When Social and Economic Policy Meet… *and Both Win*

Geoff Norquay

Finance Minister Jim Flaherty pulled off the political play of the year when he unilaterally announced that Ottawa would continue to increase health care funding by 6 percent for 3 years following the expiration of the Martin Health Accord in 2014, and no less than 3 percent after that. As Geoff Norquay writes, he put the health care lobbying industry out of business. *Inside Policy* photo.

2012 will be remembered as the year when social policy met economic policy, and both came out winners. There were major federal initiatives on health care funding, pensions and employment insurance and human capital, including labour market mobility and immigration. Geoff Norquay, a close observer of social policy for nearly 30 years, looks back on a year when social and economic policy, which have historically lived "in separate houses," co-habited in an integrated policy space.

L'année 2012 aura vu la rencontre des politiques économiques et sociales tout autant que la victoire des unes et des autres. C'est ainsi qu'Ottawa a pris d'importantes initiatives en matière de financement des soins de santé, de pensions, d'assurance-emploi et de capital humain, y compris du côté de l'immigration et de la mobilité sur le marché du travail. Depuis près de 30 ans qu'il observe l'évolution des politiques sociales, Geoff Norquay revient sur cette année de coexistence et d'intégration de deux domaines historiquement distincts.

Two themes dominated social policy in Canada in 2012: steps to make social programs more economically sustainable over the long haul and the continued remaking of the Canadian labour market through the combined activities of the federal, provincial, and territorial governments. It was the kind of meeting that social and economic policy have not had for a long time in Canada, and both came off winners.

Arguably the most important social policy development of 2012 occurred just 12 days before the turn of the year. On December 19, 2011, Finance Minister Jim Flaherty stunned the health care community and a few other Canadians as well by unilaterally announcing a new funding formula for health care. After the end of the Martin Health Accord in 2013-14, the current 6 percent annual increase in the federal transfer to provinces and territories will be extended at the same level for three years. After that, the federal transfer will grow in line with the three year average of nominal GDP, but in no case less than 3 percent annually. In addition, federal increases to funding of the Canadian Social Transfer will continue to grow by 3 percent per year for the foreseeable future.

For provinces and those in the lobbyist community gearing up for a multi-year fight over the future of health care, this was dismal news. No negotiating ultimatums or "drop dead" dates would be grabbing the headlines; no rhetorical flourishes about Canada's iconic health care system would be needed, and we would all be spared impassioned arguments over the relative shares of federal and provincial spending. Minister Flaherty simply made the announcement and that was that, and the health care lobbying industry was put out of business. In the days that followed, some provinces and critics attempted to build the announcement into a story of Conservative "cuts" to health care. The problem was that the cuts were being posited against an ideal in which 6 percent federal annual increases in transfers to provinces would have been extended out into a never-ending future. And with growth in GDP forecast to grow at a rate much closer to 2 percent than 3 percent in the medium term, a 3 percent year-over-year floor for increased health care spending looked pretty good.

