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THE RESTRUCTURING OF THE CANADIAN WELFARE STATE: IDEOLOGY AND POLICY

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Tony Eardley
Editor

.Abstract

Although many governments have used the ideology of economic rationalism to justify restructuring the welfare state, dismantling Canadian social programs has been motivated by far more than concern about high public debt. Federal/provincial politics and especially the fear that the Quebec separatist movement will shatter the Canadian federation have been primary motives in federal reform. Yet rather than focusing on the political necessity for reform, Canadian governments have used 'objective' economic arguments to gain acceptance for their policies. By using the discourse of economic rationalism and through careful timing of reforms, they have been able to make unpopular changes to decision-making structures and programs. Although these reforms may now appear to be minor, I argue that further restructuring will be hastened by several structural changes to the state and to funding arrangements. Underlying this discussion is the argument that basing social policy almost exclusively on economic rationalism is unwise and dangerous from the point of view of social justice and equity.

1 Introduction

Research on the welfare state indicates that many attempts at social program retrenchment have experienced limited success (Mishra, 1990; Pierson, 1994; Castles, 1996). Pierson (1994), for example, argues that opponents of the welfare state have been most successful in their attempts at retrenchment when they have been able to divide the supporters of social programs, compensate those negatively affected, or hide what they are doing from potential critics. However, he notes that certain institutional reforms continue to place pressure on the welfare state, including politics that strengthen the hands of budget cutters, weaken the government's revenue base (such as tax cuts), and undermine the position of pro-welfare state interest groups (such as reducing the power of the trade unions).

In this paper, I discuss several successful attempts to restructure the Canadian welfare state that have been made by both Conservative and Liberal governments since 1984. These reforms have used the language of economic rationalism (Pusey, 1993; Kelsey, 1995) and argued that there is 'no choice' but to reduce government expenditures because the public debt is so high that interest payments are crippling the ability of governments to finance existing and future programs. The rhetoric further assumes that the expansion of government bureaucracy and social programs throughout the 1960s and 1970s is the main cause of high public debt. Within this ideology, the solution is smaller government, carefully targeted social programs, and more reliance on families and the private sector for services and support. The ideology of economic rationalism has been used by employers' groups and financial organisations to promote their own interests of global trade and higher profits for the business sector. Yet these groups have successfully persuaded conservative governments that what is good for the business sector is beneficial to the nation.

Canadian governments have also used the ideology of economic rationalism in their restructuring of the welfare state. Yet as I demonstrate in this paper, dismantling Canadian social programs has been motivated by far more than concern about high public debt. Federal/provincial politics and especially the fear that the Quebec separatist movement will shatter the Canadian federation have been primary motives in federal reforms. Yet rather than explicitly focusing on the political necessity for reform, Canadian governments have used 'objective' economic arguments to gain acceptance for their policies. By using the discourse of economic rationalism and through careful timing of reforms, they have been able to make unpopular changes to decision-making structures and programs.

Although these Canadian reforms may now appear to be minor, I argue that further restructuring will be hastened by several structural changes to the state and to funding arrangements between the federal and provincial governments. Especially important is the 1996 change from matched to block funding for social assistance programs. This will lead to further decentralisation of decision-making and the elimination of national program standards. Reducing federal grants will also eliminate the possibility of future program expansion promised by the Liberals during the 1993 election.

Underlying this discussion is the argument (similar to that of Michael Pusey, 1991, for Australia and Jane Kelsey, 1995, for New Zealand) that basing social policy almost exclusively on economic rationalism is unwise and dangerous from the point of view of social justice and equity. Before I outline Canadian social programs, I should clarify what I mean by economic rationalism and how this ideology has been used politically to justify the reforms.

2 Economic Rationalism and Restructuring

In the past decade, many OECD countries, especially those with neoliberal governments, have restructured elements of the welfare state in response to rising program costs, increased numbers of claimants, structural changes in labour markets and families, and political agendas to assert the primacy of markets over the state. Although these governments have overtly said that they are ‘modernising’ social programs and promoting program effectiveness, researchers tend to agree that restructuring has been designed mainly to reduce public expenditures, to stimulate international investment, to limit government deficits, and to offer voters lower taxes (Mishra, 1990; Pierson, 1994; Saunders, 1994; Kelsey, 1995; Castles, 1996; Esping-Andersen, 1996; Myles, 1996). In the Canadian case, restructuring has also been used to appease provincial demands for greater political autonomy, with the hope of maintaining national unity.

