UNIVERSALITY OR SELECTIVITY IN FEDERAL SOCIAL SECURITY PROGRAMS

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ISSUE DEFINITION

Canada’s social security system is based on a variety of programs, including those with universal and others with income-tested benefits. From time to time controversy has arisen over the principles governing eligibility for payment under federal programs. Should benefits be universal, available to all residents as a right, or selective, limited to those with a demonstrable need? The debate over universality or selectivity has long been a central issue in the development of national social security plans. The philosophical goals of federal policies have changed over the years from providing aid to the poor and needy to ensuring a minimum standard of living for all as a right. To this end, the policy of universality was adopted to apply benefits to all persons in certain categories. In recent years, this approach has been challenged by suggestions that the national economy cannot continue to make payments for those not in need.

BACKGROUND AND ANALYSIS

Canada’s first social security programs were selective, providing assistance to those with an identifiable need. The general public attitude maintained that each individual had the duty to save for old age and to support family members. Over a period of time, the different levels of government accepted responsibility in various ways for helping those without other or sufficient means of support. The federal government undertook major income security programs of a selective nature. For example, the Old Age Pension, introduced in 1927, was a means-tested program and the War Veterans’ Allowance program of 1930 provided benefits which declined with increases in the recipient’s income from other sources.
A new approach was introduced following the 1943 Marsh Report which proposed to eliminate poverty by maintaining a “national social minimum,” a basic minimum standard of living. In accordance with this approach the Family Allowances Act of 1944 provided for universal payments for all children under 16, regardless of family income. The principle of universality was later applied in provisions for the elderly as well. The objective was to establish for all residents in these categories a protective net against the risk of extreme poverty. The Old Age Security Act of 1951 provided for an assured income for all residents 70 years of age or older, regardless of their other income or wealth. The means test was discarded on the grounds that it caused embarrassment and imposed a penalty on thrift.

In 1966, a national health insurance scheme on a universal basis was legislated. However, in the same year the Guaranteed Income Supplement (GIS), to ensure a minimum standard of living for pensioners, was based on an income test. The Canada Assistance Plan was developed to provide assistance to persons in need.

In June 1970 it was announced that the Unemployment Insurance Program would be reformed and coverage would become virtually universal. Implementation of the comprehensive legislation in 1971 extended benefits to more than 1,200,000 Canadians not previously included.

A White Paper in 1970, titled “Income Security for Canadians,” proposed replacement of the Family Allowance with a Family Income Security Plan with income-tested benefits. This proposal met with considerable opposition and was not implemented.

By the early 1970s, an involved system of income maintenance and health and welfare programs administered by various government offices had been developed in cooperation with the provinces. Its complexity gave rise to the vision of a simpler social security scheme based completely on universality. A guaranteed income plan was suggested by some as a solution to the problems of administering numerous different programs.

The federal government reviewed the state of social security in Canada and published the “Orange Paper” in 1973. It identified problems in the system as, in part, inequities resulting from the multiplicity of programs and their lack of coordination as well as the inadequacy of help for the working poor. The Paper recommended changes to provide guarantees of an adequate income for all. It proposed increases in universal family allowances and a single, general income supplementation plan to ensure adequate incomes for all working
people as well as a guaranteed income for the retired, the disabled and single-parent families. The governments of Canada and Manitoba undertook an experimental three-year test in that province of the policy of a guaranteed annual income, the Manitoba Basic Annual Income Experiment.

However, by 1975 the economic environment supporting social reform was changing, requiring a scaling down of the rate of growth in government expenditures. In the past decade, the tendency has been to restrict benefits from new programs to persons in need. Although family allowances remained payable universally, their benefits to many were reduced by including them as computable income for income tax purposes. A spouse’s allowance was established in 1975 as a selective program with income-tested benefits for elderly people of limited means. That year also saw the adoption of an automatic cut-off of regular Unemployment Insurance at age 65. The refundable Child Tax Credit, legislated in 1978, is also a selective program, with benefits restricted to low and middle-income families. One author has linked the elimination of a federal bread subsidy in 1978 with an increase in the GIS as an indication of a movement from universality to selectivity.

