



# **Relentless Incrementalism: Deconstructing and Reconstructing Canadian Income Security Policy**

*by*

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## ***Introduction***

The conventional wisdom among social advocacy groups, the left and the media about what has happened to Canada’s social programs in the 1980s and 1990s goes like this: “Empowered by an unholy blend of neoconservative ideology and governments’ political success in convincing most Canadians of the economic imperative of putting the nation’s fiscal house in order, the corporate and ruling political/bureaucratic elites have slashed social spending and shrivelled the role of the federal government in social policy. While the provinces have played an important part – in some cases enthusiastically, in others regrettably – in the assault on social programs, the chief culprit is the federal government: Ottawa abandoned the sacred trust of universality, abrogated its stewardship role in enforcing national standards and unilaterally pulled out of the cooperative federalism partnership whereby it had helped the provinces finance medicare, welfare, social services and post-secondary education.”

As with all influential mythologies, there are important elements of truth in this account. But on the whole it is a comic book version of the ongoing transformation of the Canadian welfare state. As a result, the so-called public discourse on social policy in this country is lacking in substance and subtlety, a fact that serves to insulate governments from effective criticism and starve the country of badly needed informed debate about how to reconstruct our social security system. Important advances in social policy which hold out promise for broader reform are being ignored – indeed, opposed – by “civil society” groups that cling to an outmoded universalist model of social security that in some important respects never was realized in Canada.

This paper analyses the ongoing transformation of income security policy in Canada by attempting to: (1) chart trends in major income security expenditures and their impact on income inequality; (2) identify key economic, social, demographic and political forces driving the recent and unfolding reform of Canadian income security policy; (3) explore major developments in income security policy (defined broadly as encompassing both direct and tax-delivered benefits) since the mid-1980s; and (4) explain how governments have effected such significant restructuring with relatively little political pain. Regarding the latter task, I coin the term “relentless incrementalism” to characterize the dominant process and method of deconstructing and reconstructing Canadian social policy.

This paper focuses on income security programs, which constitute the bulk of federal social spending and a significant portion of provincial social expenditure. But its arguments and themes apply to the reform of social policy generally, including social services, employment programs and health care.

## Income Security Expenditures and Inequality

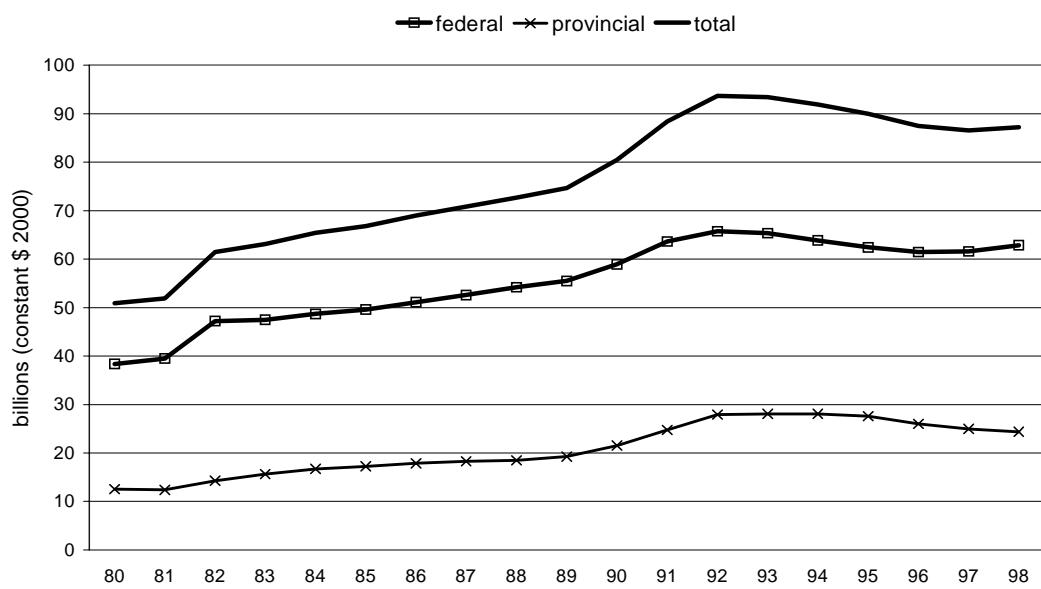
### Trends in Major Income Security Programs

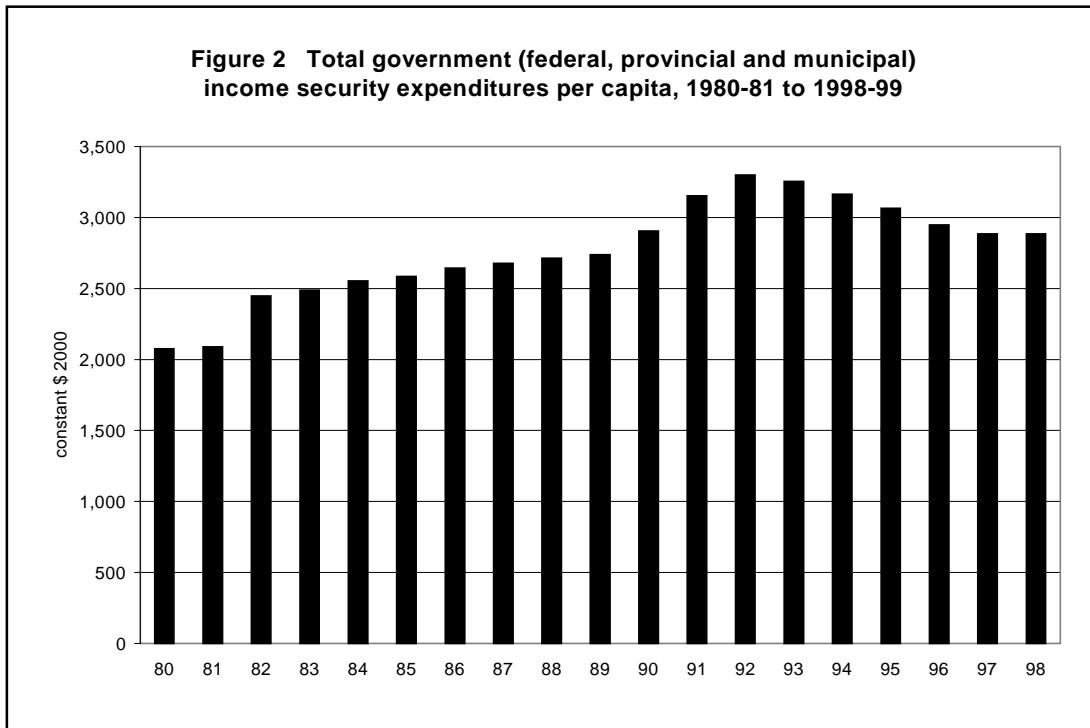
Although the 1990s are widely viewed as a decade of cuts to public spending, especially social programs, in fact income security expenditures indicate a modest rather than sharp downward trend in both absolute and relative terms. Moreover, while comprehensive data on total overall social security spending are available only to 1996-97 [Human Resources Development Canada nd], reductions in income security and social services have outweighed those in health and education.

Total federal and provincial/territorial expenditures on income security programs increased from \$50.9 billion in 1980-81 to a peak of \$93.4 billion in 1992-93, declining to \$86.5 billion in 1997-98 though inching up to \$87.3 billion in 1998-99 (the latest year for which comprehensive data are available). Figure 1 shows the trend; here, as in other graphs, dollar figures are shown in constant 2000 dollars.

While federal and provincial income security spending trends are similar, the latter show a steeper rise and fall. Provincial income security spending rose by 123.8 percent in real terms

**Figure 1 Total government (federal, provincial and municipal) income security expenditures, 1980-81 to 1998-99**

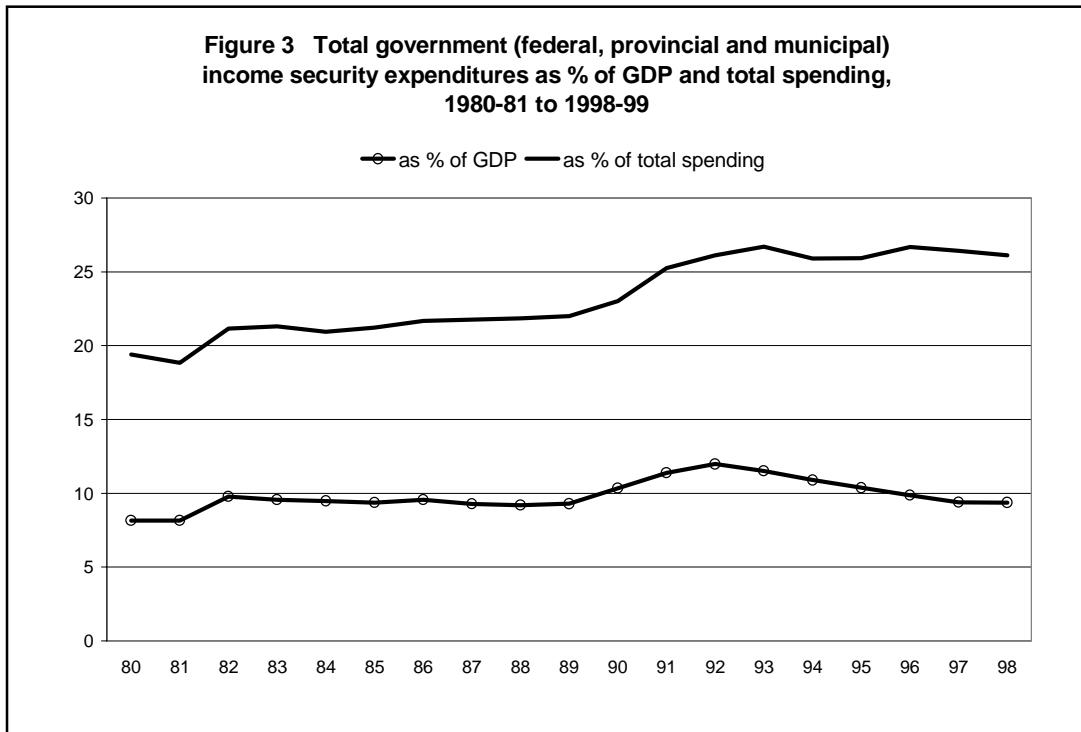




between 1980-81 and 1993-94 as opposed to 70.4 percent for federal income security expenditures; provincial spending declined by 13.2 percent from 1993-94 to 1998-99 as opposed to only 3.8 percent for the federal government.

The trend is similar when measured in per capita terms to take into account population increase. Figure 2 shows that total federal-provincial income security expenditures went from \$2,076 in 1980-81 to \$3,266 in 1992-93 and declined to \$2,885 by 1998-99 – though the latter is still above the figures for the 1980s.

The recent decline is somewhat more pronounced when we compare income security spending to GDP, as illustrated in Figure 3. Total federal-provincial income security expenditures rose from 8.2 percent of GDP in 1980-81 to 9.8 percent in 1982-83 (reflecting the recession, which boosted social spending and reduced GDP) and a peak of 11.9 percent in 1992 (again, reflecting the impact of the recession on spending and GDP), though it has since fallen steadily, to 9.4 percent in 1998-99, as income security spending fell and GDP rose in real terms between 1994-95 and 1997-98 (though income expenditures rose a bit between 1997-98 and 1998-99). Compared to total government expenditures, though, the trend was upwards in the 1980s to a plateau in the 1990s, with small ups and downs – from 19.4 percent in 1980-81 to 26.7 percent in 1993-94 and 26.1 percent in 1998-99 (see Figure 3).

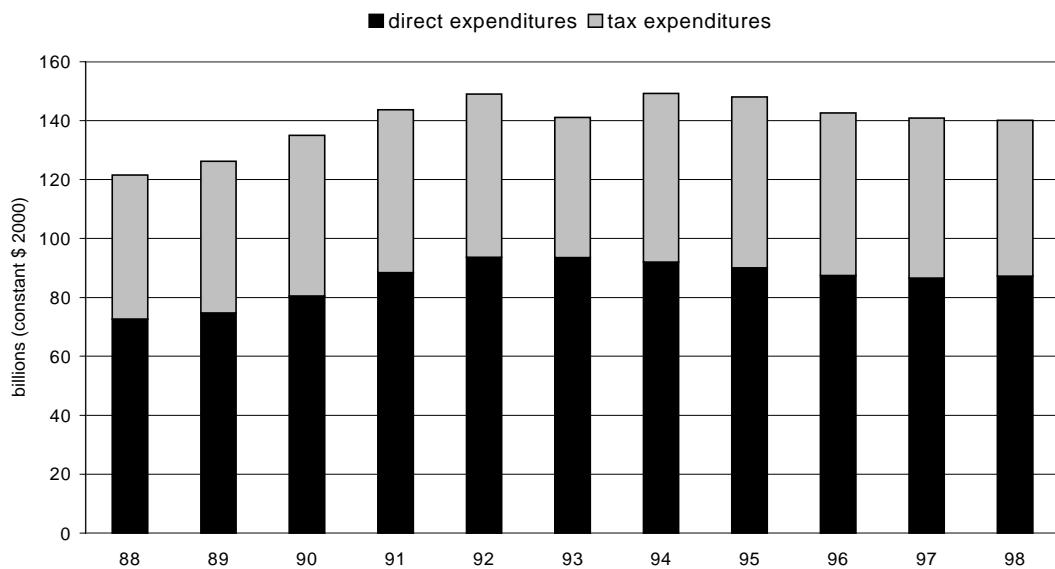


Both levels of government also deliver substantial income benefits through the personal income tax system by means of a welter of non-refundable credits and deductions that reduce income tax or (in the case of refundable credits) also deliver cash benefits to those below the tax-paying threshold. Figure 4 gives the trends for income security direct and tax expenditures for 1988-99 through 1998-99 (consistent and comprehensive data for earlier years are not available). Expenditures increased from an estimated \$121.5 billion in 1988-89 to \$149.1 billion in 1994-95, declining somewhat to \$140.1 billion in 1998-99. In 1998-99 direct expenditures represented 62.3 percent of overall income security expenditures while tax expenditures came to 37.7 percent.

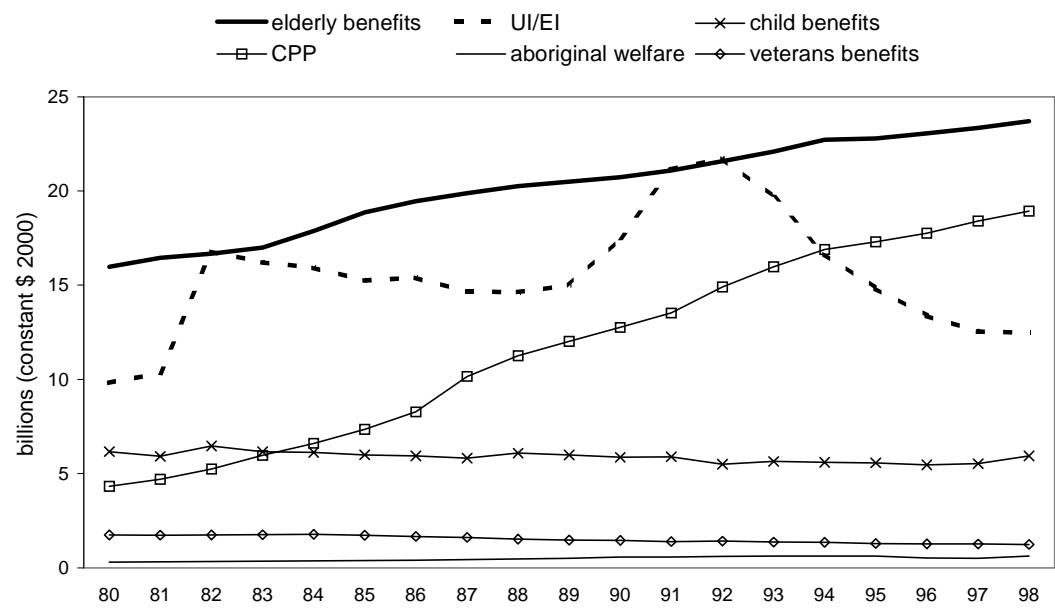
To explain these patterns in income security expenditures, it is necessary to examine individual trends in their constituent programs. Figure 5 plots the trends. We begin with federal income security programs and then turn to those delivered by the provinces (and, in a few cases, municipalities).

Elderly benefits – Old Age Security, the Guaranteed Income Supplement and Spouses Allowance – constitute the largest federal income security expenditures. Figure 5 illustrates the relentless upward increase; total expenditures rose from \$16.0 billion in 1980-81 to \$23.7 billion in 1998-99 and will reach a projected \$26.2 billion by 2003-04.

