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Universality, family allowance and the closing federal door.

Thecla Debra. Moore
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UNIVERSALITY, FAMILY ALLOWANCE AND
THE CLOSING FEDERAL DOOR

by

Thecla D. Moore

A Thesis submitted to the
Faculty of Graduate Studies and Research
through the Department of Political Science
in Partial Fulfilment of the requirement
for the Degree of Master of Arts
at the University of Windsor

Windsor, Ontario, Canada

1995

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ABSTRACT

The historical development of federal activity in the income security system up to the early 1990s is examined in this thesis. The main argument of this thesis is that the federal government has slowly undermined the dominance of the welfare state by eroding the concept of social rights that is a fundamental principle of the Canadian welfare state. The attack on the family allowance program by both the Trudeau government, from 1973 to 1978, and the Mulroney government, from 1984 to 1992, serves as the primary example of this circumstance. The influence of neo-conservatism is believed to have shaped the direction of the social welfare policy reform, which has resulted in an ideological shift of the liberal interpretation of the purpose of the Canadian welfare state.

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Sincerely,

Thecla D. Moore

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Introduction

The Keynesian welfare state began to be challenged in Canada in the late 1960s and even more so in the 1970s by the new values and political ideas concerning the role of the government in meeting the needs of society, economically and socially.¹ In the 1970s the momentum started to build, discrediting Keynesianism and moving towards other economic models. By the 1980s the federal government favoured monetarist policies over the Keynesian macroeconomic approach. The role of social welfare in the Canadian state has since been under increased scrutiny and reevaluation. While the discussions on the purpose of change have not always been clearly articulated by the federal government, the legitimacy of universal programs in the income security system has come under increasing attack since the mid-1970s.

Linda McQuaig, author of The Wealthy Banker's Wife believes our universal programs are under attack by the federal government through spending reductions on social assistance programs and income security benefits. McQuaig believes there is a move "towards a different welfare state

¹Under Keynesianism the capitalist state embraced a legitimation mandate of distributing material benefits to the subordinate class. The approach focused on producing economic stability as a base for generating necessary levels of aggregate demand in society, resulting in the harmonious relations between social and economic policies. Refer to Stephen McBride and John Shields, Dismantling a Nation: Canada and the New World Order (Halifax: Fernwood Publishing 1993), 10.

model relying less on government programs and more on the private marketplace," resulting in the realignment of the public and private sector."² This has contributed to the further deterioration of the universal mechanism present in the Canadian welfare state because of the increased dependence on selective programs, particularly associated with the child benefit system.

The main argument of this thesis is that, since the 1970s the federal government has slowly undermined the dominance of the welfare state and the right to benefits and equality guaranteed in our universal income security programs. This was accomplished through the gradual erosion of governmental support for universality. The right to benefits is increasingly being questioned; meanwhile, the universality principle has been replaced by the principle of selectivity in the quest to balance equity with free market forces.

The argument of this thesis is based on the theoretical social citizenship framework which maintains that guaranteed welfare provisions are an ideal of social citizenship. Indeed, any changes to the welfare state must continue to guarantee welfare provisions, because the failure to do so would raise the chances of increasing the income gap between the lower and upper income quintiles. Reducing the acceptable standard of assistance, which already leaves those on

²Linda McQuaig, The Wealthy Banker's Wife: An assault on equality in Canada, (Toronto: Penguin Books), 2.

assistance below the poverty line, further decreases their life chances.

To illustrate why this concern is valid, the evolution of the income security system in Canada is briefly outlined and the policy modifications to the federal universal family allowance program during the reign of the Trudeau government (1973 - 1978) and the Mulroney government (1984 - 1993) are traced and analyzed in chapters three and five.³ The other chapters provide a context that allows for the development of the topic.

The first section of chapter one frames the case for the social citizenship principle as a primary justification of the welfare state. It will be argued that the rise of neo-conservative thinking in Canada, since the mid-1970s, gradually undermined the Keynesian paradigm. The second section of the chapter examines the neo-institutional approach as a method of studying policy outputs.

In chapter two the institutionalization of intergovernmental relations within the income security system

³The universal family allowance program, enacted in July 1944, was a universal income security program paid out to families with children eighteen years old or younger. The money was paid to the primary care giver of the child(ren), who traditionally was the mother. The universal benefit became taxable income in 1974 and in 1978 the refundable child tax credit program was developed, increasing the dependence on the selective program delivery mechanism. The biggest change was under the Mulroney government was in 1993, when the family allowance program was consolidated with the non-refundable child tax credit for dependent children and the refundable child tax credit, into a single monthly payment based on income.

is examined. Although constitutionally, social policy is under provincial jurisdiction, the federal government has acted within this policy sphere predominantly through de facto conditional grant arrangements. The fiscal imbalance between the two levels of government benefited the federal government in centralizing the income security system.

Chapter three examines the social, economic, and political ideologies that influenced the development of the income security system in Canada, from the late 1920s to 1960, culminating in the 1970s. The Great Depression and the post-war reconstruction period significantly influenced federal government activism in the welfare policy area.

By the 1970s, the expansion of the welfare state was suddenly curtailed, resulting in increasing challenges to Keynesianism and the emergence of different approaches towards managing the state.

Chapter four examines the economic situation of the country and political ideological beliefs of the two dominant parties and their leaders. The rise of neo-conservatism during the Trudeau era signalled the first shift in thinking about the justification and role of the universal and redistributive welfare provisions. The election of the Progressive Conservative party under the Mulroney government strengthened the dominance of neo-conservative thinking in Canada. The result was the increased use of neo-liberal policies to manage the economy and direct the pattern of

growth of social security programs.

The main argument of chapter five is that the reforms to the child benefit system have helped to undermine the right to benefits that was once a guaranteed welfare provision. The impact of the reforms to the child benefit programs under both the Trudeau and Mulroney government are analyzed.

Chapter six summarizes the basic findings of the thesis and concludes with an overview of the legitimacy of universal social citizenship rights in Canada in the 1990s. The dominance of the economic agenda of the federal government threatens the foundation of the Canadian welfare state. While there has not been the outright dismantling of universal welfare provisions, an erosion of support and value of the universal family allowance program has occurred. The replacement of the family allowance program by the selective child benefit program in 1993 marks a pivotal milestone in the success of the federal disengagement of welfare entitlements.

Key Definitions:

Experts in social policy disagree on the methodology of how to define a welfare state.⁴ There are different

⁴The welfare state is premised, by some academics, on the redistribution of income from the wealthy to the disadvantaged in society. A minimum standard of living and providing a basic means of subsistence is guaranteed. For further reference read: Keith Banting, The Welfare State and the Canadian Federalism 2nd. ed. (Montreal and Kingston: McGill-Queen's University Press, 1987). Neil Gilbert, Harry Specht, and Paul Terell, Dimensions of Social Welfare Policy, 3rd. ed. (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1993), 10. Wei A. Djao, "Social Welfare in Canada: Ideologies and Reality," Social Prax 6(1-2), (1979): 35-53. However, within the criteria of redistribution of wealth there

categories of welfare state regimes; comparing one with another or comparing the percentage of GNP used on the social expenditure budget does not give an accurate picture of what makes a state a welfare state. For the purpose of this thesis, Christopher Pierson's and Gosta Esping-Andersen's definition of the welfare state are embraced because the definitions address the issue of how the state balance the economic patterns of society with the social element. Pierson defines the welfare state under capitalism, "as a society in which the state intervenes within the processes of economic reproduction and distribution to reallocate life chances between individuals, and/or classes."⁵

Esping-Andersen also recognizes the relationship between the market system and the reorganization of society in the social sphere. Esping-Andersen defines the welfare state variations through the distribution of regime clusters. The three clusters are: the liberal welfare state, corporate welfare state, and the social democratic regime type. Canada is defined as the liberal welfare state:

exist a fundamental difference between the attempt of equality of citizens and ensuring a minimum standard of living. The amount of equality in society can be enhanced by the policies formulated and implemented by the government. The extent of the redistribution of wealth in a society also lends itself to the type of welfare state regime within the country. The type of regime developed, defines the eligibility criteria of benefits and the extent and amount of social assistance and services available. These factors are addressed in Robert E. Goodin and Julian LeGrand, Not Only the Poor, (London and Boston: Unwin Hyman Ltd., 1987), 7.

⁵Christopher Pierson, Beyond the Welfare State? (Pennsylvania: Pennsylvania State University Press, 1991), 7.

in which means tested assistance, modest universal transfers, or modest social-insurance plans predominate. Benefits cater mainly to a clientele of low-income, usually working class, state dependents.⁶

Esping-Andersen finds entitlement rules are strict and associated with stigma, and benefits are typically modest. The state encourages the market, and subsidizes private welfare schemes. The welfare state according to Esping-Andersen takes into consideration "how state activities are interlocked with the market's and the family's role in social provisions".⁷ Esping-Andersen derives his definition of the welfare state from the doctrine that social citizenship is the fundamental issue behind the foundation of the welfare state.

There is a consensus among public policy writers who specialize in social policy, such as Philip Bean, John Ferris, Rodney Haddow and Esping-Andersen, that Canada is a liberal welfare state.⁸ In a liberal welfare state some needs are met through the various universal social programs and social insurance programs. These programs however, do not help to

⁶Gosta Esping-Andersen, "The Three Political Economies of the Welfare State," Canadian Review of Sociology and Anthropology 26 (1989): 26-27. For further reference to these regime clusters refer to Pierson, Beyond the Welfare State, 184-187. He addresses the typology of welfare state regimes.

⁷Esping-Andersen, "The Three Political Economies", 21.

⁸Refer to, Philip Bean, John Ferris, et al., (eds.), In Defence of Welfare (London and New York: Travistock Publications Ltd., 1985). Rodney Haddow, "The Poverty Policy Community in Canada's Liberal Welfare State." In Policy Communities and Public Policy in Canada: a structural approach, eds. William Coleman, and Grace Skogstad, (Mississauga, Ont: Copp Clark Pitman Ltd., 1990), Chapter 9.

fully alleviate the limitations of living below the poverty line. In a liberal welfare state, social programs are underdeveloped because the programs exist only as a safety net (to protect people from the failure of the market economy).

Canada is also labelled a residual welfare state premised on the functioning of the market economy, so state intervention should only be utilized to correct market shortcomings.⁹ This model emphatically supports the workings of a market economy and the accumulation of capital. The majority of programs are means tested with few modest universal social insurance programs, adhering to strict entitlement rules. As in other sources, the terms, liberal and residual will be used interchangeably. Both terms acknowledge the Canadian welfare state functions to offset the inequality inherent in a capitalist economic system. While the two roles

⁹Keith Banting, The Welfare State and Canadian Federalism, 2nd ed., and Esping-Andersen, "The Three Political Economies," 20. Esping-Andersen defines both a residual and institutional welfare state. An institutional welfare state is defined as: includes the entire population and embodies an institutionalized commitment to welfare in any vital area of society. Jacqueline Ismael in The Canadian Welfare State: Evolution and Transition (Edmonton: University of Alberta Press, 1987), 249, supports the view that the Conservative party lead by Brian Mulroney articulate a residual conception of social policy. The residualist believe that the welfare state creates dependency of individuals on the state. The conservative philosophy follows that the welfare state further creates poverty and needless expense. In the book by Gilbert, Specht and Terrell, Dimensions of Social Welfare Policy, 3rd ed. (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1993), a residualist would believe that "social welfare itself is not a significant societal institution but rather a supplemental activity necessary only when 'normal' channels fail to perform appropriately." Therefore, a social welfare state would be an undesirable institution that is expendable.

of socioeconomic stability are contradictory, the welfare state (which promotes the legitimation function) and the capitalist system (which fulfils the accumulation of capital function) cannot coexist without the other.¹⁰

Universal based social programs ensure the distribution of the same level of gross benefits to all individuals with specified traits. Universal programs do not take into account the income level of the individual as long as the required characteristics (called demogrants) are met, for example, the two original demogrant programs are the family allowance program and the old age security programs (OAS).

Selective social programs call for an eligibility test of the applicant's income to prove the need of services or income assistance. The income level and assets of the applicant determines the type, extent of assistance and benefits the applicant is entitled to. The Guaranteed Income Supplement (GIS) and the child tax credit are two examples of a selective program.

¹⁰Refer to Thomas O. Hueglin, "The Politics of Fragmentation in the Age of Scarcity: A Synthetic View and Critical Analysis of Welfare State Crisis," Canadian Journal of Political Science 20(2) (June 1987): 238.

Chapter One

PERSPECTIVES ON THE CANADIAN WELFARE STATE

...[T]he notion of citizenship postulates that similar respect be accorded to those who are dependent and poor. That they may have nothing to offer in exchange for the services they receive, except perhaps gratitude, should not damage their self-respect or place them in a position of social inferiority, because the fact of being born into, or recognised as members of a particular society itself brings entitlement to a defined standard of living and range of obligations from other members of that society.

Julia Parker, Social Policy and Citizenship, 146.

The first section of this chapter introduces the reasons for reaffirming the universal social citizenship right as a primary justification for welfare provisions.¹ Additionally, a critique of the relationship of social citizenship to the welfare state is contrasted with the neo-conservative explanation concerning the need to reevaluate the welfare state. The argument is introduced to provide a context on social welfare policy reform from the mid-1970s to 1993.

The final section of this chapter introduces the neo-institutional approach as a framework to analyze institutional

¹The term social citizenship or social rights, represents more than the negative rights of the individual. It does not include the rights guaranteed in the Charter of Rights and Freedom. The social citizenship principle is about positive rights. Social rights entails economic and social rights that help to correct the inherent inequities of the market system through the redistribution of real income and sets standards in society that allow individuals to participate at a basic level according to the standards prevailing in society. Refer T. H. Marshall, "Citizenship and Social Class," Citizenship and Social Development (New York: Doubleday, 1964), 72.

and organizational structures in the incremental movement of social welfare change. The neo-institutional approach recognizes the government as a prominent player in the public policy decision-making process; accordingly, the approach will be used in this study to analyze the parameters of the central actors in the decision-making process. This model draws attention to the importance of institutions as structures and networks of organizational capabilities, that dictates the appropriate behaviour of individuals and groups in policy formulation, which contributes to the shape of public policy outcome.²

CITIZENSHIP THEORY: A REASON FOR WELFARE

Currently there is a fair amount of academic research that traces the evolution of the Canadian welfare state system, particularly the income maintenance and social insurance programs. Dennis Guest, Keith Banting, Allan Moscovitch and Glenn Drover have all significantly contributed to the knowledge base about the impact of the Canadian welfare state on the social, economic and political forces of the Canadian state. The area of study that has not received a great deal of attention in Canada is the relationship of social citizenship rights in the maintenance of universal entitlements in Canadian society. However, articles by Julia

²Michael Atkinson, ed., "Governing Canada." In Governing Canada: Institutions and Public Policy (Toronto: Harcourt Brace Jovanovich Canada Inc., 1993), 3, 6.

O'Connor (1989), Dennis Guest (1984), and Allan Moscovitch (1986) stand out in this field as all three, since the 1980s, recognized that the attack on universality has contributed to the decline of the welfare state. Guest identifies the universal aspect of Canada's social security system as being "under the most persistent attack in the past decade or more."³ The erosion of the universal principle in our income security system, he argues, signals an ideological shift in the way we think of redistribution in society and the level of importance we place on class integration. Guest's position mirrors the main argument of this paper: that the federal government since the 1970s has slowly undermined how we as a society define equality and the right to benefits. This is being accomplished by the erosion of the universal concept, a fundamental principle underlying the income maintenance system. The prominence of neo-conservative thinking during this time facilitated destabilization of the Keynesian welfare state.

A justification for social rights:

Within social democratic ideology, the principle of citizenship is based on the concept of equal social worth and equal natural rights, as first theorized by T. H. Marshall, a British sociologist. According to David Harris and Ruth Lister, citizenship theory is linked to the moral importance

³Dennis Guest, "Social Policy in Canada," Social Policy and Administration 18(2) (Summer 1984): 138.

of protecting the status of a person as a full member of the community because everyone in society is not born into the same economic class.⁴ The approach stands for a relatively equal chance of outcome by providing greater opportunities to those who are otherwise excluded or at a disadvantage from independently participating within the democratic system. As Robert Goodin comments, it is a moral duty for the strong to protect the weak.⁵ By denying or reducing welfare provisions to a point that inhibits a 'seemingly' adequate minimal standard of income to everyone in society, creates a disenfranchised segment of society.

The maintenance of social citizenship as a pivotal component within the economic system then acts as a counterbalance to the laissez-faire economic system by altering the existing social patterns. Supporters of universality believe social citizenship rights can fulfil this need because the theory advocates the communitarian approach, treating all citizens alike, thereby creating a sense of community and collective responsibility. Alone, this ideal is questionable, particularly in reference to the importance of a communitarian society within Canadian culture. Still, the communitarian ideal must be a factor in maintaining an

⁴Refer to David Harris, Justifying State Welfare: The New Right versus The Old Left (New York: Basil and Blackwell Ltd., 1987) and to Ruth Lister, The Exclusive Society, 1990).

⁵Robert Goodin, Reasons For Welfare: The Political Theory of the Welfare State (Princeton, New Jersey: Princeton University Press, 1988), 153.

inclusive society, which helps to support "universal rights of citizenship, regardless of degree of need or extent of work performance."⁶ Utilizing the application of the social citizenship theory to justify income security programs, allows society to question the "legitimacy of inegalitarian social relationships of a stratified society."⁷

Yet, a weakness of social citizenship principle is that it is an abstract concept that can be modified by societal values and beliefs about equality/inequality, group interest and the distribution of power in society over time.⁸ Social citizenship rights theory lacks a defined measuring tool to determine the appropriate extent of social rights in society. As a result of this, social rights are ultimately established at the discretion of policy makers and others who operate within the decision-making process; accordingly, over time these rights can expand or contract. Nevertheless, to maintain a more egalitarian society, benefits must be guaranteed to the point where they can not easily fall under the cuts of each new Parliament.⁹

⁶Refer to Esping-Andersen, "The Three Political Economies of The Welfare State," 48.

⁷Mishra, Ramesh, Society and Social Policy: Theoretical Perspectives on Welfare (Great Britain: The MacMillan Press Ltd., 1977), 31.

⁸Ibid., 26.

⁹Refer to Desmond S. King and Jeremy Waldon, "Citizenship, Social Citizenship and the Defence of Welfare Provisions," British Journal of Political Science 18(4) (October 1988): 417.

Social rights must maintain a legitimate standing in society similar to civil and political rights. The welfare state should at least maintain a balance between universal welfare provisions that are not based on work performance and actuarial entitlements. The guarantee of welfare provisions following the guidelines of our traditional selective and universal programs, premised on security, redistribution and social integration, have resulted in people building their expectations around the continuation of entitlements.

Citizenship versus class:

Social policy is perceived as a mechanism that is utilized to enlarge freedom, thereby ensuring a range of choices to all individuals in every social class.¹⁰ The composition of social policy in a country directly affects the class structure. The distributional factor, the structure and scope of social policies have direct ramifications on the social patterns of society; therefore, affecting the cohesiveness of society between the various class interest. Canada however, is a capitalist society caught within a fundamentally contradictory conflict centering around the drive for capital accumulation versus the redistribution of

¹⁰Social rights is also the outcome of political and civil rights in a country. Civil rights encompass the right to social justice, which is necessary to achieve individual freedoms. Political rights allow participation in the political process - such as providing the right to vote in the democratic system. To obtain these rights individuals must possess some level of economic security, allowing them to participate in the activities of the community.

wealth through social programs. The income security system functions as a defence mechanism to protect the capitalist system by not fundamentally challenging the maintenance or legitimation of inequality in society.¹¹ As will be illustrated in chapter five, the modifications to the child benefit system since the late 1970s, not only reinforced the legitimacy of accumulation of capital, but also undermined the universal system.

The struggle to maximize scarce resources is interpreted to mean targeting benefits to those in greatest need, to improve the effectiveness of the redistributive objective. The cost of this policy choice is emphasizing the class differential more. Table 1.1, which provides the figures of the distribution of aggregate income of families, shows a slight shift in income distribution that widens the income gap between the bottom income group and the fourth and highest income groups from the 1970s to the 1990s. Yet, the figures did not escalate sufficiently to support the assumption of an increasing level of inequality in Canadian society. The breakdown of income levels alone does not show the level of dependence in Canadian society on transfer payments. In the examination of the figures in table 1.2, it can be concluded that the proportion of people receiving transfers has risen

¹¹Allan Moscovitch and Glenn Drover, "Inequality and Social Welfare." In Inequality: essays on the political economy of social welfare, eds. Moscovitch and Drover (Toronto: University Press, 1981), 3-26.

dramatically. Today there is greater dependence on state intervention, and the increased dependence on selectivity has also contributed to the growth of transfers payments from the government to the various income classes.¹²

Table 1.1
The Distribution of Aggregate Income of Families
by Quintile in Canada, 1970, 1980 and 1990.