In the field of health insurance, a federal-provincial controversy developed in recent years over methods of funding. The Minister of National Health and Welfare expressed concern that the universal aspect of the national plan was being eroded by the spread of direct charges. (See CIR 79-24E, “Medicare in Canada.”) One of the essential principles of Medicare was universality: services were to be available to all residents upon uniform terms and conditions. It was on this basis that federal transfer funds were to be made available under the Established Programs Financing arrangements.

Universal, publicly financed health insurance seemed to be established firmly by 1977. However, by the end of the decade some provinces had come to rely on direct charges to supplement revenue. A review of the state of health services in Canada examined the extent to which the principle of universal coverage had been achieved. Its findings (the Hall Report), published in 1980, indicated that Medicare was not available to all Canadians on uniform terms and conditions because of various direct charges. The Canada Health Act, passed in 1984, was designed to ensure adherence to the principle of universality in the Medicare scheme.

Support for the retention of this principle in social policies was provided by a research study published early in 1984 by the United Nations International Labor Organization. A majority of the international committee of experts who prepared the report urged the creation of an effective minimum income for all as a policy objective.
A task force study released by the Canadian Council on Social Development in June 1984 stressed that universality in income maintenance and social programs must be maintained. A spokesman for the National Anti-Poverty Organization was reported to favour retention of universality with increased taxation of the rich. The National Council of Welfare has taken essentially the same approach, proposing an overhaul of the system of personal income tax exemptions for dependent children. Others in 1984, for example, the director of the Fraser Institute, advised that the government should end the universality of social programs such as family allowances.

A study published by the C.D. Howe Institute stated that the effectiveness of the social safety net could be enhanced at a lower total cost if net benefits were more closely related to the incomes of recipients. Improved targeting of social transfers need not require the abandonment of universal programs -- the net benefits could be reduced for upper-income recipients by a higher tax-back rate for them.

The Canadian Manufacturers’ Association suggested the government end the universality of social security programs or replace the whole system with a guaranteed minimum annual income.

In 1985 the Macdonald Royal Commission reported that the role of the contemporary state is the result of many piecemeal policies over several decades, producing overall results not intended. It questioned whether Canada can continue on the path of unplanned incrementalism.” The Commission recommended a Universal Income Security Program to replace federal tax and transfer programs including GIS (but not OAS), Family Allowances, Child Tax Credits, federal housing programs, contributions to social assistance payments and the spousal and child tax exemptions. This universal income supplementation program would guarantee a basic annual payment for each person and increase payments to those over 65.

Failing implementation of UISP, it recommended reforms including reduction or elimination of the child tax exemption and family allowances and the increase of the child tax credit.

The arguments in the universality or selectivity debate centre on four aspects of the problem -- administrative, social, economic and political.
A. Administrative Aspects

Universal programs have the advantage of being relatively simple to administer. Selective plans, on the other hand, are often complex and difficult to understand, with problems of administration, compliance and fairness. Opportunities for evasion or abuse may result in inequities in their application.

Some of the administrative difficulties involve the calculation of income. If benefits are to be linked with ability to pay, or the lack of it, the question of whose ability and when must be answered. It is necessary to establish whether the criterion applies to income of the individual, the family or the primary earner in a family. Problems may arise when eligibility for benefits is based on income from the previous year. When annual income fluctuates, inconsistencies and inequities may result. However, procedures to calculate current income as a basis for benefits pose other problems and additional costs.

B. Social Aspects

Selective social programs focus on helping the weaker elements in society. According to one view, they are more “target-efficient” and equitable than universal programs. For example, the refundable Child Tax Credit, channelled to lower income families, has meant more money for those in greater need, to some extent achieving redistribution and a better balance of wealth in society.