In recent years, program entitlement in Canada, as well as in Australia and especially New Zealand, has become increasingly conditional on the recipient’s willingness to retrain, to search for paid work and to re-enter the labour force (Evans, 1996; Shaver et al., 1994). Governments in those countries are shifting the rhetoric of social program eligibility away from such concepts as ‘guaranteed annual income’, ‘social security’ and ‘citizenship rights’, towards viewing social benefits as temporary, based on ‘need’ and designed to encourage ‘self-sufficiency’, ‘work incentives’ and ‘employability’. Underlying this shift is an

increasing emphasis upon individual rather than social rights. The idea that dependency upon the state is unacceptable and demonstrates insufficient work incentives implies that 'the market' will provide welfare more effectively than governments (Myles, 1996).

In Canada, the new emphasis on independence and employability has tended to focus mainly upon individual characteristics as the most important reasons for not finding paid work. For example, government rhetoric discusses redesigning programs to offer 'employment enhancement initiatives' that focus on educational achievement, employment skills, work habits, ability to write resumés, interviewing skills and attitudes (Canada, 1994). What the Canadian programs overlook or downplay are the structural barriers to market income: the availability of work in the local economy, family responsibilities that might interfere with full-time employment, the availability of child care, and any idea of social responsibility for children. Individual responsibility has taken over from social responsibility.

Esping-Andersen (1990) classified both Canada and Australia as 'liberal' welfare regimes (along with the US and the UK), emphasising their reliance on means-testing and modest levels of social benefits. Other researchers, however, have noted substantial differences in the social programs of liberal welfare states (Mitchell, 1993; Eardley et al., 1996; Saunders, 1994; Castles, 1996). Most importantly, they point out that after the 1960s, Australia and New Zealand were the only OECD countries that had not developed state-run social insurance programs, but instead relied on a centralised system of wage arbitration, high wages and full employment for men to stabilise income. This system has been called the wage-earner's welfare state by mainstream theorists (Castles, 1985) but further specified as the *male* wage-earner's welfare state by feminists (Bryson, 1992), because women in both countries have been entitled to social benefits mainly through their wage-earning (or unemployed) husbands. Women who are not attached to male breadwinners were not expected to enter the labour force but instead have been entitled to a state pension to care for their children at home.

The Canadian government, on the other hand, managed to avoid rising poverty and inequality mainly through social transfers (Myles, 1996). Canada developed social insurance schemes from the 1940s to the 1970s to deal with unemployment, sickness, maternity, disability and retirement from paid work

(Guest, 1985).¹ For those who did not qualify for social insurance, means-tested social assistance programs were offered by the provinces, but the federal government provided half of the funding. The federal government also offered universal old age security and family allowances as citizenship entitlements.² This system of 'fiscal federalism', which was based on attempts to promote national unity and alleviate regional disparities, became the foundation for welfare state construction in post-war Canada (Banting, 1987; Jenson, 1990).

Despite program differences between Canada and Australia, both nations are now shifting towards a more residual and moralistic welfare state that focuses mainly on need and work incentives (Pusey, 1991; Battle and Torjman, 1995). While policy rhetoric of the 1970s talked of social democracy that emphasised social citizenship and universality, the focus on need in the 1990s coincides with economic globalisation, the predominance of market capitalism and the pervasive international ideology of economic rationalism. Both countries have transformed their universal child allowances (established in the 1940s) into means-tested benefits. They have both tightened the enforcement of child support, emphasising greater privatisation or 'making fathers pay' to reduce social spending. They have both added user fees and reduced eligibility for some services. And they have both added work incentives and skills training components to their employment benefits.

Canada's physical proximity to the US has the potential to enable the easy flow of ideas, products and capital between the two countries. Historically, however, Canadians modelled their social programs after Britain's and distinguished themselves from Americans by their more 'generous' welfare state (Guest, 1985). Political Toryism in Canada regarded the state both as a major participant in economic development, and as a mediator between citizens and the full impact of the marketplace. Trade barriers and immigration laws limited the flow of products and people, but there had always been immigration of skilled labour and the import of capital and manufactured goods from the US to Canada. On the other hand, Canada has always exported raw materials to be manufactured in the US.

1 Because higher percentages of Canadian than Australian women have participated in the full-time labour force, women as well as men also qualified for these social insurance programs, which require labour force attachment.

2 Universality has already been eliminated from child benefits and is about to be removed from old age pensions by the end of this century.

