



HEALTH CARE: A COMMUNITY CONCERN?

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ISBN 978-1-55238-572-2

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CHAPTER 23

The Impact of the Federal Deficit and Accumulating Debts

The federal government's changing position in relation to revenue collection and social spending was discussed in Chapter 6. When the welfare state was planned, Canada was well able to consider extensive financial redistribution policies from central sources to individuals and provincial governments. But in the mid 1970s the situation changed, and gradually the federal government found that it was not able to meet the demands upon it without going into debt. There were many reasons for this change, both internal and external. Since then Canada has fallen deeper and deeper into an annual deficit and accumulating debt situation. At the beginning, this indebtedness was seen to be a management problem for the federal government to resolve, but as the debt has grown, it has now become the most discussed political issue at all levels of government across Canada. This chapter will try to trace the response of the federal government to the deficit and debt issue up to 1993 and the way in which this response has affected social programs delivered at provincial and local levels.

Response of the Liberal Party to the Deficit and Debt Situation 1975–1984

The Liberals were in power in Ottawa from 1935 to 1984 with only two short interruptions. The first of these — the Diefenbaker years, 1958 to 1963 — happened during what has been called the postwar consensus on the importance of having a welfare state and the second — the Joe Clark government of the early 1980s — was a brief interregnum in which the consensus was not challenged.

Taylor (1978) has discussed the hesitations of the Liberal Finance Minister Mitchell Sharp relating to the introduction of Medicare (1966) but it was decided to go ahead with implementing the legislation nevertheless. The Liberals later had some second thoughts about their financial redistribution policies when they were made aware that they were going to be financially overcommitted (Canada 1970a). But they continued to pursue further policies which would have improved social minimum programs for the next five years. By the mid 1970s, however, it had become clear that the finalization of the projected social minimum policies was unacceptable to the cabinet and that new pressures were emerging to change the direction of the welfare state. Johnson (1975) has described the outcomes of the 1975 social service review. By then the government had decided not to continue with the guaranteed annual income (GAI) experiment (piloted in Winnipeg) or revisions to the Canada Assistance Plan.

Concurrently throughout the 1970s federal negotiators struggled to find ways of persuading the provinces to let them amend the open-ended matching grants schemes for health and post-secondary education, but they did not succeed in finding a resolution. So the Established Programs Financing Act (EPF) was passed by fiat in 1977. This substituted block grants to the provinces for open-ended grants. Then federal government began to steadily tighten the block grant aid at each five-year review.

During the period between 1975 and 1984, when the Liberal government was still in power, the politicians concerned with tighter financial control seemed to grow more powerful, challenging defenders of social minimum programs, public housing policies, income security programs and so on. However, until they were ousted in 1984, the Liberals concentrated on finalizing the universal collectivist programs which they had set out to implement. The health insurance principles were firmly restated in the Canada Health Act, 1984, and more extensive post-secondary education programs were set in place in universities and community colleges all across the country in the 1970s and early 1980s.

Yet more important than any efforts to reduce financial redistribution programs were the equalization ideologies which were set out in the Human Relations Act, 1977. During the years when Pierre Trudeau was prime minister he tried to refocus attention on equalization (equality of consideration) rather than the social minimum (equality of condition) or universal programs (equality of opportunity). It does not seem to have been recognized (or perhaps not discussed) that this policy of equalization was likely to be very costly because it brought out the needs for better social support of previously neglected disadvantaged groups.

The Progressive Conservative Party Takes Over, 1984–1993

The Progressive Conservatives (PC) came to power in 1984 in a greatly changed situation. International doubts about the welfare state as the best mechanism for dealing with present day problems of western democratic societies were being expressed. More immediately pressing was the fact that Canada would have to deal with its severe financial problems if it wanted to keep its welfare state going. However, the PC party had little experience of office, and it seems to have taken the government some years to decide on its priorities. How else can one explain Jake Epp's support for the development of additional health promotion policies unless this is seen as a personal interest of a Mennonite health minister? (Though perhaps this policy might have been sold to him as a cost control strategy?)¹

It was not until the second term in office that the government brought forward its overriding priorities — the first being the reduction of the national deficit and debt; a second objective was to resolve the constitutional deadlock (since Quebec had refused to sign the patriated constitution in 1982); and a third, free trade with the United States. These three new objectives resulted in a federal retreat from commitment to the redistributive welfare state through continuing withdrawal of funding for social programs and increased emphasis on economic development policies.