**Figure 4 Total government (federal, provincial and municipal) direct and tax expenditures on income security, 1980-81 to 1998-99**



**Figure 5 Federal income security program expenditures, by major category, 1980-81 to 1998-99**



The program driving this upward trend is Old Age Security, by far the largest of the three benefits, which the steady aging of Canada's population has pushed from \$11.5 billion in 1980-81 to \$18.3 billion in 1998-99. As will be explained later, Old Age Security remains a quasi-universal program despite its shift to income testing in 1991 (only the top 2 percent of seniors do not qualify for any benefits). Spending on the Guaranteed Income Supplement for low-income seniors increased in the first half of the 1980s (from \$4.1 billion to \$5.0 billion in 1985-86) but has remained more or less at the same level ever since (\$5.0 billion in 1998-99) due to progress in the retirement income of elderly Canadians – resulting largely from the maturation of the Canada and Quebec Pension plans, improvements in private pension plans, the rising participation of women in the paid labour force and the retirement of Canadians who enjoyed substantial real wage gains in their working years. For the same reasons, the smallest of the three programs, Spouses Allowance (for low-income widowed, married people and common-law partners between 60 and 64), has declined steadily in cost since the mid-1980s and amounted to just \$382.9 million in 1998-99 (as opposed to total elderly expenditures of \$23.7 billion).

Two of the same factors – the rising participation of women in the paid labour force and population aging – are fuelling big increases in expenditures on the Canada Pension Plan. Figure 5 shows that Canada Pension Plan outlays escalated from \$4.3 billion in 1980-81 to \$19.2 billion in 1998-99 – a hefty 346.5 percent real increase, far outpacing the 48.1 percent real rise in spending on elderly benefits. Another, though lesser factor, is enhancements in benefits over the years. No other income program, federal or provincial (with the exception of the parallel Quebec Pension Plan, which is growing rapidly for the same reasons as the Canada Pension Plan), has expanded so much and so relentlessly. While new Canada Pension Plan recipients will experience a small reduction in their benefits as a result of recent changes, the effect on expenditures will be swamped by the burgeoning caseload. Note that the Canada and Quebec plans provide not only retirement benefits, but also survivor, disability and death payments.

Unemployment expenditures have had a roller-coaster ride over the years. They jumped from \$9.8 billion in 1980-81 to \$16.8 billion in 1982-83 (a 71.4 percent real hike) as a result of rising unemployment during the recession of the early 1980s (from 7.5 percent in 1980 to 11.3 percent in 1984). Costs eased slowly with economic recovery, but rose even more sharply with the early 1990s deep recession's high unemployment: the jobless rate went from 8.1 percent in 1980 to 11.4 percent in 1993, pushing UI outlays up to \$21.7 billion in 1992-93. They then plunged to \$12.5 billion by 1998-99 and are projected to increase slightly (due to a relaxation of the rules reducing benefits for frequent users and doubling of parental leave duration) in the early years of this century.

Two factors explain the ski-jump fall in Unemployment/Employment Insurance costs in the first half of the 1990s. The first is a series of belt-tightening changes in eligibility requirements and the amount and duration of benefits, sealed with the Orwellian name change in July 1996. The second is falling unemployment, from 11.4 percent in 1993 to 6.8 percent in 2000. The number of recipients of regular benefits was almost cut in half (by 48 percent) from 1992-93 (1,148,290) to

1998-99 (552,975); during the same period the number of unemployed Canadians fell by only 20 percent. Coverage of the unemployed nose-dived from 74 percent in 1989 to 36 percent in 1997.

Federal child benefits remained more or less flat between 1980-81 and 1998-99 at around \$6 billion, as depicted in Figure 5. However, under the federal-provincial National Child Benefit reform, Ottawa is substantially increasing its expenditures on the broad-based income-tested Canada Child Tax Benefit and has solidified its increases by fully indexing rates and income thresholds. By 2004-05, expenditures are projected to reach \$7.75 billion (in inflation-adjusted 2000 dollars). Moreover, the number of families with children eligible for the Canada Child Tax Benefit will increase from about 80 percent to more than 95 percent by 2004-05 because of increases in the base Child Tax Benefit and the latter's threshold for maximum payments.

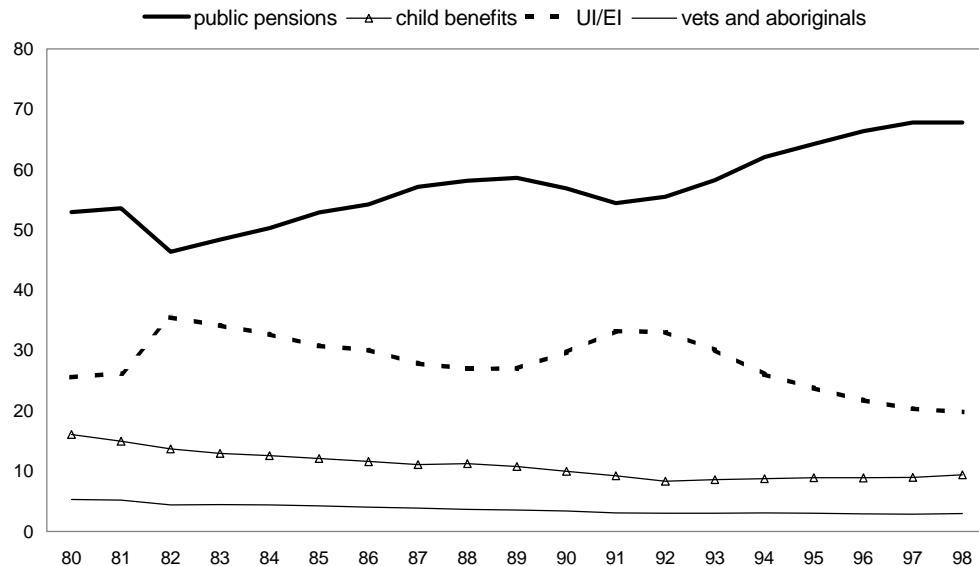
The federal government delivers income benefits to veterans through two programs – pensions for those with a service-related disability (and survivor benefits for their widowed spouses and children) and income-tested allowances. Combined benefits from the two programs declined from \$1.75 billion in 1980-81 to \$1.25 billion in 1998-99 as the eligible population shrank due to the death of veterans from the world wars and the Korean war. Ottawa also funds social assistance to Aboriginals on reserves. Expenditures climbed steadily from \$305.9 million in 1980-81 to \$630.8 million in 1994-95, dipped for the next few years but rebounded to \$618.4 billion in 1998-99.

The individual program expenditure trends reviewed above reveal why federal income security spending overall rose steadily throughout the 1980s and decreased only modestly in the 1990s to begin climbing again in 1998-99. Overall elderly benefits and Canada Pension Plan payouts have risen steadily over the years: In 1980-81, they represented 53.0 percent of total federal direct income security expenditures; by 1998-99, they had swollen to 67.8 percent of the total. These increased expenditures swamped the sizeable reduction in EI expenditures in the 1990s, which shrank from 29.7 percent of total federal income spending in 1990-91 to 19.8 percent by 1998-99. Changes in veterans' income benefits (which fell) and social assistance for reserves (which increased) had little impact since they represent a small a proportion of the total – 2 percent for veterans' programs and 1 percent for aboriginal social assistance. Figure 6 compares the trends for the major categories.

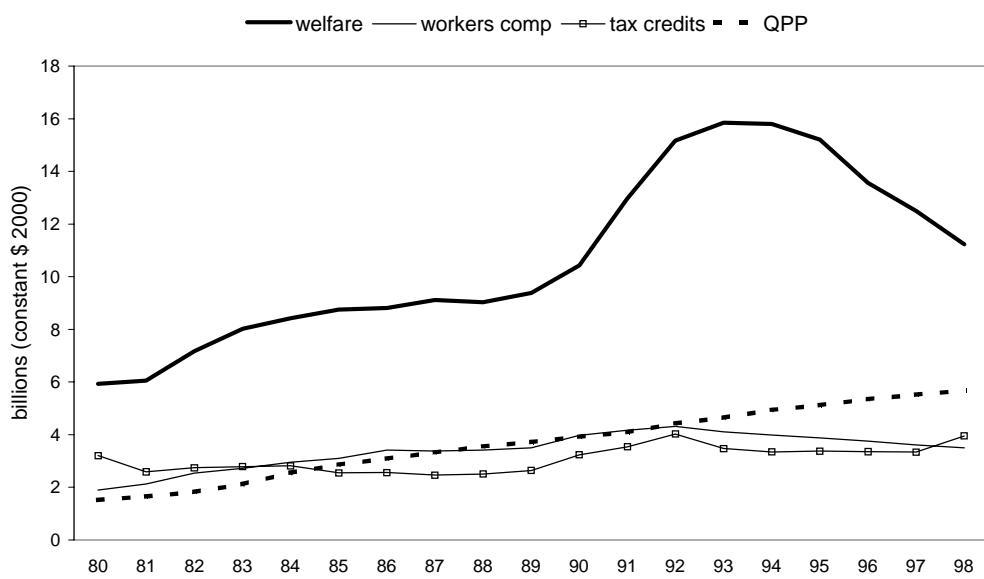
Turning to provincial spending, Figure 7 shows the trends in major programs. Far and away the largest item is provincial and municipal expenditures on social assistance (“welfare”). The recession of the early 1980s bumped up social assistance outlays, but they continued to grow throughout the decade despite declining unemployment from 1983 through 1989, increasing from \$5.9 billion in 1980-81 to \$9.4 billion in 1989-90. Why? The answer lies largely in changes in the labour market and society.

Welfare originally was intended to be Canada's social program of last resort, providing short-term, emergency assistance to “unemployable” households with no other source of income.

**Figure 6 Percentage share of federal income security expenditures, by major category, 1980-81 to 1998-99**



**Figure 7 Provincial and municipal income security expenditures, by program, 1980-81 to 1998-91**



Instead, it has grown into a major front-line social program that in 1994 served 3.1 million women, children and men – 13 percent of the non-elderly population, which is a record high. Many recipients are “employable” men and women who are chronically unemployed, cycling among non-standard jobs, Employment Insurance and welfare. Four in 10 Canadians dependent on social assistance are children. The high rate of marriage breakdown and the increasing number of young mothers choosing to raise their children alone rather than give them up for adoption are another cause of rising welfare rolls. So also is de-institutionalization, which has moved many people with physical and mental disabilities from institutions to welfare.

Rising unemployment with the recession of 1991-92 added to these forces and pushed social assistance expenditures from \$9.4 billion in 1989-90 to \$15.8 billion in 1993-94 and 1994-95. However, social assistance expenditures fell in the latter half of the 1990s, reaching \$11.2 billion in 1998-99. Improvements in the employment picture played a role, but the stronger factors were governmental – reductions in welfare benefits (through overt cuts, as in Alberta and Ontario, or stealthily through non-indexation) and tightening of eligibility rules. While anti-welfare ideology and politics clearly played a role in Alberta and Ontario, cuts in federal social transfers clearly helped motivate provincial belt-tightening of social assistance programs.

The Quebec Pension Plan now ranks second in provincial income security spending, and it has seen steady and sizeable increases for the same reasons noted earlier concerning the Canada Pension Plan. Quebec Pension Plan outlays rose from \$1.5 billion in 1980-81 to \$5.7 billion in 1998-99.

Provincial refundable tax credit expenditures have increased over the years as well, though they have not followed a smooth pattern. They remained more or less flat throughout the 1980s (though they were higher at the start of the decade) and then increased in the 1990s with some ups and downs, standing at just under \$4.0 billion in 1998-99.

Finally, Workers’ Compensation expenditures also increased during the 1980s and the first two years of the 1990s, though they have declined since 1992. Going from \$1.9 billion in 1980-81, they peaked at \$4.3 billion in 1992-93 and declined to an estimated \$3.6 billion in 1998-99. The fall in expenditures in recent years is mainly the result of a sharp decline in the number of injured workers or their dependants receiving income benefits, which fell from a high of 614,336 in 1988-89 to a low of 399,542 in 1997-98. Provinces have responded to rapidly rising costs by reducing access to and levels of benefits [Gunderson and Hyatt 2000].

While provincial income security expenditures increased overall between 1980-81 and the early 1990s, showing the same pattern as federal spending, provincial income spending fell more sharply than Ottawa’s in the rest of the decade. Between 1993-94 and 1998-99, provincial income security expenditures went down by 13.2 percent in real terms, or \$3.7 billion, whereas federal income programs together declined by only 3.8 percent, or \$2.5 billion. Only the Quebec Pension

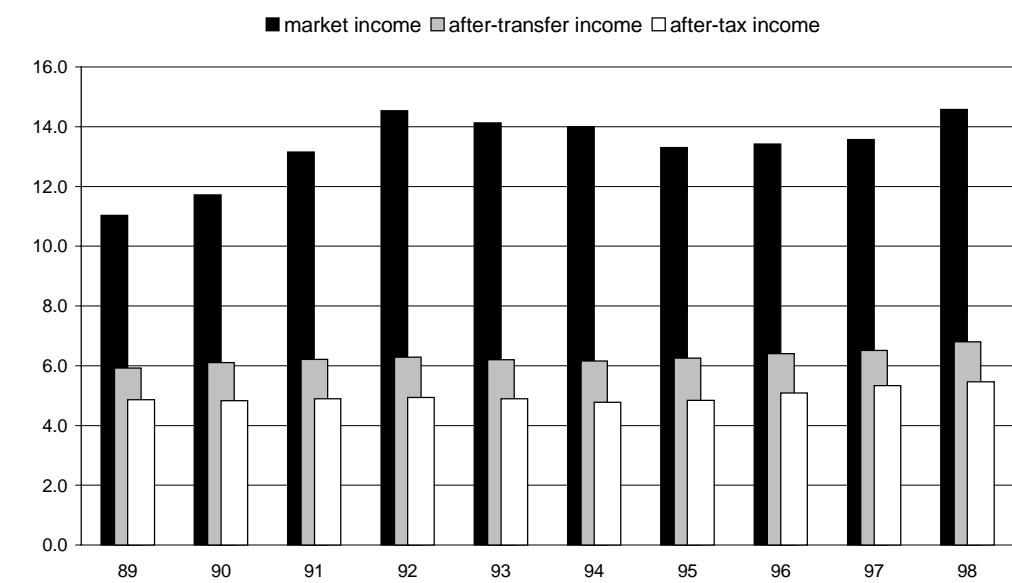
Plan consistently increased, whereas both elderly benefits and the Canada Pension Plan keep driving up federal income security expenditures. The largest provincial income program, social assistance, fell significantly, and Workers' Compensation also declined. Provincial tax credit spending rose in 1998-99, but not enough to counter the continued fall of welfare and Workers' Compensation expenditures.

### ***Narrowing the Inequality Gap***

Canada's income security system has performed remarkably well over the years in narrowing the income gap between the affluent and the poor and in combating growing inequality in market incomes (i.e., income from employment, investments, private pensions and other non-public sources). Figure 8 shows the trends in the ratio of the share of income of families in the top quintile to the share for families in the bottom quintile. We look at three definitions of income – market income, after-transfer income (i.e., market sources plus government income security benefits) and after-tax income (i.e., after federal and provincial income taxes affect the distribution of after-transfer income) [Statistics Canada 2000].

Market income inequality grew with the deep recession of 1990-91, eased somewhat with economic recovery but rose again in 1998, when families in the highest quintile had 14.6 times the

**Figure 8 Gap between income shares of families in top and bottom quintiles, for market, after-transfer and after-tax income, 1989-1998**



share of market income of families in the lowest quintile. However, income security benefits – even though key programs suffered large cuts (e.g., Employment Insurance and welfare) – managed to substantially narrow the income gap and almost completely countered increases in market income inequality. The income tax system also has a redistributive effect, further narrowing the gap between affluent and poor. However, after-tax and transfer income inequality crept up during the 1990s as a result mainly of growing market income inequality and, to a lesser extent, cuts to transfers. In 1989, families in the top quintile had 4.9 times the share of after-tax income of those in the bottom quintile, but by 1998 that ratio had increased to 5.5 times.

## ***Forces for Change***

Pressures to reform Canada’s social programs have arisen out of a variety of profound changes – economic (fiscal and labour market), social, demographic and political. Economic factors, while *primus inter pares*, are a necessary but insufficient explanation for the shift from a “universalist” to “post-welfare” state in Canada that began in the late 1970s, gathered steam in the 1980s and 1990s, and is still under way in the first decade of the 21st century. Social, demographic, political and ideological changes and forces, often interacting with economic factors, are playing a major role in the ongoing transformation of Canadian social policy. So also is the role of ideas about social policy; the universalist model of social security that legitimized and guided (though only partly) the construction of the post-war welfare state is being supplanted by a “post-welfare state” model that is both shaping and reflecting changes to major social programs [Banting 1997; Banting and Battle 1994; Battle and Torjman 1994, 1995a, 1995b; Giddens 1998; Human Resources Development Canada 1994; Kent 1962, 1999; Marsh 1943; Mendelson 1993, 1999; Prince 1999; Torjman 1997a].