Concern has been expressed, however, that selective programs involving income tests could decrease incentives to work and to save. Those receiving assistance might be discouraged from earning more because to do so would decrease their benefits. A further criticism of selectivity is that restricting benefits to the poor or nearly-poor may tend to stigmatize the recipients by distinguishing them from the rest of society. As a result, some eligible persons may not apply for benefits. Selective programs usually have lower optimum participation rates than universal plans. In refutation of this argument, the GIS has been held up as an example of a selective program with benefits generally accepted without problems of stigmatization.

Nevertheless, it has been suggested that universal programs are more likely to encourage a sense of community, unite rather than divide society and preserve the dignity of the recipient of benefits. Because people are not divided into givers and receivers, the stigma and sense of alienation from society which results from this distinction is avoided. The universal programs have been described as the foundation upon which selective programs rest.
C. Economic Aspects

It has been argued that providing financial assistance to those in the upper-income levels is a costly waste of public funds that, in severe economic times, Canada cannot afford to maintain. The massive costs of universality are said to result in the level of benefits being too low for the needy. In this view, funds available for social spending should provide help where it is most needed. The chairmen of two of Canada’s largest banks stated in September 1984 that this country can no longer afford universality in social programs and that a change in spending patterns is necessary to lower the national debt and bring about economic recovery. In February 1986 it was reported that costs of unemployment insurance and the CPP are escalating faster than inflation.

The suggestion has been made that in view of the limited resources available, adherence to universality in programs such as Medicare may result in a lowering of the standard of service. With respect to Unemployment Insurance, the efficiency of the plan and the wisdom of spending about $12 billion annually (in the words of author Courchene) to pay people not to work has been questioned.

Selectivity is expected to result in a reduction in the total costs of programs and to facilitate concentration on the real social problems. However, generally speaking, the more complex the program, the more expensive its administration will be. A research officer with the Ontario Economic Council has suggested that selectivity might create an illusion of reduced government spending and that it could impose a greater burden on middle-income groups than on the wealthy.

The GIS, originally expected to dwindle in cost by the time the CPP matured in 1977, has in fact increased as a budgetary expense with about half of the elderly now receiving its benefits.

In considering the economic aspects of selectivity, it is important to remember that taxes provide funds to finance social programs. The savings from eliminating family allowances for high-income families, for example, would be at least partially offset by the loss of income tax paid on those allowances. A further consideration is that, to some extent, payment of universal benefits may be expected to stimulate consumer spending and help create and maintain employment.

The Canadian Day Care Advocacy Association in 1986 estimated the total cost of a modest, universal day care program at about $3 billion a year for the federal and provincial governments. The Cooke Task Force on Child Care estimated that a fully funded universal system of child care would cost federal and provincial governments $11.3 billion by 2001.
D. Political Aspects

Universal social security programs have been generally popular. Changes to them might be viewed as failure on the part of government to keep its social contract with the people, particularly in the case of the OAS. Middle-income citizens might be less willing to support the whole system if excluded from the benefits of programs which have been universal. For other reasons also, it seems that selective programs might be expected to attract less political support than do universal plans. Popular perceptions of abuse, inefficiencies and inequities in the administration of some selective programs have tended to undermine their public acceptance. Generally speaking, narrowly targeted programs may expect narrow political support.

Although all three major political parties have supported universality of social programs, there is some indication that public attitudes may be changing. A public opinion poll conducted in May 1984 revealed a substantial majority in favour of cutting program benefits to earners of high incomes. Most, however, were also in favour of a guaranteed income for all Canadians. A Gallup poll taken in December showed 75% of those questioned were in favour of increasing the family allowance but restricting it to families who need it and 69% favoured such changes to the Old Age Pension plan. A CBC poll taken in April and May 1985 indicated that 78% of Canadians were in favour of paying family allowances only to the needy and 59% believed qualifications for unemployment insurance should be toughened. However, 57% opposed cutting social programs in general.

