Mini-Review

THE CANADA ASSISTANCE PLAN

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THE CANADA ASSISTANCE PLAN

Under the Canada Assistance Plan (CAP), implemented in 1966, the federal government participates with the provinces and the territories in providing welfare services and other types of assistance to needy Canadians. After giving a brief historical perspective on the evolution of social assistance in Canada, this paper will discuss the types of assistance available under the Canada Assistance Plan, the work disincentive effects of welfare programs, and federal expenditures under the CAP in the 1980s.

WELFARE IN CANADA: A HISTORICAL PERSPECTIVE

Under the Constitution Act of 1867, the provision of social assistance, including welfare services, is a provincial responsibility. The welfare system acts as a safety net, becoming important when other funds are nearly exhausted, when individuals are ineligible for support under other programs, or when supplementary income is required to meet emergency or special needs.

The current welfare system evolved from a series of individual pieces of legislation adopted over a 30-year period to meet specific categories of need. The effects of the depression of the 1930s and the Second World War, and the continuing impact of industrialization and urbanization, accelerated demands for national policies to ensure a basic minimum standard of living. The development of such policies, however, was complicated by the constitutional division of powers. Thus, Parliament has legislated to assist the provinces in the development of social welfare measures, thereby acknowledging the state's responsibility for the welfare of its citizens.
One of the first groups to receive assistance was the aged. In 1927 the *Old Age Pensions Act* was passed, under which the federal and provincial governments shared the cost of old age pensions. These pensions were means-tested and limited to persons 70 years of age and over. Effective 1 January 1952, this Act was superseded by the *Old Age Security Act*, under which a universal old age pension was made available from the age of 70 years as a right, without a means test, but subject to Canadian residence requirements. Under the *Old Age Assistance Act*, passed at the same time, individuals from 65 to 69 years of age were entitled to means-tested pensions. Under the *Blind Persons Act* of 1951 and the *Disabled Persons Act* of 1954, the federal government shared the costs of allowances paid by the provincial governments to blind persons and severely disabled persons aged 18 to 65 years. Beginning in 1956, Canadians in financial need who were not covered under the cost-shared programs described above, or by provincial allowances to single mothers, were entitled to cost-shared assistance under the *Unemployment Assistance Act*; this program was phased out between 1966 and 1974.

The Canada Assistance Plan of 1966 was intended to encourage the provinces and territories to consolidate these separate schemes into a more comprehensive plan. It broadened the basis of support to those in need of financial assistance, regardless of the cause of that need, and was one of five elements of a program designed to abolish poverty, as outlined in the 1965 Speech from the Throne.

**TYPES OF ASSISTANCE AVAILABLE**

According to Health and Welfare Canada, under the Canada Assistance Plan, the federal government enters into agreements with the provinces and territories to share equally the costs of providing:

- assistance to needy persons;

- welfare services to needy persons and persons otherwise likely to be in need; and
- work activity projects designed to improve the employability of persons who have unusual difficulty in finding or retaining jobs, or in undertaking job training. So far the territories have not entered into these programs.

Although the federal government shares in the costs, the design and administration of a particular plan or program is the responsibility of the province or territory and its municipalities. Either party can cancel the agreement with a one-year notice period.

According to the provisions of the 1990 Budget, growth in CAP transfers to the financially stronger provinces - currently Ontario, British Columbia and Alberta - were limited to 5% annually for 1990-91 and 1991-92. The 1991 Budget extended this limitation for three additional years. The remaining provinces and territories are exempt from this growth ceiling, with their eligible expenditures on CAP programs being matched by funds from the federal government. Previously, the same 50-50 cost-sharing arrangement with the federal government applied to all provinces and territories. This formula will be resumed effective 1 April 1995.

Following the 1990 announcement, British Columbia, with the support of Ontario, Alberta, Manitoba, Saskatchewan, the Native Council of Canada, and the United Native Nations of British Columbia, challenged the right of the federal government to change the CAP agreements unilaterally, without provincial consent. In a 15 June 1990 decision, the British Columbia Court of Appeal ruled unanimously that the federal government does not have the right to limit its obligation to contribute 50% of the cost of the CAP. On 18 June 1990, the federal government announced that it was appealing this decision to the Supreme Court of Canada. The Court heard arguments on 11-12 December 1990 and on 15 August 1991 made its ruling upholding the federal government's right to limit transfers to the provinces. In overturning the decision of the British Columbia Court of Appeal, Supreme Court Justice John Sopinka said that "...a government is not bound by the undertakings of its predecessor" and rejected the argument that the federal government had acted illegally in moving to amend the Plan without provincial consent.