### ***Economic Factors***

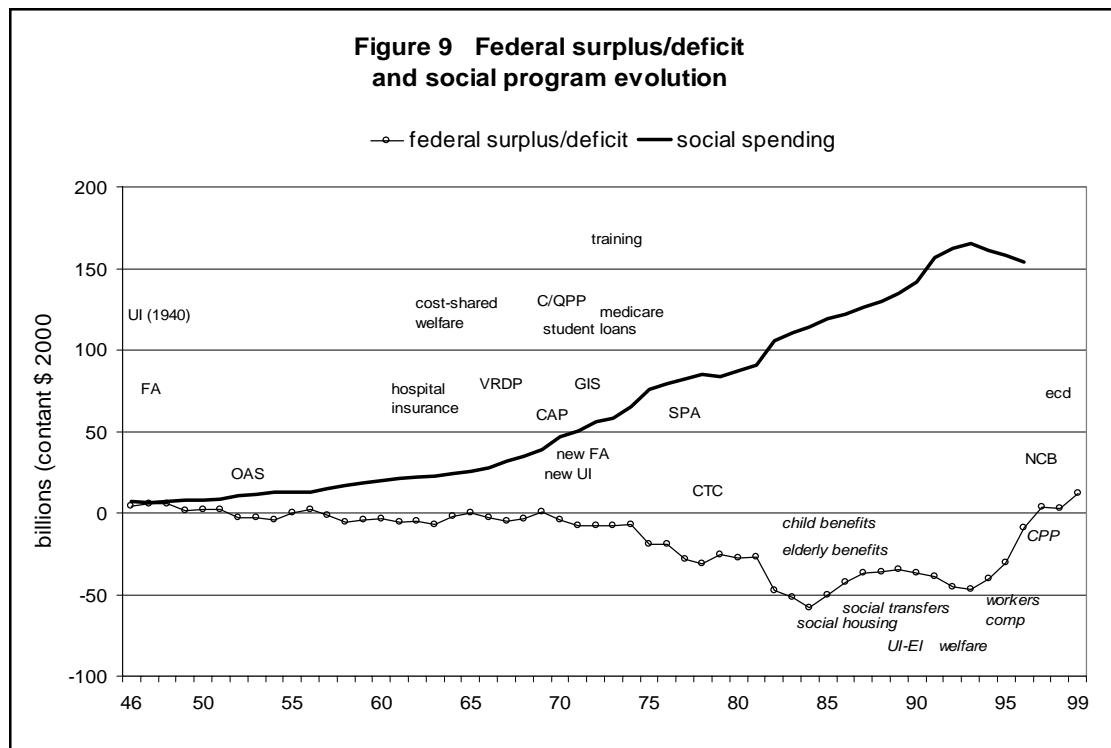
Without question, governments’ – especially Ottawa’s – fiscal woes have been the main driver for changes to Canadian social policy in the latter part of the 20th century and into the first decade of the 21st century.

The post-war growth of Canada’s social security system was fuelled by an expanding economy, which burbled along at a healthy 5.6 percent annual average real rate of increase during the 1950s and 1960s, allowing governments to collect more money than they spent and still afford rapidly rising social expenditures resulting from major new social programs and population growth. But a sea change in Canada’s economic fortunes in the mid-1970s marked the end of post-war

expansion and the beginning of the end of the universalist welfare state – even though it would take another decade before the federal government summoned up the political courage to dismantle the supposedly sacred trust of universal social programs and reduce and recast its financial support for provincial health and welfare systems. Under a failed large-canvas federal-provincial reform of social policy between 1973 and 1975, a federal proposal to supplement the incomes of the working poor was withdrawn because of the finance department’s concern about its future cost. Canada’s economic growth began to sputter with the world oil price shock and the rise of a bitter mixture of low growth and high inflation.

Mounting government deficits and accumulating debt pushed the federal and provincial governments increasingly to restrain public – especially social – spending in the 1980s and 1990s. The forces of social policy reform-through-restraint gathered strength as Ottawa managed to convince most Canadians that the deficit had to be cured no matter how bitter the medicine. There is no question that the Liberal government’s successful war on the deficit – waged through a combination of spending cuts and tax increases, including hidden “stealth” measures to erode benefits and creep taxes upward – was the primary impetus for social policy reform in the 1980s and 1990s.

The clear relationship between fiscal and social policy change is illustrated in Figure 9, which compares trends in the federal surplus/deficit and in total government (federal, provincial and



municipal) social spending in the post-war period and lists major social program changes. From 1946–47 to the mid-1970s, Ottawa balanced its books yet built most of the superstructure of the universalist welfare state. Unemployment Insurance (UI), created in 1940, slowly grew in scope until, in 1971, a new Act covered virtually the entire paid workforce. Family Allowances (FA) paid its first benefits in the spring of 1945. Old Age Security (OAS), then serving all Canadians 65 and older, arrived in 1952. A series of other major social programs followed (delivered by Ottawa or by the provinces with federal financial assistance) – hospital insurance, medical insurance, cost-shared welfare, the Vocational Rehabilitation Disability Program (VRDP), the Canada and Quebec Pension Plans (C/QPP), the Guaranteed Income Supplement (GIS), federal support for training and student loans, the Spouses Allowance (SPA), an expanded Family Allowances and the refundable Child Tax Credit (CTC).

But the 1980s and 1990s brought deepening deficits and resulting retrenchment (though varying in bite from minor to major) in several major social programs, including child benefits, elderly benefits, federal social transfers to the provinces (for health, post-secondary education, social assistance and social services), social housing, welfare, U/EI and the Canada Pension Plan. (These changes will be discussed later.) The National Child Benefit (NCB) in 1998 marked the first “new” social expenditure in many years and was followed by an early childhood development agreement under which Ottawa will provide (effectively restore, in part) financial support to help provinces build early childhood development services (ecd).

Note that, even with the reductions imposed on major social programs in the 1980s and 1990s, social spending continued to grow in real terms, declining modestly in the mid-1990s. As explained above, the main reason is the upward march of expenditures on the biggest public pension programs (Old Age Security and the Canada and Quebec Pension Plans), which were only slightly trimmed by governments. This is a crucial finding: Government restraint measures, bolstered by an improving economy, served only to slow and finally modestly reverse the upward curve of social spending. Given the pressure of an aging population and recent enhancements to federal child benefits, the future trend of social spending likely will plateau if not even increase, not continue its recent decline.

Changes in the labour market also pose daunting challenges for educational, employment and income security policy.

Canada’s long retreat from any semblance of a full-employment economy – the latter constituting the bedrock of the universalist model of social security – has been one of the heaviest pressures on the welfare state. Rising unemployment placed growing demands on welfare, Unemployment Insurance, social and employment services, health care and other social programs. To make matters worse, mass unemployment robbed federal and provincial treasuries of badly needed tax revenues, resulting in hikes in income taxes, consumption taxes and payroll taxes.

Canada's official unemployment rate has fallen considerably in recent years, from its recessionary peak of 11.4 percent in 1993 to 6.8 percent in 2000. But unemployment remains a serious problem, especially if we look at the "real" unemployment rate – that is, counting those who have given up an active job search or are working part-time because they cannot find full-time work – of half as much again as the official figure. In 2000, there were still more than a million Canadians (1,089,600) out of work, and the age-old problem remains of regions and communities afflicted by chronic joblessness and much higher rates than the national average.

Like that of the United States, Canada's labour market has undergone polarization [Jackson and Robinson 2000]. There is a core of good jobs requiring advanced education and specialized skills in return for good pay, career advancement, training and generous pension and other work-related benefits. At the same time, there is a "non-standard" labour market for part-time, seasonal and temporary employees, the self-employed and people who hold down multiple jobs. Its characteristics are the opposite of those of the core workforce – low skills, poor pay for many, instability, few if any work-related benefits (such as employer-sponsored pension plans, supplementary health and dental care) and dim career prospects.

There is evidence of earnings polarization, with growth in both lower-paid and higher-paid jobs, and shrinkage of middle-income employment. The latter includes many well-paid blue-collar jobs in traditional industries, such as manufacturing and transportation, which have been victims of technological change. Middle-management positions have been cut in the downsizing of public and private bureaucracies. Canada is also experiencing growing polarization of working time. Hours of work are increasing for some full-time workers who tend to have high incomes. At the same time, there has been a growth of part-time work, much of it involuntary and most paying low earnings. And education – always a strong correlate of occupational and social status – is another form of polarization, with post-secondary credentials dividing the workforce between haves and have-nots.

### ***Social and Demographic Factors***

Social and demographic changes – and their attendant cost effects – also are buffeting Canada's social security system. The archetypical "Wally-and-the-Beaver" family of the 1950s and 1960s – dad in the labour force, mom (working) at home, three children – has been transformed by profound changes in the economy, society and culture.

A growing number of Canada's families feel insecure and vulnerable. Many have had to turn to social safety net programs like Unemployment Insurance and social assistance for support at the very time that governments have been cutting back on those programs.

One of the most significant changes in the family arises from the dramatic increase in women's participation in the paid labour force since the 1960s. In seven out of every 10 couples with

children, both parents work outside the home. Nearly two-thirds of married women with children under age six are in the labour force. The majority of single parents are now in the labour force as well.

Not only are most parents employed, but also an increasing number are working longer hours on the job in order to make ends meet. They have less time for housework, shopping and the other domestic labour required to maintain a household – not to mention time to spend with their children. Juggling the dual and sometimes conflicting demands of their responsibilities as workers and parents is a stressful and tiring daily struggle for most parents. The burden is especially hard on mothers, who continue to shoulder most of the responsibility for child care and housework.

Another major stress on today's families is the high rate of marriage breakdown and remarriage. Canada has one of the highest divorce rates in the world, along with Sweden, Denmark and the United Kingdom. Four in 10 marriages end in divorce, though seven in 10 divorced Canadians marry again. More and more parents and children have to adjust to life in "blended" families from previous marriages.

Divorce and separation also create single-parent families. One out of every five families with children is now headed by a single parent, usually the mother. Single parents not only have to carry most, if not all, of the burden of caring and providing for their children. They also run a high risk of poverty. More than half of single-parent families led by women live on low incomes and many end up on welfare, although the majority of single parents work in the labour force, typically in low-wage jobs.

Families are smaller today; most have only one or two children. Unlike earlier generations, they cannot rely upon older children to help take care of their younger siblings. Families also move more often, so many are isolated from traditional support networks of relatives.

These social changes are placing heavy demands on Canada's social programs – welfare, child care, child welfare and health care – that were not built for the world of the 1990s and 2000s. An added stress is the aging of the population, which will place increasing pressure on the pension system, social services and health care as the baby boom generation reaches old age.

Moreover, these demographic, social and economic forces are additive and interactive. Divorce, unemployment and low earnings threaten to condemn a growing number of Canadians to poverty in old age. Child poverty brings an above-average risk of a range of health problems, accidents and below-average school performance. These risks can work against poor children when they reach adulthood, resulting in a greater likelihood of unemployment and low wages, increased demands for social programs and lost tax revenues.

### ***Political and Ideological Factors***

Political and ideological changes also have motivated and moulded changes to social policy and challenged the universalist model. The Keynesian-inspired civil servants and politicians who designed and built the post-war welfare state are long retired or dead. They have been succeeded by typically neoconservative bureaucrats, especially those in the federal finance department, which has dominated social policy over the past two decades. Both corporate and political elites in Canada have proved more conservative than the general population, and are more supportive of cuts to social spending.

The major social policy changes made by the Conservative government in the 1980s built a momentum that prepared the way for even more radical changes by the Liberals in the 1990s and into the new century [Battle and Torjman 1995]. The Conservatives proved that the universalist welfare state was no longer a “sacred trust,” if it ever had been. Polls taken for the Liberal government’s Social Security Review in 1994 and 1995 found that a majority of Canadians believed that social programs required substantial change [Human Resources Development Canada 1994].

Central to this readiness for social security reform was the Conservatives’ successful campaign to convince Canadians about the serious problem of mounting debt and the need to put the nation’s finances in order. In addition, federal cuts to Unemployment Insurance and to social transfer payments to the provinces under the Conservatives began to weaken the cooperative federalism model of the 1960s and 1970s. The Liberals have advanced the move towards the post-welfare state that was begun by the Conservatives. The Conservatives were devastated in the 1993 federal election and supplanted by Reform/Canadian Alliance, a right-wing party that espouses a much more conservative and decentralist platform than the Conservatives (which, like the Liberals, are a broad-based party with supporters ranging from the far right to the left of centre).

Another political factor that has played a huge part throughout the history of Canada and its social programs is federalism. For much of the post-war period, Ottawa played a dominant role in the distribution of power and influence over social programs vis-à-vis the provinces. But the pendulum has been swinging back in the 1990s and first decade of the new century. The two levels of government now play equally important roles in what Professor Keith Banting has dubbed Canada’s “bifurcated welfare state” [Banting 1987]. While Ottawa dominates income security policy, the provinces also are players. And while the provinces deliver most welfare, social services and health care, Ottawa has reduced its financial assistance and influence in these important areas and devolved labour market programs to the provinces. Thus federal cuts to social programs have increased the relative power of the provinces over social policy.

The shifting division of federal and provincial powers was codified in the February 1999 Social Union Framework Agreement (SUFA, as it is known to bureaucrats), signed by all govern-

ments except Quebec. The Agreement is intended to promote a respectful and collaborative approach by senior levels of government in dealing with major social problems (e.g., poverty, homelessness, unemployment) that are not neatly defined as exclusively federal or provincial. Ottawa alone no longer would spell out the rules under which provinces receive federal funds. Rather, any such rules would be set jointly by the federal and provincial governments.

The thinking that shaped the Social Union negotiations viewed federal and provincial relations as a partnership – a big buzzword in the new public policy – in which both levels of government have an important role. Partnership effectively results in different responses to the same problem. It can give rise to differences across regions in the same policy area. The resulting variability throughout the country is seen as not only inevitable but also desirable, as jurisdictions work within their respective fiscal and political priorities.

Another important element of this Agreement is the concept of public accountability. All governments are seen as accountable both individually and collectively, to the public and to groups that have a special interest in certain issues, such as services for children or supports for persons with disabilities.

### ***Images of Social Policy***

A final force helping to drive and shape the transformation of Canadian social policy is a new conceptual framework that is supplanting the universalist model here and in much of Europe. For want of a better term, I refer to this new model of social policy as “post-welfare state” [Battle 2000].

The post-welfare state model pursues the same fundamental objectives of social policy set out in the universalist model more than half a century ago, which I characterize as “civilizing capitalism” (by ensuring a basic income safety net, reducing market inequalities and delivering services that don’t belong in marketplace) and as “nurturing capitalism” (by providing social and educational infrastructure that enhances economic growth and investing in human capital). The post-welfare model is based on a critique of key social programs – especially Unemployment Insurance and welfare – that sees them as costly, inefficient and ineffective. The new model seeks mechanisms that are more effective and better suited to the changing economic, social and political realities of the new century. And while economic concerns were important in the universalist model, they are front and centre in the post-welfare model.

The post-welfare state is very much an emerging project, and does not seek to create an entirely brave new world, retaining as it does certain elements of the universalist and residualist

models that preceded it. However, we can identify several key concepts of the post-welfare approach as it is being developed in Canada:

- broad-based and progressive income-testing replaces demogrants and needs-tested income programs (but *not* social insurance or social, health and employment services)
- attention to alleged unintended work disincentive effects of social programs – e.g., marginal tax rate issue regarding income-tested social benefits, welfare wall
- attention to interactions and links between social programs and the tax system
- desire to right the balance between “active” and “passive” social programs, reactive and preventive approaches
- concern to harmonize federal and provincial social programs, reduce duplication and overlap, and work together
- concern about the financial sustainability of social programs (e.g., no more federal blank cheques through cost-sharing for social transfers to provinces)
- recognition that there are multiple players (public, private sector and voluntary) in social policy, and the need to better utilize and combine their resources through partnership
- increasing recognition that communities have a major role to play in social policy design as well as delivery
- emphasis on the economic functions of social policy, especially on education and training to ensure a competitive workforce, and in supplying the social infrastructure (e.g., universal health care, education) that will support economic growth and attract a talented workforce
- emphasis on the need to measure the outcomes of social policy and on social reporting made available to the public and social advocacy groups.

The following section elaborates on a number of these themes.

## ***Major Developments in Canadian Income Security Policy***

Almost all major social programs in Canada have undergone or are in the process of experiencing changes in the transition from the universalist to post-welfare state. Some of these shifts have been incremental, though a series of seemingly modest changes over time can add up or lead to more significant structural reform. Other changes have been more immediate and radical.

The following discussion identifies and analyzes general trends and developments in income security policy, based on an analysis of detailed changes in the many programs. The latter are listed in a chronology of individual reforms to major federal and provincial social programs in the 1980s, 1990s and 2000s to be published by the Caledon Institute of Social Policy.

### ***Changes in Coverage: Retreat From Universality?***

One of the hallmarks of the universalist model of social security is its faith in the virtues of serving the entire population or large groups thereof: coverage should be “universal.” To use the current vocabulary, social programs should be a force for social solidarity, promoting “social inclusion” and combating “social exclusion.” In an older and rather more *realpolitik* language, social programs that serve Canadians at all income levels and that acknowledge shared valued characteristics (e.g., parenting) are claimed to foster political support for the welfare state overall (including programs targeted to the poor). According to this line of thinking, voters – especially the broad middle class that constitute the majority – must perceive that their taxes buy them some social benefits too, not just the poor. Caledon’s Senior Scholar, Michael Mendelson, talks of the “middle class bargain” underlying medicare: The middle-class majority of Canadians will support a single-tier public health insurance financing arrangement (and oppose privatization of essential services) so long as they perceive that it provides them adequate and accessible health care.