Meanwhile, during its first term in office when the government was looking for the right direction to take, there were a number of public inquiries into the future of the social welfare system.

A Commission of Inquiry on Unemployment Insurance was set up in 1985 (Canada 1986a). The committee recognized from its own internal struggles that reform of unemployment insurance would not be easy to achieve, but it recommended an overall strategy of human resource development of which unemployment insurance was to be only one part. There were three interlocking components: unemployment insurance, education and training, and income supplementation schemes. "The unemployed need jobs, money, skills and a broader set of options" (p. 295). In the same year the Canadian Employment and Immigration Commission introduced its Canada Job Strategy Programs to help unemployed citizens to get ready for new work opportunities.

In 1986 the Institute for Research on Public Policy set up a workshop to discuss the best way to go (Seward and Iacobacci 1987); another conference

1 Of course some people do see health promotion strategies as part of the cost control movement, although most people see health promotion as an add-on to costs in the short run, if not in the long run.

in the same year was called to bring together Canadian and British academic social policy analysts (Seward 1987). The reasons for calling these meetings were the dissatisfactions with current income security programs — they were failing to respond to the needs of the long-term unemployed. As well, there were concerns about the high cost of the programs and their possible negative effects on recipients who might not try to get paid work again, thus affecting Canada's economic efficiency and international competitiveness. Despite consensus on some issues at that time, there were many remaining uncertainties about the direction of reform.

In 1985 the recommendations of a public inquiry had retreated even further from earlier proposals for reform of social minimum policies. The recommendations of the Royal Commission on Economic Union and Development Prospects (Canada 1985a) were that a universal income security program (funded at a much lower level than the earlier GAI in order to increase incentives to work), a reform of unemployment insurance and the introduction of a transitional adjustment assistance program (to force workers to adapt to changing economic circumstances) would be more appropriate.

The federal government thought that a new emphasis on economic development was necessary because Canada's trading situation had changed. In the mid twentieth century it had been a country rich in natural resources, but these had been exploited to the full and there were many protests from environmentalists that this exploitation had been taken too far. Canada's trade relationships had also been affected by the technological revolution of the postwar years and the development of the global economy. Both of these had impacted upon that part of the job market in Canada which was not natural resource-based. Canada seems to have been slow to respond to the need for reform and restructurings of its industries, one example being the automobile manufacturers in Ontario who did not react as quickly to Asian challenges as did their American counterparts.

Agreements were made with some of the provinces to encourage social assistance recipients to retrain for return to work by providing them with financial incentives to do so. And in the next few years social assistance schemes were cut back to provide incentives to workers² to see periods of unemployment as transitional, necessary interruptions for adjustments to be made in a changing work situation.

As these changes in policy direction were being introduced, the National Council of Welfare, an advisory body to the federal government, struggled

2 Most provinces established separate social assistance programs for those who would never be able to go back to work.

to keep the issue of poverty in the news by publishing reviews such as *The Tangled Safety Net* (Canada 1987b), an annual update on welfare incomes, and other critical papers, but it had little success in modifying political attitudes.

For example, the Liberal government in Ontario now set up a provincial committee to examine its social assistance system (Ontario 1988a). The committee said that social assistance ought to be regarded as transitional. "The key to preventing individuals from becoming dependent on assistance lies in other areas of social and economic policy" (p. 11). However, a number of social researchers expressed concerns about the priority given to economic development over supporting those with social needs — those who were unable or unwilling to find a niche in the transitional society of the 1980s (Patterson 1987; Mishra 1987; Smith and Dobuzinskis 1987; McNiven 1987).

Moscovitch and Albert (1987), explaining this value shift in Canadian society said: "In the 1960s the state offset the growth of social expenditures by borrowing against the future as well as shifting the revenue burden from corporate to income taxes. With the economic downturn since 1974, borrowing has become increasingly costly. Many business organizations have amplified their demands to shift the balance from social consumption to social investment, and simultaneously for cuts in taxes and the deficit, hence the pressure on the state to reduce social expenditures" (pp. 39–40).