Since the 1980s, ideas and capital from the US to Canada flowed more freely due to a more continental and global approach to trade and business by the Mulroney Conservative Government. At the same time, the influence of trade unions declined and the Canadian political left³, that traditionally supported a national economy and a strong welfare state, was eroded. Large corporations placed strong pressures on governments to reduce business costs (especially payroll taxes) and to create an 'equal playing field' with harmonised rules for employers in both countries. One result of this pressure was the signing of free trade agreements, first between Canada and the US and then with Mexico. Another result has been widespread acceptance of the neoliberal view that any government regulation of employment, including social security contributions ('payroll taxes'), minimum wages and pay equity legislation, is bad for business. These new right ideologies are very prevalent in the US and have become increasingly acceptable in Canada since the 1980s.

Over the past two decades, Canadian governments (both Liberal and Conservative) have reformed the tax structure in an attempt to make the country more conducive to business investment. In these 'reforms', they have reduced corporate taxes and raised personal income taxes, thereby limiting the growth of tax revenue (Mimoto and Cross, 1991; Banting, 1992). This was done during a period of increasing unemployment (that has hovered around 10 per cent), rising divorce rates, and growing child poverty, that revealed the market's failure to provide income security and required higher levels of social spending (Myles, 1996). In addition, governing costs increased with inflation throughout the 1970s and 1980s, and high interest rates required more resources to finance the growing federal debt and deficit. This growing deficit encouraged the government to introduce a goods and services tax in 1989, despite widespread opposition from small business and the political left.

By the 1990s, the Canadian government debt and deficit were still higher than most other OECD countries (OECD, 1994). This reality was coupled with a consensus among centre-right parties (Conservative, Reform and Liberal) that the deficit must be controlled and reduced. In addition, Canadians received several well-publicised visits from New Zealand politicians, officials and 'experts' who lectured Canadians about the dire consequences of 'hitting the debt wall'.

3 Although the federal New Democratic Party (NDP) has never been in power in Ottawa and since 1993 holds few seats in Parliament, provincial NDP governments have held office in several provinces over the years. In 1997, however, this has been restricted to British Columbia.

Although there was general public acceptance that the deficit had to be reduced, the main debate was over how this should be accomplished. While the political right insisted on social spending cuts and viewed social programs as the main reason why spending is 'out of control', the political left wanted tax reforms 'to make corporations and the rich pay their fair share of taxes' and job creation to increase employment and therefore tax revenue. The feeling was and still is widespread that Canadians are overtaxed or 'taxed to the max', even though Canadian income and payroll taxes are only moderate compared to many European nations (Baker, 1995). Yet Canada is deftly and frequently compared to the US, which has among the lowest taxes of OECD countries. Indeed, it is striking that in the Canadian political/ideological arena, comparisons with the US are virtually the only ones that are considered relevant. Alternatives drawn from other countries (especially European ones) are sharply circumscribed and considered irrelevant to the North American context. This transition from a national to continental North American context in the last ten years is an important aspect in structuring public policy discussions in Canada.

In 1993, the Conservatives were soundly defeated in the federal election and were left with only two seats in the House of Commons. The victorious Liberals, who won the election with the slogan 'Jobs! Jobs! Jobs!', immediately began a social security review, widely consulting experts and advocacy groups from the left and the right. Government departments were reorganised and the new Minister of Human Resources Development (Lloyd Axworthy) appeared genuinely interested in reducing child poverty and family violence and improving child care services. Just when many Canadians thought that social programs were going to be improved and modernised, funding was severely cut. The public surprise with this policy turn was similar to that which occurred in New Zealand following Labour's election in 1984 (Kelsey, 1995). Before I analyse the details of this major structural change, we should first outline the history of Canadian social programs to enable us to see that restructuring under the Mulroney Conservative Government continued unabated with the present Liberal Government.

3 Brief Overview of Canadian Social Programs

When Canada was established as a nation in 1867, jurisdiction was divided between the federal and provincial governments. Generally, most labour legislation (including minimum wages), job training, social assistance programs, social services, education, health services and family law are all provincial jurisdiction. Unlike in Australia, Canadians may receive quite different levels of

wages and benefits in one province compared to another. Yet, the constitution has allowed the federal government to maintain spending power in areas of provincial jurisdiction. If the provinces accept federal money, they must agree to spend it according to federal guidelines. This aspect of the Canadian constitution has led to numerous disputes over jurisdiction that continue to the present day.