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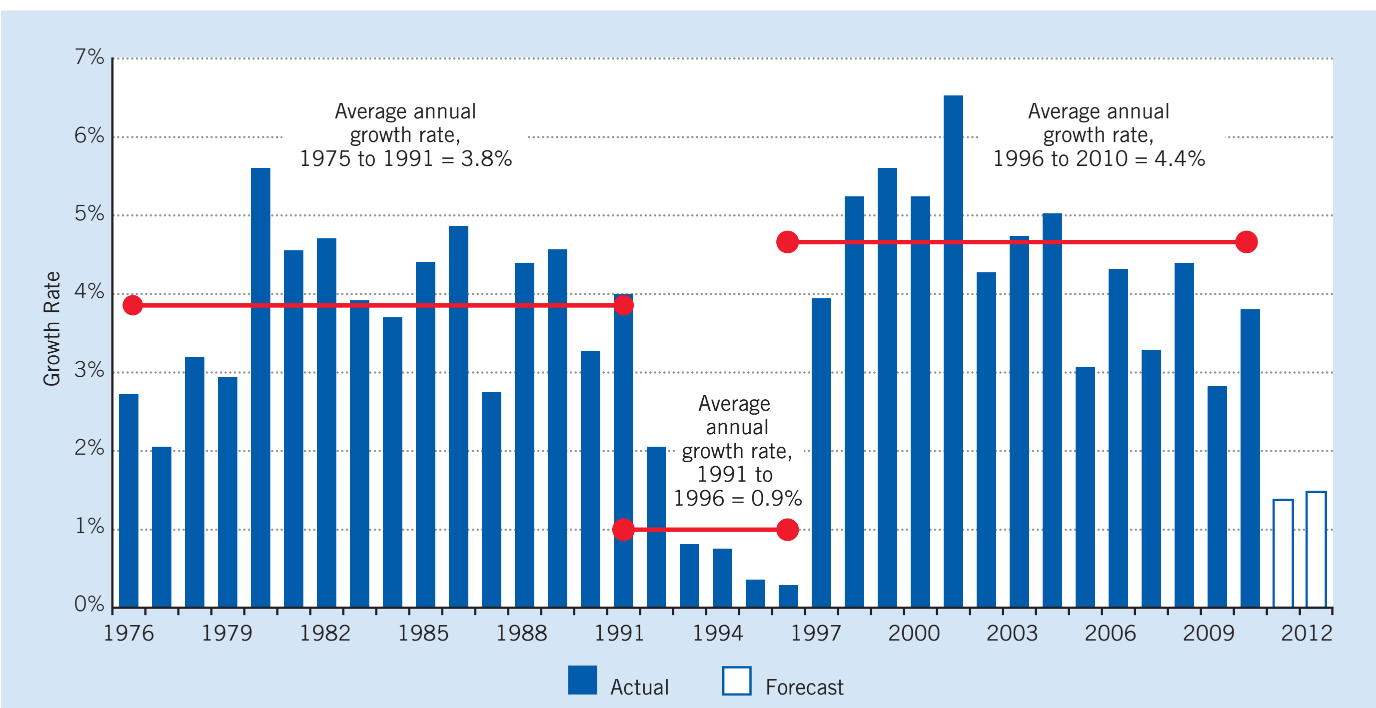
In response, the provincial and territorial Premiers established a working group on health care innovation chaired by Premiers Wall and Ghiz, which reported to the July meeting of the Council of the Federation. Their report produced an inventory of practical innovations that each province could use to "enhance patient care and improve value for taxpay-

Figure 1 Total health expenditure, annual growth rates in constant 1997 dollars, Canada, 1976-2012



Source: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2012*.

ers." While some critics panned the report for being pedestrian, it was certainly more useful than the federal-provincial bickering over cost sharing that was averted by Flaherty's December 2011 announcement.

Highly instructive on the subject of health care was the annual report of the Canadian Institute for Health Information (CIHI) entitled *National Health Expenditure Trends, 1975 to 2012*, published in late October. The report noted that in the last decade, total health spending in Canada doubled from close to $100 billion to just more than $200 billion, due largely to increased investments by federal, provincial, and territorial governments following the period of fiscal restraint from the early to mid 1990s. This expansion had fuelled concerns among health care experts and economists that such growth rates were unsustainable, particularly with the demographic challenges anticipated as the boomer generation begins to hit 65.

By far the most striking finding in the report was that the rate of increase in annual health expenditures continued to moderate in 2012. In current dollars, total health spending per capita in Canada stood at $5659 in 2010, and forecasts for 2011 and 2012 are expected to be $5818 and $5948, amounting to respective growth rates of 2.8 percent and 2.2 percent. Moreover, while total health expenditure was 11.9 percent of GDP in 2010, it is forecast to move down to 11.7 percent in 2011 and to 11.6 percent in 2012. CIHI also found the same trends in the major components of health care spending. In 2012, hospital spending is forecast to grow by 3.1 percent, while payments to physicians will increase by 3.6 percent. These will be the lowest rates of growth since the late 1990s. Finally, the growth rate for drug spending will fall to 3.3 percent in 2012, down from 4 percent last year.

