THE DEMISE OF UNIVERSALITY:  
THE POLITICS OF FEDERAL INCOME SECURITY IN CANADA, 1978-1993

by

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Abstract

Research by political scientists on the modern welfare state focuses on its historical development and on the emergence of distinctive welfare state regimes. Research conducted in the past decade has also been concerned with the implications for the welfare state of the recurrent crises which have afflicted western economies since the late 1970's. However, while the politics of building welfare states are now better understood, there remains little systematic study of the politics of their retrenchment, a phenomenon which has been under way for the past two decades in most advanced capitalist states.

This study examines the politics of retrenchment in Canada over the period 1978 to 1993. Focusing on three categories of federal income security programmes (family benefits, retirement income programmes, and Unemployment Insurance), the thesis describes a gradual shift in programme design away from universality and toward greater selectivity. Concomitant with this development was an increasing reliance on the tax system as an instrument of social policy. Applying Gosta Esping-Andersen's analysis of welfare state regimes, the thesis contends that the cumulative effect of programme retrenchment during this period was to reinforce the liberal-residualist character of Canada's welfare state at the expense of its social democratic aspects.

In an effort to explain the process of welfare state retrenchment in Canada, within and between different categories of income security programmes, the thesis tests hypotheses associated with three major approaches to the study of public policy: class analysis, institutionalism, and pluralism. The thesis concludes that retrenchment in Canada was broadly facilitated by a decline in the political power resources of labour in relation to those of business. Because of the weakness of the relevant non-class pressure groups, pluralism is of limited value in explaining retrenchment outcomes. Insights into more specific patterns of retrenchment are gained from two institutionalist perspectives. The first of these, a state-centred approach, draws attention to the larger role in social policy-making that was assumed by the Department of Finance, the chief fiscal guardian of the Federal Government. The second perspective, a rational choice theory developed by Paul Pierson, provides insight into the manner in which certain retrenchment measures were formulated. Based on Kent Weaver's blame-avoidance thesis, Pierson's model provides a persuasive explanation for the reliance of Canadian governments on arcane changes to tax rules and indexation formulae as an instrument of retrenchment.

Since each of the analyses provides at best only a partial explanation for the politics of welfare state retrenchment, the thesis proposes the scheme of an integrated approach which incorporates the explanatory power of class analysis and institutionalism.
# TABLE OF CONTENTS

Abstract........................................................................................................................................... ii

List of Tables...................................................................................................................................... iv

CHAPTER I  Introduction....................................................................................................................... 1

CHAPTER II Overview of Canada’s Liberal Welfare State................................................................. 31

CHAPTER III “Last gasp of the old welfare state”: The Liberals and income security, 1978-1984 70

CHAPTER IV “Social policy by stealth”: The Conservatives and income security, 1984-1993 124

CHAPTER V Business, Labour, and Social Policy, 1984-1993.......................................................... 146

CHAPTER VI Political Parties and Social Policy, 1984-1993.............................................................. 168

CHAPTER VII Pressure Groups and Social Policy, 1984-1993.......................................................... 191

CHAPTER VIII State Actors and Social Policy, 1984-1993............................................................... 210

CHAPTER IX Conclusion..................................................................................................................... 233

Bibliography...................................................................................................................................... 262
### LIST OF TABLES

| Table 1.1 | Chronology of significant events and policy changes in the income security field, 1978-1993 | 29 |
| Table 2.1 | Typology of major federal income security programmes, 1979-1993 | 49 |
| Table 2.2 | Monthly Family Allowance payments as a percentage of average family income, selected years, 1978-1993 | 64 |
| Table 2.3 | Monthly Old Age Security pension benefits as a percentage of average monthly earnings, selected years, 1975-1992 | 64 |
| Table 2.4 | Comparison of eligibility criteria for federal income security programmes in 1979 and 1993 | 66 |
| Table 2.5 | Participation in RRSP programme by income group, 1991 | 67 |
| Table 2.6 | Comparison of Unemployment Insurance eligibility, benefits, and financing in 1978 and 1993 | 69 |
Chapter One: Introduction

The welfare state is one of the signal achievements of advanced capitalism. While its nature and extent vary from one nation to another, key elements were established or consolidated in much of the western industrialized world in the period following the Second World War and formed the foundation of the so-called post-war settlement. The term welfare state is commonly employed in either of two general senses. The first of these refers to a range of public policies designed to provide for the economic and physical security of citizens, from income security programmes, such as old age pensions, unemployment insurance and family allowances, to subsidized housing, to a variety of social services, such as health services and child day care. A second, broader definition includes fiscal and regulatory measures designed to alleviate the harsher features of a capitalist market economy, such as counter-cyclical budgeting, regional economic development programmes, agricultural price supports, and minimum wage laws. Unless otherwise specified, this study employs the former definition, with an emphasis on income security.

By the mid-1970’s, welfare states in many countries began to face growing economic and political pressures. Reduced economic growth, surging inflation, and rising levels of taxation impelled many governments to explore ways of limiting the growth of social expenditures. Politically, many conservative parties shifted to the right and began to question the efficacy of the welfare state. Social democratic parties, while sympathetic to the goals of the welfare state, became increasingly divided over the best means of ensuring its survival. To its supporters and detractors alike, the welfare state has been in a precarious state, if not a state of crisis, for the past two decades.\(^2\) During this period, virtually all governments, to a greater or lesser extent,

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have attempted to restrain the growth of social programmes. However, just as there are important differences in the nature and extent of social welfare provision among welfare states, so too have there been differences among states in the manner in which governments have responded to the economic and political challenges facing the welfare state.3

This study is concerned with the retrenchment of Canada's welfare state during the fifteen-year period from 1978 to 1993. It describes policy developments in three categories of federal income security programmes: unemployment insurance, retirement income programmes, and family benefits. The study addresses major programme changes which were implemented in this period as well as the principal social policy proposals and debates which occupied the national political agenda. Before discussing further the plan of the study, it is useful to put the Canadian welfare state in an historical and international context.

The Global Crisis of the Welfare State

The modern welfare state was very much a legacy of the Depression of the 1930's and of the Second World War. In Europe and North America, the experience of the Depression debunked the claims of orthodox economic and political theory that unemployment and economic privation were conditions which only befell the feckless and improvident. In many countries the state-led economic mobilization and national solidarity of the War years engendered a groundswell of popular support for a positive state that would manage the economy and provide social security for all. Generally speaking, the piecemeal social programmes in place before 1945 were significantly extended in the ensuing decades. There were, of course, important differences in the nature and range of social benefits provided by national welfare states; leading theories accounting for such differences are canvassed below. However, we may discern certain broad trends which conditioned the development of welfare states, to a greater or lesser extent, in all OECD countries.

The expansionary phase of the postwar welfare state, which lasted from 1945 to 1975, was undergirded by a political consensus known as the postwar settlement. A core element of that consensus was the conviction, shared by political elites on both the centre-right and the centre-left, that social justice, industrial peace, and even political stability demanded that the state assure all citizens at least a minimum level of economic and social security. As was stressed by the Beveridge Report of 1942 and by its Canadian equivalent, the Marsh Report of 1943, social security measures were to be built upon a policy of full employment. This link between social security and employment policy was enshrined in the reigning economic theory of the postwar period, Keynesianism. According to this theory, the state could minimize the natural swings of the business cycle and maintain a full employment economy through the judicious use of fiscal and monetary measures.

The three decades of strong economic growth which followed the War facilitated the establishment and expansion of social programmes. In such a robust economic environment, annual increases in public spending could be realized in tandem with significant yearly gains in average wages and disposable income. The conditions which sustained this extended postwar boom included the rapid reconstruction of war-torn economies in Western Europe (spurred in large part by funds made available under the Marshall Plan), the growth of consumer-goods industries driven by pent-up consumer demand, the postwar baby boom, large-scale public investments in highways, schools, and other social infrastructure, and a major increase in the volume of world trade, on terms which favoured the more mature industrialized economies of the northern hemisphere. In political terms, there was broad agreement not only that Keynesianism had tamed the worst excesses of pre-War capitalism—and hence obviated the need for more radical prescriptions—but also that government spending, on social services and income security, was a crucial foundation of economic prosperity and stability. As major parties of the right and non-communist left found common ground on the essential features of the postwar settlement,

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ideological differences narrowed and the politics of "developed market economies' seemed tranquil, if not somnolent."6

However, by the mid-1970's, welfare states in many countries began to face significant economic and political pressures as elements of the postwar settlement began to unravel. Indeed, during this period many scholars were of the view that the welfare state was in the throes of crisis. While there are many competing accounts of the nature and causes of the welfare state's malaise, certain dominant themes emerge.

Foremost among the challenges facing the postwar settlement, and by extension the welfare state, was the problem of reduced rates of economic growth following the global recession of 1974 and the associated problem of high levels of inflation. Traditional Keynesianism had assumed there to be an inverse relationship between unemployment and inflation--following the famous Phillips Curve--and was therefore ill-equipped to deal with their simultaneous occurrence, a phenomenon known as "stagflation."7 Factors contributing to the decline in economic growth rates and to mounting unemployment in the mid-1970's to mid-1980's included two major increases in world oil prices, the end of the population boom in the wake of a sharp decline in national birth rates, increased competition in both traditional and high-technology industries from the newly industrializing countries of Asia and Latin America, and the problem of structural unemployment resulting from automation.8 Double-digit inflation was attributed to a variety of causes, including the aforementioned oil price shocks, the "administered pricing" practices of corporate oligopolies, and wage settlements, secured by an increasingly militant labour movement, which outstripped productivity gains.