The federal government influences program design choices via the Canada Assistance Plan Act and Regulations, which exclude from cost-
sharing all educational, correctional and recreational services, and services such as health care that other federal programs, such as Established Program Financing, are required to cover.

Assistance under the Plan is provided for:

- the basic requirements of food, shelter, clothing, fuel, utilities, household supplies and personal requirements;

- items incidental to carrying on a trade or other employment, such as permits and tools, and items necessary for the safety, well-being or rehabilitation of a needy person, such as essential repairs or alterations to property, and items required by disabled persons;

- certain welfare services purchased by, or at the request of, a provincially approved agency, such as day care;

- care in homes for special care, such as child care facilities, hostels for battered women and children, nursing homes and homes for the aged;

- certain health care costs not covered under universal provincial health care programs or under the Canada Health Act, such as drugs and dental care; and

- the cost of maintaining children in foster homes.

Welfare services, which attempt to lessen, remove or prevent the causes and effects of poverty, child neglect or dependence on public assistance, include:

- day care services for children;

- homemaker, home support and similar services as support in emergency situations or as an aid to independent community living for the aged and the disabled;

- casework, counselling, assessment and referral services;

- adoption services;

- rehabilitation services, including services to the chronically unemployed and to meet the special needs of persons at risk of being socially isolated, particularly the aged, and the physically and mentally disabled;

- community development services to encourage and assist members of deprived communities to improve their community's social and economic conditions;
- consulting, research and evaluation services with regard to welfare programs; and

- administrative services with regard to the delivery of assistance and welfare services programs.

These services may be extended to low-income persons, in addition to welfare recipients.

Finally, other cost-shared projects are designed to improve motivation and capacity to work, and to prepare project participants for entry or re-entry to employment. Participants, who may remain on a project for two to three years, acquire work experience and may receive counselling or treatment for behavioural problems.

To be eligible for cost-sharing assistance, the provinces and territories must:

- base eligibility for assistance on need alone, irrespective of its cause;

- use a needs test when calculating eligibility and payments;

- not require a period of residence in the province or in Canada as a condition of eligibility for assistance; and

- operate an appeals procedure for decisions made with respect to social assistance, and inform recipients of their right to appeal.

THE WORK DISINCENTIVE EFFECTS OF WELFARE

Welfare programs can act as disincentives to seeking employment. Many programs involve an implicit tax on income from work; that is, individuals may be required to forgo welfare payments exactly equal to the amount of any labour market earnings, so that their total income will not increase as a result of their work. This implicit tax on employment income can exceed 100% if, in addition, these earners are required to forgo such added benefits as subsidized housing, day care assistance, free prescription drugs, and dental and health care. Such welfare recipients would have a strong incentive not to work at all. Work
might become a more viable alternative to welfare if the 100% tax were reduced.

Alternatively, increasing the market wage rate of welfare recipients could encourage these individuals to leave welfare voluntarily in order to earn income. An increased market wage rate could perhaps be achieved through training, job information, mobility, a government wage subsidy, or such institutional pressures as unionization or minimum wage legislation.

In fact, many provinces do tax back the greatest part of a welfare recipient's labour market earnings, and what little remains can be used up by such work-related costs as transportation, child care, clothing and meals. Thus recipients who work often retain little more than the amount of their basic welfare allowance; additionally, as discussed earlier, they may lose supplemental benefits. To help resolve these disincentive effects, all jurisdictions provide special assistance on a discretionary basis for work-related expenses.

FEDERAL EXPENDITURES UNDER THE CAP

Table 1 presents the increases in the level of federal transfers to the provinces and territories under the CAP since 1979-80. These increases may be the result of: growth in social assistance caseloads, due perhaps to the recession of the early 1980s; growth in social assistance benefit rates; the inflation rate; and changes in provincial and territorial social assistance programs.