All in all, these expenditure trends suggest that the federal government was more than generous in extending the Martin Accord on health care by three years at an annual growth rate of 6 percent, to be followed by a guarantee of at least 3 percent per annum going forward. Equally important, the CIHI statistics reported at the end of the year suggest that provinces are now successfully managing down the growth rate for health care spending, and that Canada is on the path towards a more sustainable health care system. Clearly, there is much more to be accomplished in health care reform and sustainability improvements, but at least the numbers are moving in the right direction, and the provinces are becoming much more engaged.

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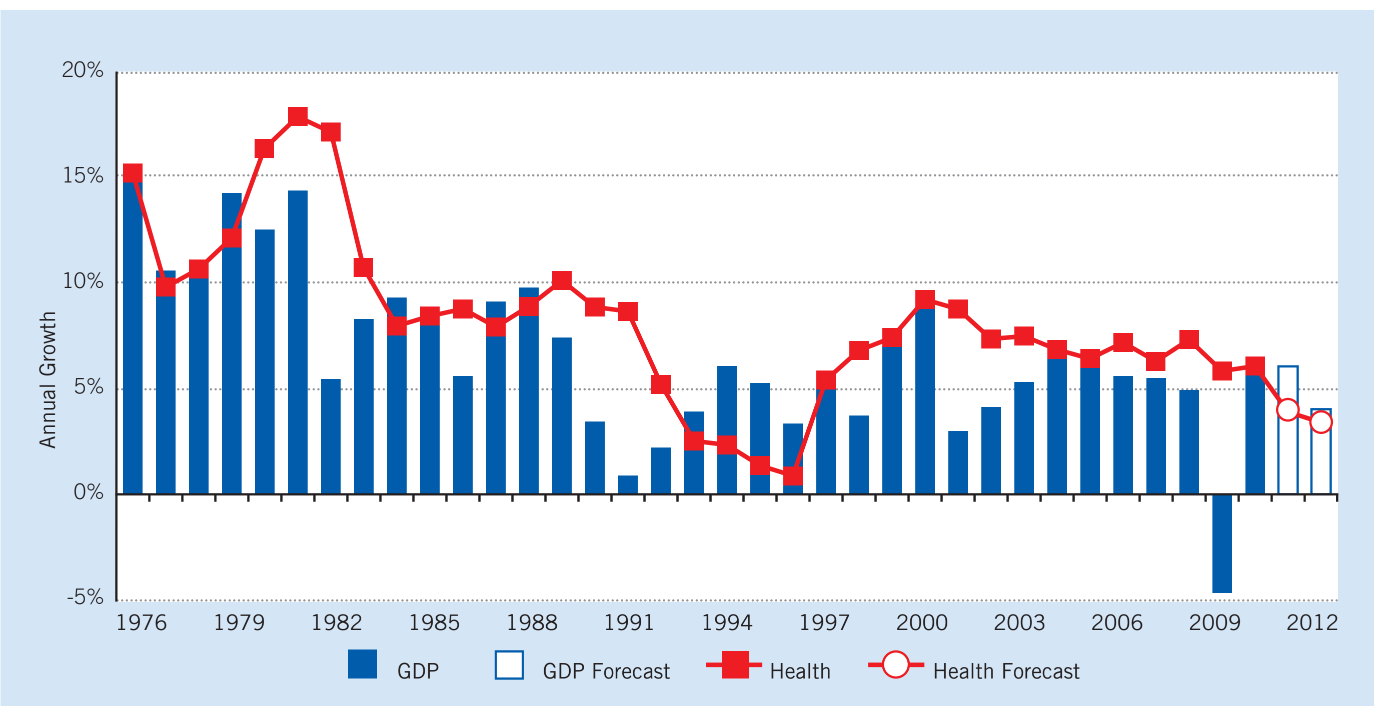
Pensions reside at the intersection of social and economic policy, and their sustainability was a major federal public policy theme in 2012. It began with the decision to limit the growth of spending within Old Age Security (OAS), the foundation of the publicly funded re-

Figure 2 Total health expenditure and nominal GDP, annual growth, Canada, 1976-2012



Source: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2012*.

tirement income system. Positioned in the Prime Minister's Davos speech as one of the "transformations necessary to sustain economic growth, job creation, and prosperity now and for the next generation", the move touched off a fevered debate among economists as to whether the change was necessary to ensure sustainability or not. When the details were finally revealed, the government's initiative was an extension of the age of eligibility for old age security from 65 to 67.