Quintile	1970 %	1980 %	1990 %	1993 %
Lowest Quintile	5.2	5.3	5.4	6.4
Second Quintile	12.6	12.3	12.0	12.0
Third Quintile	17.7	17.9	17.5	17.6
Fourth Quintile	23.5	24.0	23.8	24.1
Highest Quintile	41.0	40.6	41.4	39.9
Total numbers are rounded	100.0	100.0	100.0	100.0

Source: Rashid Abdul, Family Income in Canada, (Ottawa: Statistics Canada, 1994), 42.

However, it should also be noted that cuts to the social expenditure budget affects the poor the most because transfer payments represent a greater proportion of the lowest quintile income group, in both the individual and family situations,

¹²The hidden welfare state represents another method of government spending that acts as the welfare state for the upper income levels. The National Council of Welfare concluded from its study in 1979, that the decision to control the growth of the social expenditure did not, nor could not off set the decreasing revenue of government. For example, between 1975-1976 the government kept the increase in direct expenditures to 10.4%; however, the tax lose due to twenty exemptions, deductions and credits in the personal income tax system went up by 17.9%, some increased by as much as 70%. Refer to the National Council of Welfare, The Hidden Welfare State Revisited (Ottawa: National Council of Welfare, March 1979).

compared to other income classes.¹³

Table 1.2
Relative Dependence on Transfer Payments by
selected characteristics. 1971 and 1989.

Characteristics	1971				1989			
	0%**	1-99%	100%	Total	0%**	1-99%	100%	Total
%								
Unattached individuals								
Total	61.7	23.6	14.7	100.0	27.0	57.8	15.3	100.0
Income quintiles								
Lowest	58.2	13.2	28.6	100.0	6.5	47.1	46.5	100.0
Second	23.5	34.1	42.4	100.0	0.5	71.8	27.7	100.0
Middle	58.3	39.0	2.7	100.0	13.2	84.9	1.9	100.0
Fourth	82.2	17.8	0.0	100.0	47.0	52.7	0.3	100.0
Highest	86.5	13.5	0.0	100.0	67.7	32.3	0.0	100.0
Age								
Under 25 years	87.3	11.2	1.5	100.0	26.1	71.5	2.4	100.0
25-64 years	81.2	11.4	7.4	100.0	40.4	49.0	10.6	100.0
65 years and over	1.8	42.2	40.4	100.0	0.2	69.2	30.6	100.0
Families 2 +								
Total	22.4	73.0	4.6	100.0	12.3	84.0	3.7	100.0
Income quintiles								
Lowest	15.4	62.1	22.5	100.0	3.0	78.6	18.4	100.0
Second	19.6	79.9	0.5	100.0	8.8	90.8	0.3	100.0
Middle	22.0	78.0	0.0	100.0	13.5	86.5	0.0	100.0
Fourth	25.6	74.4	0.0	100.0	16.9	83.1	0.0	100.0
Highest	29.3	70.7	0.0	100.0	19.1	80.9	0.0	100.0
Age of head								
Under 25 years	44.9	51.1	4.0	100.0	20.3	72.7	6.9	100.0
25-64 years	23.7	73.4	2.9	100.0	14.0	83.6	2.4	100.0
65 years and over	1.5	82.4	16.1	100.0	0.5	89.1	10.4	100.0

Source: Survey of Consumer Finances

* Measured in terms of the ratio of government transfer payments to total family income.

** Includes a small number of self-employed who reported income losses during the reference years.

As a result, social welfare programs act as a mechanism perpetuating the disintegration of class cohesion by creating a welfare system that serves different purposes

¹³Refer to Statistics Canada. Income distributions by size in Canada (Ottawa: Minister of Industry, Science and Technology, 1994), 147 and Keith Banting, "The welfare state and inequality in the 1980s," Canadian Review of Sociology and Anthropology 24(3) (1987): 329, table XI.

for each class grouping.¹⁴ For a low income individual, the primary function of a cash transfer is to boost his/her income level; for the middle and upper class individual, programs such as the Registered Retirement Savings Plan (RRSP) and other tax shelters, help to protect income. This policy stance serves the interest of the capitalist because it allows the privileged in society to protect a proportion of their income from being redistributed. According to Esping-Andersen, a dual welfare system is created, one for the rich and one for the poor.¹⁵

Coincidentally, Esping-Andersen believes that there is a shortage of material written on the relationship between citizenship, social class and how social policy can affect the breakdown of class constructs. He argues that more time should be spent analyzing what type of stratification system is promoted by social policy when social citizenship is a secondary feature of the system.¹⁶ Julia O'Connor also sounds the alarm about the impact of welfare policy orientation and class issues in Canada. O'Connor interprets the incremental retreat of support and emphasis for universal programs, that occurred between 1960 to 1983, as a policy shift that based the redistribution of benefits on class

¹⁴Gosta, "The Three Political Economies," 49.

¹⁵Ibid., 25.

¹⁶Esping-Andersen, "The Three Political Economies of the Welfare State," 23.

rather than citizenship.¹⁷

The neo-conservative (also referred to as the (New) Right), philosophy seems to best illustrate the polarization of the class structure over citizenship rights. The belief in the active citizen and greater market independence means a less active government - a trade off between the public and private sectors. This policy orientation directly contradicts historical federal activism in the expansion of social rights even though Canada has maintained a conservative tradition in social expenditures compared to other OECD countries (refer to table 1.3).¹⁸

This conservative tradition has been further entrenched with the shift to monetarism in the mid-1970s. The political agenda of the government has focused on controlling inflation, deficit reduction, tighter control over the money supply and improving the efficiency and the redistributive effects of social welfare programs.¹⁹

¹⁷Julia O'Connor, "Welfare Expenditure and Policy Orientation in Canada in Comparative Perspective," Canadian Review Sociology and Anthropology 26(1) (1989): 125-149.

¹⁸Keith Banting, "The Welfare State and inequality in the 1980s," Canadian Review of Sociology and Anthropology 24(3) (1987): 311 and also, OECD, Historical Statistics 1960 - 1990: OECD Economic Outlook (Paris Cedex, France, 1992), 63, 67.

¹⁹Refer to Ernie Lightman, "Welfare Ideologies and Theories of Federalism," Social Policy & Administration 21(1) (Spring 1987): 22.

Table 1.3

Social security transfers as a percentage of GDP¹
Transferts de sécurité sociale en pourcentage du PIB¹

	1960	1968	1974	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average - Moyenne					
															60-67	68-73	74-79	80-90	60-90	
United States	5.0	6.4	9.5	10.9	11.1	11.9	11.9	11.0	11.0	11.0	10.8	10.6	10.6	...	5.4	7.7	10.3	...	8.7	
Japan	3.8	4.5	6.2	10.1	10.5	11.0	11.2	11.0	10.9	11.2	11.8	11.4	11.0	11.5	4.2	4.8	8.4	11.0	7.6	
Germany	12.0	13.7	14.6	16.6	17.3	17.7	17.1	16.5	16.2	15.9	15.7	15.3	15.3	12.4	13.2	16.7	18.4	14.8	...	
France	13.5	17.0	15.5	19.2	20.3	21.2	21.5	21.8	22.1	21.7	21.6	21.5	21.2	21.4	15.5	15.8	17.5	21.2	17.9	
United Kingdom	6.8	6.7	9.8	11.7	13.1	14.0	13.9	14.0	13.9	14.1	13.3	12.3	12.0	12.2	7.3	8.8	10.7	13.1	10.3	
Italy	9.8	12.6	13.7	14.1	15.7	16.3	17.3	16.7	17.2	17.2	17.3	17.4	17.6	18.0	11.1	13.0	15.4	16.8	14.3	
Canada	7.9	7.3	9.2	9.9	9.9	11.7	12.4	12.1	12.2	12.3	12.1	11.9	11.8	12.6	6.6	6.2	9.9	11.7	9.4	
Total of above countries	7.0	8.5	10.4	12.4	12.9	13.7	13.8	13.2	13.2	13.2	13.1	12.9	12.8	14.7	7.5	9.0	11.7	13.2	10.7	
Austria	12.9	15.9	15.5	19.0	19.5	19.9	20.0	20.4	20.5	21.1	20.4	20.0	19.9	14.3	15.6	17.8	20.1	17.3	...	
Belgium	11.3	14.0	15.9	23.7	25.8	25.6	26.2	25.6	25.0	24.8	24.7	23.8	23.1	22.7	11.8	14.4	21.3	24.8	18.7	
Denmark	7.4	10.8	12.0	16.6	17.8	18.1	17.8	17.0	16.3	15.5	16.2	17.3	18.2	18.4	6.2	11.1	14.0	17.2	13.1	
Finland	5.1	7.5	7.6	8.7	8.9	9.7	10.3	10.2	10.8	11.0	10.9	9.5	9.0	10.0	6.0	7.4	8.9	9.9	8.2	
Greece	5.3	6.4	7.1	9.2	11.0	13.0	13.4	14.0	14.8	14.9	15.6	15.7	15.9	16.0	6.5	7.8	8.1	14.0	9.7	
Iceland	7.1	9.0	6.3	4.5	4.7	4.8	4.4	4.4	4.7	4.6	4.9	5.4	5.6	5.4	7.5	9.0	5.0	4.9	6.4	
Ireland	5.5	6.5	11.4	12.6	13.6	15.6	16.3	16.1	16.5	17.0	16.5	16.0	14.1	...	5.9	6.6	11.9	...	10.8	
Luxembourg	11.6	15.3	13.8	22.6	23.9	23.3	22.7	22.1	22.0	21.8	...	...	...	13.0	14.7	19.9	...	17.4	
Netherlands	18.2	20.7	25.9	26.9	28.4	28.8	27.5	26.1	25.9	26.5	25.9	25.4	26.3	...	17.7	23.5	26.7	23.5	...	
Norway	7.6	10.5	13.3	14.4	14.5	15.0	15.5	15.0	14.8	15.9	16.4	16.1	16.0	...	8.6	12.4	14.2	...	12.9	
Portugal	2.9	3.1	5.3	10.6	11.6	11.5	10.9	10.9	10.8	11.6	12.4	12.5	12.1	...	3.2	3.5	9.3	...	7.3	
Spain	2.3	8.1	9.5	14.2	15.6	15.5	16.1	16.0	16.0	15.6	15.3	15.3	...	...	4.4	8.9	11.7	...	10.3
Sweden	8.0	10.6	14.3	17.6	18.1	18.3	18.3	17.6	18.2	18.4	18.7	19.5	19.5	19.7	8.8	11.6	15.9	18.5	14.2	
Switzerland	5.7	7.5	10.6	12.7	13.2	13.5	14.1	13.7	13.6	13.6	13.8	13.4	13.4	...	6.5	8.5	12.6	13.4	10.5	
Turkey	1.3	...	...	...	...	...	...	...	...	...	...	...	...	...	1.2	1.5	...	...	...
Smaller European	6.7	10.0	12.7	16.6	17.8	18.3	18.6	18.2	18.0	17.9	16.1	16.0	16.7	19.6	7.3	10.8	15.1	18.2	13.4	
Australia	5.5	5.1	7.0	8.2	8.4	9.4	9.7	9.8	9.5	9.4	9.2	8.6	8.7	...	5.5	5.5	6.3	...	7.3	
New Zealand
Total smaller	6.5	9.4	11.9	15.7	16.5	17.1	17.4	17.1	16.8	16.7	16.8	16.6	16.8	19.6	7.1	10.1	14.2	17.0	12.6	
Total EEC	9.7	12.5	13.3	16.1	17.3	17.9	18.1	17.8	17.8	17.6	17.5	17.2	17.3	17.5	10.7	12.4	15.3	17.5	14.3	
Total OECD-Europe	9.5	12.0	13.3	16.0	17.1	17.7	17.9	17.6	17.6	17.5	17.4	17.2	17.2	17.4	10.4	12.1	15.2	17.3	14.1	
Total OECD less USA	8.5	10.2	11.4	14.1	14.9	15.5	15.7	15.5	15.4	15.4	15.4	15.1	14.9	15.4	9.0	10.3	13.2	15.2	12.3	
Total OECD	7.0	8.6	10.7	12.9	13.4	14.2	14.3	13.7	13.7	13.7	13.6	13.4	13.3	15.4	7.4	9.2	12.1	13.8	10.9	

Source: OECD, Historical Statistics 1960-1990: OECD Economic Outlook (Paris Cedex, France, 1992) 63,67.

As Thomas Hueglin suggest in his research that analyzes the "destabilizing consequences of economic and welfare state crisis," after the period of economic growth of the 1950s and 1960s:

what characterizes the new age of scarcity then is not so much an overall collapse of economic growth ... but the general perception that economic expansion has become more difficult and that success is no longer open to everyone.²⁰

Stephen McBride and John Shields contend that neo-

²⁰Thomas Hueglin, "The Politics of Fragmentation in an Age of Scarcity: A Synthetic View and Critical Analysis of Welfare State Crisis," Canadian Journal of Political Science 20:2 (June 1987): 236.

conservatism only enhances the tension between economic and social policies, proven by the public policy direction of the Mulroney government.²¹ They argue that the Mulroney government chipped away at the welfare state in favour of improving the competitive nature of Canada.

What has occurred is that the Right or neo-conservatives have redefined citizenship in their own language of obligation and responsibility, even though social citizenship is not devoid of assigning obligations to members of society. Self-reliant citizenship reduces the collective obligations of government because individuals have an obligation to contribute to society in order to be entitled to state support. Ruth Lister states that the argument of the Right redefines the social rights principle:

...the obligations of citizenship serve to obscure and reinforce the inequalities of power, resources and status that an earlier emphasis on the rights of citizenship sought to combat. If the enforcement of the obligations of citizenship is to be just, it must be based on a recognition and strengthening of the rights of citizenship.²²

Accordingly, the federal government has the ability to dramatically shift the structure and scope of programs through its economic agenda. Since the beginning of the challenge to Keynesianism in the 1970s, the federal government has relied on monetary and fiscal policies, to varying degrees, to

²¹McBride and Shields, Dismantling a Nation, 22.

²²Ruth Lister, The Exclusive Society: Citizenship and the Poor (Child Poverty Action Group, 1990), 20.

improve the performance of the economy, focusing on supply side demands.²³ Yet, some academics, such as Katherine Graham, Allan Moscovitch and Andrew Johnson believe the government not only attempted to control the social expenditure in the name of restraint in the 1970s, but proceeded to erode the welfare state by attacking universal programs such as the family allowance program.²⁴ The influence of neo-conservative thinking in Canada in the mid-1970s helped to inflame the dispute of the acceptable balance of the accumulation of capital against the role of the welfare state in promoting social harmony and perpetuating collectivism between the classes. Instead, the fiscal concerns have captured the attention of the government to the detriment of the moral issue of affirming social rights through universal welfare provisions.

THE NEO-INSTITUTIONAL APPROACH

State versus society-centred approach:

In policy analysis the study of state-centred models has gained growing acceptance. Leslie Pal acknowledges that

²³Ernie Lightman, "Welfare Ideologies and Theories of Federalism," 17.

²⁴Allan Moscovitch, "Slowing the Steamrollers: The Federal Conservatives, the Social Sector and Child Benefits Reform," in How Ottawa Spends: "Tracking the Second Agenda" Katherine Graham ed. (Ottawa: Carleton University Press Inc., 1991), 173. Andrew F. Johnson, "Restructuring Family Allowances: Good Politics at No Cost?" Canadian Social Welfare Policy Jacqueline Ismael ed. (Calgary: University of Alberta Press, 1987), 105.

the institutional approach in public policy has gained prominence since the 1950s because of the increasing acceptance of the role of the state in the decision-making process.²⁵ State-centred models recognize the large degree of autonomy the state has in the formation of public policy and acknowledge the significance of the political system in decision making. In contrast, societal models (pluralism and Marxism) concentrates on the inputs of society and other groups, while viewing the actions of the government as responses to these inputs. Political and bureaucratic elites have the ability to shape policy and ultimately determine the capacity of societal actors to organize their own interests and press them within the political system.²⁶

The contributions of a potentially or theoretically autonomous state are recognized outside the influence of society-centred theory in explaining politics and decision-making. For instance, the state is recognized as an independent actor able to act autonomously to preserve, change, or expand the institutional structures in society. B. Guy Peters writes, "institutions are not only structures, they are the holders and propagators of social values."²⁷ That

²⁵Leslie Pal, State, Class, and Bureaucracy: Canadian Unemployment Insurance and Public Policy (Montreal: McGill-Queen's University, 1988), 10.

²⁶Pal, State, Class, and Bureaucracy, 8.

²⁷B. Guy Peters, "The Policy Process: An Institutional Perspective", Canadian Public Administration 35(2) (Summer 1992): 161.

is, the values of the institutional structure are reflections of the greater society and often vice versa. The changes the country went through during the Great Depression and particularly, the post-war reconstruction years necessitated federal government action in developing the Canadian welfare state. Economic and social reform meant greater federal involvement and the establishment over time of an institutionalized welfare state. With the adoption of redistributive politics in the 1970s, the federal government took a proactive role in redefining the type of programs needed to meet not just social, but the economic concerns of the country.

Theda Skocpol in her essay Bringing the State Back In credits the Keynesian revolution of the 1930s to the 1950s, as a relevant example of the need to recognize state-centred views because society-centred models were rendered inadequate to explain social change and politics. The dominance of the federal government in social welfare policy and national macroeconomic management since the mid-1940s to the present merits the need for state-centred analysis of public policy.

Institutional structures:

Michael Atkinson approaches the study of public policy by looking at three key areas to help interpret the general issues of public policy.²⁸ First, he suggests that examining

²⁸Atkinson, "Introduction: Governing Canada," 1-3.

political ideas helps to understand policy outcomes.²⁹ For example, the influence of neo-conservative ideology has affected the perception of the Keynesian welfare state with the advent of the economic decline in the 1970s. The second approach calls for recognizing the political interest of public policy by identifying which social class is affected by policy changes and the impact of the policy on the multiple economic and social relationships in society. The last approach calls for analyzing the consequences and significance of political institutions on policy formulation. The significance of this approach is that while institutions alone do not determine policy outcome, the influence of the political system in the public policy decision-making process is recognized as important.

The neo-institutional approach provides a method of analysis in the study of how institutional arrangements shape social policy outputs. The institutional approach allow us to look at how the political structure functions and which organizations and actors have the power, resources, and authority to act within the decision-making process.

Michael Atkinson writes that there is no simple causal connection between institutional change and policy change. Environmental forces, political ideas, who has power, and political institutions can influence the development of public

²⁹Ibid., 1.

policy.³⁰ This can be interpreted as a weakness of the institutional model because the basis of analysis creates difficulty in delineating which factors have affected policy outcome the most, as there may be more than one at any given time.

Alan Cairns also believes that policy changes can be affected by multiple variables. He believes that changes in society and the economy impact on public policies. Society and state are deeply intertwined and changes in the state structure have repercussions on policy, producing changes in the behaviour of social actors.³¹ The result of this link argues Cairns, is a politicized society that is plural and heterogeneous and an embedded state that is fragmented impacting on society. Institutional changes that occur throughout an individual's life time are political decisions reflecting the ideology, pressures and interest of the central actors.

Richard Simeon's approach to studying public policy, like Michael Atkinson, recognizes that multiple variables can affect how problems are defined, the policy options considered and the choices made to achieve the ends. Richard Simeon points out that decision makers "operate within a broader

³⁰Atkinson, Governing Canada, 27.

³¹Refer to Alan Cairns, "The Embedded State: State - Society Relations in Canada, " in State and Society: Canada in Comparative Perspective, Keith Banting ed. (Toronto: University of Toronto Press, 1986), 81.

political framework, defined by such factors as prevailing ideologies, assumptions and values."³² The interest of the central actors will influence what is adopted as part of the political agenda, the types of policies developed and the extent of the change in the policy area.

The nature of political institutions, together with the social environment, can shape the substance of social welfare policy and outline the parameters of the actors and organizations within the public policy process. For example, the federal-provincial dynamic produces eleven different sets of actors with overlapping interest that can create periods of increasing conflict. According to Keith Banting, "political institutions also determine political interest."³³

The dominance of the two traditional federal parties, the Liberal and the Progressive Conservatives (PC) party over the Left can affect the type and direction of policy outputs. The role of the executive within the Parliamentary system is also important in directing the policy making process. The competition for electoral votes between the political parties has influenced the development of social welfare policy in Canada. The structure of the party influences values and ideas adopted by the individual parties. The role of the leader in the development of public policy positions is also

³²Richard Simeon, "Studying Public Policy," Canadian Journal of Political Science 9(4) (December 1976): 549.

³³Keith Banting, The Welfare State and Canadian Federalism 2nd ed. (Montreal: McGill-Queen's University Press, 1987), 41.

a key factor in the party's attitude on issues, a conclusion supported by Keith Archer and Alan Whitehorn.³⁴

The Westminster model of Parliamentary government, allows the concentration of authority in the hands of the elected executive of government.³⁵ The executive is able to put through its agenda in some policy areas because it is relatively insulated from external political forces.³⁶ For instance, the economic policy area create challenges to interested outside actors who would like to influence policy. The replacement of Keynesian economic policy with monetarism does not allow effective political discourse on policy action; furthermore, while individuals and organizations can comment on the policy choice, their ability to actually affect policy is very limited. Dealing with inflation, money supply and interest rates leaves the power in the hands of the government and the Bank of Canada. Furthermore, the structure of government departments affect the diffusion of power within the organizational structure to determine where decision-making power rests. The substance of policy is affected by such variables as which department the policy options originated from, the influence of the bureaucracy, the

³⁴Keith Archer and Alan Whitehorn, "Opinion Structure among party activists: A comparison of New Democrats, Liberals and Conservatives." In Party Politics in Canada 6th ed. Hugh G. Thorburn ed. (Scarborough, Ontario: Prentice Hall Canada, 1991), 155.

