

## Lifting the Veil of Silence --

### Federal Funding Cutbacks in Health and Post-Secondary Education

In its February 1986 budget, the federal government announced a reduction in the growth of federal transfer payments to provincial health and post-secondary education programs. These cuts, which began April 1, mean additional costs of \$530 million over the next five years for Albertans.

How will this funding shortfall be made up? Almost half of all Alberta expenditures are in the fields of health and education. If nothing is done to recover this loss, we stand the risk of losing medicare and seeing a drastic deterioration in post-secondary education programs. Why has the Alberta government not taken a public stand on these funding cutbacks, as they have done with the extra-billing penalties?

### Federal Funding for Health and Higher Education

Our Alberta Health Care system and post-secondary education programs exist in large part, because the federal government and provinces have worked together to develop funding arrangements. While the provinces have responsibility for direct services such as health, education and social services, they lack the revenue raising capability to pay for these programs and services. Over the years, the federal government, in consultation with the provinces has developed revenue sharing arrangements to ensure that Canadians in rich and poor provinces have access to a roughly equal level and number of services. Since 1949 the cost of health and post secondary education in all the provinces has been partially met by grants from the federal government.

During the years 1960 to 1976, the federal contribution to the provinces was largely on the basis of 50% of "approved services." The list of approved services was negotiated by the provinces and the federal government. This approach had several shortcomings for all parties. The federal government wanted a more stable and predictable arrangement to replace what amounted to, for them, an open-ended funding arrangement. For their part, the provinces wanted the flexibility to allocate resources within health and post-secondary education programs to meet their individual priorities. A third concern shared by all governments was the desire to eliminate the detailed and cumbersome accounting and verification procedures associated with the cost-sharing arrangements.

### EPF -- A New System

The Established Programs Financing Act (E.P.F.) replaced the cost-sharing arrangements with a blockfunding approach. Under the E.P.F. arrangements, the federal government contributes an equal per capita grant to all of the provinces. The grant is based on the national average per capita expenditure to health and post-secondary education by the federal government in the 1975/76 base year. The per capita grants are adjusted annually by an adjustment factor based on the average percentage change in the Gross National Product (G.N.P.) for the three most recent years. The total entitlement of a

province is equal to the 1975/76 base per capita grant escalated by the adjustment factor and multiplied by the provincial population. In 1985/86, under this arrangement, Alberta received \$1.46 billion in tax and cash transfers.

This arrangement has two advantages over the previous cost-sharing arrangement. First, the blockfunding principle allows the provinces more flexibility to allocate these funds to health care and post-secondary education programs according to their own priorities. Second, the method of per capita funding provides a predictable and stable level of federal support that is calculated independently of provincial expenditures in these fields.

### Modifications to the E.P.F. Arrangements

While the economy was growing in the late 1970's, the E.P.F. arrangement worked reasonably well, with federal revenue sharing transfer payments meeting roughly half of the health care and post-secondary education program costs. Subsequent unilateral modifications to the E.P.F. arrangements by the federal government have reduced the federal share. In 1982/83 the federal government terminated the "Revenue Guarantee" component of the E.P.F. transfer program. Portions of the E.P.F. transfers were subjected to the "6 and 5" federal restraint program in 1983/84 and 1984/85, further reducing the federal share.

In the February 1986 budget, Michael Wilson announced that effective April 1, 1986, the federal government would reduce the rate of growth of revenue sharing to the provinces. This is the "G.N.P. Minus 2%" proposal. In this scheme, the G.N.P. increases used to calculate the E.P.F. adjustment factor are reduced by two percentage points each year.

Table 1 shows the impacts of these modifications on the federal share of program costs. The cutbacks affect every province including Alberta. The equal partnership which existed in 1979/80 has been altered drastically. If the February 1986 budget changes remain in effect, by 1990/91, the federal contribution will be short 14% of meeting half of the program costs.

Table 1

#### Federal Shortfall From 50% of Program Costs

1979/80	0.1%
1982/83	7.4%
1983/84	7.4%
1984/85	7%
1986/87*	9%
1990/91*	14%

\* Projection

Source: The Medicare/Post-Secondary Funding Debate: A Manitoba Perspective.  
Dept. of Finance, Manitoba, January 1986.