The government based its argument on sustainability on the fact that the number of seniors is set to rise from 14 percent of the population in 2010 to close to 25 percent by 2030, while the working age population will barely grow at all. Today, there are four working age Canadians for every senior; by 2030, the ratio will be one-to-two. Without the changes, the government maintained, annual OAS expenditures were forecast to rise from $38 billion annually in 2011 to $108 billion in 2030, rising from the equivalent of 13 cents of every tax dollar to 21 cents.

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The government's slow start in making clear exactly what was being proposed initially caused fairly widespread concern and fear among pensioners and those close to retirement age, but once it became clear that the changes would not begin to take effect until 2023, and that there was a six year phase in period, public concerns began to abate. By the time the changes passed in the controversial omnibus budget bill in June, it appeared that most Canadians bought the government's arguments on long-term sustainability, and concluded that the Conservatives had reached a reasonable balance between pushing necessary change and allowing enough time for people to adjust.

Less clear for the government in 2012 was its success in managing another key challenge in the pension system, namely the significant number of Canadians who do not enjoy any kind of private pension coverage. According to Statistics Canada, between 1995 and 2010, the proportion of Canadian employees covered by a registered pension plan declined from 42.8 percent to 38.8 percent. Additionally, the recession that began in the fall of 2007 slashed the value of many private sector pensions as stock values plummeted. And the C.D. Howe Institute reported this year that only about 15 percent of Canadian private sector workers are covered by defined benefit pension plans.

Immigration Minister Jason Kenney is leading immigration reforms in areas such as labour markets and recognizing professional credentials of immigrants.

At the December 2010 federal-provincial-territorial finance ministers meeting, federal Minister Flaherty proposed strengthening the Canada Pension Plan to address these issues, but this initiative was vetoed by Alberta and Quebec. After further consultation with the provinces, the federal government responded with a new retirement savings vehicle in Budget 2012, the Pooled Registered Pension Plan (PRPP), and the legislation to provide for this approach to pensions was passed in June.

The idea behind PRPPs is that they would improve pension coverage and retirement savings results by reducing costs and improving investment results through the pooling of assets and administration by third parties. Since most federally regulated industries already provide pension coverage for their employees, Bill C-25 was drafted on the assumption that provincial governments will pass enabling legislation within the umbrella of the new national rules. PRPPs will be available to employees – with or without a participating employer – as well as the self-employed.

During consideration of the legislation and since its passage, there has been an active debate among experts as to the likely success of the new program, as well as its advantages and drawbacks. Detractors, most notably James Pierlot and Alexandre Laurin writing for the C.D. Howe Institute, argue that PRPPs are only a mild improvement over Registered Retirement Savings Plans (RRSPs) and that lower and middle income workers should not save for retirement in tax deferred accounts because "they will pay taxes and government benefit clawbacks on withdrawals in retirement at rates that are significantly higher than the refundable rates that apply to contributions."

Proponents of PRPPs have argued that as a low cost savings vehicle, PRPPs will create scale and have the added advantage that small employers will be absolved of the responsibility of managing pension plans since this will be done by a financial services administrator. Both sides agree that in the longer term, the federal government must address the issue of how accumulated savings can be converted into retirement income.

The third leg of the pension sustainability theme for the government in 2012 was reform of MPs' and federal public service pensions. MPs' pensions had long been a symbolic irritant, but the issue of public service pensions was much more substantive. By accident or design, the way the government handled the two issues linked them together and ultimately meant that the two needed to be addressed as a package.

