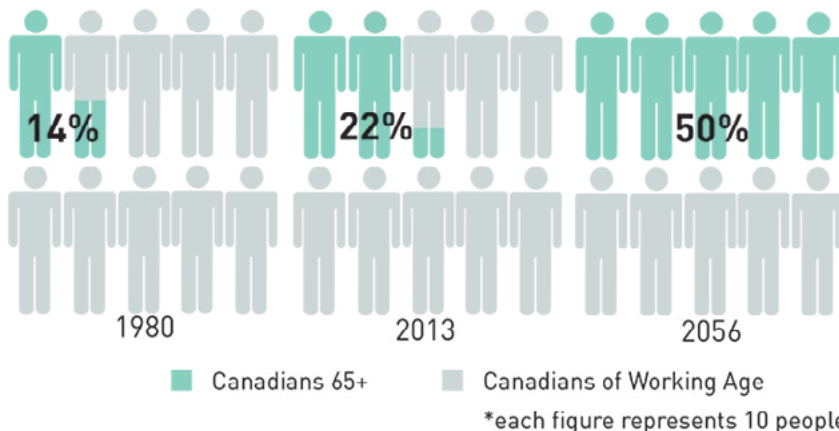
The Pillars of Canada's social architecture

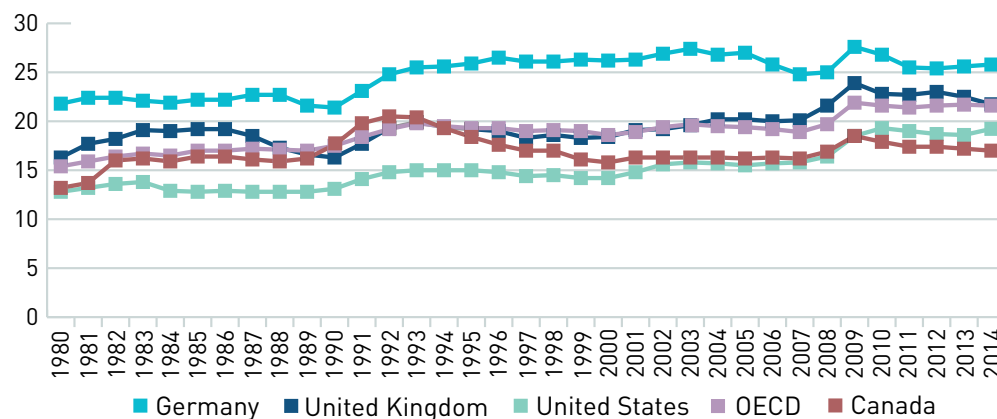
1940	1944	1945	1951	1965	1966	1971	1978
Unemployment Insurance	National Housing Act	Family Allowance	Old Age Security	CPP/QPP	Medicare	Maternity Leave	Refundable Child Tax Credit

What has developed in Canada as these programs evolved is a mixed system. Public programs are managed by one or more levels of government and are either publicly-funded or contribution based (such as Employment Insurance or the Canada Pension Plan). Other needs are expected to be funded by employers, like extended health insurance and workplace pensions. For needs that are not covered by this system, a network of charities and non-profits has developed. Rationalizing the overlapping roles and responsibilities for these programs — especially in a decentralized federation like Canada — is essential to any effort to modernize the social architecture.

These shifts put pressure not anticipated in the original design of Canada's social architecture.

The percentage of people in Canada aged 65 or older has grown significantly since 1980, and is projected to grow higher still as more people reach retirement age and the country's fertility rate – at 1.6 children per woman – remains below the rate of replacement. In 1980, there were 14 seniors for every 100 people of working age. By 2013, this figure had climbed to 22 per 100, and future



Public Social Spending as a Share of GDP in Canada and Peer Countries

SOURCE: MOWAT CENTRE BASED ON OECD SOCIAL EXPENDITURE DATABASE.

projections estimate that there could be as many as 50 seniors for every 100 workers by 2056.¹⁸

The rising dependency ratio has significant impacts on a number of policy areas, including health care costs, retirement income security, and long-term care demands. Current and future generations of workers may not be able to sustain a level of productivity sufficient to pay for increasingly expensive social programs at the same time as ensuring their own well-being and retirement security.

Canada has continued to welcome a large number of immigrants in recent decades. The result of this large migration flow to Canada is greater diversity, particularly in urban centres. Canada's foreign-born population rose to more than 20 per cent of the population in 2011 from 16 per cent in 1991, and by 2031, Statistics Canada estimates¹⁹ that nearly one-third of Canada's population will belong to a visible minority group. Both recent immigrants and racialized populations face unique barriers to entering the labour market.

Women's participation in the labour force has increased from about 51 per cent in 1976 to about 74 per cent in 2014, for women aged 15-64. The resulting increase in the number of dual-earner households has changed economic relationships for many Canadian families.²⁰ Increased labour participation of women and changes in the labour market — notably stagnant wage growth — have increased demand for social goods such as childcare, while supply has not kept pace and costs have put these services out of reach for many families. In addition, more working-age Canadians find themselves sandwiched between caring for children and elderly parents at the same

18 World Bank Data. Statistics Canada. Dependency Ratio.

19 Statistics Canada. *Ethnic diversity and immigration*. Accessed online at: <http://www.statcan.gc.ca/pub/11-402-x/2011000/chap/imm/imm-eng.htm>

20 Includes both full-time and part-time positions. Cansim Table 282-0002.

time. These pressures may force Canadians to make difficult choices such as postponing retirement savings, or waiting longer before starting a family or else choosing not to have children.