In April 1986 a Gallup poll commissioned by the National Citizens’ Coalition revealed that 80% of respondents favoured ending family allowance payments to households with incomes of $40,000 or more and 63% thought those who voluntarily choose to stop work should not receive unemployment insurance benefits.

The president of a government relations consulting firm stated in May that a broad consensus exists that many social programs should be targeted only to those in need, rather than being universally available. He predicted that the federal government will end the universality of parts of Canada’s social security system by taxing back benefits paid to upper income earners. Others suggest that the increased targeting of benefits may coincide with a trend toward privatization: a resort to an ability-to-pay principle.
CONCLUSION

The debate on universality or selectivity has been a central and complex issue in the development of Canada’s social security programs. In recent years, a trend toward rethinking social policy appears to have been taking place in most western nations. Given the need to contain budgetary deficits in Canada, the pressures for greater selectivity in social programs may be expected to grow. Those in favour of it present this approach as cost-effective, target-efficient and humanitarian, concentrating available efforts and funds to help the weakest members of society. It has been said that the only effective argument against selectivity is the egalitarian one -- that all should be treated equally. However, in the view of some authorities, the generally desired humanitarian goals may better be achieved by universal programs.

PARLIAMENTARY ACTION

Parliament enacted the Family Allowances Act in 1944 and the Old Age Security Act in 1951 to create the first major social security programs with universal application. The Hospital Insurance and Diagnostic Services Act of 1957 provided for federal assistance for provincial universal hospital plans. The Medical Care Act, 1966, included universality as a required criterion for a federal-provincial shared-cost medicare plan.

The Old Age Security Act was amended in 1966 to provide for the Guaranteed Income Supplement based on an income test.

In 1970, government members in the Commons advocated a move from universal to selective programs without means testing in order to have a greater impact on poverty. Some budgetary provisions were said to have replaced the principle of universality with an attack on specific problems. On the other hand, it was announced that a new Unemployment Insurance Act would extend coverage under that scheme to a virtually universal basis. The plan was criticized as a “Trojan horse” which would bring about a great new tax increase.

Early in 1971, the Parliamentary Secretary to the Minister of National Health and Welfare indicated in the House that, in view of the available tax revenues, new social security policy would be based on the principle of redistribution and selectivity rather than that of universality. Parliament amended the Old Age Security Act in 1975 to provide for a spouse’s allowance on an income-tested basis. In 1978 legislation was passed to create the refundable Child Tax Credit, a selective program.
During debate in the House, universality was referred to in 1980 as the “catch-word of the 1970s” and in 1982 as a “sacred cow.” On the latter occasion, a Government Member stated that in spite of all-party support for universality, in practice the income security system was not universally applied, in view of the major benefits of the GIS and the Child Tax Credit. He suggested family allowances be eliminated and the funds applied to the Child Tax Credit program. An Opposition Member agreed that although universality commanded broad support, it could no longer be afforded: granting assistance without reference to needs affected the ability to provide services to those really requiring them. An Opposition Member later stated that although all parties had supported universality for social programs, there appeared to be a movement away from that principle in government policy.

In 1983 the Minister of Health and Welfare referred to the increasing discussion of universality. Canadians were said to have a strong preference for the maintenance of this principle while recognizing that more funds should be aimed at helping families that need help most.

The Canada Health Act was passed in 1984, stressing the criteria of universality as a requirement for payment to a province of the full federal cash contribution for Medicare.

The Minister of Finance stated in the House on 8 November 1984 that social programs would be examined to ensure that those who really need assistance receive it and that support systems encourage self-reliance. A government paper, “A New Direction for Canada: An Agenda for Economic Renewal”, discussed options for redistribution of universal social benefits.

In December the Minister of Finance indicated consideration of reducing benefits for the rich by increasing their taxes while leaving in place the principle of universality in payments. The Prime Minister reaffirmed support of the principle of universality. He spoke of maintaining the universal system of delivery and of applying a doctrine of fairness by giving more to those who need it most.