The defining characteristic of a universal social program (or demigrant, as it used to be called) is that it is made available to all regardless of their income level or other economic circumstances. But that does not mean that a universal social program serves the entire population, since it always imposes some sort of (non-income) qualifying condition, such as age, disability or work status. The only social program in Canada that benefits virtually every Canadian is medicare – it would be hard to imagine anyone never encountering that system at some point in his or her life – but even here there is a key qualifying condition: The person receiving care must be deemed to require essential health services. While medicare remains universal in the sense that essential health care is still provided at no direct charge, critics argue that in reality the accessibility, quality and supply of publicly insured health services have been compromised by funding cuts and problems in adapting to new pressures (e.g., an aging population, expensive technology and drugs).

By the 1980s, Canada had several major income security programs that could be considered universal in the sense of not imposing income-based qualifying conditions. At the federal level, universal benefits included Old Age Security, Family Allowances, Unemployment Insurance, the Canada Pension Plan and veterans' disability pension. At the provincial level were the universal Quebec Pension Plan and Workers' Compensation.

The 1990s brought a major assault on universality, though only at the federal level. However, pro-universalist critics have demonized the demise of old age pensions and child benefits, which were dwarfed by the severe shrinkage in coverage of Unemployment Insurance.

Coverage is also a relevant issue for non-universal income security programs. Access to needs-tested provincial social assistance (welfare) programs has been tightened by changes to their qualifying conditions [National Council of Welfare 1997]. Partial de-indexation of the federal refundable Goods and Services Tax (GST) credit and the refundable child tax credit and its successors, the Child Tax Benefit and the Canada Child Tax Benefit, and the non-indexation of provincial income-tested child benefits, earnings supplements and refundable tax credits, gradually have shrunk the size of the qualifying population compared to what it would be under full indexation.

On the other hand, several provincial income-tested programs – child benefits and earnings supplements, under the National Child Benefit – are increasing coverage over their needs-tested predecessor (i.e., welfare payments on behalf of children), expanding beyond welfare recipients to include the working poor and, in some cases, modest-income Canadians as well.

*Elderly benefits.* In 1989, Old Age Security was subjected to the infamous “clawback” that effectively transformed it into an income-tested program by 1991, when the changes were fully phased in. During this bizarre Alice-in-Wonderland episode in Canadian social policy, the federal government continued to send out monthly Old Age Security cheques to all Canadians 65 or older but required upper-income seniors to pay back part or all of their benefits the next spring on their income tax return. Ottawa claimed that the program was still “universal,” but in effect it imposed an ex post facto income test through a weird administrative mechanism that I argued at the time meant that well-off seniors effectively got an interest-free loan (i.e., the temporary use of their monthly Old Age Security payments) for one year. In 1996, the federal government abandoned its odd ex post facto income test and applied it in the same manner as regular income tests (e.g., the Child Tax Benefit or the refundable GST credit): Eligibility now is determined before benefits are paid out, on the basis of net income as calculated in the annual income tax form, so that upper-income seniors do not receive an Old Age Security cheque. However, Ottawa seems to want to continue pretending that the program is universal, since high-income seniors are informed that the government has taxed back their old age pension (even though they never see the money).

But the impact of the income test on Old Age Security has been wildly exaggerated and in fact the program remains quasi-universal. The income test applies to individual net income above \$55,309; benefits are reduced increasingly (at the rate of 15 percent of benefits above that level) until net income exceeds \$90,070, when eligibility ends. A mere 2 percent of seniors receive no Old Age Security and only 3 percent get partial benefits; fully 95 percent still receive their full monthly cheque (though benefits remain taxable). While partial de-indexation of the income threshold for the income test over time gradually extended the reach of the test further down the income scale, that stealthy acceleration of the income test was stopped in 2000 by the federal Budget's momentous decision to restore full indexation of the personal income tax system and child benefits.

Rarely noticed in the critics' furore over the death of universal old age pensions was the 1984 move to income test the age exemption (changed in 1986 to a non-refundable credit), which affected far more seniors than the clawback of Old Age Security. The age credit is now worth a maximum \$900 in total federal and average provincial income tax savings and is income tested above individual net income of \$26,284 at the rate of 15 percent, reaching zero at \$49,824. As is the case with the Old Age Security income test, the recent decision to restore full indexation of the personal income tax system put a stop to the age credit's gradual erosion in value and compression down the income range.

Moreover, the elderly benefits system overall remains effectively universal because of the non-refundable pension income credit, which serves all seniors with private pension income – which, in the case of those in the upper income ranges who do not qualify for Old Age Security, is virtually everyone.

*Child benefits.* No area of Canadian social policy has seen more changes over the past two decades than federal child benefits [Battle and Mendelson 2001]. The move from universality to income testing was essentially the same as for Old Age Security – that is, first the 1989 clawback on Family Allowances, then full income testing with the 1993 Child Tax Benefit that replaced Family Allowances (and the income-tested refundable and non-refundable child tax credits). However, the changes to child benefits reduced coverage more than for elderly benefits, because the Child Tax Benefit's income test is based on family as opposed to individual income. The 1993 Child Tax Benefit served about eight in 10 families with children, and partial indexation was gradually lowering the income threshold for the income test and thus reducing coverage over time.

But ongoing changes to child benefits under the federal-provincial National Child Benefit reform have increased their coverage. The Canada Child Tax Benefit, which replaced the Child Tax Benefit in 1998, involved mainly an increase in and equalization of benefits for low-income families (discussed below). But coverage is being increased as well, through increases to the base Child Tax Benefit and its income threshold for maximum payments and a planned lowering of the reduction rate. Moreover, the restoration of full indexation in 2000 ends the stealthy on-the-one-hand/on-the-

other-hand shell game whereby increases to child benefits were eroded by inflation. By 2004, more than 90 percent of Canadian families will be receiving the Canada Child Tax Benefit – the same quasi-universal coverage as Old Age Security.

*Unemployment Insurance.* The real whack at coverage involves Unemployment Insurance which, though remaining universal in a technical sense – level of income does not exclude eligibility – saw its coverage more than halved in the 1990s as a result of a series of draconian changes to its major qualifying condition, work requirements.

In 1990, Ottawa increased the number of weeks worked in order to qualify for benefits from 10-14 weeks to 10-20 weeks, depending on the regional jobless rate. Effective July 1994, employees had to work a minimum of 12 weeks to be eligible for Unemployment Insurance if they lived in a region with an unemployment rate of 13 percent or higher; before, the minimum qualifying period was only 10 weeks, though for a regional jobless rate of 16 percent or more.

In July 1996, the program was renamed Employment Insurance to signal a fundamental philosophical shift – from “passive” dependence to “active” employment. The objectives of the overhaul were to keep more unemployed workers off the program, move current recipients off as quickly as possible, and encourage greater workforce participation through skills training and upgrading.

Eligibility for benefits was moved from number of weeks worked to number of hours. The stated purpose of this change was to allow more flexibility in the program and to enable part-time workers, in particular, to qualify for Employment Insurance. But the Act also boosted the number of hours required to qualify for benefits. Workers now must put in from 420 to 700 hours (the equivalent of 12–20 weeks), depending on the unemployment rate in the region. This change represented an increase of between 180 and 300 hours.

Claimants applying for sickness, maternity or parental benefits need 700 (lowered in 2000 to 600) hours of work. New entrants to the labour market and those who have been out of paid work for some years must establish a reasonable attachment to the job market before they are considered eligible for Employment Insurance. Newcomers and those re-entering the labour market must work a minimum 910 hours before qualifying for the program, though this rule subsequently was rescinded for parents re-entering the workforce (who now require the same number of hours as other workers to qualify for regular benefits).

The maximum duration of benefits was cut three times during the 1990s. The new Act reduced the maximum length of claim from 50 to 45 weeks.

The tougher work requirements and reduced duration of benefits dramatically cut Employment Insurance coverage. The percentage of the unemployed receiving regular unemployment benefits fell from 83 percent in 1989 to just 45 percent in 1998.

The coverage problem is exacerbated by the fact that the Employment Insurance program's employment benefits are linked to its income benefits. Unemployed Canadians who no longer qualify for income assistance are also, as a result, denied the program's work-related measures. The long-term unemployed, the underemployed, new workers and part-time workers find it especially difficult to gain access to labour market measures that might help them improve their job prospects [Torjman 2000].

But there is more to the story than shrinkage of coverage. One important benefit – parental leave – should increase its reach somewhat over the original Employment Insurance legislation.

Until recently, Employment Insurance offered a maximum 15 weeks' maternity leave and an additional 10 weeks' leave for either parent, for a combined total of 25 weeks' leave. The 2000 federal Budget doubled the maximum duration of combined maternity and parental leave. This measure was in part a response to Quebec's announced initiatives in this area and in part to put some reality into the rhetoric of the federal-provincial "National Children's Agenda." Parental leave has been extended to a maximum of 35 weeks, which, when added to the existing 15 weeks' maternity leave, provides for a total maximum of 50 weeks' leave for parenting. Allowing recipients of parental leave to work part-time (\$50 or 25 percent of weekly benefits, above which benefits are reduced dollar for dollar) may widen the program's reach somewhat. So too will the decision to reduce the entrance requirement from 700 to 600 insurable work hours.

On the other hand, there was no increase in parental benefits' earnings-replacement capacity, which replaces only 55 percent of maximum insurable earnings (though it can be as high as 80 percent for low-income families with children eligible for the Family Income Supplement brought in with the new program). While the maximum weekly Employment Insurance benefit is \$413, the actual average weekly maternity benefit is much lower, at \$280 in 1999. The level of benefits affects coverage: Many parents are not able to live on that amount – especially if they are single parents and parental leave is their only source of income.

The large increase in the entrance requirements for Employment Insurance reduced the number of people qualifying not only for regular benefits but also parental leave (the latter requirement was doubled from 300 to 600 hours), thus disqualifying many part-time workers. In its *Analysis of UI Coverage for Women*, the Canadian Labour Congress calculated that, while close to 80 percent of women between the ages of 25 and 44 are in the paid workforce, only 49 percent of women who gave birth in 1998 received maternity benefits and 46 percent got parental benefits [Canadian Labour Congress 2000]. Younger working women and those with lower earnings were

unlikely to receive parental leave. Another problem is that Employment Insurance does not cover the self-employed – a significant proportion of the Canadian workforce that has grown over time.

In fairness (if that is not being too charitable), the federal government paints a very different picture of the coverage of Employment Insurance [Human Resources Development Canada 2000]. It claims that the change to hours-based coverage, by making virtually all employment insurable, has extended coverage among low-earning workers. It argues that only half the decline in the ratio of Unemployment Insurance recipients to the total unemployed in the 1990s leading up to the shift to Employment Insurance was due to program reforms, while the rest was the result of changes in the labour market (e.g., more long-term unemployed). It also rejects the use of the total number of unemployed as the denominator for calculating coverage, arguing that the latter is too broad because it includes people for whom the program is not intended, such as individuals who have never worked, those who have not worked in the past year or quit their job without just cause, and people who used to be self-employed. Instead, states Human Resources Development Canada in its *2000 Monitoring and Assessment Report*, Employment Insurance covered 80 percent of the unemployed “for whom the program was designed” in 1999 and coverage according to this definition has remained stable under the new Employment Insurance program. This rather Orwellian redefinition of coverage will come as little comfort to the many unemployed Canadians who paid Employment Insurance premiums but do not qualify for benefits.

*Canada Pension Plan.* The Canada Pension Plan and its sister, the Quebec Pension Plan, provide universal coverage to all Canadians who work in the labour force, either for employers or themselves. However, coverage of one of the programs’ components – disability benefit – has been subject to expansion or contraction resulting from legislative and administrative changes [Torjman 1999].

Several changes served to increase Canada Pension Plan coverage among persons with disabilities, which almost doubled in the first half of the 1990s (from 182,000 beneficiaries in 1990 to 298,000 by 1995). These changes were rooted in the recommendation of the 1981 Commons Committee on the Disabled and Handicapped to boost benefits and coverage as the first step towards comprehensive reform of income support for Canadians with disabilities – a reform that still has not taken place 30 years after the release of the Committee’s landmark report, *Obstacles*.

In 1987, contributory requirements for the CPP disability benefit were relaxed (from at least five of the past 10 years, in order to qualify, to two of the past three years) and retroactivity claims were extended (from 12 to 15 months). In 1992, a private member’s bill, Bill C-57, sought to tackle the problem of potential recipients’ being unaware that the Canada Pension Plan pays disability benefits. Disability claims were opened up to many workers previously denied benefits by lifting the time limit on late applications. In 1993 and 1994, in an effort to reduce pressure on provincial welfare costs, the Ontario government required welfare recipients with disabilities to apply for the federal Canada Pension Plan disability benefit. The Auditor General’s 1993 report reiterated the

need to improve public awareness of the Canada Pension Plan disability provision, which led to Human Resources Development Canada’s launching a major public information campaign. Moreover, the program broadened its scope to recognize additional disability-engendering conditions such as stress, environmental hypersensitivity and chronic fatigue, and non-medical factors (such as the regional unemployment rate, availability of certain jobs and applicants’ skills) were taken into account for older applicants (aged 55–64) who typically find it harder to find work (i.e., Canada Pension Plan disability benefit was used as a *de facto* method to encourage earlier retirement – a practice also then common in several European countries). Finally, the rising number of claims likely meant that the Department could devote less attention to verifying whether existing beneficiaries still were eligible, thus creating a form of caseload inertia.

The rapid rise in the caseload in the first half of the 1990s sparked measures to tighten access to the Canada Pension Plan disability benefit. Administration was sharpened (e.g., regarding reassessments and tracking of clients, administrative data-linking to detect recipients who were receiving benefits from other programs), tougher guidelines were issued for determining medical eligibility (including an end to the use of socio-economic factors) and the appeals system was made more formal and toughened. Back-to-work efforts were increased. These changes contributed to a decline in the number of Canada Pension Plan disability beneficiaries after 1995.

*Welfare.* The Canada Health and Social Transfer’s replacement of the Canada Assistance Plan in 1996 meant that the federal government no longer requires provincial welfare systems to provide income assistance to all persons deemed to be “in need,” regardless of category. Most provinces have introduced new rules making it more difficult for certain groups to get on or remain on welfare. The purpose of these tightened eligibility rules is to reduce the size of the welfare caseload [National Council of Welfare 1997].

Quebec, for example, was the first jurisdiction to bring in a “parental contribution.” Adults 18 years of age and over who have not yet declared their independence (e.g., they are not married or have no children of their own to support) are considered dependent. Their parents are required to contribute maintenance and support.

Ontario announced in 1995 that an employable person quitting or losing a job without just cause was disqualified from applying for welfare for three months. Several provinces have reclassified single parents with young children as employable – which means that they can remain on social assistance only for a short period before they are expected to start taking “active” work-related measures.

Some provinces, such as Ontario, have completely revamped their welfare systems. In 1997, the province replaced two existing welfare laws with Ontario Works, intended for employable welfare recipients, and the Ontario Disability Supports Program, for persons with long-term disabilities. Ontario Works has been particularly controversial. It was the first time that any province had

introduced a program that made it mandatory for recipients to participate in a work-related or community service program [Torjman 1998]. Recently, the Ontario government announced plans to impose mandatory drug testing for welfare recipients and compulsory treatment for those found to have a drug problem; recipients who refuse testing will be cut off benefits.

Other jurisdictions have not undertaken such a fundamental reform, but over the past few years they all have introduced some type of “active programming” – a concept promoted by the OECD. All jurisdictions have introduced measures to encourage the transition from “dependency” to “self-sufficiency.” The “active” programs have different names: Supports to Employment Program in Newfoundland, Ontario Works, Employment First in Manitoba, the Saskatchewan Training Strategy, Supports for Independence in Alberta and Productive Choices in the Northwest Territories. Despite the differences in name, the intent is the same: to help move recipients off welfare and into the paid labour market.

While they vary, these programs follow the same general pattern. They seek to provide welfare recipients with the supports and skills to move off assistance as quickly as possible. Help may take the form of job search, preparation of résumés, literacy training, skills development, academic upgrading and job referral.

In addition to the active measures that focus on work skills and requirements, provinces have introduced various supports – such as earnings supplements, extended health benefits or child care subsidies – designed to encourage workforce participation. Jurisdictions have brought in these measures in respect of the NCB reinvestment strategy discussed above.

*Disability tax benefits.* One aspect of the tax/transfer system that has enjoyed modest, incremental, unheralded but steady improvements in coverage (and, as discussed below, benefits) is tax assistance for Canadians with disabilities (and their supporting families). Eligibility for the disability credit has been broadened to include individuals with severe and prolonged disabilities who require extensive therapy on an ongoing basis.