Changes in family structures have also created significant new challenges for policymakers. Single-parent households — 80 per cent of which are female-led — are associated with higher rates of family poverty, and they now make up over 16 per cent of the total number of Canadian households.²¹

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What has developed in Canada as these programs evolved is a mixed system. Public programs are managed by one or more levels of government and are either publicly-funded or contribution based (such as Employment Insurance²³ or the Canada Pension Plan). Other needs are expected to be funded by employers, like extended health insurance and workplace pensions. For needs that are not covered by this system, a network of charities and non-profits has developed. Rationalizing the overlapping roles and responsibilities for these programs — especially in a decentralized federation like Canada — is essential to any effort to modernize the social architecture.

When seen in international comparison, Canada has lagged many peer countries in terms of public social spending. Over the past twenty years, Canada has fallen well behind the OECD average and major competitors, making these more competitive places to attract talent and making it easier for businesses to operate.

These significant social and economic changes have resulted in higher income inequality and may threaten future social mobility. These trends bring the gaps and pressures on Canada's social architecture into sharp relief.

21 Statistics Canada. 2014. *Portrait of Families and Living Arrangements in Canada; Canada's Child poverty rate in 2011 was 14.3per cent using the after-tax Low Income Measure*. Child poverty has declined according to the after-tax Low-Income Cutoff from 13.4per cent in 1976 to 8.5per cent in 2011. Cansim Table 202-0802.

22 Guest, Dennis. 1999. *The Emergence of Social Security in Canada*. Third Edition. Dennis Guest. UBC Press: Vancouver.

23 The name of the program was changed from "Unemployment Insurance" to "Employment Insurance" in 1996.

3 OUTCOMES

3.1 INCOME INEQUALITY

Along with many of its international peers, Canada has seen inequality rise in the past few decades. Canada has far lower²⁴ income inequality (after-taxes and transfers) than the United States but much more than countries such as Norway and Denmark. While the increase in Canada's inequality has been more modest than in some other countries, the past few decades have seen income gains go disproportionately to the highest earners.

The result of the polarized labour market has been an increase in income inequality in Canada, as measured by the Gini coefficient.²⁵ Looking at the chart below, we can see that income inequality has increased since 1976, though it has increased more for market income than it has after taking into account taxes and transfers.

Part of the inequality story has been the increasing share of income earned by those at the top of the income distribution. The top 10 per cent of earners have seen their share of income rise from 34 per cent in 1982 to 42.5 per cent in 2007.²⁶ At the very top, the highest one per cent of earners in Canada accounted for almost one-third of all income growth from 1997-2007.

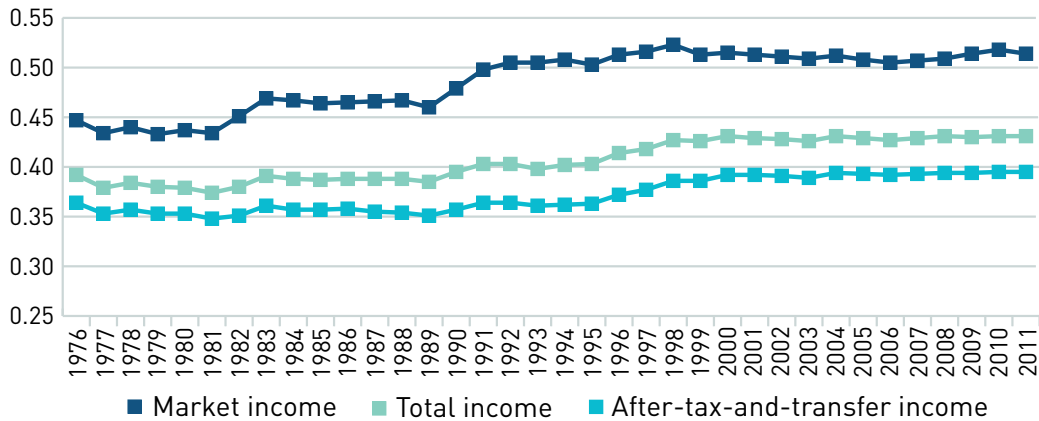
At the bottom of the income scale, the bottom 40 per cent lost significant ground in their share of Canadian income starting in the early 1980s. For the last ten years, this 40 per cent of Canadians has taken home an average of just over 12 per cent of all income (see chart). This declining share for the lowest earners has led to increased poverty rates, especially for single people, recent immigrants, Aboriginal people and lone-parent households. Aboriginal

24 Craig Alexander and Francis Wong. 2014. *The Case for leaning against income inequality in Canada*. TD Economics Special Report.