Faced with these challenges, western governments did not immediately abandon the tenets of the welfare state. Instead, governments experimented with a variety of "post-Keynesian" measures in an attempt to sustain the postwar settlement through what was widely thought to be

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merely a temporary departure from the path of continuous economic growth.\textsuperscript{9} Notable here was the introduction of statutory wage and price controls in the US (1971) and in Canada (1975) and of voluntary national wage guidelines in Britain under the Labour Government's Social Contract (1974-1979) and in West Germany under the Concerted Action policy (1967-1976).\textsuperscript{10} While analogous measures were successfully implemented in other countries, notably Austria and Sweden, they proved to be unsustainable in the larger OECD countries, particularly as governments attempted to broaden their counter-inflationary policies by introducing cuts in social spending.\textsuperscript{11}

\textit{Neo-conservative critiques of the welfare state}

As restraint in public spending increasingly became the order of the day, principled critiques of the welfare state began to be more widely articulated. From the right, long-time foes of the welfare state, such as Friedrich von Hayek and Milton Friedman, claimed that the welfare state was antithetical to a productive economy and advocated a return to a \textit{laissez-faire} model.\textsuperscript{12} Others, alarmed at the growth of public spending and the seeming inability of governments to resist the demands of various pressure groups for further spending, contended that modern democracies were becoming ungovernable.\textsuperscript{13} From the left, some suggested that the crisis of the capitalist welfare state had exposed its inherent contradictions. Others were critical of the failure of thirty years of welfarism to bring about a more radical redistribution of wealth within capitalist societies.\textsuperscript{14}

\textsuperscript{11}Amid considerable political acrimony, fiscal austerity measures were introduced in the mid-1970's to early 1980's by the British Government of James Callaghan, the French Government of Raymond Barre, and the West German Government of Helmut Schmidt. See generally Mark Kesselman et al (ed.), \textit{European Politics in Transition}, op. cit.
The 1980's saw the political ascendancy of conservative parties in Western Europe and North America--parties which were committed, to varying degrees, to a neo-liberal, anti-statist brand of politics hostile to the welfare state. This political shift to the right was exemplified by the election victories of the Conservatives in Britain in 1979 under Margaret Thatcher, of Ronald Reagan in 1980 as US President, and, to a lesser extent, of the Christian Democrats in West Germany in 1983 under Helmut Kohl. Thatcher and Reagan were especially outspoken in their repudiation of the postwar consensus and their embrace of the presumed virtues of limited government, free markets, and individual self-reliance. To these ends, the incremental growth of the welfare state was curtailed and many public programmes were scaled back, privatized, or abolished altogether. Of equal if not greater significance, many governments in the 1980's abandoned the Keynesian commitment to full employment, a cornerstone of the postwar welfare state, embracing in its place monetarist economic policies, so called for their emphasis on the maintenance of low inflation through the application of a more stringent monetary policy.

It should be noted that the election of parties of the New Right was accompanied by the rise and growing influence of policy institutes, or "think tanks," dedicated to popularizing neo-liberal or neo-conservative policy ideas. In the United States the most influential of such institutes included the American Enterprise Institute, the CATO Institute, and the Heritage Foundation. In Britain, comparable groups included the Institute of Economic Affairs, the Adam Smith Institute, and the Centre for Policy Studies. Peter Hall has contended that think tanks played a role in shifting Britain's macroeconomic policy from post-Keynesianism to monetarism in the late 1970's and early 1980's at a time when the majority of academic economists and

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Treasury officials remained committed to the former.\(^{19}\)

The election of Ronald Reagan to the US Presidency in 1980 brought about a growing politicization of expertise as think tanks made increasingly “aggressive efforts...to capture the limelight, to market their ideas, and to advocate their preferred policies and world views.”\(^{20}\) Meanwhile, traditional defenders of the welfare state were slow to respond to this vigorous intellectual assault from the right. The left’s paralysis stemmed in part from the absence of a coherent and widely accepted theory of the welfare state.\(^{21}\) The success of the postwar settlement had appeared to provide sufficient justification for it; however, with the onset of crisis, social democrats and welfare liberals, the natural allies of the welfare state, were increasingly at a loss to provide plausible solutions.

The New Right’s attack on the welfare state also found expression in Canada. While federal Liberal and Conservative Governments, in general, refrained from waging an overt ideological assault on the principles of the welfare state, a strong neo-conservative critique did inform the restrain policies of the Manitoba Conservative Government of Sterling Lyon (1977-1981) and the B.C. Social Credit Government of Bill Bennett (1983-1986).\(^{22}\) And, as in Britain and the US, conservative think tanks assumed a larger role in social and economic policy communities in the 1980’s. Groups established in the mid-1970’s, such as the Fraser Institute and the Business Council on National Issues, brought to the attention of policy-makers and the mass public a critique of “Big Government” and a set of policy prescriptions drafted from a decidedly free market perspective.\(^{23}\) Older institutes, such as the C.D. Howe Institute, acquired a higher profile in the 1980’s, lending their expertise to such causes as Canada-US free trade and


Federal deficit reduction. While the influence of think tanks is not systematically examined in this study, certain research questions having to do with the role of ideas in the policy process are raised in the concluding chapter.

Socio-economic challenges to the welfare state

The welfare state has also been buffeted by a variety of socio-economic challenges in the past two decades. A secular increase in unemployment rates across the OECD imposed a heavy burden on welfare states designed to deal with relatively low rates of unemployment. To this burden may be added the ageing of national populations in the industrialized countries, with the associated cost implications for health care systems and public pension plans. Relevant too has been the decline of full-time jobs relative to part-time employment, a trend which has placed downward pressure on family income while increasing the demand for higher social transfers to families. In addition, the deferment of family formation resulting from the choice of more and more women to delay having their first child presages "a further fall in the future ratio of working age to retirement age adults."25

Broadly speaking, Canada was affected by the economic and social changes noted above. Stagflation affected the Canadian economy in the 1970's, prompting the Federal Government to impose wage and price controls in 1975. That same year the Bank of Canada formally embraced monetarism when its Governor, Gerald Bouey, announced that the Bank would pursue a restrictive monetary policy involving the setting of annual limits on the growth of the money supply.26 Governments in Canada also began to evince growing concern in the 1970's with public spending, the growth of which began to outstrip the rate of growth of the economy and of government revenues. The Federal Government also began to run annual budget deficits after

1974, contributing to increased levels of public debt.²⁷

What has been the effect of this new economic and political environment on the development of the welfare state in the 1980’s? On the one hand, virtually all governments imposed at least some degree of restraint on the growth of social programmes; in some cases, more far-reaching retrenchment was undertaken. This study addresses patterns of retrenchment in Canada at the national level.

**Purpose of the Study**

In broad terms, the study seeks to fill two lacunae in the literature on welfare states. First, it addresses the need for a comprehensive review of social welfare policy in Canada since the late 1970’s. National and comparative studies of welfare state development focus heavily on Britain, the United States, and Scandinavia (especially Sweden). Canada is generally overlooked, either as the subject of single-nation welfare state studies or as a case study in multiple-nation comparative studies. A second purpose of the study is to provide a political analysis of recent developments in Canadian income security policy. Until relatively recently, published materials on Canada’s welfare state were primarily the work of historians and of scholars affiliated with faculties of social work. Leading examples include works by such scholars as Malcolm Taylor, James Struthers, Andrew Armitage, and Dennis Guest.²⁸ There have also been several noteworthy edited collections on the welfare state employing a variety of disciplinary perspectives.²⁹

Until the 1980’s, books on Canadian social policy employing a political science analysis were limited to studies of a single programme or set of related programmes. Notable examples here include Richard Simeon's study of the Canada Pension Plan, Kenneth Bryden's study of old

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age pensions, and Christopher Leman's study of the federal-provincial Social Security Review of the 1970's.\textsuperscript{30} The 1980's saw the publication of two important book-length analyses of the Canadian welfare state: Keith Banting's analysis of the influence of federalism on a range of federal income security programmes and Leslie Pal's analysis of Unemployment Insurance.\textsuperscript{31} While Banting focused on a single independent variable (federalism), Pal assessed the impact of several society- and state-centred variables on a single programme (UI). The latter approach was also taken by Rodney Haddow in his recent study on the origins of the Canada Assistance Plan and on the Social Security Review.\textsuperscript{32} The 1980's also saw the proliferation of a body of political science literature in Canada from the perspectives of political economy and feminism, a central concern of such research being the nature of the welfare state.\textsuperscript{33}

This study blends the approaches taken by Banting and Pal by assessing the impact of several society-centred and state-centred variables on three categories of federal income security programmes—unemployment insurance, retirement income programmes, and family benefits. The study differs from much of the existing literature on income security policy in Canada by virtue of its focus on retrenchment. With the exception of a sizeable and growing body of articles addressing the reformulation of income security policy over the past fifteen years, the most extensive and detailed studies produced to date consider the formative and expansionary stages of Canada's income security system.\textsuperscript{34} In contrast, this study describes and seeks to explain


\textsuperscript{34}Articles on developments in federal income security policy in the 1980's and early 1990's include the following:
Canadian responses to contemporary pressures for welfare state retrenchment.

More specifically, the project has three main objectives. The first of these is to provide a broad yet detailed account of the evolution of Canadian income security policy during a period when many of the assumptions underpinning the welfare state began to be called into question. The fifteen-year period in question (1978-1993) spans the latter stages of the Liberal Government of Pierre Trudeau and the two Progressive Conservative Governments of Brian Mulroney. This period represents a phase in the development of Canada's welfare state in which the dominant theme was that of retrenchment. Following the collapse in 1976 of the Social Security Review, an ambitious federal-provincial exercise aimed at developing an income supplementation programme for low-income working families, no notable extensions were made to Canada's income security system. The welfare state in Canada, in other words, had reached its outer limits by the late 1970's, notwithstanding the fact that there arguably remained major gaps in the range of services and contingencies for which public provision was made.35

On the contrary, since 1978 the focus of federal policy has been the retrenchment and reformulation of existing programmes. Indeed, 1978 is a watershed year in that the Federal Liberal Government identified public spending as a major cause of economic under-performance and underscored the need for austerity--themes that would be amplified by the Progressive


3Notable here is the absence of national public programmes for dental care, spectacles, or prescription drugs, the lack of a comprehensive programme of disability insurance (beyond the earnings-related CPP), and only limited state support for child day care and public housing.
Conservative Governments of the 1980's and early 1990's. The opening salvoes of the
Government’s new economic policy of retrenchment were fired in 1978 in the form of a 23%
reduction in Family Allowances and a cut in Unemployment Insurance benefits. At the same
time, the Federal Government began a process of reorienting the income security system away
from the principle of universality, according to which income transfers are made on the basis of
universal entitlement, and toward the competing principle of selectivity, according to which
eligibility for benefits is restricted on the basis of income.

Highlights of this fifteen-year period of retrenchment policies are set out at the end of this
chapter in Table 1.1.

A second aim of the study is to identify differences in the nature and extent of
retrenchment implemented (or attempted) in the three fields of income security in question. As
numerous scholars have demonstrated, the willingness or capacity of governments to retrench
income security programmes varies considerably across different programme categories. For
example, while unemployment and social assistance benefits were curtailed in many OECD
countries in the 1980’s, public pensions and family benefits were maintained or even enriched, at
least for certain categories of recipients.