³⁵Refer to Atkinson, "Governing Canada," 10.

³⁶Ibid., 37.

decision making process and the political will of the government to act in a policy area. James March and Johan Olsen state that "political institutions define the framework within which politics takes place."³⁷

The neo-institutional analysis provides a framework that allows the investigation of the role of the central actors in policy formation. The approach recognizes that government plays an important role in the formulation of policy and therefore, must be relatively autonomous to accomplish the task. The values of central actors and institutional structures are very important in the policy process as are the rules and organizational structures of institutions. The rules dictate how policy can be affected and who has the legitimate authority to do so. If the circumstances and needs of the society have changed from the time of the original conceptualization of the policy, then reevaluation of the institutional structure may be needed. Many believe that the time for change of the welfare state has arrived. The change of the economic climate in Canada, inefficiency and the perceived failure of the social security programs to meet the needs of today are some of the reasons used to justify change.

Conclusion:

In 1993 we experienced the first payment of a selective child benefit program, marking the end of the universal family

³⁷James G. March and Johan P. Olsen eds., "Institutional Perspective on Politics." In Rediscovering Institutions: The Organized Basis of Politics (New York: The Free Press, 1989), 18.

allowance program, with little concern raised by the public. While the income security and social assistance system have many deficiencies, the changes that have taken place over the last two decades are not just about correcting the deficiencies, but about restructuring the income security system to realign the social welfare programs with the capitalist system. This is why the social citizenship theory is being put forward in this paper, to provide a moral, not just a fiscally based argument, to maintain a basic standard of income to prevent the political marginalization of the poor in Canadian society. Having a Charter of Rights and Freedoms helps to provide an avenue to grief against discrimination and prejudice, but it does not directly help one attain an adequate level of income.

So, saying one has equal rights means nothing if a person can not take advantage of the opportunities in society.

Institutional structures are examined to chart the changes of boundaries that have occurred, the problems or conflicts that have been attributed to social and economic interests by the policy makers. The neo-institutional model provides the analytical framework to examine factors that directly and indirectly impact on public policy output. In chapter two the neo-institutional model is used to examine the role of federalism in the development of the income security system. The development and importance of intergovernmental relations is a consequence of the parameters set out in the

constitutional framework of this country. The chapter provides a brief look at the history of federal-provincial relations in the development of the income security system and institutional structures that have contributed to the relative centralization of income maintenance programs by the federal government.

Chapter Two

INTERGOVERNMENTAL RELATIONS: THE COMPETITION FOR LEGITIMACY IN SOCIAL WELFARE POLICY

The evolution of the Canadian state has led to increasing complexities. The expansion of the economy and the changing values of society since the 1930s, demanded a greater role of the state in social welfare policy that only the federal government seemed fiscally able to fulfil. These demands precipitated changes in the structure of Canadian federalism from "air tight compartments" to increasing activity in social policy, accomplished mostly through de facto constitutional arrangements. The result was a myriad of welfare programs creating a bifurcated welfare system.

Federal involvement in welfare policy created the need for intergovernmental meetings to negotiate administrative responsibilities, funding arrangements and program design. Federal-provincial relations can be characterized as having gone through periods of minimal interaction, collaboration and cooperation, to times of confrontation. In this respect, the development of the income security system is a history shaped by issues, the environment and institutional structures. Federalism especially has helped to mould the formulation of the policy field, defining the parameters of each level of government to act in the development of income security programs, resulting in the competition of legitimacy.

The purpose of this chapter is two fold: first, to

discuss how the institution of federalism has affected the development of intergovernmental relations in social welfare policy; and second, to examine the role fiscal federalism played in allowing the central government to capture income security programs.

THE INSTITUTIONAL STRUCTURE OF FEDERALISM

Noting the cautions put forth by Banting against exaggerating the importance of political institutions such as federalism, one cannot discount the implications of a federal system in welfare policy development. The constitution, as a political institution, directly influences the substance of policy because it shapes opportunities available for political actors to affect public policy. The constitution has both hindered and allowed the development of the Canadian welfare state over time. Federal-provincial relations have become an institutionalized structure because of the need to exchange information, harmonize policies to establish national standards and to determine policy action between the eleven governments. The result can best be described as a competition for legitimacy between the two orders of governments. The competition for legitimacy is based on the ability of government, be it at the federal or the provincial level, to directly shape social welfare policy and distribute funds directly to individuals.

Social policy and classical federalism:

Classical federalism is based on the principle of limited interdependence between the two orders of equal and sovereign governments, dismissing any necessity for intergovernmental coordination.¹ The Fathers of Confederation lacked the ability to predict the national importance that would eventually be attributed to social welfare policy. The decision to make Canada a federal country, dividing the powers so there is limited interdependence between the two orders of government, reflects the ideological thinking and the cultural and religious duality of Canada in respect to the English Protestants and the French Catholic settlers. The conquered French settlers wanted to maintain and safeguard their language, culture and religion from the English Protestants.

The individuality of the Maritime provinces also contributed to the idea of creating a federal system of government. These concerns resulted in competing views of Confederation.² However, the constitution allowed the provincial governments to build on their own policy objectives, yet be able to take advantage of the strength of a unified country. According to David Milne:

this dynamic will, of course, be restrained to some degree by the need for cooperation and bargaining over

¹K.C. Wheare, Federal Government, (London: Oxford University Press, 1946), 11, 35.

²Refer to Richard Simeon, and Ian Robinson, State, Society, and The Development of Canadian Federalism (Toronto: The University of Toronto Press, 1990), 21.

matters of mutual concern, as well as by the integrating bonds of history and a common political nationality.³

The changing face of Canada progressed from an agrarian society to an industrialized and urbanized society, which required the growth of government over time. Furthermore, the fiscal imbalance between the two orders of government, which was pronounced during the depression, necessitated federal intervention at a time when the federal government had no interest to act in the welfare field. The gradual politicization of welfare policy resulted in a complex mix of funding and administrative arrangements that made classical federalism obsolete.

The modernization of federalism:

The modernization of federalism as defined by Richard Simeon and Ian Robinson "is characterized by much higher levels of jurisdictional overlap and policy interdependence."⁴ The post-war reconstruction period after World War Two and the transformation of society, marked by increased urbanization and industrialization, required an increasing role for the state in the lives of individuals. The government, labour and the capitalist class accepted government intervention and Keynesian theory of government activism as a method to ensure the continuing security of people in the changing economy by

³David Milne, Tug of War: Ottawa and the Provinces Under Trudeau and Mulroney (Toronto: James Lorimer & Company, Publishers, 1986), 8-9.

⁴Simeon and Robinson, State, Society and the Development of Canadian Federalism, 59.

maintaining a high level of purchasing power.⁵

Introducing social reform programs allowed for a cohesive effort towards the war by the population and income maintenance programs, such as family allowances, served as a buffer against post-war economic decline once the high productivity of the war time economy was over and soldiers were once again entering the work force.⁶ Robb Watts cites that social and economic policy were seen as compatible during this era because it was believed that only through a commitment to moderate social reform and social justice could there be harmony in society.⁷ The federal government helped to affirm the positive role of the state.

AN OVERVIEW OF THE PROVINCIAL SITUATION

The fiscal imbalance between the federal and the provincial governments handicapped the provincial governments in carrying out their responsibilities. Keith Banting argues that the:

fiscal imbalance was a major complication confronting the development of the welfare state in a variety of federal systems, since their constitutions usually allocated responsibility over social welfare to provincial or state

⁵Stephen Brooks ed. "Macroeconomic Policy," in Public Policy in Canada: An Introduction 2nd. ed. (Toronto: McClelland & Stewart Inc., 1993), 130-131.

⁶Rob Watts, "Family Allowances in Canada and Australia 1940-1945: A comparative critical case study," Journal of Social Policy (16) (January 1987): 1, 39.

⁷Ibid., 1, 29.

governments, but reserved the broadest powers of taxation and borrowing to the central government.⁸

The depression emphasized the provinces lack of taxing power to unilaterally handle the growing cost of education, health and welfare alone. Meanwhile, the federal government could raise money by any mode of taxation, providing it with a greater spending ability to manage the new demands of the country. Redistribution of wealth from federal coffers to the provinces and the redistribution of wealth among the provinces was required to develop welfare programs that met national standards across the country.⁹

The wealthiest provinces originally opposed distribution of their funds (the idea of equalization payments) to the poorer provinces, for according to Ontario's Liberal Premier M.F. Hepburn (1934-1942), it meant transferring wealth from Ontario's residents to other provinces. Alberta and British Columbia wanted to control the development of welfare programs

⁸Keith Banting, The Welfare State and Canadian Federalism, 61. Banting also shows how the experience of the Mother's Allowance, which was fully financed by the provinces, slowed the spread of other welfare programs. The escalating cost during the 1920s made the poorer provinces reluctant to take on the extra cost alone, and the future expansion of income security programs by municipalities and provinces was bleak.

⁹ The Royal Commission on Dominion-Provincial Relations 1937-1940 (Rowell-Sirois Commission), had recognized the fiscal limitations of the provincial governments and therefore recommended the central government provide the provinces with unconditional federal adjustment grants and the rearrangement of taxation so the provinces could carry out their responsibilities. However, the Commission was against conditional grants. Refer to Dennis Guest, Emergence of Social Security in Canada (2nd ed) (Vancouver: University of British Columbia, 1985), 91.

themselves, arguing that provincial control would allow for expedient political action on social reforms. But, according to Leonard Shifrin and Marsha and William Chandler, the provinces were slow to develop comprehensive welfare programs because the provincial programs were poorly constructed to deal with poverty issues arising at that time.¹⁰ For example, strong pressures for budgetary restraint commonly resulted in a policy response calling for the reduction of recipients by tightening the eligibility criteria (a phenomenon that is now occurring at the federal level). Provincial commitment to welfare and a guaranteed income depended on the fiscal condition and priorities of the individual provincial government. This factor made it difficult to establish national programs, in a decentralized political system, which could mean eleven different provincial standards of assistance. This would have inhibited the portability of capital and individuals. Indeed, federal concern over the lack of uniformity of welfare programs was one of the reasons for federal intervention. Still, while there has been plenty of compromise in the welfare field, Quebec stands out historically as the province that has continually fought against federal intervention in this policy

¹⁰Leonard Shifrin, "Income Security: The Rise and Stall of the Federal Role," in Canadian Social Welfare Policy: Federal Provincial Dimensions J. Ismael ed. (Kingston, Ontario: McGill-Queen's, The Institute of Public Administration of Canada, University Press, 1985), 51 and Marsha Chandler and William Chandler, Public Policy and Provincial Politics (Toronto: McGraw-Hill Ryerson Limited, 1979), 51.

area.

Quebec's history of struggle to maintain authority and paramountcy over social policies is based on the provincial government wanting to safeguard the socio-cultural values of the French speaking province and to gain legitimacy in the eyes of the Quebec people, by providing social programs. Before the 1960s, the church dominated the poverty assistance field and fought to retain its control, but the 1960's brought in a new perspective of the role of the state. Quebec progressed from an anti-statist province to one that wanted to increase the activism of the provincial government in the lives of the people. Quebec led the fight to maintain a decentralized federal system, particularly in social policy among the provinces.

Accordingly, the development of the welfare system in the provinces can be influenced by many variables, such as the political ideology of the provincial government, the historical tradition of the province and the growth of the province.¹¹ The federal system complicated the development of a uniform social welfare system because of the fragmentation of our system. In Canada, this resulted in a patchwork system. The multiple levels of assistance reflect

¹¹For further reading refer to Chandler and Chandler, Public Policy and Provincial Politics, 188-194 and H. Philip Hepworth, "Trends in Provincial Social Service Department Expenditures 1963-1982." In Canadian Social Welfare Policy, J, Ismael, ed. (Kingston, Ont.: McGill-Queen's University Press, 1985), 139-172.

the lack of long term planning, coinciding with the development of categorical programs. Only the Canada Assistance Plan (CAP) represents a real attempt to make the system comprehensive. The result is a modest set of universal and selective income security programs that developed the concept of citizenship rights categorically to a large extent.

COOPERATIVE/COLLABORATIVE FEDERALISM

The period from 1945 to the mid-1960's is often labelled cooperative federalism because of the growth of administrative cooperation between the two levels of government, characterized by many de facto shared-cost arrangements negotiated between the two levels of government. Ottawa used its spending power as a lever to negotiate new programs to establish national standards across the country, centralizing the social welfare system. During the 1950s and the early 1960s there was wide spread consensus "that the programs were an appropriate means of achieving desirable national standards and ensuring that the full range of modern government services were available to all Canadians."¹² This factor did not prevent debate from taking place about shared-cost programs between the two levels of government even though the provinces

¹²Kenneth Norrie, Richard Simeon and Mark Kransnick, Federalism and the Economic Union in Canada (Toronto: University of Toronto Press in cooperation with the Royal Commission on the Economic Union and Development Prospects for Canada and the Canadian Government Publishing Centre, Supply and Services Canada, 1986) vol. 59: 89.

broadly accepted federal involvement in the field.

The poorer provinces wanted federal assistance because of their limited fiscal ability to finance the programs; however, Quebec showed the greatest objection to federal involvement in social policy. The Quebec Royal Commission of Inquiry on Constitutional Problems (Tremblay Commission, 1954) and the Boucher Commission (1961) reports were used by the Quebec government to push its agenda for provincial control over the development of social policy.¹³ Quebec's persistent demand for provincial control over social policy significantly pushed the need for intergovernmental meetings to resolve their concerns. An example is the development of the Canada and the Quebec Pension Plan (CPP/QPP), where Quebec played a key role in the negotiation process (the Quebec pension plan was the model that was adopted).

The negotiation process of the pension plan was a time of compromise and consensus building for both levels of government. The process tested Prime Minister Pearson's desire to further the cooperative spirit between the two levels of government, but at the same time maintain a presence in the social welfare system. The Canada Assistance Plan

¹³In 1961 the Lesage government created the Boucher Commission to review the income security system. The Boucher Commission made three suggestions: 1) social security and assistance should be a right to individuals in need; 2) social policies should be combined with economic policies; 3) Quebec should develop a general principle in which to base all social programs on. Refer to Guy Lachapelle, Gerald Bernier, Daniel Salee and Luc Bernier, The Quebec Democracy: Structures, Processes, and Policies (McGraw-Hill Ryerson Limited, 1993), 382.

(1966) agreement also illustrated the cooperative objective because by this time the provinces were increasingly calling for greater provincial autonomy in welfare policy. The growth of province building, whereby there was increased administrative expertise, professionalism of the public service and the growth of provincial governments, resulted in the provinces calling for increased decentralization of powers. The federal government responded to this demand by giving the provinces greater flexibility and control over the assistance programs. The provinces were able to define need in their own terms to establish the criteria for eligibility. The federal government however, did stipulate guidelines that the provinces had to abide by to qualify for funding.

The growing pressure to decentralize the welfare field and increase the provincial fiscal revenue base created increasing conflictual relations between the two orders of government. In this respect, the institutional structure of federalism is an important factor in the establishment of the income security system. It is both a conservative and an expansionist force in the development of the social welfare programs.

The expansionary and conservative element of federalism:

The federal system has acted an expansionary force by establishing the principle of national standards of social welfare programs across the country and conversely, a conservative force, for shared-cost arrangements created

provincial dependency on federal funding to assist in the maintenance of the structure and redistributive character of programs.

The federal system has acted as an expansionary force through the use of its spending power, that allowed the government to establish the principle of national standards of social welfare programs across the country. Conversely, the spending power of Ottawa has also functioned to hinder the possible expansion and experimentation that might result when ten provinces occupy a policy field. Experimentation was not completely denied in Canada in the social welfare policy area, but negotiating social welfare programs between eleven governments results in many compromises to reach a consensus and the end product may still be inadequate - as illustrated in the three tier pension system.

The first tier is the Old Age Security Plan that is a now a hybrid model of a universal demogrant program (due to the clawback since 1989); the second tier is the CPP/QPP, a national contributory pension system; and the third tier is the Guaranteed Income Supplement (GIS) and other provincial supplements that are income tested for those who have little or no income. This mix of programs has created a complex division of authority over Canada's pension system attributable to the Supreme court decision over the Employment

and Social Insurance Act of 1935.¹⁴ The development of the pension system was an exercise of compromise as was the CAP agreement between the federal and provincial governments and it is also an example of the modest entitlement paid out.

THE FISCAL IMBALANCE: THE FEDERAL SPENDING POWER

The need for distribution of federal emergency appropriations to the provinces until 1941 highlights the fiscal restraint on the provinces (and the municipalities and private charities) and the changing demands of the state. This imbalance allowed the federal government to legislatively and financially move to centralize the income security programs through both de facto and de jure arrangements. The federal government believes it has wide ranging spending power, entitling it to make payments to individuals, institutions, or other governments for purposes of which Parliament does not necessarily have the power to regulate.

The central government claims the power to give money away, and create conditional provisions on any program through section 91(3) of the BNA Act, which empowers Parliament to

¹⁴It was found ultra vires for insurance affects the civil rights of employers and employees of the provinces, so the federal government could not legislate a contributory plan unless by constitutional amendment. Refer to Banting, The Welfare State and Canadian Federalism, 49. In 1951 and 1964, constitutional amendments were passed allowing the federal government to operate the contributory pension plan, but Quebec was allowed to opt out of the program and establish a comparable plan. Keith Banting, "Institutional Conservatism: Federalism and Pension Reform." In Canadian Social Welfare Policy, Jacqueline S. Ismael, (Kingston, Ontario: McGill-Queen's University Press, 1985), 56.

raise money by any mode of taxation, and section 91(1A), which empowers Parliament to deal with public debt and property. Both federal assets and the Consolidated Revenue Fund have been used at the discretion of the central government as a means to an end. Cash transfers to individuals such as the family allowance payments, OAS and the GIS benefits are examples of cash transfers paid directly from the Consolidated Revenue Fund; while other program funding may be derived from any number of federal revenue funds. Accordingly, the central government views its spending power as the vehicle that best allows it to centralize the income security system.

The post-war reconstruction period provided a legitimate reason for the federal government to initiate national economic and social policies by the federal government. The 1957 case of *Angers v. Minister of National Revenues*, where the courts sustained the federal family allowance program and ruled that Parliament could enact such a program under its general power to legislate for the peace, order and good government of Canada, highlights the consensus that federal action was necessary.¹⁵ While this court decision was based on POGG, not the spending power of the government, the spending power of the federal government enhanced the government's ability to take action. Shared-cost arrangements were an important mechanism used to circumvent negotiating constitutional amendments, especially when the provinces did

¹⁵Keith Banting, The Welfare State and Canadian Federalism, 52.

not want to increase the powers of the federal government.

Conditional shared-cost arrangements gave the federal government an advantage in shaping the structure, scope and distributional character of the programs. Social security programs were seen as a means of fostering a national identity and unity between people over geographical regions and between the class cleavages. However, continuous federal intervention has functioned to create competition of legitimacy between the two orders of government in welfare policy. Quebec has led the way in calling for the federal government to return control of social programs to the provinces and calling for fiscal decentralization.

The Duplessis government created the Tremblay Commission (1954) to investigate the development of the federal structure and to examine federal-provincial relations. In 1956 the Commission recommended that the best solution to resolve federal-provincial conflicts is based on fiscal decentralization.¹⁶ The report recommended that the federal government give up tax room to the provinces by reducing federal rates of personal and corporate tax, thereby improving provincial ability to raise revenue. The Commission also called for decentralization of jurisdiction, allowing federal intervention in provincial areas only with approval of the province. The Quebec government wanted to improve the revenue

¹⁶Guy Lachapelle, Gerald Bernier, Daniel Salee and Luc Bernier, The Quebec Democracy: Structure, Processes, and Policies, 381.

base of the provinces to obtain intergovernmental equity between Ottawa and the provinces (especially its own), thereby allowing the provinces to manage their responsibilities better. Quebec preferred tax-sharing, not shared-cost arrangements, to decentralize social policy field.

Fiscal decentralization progressed in 1957 partly because of Quebec's demands. Moreover, the development of provincial economies and structures to meet the increasing demands for services, meant the provinces were looking to increase their separate fiscal abilities.¹⁷ However, the joint efforts of the two levels of government working together, helped to further the interest of each. Cooperative federalism during this period resulted in achieving major strides in intergovernmental relations. In 1957, Ottawa granted the provinces the freedom to levy their own taxes and the implementation of equalization payments.¹⁸ These two agreements were major strides in federal-provincial relations, signifying a movement towards greater intergovernmental cooperation and an improved level of equity between the two levels of government and between the have and the have not provinces. But this agreement should not be interpreted as the federal government's unequivocal acceptance to decrease

¹⁷In the late 1950s and 1960s, there was increasing pressure from the provinces for the federal government to recognize their separate needs. Refer to Guest, Emergence of Social Security in Canada, 180.