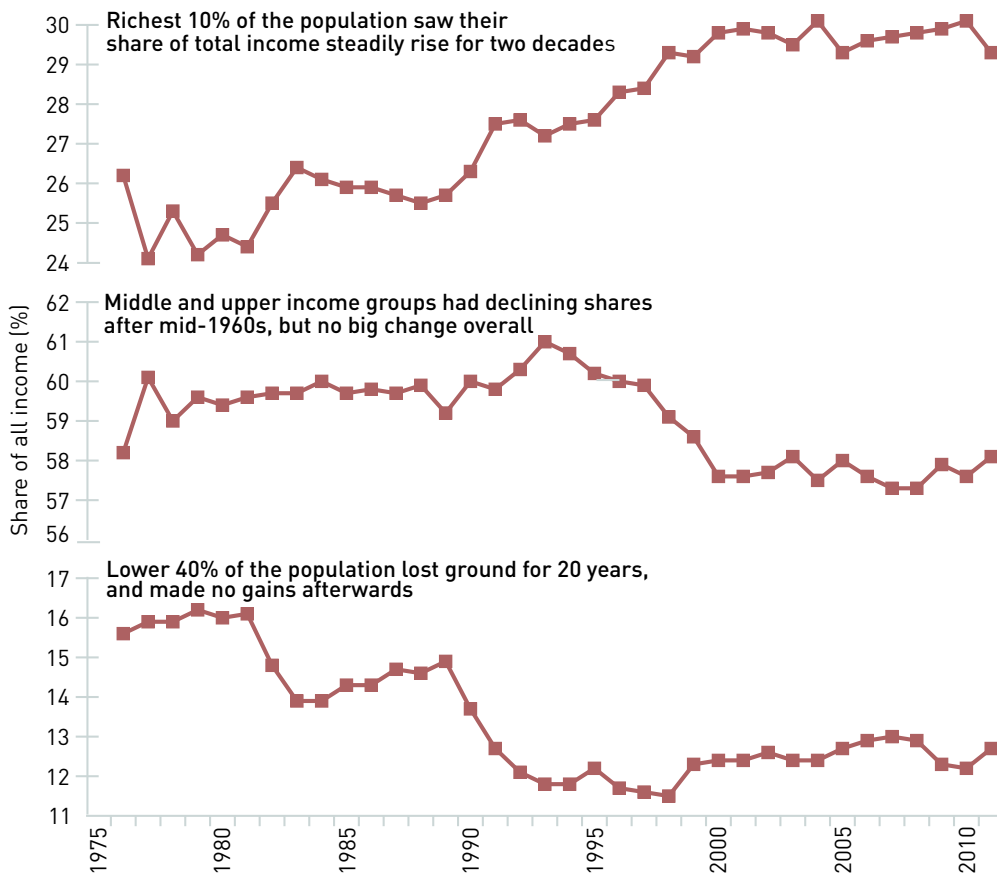
25 Statistics Canada. Table 202-0705

26 Armine Yalnizyan. 2010. *The Rise of Canada's Richest 1 per cent*. Canadian Centre for Policy Alternatives. Accessed online at: <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Nationalper cent20Office/2010/12/Richestper cent201per cent20Percent.pdf>

Canada's Gini Coefficient (Measurement of Income Inequality)



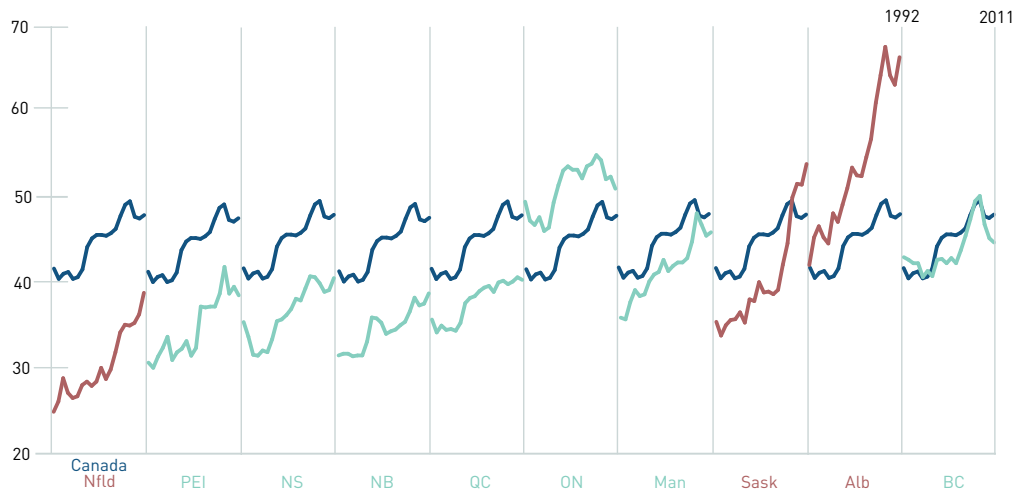
SOURCE: MOWAT CENTRE BASED ON STATISTICS CANADA²⁷



SOURCE: MILES CORAK²⁸

²⁷ Statistics Canada. Table 202-0705.

²⁸ Miles Corak. 2014. *Two stories about inequality and the middle class*. Presented at the 2014 Queen's University, International Institute on Social Policy Conference, Kingston, Ontario.



SOURCE: MILES CORAK²⁹

children continue to experience poverty at alarming rates — as of 2006, 40 per cent³⁰ of Aboriginal children were living in poverty.