Thirdly, the study advances some tentative explanations for the observed patterns of
retrenchment by testing certain hypotheses of welfare state development. The study proceeds
from the assumption that the politics of establishing and expanding social programmes are
different from the politics of dismantling them. As Paul Pierson cogently argues, the creation or
expansion of income security programmes involves the conferring of benefits, allows politicians
to claim credit, and may contribute to building the power and prestige of the state.
Retrenchment, in contrast, involves the denial or taking away of benefits, the dismantling of state
bureaucracies, and the keen desire of politicians to avoid incurring political blame. On the last
point, Pierson describes the politics of retrenchment as “typically treacherous, because it
imposes tangible losses on concentrated groups of voters in return for diffuse and uncertain
Pierson and others also draw attention to the new context created by the development of the welfare state. Whereas many leading social programmes were established at a time when interest groups were weak or non-existent, one of the principal legacies of the welfare state has been the emergence of interest groups and of "strong popular attachments to particular policies." It follows that theories which have helped to explain the growth of welfare states in the postwar period need to be reformulated, or supplemented by new approaches, in order to account for the retrenchment of social welfare programmes.

Retrenchment of the Canadian Welfare State

To what extent, and in what manner, was the Canadian welfare state retrenched in the 1980's? The answer to this question depends, first, on which aspects of the welfare state are selected for consideration and, second, on the means chosen to measure their retrenchment. With regard to the first point, three categories of federal income security programmes are examined: unemployment insurance, retirement income programmes, and family benefits. Programmes falling under these rubrics were selected for two principal reasons. First, they represent three central pillars of Canada's income security system, accounting for approximately 60% of total direct and tax-delivered spending on income maintenance by both levels of government in 1989-90. Moreover, these programmes affect virtually all Canadians to a greater or lesser extent, not merely as taxpayers but also as beneficiaries.

Secondly, the programmes in question fall almost exclusively under federal jurisdiction. This feature largely restricts the set of proximate policy actors to the federal level of government. In addition, most of the programmes in question confer benefits on categories of recipients who

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38 In the field of retirement income, the principal programmes examined are Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance, the Canada Pension Plan, Registered Retirement Savings Plans, and federal legislation regulating occupational pension plans (most notably, the Pension Benefits Standards Act). In the family benefits field, particular attention is paid to Family Allowances, the Refundable Child Tax Credit and its successor, the Child Tax Benefit. The Unemployment Insurance programme is also examined.
are geographically dispersed rather than regionally concentrated. As a result, federalism (at least in its interstate form) can be largely eliminated as a variable conditioning policy change. The most notable exception is UI, which is susceptible to the influence of federalism (in both its interstate and intrastate varieties) because of the geographically uneven incidence of unemployment and because of regionally specific provisions built into the UI Act.

With regard to the measurement of retrenchment, the study seeks to identify changes in programme design affecting eligibility and benefits rather than relying on changes in aggregate programme expenditures, the usual measure of “welfare effort” in comparative studies of welfare states. For reasons that are elaborated in Chapter Two, a more qualitative description of the structure and governing principles of income security programmes is more revealing of their political character. Adopting the analysis of welfare state regimes developed by Gosta Esping-Andersen, the study describes the process by which social democratic features of Canada’s income security system, most notably the principle of universal entitlement, were replaced by characteristics of a liberal welfare state, most notably the competing principle of selectivity.\(^{40}\)

**Explaining Retrenchment**

Political scientists identify, and ascribe varying degrees of importance to, a range of factors in accounting for the emergence and development of welfare states. These factors include the following: socio-economic change, political pressure from trade unions and the left, political culture and ideology, and political institutions. While most analysts eschew mono-causal explanations for the rise and evolution of the welfare state, many do assign pre-eminence to the influence of a particular variable. For example, it is generally accepted that modernization theory provides a plausible explanation for the emergence of social welfare policies in industrialized countries in the past century as each country sought to respond to a comparable set of social and economic conditions.\(^{41}\) Yet it is also widely recognized that the existence of common or


equivalent socio-economic conditions does not dictat a specific kind of policy response by the state. Other variables, such as federalism, political culture, the strengths and weaknesses of key interest groups, and the existence of a particular policy legacy, may affect the timing and content of specific social policies as well as the range of policy alternatives on offer.

Accordingly, in seeking to understand the development of income security policy in Canada, this study considers variables and hypotheses associated with three broad theoretical perspectives on public policy: class analysis, institutionalism, and pluralism. For the most part, these analytical approaches have been concerned with explaining the emergence and growth of welfare states. This study assesses their utility in accounting for the reformulation and retrenchment of the welfare state.

**Class Analysis**

According to class analysis, the nature and extent of welfare state provision reflect the balance of forces between the economic class interests of business and labour. It is customary to distinguish two major schools of class analysis of welfare state development: the neo-Marxist and social democratic (or power resources) perspectives. While both perspectives emphasize the centrality of class relations, they differ in their assessments of the significance of the welfare state. To neo-Marxists, welfare programmes represent limited concessions made by the state to the working class to assure the long-run viability of capitalism. On this view, the welfare state is designed to meet the structural requirements of capitalism and to legitimate the dominant position of the capitalist class. This latter function forestalls demands for more fundamental reforms and underscores the role of the welfare state as an instrument of social control. To neo-Marxists, the state under capitalism, while possessing a certain degree of autonomy, acts in the overall interests of capital and can never wholly serve the ends of labour.

The other leading school of class analysis is the social democratic, or power resources, approach. Theorists identified with this school consider the welfare state to be a potentially important means by which capitalist society may gradually be transformed into a more socialist society. In contrast to neo-Marxists, adherents of the social democratic approach do not view the state irretrievably to be in the service of capital. Rather, they contend that working class power is centred in organizations, notably trade unions and left-wing political parties, which can coordinate individual wage-earners into collective action. On this view, labour can influence the state indirectly through industrial action and directly through the election of socialist and labour parties. To the extent that labour is able to influence state policy, it can regulate and transform the operation of market economies to its own advantage.45

This study applies the power resources theory to recent developments in Canadian income security policy. According to many observers, Canada's comparatively low levels of spending on income security reflect the historic weakness of working class mobilization, as measured by the decentralized structure of the trade union movement and the minor party status of the New Democratic Party (NDP) in national politics.46 Canada, in consequence, is said to have a liberal-residualist welfare state characterized by "means-tested assistance, modest universal transfers [and] modest social insurance plans."47 While Canada's welfare state exhibits certain features of universality, such "impurities" are vulnerable to shifts in the balance of class forces bearing on the Canadian state. Thus, to the extent that universality in Canadian social programmes has been eroded in the 1980's, the power resources theory would expect to find an associated reduction in working class power--including a decline in the political strength of the Federal NDP-- and/or an increase in the organizational resources of business.

**Institutionalism**

The influence of political institutions on policy outcomes is a question that has long been of interest to political scientists. Scholars concerned with the independent impact on social policy of different state structures and configurations of power within the state have addressed it through a variety of state-centred approaches. At the level of constitutional structure, it has been contended that, other things being equal, the fusion of executive and legislative powers that is characteristic of parliamentary systems facilitates the establishment and expansion of social welfare and other collectivist policies, whereas the multiple veto points and more dispersed authority inherent in presidential systems have the opposite effect.\(^48\) Similarly, it has been contended that federal systems inhibit the development and expansion of welfare states.\(^49\) Other scholars argue that bureaucrats and ministers have often taken a leading role in initiating and shaping social programmes. Proponents of this view contend that state actors have considerable autonomy over social policy.\(^50\)

Institutionalism has enjoyed something of a renaissance in political science since the late 1970's. In the preceding two decades, students of politics had been heavily influenced by behaviouralism, with its emphasis on the explanatory power of social forces, from political culture to interest group activity to socio-economic characteristics of polities. While the independent influence of the state on political outcomes was not entirely neglected, there seemed to be little interest in investigating the inner workings of the black box of the state. After all, the postwar settlement appeared to lend support to the thesis that common economic conditions, class interests, and political values in advanced industrialized states conduce to a convergence in the policies and politics of such states.


However, the advent of economic turmoil in the 1970's revealed a more diverse pattern of policy responses on the part of industrialized states than had been anticipated by society-centred theories.\textsuperscript{51} In seeking to account for this diversity, political scientists began to pay more attention to the institutional features of states. However, unlike the pre-War tradition of institutional studies, the “New Institutionalism” goes beyond the mere description of formal institutions and instead seeks to map empirically the distribution and use of power within the state and the interaction between state and societal actors within various policy sectors.\textsuperscript{52}

Neo-institutionalists contend that state actors have varying degrees of autonomy from social forces.\textsuperscript{53} However, they differ over the manner in which institutions—including established public policies, or “policy legacies”--shape the behaviour of societal and state actors. On this point, two major schools of neo-institutionalism have emerged to date.\textsuperscript{54} The first, known as rational choice institutionalism, proceeds from the assumption that political actors are self-interested utility maximizers. On this view, the goals or preferences of political actors are rational and fixed. For example, rational choice institutionalists tend to assume that the overriding goal of politicians in liberal democracies is to ensure their election or re-election. Institutions, however, shape the strategies chosen by political actors to realize their goals.

The second major school of neo-institutionalism, known as historical institutionalism, questions the presumed rationality of political actors. According to this view, “the question of how individuals and groups define their self-interest [is] problematical.”\textsuperscript{55} In contrast to adherents of the rational choice school, historical institutionalists contend that institutions shape not only the strategies of political actors, but also their goals. On this view, “institutions provide

\textsuperscript{54} The following discussion draws on Kathleen Thelen and Sven Steinmo, “Historical Institutionalism in comparative politics,” \textit{op. cit.}
\textsuperscript{55} \textit{Ibid.,} p.8.
moral or cognitive templates for interpretation and action.\textsuperscript{56}

How may institutionalism help to illuminate the politics of welfare state retrenchment? In this study, two variants of institutionalism are considered. The first of these, a state-centred approach, is concerned with identifying the locus of decision-making power within the Federal Government with regard to income security policy. The organization of the state and the capacity of relevant state actors may be of particular relevance in a context of welfare state retrenchment. The ability of the state to impose losses on various social groups may depend not only on the political power of those groups but also on the distribution of power within the state across an array of agencies and departments. The study therefore attempts to determine the shifting balance of power between the leading spending departments and fiscal guardians within the federal government in the 1980's.\textsuperscript{57}

\textit{a) Guardians and Spenders}

When the concept of guardians and spenders was developed by Aaron Wildavsky in the 1960's, a decade of economic growth and prosperity, he presumed the natural inclination of line departments to be to seek annual real increases in their budgets and that of treasuries to be to restrain (or veto) such increases. By the 1980's, as most governments sought to control the growth of budget deficits, in part by curtailing public spending, it was observed that fiscal guardians were increasingly taking the initiative while spenders, now put on the defensive, were seeking to protect existing budget allocations.\textsuperscript{58}

The major departments having responsibility for most of the programme expenditures in the income security field between 1978 and 1993 were the Department of National Health and Welfare (NHW) and the Department of Employment and Immigration. These agencies, it seems reasonable to suppose, had an interest in maintaining, if not increasing, expenditures on existing


\textsuperscript{57} The terms guardians and spenders were coined by Aaron Wildavsky in \textit{The Politics of the Budgetary Process}. Boston: Little, Brown, 1964. The interaction between fiscal guardians and spenders in Canada is explored in Donald Savoie, \textit{The Politics of Public Spending in Canada}. Toronto: University of Toronto Press, 1990.

programmes. The pre-eminent fiscal guardian, the Department of Finance, has traditionally had an interest in containing public spending. Since selective income security programmes ostensibly are less costly to the treasury than universal ones, one would expect Finance to have a preference for the latter.\(^{59}\) Thus, to the extent that income security programmes were retrenched, new programmes not realized, and universality superseded by selectivity, it may be hypothesized that the authority of the fiscal guardians grew at the expense of the departments most directly responsible for those programmes.