Although federal transfers to the provinces will increase in absolute terms during the next five years, because of the changes to the adjustment factor, the real value of these transfers will decrease. In dollar terms, the impact of the provinces and Alberta, in particular, is dramatic (see Table 2). Over the five year period, projected losses to the provinces will be about \$5.6 billion. Alberta will lose a projected \$530 million. While the losses to Alberta are small in the first two years, they escalate rapidly. Alberta loses \$30 million in the first year but by 1990/91 the losses amount to \$191 million annually.

Table 2

Projected Losses Due to Cuts in Federal Support  
for Health and Post-Secondary Education

	Alberta	All provinces and the territories
	(\$ million)	
1986/87	30	318.3
1987/88	64	678.4
1988/89	101	1,079.9
1989/90	144	1,521.9
1990/91	<u>191</u>	<u>2,010.9</u>
5 Year Total	530	5,609.4

Source: Federal Department of Finance Forecasts in The Medicare/Post-Secondary Funding Debate: A Manitoba Perspective. Department of Finance, Province of Manitoba, January 1986.

Implications for Albertans

Any shortfall in the federal contribution to health care and post-secondary education programs must somehow be made up by the provinces since they are ultimately responsible for providing these programs.

Changing demographic and educational cost patterns have put severe cost pressures on both the health and post-secondary education systems. Our population is aging; older people require more health care. Enrollment in post-secondary education has increased as the demand for skilled workers has grown and as unemployment has increased. Demand for these programs has increased as the recession has continued. Any reduction in program expenditures will be deeply felt.

The risk for Albertans is that if the federal cutbacks to medical care and post-secondary education are not made up by the province, these programs are placed in risk. We are in danger of seeing these programs cut back. The consequences are serious especially with regard to medicare.

The Alberta government had a budget surplus of \$1 billion in 1985/86, and thus has more leeway than most of the other provinces in deciding whether to maintain (or increase) program expenditures. The government could also increase taxes to make up the federal shortfall. This would be an unpopular move with Alberta taxpayers however. Alternatively, the government could cut back on programs or turn them over to the private sector. Recent government actions to privatize hospital services in Athabasca and public statements on extra billing lead one to conclude that the Alberta government commitment to publicly funded medicare is not a strong one.

### The Alberta Government Position

The recent federal government cuts mean a net \$530 million loss to Alberta over the next five years. Unlike the governments of Newfoundland and Manitoba, the Alberta government has chosen not to inform Albertans about these cuts and their implications for health care and post-secondary education. Neither has our government asked for public assistance to fight the federal cutbacks.

The Alberta government steadfastly refused to release to us, information on how the federal cuts in E.P.F. payments affect Alberta. The Alberta statistics used in this report were taken from a government of Manitoba report. Why the public silence on an issue that affects every Albertan? \$530 million is an amount too large to lose without a fight, even in a wealthy province such as ours.

The public silence by the Alberta government on the issue of federal cutbacks is strange given the strong public stance that Hospitals Minister Dave Russell has taken regarding the recovery of \$22 million in extra billing and hospital user fee penalties that Ottawa has imposed. Mr. Russell has stated that he will do all he can to recover the money and at the same time try to preserve the right of Alberta doctors to extra bill and hospitals to impose user fees. Why is the Alberta government not making the same strong public commitment to recover the \$530 million this province stands to lose because of federal funding cutbacks?

### What Can You Do?

Our elected representatives respond to matters that we voters bring to their attention. If you think that health and post-secondary programs and services are vital and deserve attention, let your M.P. and M.L.A. know how you feel. Write to your Member of Parliament, House of Commons, Ottawa, Ontario, K1A 0A6. No postage is required. You can phone your Member of the Legislative Assembly for free by using the R.I.T.E. line.

If you want to share your views with a wider audience, write a letter to the editor of your local paper. Invite a resource person who is familiar with this issue to speak to your group. Let your M.P. and the media know how your group feels.