Although employment was initially considered provincial jurisdiction, the Constitution was amended in the 1930s to allow a national Unemployment Insurance program (UI) (Guest, 1985). This program began in 1941 and is now based on contributions from employers and employees, paying up to 60 per cent of previous wages to a maximum. In 1971, the UI Act was amended to include sickness and maternity benefits, and an additional 10 weeks of parental benefits were added for either working parent at childbirth in 1990. Major restructuring has taken place with UI in the past two years, as we will later reveal.

In 1945, a universal Family Allowance was created for families with children under 16 (later raised to 18) that was paid monthly to mothers. There was also a child tax deduction, originating in 1918 when the federal Income Tax Act was created. This deduction was revised over the years and additional child tax concessions were developed in the 1970s (Baker, 1995). These federal child benefits underwent major changes in 1993, as we will discuss later.

In 1951, Canada created a universal and federal old age pension, which also required a constitutional amendment relating to jurisdiction. Since 1926, there had been a means-tested old age pension administered by the provinces but cost-shared with the federal government. The 1951 Old Age Security (OAS) was financed through general revenue and run by the federal government, and in 1967 the Canadian government also created a means-tested Guaranteed Income Supplement (GIS) for low-income seniors. Both OAS and GIS have been indexed quarterly to the Consumer Price Index. In 1996, major changes were announced to old age security.

In the late 1950s and early 1960s, Canada's Medicare program was developed. This initially involved national guidelines and federal-provincial cost-sharing for provincially designed and administered hospital and medical services as the delivery of health care remains provincial jurisdiction. Yet in 1977, this cost-sharing was changed to block grants from the federal government. Although social assistance and social services were always provincial jurisdiction, the Canada Assistance Plan (CAP) was established in 1966, which was a cost-sharing agreement between the federal and provincial governments. In this agreement, the

federal government agreed to match eligible social assistance expenditures as long as programs were based on financial need. In 1996, CAP was terminated and replaced by the Canada Health and Social Transfer, the new funding arrangement for medicare, social assistance and tertiary education.

The Canadian welfare state was developed from the 1940s until the 1970s. Since the late 1970s, however, there have been no new national programs except those created from merging (and downsizing) existing ones. Although the Liberal Party formed the government when all these social programs were introduced, they have played a major role, along with the Conservatives, in restructuring them within the last two years. In the next section, I will discuss recent reforms, highlighting how the underlying ideology was altered to justify expenditure cuts.

4 Restructuring Canadian Social Programs

Child Benefits

Since 1984 when the Mulroney Government first came to power, child benefits have become a focus of restructuring. The government and public rhetoric was that the universal Family Allowance (FA) (established in 1945) was no longer affordable to the government or needed by many families, and that scarce government resources should be targeted to the poor to reduce child poverty. Discussions of poverty focused almost exclusively on child poverty, as children were always the ‘deserving poor’ whereas adults were often suspected of defrauding the welfare system (Baker, 1995). During the early years of cutbacks to family benefits, women’s groups and the child welfare lobby argued to retain the universal FA by noting that this benefit gave the clear message that the government and society valued childrearing and that reproduction was important for the nation as well as for individuals and families. Furthermore, the FA was argued to be the only family income over which some mothers had control. Advocacy groups for the poor noted that a monthly allowance was more advantageous to low-income families than an annual tax credit. Furthermore, they argued that the child tax deduction was worth more to higher income families and therefore should be converted to a refundable tax credit to make it more advantageous to the poor.

For several years, Parliamentary Committees discussed family benefits but eventually the Conservative Government reduced the value of the child tax deduction (established in 1918) and then changed it to a credit in 1988. Furthermore, they lowered the threshold income of the refundable child tax credit

that was established in the 1970s for low-income families with children. Finally in 1993, the Conservative Government rolled the three child benefits into one: the Child Tax Benefit (CTB) which is now administered by the taxation department rather than the former Department of National Health and Welfare. This benefit delivers about \$85 a month to the mother or guardian but is targeted to middle and low income families. Unlike many other OECD countries, Canada no longer has a *universal* benefit for families with dependent children. Australia also began to target FA in 1987 but added a supplement for low-income families. No supplement was added in Canada.

Unemployment Insurance

Unemployment Insurance (UI) was established in 1941 as a social insurance program to pool the risk among employees, employers and government of involuntary short-term unemployment. Over the years, UI has been used by successive governments, employers and employees for training, job creation, regional income redistribution, and income supplementation (CCSD, 1996) and has moved away from its original goal of protecting employment earnings from temporary unemployment.