The unused portion of the disability credit can be transferred to a wider group of supporting relatives, including siblings, aunts and uncles. Ottawa added a new supplement of up to \$500 to provide more assistance to caregivers of children with severe disabilities. The list of items eligible for the medical expense tax credit has been expanded to include cost of modifications to new homes to assist individuals with severe mobility impairments [Torjman 1999].

However, access to the disability tax credit remains restrictive – and it, in turn, is a requirement for the higher child-care expense deduction for children with disabilities. The medical expense credit allows only a narrow list of eligible items. Apart from a small supplement for the working poor under the medical expense credit, non-refundable tax credits provide little or no assistance to the poorest Canadians with disabilities who owe little or no income tax.

### ***Changes in Benefits: Cavalry Charge Against Social Programs or Guerrilla Subversion?***

The widespread notion that Canada's income security programs have slashed their benefits is, like the "death of universality," simplistic and overblown. Some important programs (notably welfare and Unemployment Insurance) have imposed benefit reductions; others (e.g., public pension programs) remain essentially unchanged; and a few (child benefits and, though only recently, the personal income tax system) have enjoyed real increases in benefits.

*Welfare.* Welfare has experienced covert and, in some provinces, overt declines in benefits and tightening of eligibility requirements. No jurisdiction indexes its social assistance rates, not even partially, which means that their value decreases in real terms each year by the rate of inflation – even though their face (nominal) value stays the same.

While initially this erosion may seem small – especially in the current era of low inflation – the losses compound over the years, in a deadly flip of the "miracle of compound interest." In 1990, I coined the term "social policy by stealth" to characterize governments' use of relatively hidden technical mechanisms (chiefly non-indexation and partial indexation) to reduce benefits without having to portray these changes as cuts [Battle 1990].

Some provinces, notably Alberta and Ontario, also made overt cuts to social assistance rates, which have hastened the process of benefit erosion. The incoming Conservative government in Ontario slashed rates for most categories by 21.6 percent in October 1995, which rescinded previous administrations' more-than-inflation increases.

As a result of these covert and overt cuts, between 1989 and 1999 welfare benefits for single employables fell in value in nine of 11 jurisdictions for which trend data are available – ranging from a real (inflation-adjusted) loss of 75.3 percent in Newfoundland to 8.2 percent in Saskatchewan [National Council of Welfare 2000]. Among single disabled recipients, welfare benefits declined in real terms in seven of 11 jurisdictions, ranging from 26.8 percent in New Brunswick to 1.3 percent in Manitoba. Their value fell in nine of 11 jurisdictions for single parents with one child (from 23.1 percent in Saskatchewan to 0.6 percent in Quebec) and in nine of 11 jurisdictions for couples with two children, ranging from 27.3 percent in Manitoba to 7.8 percent in British Columbia.

Measured in terms of the low income cut-off for the largest city in each province, welfare incomes (i.e., social assistance plus child benefits, refundable tax credits and other social benefits) in 1999 for a single parent with one child under age two, for example, ranged from 49.8 percent of the low income line in Manitoba to 50.1 percent in Alberta, 57.0 percent in Quebec, 59.5 percent in Saskatchewan, 59.8 percent in Prince Edward Island, 60.1 percent in British Columbia, 60.3 percent in Ontario, 61.7 percent in New Brunswick, 62.9 percent in Nova Scotia and 69.7 percent in Newfoundland [National Council of Welfare 2000].

Welfare benefits for single persons considered able to work are even lower. In 1999, rates ranged from a mere \$1,341 or 9.1 percent of the low income line in the largest city in Newfoundland to a “high” of \$6,330 or 40.7 percent of the poverty line in Ontario; benefits for single persons with disabilities went from a low of 42.1 percent of the low income line in Alberta to a high of 70.1 percent in Ontario. For two-parent families with children, 1999 welfare incomes ranged from a low of 45.1 percent of the low income line in Quebec to 62.4 percent in Prince Edward Island.

*Unemployment Insurance.* Several changes have diminished the value of Unemployment Insurance benefits as well. In 1993, benefits were reduced from 60 to 57 percent of insurable earnings; in 1994, they were lowered again, to 55 percent. The upper limit in the band of earnings over which benefits are calculated (called the “maximum insurable earnings level”) fell from \$42,380 to \$39,000 when Employment Insurance replaced Unemployment Insurance on Canada Day 1996, and this level was frozen until 2000 (subsequently extended to 2001), which meant that it has declined both overtly and covertly in real terms. Maximum benefits thus dropped from \$448 to \$413 a week. The maximum length of claim was reduced from 50 to 45 weeks.

The new Employment Insurance scheme also imposed an “intensity rule.” Recipients faced a penalty of a one percentage point reduction in their benefit replacement rate after each 20 weeks of benefits, reducing the rate from 55 percent to as low as 50 percent. This rule was intended to reduce the heavy repeat reliance on EI by seasonal workers, encouraging them to seek full-time work.

Employment Insurance continues Unemployment Insurance’s practice of imposing an income test or “clawback” that partially taxes back benefits from better-off recipients. However, the clawback now affects more recipients because the income threshold for the clawback dropped from (net) \$63,570 to \$47,750. Clawed-back recipients must repay their benefits at the rate of 30 percent above net income of \$39,000 for those collecting benefits for 20 weeks or more, and above \$47,750 for those with less than 20 weeks.

The tightening of Unemployment Insurance was not politically painless. Several Liberal Members of Parliament in Atlantic Canada (hard hit by the changes) lost their seats in the 1997 federal election due in part to the controversy over Employment Insurance. These included the Minister of Defence, Doug Young, who had been Minister of Human Resources Development Canada. As a result, the Liberals back-pedalled somewhat as they went into the 2000 election; they recently rescinded the intensity rule, raised the threshold for the clawback of benefits from \$47,750 to \$48,750 in net income, and abandoned the lower (\$39,000) threshold for those collecting benefits for 20 weeks or more. As well, recipients of maternity, parental and sickness benefits no longer are subject to the clawback.

*Canada Pension Plan.* In consultations on the most recent round of reform of the Canada Pension Plan, Ottawa put forward various proposals aimed at ensuring the program's financial and political sustainability in the face of rising demands from an aging population, especially the baby boomers whose leading edge will hit the pension system as early as five years from now (i.e., boomers born in 1946, who are eligible for Canada Pension Plan retirement benefits as early as age 60). Options to cut benefits included reducing the earnings replacement rate for new retirees, tightening the dropout provisions for years of no or low earnings and child-rearing, raising the age of retirement, partially de-indexing benefits, tightening the administration and work requirements for disability benefits, and killing the death benefit. But there was widespread opposition to cutting Canada Pension Plan benefits and general support for dealing with the sustainability problem chiefly by means of a radical change in financing – a move from pay-go to partial funding (discussed later in this paper).

However, the Canada Pension Plan did not escape completely. Ottawa and the provinces agreed to a stealthy trimming of benefits through technical modifications that affect future pensioners and that few people will understand. Although these changes shaved the value of retirement benefits slightly (by 1.7 percent), the losses will hurt lower-income pensioners and their survivors hardest in relative terms.

Changes have been made to the way in which benefits are to be calculated for both retirement pensions and the earnings-related portions of the disability and survivor benefits. Benefits were based on the average Year's Maximum Pensionable Earnings (YMPE) for the last three years, but in future will be calculated on an average for the last five years. While this change may be more consistent with the majority of private plans, it will reduce benefits for most workers because wages usually reach their peak at the end of a person's working life. The overall average based on a five-year span typically will be lower than an overall average based on a three-year span, which generally includes the highest level of earnings.

Several changes were made to the disability benefit. Eligibility for this benefit has required that contributions be made in two of the past three years or five of the past 10 years; this is being lengthened to four of the past six years. Disability benefits no longer will be paid to estates, and Canadians already receiving early retirement benefits will not be eligible for disability benefits. The administration of the benefit will be tightened through more frequent reassessments and new appeal procedures.

The way in which retirement benefits are calculated for disability beneficiaries also is being modified. These pensions used to be based on the YMPE when the recipient turned 65 and then indexed to prices. The retirement benefit for disability beneficiaries now will be based on the YMPE at the time of disablement (regardless of when this occurred) and subsequent price indexing.

Prior to the Finance Minister's announcement, the combined survivor-disability benefits were based on a ceiling equivalent to the maximum retirement pension plus the larger of the two flat-rate components of the survivor and disability benefits. The new ceiling is now one maximum disability pension. There has been no change to the ceiling of the combined survivor-retirement benefits.

The death benefit was not withdrawn but its value has been reduced from its former level of six months of retirement benefits to a maximum of \$3,580 with wage indexation to six months of retirement benefits to a maximum of \$2,500 with no indexation, so it will shrink steadily in future.

*Elderly benefits.* If Social Security (the public pension system in the United States) is the “third rail” of American politics, then old age pensions are the fourth rail of Canadian politics, after medicare. Both the Conservative and Liberal governments received a jolt when they entertained options to slow the relentless rise in expenditures on elderly benefits. In its first term, the Mulroney government was forced by a media-empowered pensioners’ lobby (supported by social advocacy groups and even the corporate sector) to back off from its proposal to partially de-index Old Age Security benefits, which remained fully indexed. A decade later, the Liberals backed down from their more radical proposal to restructure elderly benefits, the Seniors Benefit; this reform would have had a progressive redistributive impact, increasing benefits for low- and modest-income seniors while reducing or removing payments to upper-income seniors, and fully indexing the threshold for the new program’s family income test [Battle 1997; Government of Canada 1996]. (The last real increase to federal elderly benefits – to the income-tested Guaranteed Income Supplement – was under the Trudeau government, back in 1984.)

However, the Tories managed to implement stealthy, politically safe cost-trimming modifications to elderly benefits that their Liberal successors gratefully left in place. The Conservatives’ 1988 income tax reforms shifted most exemptions and deductions to non-refundable credits, thus reducing their value (including two pension tax expenditures, the age exemption and pension income deduction) for higher-income pensioners. In 1994, the Tories imposed an income test on the age credit, reducing or removing tax savings from middle- and upper-income taxpayers. The Mulroney government also made a fundamental structural change to the tax/transfer system, ending full indexation in 1986. The age credit was partially de-indexed and the pension income credit frozen – changes that increasingly eroded the value of these tax breaks over the years. The Conservative-imposed clawback on Old Age Security also undermined the value of benefits for higher-income pensioners subject to the clawback: as the partially de-indexed income threshold for the clawback declined steadily in real terms each year, more and more seniors (at declining income levels) became subject to the clawback and, while they still ended up with partial benefits even after the clawback, the latter effectively took a bigger bite out of their payments. In addition, the income level above which benefits are fully taxed back fell in small but steady steps and so also eroded benefits. As noted earlier, only a small percentage of seniors (5 percent, at last count) are subject to

the income test on Old Age Security, though that percentage would have continued to increase over the years had the Liberals not restored full indexation as of 2000.

While the Liberals finally restored full indexation to the federal tax/transfer system, they did not fully restore tax credits and thresholds to their original value. And while the threshold for the income test on Old Age Security was fully indexed, thus rising from \$53,215 in 1999 to \$53,960 for 2000, the latter amount is worth only \$42,540 in 1989 dollars (as opposed to its original \$50,000 level in 1989). This means that the threshold fell by \$7,460 in constant dollars – a sizable 14.9 percent decline – between 1989 and 2000 as a result of partial de-indexation. Nonetheless, the restoration of full indexation is a major improvement in Canadian tax/transfer policy, since it halts the stealthy slide in the value of a number of important tax benefits, including those for seniors, and solidifies ongoing increases to the Canada Child Tax Benefit.

*Tax deductions for private pension contributions.* Successive federal governments have been of two minds about tax breaks for private pension and retirement savings, wanting to enrich them but pulling back for fear of the enormous costs involved, as these are among the most expensive of all tax expenditures – an estimated net cost of \$15.3 billion in 2001, or more than double what Ottawa spends on the Canada Child Tax Benefit. The Mulroney government initially announced a large, phased increase in the tax deduction limit for contributions, eventually to reach \$15,500 and then be indexed to average wages, but subsequently slowed the schedule of increase; the level was frozen at \$7,500 from 1988 through 1990, then went up to \$11,500 in 1991, \$12,500 for 1992 and 1993 and \$13,500 in 1994. The Liberal government's 1996 Budget turned to the tried-and-true tactics of social policy by stealth and announced that the tax deduction limit would be frozen at its current level of \$13,500 until 2003, then increased to \$14,500 in 2004 and \$15,500 in 2005. This freeze, like the Tories' before it, is reducing the maximum amount of federal and provincial income tax savings for contributors and, as a result, slowing the rising cost to the federal and provincial governments of the resulting tax expenditure. Ottawa eliminated the seven-year limit on carrying forward unused Registered Retirement Savings Plan (RRSP) contributions, a change that will help taxpayers make up for years when they are unable to contribute much or anything to their RRSPs. On the other hand, it lowered the maximum age for contributing to Registered Pension Plans and RRSPs from 71 to 69, which will reduce the tax expenditures for private pensions both by no longer allowing tax filers to claim tax deductions at ages 70 and 71 and by requiring them to start drawing their pensions (which are taxable) two years sooner, thus adding to the federal and provincial governments' tax coffers.

*Disability tax benefits.* There has been modest but badly needed progress in tax benefits for Canadians with disabilities (and their supporting families). The disability tax credit amount was increased in 2001 from \$4,293 (providing federal income tax savings of \$687 and combined average federal/provincial tax savings of \$1,030) to \$6,000 (\$960 in federal tax savings, \$1,440 average federal/provincial tax savings) and now is fully indexed. The tax credit amount for caregivers of

dependent relatives who are elderly, infirm or disabled rises in 2001 from \$2,386 (\$382 federal tax savings, \$573 average federal/provincial savings) to \$3,500 (\$560 federal, \$840 average federal/provincial tax savings). The child care expense deduction (which delivers income tax savings that rise with the claimant's marginal tax rate) also increases in 2001, from \$7,000 to \$10,000, on behalf of children eligible for the disability credit.

*Child benefits.* The income security policy that has seen the most significant increase is federal child benefits. Over the past few years, Ottawa has made a series of substantial increases to the Canada Child Tax Benefit that has boosted payments to low-income families.

In 1997, the previous Child Tax Benefit paid a maximum \$1,020 per child, plus an earnings supplement worth up to \$500 per family. It was replaced in 1998 by the Canada Child Tax Benefit (CCTB), which eliminated the Working Income Supplement for the working poor in favour of a larger, equal maximum benefit for all low-income families (whether working or on welfare or Unemployment Insurance). Currently (as of July 2001), the maximum CCTB is \$2,372 for one child (\$1,255 in the National Child Benefit Supplement and \$1,117 in basic Child Tax Benefit), \$2,172 for a second child (\$1,055 Supplement and \$1,117 basic Credit) and \$2,175 (\$980 Supplement, \$1,117 basic Credit and \$78 additional basic Credit for each child more than the second) for the third and each additional child. The federal government's stated target is to increase the maximum Canada Child Tax Benefit to a forecast \$2,520 for one child, \$2,308 for a second child and \$2,311 for each additional child by 2004. (These rates will come within range of meeting the Caledon Institute's proposed \$2,800 level for 2004.)

Granted, partial de-indexation corroded these increases, though the latter outpaced the losses so that low-income families still saw real increases in their federal child benefits. Ottawa then went one better and restored full indexation in 2000.

Maximum payments went from \$2,540 for a working poor family with two children (\$2,040 for non-working poor families) in 1997 to \$4,828 for all low-income families with two kids by 2004. Adjusted for inflation, this amounts to a 65 percent real increase in federal child benefits for working poor families and 106 percent for other poor families.

By 2004, Ottawa will spend a forecast \$9 billion on the Canada Child Tax Benefit, which, in inflation-adjusted 2004 dollars, is a \$3.3 billion or 58 percent real increase since the reform began. Low-income families will receive about \$6 billion, or two-thirds of the \$9 billion total spending in 2004. Non-poor families will get the other \$3 billion, or one-third.

A small but vital advance is that the federal government, in its 1999 and 2000 budgets, began restoring child benefits for non-poor (mainly modest- and middle-income) families – improvements protected by the restoration of full indexation in 2000. In so doing, Ottawa has broadened the scope

of reform beyond the child benefit system's anti-poverty objective to begin bolstering its horizontal equity performance. Thus the two fundamental objectives of child benefits are being simultaneously strengthened.

Under the National Child Benefit agreement, enhancements in federal child benefits have enabled provinces and territories to redirect social assistance savings into a range of income programs and social services for low-income families with children. Provincial reinvestments to date total \$305.2 million in 1998-99 and \$498.2 million in 1999-2000. Child care took first place – 39.4 percent in 1998-99 and 34.6 percent in 1999-2000. This was followed by income-tested child benefits and earnings supplements (31.1 percent in both fiscal years), initiatives by Ontario municipalities and by Aboriginal communities (21.8 and 20.9 percent), early childhood development (4.5 and 9.3 percent) and supplementary health care (3.1 percent the first year and 4.1 percent the next year) [Federal/provincial/territorial governments 2001].