Any assessment of the evolving roles of the guardian and spending agencies of the Canadian state must take into account the emergence of the judiciary as a more powerful branch of government in the 1980’s. As a result of the entrenchment of the Charter of Rights and Freedoms in 1982, the courts acquired a wider power of judicial review and with it the potential to affect income security policy. It was not immediately apparent how the Charter might be used by the courts in regard to social policy. However, by the mid- to late 1980’s the predominant view was that the equality provisions of the Charter would likely serve to remove discriminatory features of numerous social benefits programmes. If upheld, most of these claims would have had the effect of enlarging the coverage of Canada’s income security system, thereby increasing the social security commitments of the state and vitiating, at least in part, the enhanced power of the fiscal guardians of the state.

\(b\) Policy Legacies and Political Parties

The second variant of institutionalism to be employed is that of rational choice institutionalism. Here the focus is on the political constraints imposed on governments by the “policy feedback” resulting from programmes previously established in the income security field. Such feedback may include the emergence of organized groups representing the beneficiaries of particular programmes, mass public support for such programmes, and a predisposition on the

\(^{59}\) On this point it should be noted that defenders of universality contend that while the aggregate level of benefit expenditures under universal programmes typically exceeds that of selective programmes, the net cost to the Treasury of such programmes may tell a different story (i.e. once administrative costs and the taxation of benefits are taken into account in each case). See National Council of Welfare. *Family Allowances for All?* Ottawa: March, 1983, pp.28-31.
part of state actors to favour existing policy designs when formulating new policies. More specifically, this study tests the hypothesis that governing parties wishing to retrench social welfare programmes tend to conduct themselves in a rational, self-interested way that is calculated to avoid (or mitigate) political blame.

While the introduction of social programmes has frequently proven to be controversial, the expansion of existing programmes has typically been less contentious. Indeed, according to some scholars, particularly those identified with the public choice school, the expansion of welfare states in the postwar decades provided political parties of all ideological orientations with powerful incentives to match or "out-bid" their political rivals by promising to enrich benefits or to expand programme coverage.

According to this view, the expansion of the welfare state was largely a process by which political parties sought to claim credit from electors for delivering new or more generous social welfare benefits. Whatever explanatory power this thesis may hold as regards the expansion of the welfare state, it would appear to have considerably less relevance in an era of welfare state retrenchment. For the most part, there is little political credit to be reaped from the curtailment or abolition of social programmes. Rather, welfare retrenchment is an exercise in what Kent Weaver refers to as political "blame avoidance." According to Weaver, politicians are guided by both electoral and non-electoral motivations. Among the electoral motivations he identifies are the desire to "claim credit' with constituents and clientele groups for actions taken in their interests" and the desire to avoid blame for "perceived or real losses that they [have] either

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imposed or acquiesced in." He contends that politicians, on the whole, are more concerned with
the political costs which may accrue from a policy than with the political gains which it may
occasion. This hypothesis is based on evidence of a "negativity bias" among voters, according to
which "persons who have suffered losses are more likely to notice the loss, to feel aggrieved and
to act on that grievance, than gainers are to act on the basis of their improved state."64

In his study of the politics of welfare state retrenchment in Britain and the United States
in the 1980's, Paul Pierson concludes that even stridently neo-liberal political leaders, such as
Margaret Thatcher and Ronald Reagan, were forced to proceed cautiously in seeking to introduce
welfare-curtailing policies.65 While Pierson found there to be differences in the vulnerability to
retrenchment of particular programmes, he noted the reluctance of the Thatcher and Reagan
governments in most cases to pursue direct and highly visible reductions in social spending, in
contrast to their more aggressive initiatives in the fields of economic policy and industrial
relations. Building on Weaver's thesis, Pierson attributes the political hazards of making direct
cuts to social programmes to interest groups and to "strong public attachments to particular
policies."66 These political constraints, Pierson maintains, lead "retrenchment advocates to
pursue strategies that hide the magnitude of cuts by minimizing short-term negative
consequences."67

The most widely used of these strategies is to "obfuscate" the details of policy changes
by such means as diffusing cuts over time, increasing the complexity of reforms, and attenuating
the public's awareness of policy-makers' responsibility for losses.68 Techniques in this category
include refraining from indexing benefits to inflation, or only partially indexing them, in order to
bring about a reduction in the real value of benefits over time, postponing implementation of cuts,

63Ibid., p.372.
64Ibid., p.373.
65Paul Pierson, Dismantling the Welfare State? op. cit. See also Paul D. Pierson and R. Kent Weaver, "Imposing
Losses in Pension Policy" pp.110-150 in R. Kent Weaver and Bert A. Rockman (ed.), Do Institutions Matter?
68Ibid., pp. 20-22.
and making cuts automatic through the adoption of new financing formulae. Another obfuscation technique is "implicit privatization," whereby the growth of social benefits is restrained in the context of an expanding economy such that the economic importance of such benefits diminishes in relation to private sources of income.

In addition to obfuscation, Pierson discusses two further strategies by which policymakers seek to diminish the immediate political costs of retrenchment. The first of these, a divide-and-conquer strategy, involves distributing the burden of retrenchment unevenly within a broad population of beneficiaries by varying benefit reductions on the basis of household composition, income level, age, geography, or some other grounds. A second strategy is to lessen the impact of retrenchment on certain classes of beneficiaries by providing compensation. Techniques here include the use of "grandfather clauses" to protect existing benefit recipients and the extension of private benefits to offset, at least in part, the curtailment of public benefits.

Given the pragmatic and non-ideological character of Canada’s Liberal and Progressive Conservative parties, it seems unlikely that they would launch a direct attack on the universality of income security programmes. It seems plausible, therefore, that the main parties, when in government, would implement retrenchment through the use of various techniques of blame-avoidance. The success or failure of such techniques, however, would depend in part on the effectiveness of the opposition parties in exposing the government’s policies and in mobilizing public opinion against them.

Pluralism

In addition to assessing the impact on social welfare policy of class-based groups, the role of non-class-based actors will also be addressed. Broadly speaking, the social policy community in Canada lacks the presence of large, well-organized groups representing the interests of beneficiaries of categorical income security programmes. The interests of broad beneficiary groups such as the unemployed, the elderly, and the parents of dependent children are instead articulated by various relatively small public interest, research, and advocacy groups (such as the

69 Ibid.
Canadian Council on Social Development and the National Council of Welfare), many of which have broad mandates and are reliant on the federal government for a significant proportion of their financing. Historically, such groups have played only a marginal role in the development of income security policy in Canada.  

Nevertheless there is reason to believe that non-class groups may be assuming a more prominent role in shaping social policy. The 1980's saw a growing political self-consciousness and mobilization on the part of a host of social groups, notably women, aboriginals, the disabled, and gays. While the contributions of these groups to social policy debates were negligible during the building stages of the Canadian welfare state, their demands for recognition and inclusion began to extend into the field of income maintenance policy beginning in the late 1970's. Women's groups in particular began to advocate and sponsor constitutional and human rights challenges to social benefits provisions on the grounds of alleged discrimination.

While impinging on the welfare state in important ways, many of the organized groups which emerged in this period sprang from broader social movements and were motivated only incidentally by a desire to expand or defend social programmes of benefit to the broad social categories on whose behalf they purported to speak. However, the welfare state itself also created constituencies of support among groups in receipt of benefits. However weakly organized such constituencies might be, they have the potential to become mobilized in the defence of programmes faced with cuts. Cuts to universal programmes might be expected to be particularly vulnerable to voter backlash as such programmes, by their nature, benefit the middle class, whose votes no government can afford to ignore. More generally, as noted above,

70 As numerous scholars have noted, organizations in Canada representing beneficiaries of income security programmes generally emerged after the establishment of such programmes. Moreover, many such organizations were founded with seed money and sustained by operating grants from the federal government.


members of a latent group are more likely to take collective action in the defence of existing benefits than in pursuit of new or additional benefits.

Thus, it may be hypothesized that non-class-based groups would represent a source of opposition to the retrenchment of universal social benefits. The effectiveness of such groups, however, would be expected to be marginal because of their limited organizational resources.

**Statement of Thesis**

In 1978 it could be said that Canada was a predominantly liberal welfare state containing certain elements of universality. Fifteen years later, Canada remained a liberal welfare state, but the principle of universality had been eroded. Through a series of measures which are discussed in subsequent chapters, from the strengthening of market-based eligibility rules for UI benefits to the de-indexation and subsequent abolition of Family Allowances, Canada's welfare state became more residual in nature by the 1990’s than it had been in 1978. While economic and fiscal pressures put income maintenance programmes on the policy agenda in the late 1970's, and kept them there in the ensuing decade, specific policy changes resulted from the exercise of political choices. To account for the particular pattern of choices which was made, it is contended that state- and society-centred explanations must be considered. To this end, the following propositions are tested to explain the decline of universality:

1) that the power resources of organized labour declined in the 1980’s in relation to those of capital;

2) that, further to the power resources thesis, there was a decline in the influence in federal politics of labour’s political ally, the New Democratic Party;

3) that the authority of spending departments within the federal social policy process declined in relation to that of the fiscal guardians, most notably the Department of Finance;

4) that Liberal and Conservative federal governments made successful use of a series of blame-avoidance techniques;

5) that non-class-based groups remained weak, or suffered a decline in influence in the social policy process.
Methodology

The methodology used to test the hypotheses enumerated above is as follows. With reference to class analysis, the power resources thesis raises certain expectations about the impetus behind public policy in liberal democratic states. Specifically, its assumption that policy results from conflict between economic classes implies that the positions taken by such classes reflect their respective material interests and that those interests, for the most part, are diametrically opposed to one another. To identify the positions taken by business and labour on social policy, the study documents the demands made by leading business and labour groups, most notably, for business, the Business Council on National Issues (BCNI), the Canadian Manufacturers' Association (CMA), and the Canadian Chamber of Commerce (CCC), and, for labour, the Canadian Labour Congress (CLC). These positions are gleaned from policy papers released by such groups, from testimony before parliamentary committees, and from newspaper accounts. 73

Further to the power resources approach, the capacity of economic classes to influence public policy is measured by reference to the organizational resources of their representative organizations and by the relative strengths of business and labour in the broader political economy. Such power resources are measured by reference to organizational characteristics such as membership size and representativeness, organizational cohesion, and the balance of power in the workplace as reflected in such indices as average wage gains and levels of strike activity.