¹⁸Paul-Andre Liteau, Quebec Since 1930, (Translation Toronto: James Lorimer and Company Limited, 1991), 283.

its presence in social welfare policy. Rather, the cooperative spirit of the time signified the willingness of the federal government to compromise with the provinces in reaching agreements in social welfare policy, while still maintaining a presence in the field. This argument is developed further in the next section of this chapter.

The establishment of shared-cost arrangements in the development of income security programs helped define federal-provincial relations as an intricate part of the institutional political system for social policy is "the most contentious vehicle of federal participation."¹⁹ Shared-cost arrangements created a dynamic intergovernmental structure calling on the consultation of both levels of government to work together in the development of policy, through the initiative of the civil servants and politicians at each level of government. Executive federalism was a prevalent structure in the development of income maintenance programs and remained so into the 1970s.

THE 1970s: COMPETITIVE FEDERALISM

The recognition of the prevalence of poverty in the late 1960s sparked multiple reviews during the Trudeau government tenure in office. The reviews were calling for reform to poverty programs, to correct the deficiencies of the system to

¹⁹Chandler and Chandler, Public Policy and Provincial Politics, 186.

better reflect the needs of society. Some of the reviews are:

- 1969 Canadian Welfare Council, titled **Poverty in Canada, Part One.**
- 1970 Report of the Royal Commission on the Status of Women.
- 1970 Federal White Paper, titled **Income Security for Canadians.**
- 1971 Special Senate Committee on Poverty, titled **Poverty in Canada.**
Quebec Commission of Inquiry on Health and Social Welfare (Castonguay-Nepvea Report on income security proposals).
- 1973 Federal Orange Paper, titled **Working Paper on Social Security.**

All of these reports called for restructuring of the welfare state, of which any attempt to restructure the social welfare programs meant further federal-provincial conferences to resolve the jurisdictional dilemma. Prime Minister Pearson had called for collaboration with the provinces in the social welfare field, since he believed the area should be a shared jurisdiction, a view conceptualized since 1964. The new, 1970s vision of federalism entailed four main points: 1) Ottawa would respect the Constitution; 2) firm lines would be drawn between federal and provincial responsibilities; 3) Ottawa would retain its initiative and resources in matters of federal jurisdiction, creating less reliance on conditional grant programs; and 4) Ottawa would reverse the trend towards special status for Quebec; therefore, all provinces would have similar shared-cost arrangements in the negotiation of programs.²⁰ The Liberal government under Trudeau, took a

²⁰Simeon, Federal-Provincial Diplomacy, 66-68.

unyielding stance against awarding Quebec special concessions, for Trudeau felt the presence of the National government needed to be felt within Quebec to prevent a movement towards separatism.²¹ These factors all played a part in the outcome of the 1971 Victoria Constitution Conference.²²

The inability of the federal government and Quebec to come to an agreement on jurisdictional authority of income security and social services led to the breakdown of the conference.²³ Quebec recognized that Parliament had the right to make laws in a host of areas, but Quebec demanded that provincial laws in the same areas should be given legislative primacy and that the provinces would be

²¹Kenneth McRoberts, Quebec: Social Change and Political Crisis (3rd ed.) (Toronto: McClelland & Stewart Inc., 1988), 215. Also refer to Donald J Riseborough ed. Canada and the French (New York, N.Y.: Facts on File Inc., 1975), 149-159 and Bergeron, "The Quebecois State," 182.

²²Quebec's desire to create a comprehensive provincial welfare state resulted in increasing conflict from the 1960s onward, between the two levels of government. The Victoria federal-provincial conference of June, 1971 highlighted the competition for legitimacy in the welfare field. The federal government had no wish to give the provinces control over income security programs. While all the provinces did not wish to occupy the area, the expansion tendency of Quebec in particular saw the centralization of income security programs as an obstacle in realizing provincial priorities. Refer to McRoberts, Quebec: Social Change and Political Crisis, 224 and Banting, The Welfare State and Canadian Federalism, 74.

²³See Derek P.J. Hum, "Social Security Reform during the 1970's," in Canadian Social Welfare Policy: Federal and Provincial Dimensions Jacqueline S. Ismael ed. (Kingston: McGill-Queen's University Press: The Institute of Public Administration of Canada, 1985), 31 and Shankar A. Yelaja ed. "Canadian Social Policy: Perspectives," in Canadian Social Policy (Waterloo, Can: Wilfrid Laurier University Press, 1987), 12.

compensated with the equivalent funds to be applied to provincial legislation if a province chose to opt out of a federal program.²⁴ The federal government under Pierre Trudeau stood its ground concerning Quebec's demands, resulting in the failure to resolve the jurisdictional issue over welfare. This inconclusive conference carried over into the 1972 provincial conference.

Provincial resentment of federal intrusion in provincial jurisdiction was also voiced at the 1972 Conference of Provincial Welfare Ministers. "Provincial dissatisfaction was fuelled by the federal government's unilateral changes to unemployment insurance in 1971 and its proposed reform of family allowances."²⁵ The federal position and the dissatisfaction of the provinces in resolving the concern for social policy allowed the development of the 1973 Social Security Review.

One of the proposals of the social security review dealt with federal-provincial relations in social policy. Ottawa hoped to achieve harmony between the two orders of government by convincing the provinces to accept federal involvement in this area to ensure minimum standards of the social welfare

²⁴Guest, Emergence of Social Security in Canada, 184.

²⁵Prime Minister Trudeau agreed on March 12, 1972 to accept Quebec's demands for changes in the family allowance program, recognizing the larger size of Francophone families. Refer to Guest, Emergence of Social Security in Canada, 184 and Hum, "Social Security Reform," 31.

programs, but this did not occur.²⁶ During the three year planning stage the divergence of opinions between the politicians and the bureaucrats in the design of a shared-cost supplementation and support programs prevented an amicable solution from surfacing. Ontario's Progressive Conservative party held a weak commitment to social reform, while British Columbia, Saskatchewan and Manitoba, all under New Democratic parties, wanted poverty reform at a faster pace. In the Atlantic provinces the welfare officials were reform minded, but were concerned about the cost of the program.²⁷ Meanwhile, throughout the designing stage, the federal government was finding itself financially constrained due to the initial cost of the increased family allowance payment and the declining economic situation. Slowly the momentum for complete restructuring died. By 1976 the federal government was considering the option of unilaterally making changes to the income security programs, putting aside any hope of directly affecting social services (the 1973 Social Security Review will be addressed further in Chapter five).

The failure of the constitutional review of 1968-1971 and the failure of the 1973 social security review marks the trend away from cooperative federalism to a period of "intergovernmental contradiction, duplication and mutual

²⁶Canada, The Working Paper on Social Security in Canada, (April 18, 1973), 2.

²⁷Haddow, Poverty Reform in Canada, 14, 121, 125.

frustration," of the federal system.²⁸ The federal government after the review acted unilaterally to produce changes targeting income security programs under its sole jurisdiction and by using the tax expenditure system to operate the refundable child tax credit. A new phase in the social security review was underway.

Conclusion:

The transformation of society from the 1930s to the 1950s necessitated a larger degree of intergovernmental activity. The dominance of the federal government in the income security system during that period resulted in the end of the classical approach to federalism and the need for the two levels of government to interact more often to define, coordinate and plan the welfare system as a whole. However, in the 1990s the Canadian political system is experiencing the reinvention of classical federalism under the Chrétien Liberal government's proposal of the Canada Health and Social Transfer proposal which would replace CAP. The federal government wants to minimize its responsibilities in clear federal jurisdiction.²⁹

The central government had three objectives in sharing the responsibility of social policy with the provinces. The first objective was to establish minimum payment levels and

²⁸Simeon and Robinson, State, Society, and the Development of Canadian Federalism, 127.

²⁹Canada. Department of Finance, Budget Speech (Ottawa: Department of Supply and Services, February 2, 1995), 17.

uniform program standards to unify the country across the various geographical and economic regions of Canada and to ensure mobility of persons and the portability of capital throughout Canada. Second, the federal government used income security program entitlements to legitimize the injustices of capital accumulation and to promote social integration in society. Finally, Keynesian theory changed the way government thought about state intervention in the functioning of the economy. Responsibility over the national economy strengthened the power of the federal government; therefore federal intervention in social policy legitimates the authority of the government to implement economic and social policies, creating a more centralized federal system.

Chapter 3

THE HISTORICAL DEVELOPMENT OF FEDERAL INCOME SECURITY PROGRAMS: 1927 - 1978: THE POLITICIZATION OF WELFARE

The main purpose of this chapter is provide a descriptive analysis of the events and issues in the development of the income security system from the late 1920s to the 1960s, culminating in the 1970s. The Canadian welfare state is divided into two periods for the purpose of analysis. The first period is the formulation/expansion stage covering from late 1920s to the late 1960s period.¹ Socio-economic factors and liberal ideology influenced the structure, and the tradition of selective programs with few universal programs.²

The next stage commencing in the 1970s, is the reformulation stage. From the 1970s to the present, there has been a insidious movement to reform the income maintenance program. This chapter introduces this pattern of development

¹Hugh Helco has defined the Canadian welfare state into four distinct stages. While this thesis does not focus on his work in particular, the time frames he specified are used for analysis purposes. Refer to Hugh Heclo, "Towards A New Welfare State," in The Development of Welfare States in Europe and America Peter Flora and Arnold Heidenheimer (eds). (NB, New Jersey: Transaction, Inc., 1981), 386-387.

²Liberal ideology in reference to the welfare state embraced Keynesian economic theory, which resulted in the shifting from extreme individualism and the complete freedom of the market operations by attempting to improve social justice and opportunities to those less fortunate in society. Refer to W.L. White, R.H. Wagenberg and R.C. Nelson, Introduction to Canadian Politics and Government 5th ed. (Toronto: Hold, Rinehart and Winston of Canada, Limited, 1990), 64-65.

by looking at the early beginnings of the family allowance program, since the Trudeau government took an increasingly active interest in balancing the equity - efficiency equation in the redistribution of wealth in society. The Trudeau government, who started this agenda, attempted to control the increasing social expenditure by enhancing the redistributive effect of social welfare programs and controlling the cost of programs. Targeting those in greatest need of assistance and reallocating funding from universal to selective policy instruments are prime examples of this agenda.

THE FORMULATION/EXPANSION STAGE OF INCOME SECURITY PROGRAMS

Prior to federal intervention in social welfare policy low-income support was mainly a municipal and later provincial responsibility. Environmental, political and economic conditions during the 1930s (Great Depression) and 1940s (World War Two and the reconstruction era) created a climate that demanded federal government assistance.

The Great Depression demonstrated the weakness of the private system of charity and the fiscal limitations of first the municipalities and the provincial governments. The provinces found themselves financially restricted, if not bankrupted maintaining relief programs.³

³The majority of relief programs were manual labour camps. Cash relief aid gradually gained support as a method of assistance as time passed. Refer to Guest, Emergence of Social Security in Canada, 24, 84 and Flora and Heidenheimer, Development of Welfare States, (New Brunswick, New Jersey: Transaction Books Inc, 1981),

Chart 3.1

Milestones in the Development of the Federal Social Safety		
Year	Program	Eligibility Criteria
1927	Old Age Pensions Act	means test
1937	Old Age Pensions amended to include blind persons 40 years old and over who qualified by a	means test
1935	Employment and Social Insurance Act ruled ultra vires in 1937	
1940	Unemployment Insurance Act (major reforms in 1955 and 1971)	social insurance
1944	Family Allowances Act	demogrant
1951	Old Age Security Act Old Age Assistance Act (replaced Old Age Pensions Act)	demogrant means test
	Blind Persons Act	means test
1954	Disabled Persons Act	means test
1956	Unemployment Assistance Act	means test
1957*	Hospital Insurance and Diagnostic Services Act	universal
1964	Youth Allowances Act	universal
1965	Canada and Quebec Pension Plan	social insurance
1966	Canada Assistance Plan (Ultimately earlier legislation for the blind, disabled, elderly and unemployed repealed)	needs test with limitations
1967	Guaranteed Income Supplement	income test
	*Medical Care Act	universal

Chart 3.1 continues
Milestones of the Federal Social Safety Net

Year	Program	Eligibility Criteria
1971*	Unemployment Insurance expanded	social insurance
1973*	Family Allowances modified and made taxable (New federal Family Allowances Act replaced old act and Youth Allowances Act)	
1975*	Spouse Allowance added to GIS	income test
1978*	Child Tax Credit	income test
1984	Canada Health Act (replaced Hospital Insurance Diagnostic Services Act and Medical Care Act)	universal
1992	Federal Child Tax Benefit (introduced to Income Tax Act - The Child Tax Credit deleted and the Family Allowances Act repealed)	income test

Source: Christopher Leman, The collapse of welfare reform. (Cambridge, Mass.: MIT Press, 1980), 34 and Canada. Statistics Canada, Canada Yearbook (Ottawa: Minister of Industry, 1993), 248-249. Some of the dates are the year the programs were enacted, not proclaimed.

Due to the gravity of the depression, the federal government intervened by first, distributing emergency appropriations to the provinces and then, it attempted to establish a national employment assistance program (refer to chart 3.1). The depression succeeded in suppressing the conservative view of the minimum role of the state in the lives of individuals, thereby modifying the value of rugged individualism.⁴ Intervention by the federal government in

⁴Guest, Emergence of social Security, 86, 138 and Moscovitch and Drover, "The Growth of the Welfare State," 26.

the welfare policy field facilitated the legitimization of the social order of society and provided a mechanism to promote social integration (a sense of community) and social justice between the classes.⁵

The advent of Keynesian theory, in the 1940s, led to the recognition of the interdependency of economic and social policy, leading to federal intervention in the policy area. This decision contradicted the position of the Rowell Sirios Commission which favoured limited involvement of the federal government in the welfare area. The Liberal government also had to deal with the increasing popularism of the protest parties who were advocating social change (especially in the 1940s). Historically, the Cooperative Commonwealth Federation (CCF), which later formed the New Democratic Party, helped to promote the development of the welfare state, especially during times of Liberal minority governments.⁶

Another impetus for federal involvement was the report from the House of Commons Advisory Committee on Post-war Reconstruction (1943), (the Marsh report) that was influenced by the British Beveridge Report. The Marsh

⁵A.W. Djao, Inequality and Social Policy, (Toronto: John Wiley & Sons, 1983), 24.

⁶Refer to Moscovitch and Drover, "The Growth of the Welfare State", 27. They discuss the protest movement of Canada and the response by the federal Liberal party of having renewed interest in social welfare. Also refer to Alvin Finkel, Business and Social Reform in the Thirties, 156.

Report recommended a social security system that would alleviate poverty by ensuring a "defensible social minimum."⁷ The report advocated societal contributory social insurance programs to act as a safety net against the risk of economic downturns that could lead to poverty. Marsh realized that state intervention was required to satisfy the needs of families due to the inadequacy of working wages. The establishment of programs to ensure economic security against the market system were believed to be necessary components of the welfare state in order to protect the poor and the low-income workers from the continuing cycle of poverty.

The Liberal government under Louis St. Laurent substantially contributed to the centralization of income security programs. Between 1951 to 1957, the government introduced no less than five welfare programs and a health insurance act too (refer to chart 3.1 for the names and eligibility criterion of the programs). The adoption of these programs, of which the majority use selective policy instruments, illustrates the conservatism and reluctance of the government to fully commit to an institutionalized welfare regime type. The inadequacy of the benefits and the stringency of the eligibility criteria of the programs stand more to ensure security of income and greater opportunities

⁷Guest, Emergence of Social Security in Canada, 112.

than fully alleviate poverty.⁸ This view underscores the primary objective of the development of the welfare state which was and still is security; redistribution is the secondary objective of the system.

The 1960s marks the development of the welfare state that was discussed in the federal Green Book (1945), but hindered because of provincial objections to federal centralization of social policy. The introduction of CAP was an attempt by the two levels of government to provide a comprehensive income security system by consolidating the categorical programs, using need as a criteria to determine income assistance. It can be argued that the minority Liberal government during its terms in office over a six year period managed to maintain a social and health reform pace, influenced of course by the NDP party.⁹ Confidence in the economy and the acceptance of the positive role of the state allowed for the development of wide ranging programs to ensure security and to some degree distribute wealth in society.

⁸Guest estimates of the 236 000 in 1955 who were severely or wholly disabled, approximately 100 000 between eighteen and sixty-four years old, categorized had no income or very little income of their own. After two year of operation the Disabled Persons Act was restricted to persons who were severely and permanently disabled, and on a means test basis only 31 825 individuals received benefits. Dennis Guest, Emergence of Social Security in Canada, 145-146.

⁹A unified labour movement (1956), formally alliance themselves with the CCF (1961) in the New Democratic Party - the consequence being the NDP calling for greater social reform. Refer to Moscovitch and Dover, "Growth of the Welfare State," 30.

The social security system had progressed since the inception of labour camps established during the depression. The establishment of guaranteed income programs expanded social rights to many individuals and families on the fringe of society, even though the payment levels were not an adequate minimum income. Yet, following the belief that social rights provide a modicum of economic welfare, the programs did help to offset the inequities of the market system, while upholding the work ethic that has continued to block the development of an institutionalized welfare state in Canada.¹⁰

Negative income tax approach:

The examination of integrating the income tax system (positive tax reform meaning revenue raising) and income transfer programs (negative income tax) was aimed at developing a new method of delivering transfer programs to clients. A NIT approach payment supplement is dependent on the income level of the applicant and the family members.

Ross defines the NIT scheme as:

any income-tested program where a maximum guaranteed support payment is reduced by some fraction of each dollar earned. And benefits may or may not be integrated with, and delivered through, the income tax system.¹¹

¹⁰The place of the work ethic in Canadian society needs to be challenged because of the increasing rate of unemployment in the country, which means that there will always be a proportion of the population excluded from the labour market.

¹¹Ross, Working Poor, 64.

Unlike the universal demogrant programs that delivers flat rate entitlements to all clients meeting the characteristics of the program, the negative income tax (NIT) approach assesses income to determine the amount of supplementation. The NIT encourages individuals to work by reducing benefit payments by less than the full amount of any wage received. This concept is centred on one of the biggest issues related to developing a comprehensive adequate standard income guarantee - the work ethic.

A full NIT program would allow for the development of a coordinated payment system to families. A key problem in achieving the formulation of an income and support program, as illustrated by the failure of the 1973 Social Security Review, is the coordination and cooperation required between the two levels of government. In order to promote and ensure a collective sentiment of society around welfare provisions, particularly a GAI, requires federal involvement to ensure national standards. The only coordinated intergovernmental attempt of the NIT approach was the 1975 "Mincome" experiment conducted by Manitoba and the national government.¹² Even though the experiment provided substantial information on the work response of individuals and families to a NIT system and administrative information,

¹²Mincome meant, Manitoba Basic Annual Income Experiment. Refer to the article by Errol Black, "A New Deal for Paupers (?) - Report of the Manitoba Task Force on Social Assistance," Contemporary Crises 9 (1985): 281-296, which examines the Manitoba welfare system and the Mincome experiment.

no formal report was ever completed before dispelling the team.¹³ Since then, the federal government has not initiated a full NIT program. Instead, the federal government has chosen to focus on utilizing tax credits to reduce taxable income and redistribute income upon consideration of the family as a tax unit.

The development of the child tax credit, which is delivered in the form of a tax credit, is an example of a comprehensive NIT because the program is fully integrated with the tax system (the impact of the tax credit will be addressed in chapter five). The GIS program is a partial or a selective NIT since individuals must be found eligible through a means test. The GIS has the potential to become a national guaranteed annual income program to anyone in need, but this has not occurred. Instead, we have continued on a path of separate federal, provincial and municipal income maintenance programs and the pattern seems destined to continue in the 1990s as the federal government continue to restrain the social expenditure budget, while initiating more stringent guidelines of eligibility.

Looking at the situation today, the Liberal government seems destined to significantly minimize the federal government's role in areas of clear provincial responsibility by reducing the transfer of money, which

¹³Canadian Taxation Journal 36:3 (May/June 1988):678.

would allow provinces to follow their own priorities.¹⁴ Looking back at the historical demands of Quebec, the province serves as primary justification for federal withdrawal in the welfare field. However, Quebec should not be held as an example of the possible outcome of federal funding withdrawal funding from this policy area because of the long term vision of the separatist provincial government to either get the legal recognition as a distinct society, or else obtain sovereignty from the rest of Canada. As a result of this goal, Quebec will most likely always stand out as province that wants to occupy major policy fields, such as social and economic policy (this does not mean that one should discount the programs initiated by Quebec).