It must be emphasized that the increase in federal child benefits does not affect all low-income families equally. The most controversial feature of the federal-provincial National Child Benefit (NCB) reform – one that lies at the core of its policy rationale – is its differential treatment of welfare families and other low-income families (e.g., the working poor and Employment Insurance poor). Families on social assistance in most provinces are seeing no net increase in their overall child benefits, because their provincial child-related payments (from welfare) are reduced (“clawed back,” to use the popular social policy opprobrium of our time) by the amount of the increase in federal child benefits. Working poor families, on the other hand, are seeing a substantial real increase in child benefits, which they receive only from the federal government, in order to bring them closer to the level of welfare families, which traditionally got about twice the amount of child benefits as the working poor.

*Bracket creep and credit corrosion.* Partial de-indexation of the income tax system from 1986 to 1999 eroded the value of major social benefits in several ways [Battle 1998, 1999; Poschmann 1998]. As already explained, partial indexation of the income thresholds for Old Age Security and the Child Tax Benefit slowly but steadily ate away at the value of benefits for higher-income recipients; in addition, the Child Tax Benefit rate was partially de-indexed (which was not the case with Old Age Security benefits), affecting recipients at all income levels. But partial de-indexation also imposed hidden annual federal and provincial income tax hikes on all taxpayers and added more (poor) people to the tax rolls by lowering the taxpaying threshold; while “bracket creep” received public attention, in fact it affected only a minority of taxpayers, whereas what I called “credit corrosion” (i.e., the steady decline in the value of partially de-indexed tax credits) hit all taxpayers each year. These stealthy and generally regressive income tax hikes exacerbated losses due to the partial de-indexation of child benefits and the refundable GST credit. Yet another negative effect of partial de-indexation that never entered the public discourse over social policy reform stemmed from the interaction between income taxes and social benefits; because such key

programs as Old Age Security, Family Allowances and the Canada/Quebec Pension Plan are (or were, in the case of the now extinct Family Allowances) subject to federal and provincial income taxes, the value of their after-tax benefits fell gradually as partially indexed income taxes took an ever-increasing bite. Family Allowances actually suffered a double whammy, as partial de-indexation eroded their value and increased the tax take.

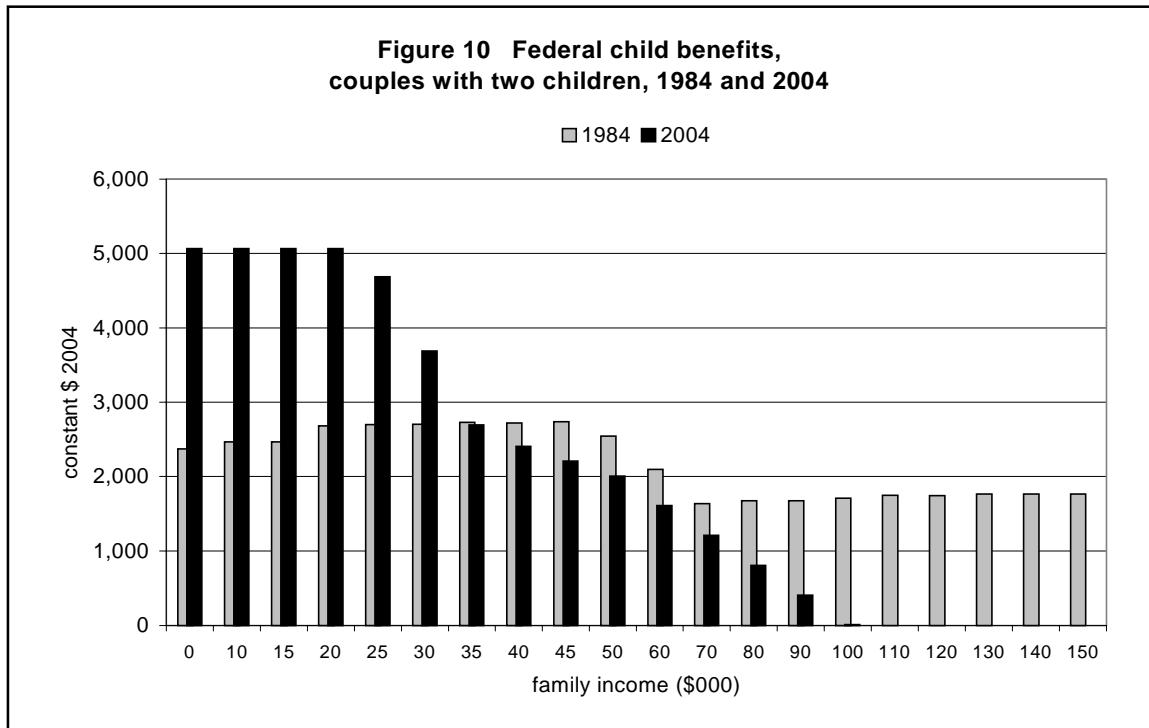
### ***Broad-Based Geared-to-Income Benefits Trump Demogrants and Needs-Tested Programs***

The angst among universalists over the “death of universality” has served to obscure an equally if not more important shift in Canadian income security policy – the displacement of demogrants and needs-tested benefits by income-tested benefits delivered through the income tax system. I regard this development as the most important advance in contemporary Canadian social policy – ironically, a trend born in and out of the anti-deficit campaign.

Two of the bulwarks of the post-war universalist welfare state in Canada – Family Allowances and Old Age Security – were demogrants, meaning that they covered all children and all seniors, respectively, regardless of economic circumstance and need. A series of changes in the 1980s and 1990s transformed these demogrants into income-tested programs in which income plays two key features – it determines eligibility for the program (i.e., its scope, as discussed earlier) and it is used to gear the amount of benefit progressively to the amount of income (i.e., the distribution of benefits).

Unfortunately, universalist critics of the trend away from universal towards income-tested programs fail to distinguish between these two fundamental characteristics of income-tested programs. The confusion stems from the popular but misunderstood term “targeting.” On the one hand, it is true that income-tested benefits like the federal Canada Child Tax Benefit and refundable GST credit and various provincial programs (including refundable tax credits, earnings supplements and new income-tested child benefits) are “targeted to the poor” in the sense that they pay their maximum amount to low-income recipients and a diminishing-to-zero amount to non-poor recipients. But they are not targeted to the poor in terms of their scope or coverage: to the contrary, the large majority of families with children and of seniors still qualify for the Canada Child Tax Benefit and Old Age Security, though they receive less than the full amount; and while provincial income-tested programs are, by design, more narrowly targeted in terms of reach, some (e.g., the British Columbia Family Bonus) serve modest-income as well as poor families.

Earlier, I debunked the criticism that “targeting” of previously universal child and elderly benefits has shrunk their reach; in fact, the large majority of families with children and of seniors receive benefits. Here, I focus on the second dimension of targeting – targeting to achieve a geared-to-income, progressive distribution of benefits.



*Child benefits.* Figure 10 illustrates the distribution of federal child benefits under two systems in 2004 – the “old” system (Family Allowances, the children’s tax exemption and the refundable child tax credit) in its final year (1984) and the new Canada Child Tax Benefit as of 2004. The 1984 values have been converted to constant 2004 dollars. In this example, families have one child under age seven and one between seven and 17.

The old system suffered from vertical inequity: It was not logically geared to income; poor families got less than lower- and middle-income families and not much more than those with high incomes. The old system also resulted in horizontal inequity: families with the same income but different mixes of spousal income received different levels of total benefit, because two of the three benefits (Family Allowances and the children’s tax exemption) were based on individual income and only the refundable child tax credit on family income.

The new Canada Child Tax Benefit allocates its payments more progressively according to family income. Maximum benefits (\$5,063 for this family) are the same between zero income and net family income of \$23,098 and then decline steadily to disappear at \$100,225. Families with the same total income get the same amount of benefits, no matter what the mix of spouses’ incomes.

Comparing the old and new systems, families up to \$35,000 in net family income enjoy gains while the rest suffer losses. The distributional impact of the changes is progressive. Income increases from child benefit reform range from a hefty 25.9 percent for families at \$10,000 to 3.3 percent at \$30,000; losses range from a low of 0.1 percent of income at \$35,000 to a high of 1.7 percent at \$100,000. So while universalists may lament the decline in child benefits for non-poor families, in proportional terms the losses are very small indeed. (Note that I am reporting on but not wholeheartedly applauding the level of child benefits under the new system: Caledon has advocated a much more substantial increase in the CCTB that would boost payments to poor families and extend significant increases to middle-income families.)

But the changes to federal child benefits are only part of the story of the rise of broad-based income testing. The National Child Benefit has widened the scope of reform to include provincial income assistance for families with children. Income-tested child benefit programs, both federal and provincial, are displacing traditional social assistance on behalf of children.

While I regard the development of broad-based income testing as a major advance in social policy, it has not been embraced by non-governmental organizations. To the contrary, most social advocacy groups and the New Democratic Party have attacked the National Child Benefit for “discriminating against welfare families” that are characterized (not always accurately) as the “poorest of the poor” [Baker Collins 1997; Durst 1999; National Council of Welfare 1998].

Social assistance families indeed do not get an increase in their net child benefits. They see an increase in the proportion coming from the federal Canada Child Tax Benefit and new provincial income-tested provincial child benefits, but an offsetting decline in the share from traditional needs-tested social assistance benefits on behalf of children. By contrast, the working poor and other low-income families not on social assistance enjoy a real increase in their child benefits. This process has given rise to a great deal of anxiety on the part of vulnerable social assistance recipients and anger on the part of social groups.

To rattle the critics even more, governments have touted the National Child Benefit as a key anti-poverty measure. But it arrived after several years of overt and/or covert cuts to social assistance benefits that had shrunk welfare families’ income. It also was introduced amid growing efforts on the part of most provinces to require recipients to enter the workforce. These efforts took the form of “workfare” and tightened eligibility rules in many provinces.

The criticism that the National Child Benefit “discriminates” against welfare families misses the essential point of the reform. Its purpose is to restructure income security by equalizing child benefits for all low-income families. It seeks to raise child-related payments for poor families not on social assistance *up to* the level paid to social assistance families.

A key issue here is strategy. Ottawa should have fully implemented the reform (as proposed in the 1995 Caledon report *One Way to Fight Child Poverty*) within a short time (e.g., two years) rather than phasing it in through an incremental, multi-year approach [Battle and Muszynski 1995]. The federal government also should have put more money on the table. It could have displaced social assistance-delivered child benefits within two years. It also should have committed to raising the new Canada Child Tax Benefit to a level high enough to exceed the previous amount of combined federal and provincial child benefits paid to social assistance families.

Social assistance families would have seen a smaller net increase in child benefits than the working poor, but at least they would have been a little better off than before. The idea that one type of benefit was simply replacing another would have been apparent and easily explained. The incremental strategy that was adopted instead has contributed to the criticism of the National Child Benefit.

However, even without a real increase in child benefits for social assistance families, they will be better off under the National Child Benefit than under the old mix of federal child benefits and provincial welfare child benefits.

Social assistance is a highly stigmatizing program prone to overt cuts or steady erosion on the part of the provinces. For example, a get-tough-on-social-assistance approach was a prominent part of the Conservative government's election platform in Ontario. It followed through in October 1995 with a 21.6 percent cut in social assistance for most recipients. The cuts did not harm the government's political fortunes – indeed they probably helped. The Ontario Conservatives – residualists in their philosophy of social policy – were easily re-elected, unlike the previous two provincial administrations, which had raised social assistance rates.

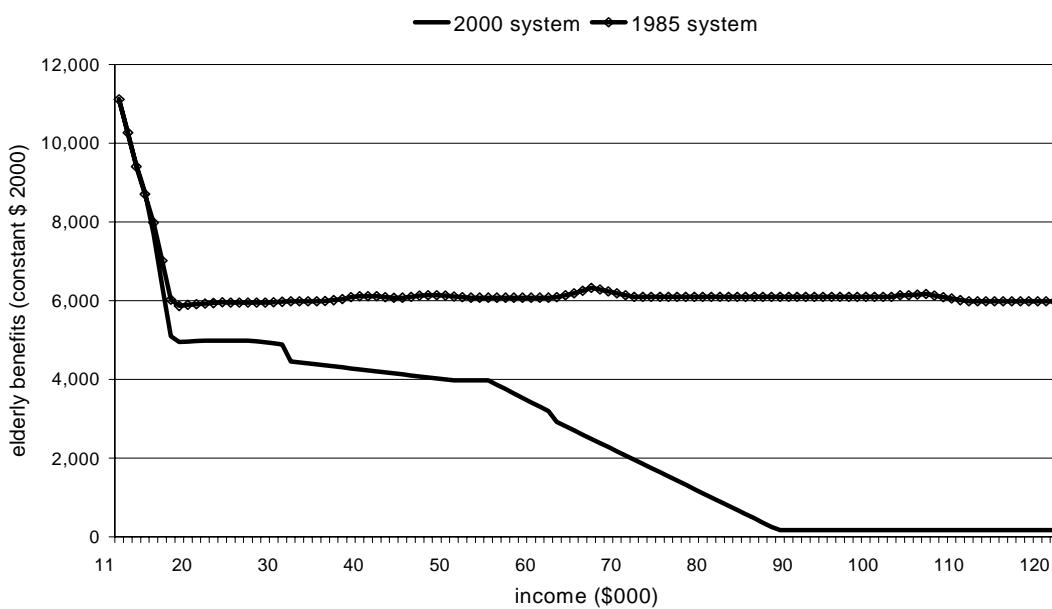
Income-tested social programs, in contrast to social assistance, have seen real and substantial increases in benefit rates for lower-income recipients, with broad public support. The Canada Child Tax Benefit, which was fully indexed as of 2000, is in a far better position than social assistance to enjoy further increases in the coming years. If one is truly worried about the adequacy of social assistance recipients' incomes, the best option is to provide a larger proportion of their incomes out of a politically popular and expanding program, such as the Canada Child Tax Benefit.

It is also essential to remember that Canada's welfare population is a dynamic, ever-changing group. About half of social assistance recipients leave for the workforce every year. Under the old system, these recipients lost all of their social assistance-delivered child benefits, but the Canada Child Tax Benefit is a "portable" benefit that accompanies families no matter what their primary income source or how often it changes.

No longer will social assistance families lose precious income from child benefits if they move to the workforce. Working poor families will continue to receive their child benefits from the federal government even if they go on welfare or Employment Insurance. If they improve their earnings, families will continue to receive the Canada Child Tax Benefit – though in a smaller amount if their income increases far up the income scale. Moreover, some social assistance families are benefiting from some of the provincial reinvestments.

Another important advantage is that social assistance families receive the Canada Child Tax Benefit along with the large majority of Canadian families, and without stigma – in stark contrast to needs-tested welfare with its elaborate, intrusive and demeaning administrative apparatus. Payment of the Canada Child Tax Benefit (and provincial income-tested benefits) is automatic and painless, involving little or no contact with government officials and a simple annual test of income administered through the income tax system – a mechanism that, perhaps ironically, is the new instrument of universality since it now touches virtually all Canadians, the poor along with the middle class and the affluent. Many people dislike paying taxes, but they surely feel no stigma in doing so – rather, a sense of “grumbling inclusion” or “negative solidarity” occasioned by the legal requirement to comply, whether they like it or not. More seriously, the Canada Child Tax Benefit is an effective instrument for social solidarity.

**Figure 11 Elderly benefits, single seniors, 1985 and 2000**



*Elderly benefits.* The reform of elderly benefits, as with child benefits, has created a progressive distribution of benefits and thus advanced the objective of vertical equity. However, this change (desirable, in my view) has been achieved at the expense of horizontal equity, since middle-income and upper-income seniors get less than in the past – though the losses are themselves progressive, hitting the small group of affluent seniors hardest.

Figure 11 compares the overall distribution of federal elderly benefits in 1985 and 2000 for single seniors (the picture is much the same for couples). The 1985 benefits consisted of net Old Age Security (i.e., net of federal income tax payable on the benefit), the Guaranteed Income Supplement and federal tax savings from the age exemption and pension income deduction. The current 2000 benefits are net Old Age Security (i.e., benefits after federal income tax and after the income test on higher-income recipients), the Guaranteed Income Supplement and federal income tax savings from the non-refundable age credit and pension income credit; provincial tax savings are excluded because recent reductions in provincial tax rates would confuse the issue. The 1985 values are expressed in constant 2000 dollars.

The previous (1985) elderly benefits system was progressive at low incomes (up to \$18,000 on the graph) but relatively flat for all other incomes. The progressivity of taxable Old Age Security and the steeply income-tested Guaranteed Income Supplement were offset by the regressive age exemption and pension income deduction, whose value increased with the taxpayer's marginal tax rate. This pattern scored poorly on the vertical equity dimension, because pensioners with widely differing incomes received virtually the same amount of elderly benefits. For example, a single senior with income of just \$18,000 got \$5,855 in federal benefits – \$115 *less* than the rare senior with an income of \$120,000, or almost seven times as much.