In 1989 the federal government began to toughen up the benefits of the unemployment insurance program. Torjman and Battle (1990) were very critical of the way in which the work strategy was being given precedence over the needs strategy. These analysts pointed to the way in which funds had been diverted from the Canada Assistance Plan into the Job Entry and Job Development Programs of the Canada Job Strategy:

Welfare administrators in every province and territory are trying to find ways to shorten the length of time recipients remain as beneficiaries and to keep people off the welfare rolls.... The assumption that underlies these programmes is that employable welfare recipients are lacking in some way. (p. 20)³ [They said:] There is a wave of welfare reform sweeping the country. If it succeeds it will bring about some fundamental changes in our system of income security. At the very least it will strike the words 'safety net' from the vocabulary of social policy advocates. At most it will banish forever from the Canadian psyche the notion that the state will be

3 At the same time the government was explaining the need for Canada's work force to become more flexible, more adapted to new technologies and new trade patterns and agreements. Vocational training was to be the mechanism for change (Canada 1985b).

there to protect vulnerable individuals who are displaced by the uncertainties of a rapidly changing economy. (p. 19)

So far as meeting individual citizen's human rights were concerned, Strain and Hum (1987) emphasized the importance of Section 36 of the Canadian Constitution which puts the onus on both levels of government for promoting equal opportunities for all Canadians; furthering economic development to reduce disparity in opportunity; providing public services of reasonable quality to all Canadians and (through federal equalization payments) ensuring that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonable levels of taxation. They saw this clause as putting the primary responsibility on federal government but said: "The actual fiscal arrangements do not provide for full national financial responsibility and there are not explicit, but flexible, national minimum standards" (p. 368).

By introducing welfare state legislation between 1940 and 1970, they asked, had the Canadian federal government set up a social contract with its citizens? This was tested in the courts in 1991.

The federal budget of 1990 set a two-year limit on increases in federal spending under the Canada Assistance Plan (CAP) in the three wealthiest provinces: Ontario, Alberta and British Columbia. "Ottawa said the growth in CAP transfers to the three provinces would be limited to five percent a year for the fiscal years 1990-91 and 1991-92. Increases in CAP expenditures above five per cent a year would not be cost shared, so the three provinces would have to cover any cost increases in excess of five per cent a year by themselves. ... The latest provincial estimates add up to losses of at least \$865 million for the two fiscal years." (Canada 1991d, 18). Further restraints on CAP for three more years were brought in, in 1991.

The British Columbia government with the support of Ontario, Alberta and Manitoba and two native peoples' groups challenged the right of the federal government to make unilateral changes in federal-provincial funding agreements without provincial consent. The case against Bill C69 was won in the British Columbia Court of Appeal where Justice J.D. Lambert said:

If Canada is willing to breach its agreements by passing legislation to authorize, or even require, the breach, then Canada cannot expect to conclude agreements with contractors to build airports, nor to settle Native land claims by agreement. Honest self-assessment by honest taxpayers is the basis of revenue raising in Canada. The foundation on which that type of taxation rests would be removed if Canadians could not trust their government to keep its agreements. I expect that the overwhelming majority of Canadians would say that this country must be as good as its word.

However, the federal government appealed the judgement to the Supreme Court of Canada which ruled in favour of the legality of its spending restraints. (Canada 1991d). The judges said that decisions to redistribute funding to the provinces were properly at the discretion of the federal government.

The Canadian Council on Social Development (1990), like the National Council of Welfare, expressed great concern about this decision of federal government to reduce transfer payments to the provinces.

Retreat From the Federal Welfare State

Neoconservatives in other countries (such as Prime Minister Margaret Thatcher in Great Britain and President Reagan and President Bush in the United States) had embarked on retreats from their welfare state policies, urging government pullouts from funding social programs. Among other policies they adopted were reduction of taxes on companies, corporate partnership discussions with industry, devolution of authority to lower levels of the funding system, reduction of government bureaucracies, greater privatization, and attempts to balance their budgets.