For middle-income families, gains in income have been slight — inflation-adjusted median family incomes have increased from \$55,200 in 1976 to \$57,000 in 2011³¹ (in 2011 dollars) — despite the fact that women’s employment rates have increased by 40 per cent in the past 35 years. Many households now rely on two people to earn only slightly more than one earned in previous generations.

Additionally, since the 1990s growth in median incomes has been concentrated in provinces that benefited from booming commodity sectors — Alberta, Saskatchewan and Newfoundland and Labrador have seen the sharpest increases in median incomes, an increase that may not be sustainable given the slowdown in the commodity boom.³²

Canadian households are also racking up more debt as consumption has grown faster than disposable income. Canadians owe nearly \$1.64 for every \$1 in disposable income they earn in a year.³³ The current household savings rate is approximately four per cent, the lowest level since 2010.³⁴ While this likely reflects both limited income growth and historically low real interest rates, the long-term implications are concerning.

29 Ibid.

30 Ibid.

31 Armine Yalnizyan. March 7, 2014. “The ‘girl effect’ reduces inequality, but we can’t count on it forever”. *The Globe and Mail*.

32 Miles Corak. 2014. *Two stories about inequality and the middle class*. Presented at the 2014 Queen’s University, International Institute on Social Policy Conference, Kingston, Ontario.

33 <http://business.financialpost.com/2014/03/14/canadians-are-in-the-money-as-wealth-rises-and-household-debt-falls-from-record/>

34 Tavia Grant. September 10, 2014. “Savings dwindle as incomes stagnate and debt piles up.” *The Globe and Mail*.

3.2 THE RESPONSE OF CANADIAN GOVERNMENTS — OVERALL TRENDS IN SOCIAL SPENDING

Government spending and policy priorities have a measurable effect on social and economic outcomes. For example, studies consistently show³⁵ that countries with heavier investment in social spending through taxes and transfers have lower poverty rates. Canada's tax and transfer system plays a substantial role, but a role that is smaller than most wealthy countries, in offsetting trends in market income inequality. We rank 25th of out 30³⁶ OECD peers on this measure. According to one estimate,³⁷ "if Canada's redistributive efforts were to be raised to the OECD average, nearly two-thirds of the increase in after-tax inequality that has taken place in Canada since 1981 would be eliminated."

The redistributive impact of Canada's tax and transfer policies has fluctuated over time. Social spending as a percentage of GDP spiked in the early 1990s due, at least in part, to economic recession and rising Unemployment Insurance and social assistance costs. By the late 1990s, after-tax income inequality rose partly as a result of cuts to Employment Insurance and other federal cuts to social spending in response to rising deficits.³⁸

Since the 1990s, the federal government has increasingly downloaded³⁹ responsibility for social spending to the provinces putting greater pressure on provincial governments to pay for social programs.

The redistributive effect also varies provincially due to a number of factors, including differences in social assistance rates. For example, in 2010, Newfoundland and Labrador's taxes and transfers had the greatest⁴⁰ inequality-offsetting effect, while British Columbia and Alberta's policies had the least.

35 Koen Caminada and Keen Goudswaard. 2009. *Effectiveness of poverty reduction in the EU15: An empirical analysis*.

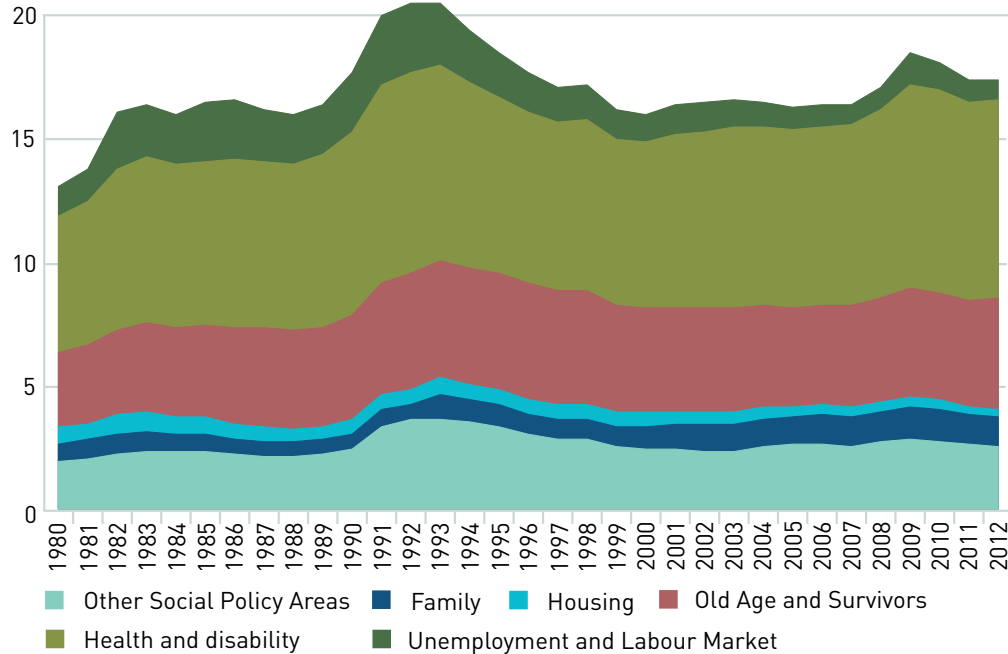
36 Based on the impact of redistribution policies on gini coefficients in the late 2000's. Andrew Sharpe and Evan Capeluck. 2012. *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981-2010*. CSLS Research Report 2012-08. Accessed online at: <http://www.csls.ca/reports/csls2012-08.pdf>

37 Andrew Sharpe and Evan Capeluck. 2012. *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981-2010*. CSLS Research Report 2012-08. Accessed online at: <http://www.csls.ca/reports/csls2012-08.pdf>. P. 3.