Since the early 1980s, eligibility for UI was made more difficult by the Conservative Government. By 1990, 23 per cent of unemployed workers were ineligible for UI but by 1996, this had increased to nearly one half (CCSD, 1996). Although the UI fund has a surplus of \$5 billion, the Liberal Government recently cut benefits and added new eligibility restrictions, as employers' groups were pressing for lower payroll deductions. In 1996, UI was renamed Employment Insurance (EI), which involved an important ideological shift with greater emphasis on the personal characteristics affecting 'employability' and with less emphasis on structural unemployment and job creation. At the same time, the duration of benefits was reduced and workers in full-time, full-year jobs could qualify for benefits earlier than new entrants to the labour force and repeat users of employment insurance.

UI (and EI) are financed through payroll taxes but employers' contributions are not based on the total wage bill. Instead, they exclude contract workers. This policy encourages the existing trend for employers to reduce full-time and part-time employees and replace them with contract workers. Furthermore, the new system of basing eligibility on hours rather than weeks of work is more beneficial to those working overtime rather than part time (CCSD, 1996).

For the first time, the new EI also introduces a Family Income Supplement (FIS) that allows low-income claimants who receive the Child Tax Benefit to receive a top-up of up to 80 per cent of insurable earnings to a maximum of \$413 a week. Although this was introduced as a policy to alleviate family poverty, it will mean an average increase of only \$30 a week for these claimants. But the concern is that this top-up could open the door for further income-testing in a social insurance program that has always been based on individual contributions and previous earnings. In addition to these changes, EI was already taxed back up to 30 per cent by the previous government, but the 'clawback threshold' has now been considerably reduced.

Considering the fact that more Canadians are now working in temporary and low-paid positions or 'non-standard' jobs, and that a higher percentage of the population now experiences some unemployment throughout their working lives, these reforms can only be seen as attempts to reduce program costs and prevent the rise of 'payroll taxes'. Although the reforms were portrayed both as an attempt to modernise UI and to return it to its original intent, it is clear that a smaller percentage of unemployed people will qualify for benefits at a time of high unemployment.

Old Age Pensions

Since 1951, Canada has provided a universal flat-rate pension for seniors that was worth about \$400 a month in 1996 and indexed quarterly. In the social program expansion of the mid-1960s, the Canadian government lowered the age for Old Age Security (OAS) from 70 to 65 to reduce poverty and introduced the Guaranteed Income Supplement (GIS) for low-income seniors. By the 1980s, the population was ageing and pension expenditures were rising and the federal government was looking for ways to reduce spending. The Conservative Government continued the move to privatise the pension system by encouraging the public to set up registered retirement savings plans with tax concessions so that people could 'be responsible for their own retirement', and by encouraging employers to provide work-related pensions plans. Government and public rhetoric gradually shifted away from viewing the old age pension as a citizenship right earned from lifelong contributions to the nation, and as an important way to maintain income after retirement, to focus on 'wealthy seniors' enriched by inflated real estate holdings, who were and should be self-sufficient, and who did not need a 'public handout'.

In 1985, the Mulroney Government tried unsuccessfully to partially de-index the universal OAS but this overt and obvious cut quickly was opposed by angry seniors groups. After winning a second term of office in 1988, however, the Conservative Government began taxing back all of the old age security from higher income earners, which was called 'the clawback' by critics. This change was greeted with less opposition because the government had continued to emphasise that public money was being spent on wealthy seniors who did not need it. In effect, the clawback was the beginning of the end of universality for OAS and continued to break down public resistance to the idea of a universal old age pension. By 1995, seniors lost some of their pension if their net individual income was over about \$53 000 and all of it if their income was over about \$84 000.

In 1995, the Chretien Liberal Government continued in the same vein as the Conservatives by proposing to combine the OAS and GIS into a new Seniors Benefit, eliminate the income tax deduction for people 65 and over, and eliminate the tax credit on the first \$1000 of pension income (NCW, 1996). The new Seniors Benefit will be effective in 2001, is non-taxable and is based on family income. Those with a family income below \$26 000 would receive the maximum and those above \$52 000 would receive nothing. Although this was presented as a policy to reduce poverty among seniors, it would offer low-income seniors only about \$120 more per year. Yet, considerable federal money will be saved.

In addition to this overhaul of OAS, the Canadian government is also considering reforms to the contributory Canada Pension Plan (CPP). When it was established in 1966, the contribution rate was set at 3.6 per cent of contributory earnings (1.8 per cent from employees and 1.8 per cent from employers). This was increased gradually to the 1996 contribution rate of 2.8 per cent from each, but maximum pensionable earnings are set at only \$35 400. The federal government has made it clear that changes are coming to CPP, including higher contribution rates, reducing the drop-out clause⁴ from seven to five years and cutting the maximum retirement pension from 25 per cent of earnings to 22.5 per cent.