To measure the political influence of economic classes, the study begins by examining the legislative record. Policy outputs per se may or may not provide evidence of business or labour influence—even if there appears to be a close correspondence between a given policy and the demands of a particular economic class—as there may be other forces militating in favour of the policy. Accordingly, the study looks for evidence which illuminates the basis on which policy

73 An issue that arises here is whether the publicly stated positions of interest groups can necessarily be taken to represent the policy positions they actually pursue in private. The likelihood of there being glaring discrepancies of this kind is minimized by the length of time and range of issues addressed by the study. Moreover, the business groups considered in the study would have to have coordinated such a deception. No evidence has come to my attention to suggest that they had either the capacity or inclination to do so.
makers reached particular policy decisions. Such evidence is sought in parliamentary records, press releases and other public sources, and through interviews with federal civil servants and with other members of the social policy community.

It should be added that the lack of direct evidence of policy influence by economic class groups does not preclude the possibility of more subtle or systemic forms of influence. As Cuneo puts it: "...the conscious intentions of state policy-makers to oppress the working class do not have to be established in order to argue that [policy has] a class reality." Thus, even in the absence of a direct relationship between a specific policy decision and the demands of a particular group, powerful groups may nevertheless impose constraints on policymakers by limiting the scope of policy changes. Given the empirical difficulties which may arise in measuring the influence of economic interest groups on a given policy decision, the study attempts to discern broad patterns of influence by examining developments in income security policy over a fifteen-year period and by considering briefly the state's receptiveness to business and labour demands in the field of macroeconomic policy.

A more specific formulation of the power resources approach concerns the strength of political parties representing labour's class interests. In this case, the strength of the Federal NDP is measured in terms of its parliamentary representation and popular support, as reflected in election results and public opinion polls. In a context of retrenchment, the NDP's influence on policy is gauged by its success in persuading the major parties to forebear from curtailing social welfare programmes and to endorse social democratic aspects of the welfare state, such as universality. Specific NDP positions on social policy as gleaned from parliamentary debates, election platforms, and other policy documents. Evidence of the Party's political influence is sought in newspaper articles, parliamentary proceedings, and various secondary sources.

The significance of relevant state actors as initiators, advocates, opponents, or modifiers of social policy proposals is explored by tracing the shifting allocations of social policy-making
authority within the federal government. This state-centred approach is based on the expectation that policy is influenced by the organization of the state and by conflicts between various agencies and departments within it. The study identifies the leading agencies responsible for specific policy decisions and attempts to determine their respective roles. This task involves an examination of the goals of the relevant state actors and the outcomes of inter-departmental conflicts. Information on the competing roles of different government agencies and actors is sought from interviews, departmental policy papers, and secondary sources.

The "blame-avoidance" thesis focuses on the various ways in which policy affects politics. To test its validity, the study compares the retrenchment measures which were adopted with the catalogue of techniques anticipated by Pierson's theory. Pierson contends that the choice of retrenchment instruments is typically driven by the desire of governing parties to lower the political visibility of social spending cuts. Indeed, he suggests that, through a process of policy learning, governments have often abandoned overt retrenchment measures, in the face of political protest, only to accomplish their objectives through more indirect means. This study therefore seeks to describe the political context in which retrenchment measures were adopted in Canada and to consider competing explanations for their design.

Organization

Chapter Two describes the main programmes which comprise Canada's federal income security system and outlines the broad changes which occurred over the 15-year period in question, most notably the shift away from universal entitlement and toward greater selectivity. Chapter Three discusses income security policy under the Liberals (1978-1984) and analyzes it with reference to the hypotheses described above. Given its brief tenure, the Conservative Government of Joe Clark is not examined separately but is referred to where appropriate. Chapter Four describes the more extensive changes to income security wrought by the Conservatives during their two terms of office (1984-1993). Chapters Five to Eight seek to explain Conservative social policy by testing the hypotheses used in Chapter Three. The conclusion is set out in Chapter Nine.
Table 1.1

1978  --Announcement by PM Trudeau of $2 billion in federal programme cuts following the Bonn Economic Summit. Early symbolic embrace of the neo-conservative policies of public spending retrenchment.

  --Introduction of the Refundable Child Tax Credit (RCTC), the last major extension of the income security system, augurs the increasing use of targeted tax benefits over universal cash transfers.

  --Tightening of the eligibility rules for Unemployment Insurance; benefit rate reduced from 66.6% of insurable earnings to 60%.


1980  --Conservatives defeated; Liberals returned to office.

1982  --Introduction of the federal "6 and 5" restraint programme in the federal public sector. Indexation of universal Family Allowance and Old Age Security benefits capped at 6% in 1983 and 5% in 1984, but not the income-tested Guaranteed Income Supplement nor the RCTC. This measure and subsequent ceilings on the indexation of benefits underscore the gradual erosion of universality in favour of income-tested benefits.

  --Proclamation of the Canada Act. Charter of Rights and Freedoms viewed by many observers as a means of restructuring social benefits programmes, especially those programmes conferring benefits on age- or sex-specific categories of eligible recipients.

1983  --Extension of UI parental leave benefits to parents of adopted children.

1984  --Finance Minister Marc Lalonde announces in the Budget modest proposals to improve benefits under the Canada Pension Plan, to strengthen occupational pension plans under the federal Pension Benefits Standards Act (PBSA), and to provide broader tax relief for contributors to Registered Retirement Savings Plans (RRSPs)

  --Election of a Conservative majority government formally committed to deficit reduction and to the targeting of social welfare benefits to those in greatest need.

  --In an Economic Statement delivered in November, 1984, Finance Minister Michael Wilson announces immediate spending cuts, including the termination of UI benefits to claimants who are within one year of retirement.

1985  --Federal Budget partially de-indexes Family Allowances while increasing the Refundable Child Tax Credit. Government backs down on plan for the partial de-indexing of Old Age Security in the face of a vocal outcry by seniors.
1986 --Report of the Forget Royal Commission on UI recommends the phasing out of special regional benefits and the restoration of UI as a self-funded insurance programme. Government disavows the Report following vigorous denunciations by the Atlantic Premiers, organized labour, and by sections of the federal Conservative cabinet and caucus.

--OAS Spousal Allowance (introduced in 1975) extended to all widowed persons 60-64 years of age in financial need, regardless of the spouse's age at death. (Previously, the deceased spouse had to be at least 65 in order for the survivor to be eligible.) Mulroney Government (like its Liberal predecessor) rejects calls for the extension of OAS benefits to singles 60-64 years of age who never married or are divorced or separated.

--Government introduces legislation to amend the PBSA along the lines proposed in the Lalonde Budget of 1984. CPP amendments also introduced.


--Government introduces reforms to the tax system, reducing the number of personal income tax brackets from ten to three and converting most tax deductions and exemptions into tax credits.

1988 --Government tables its National Child Care Strategy. The only element of the Strategy to be implemented are increases in the child care expense deduction and in the RCTC.

--Conservatives re-elected. While social policy issues per se are overshadowed during the election campaign by the Free Trade issue, many Free Trade opponents characterize the FTA as an instrument for dismantling Canada's welfare state.

1989 --Federal Budget introduces the tax "clawback" of OAS and Family Allowances from upper income earners.

1990 --Expiration of the Meech Lake Accord. Proposed restrictions on the use of the federal spending power harshly criticized by most social policy activists.

--Passage of Bill C-21, ending federal contributions to UI, tightening eligibility requirements, and reducing the duration of benefits. Special regional benefits left intact. Elderly unemployed (65+) eligible for benefits in the wake of a court challenge based on the Charter. Changes to UI parental leave benefits also made in response to a Charter challenge.

1992 --Family Allowances abolished, replaced by an income-tested Child Tax Benefit.

--Government formally cancels its long-awaited National Child Care Care Strategy.

1993 --Conservatives introduce Bill C-113, providing for further retrenchment of UI.
Chapter Two: Overview of Canada's Liberal Welfare State

I. Introduction

The decade of the 1970's marked a transitional stage in the development of Canada's income security system. Although the nature and significance of this transition was only dimly perceived at the time, it has since become evident that the welfare state in Canada reached its outer limits during this period. Indeed, with the sole exception of the Refundable Child Tax Credit, adopted in 1978, no major new income security programmes were introduced after 1971. Nor were there any significant extensions of existing programmes. Having reached its apogee, the welfare state entered a new phase, one of retrenchment and review. While welfare state retrenchment did not become a prominent theme of political debate in Canada until the 1980's, the process of curtailing and reformulating income security programmes was well under way by the mid-1970's. To apply Heclo's analysis of the four stages of welfare state development, Canada completed the expansionary stage of its welfare state in 1971 with the adoption of sickness and maternity benefits under the Unemployment Insurance programme. The country then entered a period of social policy reformulation which continues today.

Subsequent chapters of this study document and assess policy developments in the income security field during the first fifteen years of this reformulation phase. Before doing so, it is necessary to begin with an overview of the income security system in Canada and with a brief description of how it has changed in the past fifteen years. Accordingly this chapter is divided into two parts. The first part discusses the allocation of relevant legislative powers under the Constitution and describes the major programmes which comprise the income security system. The second part of the chapter attempts to specify the political character of Canada's income security system and to assess how it changed during the period 1978 to 1993. Applying Gosta Esping-Andersen's model of welfare state regimes, I argue that Canada's income security system

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in the late 1970's was predominantly liberal in character. Given the generally low level of benefits provided, the limited range of benefits, and the use of market-based eligibility criteria (including means tests), Canada's public income security system was decidedly subordinate to market principles. At the same time, however, the system exhibited significant social democratic features, most notably in the form of a high degree of universality and a relatively generous system of unemployment insurance benefits. Fifteen years later, social democratic features had been curtailed and the liberal character of the income security system had become more pronounced.