On 28 January 1985 the Minister of National Health and Welfare tabled a consultation paper in the House, on Child and Elderly Benefits, which proposed options for reform of children’s benefits and invited public comment. The paper recognized universality as a keystone of the social safety net and stated that the principle of a universal, taxable base payment is sound and should not be disturbed. However, it did not exclude from consideration
the possibility of a special surtax on Family Allowances to upper income families. The paper was referred to the Standing Committee on Health, Welfare and Social Affairs. The Committee’s report in April 1985 stated that the principle of universality should be fundamental to Canada’s child benefit system.

In May, the federal Budget speech disclosed the intention to limit indexation of OAS payments to the rate of inflation over 3% while continuing full indexing of GIS. The announcement was followed by much debate and protest. On 27 June the Minister of Finance announced that full indexing of OAS would continue.

In September, Bill C-70 was introduced in the House to index family allowance benefits to the consumer price index only by the amount that inflation exceeds 3%. Proposed changes included increases to the selective Child Tax Credit and reduction of the child tax exemption. Bill C-70 was passed in the House of Commons in January 1986. It became law on 26 March 1986.

On 3 December 1986 the Resumé of the Report of the Commission of Enquiry on Unemployment Insurance (Forget Report) was tabled in the House of Commons. Among other things, the Report recommended ending regionally extended benefits, which had been criticized as being the only income security benefits varying according to place of residence. The Minister of Employment and Immigration stated that the government would make its proposals on unemployment insurance by 15 May 1987.

CHRONOLOGY

1951  – The Old Age Security Act.
1957  – The Hospital Insurance and Diagnostic Services Act.
1964  – The report of the Royal Commission on Health Services (the Hall Commission) favoured a universal medical care program for the nation.
1966  – The Medical Care Act.
1966  – The Guaranteed Income Supplement (GIS) was enacted.
1973  – The new Family Allowances Act increased universal family allowances and made them taxable.
1978 – The selective Child Tax Credit scheme was introduced.

1980 – A report, based on a review of health services in Canada, indicated that Medicare plans were no longer available to all on uniform terms and conditions.

April 1984 – The Canada Health Act re-affirmed the principle of universal health insurance.

Summer 1984 – All major parties supported universality of social programs.

September 1984 – It was revealed that a national poll in May indicated 86% in favour of cutting social benefits to the rich to reduce the deficit. Most also favoured a guaranteed income for all.

November 1984 – The Minister of Finance indicated universal social programs would be reviewed. The Prime Minister stated that universality in health care would not be changed.

21 January 1985 – A Gallup poll showed 75% in December favoured restricting family allowances to those in need.


5 September 1985 – The report of the Royal Commission on the Economic Union and Development Prospects for Canada recommended that the Government replace many social programs (including Family Allowances but not OAS) with a single, universal income security program.

13 September 1985 – Bill C-70, to amend the Family Allowances Act, 1973, was introduced in the House.

March 1986 – The Cooke Task Force on Child Care recommended federal-provincial development of child care systems as comprehensive and accessible as the health care system.

26 March 1986 – Bill C-70 received Royal Assent and came into effect.

22 April 1986 – A Gallup poll was released indicating 80% of Canadians in support of ending social benefits such as family allowances for households with incomes of $40,000 or more and 63% not in favour of unemployment insurance benefits for those who leave jobs voluntarily.

14 May 1986 – The Ontario government announced its willingness to cooperate with the federal government to move toward a universal day care program.
July-August 1986 – A federal-provincial committee began studying proposals to make the CPP more universal by including homemakers in its provisions. In July the inclusion of homemakers and part-time workers in the Saskatchewan Pension Plan was announced.

1 October 1986 – The Throne Speech indicated that the federal government may be expected to give highest priority in social policy to those in greatest need.

3 December 1986 – The Forget Report was tabled in the Commons. It recommended eliminating regionally extended unemployment insurance benefits.

SELECTED REFERENCES