Quebec's Income Supplementation program is also an NIT type scheme that is delivered through the tax system, allowing for the level of assistance to be set upon determination of any income the individual or family unit earns or receives, including family allowances. Although CAP was designed to assist the working poor, it failed to perform as planned; therefore, Quebec moved unilaterally to reform its social assistance system to recognize the plight of the working poor family. A key principle of the program was that the "overall tax/transfer system should lead to a more equitable distribution of income;" this policy objective was accomplished through the lower tax rate for

¹⁴Canada. Budget Speech.

the poorest groups in Quebec society.¹⁵ This program guaranteed a minimum income to the working poor families in 1979 and to individuals in 1980.¹⁶

Accordingly, while the development of this program fills the need to provide aid in the form of income supplementation to the working poor, it still has not resulted in the "natural" progression of a guaranteed annual income program provincially or nationally. Since the failure of the 1973 social security review that proposed the income support and supplementation proposal, the idea of developing a GAI program has basically been a non-issue for government except for the proposal forwarded by the Royal Commission on Economic Union and Development Prospects for Canada (Macdonald Commission).

The Macdonald Commission in 1985 proposed a GAI called the Universal Income Support Program (UISP), but the government did not accept the idea or model. Since then both the Mulroney and the Chrétien government have steered the restructuring of the social security system away from the idea of a GAI, as did the Trudeau government in the 1970s.¹⁷ The Trudeau government focused on increasing the

¹⁵Edward Tamagno, "The Quebec Income Supplementation Plan" Canadian Taxation (Summer, 1979): 63. Also refer to Paul-Andre Liteau, Quebec Since 1930, 470.

¹⁶Ibid 64.

¹⁷The proposed UISP hoped to increase the level of support to the lowest income groups, deliver the program through a demogrant and be fiscally neutral, an important element during a time when

selective distribution of income from the rich to the poor; however, increased selectivity does not guarantee that the poor or low income in society benefits the most from the system. Selective distribution allows the government to direct who receives assistance, unlike utilizing a universal policy instrument that does not incorporate selectivity.

THE TRANSFORMATION OF THE FAMILY ALLOWANCE PROGRAM

Public Policy making:

Public policy decision-making is ultimately political; even economic and social decisions are shrouded in politics, according to the institutional approach in the study of public policy. The interdependency of society and the government means that public policy decisions reflect the values and beliefs of society or the beliefs the central actors interpret that best reflect societal values. The public servants are also a part of the decision making process, to a lesser or greater extent, depending on the leader of the governing party. Civil servants provide valuable information to the government about the technical aspects of policy and provide policy options; however, the final decision-making power is in the hands of the

the government was caught up in the deficit and the size of government. Refer to Canada, Report of the Royal Commission on the Economic Union and Development Prospects for Canada, vol 2 (Ottawa: Department of Supply and Services, 1985), part 5, chapter 19. For a discussion of UISP, see Bruce Kennedy, UISP: A response to the Critics" Policy Options (June 1986), 32-33.

government. The Members of Parliament are ultimately accountable to the electorate in a representative democratic system. In the development of public policy the decision makers should consider the varying interest of society - what is best for society and what policies best reflect the interest of society at large.

The introduction of family allowance:

The government first introduced the idea of a family allowance program in the House of Commons on February 13th, 1929. The program was stalled and did not receive serious consideration by the government until the 1940s.¹⁸

Family Allowances were the product of elite doctrine and strategy. The real sources of this innovation were the conversion of federal planners to Keynesian economics and the desire of the Liberal party to undercut the growth of the CCF... There was no public pressure for Family Allowance as such.¹⁹

As the pressure of social need increased and was identified by decision-makers, the necessity of the program was recognized. The threat of the left was one factor the Liberal Mackenzie King government had to deal with. The left provided an on going social consciousness for the two dominant parties. In this respect, the Mackenzie King

¹⁸For further information refer to Bridgette Kitchen, "The Introduction of Family Allowances in Canada." In The Benevolent State, Moscovitch and Albert, eds., (Toronto: Garamond Press, 1987), 228. Also refer to Guest, Emergence of Social Security in Canada, 79, 232.

¹⁹Keith Banting, The Welfare State and Canadian Federalism, 111. Yet, there was acceptance of the need for a program that assisted families in the cost of child rearing.

government maintained voter confidence by responding to the average worker, while considering business interest, thereby maintaining legitimacy in the welfare field.

Equating wages with family size and the structural capitalistic economy are two factors that pushed the Mackenzie King government to adopt the family allowance program. First, the implementation of the program was viewed as a method of correcting the incompatibility between the working wage and family size.

Second, the government and the business community believed the introduction of the family allowance program was a solution to the problems affecting the structural economy.²⁰ The government believed that it had to control inflation in Canada's war economy and later, control prices because of the increasing cost-of-living index, which contributed to labour uprisings.²¹ Thus, the introduction

²⁰The formation of the Advisory Committee on Economic Policy (EAC) in 1939 and the National War Labour Board in 1941 served to help manage the economy. EAC, the watchdogs for the government, focused on controlling inflation, improving price stability and controlling the increase of wages during the early war years (1940-1941). The National War Labour Board (with regional boards) assisted in managing the wage freezes that were put in place in October 1941, along with a comprehensive price ceiling policy. Refer to Watts, "Family Allowance in Canada," 30.

²¹Mackenzie King and the capital interest group at this time favoured the introduction of family allowances. They feared an increase in minimum wage for all 90 000 low income earners in Canada would raise the cost of production, leading to increases in prices. The government's priority was to keep the cost of living down and protect the price and wage ceiling policy. Watts, "Family Allowances in Canada," 31, 42. Also refer to Bridgette Kitchen, "The Introduction of Family Allowances," 235.

of the universal family allowance program functioned to appease the class issues in society, yet maintain economic stability. It facilitated social integration between the classes without the stigma of receiving "charity", for the program provided a guaranteed income to all families with children (even though the benefit level never truly reflected the minimum standard of child care cost as recommended in the Marsh Report).²² It was no coincidence that the program helped to maintain economic viability; however, in the long run the federal government failed to reevaluate the benefit level periodically to reflect the cost of living increase, undermining the value of the benefit.²³ It later became an acceptable target of reform in the 1970s due first to the inadequacy of the benefit level and second, the universal policy instrument did not maximize the redistributive effect of the program. The "rediscovery" of the inadequacy of the welfare state in providing security to families and individuals resulted in the federal government taking a greater interest in the

²²The recommended an average monthly payment per family of \$7.50 per child, the actual entitlement was set at \$5.94 per child. The residency period adopted for the program was first set at three years in Canada, but in 1949 the provision was repealed and reduced to one year along with the provision to reduce the amount of allowances for the fifth and subsequent children in the family. Moscovitch and Drover, "The Growth of the Welfare State," 28.

²³Ibid., 28.

welfare state.²⁴

The introduction of the universal program made the tax system a little more progressive, compared to just having a child tax credit.²⁵ Accordingly, as a result of the policy initiatives between 1940 and 1947, the payment of family allowance benefits (including tax exemptions and tax credits) shifted from a selective system to one that was "virtually universal" favouring the Canadian populace at large. Underlying this shift was the recognition that "tax allowances should be considered as a kind of subsidy with effects similar to those of direct cash grants within the social security system."²⁶ The integration of the tax and the cash transfer system has allowed the government to target benefits through the development of the tax credit method, thereby using the tax system to provide the needed information to determine eligibility for the benefit.

²⁴The contributions of the public servants, which many had a personal interest in reforming the welfare state helped in maintaining the interest of the government in welfare reform, both at the federal and provincial level.

²⁵The tax credit benefited higher income groups compared to lower income groups, since the higher the marginal tax rate of the tax payer, the higher the benefit paid out. Refer to Kitchen, "The Refundable Child Tax Credit," 44.

²⁶Kitchen, Refundable Child Tax Credit, 45.

THE REFORMULATION STAGE

A time of rediscovery:

The welfare system of the pre-1970s helped to appease class conflict in Canadian society, creating a feeling of community and security for all. The expansion of the guaranteed income programs provided some income assistance to various sectors in society which helped to extend social rights by increasing an individual's life chances. However, to a small degree, the effect of the income security system in ensuring security against the economic system was overestimated. The recognition that poverty was still prevalent in Canadian society increased the reform momentum in the social welfare system. In the 1960s, while the economy was expanding, at least one in five Canadians lived in poverty, the majority of them children.²⁷ The release of the 1970 White Paper titled Income Security for Canadians contributed to the reevaluation of the federal role within the state in relation to the social security system.²⁸

The federal government was not only searching for ways to improve the distribution of scarce resources, but also improve the financial management of policy making.

Reflecting back to the pre-1960s, the ad hoc planning of the

²⁷Ludwig Auer and Kathryn McMullen, Changes in Poverty in Canadian Metropolitan Centres, 1967-76, Discussion Paper No. 164 (Ottawa: Economic Council of Canada, March 1980).

²⁸Canada, Department of National Health and Welfare, Income Security for Canadians (White Paper) (Canada: John Munro, Minister of Health and Welfare, 1970), 2.

welfare state may have been indirectly influenced by the budgetary and policy development practices of the government.

Budgetary management:

Until the 1970s, policy making in the social policy field reacted to the social and economic issues of the time. A contributing factor may be that since the budgetary process only looked eighteen months ahead, it was difficult for the government to lay out a comprehensive financial plan.²⁹ Also, in the Canadian democratic political system, elections are held every four years, so the governing party only has a short period of time to make and enact policy; therefore, policy determination often reflects the economic and social climate of the day and the priorities of the leader. The continuing expansion of the economy up to the 1970s allowed the government to extend the welfare system as pressure was applied. As a result of the ad hoc implementation of income maintenance program during the formulation and expansion stage, we now have a patchwork of programs used to provide a safety net to individuals and families. While the two levels of government had attempted to reform the social welfare system, the government has also tried to rationalize the management of the budgetary system from the late 1960s.

²⁹Richard J. Van Loon and Michael S. Whittington Canadian Political System: Environment, Structure and Process 3rd ed. (Toronto: McGraw-Hill Ryerson Limited, 1984), 515.

While an in-depth study of the budgetary reforms is beyond the limits of this paper, a brief examination is necessary. In the late 1960s to 1979 the main system of financial management was based on a system called Planning Programming Budgeting System (PPBS).³⁰ This system focused on developing government programs more than restraining or controlling government spending, resulting in policy initiatives being generated outside the budgetary process. This created a problem for the guardians (Department of Finance and the Treasury Board) once the economy continued to decline and Trudeau directed them to restrain government spending. Because policy decisions were made outside of the budgetary process the Liberal government was caught in a crisis management situation as illustrated in the next chapter. The implementation of the envelope system, known as Policy and Expenditure Management System (PEMS), under the short lived Joe Clark government attempted to address the problem.

PEMS linked policy-making with expenditure management systems; it was an important concept during a time when the government was attempting to control the growth of government spending. This system was based on a five year fiscal framework which would be updated every year, allowing government departments to look ahead when developing policy

³⁰Kenneth Kernaghan and David Siegel, Public Administration in Canada 2nd ed. (Scarborough, Ont: Nelson Canada, 1991), 572 - 573.

options for their area. The process allowed the policy sector Cabinet committee to make both budgetary and policy decisions in its sector, which allowed for long term planning in the policy area and it also made the departmental ministers realize the fiscal limitations for the department.³¹ While the system did not necessarily help cut government spending, it did provide a method to restrain the growth of the government expenditure (of which the degree of restraint depended on the particular mandate and political will of the government).³² The implementation of the refundable child tax credit in 1978 was accepted by both the Liberal government and the Progressive Conservative party because first, it was selective, following the targeting of scarce resources to those most in need, yet lowering the payment of the family allowance program. Second, it did not require a large influx of new funding. This new program prepared the way for the changes that were to come under the Mulroney government in 1984.

Conclusion

In the Post World War Two era (up to the 1960s), "the state is relatively passive, taking its cue from the dominant ideology, liberalism, which with its emphasis on

³¹Ibid 583.

³²Refer to Donald Savoie, The Politics of Public Spending (Toronto: University Press, 1990), 88-92.

individualism and pluralism, is supremely adapted to distributive politics."³³ In this respect, the welfare state functioned to ameliorate class conflict, as there was enough wealth to distribute to all. Keynesian theory also was a dominant influence in the development of the Canadian welfare state since the Post World War Two era. Under Keynesianism, government intervention was an acceptable method of stabilizing the economy, resulting in balancing the accumulation of capital and the legitimacy function.

As a result of the institutionalization of the welfare state, social citizenship adopted a parallel status to civil and political rights. The welfare state was not simply implemented on the whims of the people, nor the state, so the government could not easily modify the programs once the politics or the ideology supporting the advancement of the income security programs had altered. Indeed, the 1970s, introduced new challenges for the government. Over the next two decades, the income security system was the target of program management reforms, due to the economic situation and the altering political ideas affecting how the government governed.

³³Paul Pross, "From System to Serendity: the practice and study of public policy in the Trudeau years." Canadian Public Administration 25:4 (Winter, 1982): 523.

Chapter 4

THE FALL OF KEYNESIANISM: THE REDISCOVERY OF SCARCITY, A BACKDROP TO NEO-CONSERVATISM

The focus of this chapter is to analyze how the economic situation of Canada in the 1970s and the political ideological beliefs of the Trudeau and Mulroney administrations, influenced social welfare policy outputs since the 1970s. The 1960s were the last great period of expansion for the welfare state. The 1970s introduced a new phase in the evolution of welfare programs, verified by the growing level of dispute of Keynesian social and economic principles.

The demise of Keynesianism was followed by the increased dominance of monetarist economic policies during the mid-1970s and the 1980s. What followed in the 1980s, particularly with the election of the Conservative Mulroney government, was the use of neo-liberal policy instruments to achieve the goal of reduced public intervention in the economy. Since then economic reasons have increasingly been used to justify and direct the retreat of universal and redistributive welfare provisions.

THE FALL OF KEYNESIAN ECONOMIC POLICIES

The Keynesian welfare state was supported by two dominant economic themes.¹ The first theme is based on the Keynesian

¹Bruce Doern, Allan Maslove and Michael Prince, Public Budgeting in Canada: politics, economics and management (Ottawa: Carleton University Press, 1988), 2.

macro-economic stabilization theory that expansionary economic policies can be used by the government to intervene in the market system to maintain high employment levels without inflation. The second theme postulates that the revenue of government and other budgetary instruments can be used to intervene in the market system to improve the social allocation of resources and the well being of the subordinate classes. This theory encouraged government activism in both the social and economic sphere, which lead to the expansion of institutional arrangements between the provinces and the federal government. Furthermore, the growth of social welfare policies helped to diffuse the conflict between labour and capital. For this reason the Keynesian paradigm embodied equity, stability, growth and efficiency, justifying the promotion of social citizenship rights.² The failure of this economic theory to rejuvenate the faltering economy in the mid-1970s, led many to believe that welfare spending was a major cause of the economic and social decline. Yet, during the years that the economy was healthy the government ignored creating a reserve fund to use during times of economic downturn. The government lacked a defined policy goal of how to maintain the welfare state if the economy followed the 'boom and bust cycle.' The result was that in the mid-1970s the government was confronted with finding a solution that would allow it to continue managing the varying business and

²McBride and Shields, Dismantling a Nation, 15

labour interests.

The economy in the 1970s:

In mid 1973 - 1974 Canada's economic health was threatened by the oil crisis and the deterioration of the inflation and unemployment rate. Stagflation in 1974 and 1975 affected the whole premise of the Keynesian welfare state, resulting in the government focusing on reducing the deficit and the double digit inflation rate (refer to Table 4.1).³

Table 4.1

Inflation Rate CPI									
Year									
1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
7.5	10.9	10.8	7.5	8.0	8.9	9.1	10.1	12.5	10.8

Source: Douglas D. Purvis and Constance Smith, "Fiscal Policy in Canada: 1963-84," Fiscal and Monetary Policy, Royal Commission vol 21. 1986, 12

The unemployment rate rose from 5.3 per cent in 1974 to 8.3 per cent by 1978.⁴ It was the "belief that welfare state spending is not a response but is itself a major cause of economic and social decline."⁵ By 1975, the Bank of Canada

³In the latter part of the 1970's the growth of the deficit started to grow steadily and continued to do so even after the election of the Progressive Conservative in 1984. Refer to Doern and Maslove, Public Budgeting in Canada, 22-23.

⁴1966 - 1984 Statistics Canada, Historical Labour Force Statistics Actual Data (Annual).

⁵Allan Moscovitch, "The Welfare State Since 1975," 77. But Isabella Bakker refutes the assumption that public spending levels can be correlated to the deficit. The Revenue-raising capacity of the government and its expenditures must also be looked at. The interest payments on the debt, increased cyclical expenditures such as unemployment insurance, the taxation system all affect the amount of revenue the government will collect. Refer to Isabella

started to embrace monetarism over Keynesian macro-economic policies, by reducing the growth of the money supply and calling for wage controls.⁶ It was believed that a structural change was occurring in the economy that challenged Keynesian economic instruments used to combat double digit inflation rates. Accordingly, as Keynesian economic policies were questioned, so was the effectiveness of the Keynesian welfare state. Thus, the questioning of Keynesian economic policies in relation to the management of the economy only furthered the gradual arrival of a new economic paradigm. Gradually monetarist policies were accepted as possible solutions to combat stagflation, while neo-conservatism served as a weak backdrop in the Liberal government's analysis of what was occurring in the economy throughout the 1970s.

The Liberal Government's actions:

The Liberal government initiated fiscal restraint policies to stabilize the economy. In October 1975 the government introduced wage and price controls to temporarily reduce the inflation and unemployment rate and cut \$1.5 billion from the projected 1976-1977 expenditures.⁷ The Minister of Finance, Donald Macdonald, blamed high government

Bakker, "The Politics of Scarcity: Deficits and the debt." In Canadian politics in the 1990s Michael S. Whittington and Glen Williams eds., (Scarborough, Ontario: Nelson Canada, 1995), 66-70.

⁶ Bakker, "The Politics of Scarcity," 58.

⁷Canada, The Way Ahead: Working Paper (Ottawa: December 1976), 4 and to the National Council of Welfare, The Hidden Welfare System Revisited (Ottawa, March 1979), 1.

spending and the growth of the deficit as one of the leading causes of inflation.⁸ The failing economic picture resulted in both Macdonald and Jean Chrétien (president of the Treasury Board), being requested to contain government spending and identify possible areas to cut with the full support of the Prime Minister.⁹

The Trudeau government concentrated on restricting the growth of government expenditures to the increase in the GNP, a task accomplished by 1978 through limiting growth in spending to 7.1 per cent and 10.4 percent respectively, between 1976-1977 and 1979-1980.¹⁰ However, Canada's inflation rate was still high, leading Trudeau upon returning from the Bonn Summit to unexpectedly announce the further reduction of \$2 billion in government expenditures and the reorganization of government priorities to reduce the size of government and the deficit.¹¹ The federal debt during the late 1970's and the early 1980's was a controversial topic and in its wake the Keynesian welfare state experienced declining

⁸Donald J. Savoie, The Politics of Public Spending in Canada, (Toronto: University of Toronto Press, 1990), 149.

⁹Ibid., 149.

¹⁰Ibid., 149. Furthermore, between 1973-74, 1974-75, 1975-76, government outlays exceeded the growth of the GNP.

¹¹The inflation and unemployment rate continued to remain high even with the restraint policy in the outlay of government funding in transfer payments, operations and capital and non-budgetary items (loans investments, and advances to crown corporations). Refer to Savoie, Politics of Public Spending, 152, Haddow, Poverty Reform, 151 and Ernie Lightman and Allan Irving, "Canada's Welfare State," 71.

support, as did Keynesian economic policies.

The Trudeau government acted on the economic situation in a very politicized, highly urgent manner, lacking the normal policy review process within the confines of a rationalist approach.¹² Moscovitch found that the restraint of the government only worked to reduce the rate of increase of social expenditures since actual expenditures for federal, provincial and municipal programs increased by 200 percent in current dollars and by 42.3 percent in constant dollars between 1974-75 and 1982-83.¹³ The Trudeau government did not attempt to dismantle the social programs, only reduce and restrain spending using language such as rationalization, efficiency and keeping productivity up. The Child Tax Credit and the Refundable Child Tax Credit are examples of rationalizing the reallocation of scarce resource between the universal family allowance program and selective programs.

Trudeau was taking the middle ground in both social responsibility and the economy as outlined in the 1976 working paper titled, The Way Ahead.¹⁴ Still, the erosion of the

¹²Savoie, Politics of Public Spending in Canada, 155-15. The cuts were made under the auspice of crisis management, avoiding the institutional organizational structure of government to ensure the avoidance of any resistance. The result of this management process was that the Treasury Board was provided with greater strength to accomplish its goals in the restraint of government spending, even though spending cuts were only strongly pushed for before the 1979 election.

¹³Refer to Moscovitch, "The Welfare State Since 1975," 79.

¹⁴Canada, The Way Ahead: Working Paper (Ottawa, December 1976).

universal family allowance program was more than simply rationalizing cost more efficiently to those most in need. It was a shift through the backdoor to selectivity, and it was continued by the Mulroney government in the 1980's.