The PC government was very ready to adopt some of these policies. In more intensive attempts to increase economic viability of Canadian industry they adopted a policy of "harmonization" with their North American Free Trade Agreement (NAFTA) trade partner, the United States, and reduced taxes on manufacturers and service providers. It was at this point that revenues dropped while costs continued to rise and the deficit debt grew more quickly.

The concept of corporate partnerships brought out at the Organization for Economic Cooperation and Development (OECD) conference (OECD 1981) has already been discussed. Canada embarked on more discussions about policy development with industrialists and researchers. In 1991 the federal Minister of Health, Benoit Bouchard, published a policy statement entitled *Building Partnerships* (Canada 1991a) in which he proposed renegotiating relationships between federal and provincial governments. It was argued that provincial governments must now bear more of the responsibility for organizing and managing (and of course funding) health services.

Implications of Decentralization

Some commentators have been very critical of the retreat from the welfare state's centralized social program coordination. Tsalikis (1989) has argued that, in Canada, "recent proposals of decentralization are a continuation of reactionary tendencies to constrain social expenditures, but not a path to better quality of life." He took issue with those who "expect decentraliza-

tion to result in holistic services adjusted to local needs" or those who "feel we are in the dawn of a new epoch in which major economic transformations are to bring about, through new class alliances and conflict, decentralization of power and a better quality of life in communities" (p. 293).⁴ And Wharf (1989), reviewing the retreat from *Achieving Health for All: A Framework For Health Promotion*, said: "The challenge of reducing inequities is properly the task of federal government and it is indeed misleading and inaccurate to suggest that inequity can be eliminated or reduced by local level activities. ... While partnerships between three levels of government will be required in the future, the responsibility for taking the next step in achieving health for all clearly lies with the federal government" (p. 47).

Wharf thought the federal government should be responsible for over-all programs and strategies. It should take on the challenge of developing a decent standard of living for all and share in the costs of promoting healthy lifestyles and creating healthy environments. He thought it should begin by heeding the advice of the National Council of Welfare on the need for an improved social security system and the need for tax reform. Unfortunately for social reformers, the moves are all in the other direction.

Summary

The redistribution of Canada's revenues appeared to be the right policy to pursue in the 1940s when the federal government was raising more from taxation than it was paying out, but in the mid 1970s the situation changed. Grant aid to the provinces and federal social security programs began to cost more than revenues coming in. This chapter reviews the response of successive governments in Ottawa to this matter.

Even before the Liberal's welfare state programs were finalized, some of the leading politicians had expressed doubts about Canada's ability to pay for its commitments in the future. Attempts were made to control expenditures by substituting block grants for open-ended grants in 1977, thus forcing the provinces to be more concerned about social program budgets.

4 Elsewhere, earlier, Tsalikis (1982) had reviewed the development of the welfare state: "the fiscal growth of the federal authority in wartime necessitated some kind of 'national purpose' in the field of social policy. This led the federal government to a medley of contradictory policies, the outcomes of which were hardly suitable to its 'Robin Hood' image. ... [However, the present] tendency in social policy is for more provincial autonomy" (p. 143). But the linkage mechanisms are not well developed, he said, after reviewing regionalization and community health services at the local level. He was doubtful even then (1982) about getting commitment from entrenched interests (e.g., the medical profession) to change.

At the federal level universal programs continued to be supported and, while social minimum developments were cut off, businesses began to get more concessions.

When the PCs attained power in 1984 they took some time to sort out their policies, but in due course they identified three priorities: reduce the national deficits, resolve the constitutional deadlock with Quebec, and sign a free trade treaty with the United States. Meanwhile, in the transition years there were a number of public inquiries into the best way to go to continue with collectivist commitments.

Many people were concerned about the value shift away from social programs to support of businesses and struggled to preserve a general concern about maintaining federal transfers to the provinces while these were being steadily cut back. Court challenges did not succeed in changing federal decisions. The provinces were told that they must accept greater responsibilities as partners in organizing services. Critics thought that retreat from centralized control over standards was likely to result in increased inequalities and an ending of welfare state policies.