The 'war of attrition' on the Canadian old age pension has continued for over ten years. Although initially there was strong opposition to cutbacks, these were later successfully achieved. Despite a change in government from Conservative to

4 Contributors to CPP are permitted to be absent from the labour force for seven years for childrearing or other purposes without jeopardising the level of their future pension.

Liberal, no policy reversals were made and the ideological shift away from a universal pension has continued.

Canada Health and Social Transfer

Perhaps the most important changes to the Canadian welfare state have been the indirect ones, especially to funding arrangements between the federal and provincial governments for health and social services. As Paul Pierson (1994) noted, governments that choose indirect or disguised reforms, and especially those that involve structural changes to the ‘rules of the game’, are often more successful in dismantling the welfare state. This is precisely the case in Canada.

Until 1996, social assistance and social services have been funded through the Canada Assistance Plan (CAP) established in 1966, and health care services and post-secondary education through Established Programs Financing (EPF) since 1977.⁵ In 1996, both these programs were combined to form the Canada Health and Social Transfer (CHST), which brings major changes to social assistance funding.

The CAP was created to share equally between the federal and provincial governments the costs of providing social assistance and social services. The federal government entered into this program to help the provinces, especially those with a lower tax base, provide basic social services that might otherwise not be affordable. CAP stipulated that provinces base social assistance (welfare) on need (defined by budgetary requirements and means tests), make services available for all those eligible regardless of when they established residency in the province, establish an appeal procedure, and require no community or other work in return for social benefits.

Throughout the 30 years of CAP’s existence, it has provided endless problems for the federal government because of the open-ended nature of the funding. Future costs could not be predicted because they were determined by the provinces. In an attempt to limit federal increases to CAP, the federal government placed a five per cent ceiling or ‘cap’ on CAP to three wealthier provinces from 1990 to 1995. This off-loaded the rising welfare costs onto the provinces, and augmented inequalities in federal spending in the provinces. Instead of paying 50 per cent of the cost of social programs, some provinces were spending over 70 per cent while others were spending 50 per cent. The Conservative Government in Alberta (one

5 EPF is the block-grant program that replaced the original matched funding for Medicare.

of the three rich provinces) responded by cutting welfare benefits and introducing job search requirements even for mothers with preschool children. The new Conservative Government in Ontario cut welfare benefits by 21 per cent in 1995 (Evans, 1996).

In 1995, the Federal Liberal Government passed legislation to end CAP and replace it and EPF with the Canada Health and Social Transfer (CHST). This meant lower levels of federal funding given as one block grant to the provinces. The total amount of federal money will be reduced from \$29.4 billion in 1996 to \$25.1 billion in 1998, with the expectation of greater cuts in the future as cash transfers are replaced by tax points (Mendelson, 1995).

Several important ideological issues are inherent in the changes associated with the CHST. The federal government and economists placed a high value on stability and predictability of funding for social programs, as well as the need to reduce social spending in order to prevent 'hitting the debt wall'. Conservative parties and provincial leaders emphasised the importance of decentralised decision-making in social policy, which is seen as 'closer to the people', and the idea that the federal government should gather and redistribute tax money but should no longer tell the provinces how to spend it in areas of provincial jurisdiction. The days of popular support for a strong federal government (such as the Trudeau years in the 1970s) appear to be over, but the CHST has allowed the federal government to shift the blame to the provinces for cutbacks in social services.

Politically, the provinces can now decide freely how to spend federal grants for social services. The regulations associated with CAP were removed except the ban on residence requirements, although funding regulations associated with Medicare were retained. The CHST is designed to provide federal predictability in transfer payments, but critics from the left are concerned that health, social agencies and universities will be forced to compete for diminishing resources. Furthermore, some provinces (especially those with Conservative governments) are expected to further reduce welfare benefits and introduce workfare programs, or engage in a 'race to the bottom' in terms of welfare generosity. Critics are also concerned that the unequal funding formula inherent in CAP will be retained and not made more rational (such as funding on a per capita basis). Furthermore, it is very clear that the new funding arrangements will mean considerably less federal money for social programs at a time when unemployment and financial need are increasing.