The new (2000) elderly benefits system is progressive throughout most of the income range, though flat above \$87,000 in the case of a single senior. Old Age Security is progressive by virtue of its taxability and the income test applied for affluent seniors; the sharply income-tested Guaranteed Income Supplement also is progressive. The income-tested age credit's distributional pattern is imperfectly progressive, in that it shows an up-flat-down pattern (it phases in between about \$12,000 and \$15,000, remains at that maximum amount until \$26,000 and then declines to phase out by around \$50,000). The pension income credit pays the same small benefit to almost all seniors with some private pension income (excluding the poorest, who are below the taxpaying threshold). Once Old Age Security phases out at \$87,000, the only benefit remaining is the non-refundable pension income credit, which effectively maintains a token universality to the system.

Comparing the old and new systems' distribution of benefits, it is clear that the increase in vertical equity was achieved at the expense of horizontal equity and with attendant expenditure savings to the federal and provincial governments. While the new system pays no more to poor seniors, it pays substantially less to middle- and upper-income pensioners, though – as with child benefits – the losses are progressive throughout most of the income range.

The failure of the Seniors Benefit reform means that elderly benefits – unlike child benefits – still suffer a form of horizontal inequity. Couples with the same total income receive different amounts of elderly benefits depending on the mix of spouses’ income (from the Canada Pension Plan, private pensions, employment and other sources), because of the use of different income tests – individual income tests for Old Age Security and the age credit, a family income test for the Guaranteed Income Supplement. As a result, “one-income couples” (i.e., elderly couples in which one spouse has most or all of the non-Old Age Security/Guaranteed Income Supplement income) get more benefits than “two-income couples” (i.e., couples in which both spouses have significant amounts of non-Old Age Security/Guaranteed Income Supplement income) at the lower and upper ends of the income spectrum. Throughout most of the income range, two-income couples get more elderly benefits than one-income couples. The Seniors Benefit would have corrected this horizontal inequity because it would have used family income rather than the current oil-and-water mixture of individual and family income tests.

### ***Simplification and Rationalization of Programs***

One of the perennial aims of reform is to reduce the complexity of Canada’s social programs, a complexity that results from several factors – for example, delivery by all three levels of government and by the public, private and voluntary sectors; different and sometimes competing objectives and associated designs; and administration by individual programs versus by the income tax system. There are concerns that scarce resources are being wasted by duplication and overlap, and that consumers find it difficult to understand what benefits are available and from whom.

The 1980s and 1990s saw some success in rationalizing the income security system, though I doubt that Canadians have any better grasp of who delivers what. Indeed, a perhaps inevitable fallout of reform – whether intended or accidental – is that it tends to confuse people even more.

The National Child Benefit set as one of its objectives the reduction of overlap and duplication, and child benefit reform has delivered reasonably well so far. Even before the National Child Benefit, Ottawa made a series of changes that simplified and rationalized its system of child benefits. Three programs (Family Allowances, the children’s tax exemption and the refundable child tax credit), with differing designs and a resulting irrational distribution overall, producing inherent vertical and horizontal inequities, were replaced by a single, family income-tested Child Tax Benefit that achieves horizontal and vertical equity. Under the National Child Benefit, the federal government further simplified its program by doing away with the Working Income Supplement for the working poor, resulting in the same maximum payment to all low-income families with children. Moreover, administrative efficiencies and savings have been achieved through the new provincial income-tested child benefits typically being administered on behalf of the provinces by the federal government, through the personal income tax system. The National Child Benefit also has resulted in administrative data-sharing by the two levels of government.

On the other hand, the fiscal imperative to focus increased spending on rationalizing and improving child benefits for poor families led to a complex and virtually incomprehensible two-tier design of the Canada Child Tax Benefit, confusingly labelled the “base Child Tax Benefit” (i.e., the old Child Tax Benefit, with its low reduction rate, wide reach and gradual decline in benefits as incomes increase above a threshold) and the “National Child Benefit Supplement” (with a different threshold and higher reduction rates required to target the increased spending on low-income families). To confuse matters further, the changes have been gradually phased in, with numerous changes to benefits, thresholds and reduction rates. Whether all this makes any difference to families themselves is a good question, since the Canada Child Tax Benefit (like its predecessor, the Child Tax Benefit) is calculated automatically for them through the income tax machinery. (I return to this issue in the discussion of disincentives.) When Michael Mendelson and I interviewed a group of working poor families receiving the new income-tested BC Family Bonus, some confused the provincial initiative with the old (and extinct) federal baby bonus – an understandable confusion, though one that would perturb the British Columbia government, which wants to obtain public credit for its reform effort (and cost).

The displacement of provincial social assistance benefits on behalf of children by increased federal child benefits doubtless has sown some confusion among welfare families and fuelled the nonsensical allegation from some critics and journalists that the Canada Child Tax Benefit does not go to welfare families. If, in fact, some provinces have offset welfare benefits by more than the increase in federal payments, then they are breaking the National Child Benefit agreement negotiated between the federal and provincial governments: I know of no such proof that this practice has occurred, but the issue must be carefully monitored and assessed by the ongoing evaluation of the reform. Nevertheless, the very fact that the National Child Benefit is attempting to make deep structural changes in both federal and provincial systems of child benefits – in the interests of building a simpler, fairer and more rational system – is bound to result in some confusion, if only because the old system was so irrational and hard to explain and the proof of reform is in the new pudding.

Under the National Child Benefit reinvestment agreement, provinces are allowed to reduce their welfare expenditures on children provided they allocate the savings to other provincial programs and services for low-income families with children, such as child benefits, earnings supplements, early childhood development and the extension of supplementary health benefits. The same reinvestment process applies to Aboriginal communities on reserves. Some critics have complained that the reinvestment agreement allows the provinces too much leeway in deciding how to reinvest their welfare savings and thus contributes to a more variable, more complex and less coherent “national” system of supports for families. Defenders of the reinvestment agreement counter that such flexibility is desirable, since it allows provinces to develop and deliver programs based on their own needs, resources and policy priorities.

The other notable attempt to rationalize and simplify a set of disparate benefits was the ill-fated Seniors Benefit. This reform would have combined four income security programs for the elderly – Old Age Security, the Guaranteed Income Supplement, the age credit and the pension income credit – into a single income-tested Seniors Benefit paying its maximum amount to low-income seniors and a diminishing amount as incomes increased above a threshold – that is, a similar structure to single-tier refundable credits such as the GST credit, refundable child tax credit and Child Tax Benefit (though not the Canada Child Tax Benefit, which is two-tiered). Not only would four programs have been recombined into one, but the horizontal inequity caused by an oil-and-water mix of individual income-tested benefits (Old Age Security, the age credit and the pension income credit) and family income-tested benefits (the Guaranteed Income Supplement) would have been resolved by moving to a single, family income test. However, Ottawa withdrew the proposal in the face of political opposition from women's groups, labour, the NDP and Bay Street [Canadian Chamber of Commerce nd; Slater 1998].

### ***Changes in Social Insurance Financing: From Pay-Go to Partial Funding***

*Canada Pension Plan.* One of the biggest changes in Canadian social policy is the ongoing shift from pay-go to partial funding of the Canada Pension Plan. Contributions will increase substantially over seven years (from 1997 through 2003), but will level off once they achieve the so-called “steady-state” rate of 9.9 percent of contributory earnings (divided equally between employees and employers) – with no increases thereafter. Contributions will exceed expenditures, thus building up a fund that is being invested in the market in a diversified portfolio of assets, following the practice of large employer pension funds in Canada and other countries. Earnings on the investments are intended to help reduce future contribution rates over what they otherwise would be.

The other financing change to the Canada Pension Plan is a freeze of the Year's Basic Exemption (YBE), which until now has been indexed to wages. In 1997, the Year's Basic Exemption was \$3,500, calculated as 10 percent of the \$35,800 Year's Maximum Pensionable Earnings (the YMPE will remain wage-indexed). By freezing the Year's Basic Exemption, which will fall in value each year, the base of contributory earnings will increase (i.e., more earnings will be subject to Canada Pension Plan contributions), and thus future contribution rates can be lower than otherwise necessary. The Caledon Institute calculated that the \$3,500 Year's Basic Exemption will be worth \$2,722 in 2003 and \$822 in 2030 (in constant 1997 dollars). The federal government has estimated that, by freezing the YBE, by 2030 the (pay-go) rate would be reduced by 1.63 percentage points.

Freezing the Year's Basic Exemption – a stealthy change that few Canadians will recognize or understand – proved irresistible to governments concerned about reducing future contribution rates. By comparison, the rapid ramp-up in contributions over the next few years will be very

visible and might prove to be somewhat more difficult politically, partially offsetting income tax reductions.

The Year's Basic Exemption offers ("offered" is a more accurate term, since it will decline in future) two advantages to contributors with below-average earnings. First, it reduces their contributory burden because the first \$3,500 of earnings are exempt. Second, retirement pensions are calculated on the full range of earnings up to the Year's Maximum Pensionable Earnings, not the narrower band of earnings (between the YBE and the YMPE) on which contributions are paid. As a result, Canadians who earn below the average wage receive relatively more Canada Pension Plan retirement benefits in relation to their contributions than those who earn the average wage or higher.

Contributors to the Canada Pension Plan can claim a non-refundable tax credit (calculated as 16 percent of the amount they contribute) to ease the burden of their contributions. Adding in provincial income tax savings, which vary from one province to another, on average the Canada Pension Plan tax credit is worth about 24 percent of contributions.

The move to partial funding and the freeze on the Year's Basic Exemption will impose a heavier burden on Canadians with below-average earnings than on those in the higher (\$50,000-and-up) range. For example, a \$20,000 employee's net (i.e., after-tax credit) contributions will rise from \$337 or 1.7 percent of earnings in 1996 to \$625 or 3.1 percent of earnings in 2003, the year that the steady-state rate will be reached. A \$50,000 employee's net contributions will increase from \$652 or 1.3 percent of earnings in 1996 to \$1,181 or 2.4 percent of earnings in 2003. (All dollar figures are in inflation-adjusted 1996 amounts.)

Measuring the net increase in contributions (2003 versus 1996) as a percentage of earnings, the result ranges from a high of 1.6 percent for those earning just \$6,000 to 1.5 percent for those earning \$35,000 (roughly average earnings) and then declines with increasing income to just 0.5 percent of earnings for employees earning \$100,000. The distributional pattern is identical for the self-employed – a growing group in the labour force – except that their increased burden is double that of employees. However, the 2000 federal Budget announced that the self-employed will be able to deduct the "employer's" share of Canada Pension Plan contributions fully from taxable income, putting them on an even playing field (after tax) with employees with respect to tax assistance for contributions.

Women and younger workers will be hardest hit in relative terms during the seven-year transition to partial funding, since they cluster at the lower end of the earnings spectrum. Among female Canada Pension Plan contributors, 79 percent earn less than the Year's Maximum Pensionable Earnings (i.e., about the average) and 43 percent earn less than half the average. The large majority of young contributors earn below the average.

On the other hand, Canadians with low or modest employment earnings stand to benefit most in the longer term from the financing changes. The steady-state contribution rate will reach 9.9 percent in 2003, and then is supposed to remain level, whereas the pay-go rate would have kept increasing. After 2016, the pay-go rate would exceed the partial funding rate and rise year after year.

Moreover, partial funding is intended to restore public confidence in the long-term viability of the Canada Pension Plan – a pension program that is crucial to low- and modest-income Canadians, who rarely work for employers offering private pension plans or save much, if anything, in individual retirement savings plan. The growth of a Canada Pension Plan fund that will be invested broadly in the market should appeal to the many Canadians who either do not understand or do not accept the pay-go system in which there was nothing more than a small contingency reserve. The baby boom generation, in effect, will be paying for part of its own pensions and Generations X, Y and Z will pay lower contributions than they would under the old (pay-go) system, which should to some extent address the issue of the Canada Pension Plan's alleged intergenerational unfairness.

*Unemployment Insurance.* Canada's other major social insurance program, Unemployment Insurance/Employment Insurance, also has gone the partial financing route in reality, though the change was not formally acknowledged as such. Although premiums have been lowered several times in recent years, they still have been set higher than required to pay current benefits and weather the cost-boosting impact of a recession; in 1999, the Employment Insurance surplus was a staggering \$26 billion. Despite recurrent complaints from social groups, labour and business lobbies, and the Auditor General, the Liberals have maintained the Employment Insurance surplus because it was an important weapon in the war against the deficit (it is counted as revenue) and remains a key tax in the post-deficit period – especially when income taxes are being substantially reduced.

As is the case with the Canada Pension Plan, the financing changes to Employment Insurance are regressive. The Maximum Insurable Earnings (MIE) declined first because of its overt reduction and then steadily until 2000 by "stealth," through lack of indexation to the change in the average wage. A lower MIE narrows the earnings base upon which premiums are levied, requiring a higher premium rate that falls heaviest on low-wage workers. And premiums are now collected on the first hour of employment. Overall, more of the Employment Insurance premium burden has shifted from middle- and upper-income earners to lower-wage earners and those in unstable jobs.

### ***Changing Division of Labour in Social Policy***

Several of the changes discussed in this paper have affected the division of labour and the federal-provincial balance in social policy. But the widespread notion that Ottawa is passing the

buck to the provinces in an era of devolution and rising provincial power is another case of “conventional wisdom” being simplistic if not more wrong than right.

Rumours of the demise of Ottawa’s role in social policy are greatly exaggerated. Yes, the federal government slashed its social transfers to the provinces during the anti-deficit campaign, and the cash/tax point transfer formula means that federal cash payments will continue to decline in future – but Ottawa since has begun to partially restore past losses by putting billions back into the Canada Health and Social Transfer (mainly for health, with a bit for early childhood development). Yes, replacing the Canada Assistance Plan with the CHST effectively withdrew federal funding for provincial welfare and social services (since the CHST for all effective purposes is a CHT), but the National Child Benefit is levering some federal financing for provincial social spending. Yes, the demise of the Canada Assistance Plan has cut all but one federal string on provincial welfare programming (the requirements for appeal systems, a safety net available to all persons in need and certain basic program information to the federal government are gone, with only the portability requirement remaining), but the allegation of social advocates that the CHST has put an end to “national standards” in provincial social programs and medicare is based on the nostalgic myth that Ottawa enforced national “standards” before the CHST: it did not, because the conditions of the Canada Assistance Plan and the Canada Health Act never had the status of standards [Torjman and Battle 1995]. Yes, Ottawa has largely pulled out of social housing, but it appears to be reassessing this decision in the face of pressure to help deal with the national problem of lack of affordable housing. The one devolutionary act that the federal government appears not to have regretted or had second thoughts about is the devolution of most labour market programs to the provinces.

The National Child Benefit has increased the federal role in child benefits and diminished that of the provinces, enabling them to spend more on family services under the reinvestment agreement. Ottawa’s expenditures on income security will continue to expand significantly well into this century by virtue of the combination of an aging population (soon to become swollen by the baby boomer generation) and fully indexed public pensions (elderly benefits and the Canada Pension Plan). The restoration of full indexation of the federal tax/transfer system, contrasted to the non-indexation of provincial income programs, also is serving to help shift the federal-provincial balance in income security policy. Another factor in the changing balance is that the provinces are spending more on rising health costs – exacerbated by diminishing federal cash transfer payments – and less on social assistance. Thus what I see as a sensible division of labour – a dominant (though probably never exclusive) federal role in income security and dominant provincial role in health and social services – is making some progress.

The National Child Benefit holds out the promise of more than just a restructuring and enhancement of child benefits. By removing a large group (children) from social assistance caseloads, it marks a major step forward in the essential task of dismantling the welfare system and replacing it with more effective programs. The aim should be to transform adult social assistance from its current conception as a last-resort income support program. It should be modernized in the

form of a public wage for adults, more suitable to an “active” income security system, combined with a decent income support system for people unable to work for pay.

The next big steps in this evolution should be a fundamental restructuring of income support for non-elderly adults, with a larger federal presence (through a combination of financing and delivery) to replace most of provincial social assistance and relegate welfare to the truly residual role it originally was intended to serve [Battle, Torjman and Mendelson 2000; Torjman 1998.]

### ***The Contentious Issue of Disincentives: of Welfare Walls and Marginal Tax Rate***

The National Child Benefit’s chief rationale is to lower that part of the “welfare wall” unwittingly caused by a discriminatory system of child benefits. One of the disincentives to moving from welfare to the workforce is the fact that parents have to forfeit thousands of dollars in cash benefits (social assistance benefits on behalf of children) as well as in-kind benefits (e.g., supplementary health care from welfare) at the very time that they are trying to establish themselves in employment (typically low-paid), which brings substantial costs of its own in the form of income and payroll taxes and work-related expenses. Clearly there is more to the welfare wall than differential child benefits: other barriers include lack of affordable housing and quality child care, not to forget lack of jobs that pay a living wage. Nonetheless, the old two-tiered system of child benefits formed a significant part of the welfare wall, and the National Child Benefit is attempting a structural remedy to this problem. Moreover, the largest expenditure of provincial reinvestments under the National Child Benefit is on child care.