II. The Constitutional Setting

Any study of Canadian public policy inevitably must identify the respective roles of the federal and provincial governments. This task involves, first, an examination of the constitutional division of legislative powers between the two levels of government as set out in the Constitution Act 1867. As in all federal states, however, the written constitution provides only a skeletal guide to the division of powers. Accordingly, it is also necessary to consider authoritative judicial interpretations of relevant sections of the Act. US Chief Justice Hughes's aphorism that the constitution is what the judges say it is is especially apposite in the Canadian case given the controversial and inventive way in which the Constitution was interpreted by the Judicial Committee of the (British) Privy Council during the first eighty years of Confederation. Ultimately, however, the role of the federal and provincial governments in any field of public policy cannot be fully understood by reference only to the allocation of formal constitutional powers, however modified by judicial interpretation. Due regard must also be paid to the political factors which condition the exercise of constitutional authority. In other words, it is essential to understand the "political use of legal resources." As Peter Russell observes, governments in Canada sometimes forebear from fully exercising the constitutional powers at

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3Being Schedule B of the Canada Act (UK), c.11.

their disposal for want of political legitimacy. On the other hand, he notes that governments have frequently found ways of surmounting constitutional obstacles and achieving, through inter-governmental agreement, goals for which there is sufficient political support. Both of these tendencies can be seen in the development of federal income security policies.

A. Provincial Role

As originally enacted in 1867, the Constitution Act did not explicitly refer to income security. This omission reflected the limited involvement of public authorities at that time in the provision of social welfare or even in the regulation of privately-delivered welfare services. The Canada of 1867 was predominantly rural and heavily influenced by British notions of laissez-faire, according to which the role of government properly should be confined to that of "preserving law and protecting rights of property." Individuals were expected to make adequate provision against economic adversity through thrift and self-help. Those unable to look after themselves were expected to seek the assistance of their immediate family and, if need be, of relatives, friends, and neighbours. Organized welfare services were the responsibility of charitable or religious organizations and local government.

Although the BNA Act did not clearly assign responsibility for income security to Ottawa or the provinces, inferences were drawn, both by governments and the courts, from those powers which were allocated to one level of government or the other. Thus, under Section 92 of the BNA Act, the provinces were given jurisdiction over hospitals, asylums, charities, eleemosynary institutions, public and reformatory prisons, and municipal institutions. Moreover, the provinces were granted over-arching responsibility for "property and civil rights"
and for "all matters of a merely local or private nature in the Province." Since unemployment, the plight of widowed mothers with dependent children, and other similar social ills were deemed to be local and private in nature until well into the twentieth century, it was widely accepted that the regulation of social assistance and of social welfare agencies lay primarily with the provinces and, through them, with local authorities.

B. Federal Role

While provincial jurisdiction in the social welfare field can be inferred from relatively specific grants of legislative authority, federal jurisdiction is grounded in more general and potentially far-reaching powers. The most notable of these general powers is the residuary power under Section 91 of the Constitution Act 1867. According to this provision, Parliament is authorized to make laws for the "Peace, Order, and Good Government" of Canada in relation to any matter not assigned exclusively to the provincial legislatures. The "POGG" power has been used to a limited extent as a constitutional foundation for federal involvement in income security. The federal Family Allowances Act, for example, was upheld by the courts, partly on the basis of POGG.9

POGG, however, has not served as a significant source of federal authority in this area. In drafting the BNA Act and assigning extensive powers to Parliament (including unlimited taxation powers), the Fathers of Confederation clearly intended to create a centralized federation in which the federal government would wield pre-eminent authority. However, this vision of centralization was thwarted by a set of mutually reinforcing political and socio-economic factors, touched on further below, and by a radical reinterpretation of the terms of the Constitution Act by the Judicial Committee of the (British) Privy Council (JCPC), Canada's highest court of appeal until 1949. In a series of landmark cases, the JCPC sharply curtailed the scope of federal constitutional powers while expanding the scope of provincial powers. As a result, the POGG power was restricted to matters having "national dimensions" or, more narrowly still, to emergency situations such as war, famine, or disease. At the same time, provincial heads of

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jurisdiction, such as property and civil rights, were given relatively broad interpretations.

A more important source of federal constitutional authority in the income security field is the federal spending power. This power refers to the ability of the federal government to spend its revenues for any purpose it deems necessary or desirable, whether that purpose falls under federal or provincial jurisdiction. Such spending takes the form of payments to individuals, institutions, and provincial or local governments under a wide array of federal and federal-provincial shared-cost programmes. Federal expenditure programmes, from Family Allowances and the Canada Assistance Plan to equalization payments and Medicare, are all based, in whole or in part, on the spending power.

While there has been relatively little judicial interpretation of the spending power, the courts have imposed certain limitations on its use. One such limitation is that the spending power cannot be used by the federal government to introduce a scheme of compulsory regulation the "pith and substance" of which falls under provincial jurisdiction. With regard to income security programmes, this limitation had the effect of preventing the federal government from establishing social insurance programmes and other programmes financed by compulsory contributions until the 1940's. As early as the 1880's, the JCPC had determined the regulation of commercial insurance to be a matter of "property and civil rights" and hence a provincial responsibility. This principle was extended to provincial workers' compensation plans, the first significant social insurance measures introduced in Canada. Such plans were upheld by the Privy Council as valid exercises of provincial jurisdiction on the grounds that state-mandated employer premiums created a "statutory condition of the contract of employment." Workers' compensation, the Privy Council declared, constituted "a scheme for securing a civil right in the

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11 Ibid. While not explicitly set out in the Constitution Act 1867, the spending power has been inferred from other powers, particularly Section 91(3), which authorizes Parliament to raise revenue "by any mode or system of taxation," and Section 91(1A), which assigns to Parliament authority over public debt and property.
13 Citizens' Insurance v. Parsons (1881) 7 A.C. 96, 1 Cart. 265.
The Privy Council later applied this reasoning in striking down the federal Employment and Social Insurance Act of 1935, an act which proposed to establish a national unemployment insurance plan to be financed, in part, by compulsory contributions by employers and employees. These cases raised considerable uncertainty as to what kinds of contributory benefit programmes would pass constitutional muster. For example, would it be possible to implement a national old age pension plan financed by a special tax, with the proceeds deposited in a separate fund? Would the courts characterize such a plan as compulsory insurance and thus ultra vires Parliament? In testimony before a joint committee of Parliament in 1950, the federal Deputy Minister of Justice concluded that such a scheme would be declared invalid by the courts "unless it were clearly evident that the taxes would not be borne directly and solely by those who would ultimately be pensioned." In order to surmount these judicial obstacles to the establishment of federal social insurance programmes, Ottawa secured the agreement of the provinces between 1940 and 1964 to three constitutional amendments transferring to Parliament the necessary jurisdiction.

Use of the federal spending power to launch non-contributory benefit programmes has not faced serious constitutional challenge. In contrast to contributory social insurance, such programmes are financed from general tax revenues and eligibility for benefits is not tied to past contributions. Unilateral federal programmes of this kind include Family and Youth Allowances, cash payments made to certain classes of individuals subject to broad terms of eligibility. The spending power has also enabled the federal government to establish and, to some extent, to shape income security programmes in the provinces. Through the payment of conditional grants to the provinces, the federal government initiated the first old age pension programme in 1927 and since then has assumed a significant share of the cost of provincial social assistance programmes. Such grants to the provinces are conditional on provincial compliance with certain

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15Ibid.
standards stipulated by the federal government.

According to Hogg, the constitutionality of federal conditional grants rests on the fact that the obligations are assumed voluntarily by the provinces and hence do not constitute compulsory regulation.\textsuperscript{18} It is important to note, however, that while the constitutional validity of federal conditional grants has not been seriously questioned, they have been a source of political conflict between the two levels of government from the outset. Quebec has been particularly vocal in its opposition to both federal conditional and unconditional grants. Quebec's position, grounded in a classical, Diceyan view of federalism, holds that each level of government should exclusively regulate and finance activities falling within its respective sphere of jurisdiction.\textsuperscript{19} In defending that position, Quebec secured an important concession of provincial paramountcy in the constitutional amendments of 1951 and 1964—concessions which allowed it to establish its own contributory pension plan in 1965.

While the other provinces have been less consistent and less vigorous than Quebec in their indictment of conditional grants, many of them have been increasingly critical of the federal government's use of such grants since the late 1950's. Among other things, the provinces have argued that conditional grants distort provincial spending priorities and restrict the provinces' capacity to pursue policy innovations, whether in income security or other fields.\textsuperscript{20} Provincial objections of this nature led the federal government to agree to impose explicit controls on the federal spending power in constitutional agreements reached between the two levels of government at Victoria in 1971, Meech Lake in 1987, and Charlottetown in 1992. As none of these agreements was implemented, the constitutional status of the spending power is unchanged.

C. Charter of Rights and Freedoms

In 1982 Canada's written constitution was amended by the addition, most notably, of the

\begin{footnotesize}
\begin{itemize}
\item For a discussion of provincial views on conditional grants, see Donald V. Smiley, \textit{Conditional Grants and Canadian Federalism}. Toronto: Canadian Tax Foundation, 1963.
\end{itemize}
\end{footnotesize}
Charter of Rights and Freedoms and a domestic amending formula. From a policy-making perspective, the most immediate and important aspect of the entrenchment of the Charter in the constitution was its impact on the allocation of policy-making authority. Prior to 1982, the only significant constitutional limitation on the sovereignty of Parliament and the provincial legislatures was the federal division of powers. The Charter, however, has imposed additional limitations on parliamentary sovereignty, limitations which take the form of individual and collective rights which neither level of government may infringe or deny. This development in turn has significantly broadened the scope of judicial review and given the courts a more extensive role in the public policy process.

At first blush, the significance of the Charter for the welfare state is marginal at best. Not only does the Charter make no reference to welfare rights, but most of the enumerated Charter rights are negative in nature: that is, they require governments to refrain from taking actions which impinge upon individual freedom. With few exceptions, Charter rights do not impose obligations on governments to provide specific benefits or services. The Charter, in short, envisions a limited role for the state.21 The welfare state, in contrast, embodies the idea that an active, interventionist state is required to protect and advance the economic security and general well-being of its citizens.