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In the case of MPs' pensions, no one had ever argued that MPs did not need a generous pension plan because of the inherent interruptibility of their employment, but the issue had long since become how the financing costs should be shared between MPs and the taxpayers. The decisive set of arguments was presented by the Canadian Taxpayers Federation (CTF) in its January 2012 report. CTF argued that "The $5.80-to-$1.00 taxpayer-to-MP contribution ratio officially reported by the federal government massively understates the real contribution and payout ratios. This report details how for every $1.00 that MPs and Senators pay towards the so-called 'pension fund,' taxpayers contribute $23.30." With no one willing or able to refute those numbers, it really became a matter of time until the issue was addressed once and for all.

Source: Canadian Taxpayers Federation.

At the same time, the government faced a much more substantive challenge on the public service pension side, namely that while practically every other defined benefit pension plan in the country was based on a 50:50 cost sharing ratio between employer and employee, the federal public service pension plan was financed on a 65:35 ratio, with the employer paying the larger portion. Budget 2012 signalled that the government would begin moving to a 50:50 ratio, with a target date to achieve that ratio yet to be defined. While the MP pension issue was clearly a question of symbolism, the public service pension issue involved real money. When he addressed the issue in October, Treasury Board Minister Clement said that moving to the 50:50 ratio would save taxpayers $2.6 billion over five years.

If the government's plan was to deal with two nagging issues in a way that was linked, it worked. In the final analysis, reforming MPs' pensions became the quid pro quo for making changes to the public service pension plan. Once MPs had addressed their pensions, it became much easier to make the necessary changes to the public service pension system.

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The federal-provincial remaking of Canada's labour force management system continued in 2012. The labour market is an area of joint and overlapping jurisdiction, with the federal government managing employment insurance, the provinces in control of worker credentials, and immigration an item of shared jurisdiction under the constitution.

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We have growing labour shortages in some sectors and regions, while other sectors and regions are experiencing slow growth or economic contraction and loss of jobs. We have an immigration system that until recently was overwhelmed by a waiting line approaching half a million people, while thousands of temporary workers are being admitted annually, many to work in areas of high domestic unemployment. The employment insurance system is hopelessly out of date and complex, and acts as a barrier to labour mobility within the country. And provinces control worker credentials in a way that continues to serve as an interprovincial trade barrier, not to mention leaving many highly qualified immigrants in underemployment while they wait for recognition of their foreign training.

The federal reform efforts continue to be led by HRSDC Minister Diane Finley and Citizenship and Immigration Minister Jason Kenney. Too many developments occurred in 2012 to cover in exhaustive detail here, but some key trends and initiatives bear mentioning.

In the employment insurance program, in 2013, the current 58 employment regions across the country will be reduced to nine and the value of EI benefits will be calculated using the best weeks of earnings during the qualifying period, usually 52 weeks. This change will simplify the program significantly, and reduce the existing disincentives to taking all available work prior to going on EI. It will also increase regional fairness by ensuring that similar benefits will be provided to all people living in areas with similar labour market conditions.

Speedy integration of newcomers into the Canadian labour force remains a significant challenge. While movement continues to be slow, the federal, provincial, and territorial governments are filling in the details of the Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications, which was created in 2009. Common standards are being developed to replace the individual provincial and territorial certification systems and to provide for speedier assessment of qualifications anywhere in Canada. This year's priority is to add another six target occupations, including physicians and dentists, to the emerging system. In addition, the federal government is developing a system through which designated organizations will assess and verify the credentials of those seeking to enter Canada as Federal Skilled Workers *before* they arrive in the country.

Canada has the highest per capita level of immigration in the developed world. In 2012, the federal government continued to move Canada's immigration objectives away from their former concentration on family reunification and towards the new focus of meeting Canada's labour force requirements. As Kenney notes in his department's Annual Report to Parliament, "It is essential that Canada positions itself as a serious competitor for global talent, so that we can address labour market shortages and strengthen economic growth. To that end, our goal is to create a fast, flexible economic immigration program."

The Prime Minister weighed in decisively in a *Globe and Mail* interview in the Philippines in November, noting that Canada was in the process of moving from a "passive" immigration system without priorities to "an activist policy where we define what the immigration needs are that we want, where we actually go out and try and recruit immigrants and to the extent that we receive applications we try and prioritize them to the country's objectives." He went on to describe the need for Canada to become much more competitive in seeking newcomers: "Immigrants are going to be going to a whole lot of countries, mostly in the developed world and Canada is going to have to get out there, compete, and make sure we get the immigrants both in terms of volumes and particular attributes: skills, expertise, and investment capacity."