One of the reasons why this legislation passed so easily was that the Canadian government successfully pitted interest groups against one other and thereby diminished opposition. Provinces were competing with one another for funding, and were divided over the wisdom of decentralising program control and giving up national standards for social assistance. Social service agencies were competing against hospitals and universities, all of whom were struggling for survival after extensive funding cuts. But most important, this legislation was designed to offer the provinces more autonomy in the design and administration of their social programs. This decentralisation was expected to be one factor that might divert the province of Quebec from leaving Canada.

5 Barriers to Opposition

Although all of these policy changes were faced with organised opposition, it was diffused or weakened by several political events and government strategies. Since the 1980s, there has been a shift to the political right so that the Liberal Party and the Progressive Conservative Party could both be considered centre right, while the Reform Party has been a growing force from western Canada on the far right. Two federal parties occupy the centre-left: the declining New Democratic Party and the growing Bloc Québécois (BQ) that is also linked to the Quebec sovereignty movement. The BQ became the official opposition party in Ottawa from 1993 to 1997 (even though it has elected MPs only from the province of Quebec), but focused on ‘asymmetrical federalism’. This essentially means that they wanted Canada to be a federation based on two founding nations (the French and the English) rather than ten equal provinces. In practice, the BQ’s official opposition status meant a disproportionate emphasis placed on Quebec sovereignty, diverting attention and debate away from other social policy issues (such as a national child care program).

At the same time, the ultra-right Reform Party has grown in western Canada to become another powerful opposition party in Parliament, arguing for ten equal provinces rather than a special status for Quebec, and massive decentralisation of political power from the federal to provincial governments. This has presented a dilemma for the governing Liberals under Jean Chrétien (from Quebec), as they have tried to regain a Liberal stronghold in Quebec and avoid its separation from Canada. One option was to give special powers to Quebec, but this was opposed by other provinces as well as many conservative interest groups. Chrétien therefore offered all the provinces more power over social programs with the CHST, which has received support from conservative economists and business

groups and the conservative governments in Ontario and Quebec because it reduced social spending, and from Quebec separatists because it gave that province more control over its programs. Yet decentralisation is reducing the power of the federal government and disrupting the fiscal federalism that formed the basis of Canadian social programs since the 1960s. As federal grants and their spending requirements diminish, the federal government has little clout left to demand national program standards from the provinces.

At the same time that regional politics and calls for decentralisation have reduced the power of the federal government, the major left-wing party (the New Democratic Party or the NDP) has also been declining. In the 1993 election, the federal NDP lost most of its seats in the House of Commons. Although the NDP had been the incubator for many of the basic concepts underlying the Canadian welfare state, its decline was hastened by the erosion of the labour movement that accompanied economic restructuring. It also became fractured over the Free Trade Agreement, constitutional issues, native self-government and responses to economic restructuring.

With a diminishing left-wing opposition, rising concern about the break-up of Canada, and a national acceptance of neoliberalism, it became easier for conservative governments (both the Progressive Conservatives and later the Liberals) to begin dismantling the welfare state. The cap on CAP occurred during the debates concerning the Meech Lake Accord (an attempt to make major amendments to the Constitution in order to get Quebec to sign⁶). The abolition of the universal Family Allowance was passed during the 1992 Charlottetown Accord, a second attempt to bring Quebec into the Constitution. And the demise of CAP and the development of the CHST coincided with the 1995 sovereignty referendum in Quebec (that lost by one half a percentage point). Now that a new sovereignty referendum has been predicted for 1999, this threat to national unity may continue in the next few years.

In the present political and economic climate, social policy appears to be driven by economic policy (Banting, 1992; Battle and Torjman, 1995), as well as shifts in power between the federal government and the provinces, and concern over national unity. Although the restructuring has just begun, some of these reforms will undoubtedly lead to future dismantling. For example, taking social programs

6 When Prime Minister Pierre Trudeau 'repatriated' the Constitution from the UK in 1982, Quebec refused to sign it because the concept of ten equal provinces was entrenched, rather than two equal nations.

out of the Department of National Health and Welfare (or Human Resources Development) and placing them in taxation or revenue departments (as was done with the former Family Allowance) places social policy in the hands of economists, who are more likely than sociologists or social workers to be concerned with work incentives and economic rationalism. Once social programs are converted to tax benefits, they can be modified more easily, without the necessity of public hearings and Parliamentary debate. In addition, merging federal departments that deal with employment issues with those providing income support (as the Liberals did in 1993-94) will hasten the focus on employability enhancement programs and workfare in the future. This interdepartmental shifting of responsibilities was also a feature of New Zealand restructuring (Kelsey, 1995).