Nevertheless, most observers agree that the Charter has two broad applications to the welfare state. First, it enhances the procedural rights of welfare recipients. That is, the Charter adds to the growing body of common law rules governing the administrative procedures through which social benefits are granted. Particularly relevant here is Section 7 of the Charter which guarantees the right to "life, liberty and security of the person and the right not to be deprived thereof except in accordance with the principles of fundamental justice."22 The second set of implications relates to substantive rights to social welfare. Over the past decade it has become

clear that the equality rights provisions of the Charter may be used to challenge the under-
inclusiveness of social welfare programmes. Thus, where a particular programme confers benefits
on one group but not another, the latter group may be able to challenge the government for
denying it, in the language of Section 15(1), "equal benefit of the law." To the extent that cases of
this kind are successful, the Charter may serve as a tool for expanding, or at least redirecting, the
welfare commitments of the Canadian state.\textsuperscript{23}

III. Components of Canada's Income Security System

Canada's public income security system consists of a web of programmes administered
by federal, provincial, and local governments. The major federal programmes, as they stood in
the late 1970's, are described below. They are classified according to the mechanisms by which
benefits are delivered: social insurance, demogrants, social assistance, income supplementation,
and tax expenditures.

A. Social Insurance

Social insurance programmes are those in which an individual's entitlement to benefits is
linked to previous contributions or earnings.\textsuperscript{24} The aim of such programmes is to replace some
proportion of the income that is lost as a result of such specified contingencies as
unemployment, disability, and old age. Coverage under social insurance programmes is
compulsory, although a limited number of exempted industries or occupations is typically
provided for.\textsuperscript{25}

Social insurance embodies the principles of private insurance in so far as risks are pooled
and there is a correspondence between the benefits individuals may draw and their previous
contributions or insurable earnings.\textsuperscript{26} Similarly, social insurance contributions are usually
remitted to a special fund, separate from the government's general revenues. Social insurance

\textsuperscript{23}For an early view on this matter, see Anne F. Bayefsky and Mary Eberts (ed.), Equality Rights and the Canadian
\textsuperscript{24}Department of National Health and Welfare. Income Security for Canadians. Ottawa: Queen's Printer for Canada,
\textsuperscript{25}For example, the self-employed are ineligible for Unemployment Insurance, as are part-time workers who work
fewer than a stipulated number of hours per week.
\textsuperscript{26}Department of National Health and Welfare. Income Security for Canadians, op. cit.
differs from private insurance, however, in that there is "no precise actuarial adjustment of premiums to risk in each individual case."\textsuperscript{27} Not only are low- and high-risk individuals fully covered under social insurance schemes, but the former subsidize the latter. Thus, under a national unemployment insurance plan contributors who live and work in areas of low unemployment subsidize those in areas of chronically high unemployment. The extent to which social insurance schemes depart from pure actuarial principles depends on the number and variety of competing policy objectives which such schemes are designed to serve. Modern unemployment insurance plans, for example, typically embody labour market objectives, such as skills training and the promotion of labour mobility, in addition to income security objectives.\textsuperscript{28}

At the provincial level, the major social insurance programme is workers' compensation, a scheme which provides no-fault compensation for lost earnings resulting from injury or disease incurred in the ordinary course of employment.\textsuperscript{29} At the federal level, the principal social insurance programmes are Unemployment Insurance and the Canada Pension Plan.

1. Unemployment Insurance

Unemployment insurance, established in 1941, is a national programme which insures eligible workers against the risk of a "temporary, involuntary interruption of earnings from employment."\textsuperscript{30} The importance of this programme stems from the fact that employment is the principal source of income for the vast majority of Canadians, whether they be wage-earners or dependent family members. Moreover, unemployment is an endemic feature of the Canadian, and indeed every other, capitalist political economy.

Broadly speaking, there are three qualifying conditions for unemployment insurance. First, the claimant must be physically able to work. Special benefits for maternity and temporary illness, an exception to this rule, have been provided since 1971. Second, the claimant must be actively seeking, and available for, suitable work. Third, the claimant's UI contributions

\textsuperscript{29}Frank McGilly, \textit{An Introduction to Canada's Public Social Services: Understanding Income and Health Programs}. Toronto: McClelland and Stewart, 1990, pp.100-102. 
\textsuperscript{30}\textit{Ibid.}, p.69.
during the relevant period preceding his job loss must be adequate.

In terms of contributions, claimants are required to have worked for a minimum number of consecutive weeks in the year preceding the claim and to have earned a minimum weekly amount on which UI premiums were assessed. Since the mid-1970's, the programme has provided for variations in the required number of weeks of insurable earnings based on regional unemployment rates. Thus in 1977-78, the minimum stipulated number of weeks of contributions ranged from a low of 10 weeks, applicable in areas of high unemployment, to a high of 14 weeks, applicable in areas of relatively low unemployment. Employees paid UI premiums at a rate of 1.5% on weekly earnings between $48 and $220. Thus, employees were not assessed premiums on earnings below $48 per week, while those earnings more than $220 per week were only insured for the first $220 of weekly earnings. Employer premiums were fixed at 2.1% of an employee's weekly income while the state's contribution was determined by a formula.

The implications of these rules are that UI applicants must have been part of the labour force within the preceding twelve months and established a record of continuous employment over a certain length of time. UI is not, therefore, designed to accommodate the needs of those unemployed who are seeking their first job or of those who have held a series of short-term jobs. Nor does it benefit those workers (predominantly part-time) whose earnings fall below the weekly minimum.

In the late 1970's three categories of UI benefits were payable. Regular benefits, those paid for temporary unemployment, were paid at a rate which replaced two-thirds of a claimant's average weekly insurable earnings, up to a weekly maximum. Actual weekly benefits therefore ranged from $30 to $147. The duration of benefits varied with a claimant's previous UI

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31Interprovincial Task Force on Social Security, op. cit., p.70.

32Ibid.

33Under the 1971 legislation, the government financed regular benefits attributed to unemployment levels over 4%, extended benefits, and the benefits paid to self-employed fishermen. In 1975, the unemployment threshold above which government financing of regular benefits applied was henceforth to be adjusted each year to "An eight year moving average of monthly national unemployment rates most recently available." The threshold for 1976 was 5.6%. Gary Dingledine. A Chronology of Response: The evolution of Unemployment Insurance from 1940 to 1980. Ottawa: Employment and Immigration, 1981, pp.68, 79.

34Frank McGilly, Introduction to Canada's Public Social Services, op. cit., p.69.

35Interprovincial Task Force on Social Security, op. cit., p.70.
contributions. Those having longer periods of insurable earnings were entitled to draw UI benefits for longer periods than those with shorter contribution records. As Pal observes, the paradoxical effect of such a benefit structure is that "those who have greatest difficulty securing and retaining employment may receive the lowest benefits for the shortest time." Benefit periods, however, were also conditioned by regional and national unemployment rates. Other things being equal, maximum benefit periods were higher in areas of higher unemployment than those in areas of lower unemployment. Finally it should be noted that no benefits were payable for the first two weeks of unemployment. This partial denial of benefits to all applicants is often likened to a deductible under a standard insurance policy.

The aggregate level of benefit payouts under Unemployment Insurance is more intimately linked to general economic conditions than are other income security programmes. During periods of recession, when unemployment levels are high and investment levels are stagnant or in decline, employer and employee contributions to UI fall while the number of benefit claims rises. In this way, UI functions not only as an income security programme but also as an automatic stabilizer designed to mitigate the effects of downturns in the business cycle.

2. Canada Pension Plan

The second major federal programme of social insurance is the Canada Pension Plan (CPP). Established in 1966, the CPP provides retirement, disability, and survivors' pensions. Financed chiefly by contributions from employers and employees, the CPP provides earnings-related pensions to individuals 65 years of age and older who have contributed to the plan for at least one year. The CPP covers employees in all provinces except Quebec, whose provincial government administers a separate plan, the Quebec Pension Plan (QPP). The QPP provides virtually identical benefits to those of the CPP and pension credits are transferable between the two plans. Thus, employees who relocate to Quebec are eligible to draw QPP benefits based on any contributions they made to the CPP while employed outside Quebec.

37It should be added that residents of Quebec employed by the Federal Government or working in federally regulated industries are covered by the CPP.
The CPP and QPP provide pension coverage to employed Canadians earning at least 10% of the Average Industrial Wage. Accordingly these programmes do not provide coverage to those who have never been employed, such as homemakers, those with sporadic employment records, and those workers whose earnings fall short of the stipulated minimum.

With regard to the level of retirement benefits, CPP pensions are capped at 25% of pensionable earnings, a ceiling which was established at the programme's inception on the assumption that public pensions should constitute a base level of benefits to be supplemented by private sources of retirement income. Full CPP benefits were not payable until the expiration of a ten-year transitional period, during which the Plan generated a substantial surplus. This aspect of the CPP, and other design features of the Plan, was the product of extensive negotiations between Ottawa and the provinces. Unlike other federal income security programmes examined in this study, the CPP, though administered by the federal government, may not be amended unilaterally by it. Material changes to the CPP may only be made with the consent of Ottawa and two-thirds of the provinces representing at least two-thirds of the national population. Moreover, as the field of contributory pensions is one of concurrent jurisdiction, subject to provincial paramountcy, provinces may opt out of the CPP and establish their own pension plan, as Quebec has done.

B. Demogrants

The second mechanism by which federal income security is delivered is the demogrant. Demogrants are flat-rate payments made to broad categories of recipients on the basis of such demographic characteristics as age or family status. As there are no other qualifying conditions of consequence, such as income level or past contributions, coverage is automatic and universal. The two major federal demogrant programmes in the late 1970's were Family and Youth Allowances and Old Age Security (OAS).

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1. Family Allowances

Until their elimination in 1993, the federal Family Allowance programme provided cash benefits on behalf of children under the age of 16. When originally introduced in 1944, Family Allowances were an important element of the federal government's macroeconomic policy, designed to maintain consumer purchasing power in the postwar period while alleviating trade union pressure for the removal of wartime wage controls. Family Allowances were also popularly viewed as a measure to promote population growth. Indeed they were immediately dubbed as "baby bonuses," a label which remained in popular usage throughout the life of the programme. The principal and enduring aim of Family Allowances, however, was to compensate families for the additional expenses involved in raising children. As early advocates of Family Allowances repeatedly stressed, wage rates do not take account of the number of dependents a wage-earner must support. Moreover, other income security programmes were designed with objectives other than that of family income maintenance. Unemployment insurance, for example, is designed to replace wage and salary earnings forgone as a result of job loss. Provincial social assistance, on the other hand, is designed, in part, with a view to preserving work incentives. Indeed, social assistance rates are deliberately kept low since, as one federal government report observed, "adequate maintenance for a family with a number of children may mean a higher income in assistance than can be obtained through employment." As Family Allowances were universal, and hence payable whether the parents were employed or not, there was no financial gain to be made by refusing available employment.