The attack of the New Right on the Canadian economy:

The Canadian economy was two years into recovery from the 1981-1982 recession when a Conservative government was elected. The unemployment rate was still high and the economy was slowly recovering from the 'worst recession' since the 1930's - a great concern to the government.¹⁵ The Mulroney government felt that the recovery of the economy could not continue without economic renewal; therefore the government developed an agenda for change.¹⁶ The agenda for change encompassed four challenges: 1) improving the confidence and growth of the economy by improving the fiscal condition of the country; 2) redefine the role of government to improve the tension that inhibits job creation and change; 3) promote capital accumulation to improve the market functions; 4) bring about these changes in a fair, compassionate, open way tolerating justice and not weakening the basic income support programs, while providing greater assistance for those who needed it. These are contradictory goals, for the government strongly supported a pro-market stance and a secondary

¹⁵Refer to Canada. Department of Finance, A New Direction for Canada: An Agenda for Economic Renewal (Ottawa, November 8, 1984).

¹⁶Ibid., 2-3.

consideration was maintaining the legitimacy function in relation to equality.

The Mulroney government's interpretation of how to achieve an acceptable level of equality differed from the Keynesian approach. The Tories embraced neo-liberal policy instruments to reach their goals.

This meant reorienting public policies to encourage entrepreneurship, investment, and risk-taking, rationalizing the management of government resources and programs; restoring fiscal balance in what Ottawa spent and taxed; and reducing both the size and role of the federal government.¹⁷

The focus of the Mulroney government in practising restraint was to target programs that were at "variance with the philosophy and approach of the new government."¹⁸ Consequently, the department of Finance and the Treasury Board targeted cutting back full indexation of social benefits as part of the package to spread the responsibility of reducing the government expenditure and the deficit. The deficit figure did drop from \$32.2 billion in 1984-85, to \$29.3 billion in 1987-88; however, during the first two years the Mulroney government was in office, the economy was healthy and there was increased taxation which contributed to a reduced deficit.¹⁹ The Conservative government, saw the deficit as a drain on the competitiveness of the country economically and

¹⁷Bakker, "Politics of Scarcity," 59.

¹⁸Savoie, Politics of Public Spending in Canada, 166.

¹⁹Ibid., 172, 177.

it restricted the activism of government in the public sector.

The targeted effort of the Conservative party and the Bank of Canada's aim for zero inflation in the late 1980s resulted in the government retreating from balancing inflation and unemployment.²⁰ The government was heavily dependent on the market to improve employment growth patterns as government withdrew from job creation efforts, which is part of monetarist policy. During this time Canada also experienced high interest rates (which meant we were paying out more money to cover the deficit), and reduced investment. The unsteady growth of the job market due to the recession again in the 1990s, as shown in table 4.2, and the government's position of minimal state intervention in the production of wealth, left many individuals growing increasingly dependent on provincial and private assistance and other social agencies such as food banks.²¹ The growth of food banks in Canadian society suggest a breakdown or weakening of the social safety net that guarantees a minimum income. Not only does it suggest the inadequacy of the assistance level established nationally (and

²⁰Bakker, "The Politics of scarcity," 59.

²¹The Globe and Mail reported that as of August 1992 food banks had increased to 342. The National Council of Welfare put the poverty rate of children in 1992 at about 18.2% (in 1991 it was 18.3%, but it has been fluctuating over the years. The poverty rate for families in 1992 was 13.3%, in 1991 it was 13.1%. Refer to Appendix D for the poverty rate in Canada over a twelve year period. Refer to the Globe and Mail, Wednesday, November 18, 1992.

provincially), but it also represents the collapse of the Canadian welfare state.

Table 4.2 OECD ECONOMIC INDICATOR, 1983-1992

Employment growth	1983	1984	1985	1986	1987	1989	1989	1990	1991	1992
United States	1.3	4.1	2.0	2.3	2.6	2.3	2.0	0.5	-0.9	0.6
Japan	1.7	0.6	0.7	0.8	1.0	1.7	1.9	2.0	1.9	1.1
W. Ger.	-1.4	0.2	0.7	1.4	0.7	0.8	1.5	3.0	2.6	0.8
France	-0.3	-.9	0.5	0.3	0.4	1.1	1.4	1.0	0.1	-0.5
United Kingdom	-0.2	2.2	1.1	0.3	2.3	3.3	2.7	0.3	-3.2	-2.9
Italy	0.2	0.4	0.4	0.5	-.2	1.1	0.1	1.8	0.9	-0.6
Canada	0.5	2.4	2.6	2.8	2.9	3.2	2.0	0.7	-1.8	-0.8
Seven major countries	1.2	3.2	1.7	1.9	2.2	2.1	2.0	0.8	-0.4	0.6

Source: Refer to Isabella Bakker, "The Politics of Scarcity," 61. With the recession in 1990, Canada employment began to drop again. The implementation of the Free Trade Agreement is also a factor.

The open Canadian economy:

The openness of the economy is said to influence government spending, which affects the social policy funding.²² Since Canada has an open economy, it is vulnerable to the economic and political pressures of the global marketplace, especially the United States. For example, Canada's dependence on the United States as a major exporting market results in the United State's economic situation indirectly affecting our domestic policies.²³ The Free Trade Agreement (FTA) and the North American Free Trade

²²Refer to O'Connor, "Welfare expenditure and policy orientation in Canada in comparative perspective," 138-139.

²³Canada has historically depended on the United States as major trading partner. In 1983, Canada had the highest dependency of a single trading partner at 75%. Refer to O'Connor, "Welfare expenditure and social orientation in Canada," 139.

Agreement (NAFTA) have worked to link Canada with other economic markets by helping to establish a new continental order, that when embedded into Canadian public policy, greatly constrains governmental options and evades domestic obstacles such as those imposed by Canadian political culture and attitudes.²⁴ Rising above the modest welfare provisions and the further expansion of social citizenship will be significantly challenged and possibly blocked by the FTA and NAFTA, for when a discussions take place about welfare state types, we tend to dismiss the European examples, that in most cases spend more and have institutional regime welfare state models compared to the United States. This may mean adjusting entitlements to reflect the political ideas of the Canadian government, but we must remember that our southern neighbour's commitment to collectivism is very weak as opposed to individualism. The crisis of United States citizens without health coverage is a case in point.

THE WELFARE STATE AND THE IDEOLOGICAL STANCE OF THE LIBERAL AND PROGRESSIVE CONSERVATIVE PARTIES

Leslie Pal defines ideology as a shared vision of current problems and future prospects.²⁵ Richard Simeon suggest ideology is political ideas that provide explanations about

²⁴McBride and Shields, Dismantling a Nation, 119.

²⁵Leslie Pal, "Prime Ministers and Their Parties: The Cauldron of Leadership." In Prime Ministers and Premiers Leslie Pal and David Taras eds. (Scarborough: Prentice Hall Canada Inc., 1988), 89.

events and issues.²⁶ Michael Atkinson writes that, "contentious concepts such as equality, freedom, rights, and authority lie at the heart of our political disagreements and our policy disputes."²⁷ Indeed, from these definitions of ideology, the concept is part of the substantive policies that the government chose to implement. Policy recommendations and policy outputs are examples of the vision(s) of the government dealing with the appropriate arrangement of governance. The welfare state is shaped and reshaped by the political ideas that are captured by the central actors.

Canada has an economic and socio-political history of government intervention in providing services to the public for the greater good of the country. The development of social welfare policy programs has served as an instrument of "national unification" across all the territorial regions of Canada.

The presence of the government in this policy area is all the more prevalent because of the lack of working class mobilization in Canada and the lack of influence over the decades, of the poverty associational organizations. The active involvement of government in the redistribution of wealth has meant that state actors have been directing the poverty reform agenda. Leonard Shifrin, in reference to the 1973 review, stated that:

²⁶Richard Simeon, "Studying public policy:" 570.

²⁷Atkinson, Governing Canada, 1.

the advocates of social progress have likewise left the politics too much to the politicians. The results have reflected the self-interests of those able to lobby most effectively. The poor have never been in this category.²⁸

This has resulted in partisan politics manifesting a key role in poverty reform. In the 1970s, the guardians of spending in the central agencies of the Finance Department and the Treasury Board restricted spending and directly influenced the outcome of new projects. During the Mulroney era, the Finance Department maintained its power to direct the spending of government funds and it was also able to recommend policies. Thus, the next section of this chapter will examine the policies of the two dominant federal parties which will hint at their stance on welfare provisions as part of social citizenship rights.

The Liberal Party under Trudeau, the rise of neo-conservatism:

The demise of the Keynesian economic paradigm in the mid-1970s meant redefining social citizenship rights in Canadian society. Trudeau believed in necessary government intervention to create a society where social and economic rights were attainable to marginalized individuals in society because of the inadequacy of income and/or inequitable access to services. In the income maintenance area, the Trudeau government chose to improve the distribution of wealth through

²⁸Leonard Shifrin, Paper 2: "The Politics of Income Security in Family Income Security Issues," Proceedings of a Conference held December 8, 1975 co-sponsored by Social Planning Council of Metropolitan Toronto: Urban Seminar Series No. 2 and Metro Agencies Action Committee (February, 1976), 5.

the concentration of resources in order to strengthen social programs.²⁹

The Liberal government acknowledged and accepted a limited trade off between a free market system with the erosion of incentives, personal freedoms and responsibilities of individuals, that may come with government intervention.³⁰ But more importantly, the government was relying on the preservation of a healthy economy to support the social responsibilities of government. When the economy continued to decline in the 1970s, the government wanted the role and size of government realigned with the economic reality of the time. This was an attack on the Keynesian welfare state.

The government wanted people to recognize that their demands could not continue to be realistically met at the pace they had been growing. The Trudeau government was the first to ask people to lower their expectations of the role of the state. The government wanted to reassess its role in finding effective policy alternatives to reverse or slow down the increasing expenditures and expanding bureaucracies, while still serving "legitimate social concerns of government."³¹ The Trudeau government initiated the restraint of government spending; however the Liberal government did not approach this mandate with the same degree of intensity as the Mulroney

²⁹Canada, The Way Ahead (Ottawa: December 1976), 11.

³⁰Ibid., 21-23.

³¹Ibid., 21-24.

government.

The Mulroney government: a New Right perspective

The one factor that has been noted about former Prime Minister Mulroney was his lack of a clear political ideology. This may have worked against the continuation of universality because even before the 1984 federal election Mulroney's commitment to universality was obscure, even alluding to change.³² Upon election of the Progressive Conservative party in 1984, the one strong commitment voiced by the new government was to become fiscally responsible in government expenditure.

The Mulroney government desired to fundamentally reorganize the spending priorities of government by permanently altering the balance and relationship between the private and public sector to create a minimalist state. By decreasing the size and activism of government, the state would be reducing its role in the everyday lives of Canadians, while promoting the value of free market individualism and increasing the dependence on provincial and private social organizations.³³ For instance, compared to the privatization efforts of the Liberal government, the Tory government tackled privatization more aggressively and comprehensively. The Mulroney government's actions resulted in reduced government

³²Thomas Walkom, "Tories divided on benefits policy," Globe and Mail (March 24, 1984), 5.

³³McBride and Shields, Dismantling a Nation, 31

cash out lays by approximately \$650 million and the deficit by about \$350 million in 1985-1986.³⁴ Shrinking the state, deficit reduction, inflation control, tax reform, and reducing the social expenditure were the objectives of the Conservative party. The Mulroney government did not believe that continued expansionary economic policies could be used to control the deficit, nor would greater intervention in the market help profit-making. Strengthening the private sector's ability to lead the recovery, operating with much greater freedom from federal intervention, lay at the heart of the Progressive Conservative agenda.

The influence of neo-conservative ideology in the Progressive Conservative government's public policies assisted in questioning the Keynesian welfare state. Neo-conservative ideology directly challenged the classical paradigm that social and economic relations could function in a harmonious manner. The Mulroney government was a mild version of the Ronald Reagan and Margaret Thatcher administrations in the United States and Britain, respectively. The United States and Britain are the "more extreme examples of the attempt by the new right to assert its ideology of nineteenth-century individualism, markets, and law and order."³⁵ Margaret Thatcher and Ronald Reagan supported pro-market liberalism and

³⁴Savoie, Politics of Public Spending in Canada, 168.

³⁵Allan Moscovitch, "The Welfare State Since 1975," 78.

social conservatism.³⁶ Thatcher sought to roll back social spending and privatization, while Reagan voiced strong opposition to the welfare state and was concerned about the deficit, yet he increased defense spending.³⁷

Neo-conservatism is based on the reduction of state activity in the market to maximize individual liberty. On an economic basis, the New Right view the welfare state as an affront to freedom because it redistributes economic wealth based on social rights, which reduces the freedom of individuals, creating dependency on the government.

Morally, the New Right is against welfare provisions because a) it morally corrupts individuals to take more risk because of a guaranteed income, and b) it interferes with private property, for people contribute to welfare who may otherwise not give to charity.³⁸ Followers of neo-conservative values believe that the legitimacy of the socio-economic arrangements must be based on individual liberty - laissez-faire capitalist market arrangements. The market must then be allowed to function independently to allow for the best redistribution of wealth in society. This however, would

³⁶Refer to Lister, The Exclusive society, 8 and Isabella Bakker, Politics of Scarcity, 59.

³⁷Refer to Bruce Doern, Allan Maslove, and Michael Prince, Public Budgeting in Canada: Politics, economics and management (Ottawa: Carleton University Press, 1988), 5-8.

³⁸King and Waldon, "Citizenship, Social Citizenship and the Defence of Welfare Provisions," 416.

mean redefining equality and the right to entitlements in society and emphasize class lines.

Following this rationale, introducing more selective programs was not about simply improving the redistributive character of income security programs to improve the level of equalization between individuals or the classes. Rather, it was a spin-off effect of ultimately reducing the expectations of people about the public role of the state, eventually allowing the rolling back of the welfare state that distributes income to the lower income groups. From this perspective, there was no need to enter into a debate about a better redistributive policy as it relates to the possibility of introducing a GAI.

The Mulroney government was not concerned about reaffirming social rights in society because the government actually denied the legitimacy of social rights as a right. This may be because if social citizenship were approached from the left point of view, it would mean the continuing support of the interference of the independent operation of the market system. Furthermore, the dependency of individuals on government assistance on a long term basis was seen as another drawback of the set-up of the social safety net (this last point is an area that is worth further examination that will not take place in this paper). This may partially explain why the Mulroney government focused on minimal government.

Under neo-conservatism, civil and political rights are

viewed as legitimate rights, as opposed to economic and social rights because the latter two rights are believed to be driven only by people's expectations. Neo-conservative ideology directly opposes the extension of social citizenship rights that create dependency on the government to redistribute the goods of society. The ideology upholds that individuals would have greater rights through the utilization of the marketplace, for the marketplace represents and upholds individual freedom and responsibility as opposed to using government intervention to ensure the same rights. The result is that individuals are treated as consumers first, rather than citizens in a relatively independent market.³⁹

Still, the institutionalization of the welfare state does not allow for quick drastic changes to a system that people look to for security. Institutional constraints of the political economy of Canada called for a slow and different approach to the movement of neo-conservatism. According to Banting, the English/French duality of Canada, the regional divisions within the federal system and the country's marginal position in the international system constrained a neoconservative agenda.⁴⁰ The historical significance of the role of the federal government in the legitimate claim to serve its citizens also could not be easily overturned. The result has been incremental movements in social policy - the

³⁹McBride and Shields, Dismantling a Nation, 32-33.

⁴⁰Banting, "Neo-conservatism in an Open Economy," 50.

politics of stealth - in removing the universal delivery mechanism to a selective one.

The Polarization of Canadian Society:

In Canada generational cleavages are a reality that has grown as the government continues to look for areas to help reduce the deficit and government spending. The sixty and older group represent a large and politically powerful constituency group that will continue to demand government attention in policy making. Even the Tory government played its hand lightly when it came down to the partial de-indexation of the OAS plan in 1985. The elderly protested against the policy move, resulting in the Mulroney government stalling their decision to partially index the program. This shows the political strength the group has and they may demand more services and assistance as time progresses. Meanwhile, the national day care programs that the Mulroney government discussed fell apart and the income security programs continue to be on the hit list in the fight against increased government spending.

As the demographic numbers for the elderly start to increase, coupled with a growing number of elderly having incomes lower than their pre-retirement earnings, the programs for the elderly will continue to demand more funding. Another factor in the polarization of cleavages between the elderly and other groups, such as women groups, is that the senior population is increasing faster than the total population,

creating a political constituency dependent on the state to maintain their quality of life. Between 1961-1991 the number of seniors increased by 128 percent, while the total population increased by only 50 percent. In 1991 seniors represented over 11.6 percent of Canada's population of 27.5 million people.⁴¹ This creates a funding crisis if there is not an equal or increased number of workers replacing those leaving the work force, this reflects the equity - efficiency crisis that the federal government must deal with.

Another consideration in the development of cleavages in society is the increasing emphasis on class distinction between social assistance benefits. A prime example of the increasing focus on private versus public programs is the RRSP's that benefit the middle and upper classes. The poor and the working poor cannot benefit from this program because they do not have the extra money to save for retirement, but instead must rely on government public assistance. Meanwhile, the income groups that can benefit from private plans can use the deductible to lower their taxable income level, which in turn means they are receiving "tax credits" from the government. This is part of the hidden welfare state that does not receive enough attention.

Government's actions have influenced the division of society into demographic groups. Each group is struggling to

⁴¹J.A. Norland Focus on Canada: Profile of Canada's Seniors (Scarborough, Ontario:Prentice Hall Canada Inc, and Statistics Canada, 1992), 5.

protect the social programs that affect their membership, aligned by demographic numbers or along class lines and interest. This development of pressure or interest groups results in the breakdown of societal cohesion that is needed to fight the government for improved services and assistance. This disunity will continue to allow the government to set the agenda because divisions only weaken the voices directed at decision-makers. It is important to realize that while selective programs may not redistribute income to the poor more effectively than universal/demogrant programs, universal programs instill the belief in people that all people have the right to full and adequate support in the community.

Conclusion:

In the late 1960s and the early 1970s, the liberal government had begun to attack the Keynesian welfare state, focusing on redistributive policies hoping to improve the effectiveness of income maintenance programs. Then, in the mid-1970s stagflation contributed to the questioning of Keynesian economic policies. With the Keynesian theory challenged in both the social and economic sphere, we experienced the growing use of monetarist economic policies to help the economy recover.

The increased momentum of neo-conservative values in Canada, left a definite imprint in the political agenda of the federal government, even today. The residual element of the welfare state has once again become a predominance factor in

social welfare policy area. Neo-conservative influences in Canada has allowed, or rather altered the balance between profit making and enhancing social harmony between the class interest in society. The result is an attack on cash transfers directed to the vulnerable members of the Canadian society.

The continuous attack on the family allowance program in the 1980s by the Conservative government underscored the increased discretionary power of the government to alter welfare guarantees, resulting in the attack on the belief that welfare provisions are entitlements. While a selective program that depends on the discretion of administrators does not necessarily mean that the welfare benefit is not a right, the continuous erosion of the universal program payment level, will most likely result in the contraction of the perceived value of the program to families. This perception allows the government to roll back a fundamental program of the welfare system which opens the door for many other changes. The next chapter investigates how the Liberal and Progressive Conservative government have accomplished this task in the child benefit system.

Chapter Five

THE EROSION OF BABY BONUS

The focus of this chapter is to show how the universal character of the family allowance program was eroded over the last twenty years. Part one of the chapter analyses the reforms of the child benefit system carried out by the Liberal government in the 1970s. Part two continues this examination, but under the Progressive Conservative party from 1984 to 1993.

The continuous attack on the universal program was aimed at gradually rolling back the guaranteed welfare provision in order to move towards a selective program. There was an increased effort by the government to contain the cost of the social expenditure and to redefine equality/inequality in the name of improving the redistributive characteristics of universal programs. The debate centred around two universal programs, OAS and the family allowance program, but the family allowance program, part of the child benefit system, became the centre piece for welfare reform. Managing the growth of the social expenditure was seen as a necessary agenda in the struggle to improve the functioning of the economy, resulting in the shift of the balance between capital accumulation and the legitimacy function of the government. Thus, the main purpose of this chapter is to illustrate that the actions of the federal government over the last twenty years have

resulted in redefining the level of redistribution that should be transferred from the rich to the poor. A consequence of this policy agenda is the undermining of social rights to benefits.

PART I

THE LIBERAL POLICY LEGACIES

The policy legacies of the Trudeau government during the 1970's illustrates the ambivalence and pragmatism of the party in guaranteeing the universal character of social welfare programs. The Liberal government started to actively concentrate on targeting the redistribution of wealth in Canadian society to redress the shortfalls of the income security system and to reflect the economic reality of the country.