As shown in Table 2, general assistance payments account for the majority of expenditures under the CAP, representing between 62.3% and 68.9% of total payments over the 1980-81 to 1989-90 period. Other welfare services and work activity projects, and homes for special care were the second and third most significant components of CAP expenditures over the same time.
### TABLE 1

**TOTAL FEDERAL TRANSFERS, INCLUDING TAX TRANSFERS, TO THE PROVINCES AND TERRITORIES UNDER THE CAP, FISCAL 1979-80 TO 1989-90**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (million dollars)</th>
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<tbody>
<tr>
<td>1979-80</td>
<td>$1,896</td>
</tr>
<tr>
<td>1980-81</td>
<td>2,206</td>
</tr>
<tr>
<td>1981-82</td>
<td>2,612</td>
</tr>
<tr>
<td>1982-83</td>
<td>3,190</td>
</tr>
<tr>
<td>1983-84</td>
<td>3,643</td>
</tr>
<tr>
<td>1984-85</td>
<td>4,001</td>
</tr>
<tr>
<td>1985-86</td>
<td>4,284</td>
</tr>
<tr>
<td>1986-87</td>
<td>4,438</td>
</tr>
<tr>
<td>1987-88</td>
<td>4,246</td>
</tr>
<tr>
<td>1988-89</td>
<td>4,584</td>
</tr>
<tr>
<td>1989-90</td>
<td>4,885</td>
</tr>
</tbody>
</table>

**Note:** These amounts reflect the payments made to provinces for claims submitted during the fiscal year, and may include costs incurred in previous years.

**Sources:** Health and Welfare Canada, *Canada Assistance Plan Annual Report*, various years; and *Estimates, Part III Expenditure Plan*, various years.
### TABLE 2

**FEDERAL TRANSFERS TO THE PROVINCES AND TERRITORIES UNDER THE CAP, BY COMPONENT, FISCAL 1980-81 TO 1989-90**

<table>
<thead>
<tr>
<th>Year</th>
<th>General Assistance ('000)</th>
<th>Homes for Special Care ('000)</th>
<th>Health Care ('000)</th>
<th>Child Welfare ('000)</th>
<th>Welfare Services ('000)</th>
<th>Work Activity Projects ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1,398,834</td>
<td>272,614</td>
<td>52,726</td>
<td>112,476</td>
<td>366,505</td>
<td>2,561</td>
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<td>1981-82</td>
<td>1,620,231</td>
<td>367,460</td>
<td>59,439</td>
<td>154,440</td>
<td>406,932</td>
<td>3,469</td>
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<td>1982-83</td>
<td>2,082,536</td>
<td>384,324</td>
<td>70,423</td>
<td>174,257</td>
<td>473,786</td>
<td>5,098</td>
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<tr>
<td>1983-84</td>
<td>2,470,860</td>
<td>389,719</td>
<td>97,291</td>
<td>174,205</td>
<td>505,303</td>
<td>5,523</td>
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<tr>
<td>1984-85</td>
<td>2,760,944</td>
<td>396,771</td>
<td>109,959</td>
<td>135,467</td>
<td>594,309</td>
<td>3,101</td>
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<tr>
<td>1985-86</td>
<td>2,940,204</td>
<td>394,242</td>
<td>123,019</td>
<td>153,542</td>
<td>668,263</td>
<td>4,309</td>
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<tr>
<td>1986-87</td>
<td>3,061,990</td>
<td>316,837</td>
<td>171,357</td>
<td>104,613</td>
<td>779,658</td>
<td>3,935</td>
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<td>1987-88</td>
<td>2,875,026</td>
<td>303,372</td>
<td>172,018</td>
<td>117,253</td>
<td>774,075</td>
<td>3,956</td>
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<tr>
<td>1989-90</td>
<td>3,173,507</td>
<td>353,488</td>
<td>216,158</td>
<td>126,903</td>
<td>1,010,616</td>
<td>4,599</td>
</tr>
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</table>

*Note: These amounts reflect the payments made to provinces for claims submitted during the fiscal year, and may include costs incurred in previous years.*

*Sources: Health and Welfare Canada, Canada Assistance Plan Annual Report, various issues; and Estimates, Part III Expenditure Plan, various issues.*