38 David A. Green and James Townsend. 2014. Drivers of Increasing Market Income Inequality: Structural change and policy. In (eds.) Keith Banting and John Myles. *Inequality and the fading of redistributive politics*.

39 Office of the Parliamentary Budget Officer. 2013. *Fiscal Sustainability Report 2013*. Accessed online at: http://www.pbo-dpb.gc.ca/files/files/FSR_2013.pdf

40 Andrew Sharpe and Evan Capeluck. 2012. *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981-2010*. CSLS Research Report 2012-08. Accessed online at: <http://www.csls.ca/reports/csls2012-08.pdf>

Public Social Spending in Canada by program area (% of GDP) 1980-2012SOURCE: OECD AND PETER HICKS⁴¹

3.3 PROGRAM AREAS — COVERAGE AND GAPS

3.3.1 INCOME SECURITY AND THE LABOUR MARKET

Canada uses both progressive income taxes, and universal, income-tested and needs-tested benefits to redistribute income. Low-income Canadians are generally required to pay less in tax and have access to additional benefits, with taxes rising and eligibility for benefits generally declining as incomes increase.

Canadians who lose their jobs can qualify for income replacement through Employment Insurance if they have worked a requisite number of insurable hours. However, economic downturns, budgetary constraints and the decline in standard employment have seen EI eligibility fall to its lowest rate since 1944⁴² — the percentage of jobless receiving EI benefits currently sits at 36.6 per cent.

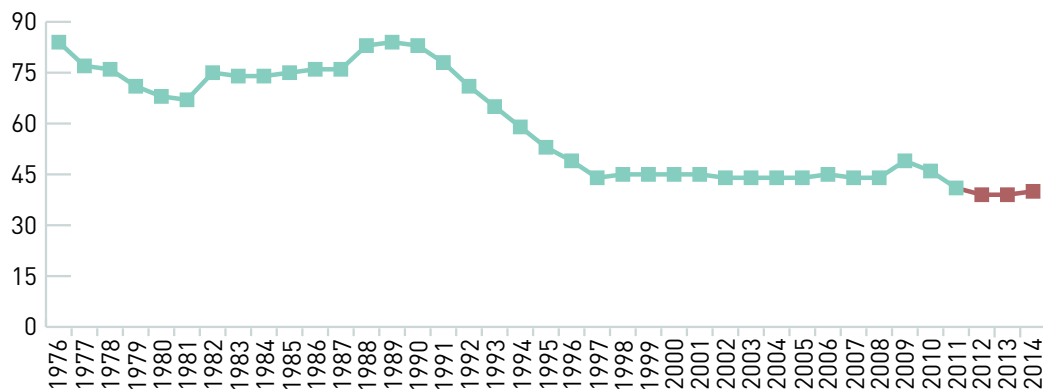
Ontarians are particularly under-served⁴³ by the program — contributing 40 per cent of EI funds while receiving only 33 per cent of income benefits, despite

41 OECD Social Expenditure SOCX Data; Peter Hicks. 2008. *Social Policy in Canada – Looking Back, Looking Ahead*. Queen's University School of Policy Studies. Working Paper 46.

42 Press Progress. 2014. *Unemployed? Good luck getting EI as eligibility hits all-time low*. Accessed online at: <http://www.pressprogress.ca/en/post/unemployed-good-luck-getting-ei-eligibility-hits-all-time-low-0>

43 Jon Medow. 2011. *Hidden Regional Differentiation: EI and Unequal Support for Low Income Workers*. Mowat Centre EI Task Force.

Percentage of Unemployed Receiving Regular Jobless Benefits 1976-2014



SOURCE: MOWAT CENTRE BASED ON STATSCAN DATA⁴⁴

higher than average unemployment. As an example, in Hamilton, eligibility has fallen from 40 per cent in 1997 to under 22 per cent in 2014; in Toronto, fewer than 55,000 of 307,000, or less than 20 per cent, of jobless people are collecting EI.⁴⁵

While its design has changed since it was first introduced, Canada's EI system is still not adequately aligned with Canada's new labour market realities, such as the rise in precarious employment. The program's narrow eligibility criteria also restrict people who may need the most help from accessing a number of important skills and training services. Because too many workers do not qualify for benefits, despite having paid into the system, EI has ceased to function as an effective social insurance scheme. Many people who are not eligible for EI, and unable to find employment, will end up on social assistance — which is supposed to be a program of last resort — because EI is still closely linked to the idea that most workers are in standard, full-time employment. In spite of an increasing fraction of EI funds being spent on so-called special benefits like maternity, parental, and sickness benefits, the program does a poor job of insuring against the growing and diverse set of demographic risks that Canadian families face, offering only partial assistance and assistance that is at times paternalistic and limits the flexibility that families increasing need.