In 1968 a recommendation was sent from Cabinet directing the Minister of National Health and Welfare to modernize the family allowance program by targeting families in need of assistance and for a slow overall reform of federally administered programs, relying more on income testing over a universal delivery mechanism.¹ The Family Income Support Plan (FISP) was the first blatant attempt to remove the universal delivery mechanism of the family allowance program in the name of modernization and efficacy. The failure of this plan and the failure of the Victoria Conference left the federal government without any renewed hope of reforming the income

¹Haddow, Poverty Reform in Canada, 92, 93.

security system. The reelection of a minority Liberal government in October 1972 meant the Liberal government was given another chance to improve the shortfalls of the income security system. The government also faced a number of other political pressures to move forward on social welfare reform: 1) party politics, 2) intergovernmental conflict over jurisdictional control of social policy and 3) the provincial and federal bureaucracy pushing for the development of a more comprehensive approach to managing social assistance need.²

There were high expectations for this review to improve the patchwork system and to create a streamlined comprehensive system that would correct the many deficiencies of the system. However, the momentum needed to see the review completed did not continue to the end of the review period in 1978. The repercussion of the failed review process was that the federal government decided to act unilaterally to improve the distributive character of the programs it controls. The only significant policy action the review process achieved was the ad hoc increases to family allowance benefits and the full indexation of family allowance, OAS, GIS, veterans' pensions.

²The civil servants were interested in reforming the system and therefore used the meeting requested by the provinces as the appropriate forum to not only discuss federal-provincial concerns in the area, but also the possibility of developing a more comprehensive approach to managing social assistance needs. Refer to Leslie Pal, State, Class, and Bureaucracy: Canadian Unemployment Insurance and Public Policy (Kingston:McGill-Queen's University Press, 1988), 96. Pal discusses the role and power of the bureaucracy in public policy making. Also refer to Haddow, Reforming Poverty in Canada, 99 and Canada, Working Paper on Social Security in Canada, (April 18, 1973), 2.

Redistributive politics: the onset of targeting

Proposition #5 of the 1973 review was the reversal of the 1970 White Paper recommendation to eliminate the universal family allowance program.³ This complete reversal of the 1970 FISP proposal was buried in political and economic pressures and practicalities: to keep the support of the NDP; to strengthen the purchasing power of consumers in the faltering economy; and the fully outlined proposal for an increase in Family Allowances "attracted far more attention than did the poverty related elements of the," social security review.⁴ The changes had unanimous consent from Parliament and the provincial ministers and so the new act became effective in January 1974.

The policy change received little political backlash because the universal element of the program was maintained, plus there was a substantial increase in the benefit level. The policy impact of taxing back portions of the benefit from families resulted in the program becoming marginally progressive. Conversely, by taking away or decreasing the level of income assistance from families, the government changed the criterion of assistance and directly decreased the

³Proposition #5 recommended increasing Family Allowance benefits from the average rate of \$7.21 per child per month to an average of \$20.00 per child per month, taxing the benefit and finally to review the payment level periodically to reflect the changes in the Consumer Price Index. Refer to Canada, The Working Paper, 29.

⁴Haddow, Poverty Reform in Canada, 101, 117.

purchasing power of some families by making the family allowance program taxable. The mix of universal and selective policy instruments within the program produced a new meaning to universality.

This new policy proposal was similar to the recommendation of the Canadian Council on Social Development (CCSD), supporting selectivity within universality through a special tax schedule based on the income of the family. CCSD recommended that the government could start taxing back from the highest wages to allow for 100 percent retrieval of the allowance in order to improve the redistributive character of income security programs.⁵ Nearly a decade later, the Macdonald Commission also came out in support of selectivity within universality by using the tax system or special tax recovery devices if the regular marginal tax rate did not sufficiently recover the benefits.⁶

Utilizing this hybrid model of universality did improve the redistributive character of the program, but the child benefit system as a whole was regressive. For instance, the redistributive effect of family and youth allowances and the

⁵Refer to the Canadian Council on Social Development, Social Security For Canada 1973, 36.

⁶By using the marginal tax rate, the higher the income, the higher the marginal rate so the greater the amount of money retrieved by the government. In 1974 the tax paid on the benefits was 28.72% and in 1975 it was 28.35% - the highest benefit tax rate of any social security program. Recipients were taxed at the highest marginal tax rate once the family allowance program became taxable.

income tax exemption for dependent children together was regressive. The child tax exemption was regressive because the value of the flat-rate exemption "increases with the rise in marginal tax rates, and therefore benefited higher income families more than lower income families because it represented a tax break."⁷

The child tax credit enacted in 1977 was created to address the shortfalls in the child benefit system.⁸ It was a \$50 per child tax credit for families earning less than \$26 000. This program failed to balance the distributional shortfalls of the family allowance program and the income tax exemption for dependent children because low income earners who did not pay taxes were ineligible for the credit, so the middle income earners benefited from the program the most. The government was not just maintaining or redirecting the benefits to the most in need, but rather was redistributing wealth to all the classes so everyone in society contributes and benefits from the programs at varying levels. The Liberal government was perpetuating a pattern that Julia O'Connor states is not unique to Canada's liberal welfare state by creating a two - fold model of social welfare programs.⁹ The system distributes benefits according to class by initiating

⁷Bridgette Kitchen, "Politics affecting family income: The federal refundable child tax credit," Review '83:57.

⁸Johnson, "Restructuring Family Allowances," 106.

⁹Julia O'Connor, "Canadian Welfare Expenditure and Policy Orientation," 143.

test(s) that differentiate possible recipients by income classification. The introduction of the refundable child tax credit on 24 August, 1978, by the Minister of Finance, Jean Chrétien, further entrenched this structure.

The refundable child tax credit was meant to provide a benefit that was similar to the family allowance program. The new policy initiative was centred around improving the distributive character of real family income through the tax system (an idea the Conservative party fully supported) without a hefty increase in new government spending.¹⁰ Monique Bégin, Minister of NHW, was faced with the reality that an unpopular move of reducing the universal family allowance benefit was going to be adopted by Cabinet.¹¹ The changes initiated by the federal government were seen as providing a base that would one day fully reflect the

¹⁰The Department of Finance, taxation officials and the department of National Health and Welfare and the Treasury Board were all involved in the Interdepartmental Task Force on tax transfer integration in 1976, examining the feasibility of the tax credit and later the development of the program. They had advised the ministers to either cut the value of the family allowance benefit but maintain its universal character, or implement an income test to restrict eligibility to families with children. The members of the task force favoured the former choice, allowing the money saved to be reallocated to the new credit, which also meant that their individual departments would not have to face cuts based on the implementation of a new program. Refer to Haddow, Poverty Reform in Canada, 151.

¹¹The National Council of Welfare (NCW), suggested using the tax system to provide benefits to families through tax credits to relieve poverty. But, NCW still wanted an income supplementation program in place first. Refer to The National Council on Welfare, Bearing the Burden, Sharing the Benefits, (Ottawa: National Council of Welfare, March 1978).

principles the Liberal government believed the welfare state needed to more readily address: independence, interdependence and fairness/equity in the distribution of goods.¹² An opposing view of the Liberal goal was to strike a better balance between the economic and social role of the government. The result was the increased use of conditions to determine eligibility for assistance and cut backs in funding of the universal program.

The switch from an emphasis on transfer payments to using the tax system to deliver welfare provisions allowed the Liberal government to distance itself from means or income test, which is associated with stigmatizing the recipient of the benefit. Since almost everyone files personal income tax, this allowed the government a less demeaning way of increasing the use of selective programming in the reallocation of wealth. Plus, the discussion on the tax system is usually left to the experts, whereas the wholesale change of a universal program has the potential to convey more serious political consequences to the party introducing the policy change.

The next policy change to the universal family allowance benefit directly attacked the universal element of the program. The benefit was cut from an average of \$25.68 per month to \$20 per month. The tax exemption for children between sixteen and seventeen was also reduced from \$780 to

¹²Canada. Working Paper on Social Security in Canada, 6.

\$460 and the \$50 per child tax reduction was eliminated. The \$690 million removed from the family allowance program budget and the money saved from the tax exemptions did not represent the government actually saving money because the money was simply reallocated towards the selective refundable child tax credit. This move represents the intention of the federal government to erode the universal benefit, in favour of a selective distributive mechanism. This resulted in a shift from horizontal equity to vertical equity and the concentration of assistance to the low and moderate income levels.¹³

A drawback of this program was that the government was probably assuming that there would automatically be a high take up because the majority of the population file income tax returns. It was assumed that the take up rates are income sensitive, so the lower income families would then naturally have a higher take up rate, but as Dennis Guest has concluded from his research, this speculation does not hold true.¹⁴

¹³ Families with incomes of \$18 000 a year or less in 1978, in 1979 were entitled to a maximum credit of \$200 annually per child under the age of eighteen. Above \$18 000 the tax credit would be reduced by five cents for each dollar. A family with two children would receive \$300 if its income was \$20 000 or less and above \$26 000 the credit is gone. The cut off point was just below the median income in 1978 of about \$19 500. Refer to Guest, Emergence of Social Security in Canada, 199 and Haddow, Poverty Reform in Canada, 152. Also refer to Samuel A. Rea Jr., Critique on article by Leonard Shrifrin, "Income Security and the Integration of Social Programme Payments into the Tax System," Canadian Taxation 1(4) (Winter, 1979): 40.

¹⁴Guest, Emergence of Social Security in Canada, 233.

The use of the tax system to redistribute money to targeted families was the turning point of greater reliance on selective rather than universal delivery mechanisms in the child benefit system. The expenditure under the child tax credit increased from \$874 million in 1978 to \$1.446 billion in 1983, an increase of 65.4%, while family allowance increased only 3.5% over the same period. By 1983 the value of the refundable child tax credit represented 62.7% of the total family allowance payment compared to representing 39.3% in 1978.¹⁵

The ideological and structural forces of the 1970s had resulted in the re-evaluation of the Keynesian welfare state. The Liberal government attempted to control government spending to help decrease the increasing deficit and to reflect the decreased revenue being collected. Meanwhile, in the social policy field, social security spending as a percentage of the GDP remained relatively stable in the 1970s, with only a slight increase from 12.74 per cent in 1974-75 to 14.07 per cent in 1975-76.¹⁶ The implementation of the selective refundable child tax credit represented the rationalization of the social security budget. It was the first step towards the erosion of the universal principle.

¹⁵Allan Moscovitch, "The Welfare State Since 1975," Journal of Canadian Studies, .

¹⁶Refer to Canada. Social Security Statistics Canada and provinces 1968-69 to 1992-93 (Ottawa: Health and Welfare Canada, 1994), 13.

The Liberal government did attempt to implement a more selective approach to family allowances in 1982, but it was never passed because it was politically unpopular.¹⁷ However, the Conservative had the opportunity to roll back the universal family allowance program due to the party's two consecutive terms in office. The party was able to plan and execute its long term policy objectives.

Part II

THE PROGRESSIVE CONSERVATIVE PARTY: THE POLITICS OF SCARCITY

The Progressive Conservative party embarked on a trend that would fundamentally reduce the tension between the dynamics of the welfare state and the market system. Mulroney believed that the expansion of social programs over the years had led to obstacles in the free functioning of the capitalist system and this contributed to the decline of the economy. Therefore, the Tory government aimed to be a responsible government by restraining the social expenditure. The Progressive Conservative party:

"proposed to finance enriched selective social programs for the poor from savings in expenditures on universal and non-actuarial social insurance programs; hard economic times, they argued, made this the only affordable route to poverty reform."¹⁸

The Mulroney government started the attack on universal

¹⁷Moscovitch, "The welfare state since 1975," 83.

¹⁸Rodney Haddow, "The Poverty Community in Canada's Liberal Welfare State," in Policy Communities and Public Policy in Canada: A Structural approach William D. Coleman and Grace Skogstad (Copp Clark Pitman Ltd, 1990), 225.

programs by concentrating on increasing the selective nature of the child benefit system. First, by partial de-indexation and later by changing the policy instrument of universality to a selective mechanism, to target the redistribution of cash transfer payments. These changes allowed the Mulroney government to reallocate money to other policy areas and the deficit. This push for change commenced with the first budget of the Progressive Conservative party.

Finance Minister Wilson's first budget in February 1985, switched the family allowance program from full indexation to partial indexation, while increasing the value of the child tax credit over the next four years.¹⁹ It was estimated that the budget would save the government more than half a billion dollars in 1990 that would not be reallocated back into the social development envelope. The government's success in partially de-indexing family allowance serves as a reminder that the political guarantees implicit in protecting universality are never absolute, a situation reminiscent of the Liberal government's policy initiatives in the 1970's.²⁰

¹⁹In 1985 the child tax credit was increased from \$384 per child to \$454 for 1986, \$489 in 1987 and \$524 in 1988. Then, in 1989 the benefit was partially indexed. In 1986 the government lowered the threshold level by which the child tax credit begins to diminish by five per cent, from \$26 300 to \$23 500. Refer to Ken Battle, "Child Benefits in Decline," Policy Options 9:1 (January 1988): 3.

²⁰Keith Banting, "Visions of the Welfare State," in Shirley B. Seward, The Future Social Welfare Systems in Canada and the United Kingdom, (The Institute for Research on Public Policy, October 17-18, 1986), 159.

The family allowance policy was amended to adjust to inflation by the amount that inflation exceeds three per cent a year of the Consumer Price Index. The partial indexation of the benefit meant over time inflation would erode the real value of the benefit because while the actual value may increase, the purchasing power of the benefit would fall below the cost of living.²¹ This change in indexation hits the poor families with children the hardest because their family allowance payments are worth more as a percentage of their incomes.

This shift in the weight of the delivery mechanism was also experienced in the OAS and the GIS social security programs. Between 1975 and 1985 the dollar value of OAS was increased by 266 per cent, yet in 1975 GIS represented approximately 31 per cent of OAS and by 1985 the figure had risen to 38 per cent. The Liberal government had first initiated this reversal of policy in 1982, limiting the indexation of OAS benefits to 6 per cent for 1983 and 5 per cent for 1984, while not implementing any limitation on the selective GIS program.²² They were also captive of the

²¹The result from the partial indexation resulted in an average family allowance payments in the provinces of \$31.58 under the new formula, while if it was under the old system the cheque would have been \$32.52 (for the year of 1986). Refer to Globe and Mail, "Tories push through family allowance cuts," (January 21, 1986), A1.

²²Moscovitch, "The Welfare State Since 1975," 84, 85.

fiscal restraint practice, more so during the 1980s than during the 1970's, with the 5 and 6 policy also affecting the wages of the public servants.²³ Indeed, both the Conservative and the Liberal government had actively undermined the weight of universal programs in comparison to a selective delivery mechanism. The policy movements did not directly cut the cost of the programs, but were indirectly reducing government intervention in the lives of individuals by eroding over time the value of welfare assistance.

Lowering benefit levels of the universal entitlement decreases the expectation of assistance from the state. The dependence on provincial and municipal assistance and private institutions would then increase, helping to off set the declining role of the federal government in the policy area. Yet, this pattern does not speak favourably about maintaining national standards, for the provinces are then left with growing caseloads of people who need supplemental assistance. If further federal funding is not available, the sub-governments and private organizations would then have to resort to their own budgets to cover the growing welfare cost.²⁴ Decreasing the role of federal government then clears the way for private institutions to provide more

²³Savoie, Politics of Public Spending in Canada, 156.

²⁴Moscovitch research highlights the complexity of the funding situation of the provinces in the welfare area. Provincial assistance programs are looked to when federal assistance expires. Refer to Moscovitch, "The welfare state since 1975:" 79-80.

services to the public under the auspice of "noblesse oblige," part of the Conservative philosophy. The Conservative government was slowly shrinking the role and responsibility of the state in the social sphere by gradually shifting the obligation of providing for the needy back to societal organizations. The government continued on this track in its second term. The changes from 1985 to 1988 meant a marginal increase of family allowance benefits, while the child tax credit rose by 36.5 per cent, putting more emphasis on the selective program compared to the universal program.²⁵

The government attempted to balance the regressive nature of the child benefit system in the 1987 tax reform by balancing the system of distribution in a more progressive manner. The children's tax exemption was replaced by a flat rate, non-refundable credit of \$65 per child starting in 1988.²⁶ The lower a family's income, the greater its benefits; however, what they gained from an increase in the non-refundable child tax credit they lost from the partial indexation of family allowances.

The government was supporting the capital accumulation function by rewarding the middle and upper class for their contribution to society by allowing the middle and upper classes to keep a greater proportion of their wages before taxes are applied to their income by creating loopholes in the

²⁵ Moscovitch, "The welfare state since 1975," 84.

²⁶Battle, "Child Benefits," 3.

tax system. The Registered Retirement Savings Plan is one such loophole, following the policy structure the Liberals established in the refundable child tax credit. Meanwhile, the unemployable individual and the working poor have no similar tax breaks because many do not have sufficient incomes to save for contingencies.

The future of the welfare state to ensure the security, social integration and redistribution of wealth was slowly being shifted in each incremental move by the Mulroney government to fundamentally reorganize the structure of the social welfare programs, thus shrinking the role of the state.

The majority win of the Progressive Conservatives in 1988 consolidated the electoral support of the party to carry out its neo-liberal policy objectives with greater assertiveness. The government continued to focus on reductions in the social expenditure area; the child care plan was postponed, the transfers to the provinces for health care and post-secondary education were frozen and the government limited the growth of its support of provincial social assistance programs.²⁷ The relative decrease of the total social security expenditure as a percentage of the GDP also reflects the restraint efforts of the government in the policy area. In 1986-87 total social security expenditure represented 17.26 per cent of the GDP, in 1987-88 it decreased to 16.86 per cent; 1988-89 16.65 and 1989-90 16.92 per cent (refer to Appendix A). However, the

²⁷Banting, "Neo-conservatism in and Open Economy," 157.

Mulroney government still moved somewhat cautiously because of the "recognition by politicians and officials that Ottawa's social policy role is a crucial instrument of political and cultural integration and a central means of legitimation."²⁸ The gradual movement to roll back the role of the state in providing child benefits was furthered by the introduction of the clawback policy instrument.

In 1989 the claw-back proposal was initiated, allowing Ottawa to completely recover benefits by introducing a social benefit repayment system through the tax system. This method allowed the federal government to recover 100 per cent of family allowance benefits from targeted income families and from targeting elderly who receive OAS. Yet, the government still maintained the universal delivery mechanism of the programs.

The use of claw-back on the universal entitlements in the 1989 budget was presented by the government in terms of equity, of the rich paying their fair share while maintaining the form even if not the substance of universality and the protection of social integration.²⁹

The claw-back resulted in taxing back benefits if the tax filer with children is over the threshold level of \$50 000. For every dollar over \$50 000 the tax filer earns, fifteen percent of their benefits would have to be paid back, but no one would actually have to pay back 100 percent of his\her

²⁸McBride and Shields, Dismantling a Nation, 67.

²⁹Ernie Lightman and Allan Price, "Restructuring Canada's Welfare State," Journal of Social Policy 20(1) (1991): 81.

family allowance until 1991.³⁰ Previously family allowance benefits were taxable, yet even high income earners were able to keep a portion of their benefits. The changes meant that individuals with incomes over \$55 240 would forfeit the entire amount (\$786) of the baby bonus.

Selectivity was manipulated into the universal component of the family allowance program by income testing the recipients once taxes were filed; therefore, the program had become a hybrid of the universal principle. Finance Minister Michael Wilson commented that the claw-back had not affected the universality of the family allowance program because families with children still would receive their monthly check.³¹ This statement is false because the payment was completely recovered from higher income earners, drawing the universal program closer to a selective one. The deterioration of the universal family allowance program was taken a step farther in 1992.

In 1992 the government proposed a new program called the child benefit program, effective January 1993, replacing the family allowance program and the child tax credits. The objective of this new policy was to provide a larger monthly payment to lower income earners foremost and then to middle income families. The program was first announced by Finance Minister Mazankowski in the federal budget.

³⁰Ken Battle, "Clawing Back," Perceptions 14(3) (1990): 35.

³¹Ibid., 36.

Even though the Mulroney government was influenced by neo-conservative ideas, the government was faced with the reality that social citizenship maintains an important component in Canadian society. The institutionalization of the welfare state meant the government could not dismantle the income security programs. Canadian society still supported the existence of the income security system for much the same reasons established during the early years of development. But, the continuous assault on the program since the election of the Mulroney government resulted in the gradual erosion to a key universal program. Under the Conservative government the balance between accumulation and the legitimacy function received an increased tilt towards the accumulation function. Accordingly, the demise of Keynesian economic and social policy was followed by the rise of a new economic paradigm calling for a new approach to the welfare state.

Overall, what we have experienced in Canada is a focal shift from horizontal equity to vertical equity since the 1970s. We have developed a tradition of using selective targeted programs to redistribute wealth: research by Terrance Hensly and Banting affirm this point. Their figures on Canada and the United States - Table 5.1 and Table 5.2 shows the expenditures trends of the two countries in policy instrument delivery.³²

³²While the United States overall ranks below the majority of European countries in its commitment to a welfare state (refer to table 1.3 in chapter one), the tables demonstrate the declining

Table 5.1 Universal and Selective Expenditures as a Proportion of Total Income Security, Canada and the United States, 1960-87 (in %)

Country	1960	1965	1970	1975	1980	1985	1987
UNITED STATES							
Universal ^a	77.1	77.6	77.0	76.5	78.9	82.4	82.5
Selective ^b	22.9	22.4	23.0	23.5	21.1	17.6	17.5
CANADA							
Universal ^c	79.2	72.4	69.2	70.7	62.6	64.5	65.0
Selective ^d	20.8	27.6	30.8	29.3	37.4	35.5	35.0

^aIncludes social insurance programs: OASDI, Unemployment Insurance, Workers Compensation, plus public employee retirement benefits, and railroad retirement and unemployment benefits.