Against this backdrop, there were a number of key developments in 2012.

- When the Conservative government entered office six years ago, it inherited a backlog of more than 600,000 applications to immigrate to Canada in the Federal Skilled Worker Program that had arisen because of the complexity and inefficiency of the immigration system. In 2012, the federal government finally bit the bullet and collapsed the remaining backlog of 280,000 and returned their applications.

Table 1 Number of temporary foreign workers and foreign students admitted, 2010 and 2011

Category	Number Admitted in 2010	Number Admitted in 2011
Temporary Foreign Workers	179,179	190,842
International Students	96,248	98,383
Total	**274,427**	**289,225**

Source: Citizenship and Immigration Canada, *Facts and Figures 2011.*

Table 2 2013 immigration levels plan

Projected Admissions	Low	High
Federal selected economic programs, provincial/territorial nominees, family, refugees, humanitarian entrants, and permit holders	206,500	228,300
Quebec selected skilled workers	31,000	34,000
Quebec selected business	2500	2700
Total	**240,000**	**265,000**

Source: Citizenship and Immigration Canada, *Facts and Figures, 2011.*

A citizenship swearing-in ceremony for new Canadians. As Geoff Norquay writes: "Canada has the highest per capita level of immigration in the world."

- The Temporary Foreign Workers program continued to attract significant coverage and controversy in 2012. The controversy stemmed from the fact that while unemployment remained persistently high in some regions of the country, Canada admitted more than 200,000 temporary workers from outside the country to fill jobs that could not be filled by Canadians. While EI changes made during the year (the Working While on Claim Pilot Project) were designed to encourage Canadians in areas of higher unemployment to take employment, this initiative remained controversial. By early November, Finley announced a review of the Temporary Foreign Workers after the program was requested to admit 200 Chinese workers for a BC mine.
- Late in the year, Kenney signalled the government's intention to keep Canada's immigration levels steady for another year – the seventh straight – at between 240,000 and 265,000 new permanent residents for 2013. Under the Conservatives, Canada would continue to place immigration at the heart of its management of the labour force, and in its planning to accommodate the inevitable demographic shifts the country faces.

If there is one area where Canada rates a failing grade in the connection between social and economic policy, it is in the underutilization of our human resources, namely in the number of people whose skills are lost to the labour force due to barriers that prevent them from working. There are four key groups where this concern is acute: recent immigrants, Aboriginal Canadians, older workers with weak or outdated work skills, and people with disabilities. By international standards, the rate at which Canadians participate in the workforce is high, (Canada ranks sixth among OECD countries) but for these groups, we need to do much better. Bringing these groups into the labour force at higher rates of participation promises to help minimize labour shortages in future years, not to mention lowering employment insurance and social assistance costs.

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As indicated earlier, the two levels of government are finally making progress in tearing down the self-serving provincial stranglehold on credentials recognition. The government recognizes that improving the educational outcomes for Aboriginals must be improved, but in 2012, efforts to arrive at a new arrangement for the funding of Aboriginal education failed, and prospects are therefore not good for improvement in the short term. The government has been investing in older worker skills and must continue to do so. There remain significant challenges in developing and implementing new and modern approaches to bringing people with intellectual disabilities into the labour force.

In addressing social programs' sustainability and in setting out to remake the Canadian labour force, as they did in 2012, the Conservatives accomplished much in building those bridges.

Social and economic policy in Canada often live in separate houses, with the social side called upon to do little more than soften the blows created by the economic system. At the same time, the current government came to office without strong views about social policy one way or the other. As time has passed, the Conservatives have understood the linkages between social and economic policy clearly and have begun to build the necessary bridges between them. In addressing social programs' sustainability and in setting out to remake the Canadian labour force, as they did in 2012, the Conservatives accomplished much in building those bridges.

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