In order to qualify for social assistance, families must already be living in poverty. In other words, it is not a program that prevents poverty, the way income replacement programs like EI can. This negative cycle can harm the long-term employability of people of working-age and is associated with a host of negative and costly impacts for children raised in poverty. The negative social outcomes associated with poverty, such as poor health and higher unemployment rates, invariably result in higher costs for other social programs.

⁴⁴ 1976 -2012 data from Cansim 276-0001. 2013-14 data from Cansim 276-0022 (up until November 2014). Data seasonally adjusted.

⁴⁵ Press Progress. 2014. *Unemployed? Good luck getting EI as eligibility hits all-time low*. Accessed online at: <http://www.pressprogress.ca/en/post/unemployed-good-luck-getting-ei-eligibility-hits-all-time-low-0>

Social assistance recipients face barriers to the labour market in the form of clawbacks and higher tax rates on earned income. Together, these factors create a “welfare wall” that can make it difficult for an individual to compensate for benefits lost when they obtain a job.⁴⁶ In Ontario, social assistance is clawed back at 50 cents for each dollar of additional employment income.⁴⁷ However, the net effect of the loss of other supports (such as housing assistance or childcare benefits) can make the overall effect, or marginal effective tax rate, well over 60 cents on the dollar.⁴⁸

However, some improvements and promising trends have emerged in recent years. There has been an increase in benefits for low income households and families with children, and innovative programs such as the Working Income Tax Benefit (WITB) have the potential to help move people out of poverty and into the labour market.⁴⁹ Some elements of system design have also improved. For example, the emphasis on refundable tax credits — such as the Canada Child Tax Benefit, which provides a monthly, non-taxable benefit to families with children, depending on income — rather than non-refundable credits, which have no value to low-income households that may not have tax owing — has been an important area of progress.

However, the lack of labour market supports for access to affordable childcare, employment-related expenses, education and training, as well as support for people with disabilities, continue to make it difficult⁵⁰ for people to escape poverty and enter the labour market. The growth of precarious employment — and the “working poor” — has meant that employment no longer guarantees an exit from poverty. Relying on the EI system to provide special benefits and parental benefits has improved coverage for those who qualify, but it has also put more pressure on the program in terms of fulfilling its original policy goals.

The public policy framework includes other aspects that also contribute to income and employment security. These include laws and regulations governing employment standards (for both unionized and non-unionized workplaces), rules governing entry to practice of different regulated professions like medicine and engineering, and workplace safety insurance coverage. The regulatory framework is far less visible than direct interventions like EI, child benefits,

46 Alexandre Laurin and Finn Poschmann. 2013. *Treading Water: Marginal Effective Tax Rates on Working Families in Canada*. C.D. Howe Institute E-Brief.

47 Frances Lankin and Munir Sheikh (Commission for the Review of Social Assistance in Ontario). 2012. *Brighter Prospects: Transforming Social Assistance in Ontario*. http://www.mcsc.gov.on.ca/documents/en/mcsc/social/publications/social_assistance_review_final_report.pdf

48 Alexandre Laurin and Finn Poschmann. 2013. *Treading Water: Marginal Effective Tax Rates on Working Families in Canada*. C.D. Howe Institute E-Brief.

49 Ken Battle and Sherri Torjman. 2012. *Enhancing the Working Income Tax Benefit: Presentation to the All-Party Anti-Poverty Caucus*. The Caledon Institute of Social Policy.

50 Ken Battle, Michael Mendelson and Sherri Torjman. 2006. *Towards a New Architecture for Canada's Adult Benefits*. Caledon Institute of Social Policy.

social assistance or pensions; but it can have a significant impact on social outcomes and access to opportunity.

3.3.2 RETIREMENT INCOME SECURITY

Canada's retirement security system includes a public pension plan (CPP/QPP), income-tested public income benefits (Old Age Security and Guaranteed Income Supplement), employer-based registered pension plans, and private, market-based savings mechanisms, such as Registered Retirement Savings Plans and Tax Free Savings Accounts (sometimes also supported by employers). Canada has successfully reduced seniors' poverty but an aging population, longer life expectancy, a decline in employer-based pensions, high levels of consumer debt and inadequate household savings are making a secure retirement more difficult for many Canadians.

The CPP, while sustainably financed, only provides retirement income equal to about 25 per cent of a person's insured working income, up to a maximum benefit of just over \$12,000 a year.⁵¹ Two-thirds of working Canadians, often low- to middle-income earners, don't have an employer-provided pension. And just one in three Canadians has a Registered Retirement Savings Plan, leaving 94 per cent of total RRSP contribution room unused.⁵²

The need for home care services has increased as people live longer into old age, but low income has left many seniors unable to pay for them. Provincial governments have expanded home care services, for both seniors and people living with disabilities, but funding varies by province and is generally inadequate to meet demands. Elderly Canadians may have to rely on relatives to provide care in the face of the lack of formal supports. For the growing number of unpaid, "informal" caregivers — 28 per cent of Canadians ages 15 and older cared for a family member or friend with a long-term health condition, disability or aging needs in 2012 — there is limited financial or program support available.⁵³ The Guaranteed Income Supplement (GIS) and Old Age Security (OAS) programs have lifted a large number of seniors out of poverty, but these programs will become much more expensive as the population ages and people live longer. As they live longer, people are also at greater risk of outliving their personal savings.