Changing fiscal arrangements from matched grants to block funding will provide considerably less federal money for future social services, requiring the provincial governments to make further cutbacks. Furthermore, now that CAP restrictions have been removed from social assistance programs, provinces can go ahead and make additional changes to save money, such as basing welfare programs on willingness to do community service or work at low-paying jobs rather than on need. Alternatively, 'need' can be defined at a higher level of income or family/personal problems. Once taxes are reduced, as several governments have further promised, subsequent governments will be unable to improve social programs because the funding will simply not be there. In this way, the Liberal Government has strengthened the hand of the budget cutters.

Universal programs are not necessarily more resistant to dismantling than means-tested programs (Pierson, 1994). More money can be saved with less political cost by targeting universal programs such as family allowance and old age security than by attacking means-tested programs for the most unfortunate in the society. Consequently, Canadian programs based on citizenship rights were eroded first. Yet the federal government also helped to dismantle programs for the poor by altering funding agreements, thus off-loading the cost and the blame to provincial governments. Furthermore, they have disguised their dismantling efforts by passing complex taxation and funding changes through government when Canadians were preoccupied with national unity and high unemployment.⁷

7 Unemployment rates have remained at about 10 per cent for the past five years in Canada.

6 Conclusion

Governments want to implement their policy agendas but they also need to ensure that they will be re-elected. Although cutbacks often lead to unpopularity, several strategies and structural conditions can make unpopular reforms more palatable or feasible. First, if governments can convince the people that there is no choice but to cut social programs, then they will be more successful. This was an important strategy used by the Canadian government. Using the same language as the National and Labour Parties in New Zealand in the 1980s, the Canadian Conservatives in the 1980s and the Liberals in the 1990s argued that tough policy decisions needed to be made to eliminate the deficit and to allow the nation to become more competitive internationally. Only the private sector, they argued, could create jobs and the government needs to allow employers to do so by reducing both payroll and corporate taxes and by promoting freer trade. These ideologies were accepted by many Canadians because few policy options were ever discussed. Neoliberal politicians consulted neoliberal advisors (mainly economists) to the neglect of other 'experts'. In addition, comparisons are continually made with the USA and its hostility towards a social role for the state, rather than examining Scandinavian nations or social democratic models of the welfare state.

The timing of reforms is also crucial. When Canadian governments wanted to pass controversial legislation that restructured social programs, they ensured that the timing coincided with some national unity event. Because the official opposition in Ottawa had a separatist agenda from 1993 to 1997, debates relating to Quebec's interests were continually preoccupying political news. Furthermore, a principle goal of the Mulroney Government was to make Quebec an equal partner in confederation and in order to do this he believed that he had to change the constitution. Yet each attempt to change the Canadian constitution led to a national unity 'crisis'. Each crisis was then used by his government to pass unpopular legislation and disguise program restructuring.

Political opposition to neoliberal policies has been weakened in recent years since the (Harris) Conservative Government won the 1994 election in Ontario (the province with the highest population) and the Klein Conservative Government was re-elected in Alberta in 1997. When Ontario was governed by the New Democratic Party under Bob Rae in the early 1990s, the federal and Ontario governments were less often in agreement. Furthermore, political opposition from the left has also diminished at the federal level since the 1993 election, when the NDP lost most of their seats. Social democratic lobby groups remained

discouraged as they struggle with a conservative mood from the electorate and funding cuts from governments.

Throughout the restructuring process, there has been a gradual redefinition on the ideological level of the nature and role of 'the public'. The notion of collectivity and collective interest - inherent within Canada's major social programs - is being replaced by the neoliberal concept that citizens are individual 'consumers' with no inherent claims on government funds or support. Consumers are told that they should look to non-state mechanisms of support (such as family, community, and voluntary organisations) in the future rather than to government. Furthermore, although the public is still being consulted by Parliamentary Committees, current governments seem to feel less of an obligation to listen to their views than, for example, during the 1970s.⁸

Canadians have now experienced 13 years of economic rationalism from the federal government, with no indication that it is about to diminish. Canadian governments have accepted some of the same ideological positions as New Zealand, the US and the UK in restructuring the welfare state. Yet the success of this ideology in influencing policy options has been dependent on a series of structural and political variables - notably a shifting of political power from the federal to the provincial governments, the weakening of left-right political parties and interest groups, and the unique demands posed by the Quebec independence movement. These political and structural variables have given the restructuring its distinctive Canadian flavour.

8 Although Parliamentary Committees have a legal obligation to consult the public, they do not have a legal obligation to incorporate their views into legislation and policy.

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