^bIncludes both income-tested programs (Earned Income Tax Credit) and means-tested programs.

^cIncludes both social insurance and demogrants.

^dIncludes both income-tested programs (Child Tax Credit, Guaranteed Income Supplement, Spouse's Allowance, and provincial tax credits and rebates) and means-tested programs. Source: Terrance Hensley and Keith Banting, Social Policy in the Global Economy: Canada and the United States (Kingston: Queen's School of Policy Studies, 1992), 26.

Table 5.2 Income Security Expenditures by Policy Instrument, Canada and the United States, 1960 and 1987 (in %)

Instruments	CANADA		UNITED STATES	
	1960	1987	1960	1987
Insurance	33	42	77	82
Demogrant	46	23	-	-
Supplement	-	14	-	1
Assistance	21	21	23	17

Notes: See Table 5.1

Source: See Table 5.1

expenditure on universal/demogrant programs, while experiencing an increase on selective programs in Table 5.1 for Canada. Table 5.2 shows the trade off that has taken place in Canada between demogrants over insurance and supplement policy instruments.

David Ross presents an interesting argument concerning increased dependence on selectivity of our social welfare programs. Ross argues that increasing dependence on selectivity (targeting) is not a step backwards in the evolution of a guaranteed annual income system. He argues that integrating the tax system with cash transfer policies achieves two important factors. First, it meets the goal of universality, by reducing the stigma of clients. Second, the government can better utilize scarce resources by targeting funds to those most in need to maximize the anti-poverty measure.³³ Yet, upon examination of social welfare policy geared to the child benefit area over the last two decades, the idea that the government is gradually moving up the evolutionary ladder towards a guaranteed annual income system seems to be incorrectly interpreting the impacts of social welfare policy at the federal level. The poverty rate of children and the poverty rate of single mothers does not speak of a system that is improving the distribution of wealth through more selective programs (refer to Appendix D).

Conclusion:

Redistributive politics of the 1970s meant increased activism of the central government in reallocating wealth within society. The federal government possessed the relative autonomy to carry through with its mandate with little resistance. Of course the government recognized the

³³Ross, Working Poor, 83.

institutional structures that could block its goals and as a result there was never a wholesale attempt to dismantle the welfare state. Instead, the programs were increasingly dependent on conditions of eligibility as voiced as early as 1973 in the Orange Paper.

Within an income security system rights to benefits are related to a number of qualifying conditions including previous contributions, means, need, income age, residence or other requirements. These broad conditions of qualifications establish the right to benefits and there should be adequate appeal procedures to protect that right.³⁴

Both parties are guilty of initiating a shift away from horizontal redistribution of family allowances between those with children and those without, concentrating on greater vertical equity, with a class focus. But, the Progressive Conservative government inflicted the deepest policy shift of the two governments. The Mulroney government was able to destabilize support for universal social programs by attacking the program through policy movements that failed to attract the attention and concern that the moves merit. Changing the policy instrument from universal to selective increases the difficulty of rallying support for a program because less people discern the benefit of the program directly. The less people receiving any direct benefits from the system, the harder it is to gain consensus on programs, perpetuating possible middle class back lash and eroding the value of social citizenship rights to benefits. This increases the

³⁴Canada, Income Security for Canadians, 16.

possibility of class tension over the justification of social programs resulting in possible polarization of society along class lines, generational cleavages and other interest in society. This occurrence has further entrenched the liberal welfare state regime model.

Chapter Six

SUMMARY and CONCLUSION

The Great Depression and the post-war reconstruction period helped to boost the need for government intervention to solve societal and economic problems. The expansion of the economy in the 1950s and the 1960s spawned a false confidence in the continuing growth of the national economy. This resulted in the federal government expanding its role in welfare, even though it is under provincial jurisdiction. From the 1970s onward, the economic events proved the assumption of unlimited economic growth false, and the federal government was left with a number of difficult decisions and choices in the management of government expenditures. The institutional approach was used as a framework to study the political values and ideas of the central actors, in relation to how they have affected and defined the institutional structures.

The neo-conservative interpretation of the fiscal condition of the state was used to explain the restructuring efforts aimed at the welfare state since the mid-1970s. The instability of the economy during the 1970s, and the recessions in the 1980s and the 1990s, placed increasing pressure on the state budget at a time when the state's fiscal ability to meet the demands of increased welfare caseloads and unemployment insurance claims.

Both the Trudeau and Mulroney governments focused their

argument for change on the growing insecurities of the Canadian economy and the increasing demands on the welfare state. The policy changes to the child benefit system during the Trudeau and Mulroney governments represented a declivity of universal social rights in favour of greater discretionary state power in determining who deserves income assistance. Thus we now have the selective child benefit program.

Conclusion:

Even though there were only two programs classified as universal demogrant programs originally (family allowances and the old age security program), the notion developed that welfare provisions should be universal; this in turn helped to expand the belief in social rights. Accordingly, any attempt to roll back the welfare state, namely universal programs, is seen as an attack on the legitimacy of social citizenship rights and entitlements.

The family allowance program was an ideal of citizenship rights because from birth, the state recognized the importance of the child for the future well-being of the state. Just as important, it is held that the universal distribution of benefits to all families with children instills loyalty among citizens, and decreases the chances of attacks on the level of benefits. Moreover, the use of the universal policy instrument does not stigmatize the recipients of entitlements, but rather it reflects the

inclusiveness of society, which down plays class lines in society.

The adoption of the fiscal crisis argument by both the Liberal and Conservative federal governments over the last twenty years, has resulted in the government questioning the rationale of maintaining universality when resources are scarce. The decision to increase the dependence on selectivity was a political decision that has multiple ramifications on both the social, and economic forces in Canadian society.

Although the universal delivery method may not be the most effective policy instrument in redistributing wealth from the haves to the haves nots, it did succeed in instilling a sense of collectivity among the population because it was not based on establishing categories of need. When the federal government opted for a more selective policy instrument as a primary method of redistributing benefits, it perpetuated the polarization of society along class lines and other cleavages. This policy choice undermined the sense of collectivity that was needed to maintain guaranteed welfare provisions. By equating the fiscal condition of the state with increasing social expenditures, the two dominant federal political parties successfully launched, and continue to carry out, an assault on social programs. The Chrétien Liberal government has continued on to focus on the debt and the deficit as stated

in the 1995 budget.

Secondly, the political choice to integrate selectivity within universality, in particular the family allowance program, was held as a positive virtue in the reallocation of scarce governmental resources. In actuality, it undermined universality as it inferred that means testing was not as stigmatizing as originally thought. The first method used to alter the family allowance program was the creation of a hybrid universal model which incorporated selectivity within it. Accordingly, by attacking universality in this method it was implied that the universal policy instrument must be adjusted to the economic dynamics of the state. In Canada this has meant that when the economy declines, so should people's expectations of the role of the state in redistributing wealth and we continue to see this agenda being carried on today in the 1995 February federal budget. The Liberal budget speaks of redesigning the role of government in the economy to fit our fiscal condition - in the sense of a smaller government; in reference to the CAP, the Canada Health and Social Transfer that the government wants to introduce in 1996-97 is directed at gradually releasing the provinces from shared-cost agreements.¹

Indeed, the choice to alter the structure and distributive aspects of social welfare programs has become a

¹Canada. Budget in Brief, 7, 12.

value judgement about equality, rights and economic policy. In this respect, social rights have easily fallen under the influence of the changing face of Parliament, and the redefinition of rules in the economic and social spheres.

Third, the increasing dependency on selectivity "leads to pressure to define the eligible group precisely, to lower benefits, and to build a large bureaucracy which will regulate and police more vigorously," the supplicants of the benefits.² Thus selectivity has led to an emphasis on categorizing the needs of people, in turn continuing to demean those who require assistance and further differentiating the poor from the rich. Entitlements then become benefits that the government can continually reshape. The depreciation of social rights as a legitimate citizenship right has served to undermine entitlements and allowed welfare provisions to be increasingly set at the discretion of policy makers, making benefits a privilege.

This point centres around the concern that the devaluation of the importance of universal welfare provisions has increased the danger of fundamentally eroding the legitimacy of social citizenship rights. Social rights are important because they allow the moral argument for welfare to emerge, and indeed, the principle calls for the establishment of a standard, adequate minimum income in

²Refer to Guest, Emergence of Social Security in Canada, 233.

society. Since the social rights argument has basically been overshadowed by the fiscal argument in Canada, the standard for both social insurance and income maintenance benefits have become readily available targets for reform. These programs are being reduced through the increasing acceptance of discretionary benefits, which in the case of the unemployment insurance program has meant decreasing the number of recipients as well as the level of benefits, in the 1990s.³

The erosion of universality was the beginning of the depreciation of social rights. This depreciation has combined with the increasing acceptance of discretionary benefits, and has resulted in the reduction in the number of privileges extended to those who most depend on the state for assistance, such as single mothers. In a recent article in the Windsor Star, it was reported that the newly elected Progressive Conservative government under the leadership of Michael Harris planned to cut the monthly benefits of single parents in Ontario by about 21.6 per cent starting in October 1995. It seems that with the fiscal and economic challenges of the day, the government has chosen to subordinate the legitimacy function in favour of the

³Havi, Echenberg, "UI savings sought by many," Social Policy Update 2(4) (August 31, 1995): 1-4.

accumulation of capital.⁴ This attitude towards social support programs will have serious repercussions for the Canadian state, for as the gap between the classes in society is allowed to widen, the poor will no doubt be marginalized by both the government and society.

The changes the family allowance program has gone through is an argument and a lesson on incrementalism/decrementalism in the Canadian political system. The two dominant federal parties have reshaped and continue to alter the basis of how wealth is distributed in Canadian society. Where benefits were once upheld as entitlements, today the federal government has increased its discretionary authority to selectively distribute cash assistance and other services and continue to modify (or restrict) the eligibility criterion for assistance. This attack on the welfare state has direct repercussions on the political system, for the federal government is slowly altering the level of responsibility between the two levels of government in the welfare field. In the future not only will the social cohesion of society be tested, but we are nearing a return to a classical model of federalism that will merit further research.

⁴Thomas Courchene, "Toward the Reintegration of Social and Economic Policy." In Canada at Risk? Canadian Public Policy in the 1990's eds., Bruce G. Doern and Bryan B. Purchase (Toronto, C.D. Howe Institute, 1991), 126.

Appendix A

Total Social Security Expenditures in Canada, 1968-69 to 1992-93
Dépenses totales de sécurité sociale au Canada, 1968-1969 à 1992-1993

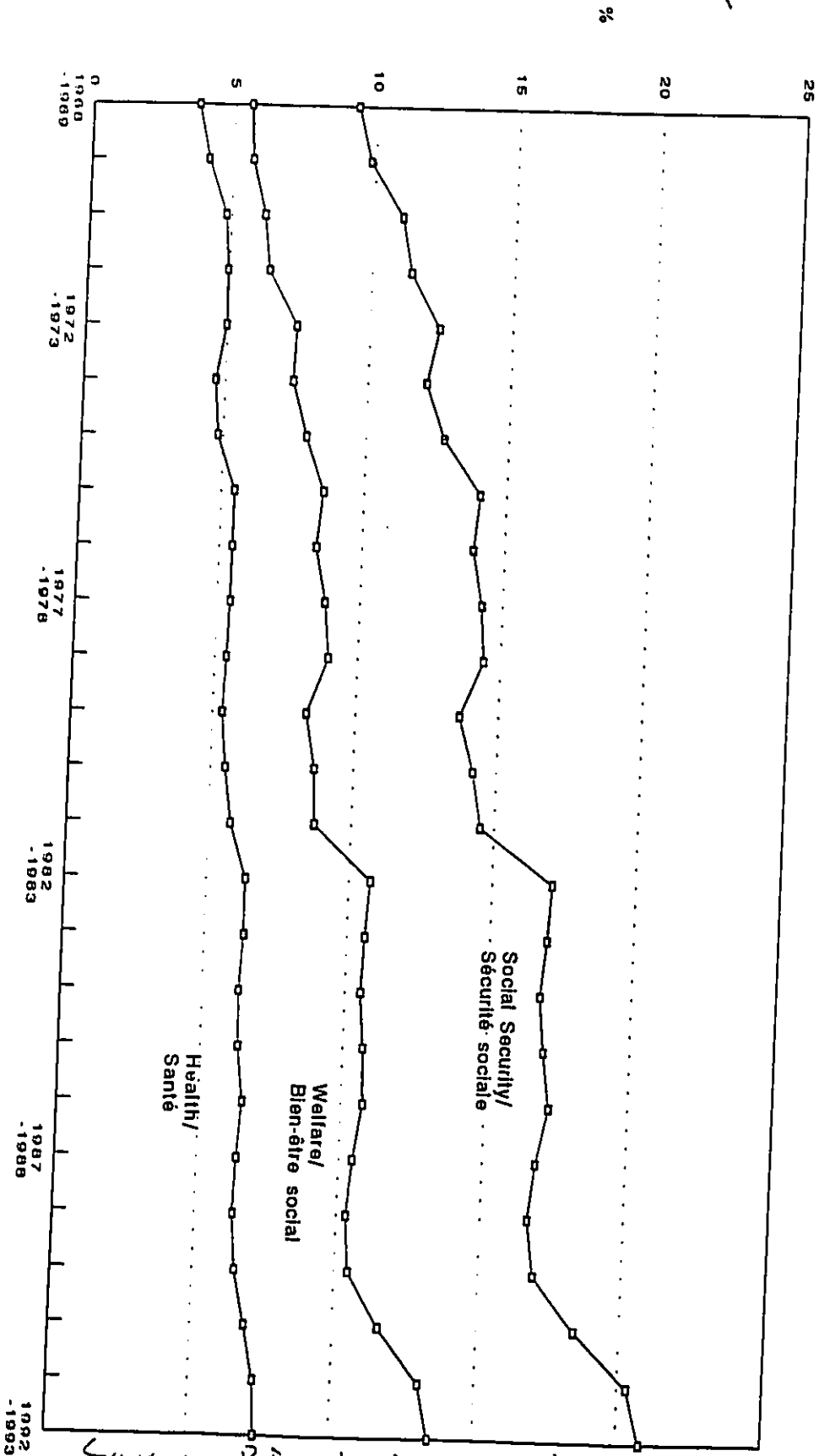
Year Année	Total Social Security Expenditures Dépenses totales de sécurité sociale (en millions de dollars)	Gross Domestic Product (GDP) Produit intérieur brut (PIB)	Net National Income Revenu national net	Overall Government Expenditures (Current dollars) Dépenses globales du gouvernement (en dollars courants)	Total Social Security Expenditures as a Pourcentage de			Per Capita Expenditure (\$) Dépenses par habitant (\$)
					Percent of GDP	Percent of Net National Income	Percent of Overall Government Expenditures	
1992-93	144 049	692 874	496 971	340 397	20.79	28.99	42.32	5 065.80
1991-92	138 116	680 053	491 954	329 183	20.31	28.07	41.96	4 901.62
1990-91	123 611	670 612	492 070	306 189	18.43	25.12	40.37	4 447.94
1989-90	111 507	658 862	485 776	281 604	16.92	22.95	39.60	4 072.68
1988-89	102 895	618 101	460 478	257 117	16.65	22.35	40.02	3 825.83
1987-88	95 404	565 909	421 245	238 848	16.86	22.65	39.94	3 593.41
1986-87	88 705	513 956	380 992	223 743	17.26	23.28	39.65	3 385.20
1985-86	82 668	486 173	365 192	212 212	17.00	22.64	38.96	3 186.70
1984-85	76 177	452 992	342 530	200 272	16.82	22.24	38.04	2 963.88
1983-84	70 795	416 385	312 988	183 154	17.00	22.62	38.65	2 781.04
1982-83	64 906	379 193	282 447	168 670	17.12	22.98	38.48	2 575.44
1981-82	52 587	362 780	271 720	143 470	14.50	19.35	36.65	1 111.93
1980-81	45 495	321 225	246 344	120 961	14.16	18.47	37.61	849.89
1979-80	38 877	285 145	219 702	103 060	13.63	17.70	37.72	601.40
1978-79	35 873	249 124	190 014	91 841	14.40	18.88	39.06	1 492.45
1977-78	31 787	222 941	168 836	82 587	14.26	18.83	38.49	1 335.79
1976-77	28 265	203 457	155 799	72 808	13.89	18.14	38.82	1 201.87
1975-76	25 056	178 033	137 820	64 716	14.07	18.18	38.72	1 079.57
1974-75	19 985	156 895	120 584	53 174	12.74	16.57	37.58	873.67
1973-74	16 080	133 315	101 130	42 575	12.06	15.90	37.77	712.78
1972-73	14 015	112 655	85 057	37 027	12.44	16.48	37.85	628.91
1971-72	11 403	100 127	74 463	32 453	11.39	15.31	35.14	517.70
1970-71	9 950	90 251	66 717	28 685	11.02	14.91	34.69	467.20
1969-70	8 341	84 841	63 380	25 040	9.83	13.16	33.31	397.17
1968-69	7 227	77 422	57 665	22 193	9.33	12.53	32.56	349.11
					Dépenses totales de sécurité sociale en tant que			
					Pourcentage du PIB	Pourcentage du revenu national net	Pourcentage des dépenses globales du gouvernement	

Source: Canada. Social Security Statistics (Canada and the Provinces 1967-69 to 1992-93 (Ottawa: Health and Welfare Canada 1994), 13

Note: Social Security comprise of income security, social services and health services.

Appendix B.

Total Social Security, Welfare, and Health Expenditures as a Percentage of Gross Domestic Product, 1968-69 to 1992-93
 Dépenses totales de sécurité sociale, bien-être social et santé en tant que pourcentage du Produit intérieur brut, 1968-1969 à 1992-1993



Source: Refer to Appendix A.

Appendix C

The main features of the child tax benefit³⁵ are:

1. The basic credit for each child would be \$85 a month or \$1 020 a year for children seven to seventeen and in 1993, for children six and under \$1 233 (of which \$213 was reallocated from the Refundable Child Tax Credit) and \$75 supplement for third and each additional child.³⁶

2. The threshold level would be a net family income of \$25 921 a year (the same threshold level as the 1993 Refundable Child Tax Credit). This is calculated from earnings, interest and other income, minus deductions. Deductions are child care expenses, union dues, contributions to pension plans and registered retirement saving plan. Families with two or more children would be subject to a reduction rate of 5% for every dollar of income above \$25 921. A family with one child would have a reduction rate of 2.5% for every dollar of income over the threshold.

3. Working poor families with children would be eligible for an earned income supplement of up to \$500 a family, if their income exceed \$3 750 a year, reaching a maximum of \$10 000, but only if the family is not receiving unemployment benefits or social assistance. This supplement is paid as part of the monthly benefits and is not subject to income tax and is partially indexed to the amount of inflation over 3%. Families with net incomes above \$20 921 would lose ten cents of the supplement for every additional dollar of income until the family's net income reached \$25 921, then, the payment - would be zero.

4. Families who do not claim the child care expenses deduction and have children under seven years of age, would have an additional \$213 in child tax benefits a year for each child.

5. For larger families there would be an additional credit of \$75 for the third child and there after.

6. Provincial governments could continue to have the federal government restructure the new child tax benefit to meet their own priorities (Quebec and Alberta for example have different rates). The federal government would be responsible for calculating the benefit received by individual families.

³⁵National Council of Welfare, The 1992 Budget and Child Benefits (Minister of Supply and Services Canada, 1992), 1.

³⁶Hess, Canadian Fact Book, 32.

Appendix D

Poverty Rates (%)

Year	Children under 18 years	Number of children	Families	Unattached individuals	*Single mothers
1980	14.9	984 000	13.2	41.1	57.7
1981	15.2	998 000	13.0	40.3	54.8
1982	17.8	1155 000	14.2	40.2	60.9
1983	19.0	1221 000	15.3	44.9	61.7
1984	19.6	1253 000	15.6	41.3	62.8
1985	18.3	1165 000	14.3	40.8	62.5
1986	17.0	1086 000	13.6	38.3	58.5
1987	16.6	1057 000	13.1	37.5	59.0
1988	15.4	987 000	12.2	37.7	56.7
1989	14.5	934 000	11.1	34.4	52.9
1990	16.9	1105 000	12.2	34.1	60.6
1991	18.3	1221 000	13.1	36.5	61.9
1992	18.2	1218 000	13.3	36.2	58.4

Source: National Council of Welfare, Poverty Profile 1992, (Ottawa: Minister of Supply and Services Canada, Spring 1994), 8, 11, 14. For families one earner or two earner situations makes a difference. While the statistics are not shown on this table, couples under sixty-five without children have a much lower poverty rate. In 1980 the rate was 6.9%, in 1983 it was a high of 10.2% and in 1990 the poverty rate for this group was only 8.3%. The family allowance contribution then helps to increase the purchasing power of families with children, but the shift to selective child benefit program does not address this difference.

*The numbers represent the poverty rate of mothers under sixty-five years old with children under 18.

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