Individuals with employer-based retirement plans are more likely to retire securely but many employer-based plans are not portable and in today's more fluid labour market, such plans may act as a barrier to labour mobility.⁵⁴

51 Alvin Finkel. 2006. *Social Policy and Practice in Canada: A history*. Waterloo: Wilfred Laurier University Press.

52 Adam Mayers. 2013. "How we might double CPP Pensions". *The Toronto Star*. December 8, 2013.

53 Statistics Canada, 2014.

54 McKinsey & Company, 2012. *Are Canadians Ready For Retirement? Current Situation and Guiding Principles for Improvement*.

3.3.3 HEALTH CARE

Canada's single-payer system of insurance for physician and hospital service, which is funded through tax revenue, generally provides Canadians with excellent service. Canadians enjoy one of the longest life expectancy rates in the world. However, there are a number of pressures on the universal health care system as it struggles to address Canadians' needs (see the paper from the Institute for Competitiveness and Prosperity for more details).

The majority of health care costs are incurred near the end-of-life, and the large cohort of baby-boomers will require more extensive and expensive care as they age. Rates of chronic disease are also increasing, which has changed the nature of health care needs from when Medicare was first introduced.

Medicare's focus on doctors and hospitals leaves an increasingly important set of health services without coverage. Such services represent most of the 30 per cent of health care costs in Canada that are funded privately.⁵⁵ Since, 1997, out-of-pocket health care spending has risen for all households regardless of income, but increases were greater for lower-income households.⁵⁶ At the same time, the total rate of health spending as a share of GDP has stabilized, declining from 11.6 per cent in 2009 to 11.2 per cent in 2013.⁵⁷

Among the services not covered by public healthcare, the most notable are prescription drugs (those administered outside of a hospital), dental care, mental health services, and extended health/home care services. Canada is the only industrialized country that offers universal health care but not universal prescription drug coverage.⁵⁸ Provinces and territories provide varying levels of drug coverage (seniors, for example), with all provinces offering prescription drug coverage for social assistance recipients. In Quebec, all residents are required to have comprehensive insurance for prescription drugs. Long-term care generally includes some combination of public coverage and private out-of-pocket costs.

The failure of medicare to take into account these health care needs brings significant costs. From a public interest standpoint, the short-term savings that stem from not covering preventive care can lead to higher costs over the long term. As patients neglect elements of their health and wellbeing, the need increases for more expensive acute care later. From a private household standpoint, the cost of drugs, mental health, or extended health services can be a substantial financial burden.

55 Claudia Sanmartin, Deirdre Hennessy, Yuqian Lu and Michael Robert Law. 2014. *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997 to 2009*. Statistics Canada Health Report. 56 Ibid.

57 CIHI. 2013. *National Health Expenditure Trends, 1975 to 2013*. Accessed online at: https://secure.cihi.ca/free_products/NHEXTrendsReport_EN.pdf

58 Danielle Martin and Steve Morgan. September 29, 2014. "Provinces should pressure Ottawa on pharmacare". *The Toronto Star*. Accessed online at: http://www.thestar.com/opinion/commentary/2014/09/29/provinces_should_pressure_ottawa_on_pharmacare.html

3.3.4 CHILDCARE

The increased participation of women in the labour market and the new pattern of dual-earner families have increased demand for childcare services. However, childcare spaces are often expensive and in short supply, which can force families to make difficult choices — delaying or having fewer children, putting their careers on hold, making financial sacrifices, and/or placing their children in unlicensed/unregulated care.

Across Canada, there are only enough regulated childcare spaces for 22.5 per cent of children aged 0 to 5.⁵⁹ Growth in spaces has been very slow and much of the growth has occurred in the for-profit sector, which makes up nearly 30 per cent of all regulated spaces across Canada. All Canadian parents are eligible to receive \$120 per month for each child under six through the Universal Child Care Benefit (UCCB) and additional funds through the Canada Child Tax Benefit (CCTB) and National Child Benefit Supplement (NCBS) depending on net family income. The system of family benefits is complex and difficult to navigate and although it offers significant financial help to families, they are not always targeted for the most vulnerable families and fail to cover a significant portion of childcare expenses, which often exceed \$10,000 per year. Costs significantly vary between and within provinces — care in Ontario and British Columbia is the most expensive, averaging \$1,000 a month for full-time care for infants and over \$900 a month for toddlers.⁶⁰

3.3.5 HOUSING

The social architecture supporting housing accessibility in Canada is very fragmented. About five per cent of Canadian households live in social housing, generally built with federal and provincial funding and today operated primarily by provinces, municipalities and non-profits. The vast majority of this housing stock was built in the 1960s through the 1980s. Among those in social housing, many pay rent pegged to income to ensure affordability.