While the right appears to buy into the welfare wall argument, which is to be expected given its longstanding concern to root out social program-caused disincentives to work, some economists just cannot stop themselves from tilting at the windmill of the National Child Benefit’s alleged labour market disincentive caused by its impact on marginal tax rates [Poschmann 1999; Sayeed 1999]. They argue that the National Child Benefit reform could be defeating its own purpose by imposing high effective marginal tax rates. These supposedly discourage the work ethic of the very families it is intended to help. (By “effective marginal tax rate” we mean the percentage of additional income paid in income and payroll taxes or forgone due to the reduction rates of income-tested programs.)

The Canada Child Tax Benefit *has* resulted in higher marginal tax rates for some working poor families because of the decision to target limited new spending on low-income families. (Families in the \$21,000-\$30,000 net family income range have been affected.) For example, an Ontario family with net income of \$27,000 saw its effective marginal tax rate rise from 39.5 to 54.2 percent as a result of the high reduction rate imposed on the National Child Benefit Supplement. At the same time, recipients of social assistance who moved into the labour market enjoyed a large reduction in their marginal tax rates.

The impact of this mix of higher and lower effective marginal tax rates on labour market behaviour remains an open question. The factors that can influence families' decisions regarding paid work are complex. These decisions cannot simply be taken as given according to the usual simplistic assumptions of traditional economic theory. Issues such as social expectations, opportunities, transportation, child care, workplace policies and many other factors fit into the equation. It is not clear, nor does economic theory suggest, that the effective marginal tax rate is the most important of these variables.

The National Child Benefit has objectives beyond the labour market, unlike "pure" income supplements for the working poor. The new child benefit's impact on the depth of poverty and disposable income is equally – indeed, more – important than its effect on labour market behaviour.

### ***The Expanding Role of the Income Tax System in Social Policy***

The important role of the income tax system has cropped up repeatedly in this essay on major changes to income security policy. Income security and the tax system have become very much intertwined, as evidenced by analysts' common use of the term "tax/transfer system." A brief review of the positive and negative impact of this major social policy development is merited.

Partial de-indexation of the personal income tax system eroded the after-tax value of income benefits that are taxable (e.g., Old Age Security, Family Allowances, Employment Insurance and Canada Pension Plan retirement, disability, survivor and death benefits). Partial de-indexation of the rates of refundable credits and income thresholds, including the GST credit and Child Tax Benefit, both corroded benefits and reduced their coverage. Also, the slow drip of de-indexation corroded the value of the numerous other social benefits delivered through the income tax system in the form of non-refundable tax credits – for example, the age credit, spousal and spousal equivalent credits, disability credit, tuition and education credits and pension income credit. Another, perhaps more conventional, way of expressing the same thing is that partial de-indexation of non-refundable credits contributed (along with partial de-indexation of tax thresholds) to federal and provincial income tax increases that offset improvements to a few social programs and exacerbated cuts to others.

On a positive front, Canada's trend to tax-delivered income-tested programs is one of its major social policy accomplishments. The personal income tax system is an efficient and inclusiveness-enhancing vehicle for delivering important income-tested programs such as federal and provincial child benefits and refundable tax credits. In sharp contrast to needs-tested social assistance, tax-delivered benefits are seen to be objective, administratively simple, fair and non-stigmatizing. Eligibility can be established easily through the income tax form; there are no decisions made on the basis of a detailed assessment of personal circumstances; there is little or no contact between recipients and government officials; unlike needs-tested welfare, there is no risk of

unfair treatment resulting from administrative discretion. Once eligibility is established, payments can be triggered automatically by computer. Enhancements to the federal Canada Child Tax Benefit and refundable GST credit are a substantive way of achieving the national standards so beloved of universalists: benefits are delivered on a consistent and reliable basis throughout the country and have a built-in equalization effect.

### ***Accountability***

Making public expenditures more “accountable” is another strong theme in current Canadian policy-making in such areas as child benefits, health care and early childhood development.

Methods include regular public reporting, emphasis on measuring “outcomes” and not just inputs, documentation and dissemination of “best practices,” and the renewed use of social experimentation exemplified by the promising self-sufficiency projects under way in New Brunswick and British Columbia. New public spending is now labelled “investment” rather than expenditure, implying that such outlays eventually will reap “profits” (e.g., in terms of increased productivity of the workforce and resulting lower reliance on income support and increasing tax revenue) and thus are cost effective.

The enthusiasm for evidence-based reform stems not only from a (somewhat simplistic and naive, in my view) faith in the capacity of research and evaluation to tell us what ‘works’ and what ‘does not’ (would that reality were so black and white!), and for the latter to furnish a sufficient basis for effective policy, but also in the blunt reality that public accountability is one of the few levers left to Ottawa vis-à-vis the provinces in the brave new world of the Social Union Framework Agreement and partnership federalism. A prime case in point is the recent early childhood development agreement, which transfers federal funds to the provinces with virtually no federal say over how the money is spent except that it is supposed to go to any, some or all of four areas broadly defined: healthy pregnancy, birth and infancy; parenting and family supports; early childhood development, learning and care; and community supports for families with children. The provinces are free to decide what to do in any or all of these four areas, though their investments should be “incremental” (i.e., not use new federal funds to pay for what they would have done or are doing on their own). The agreement (whose brevity is telling) stresses the need for public reporting on expenditures and activities for purposes of accountability, policy evaluation and development (including annual reporting, developing a shared national framework including comparable program and outcome indicators, and sharing research and information on best practices). However, such information, though useful to both levels of government and to non-governmental players, will not constitute part of any conditional assessment of whether the provinces should continue to receive federal funding: the days of conditional federalism are all but gone (the notable exception being federal enforcement of the conditions attached to the Canada Health Act, though the federal teeth are not particularly sharp and bite but rarely).

Ottawa has neither the will nor the guile to restore conditionality of its social transfers by means of stealth. So too do the provinces have carte blanche on how they reinvest their welfare savings under the NCB, so long as it helps low-income families with children. Social groups as well as governments can use such data and information to monitor and assess the development of the NCB.

### ***The Politics of Social Policy Reform: Relentless Incrementalism***

The numerous changes proposed or put in place by the federal and provincial governments have sparked ample criticisms, mainly from social advocacy groups, well-publicized by a media generally keen to criticize government and (with a few exceptions) blissfully ignorant of the substance of social policy. Yet governments generally have had an easy ride on the road to reform, stumbling only a couple of times. The only noteworthy social policy pratfalls that come to my mind are the Conservatives' botched attempt at partially de-indexing Old Age Security (in which the diminutive, near-senior famous-for-15 minutes Solange Denis played a key part, much to the discomfort of Prime Minister "Charley Brown" Mulroney) and the Liberals' retreat on its proposal for a Seniors Benefit (when the Liberals trotted out a now-supportive Madame Denis for another 10 minutes of fame, though to no avail).

There are doubtless a variety of factors at play in the politics of social policy reform, but I will mention four here – the anti-deficit campaign, the popular appeal of a post-welfare state model of social policy, governments' use of strategies of what I have dubbed "policy change by stealth" and "relentless incrementalism" and the advantage of majority governments with weak oppositions.

The Conservatives faltered briefly at the start of their first term with the proposal to partially de-index Old Age Security, but they went on to make a variety of changes to social programs that cut costs and changes to the tax system that increased revenues. The Liberals carried on the Tories' program of reform on both the expenditure and revenue sides of the ledger and finally made real progress against the deficit. Whether they accepted the need to restrain spending and pay more taxes in a grudging or enthusiastic manner, the Canadian electorate generally came to accept the need for tough medicine to fight the deficit and accumulating debt. Without the success of the anti-deficit campaign, governments never would have embarked on what became such ambitious and far-reaching reforms to social policy.

I also think that social advocates' faith in the power of the "sacred trust" of the universalist welfare state to withstand change proved to be naive. While the politics of stealth doubtless served to mute public criticism, as argued below, I would argue that substantial numbers of Canadians are receptive to criticisms of the weaknesses (e.g., with respect to irrational distribution of benefits, disincentives and sustainability) of major social programs and supportive of some of the changes so vociferously opposed by the critics and put forward in what I call the "post-welfare state" model of

social security. Universality of child and elderly benefits died not with a bang but a whimper: it is revealing that most people polled in 1990 (when Old Age Security and Family Allowances were in the process of being income-tested, though Ottawa pretended otherwise) supported a for-the-poor-only child benefit and that public support for universal old age pensions (though stronger than for universal child benefits) was weakest among the elderly. The Tories proved that the universalist welfare state was no longer sacred, if in fact it ever had been. As noted earlier, polling during the Liberals' Social Security Review found that most Canadians believe that social programs require substantial change. Indeed, the conservative critique of welfare and Unemployment Insurance always has echoed loudly in popular distaste for "pogey" and "the dole." Witness the Ontario Conservative government's politically successful demonization of welfare in the election campaign that brought it to power and its immediate slashing of welfare rates to show it meant business.

I have argued repeatedly since my 1990 essay *Social Policy by Stealth* that governments' success in imposing many of their changes stemmed from the use of arcane technical amendments (partial de-indexation being the chief example) that are poorly understood by the public and critics [Battle 1990; Prince 1999]. Major changes to important social programs, such as the removal of universal old age pensions and family allowances, the massive cuts in social transfer payments to the provinces and the transformation of child benefits, were implemented by stealth with no advance notice and little effective public debate. So also did the federal finance department harness the power of inflation to impose hidden annual income tax hikes from 1986 through 1999. The Liberals left intact the Tories' machinery of stealth and used it to their fiscal advantage – restoring full indexation in 2000 only when the deficit was wrestled to the ground. But stealth still operates in certain aspects of social policy – for example, non-indexation of provincial welfare and other income security rates, the decline in federal cash transfer payments, freezing the Year's Basic Exemption in the Canada Pension Plan and Employment Insurance's maximum insurable earnings level.

Policy change by stealth is a successful example of a style of reform that I have dubbed "relentless incrementalism." Relentless incrementalism consists of strings of reforms, seemingly small and discrete when made, that accumulate to become more than the sum of their parts. Relentless incrementalism is purposeful and patterned, not haphazard and unintended. The drip drip drip of individual changes over time carve substantial and planned shifts in the structure and objectives of public policy.

Relentless incrementalism can be benign or malignant, depending on the view of the beholder. Partial de-indexation of the personal income tax system and federal child benefits had an overall regressive impact and was undemocratic – perhaps a more apt term in this application is relentless decrementalism – but did serve the "higher purpose" of helping quell the deficit by increasing income tax revenue and reducing child benefits expenditures. The 60-year history of Unemployment Insurance/Employment Insurance is one of expansion and then contraction, mostly through incremental changes to a scheme as complex and impenetrable as welfare. One's opinion of

the merit of these changes depends upon whether one buys into the conservative critique of Unemployment Insurance as being part of the problem rather than part of the solution. Elderly benefits were fundamentally changed through a series of seemingly small steps, though the logical leap – to an integrated, family income-tested Seniors Benefit – did not succeed, perhaps because for once Ottawa did not rely upon its well-proven strategy of incrementalism, but instead painted the proposal as a radical architectural shift and sold it as an entirely new program: might the same result have been achieved through stealth (i.e., by family income testing Old Age Security and the age and pension income credits)? The answer is yes in the design sense (the Seniors Benefit essentially mimicked the current layering of the Guaranteed Income Supplement on top of Old Age Security), but no in the political sense because I doubt that a back-door approach would have muted the attacks from the right and the left; to the contrary, they could have cried “stealth.”

Relentless incrementalism remains the dominant mode of reform, in part because of the failure of past efforts at big-bang reforms. Tax benefits for persons with disabilities are being quietly improved through small changes that have gone largely unnoticed. In sharp contrast to the federal restoration of indexation of the personal income tax system and Canada Child Tax Benefit, the provincial and territorial governments continue to shave spending on welfare and even their new income-tested child benefits and earnings supplements through the mechanism of non-indexation.

Of course, at times there are larger leaps – for example, the addition of entirely new programs during the expansion phase of the welfare state, the National Child Benefit’s complementary increase in federal child benefits and displacement and reallocation of provincial welfare spending on children, the shift from pay-go to partial funding of the Canada Pension Plan – that mark a more fundamental change in structure that many observers would not characterize as incremental – though, again, the judgement as to what is incremental and what is more radical is always open to debate. Still, at least in the current reformation stage of the Canadian welfare state, I think that even such deeper, structural changes are for the most part being implemented through a sort of “politics of incrementalism” that typically introduces changes amongst a raft of other measures in annual budgets and eschews the “grand new design” spin that has backfired in the past (e.g., the Seniors Benefit).

Finally, one also must remember a more mundane but powerful advantage the Mulroney government had going for it – an electoral majority, which meant it did not need to compromise on its social policy changes. The Chrétien government has had it even better, with the decimation of the federal Conservatives and the lack of an effective opposition. The only real opposition to the ruling Liberals has come from their own caucus, some members of which are uncomfortable with the party’s perceived shift to the right: the retreat on the Seniors Benefit – announced in the midsummer doldrums – had much to do with the Finance Minister’s case of cold feet when members of the women’s caucus (inspired by hysterical criticism from women’s groups) dumped ice water on the proposed reform.

### ***Civil Society and Social Policy Reform***

Not surprisingly, recent and ongoing changes to Canada's social security system have proved to be controversial. Social advocates generally have been highly critical of most of the changes, arguing that they have imposed hardship on lower-income Canadians who bore an unfair burden of the war against the deficit and have failed to share equally in the new-found bounty of the surplus. The much ballyhooed (and much misconstrued) assault on universality is seen as undermining the broad societal consensus required to maintain support for the welfare state overall, including programs targeted to the poor. The federal Liberal government's "mixed" strategy of allocating the "fiscal dividend" of the surplus among tax cuts, debt repayment and social spending has been criticized from the left for in effect fiddling while Rome burns – for bestowing broad-based income tax cuts that include the wealthy while failing to spend enough on persistent, debilitating problems like poverty, homelessness and chronic unemployment.

Policy changes reducing entitlement to Employment Insurance, the Canada Pension Plan disability benefit and Workers' Compensation have been criticized, and not just from the perspective of potential beneficiaries who receive lower entitlements or nothing at all. The changes also break the traditional link between premiums and entitlement, weakening the "social contract" that maintains public support of social insurances. Public confidence in Employment Insurance has been shaken by the fact that just over one-third of unemployed workers in Canada currently receive benefits under the program. Critics contend that workers – especially those in provinces west of Quebec, which have a low rate of Employment Insurance coverage – are not getting what they are paying for: they pay into the program when they are working, but most get nothing in return when they become unemployed. And while the financing changes to the Canada Pension Plan will secure the future of this vital social insurance program, these reforms are not widely understood and many Canadians – especially the young – continue to fear that the program "will not be there" for them when they retire.

The reform of child benefits has proven particularly contentious. The anger of welfare advocates at the National Child Benefit for not delivering net improvements in child benefits for welfare families is understandable in the light of years of overt and/or covert cuts to social assistance benefits on the part of the provinces and their distrust of governments bearing "reforms" that are simply code for cuts. But I lament the refusal of social groups to address, let alone debate, the policy case for the restructuring of child benefits and its potential extension to badly needed reform of income and service support for non-elderly Canadians (welfare, Unemployment Insurance and employment programs) generally. Critics from the right also have taken a narrow view of child benefit reform in their obsession with the bogeyman of marginal tax rates.

However, despite vocal and energetic criticism from the non-governmental sector, almost none of these social policy changes has been successfully opposed. The prominent exception is the

failed effort at the Seniors Benefit, which provoked a firestorm of criticism from left and right that got to the Liberal caucus and thus contributed to the Finance Minister’s decision to withdraw his proposal as not worth the risk to his government and to his own political future. Most of the arguments against the Seniors Benefit had little substantive merit and some were downright lies, such as the contention that the proposal would turn the old age pension into a welfare program and would reduce benefits for poor women. But perception (more to the point, deception) is what so often counts in politics – especially when it comes to public pensions and government’s fear of grey power. The fiscal calculus also played a role in the Seniors Benefit’s political demise: the original proposal would have produced virtually no immediate savings and only modest downstream economies (20 years off, a couple of eternities in political time), and the amended design being worked on just before Ottawa pulled the plug (with its lower reduction rate and larger benefit increase for the poor) would have had even less fiscal payoff.

## ***Conclusion***

Economic factors always have played a defining role in Canada’s social security system, and are more powerful than ever as the universalist welfare state gives way to a post-welfare state. The slowdown of economic growth and rise of inflation in the mid-1970s brought the window down on the massive post-war expansion of social programs. Deepening deficits in the 1980s and 1990s spurred governments – especially Ottawa – to impose gradual but cumulatively major and in some cases radical changes on virtually all areas of Canadian social policy through the politics of “relentless incrementalism.” Social and demographic forces are placing heavy cost and performance demands on social programs, and the changing nature of federalism both affects and reflects the transformation of our social security system.

Despite opposition from social advocacy groups, the emerging post-welfare state model and the structural reforms it calls for will better serve Canada’s evolving economy, society and polity than nostalgia for a universalist welfare state that never worked all that well.

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