Federal, provincial and local governments also shape the private provision of housing in a variety of significant ways. These include land-use planning decisions about what can be built, rent control and landlord-tenant relations policies, regulation of mortgage financing and provision of mortgage insurance through CMHC, as well as a variety of subsidies to home purchasers and builders, especially through the tax system. The suite of policies and programs has increasingly tipped the economic scales in favour of the ownership model,

59 Martha Friendly, Shani Halfon, Jane Beach and Barry Forer. 2013. *Early childhood education and care in Canada 2012*. Childcare Research and Resource Unit. http://childcarecanada.org/sites/default/files/CRRU_ECEC_2012_revised_dec2013.pdf.

60 Ibid.

which provides significant benefits to middle- and upper-income Canadians but generally leaves lower-income renters behind.

The result of this fragmentation and the long neglect of social and affordable housing investments is that an estimated 1.5 million Canadian households cannot find adequate and suitable housing without spending more than 30 per cent of their household income, the guideline established by CMHC.⁶¹ These households are overwhelmingly renters in urban centres with household income well below the median.

Given that housing is generally the largest single cost for the average Canadian household, the affordability, quality and suitability of housing are essential determinants for many other quality of life outcomes, including health, public safety, education and employment.

61 Canada Mortgage and Housing Corporation. *Housing Conditions and Core Housing Need*.

4 WHY SHOULD YOU CARE

WHY ACT NOW?

The social programs and policies covered in this series have clear policy objectives and outcomes that benefit Canadians. Whether it's our health care system helping Canadians live longer and cope with challenging health issues or affordable housing proving a stable place for families to live. Critically, many of the benefits associated with well-designed childcare, healthcare, pharmacare and other programs are not just social in nature. They are also economic. Investments in healthcare are drivers of economic growth: every year of improvement in life expectancy is linked to a four per cent increase in economic output, and healthier workers are more productive and less likely to miss work.⁶²

These types of economic benefits cut across the issues outlined in this series — whether it's over \$7 billion a year that would be saved through a national pharmacare program,⁶³ the \$1.52 in benefits⁶⁴ for every \$1 spent on construction of housing or childcare programs driving higher labour force participation of women. In an era of economic uncertainty with the growth rates of the past unlikely to reappear, smart investments that meet the double bottom line of better social and economic outcomes should be prioritized. Reforming and strengthening our social architecture supports a more productive and dynamic economy.

WHY IS THIS IMPORTANT IN A GLOBAL CONTEXT?

In 2015, Canada competes for talent and capital more than ever with countries the world over. As our strong social architecture in the mid-20th century served to attract people and build Canada's reputation as a global leader, so too must we consider how to ensure those same competitive advantages of best-in-class social programs remain in place today. Over the past 50 years, other countries

62 Bloom, David E., David Canning and Jaypee Sevilla. "The Effect of Health on Economic Growth: A Production Function Approach." *World Development* 32, 1 (2004): 1–13.

63 Theresa Boyle. National pharmacare program could save 73 billion: study. *Toronto Star*. <http://www.thestar.com/news/canada/2015/03/16/national-pharmacare-program-could-save-73-billion-study.html>

64 Canada Mortgage and Housing Corporation. *Housing Conditions and Core Housing Need*.

have made sustained progress on these fronts — the US is implementing the foundations of universal healthcare, and countries in Europe like Sweden and Germany continue to invest in strong social frameworks that support a broad range of economic and social policy objectives. As other countries have moved ahead, so too must Canada.

Failing to re-think our social architecture for the demands of today's globalized world will not only mean poorer outcomes across a range of social and economic indicators, it will also erode Canada's position in the global marketplace for talent. Companies and skilled immigrants who make decisions about where to invest and where to live based upon a variety of factors, including the strength of a country's social architecture, could come to view Canada as a less attractive option. Smart investments and decisions about renewing our social policy architecture, on the other hand, will continue to position Canada as the most attractive place to live, do business and prosper.

FURTHER READING

Canada is at a critical juncture — the country’s social architecture has not evolved to respond adequately to the new social risks and challenges emerging from shifts in the country’s demographics and labour market. As social policy expert Peter Hicks argued in a recent essay for IRPP, the welfare state is under stress. Pressures from rising inequality; an aging population; regional disparities in wealth; projected increased costs for core social programs; and the need to foster a labour market that can compete in a global knowledge economy require the federal government, in partnership with provinces, territories and municipalities, to confront these challenges with forward-thinking policies. The Renewing Canada’s Social Architecture project includes a series of papers that examine some of the most pressing policy gaps that have emerged in Canada’s social architecture as well as some of the policy options available to address them.

These contributions reflect research and analysis from a variety of contributors from Canadian public policy think tanks. Each of these papers follows a consistent approach to outline an area of the social architecture in need of renewal, the drivers of change placing pressure on the adequacy of the programs, and some potential options for modernization, ranging from the incremental to the transformational. These papers are intended to provide an on-ramp to a public policy conversation so that Canadians from coast-to-coast-to-coast can help shape the renewal of our social architecture.



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Renewing Canada's Social Architecture is a collaborative project involving researchers from the Mowat Centre, the Caledon Institute for Social Policy, the Institute for Competitiveness and Prosperity and the Institute for Research on Public Policy. The purpose of the project is to advance public dialogue on our social architecture, and highlight areas where our core social programs and policies require modernization to meet Canadians' needs. Each report contributed to the project is the responsibility of the authors alone, and does not necessarily reflect the views of the other contributors or organizations.

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