Youth Allowances were an extension of the Family Allowance programme. Introduced in 1964, Youth Allowances provided cash benefits for children 16 and 17 years of age who were in full-time attendance at school or who were not attending school by reason of disability. The introduction of this programme reflected a recognition by the federal government of the growing

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41Department of National Health and Welfare, Income Security for Canadians, op. cit., p.44.
42Ibid.
importance of education. As with earlier components of the welfare state, Youth Allowances represented a response by the state to the exigencies of modernization. As Guest puts it, the programme "was, in effect, the recognition of a new source of dependency in a technological society." Youth Allowances were merged with the Family Allowance programme in 1974.

2. Old Age Security

The other major demogrant programme is Old Age Security (OAS). OAS is a universal monthly benefit payable to those 65 years of age and older who meet a Canadian residency requirement. Established in 1951, it replaced the means-tested old age pension scheme of 1927. As originally designed, the OAS was a quasi-contributory plan, financed in part by a special income tax, the proceeds of which were deposited in a separate OAS account. Unlike the social insurance model, however, neither eligibility nor benefit levels were linked to past contributions. Indeed, low income earners with no taxable income were exempt from the OAS levy. The OAS tax was abolished in 1972 and since then OAS has been financed entirely from the Consolidated Revenue Fund. While OAS benefits were originally payable at age 70 to those who had resided in Canada for at least 20 years, the residency requirement was reduced to 10 years in 1957 and the eligibility age was lowered to 65 in 1970.

C. Social Assistance

The third category of income security instruments is social assistance. Social assistance programmes are designed to provide income support to those who are ineligible for benefits under other programmes or whose income needs are not adequately met by other programmes. In addition to cash benefits, such programmes may provide various services for needy persons, such as home care for the elderly or disabled, counselling for single mothers, and rehabilitation services. With few exceptions, such as federal War Veterans' Allowances and social assistance

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43Dennis Guest, *The Emergence of Social Security in Canada*, op. cit., p.150.
44The OAS Fund, however, was retained and the Minister of National Revenue was required at regular intervals to credit to it an amount equal to the estimated value of the former earmarked OAS tax. Kenneth Bryden, *Old Age Pensions and Policy-making in Canada*. Montreal and London: McGill-Queen's University Press, 1974, p.180.
for status Indians, social assistance programmes are established and administered by the provinces.

Since 1965 the federal government's role in social assistance has been largely a financial one under the Canada Assistance Plan (CAP). CAP is a federal statute which authorizes the federal government to enter agreements with the provinces for the financing of provincial social assistance programmes which meet certain conditions. Under CAP the federal government is committed to paying 50% of the cost of eligible provincial programmes. For their part, the provinces agree under the Act to provide "assistance and welfare services to and in respect of persons in need." The provinces may not require applicants to accept employment as a condition for receiving assistance nor may they impose a minimum residency period as a condition of eligibility. In addition, the provinces are required to establish procedures allowing claimants to appeal the decisions of social services officials.

A notable feature of CAP is its requirement that social assistance be made available on the basis of an applicant's needs, not his or her means. Thus, provincial officials are to take account of "any gaps between individuals' or families' budgetary requirements and their incomes and resources," rather than merely basing assistance on income and benefit ceilings. In theory, this approach opens the door to providing income supplements to the working poor. In practice, however, the provinces have shown little enthusiasm for income supplementation of this kind. In general, the working poor are denied benefits, ceilings are imposed on allowable levels of assistance, and lower benefits are paid to claimants deemed to be employable than to those classified as unemployable.

D. Income Supplementation

Income supplementation programmes provide supplementary benefits to certain

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categories of Canadians who, directly or indirectly, are already in receipt of some form of social welfare benefits. Such programmes are primarily aimed at old age pensioners on low incomes and are designed to obviate the necessity for such recipients to apply for provincial social assistance.\textsuperscript{49} They are regarded as less demeaning than social assistance because the income test that is applied does not require a searching and intrusive enquiry into the person’s assets or budgetary needs. Instead, eligibility for the two major federal income supplementation programmes is determined by marking the appropriate section of one’s annual income tax return. The main income supplementation benefits at the federal level are the Guaranteed Income Supplement (GIS) and the Spouse's Allowance (SPA), both of which are components of the Old Age Security programme. The GIS, established in 1966, provides benefits to OAS recipients whose income falls below a certain level. In conjunction with the OAS, it is designed to provide a minimum income for the elderly. As such, OAS-GIS represents the only true guaranteed annual income programme among the panoply of federal and provincial income security schemes.\textsuperscript{50}

Those for whom the OAS is the sole source of income are eligible for the maximum GIS benefit. The GIS is progressively reduced as outside income increases. (The GIS is reduced by $1 for each $2 of additional income earned.) The Spouse's Allowance, introduced in 1975, is payable to spouses, aged 60 to 64, who are married to pensioners in receipt of the OAS and GIS. The object of this programme is to ensure that a married couple was not obliged to subsist on an OAS-GIS benefit designed to support a single recipient.\textsuperscript{51}

\textbf{E. Tax-Delivered Benefits}

As noted in Chapter 1, the tax system is a crucial though often neglected pillar of the welfare state. Taxes finance social programmes, they can directly or indirectly affect net welfare outcomes, and can themselves be used as instruments of social policy. For example, where flat-rate social benefits are treated as taxable income under a progressive tax system,\textsuperscript{52} there is a


\textsuperscript{50}Originally introduced as a temporary measure to provide assistance to retirees during the ten-year phase-in period of the CPP, the GIS’s political popularity ensured its survival into the 1980’s.

\textsuperscript{51}Interprovincial Task Force on Social Security, \textit{op. cit.}, p.57.

\textsuperscript{52}The term progressive is used to describe a tax system under which persons in higher income brackets pay higher marginal rates of income tax.
greater net benefit to lower-income recipients and a greater resultant redistribution of income from upper- to lower-income earners. The tax system can also be used more directly to confer welfare benefits. Tax exemptions (or deductions), for example, allow for reductions in taxable income and thereby increase the disposable income of those claiming such exemptions. Since the state, in effect, spends money by forgoing revenues it would otherwise collect, such exemptions are often referred to as tax expenditures.53

In addition to tax exemptions, other forms of tax expenditures include tax credits, deferrals, and preferential tax rates.54 By the early 1980's, there were approximately fifty tax expenditures in the social development field, half of which were related to income security.55 In general tax expenditures are of particular benefit to the more affluent (i.e. those with significant taxable income). Unlike the positive levies of the progressive income tax system, the tax expenditure system is highly regressive.

Because tax expenditures represent forgone revenue to the public treasury rather than direct expenditure, they are not included in the government's expenditure Estimates nor in the Public Accounts.56 For this reason, they are not generally regarded as income security programmes. The main exception to this rule is the refundable tax credit, a hybrid instrument which embodies features of both a tax deduction and a direct expenditure programme. A conventional tax credit allows persons to deduct the amount of the credit from their tax payable. It is therefore of no benefit to those who earn too little to pay taxes. A refundable tax credit, in contrast, provides a cheque to those who pay little or nothing in taxes. If the amount of the tax credit exceeds the tax payable, the difference is paid to the taxfiler. Such payments are drawn on the Consolidated Revenue Fund.

1. Refundable Child Tax Credit

The two major refundable tax credits which formed part of the federal income security system after 1978 were the Refundable Child Tax Credit (RCTC), introduced in 1979, and the Child Tax Credit which replaced it in 1993. When originally introduced, the RCTC provided a tax credit of $200 per child per annum for families earning an annual income of $18,000 or less. The RCTC was reduced by five per cent on family income exceeding the benchmark such that families earning $26,000 or more received no benefit at all. The Government's aim in introducing the RCTC was to target family benefits to families need. Because of its refundable nature, adoption of the RCTC marked the first time that the income tax system had been used "to bring benefits to families below the income tax threshold." Moreover, the chief beneficiaries of the RCTC, unlike those of other types of tax expenditures, were not those with the highest taxable income.

2. Child Tax Benefit

Adoption of the Child Tax Benefit in 1993 continued this policy of targeting family benefits on the basis of family income and of using the tax system to deliver those benefits. While similar in design to the RCTC, the Child Tax Benefit provides cheques to eligible households on a monthly basis rather than the annual basis of the RCTC.

Table 2.1 provides a summary of the five major components of the income security system.

Table 2.1: Typology of Major Federal Income Security Programmes (1979-1993)

<table>
<thead>
<tr>
<th>Social Insurance</th>
<th>Demogrant</th>
<th>Income Supplementation</th>
<th>Social Assistance</th>
<th>Tax-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Insurance</td>
<td>Family Allowance</td>
<td>GIS</td>
<td>CAP</td>
<td>RCTC</td>
</tr>
<tr>
<td>CPP</td>
<td>Old Age Security</td>
<td>Spouse's Allowance</td>
<td></td>
<td>Child Tax Benefit</td>
</tr>
</tbody>
</table>

57 Dennis Guest, The Emergence of Social Security in Canada, op. cit., p.200.
58 Ibid.
IV. Political Character of Canada's Welfare State

A. Social Welfare Expenditure

By the late 1970's income security programmes, collectively, constituted a significant proportion of total federal expenditures. In comparative terms, however, Canada's income security expenditures were below the OECD average. In 1974, combined federal and provincial income security expenditures represented 7.3% of Gross Domestic Product (GDP), compared to an OECD average of 9.5%. In 1981, overall social expenditures (comprising direct public expenditures on education, health services, and income maintenance) constituted 21.5% of GDP in Canada, compared to an OECD average of 25.6%.

In the absence of further information, however, aggregate figures of this kind reveal very little about the nature of social policy in a given country. It is often assumed that countries which devote a relatively high proportion of their GDP to social development have a stronger commitment to the traditional goals of the welfare state. Such a conclusion, however, may not be warranted. As functionalists have long observed, social welfare measures, in large part, are a response to social, economic, and demographic pressures. Thus, even if two countries are equally committed to certain welfare outcomes, such as greater equality in the distribution of income, the attainment of those outcomes will typically require different levels of social expenditure. As Castles and Mitchell explain: "The greater the percentage of aged, the unemployed, of single parents and of children dependent on any other of these categories, the greater the inputs a government will have to make to obtain a high level of post-transfer, post-tax equality."

Indeed the traditional focus on aggregate expenditures may disguise important changes in the state's political commitment to social welfare. Thus, while high levels of expenditure on unemployment may be indicative of a generous system of unemployment benefits, including

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broad eligibility rules, such expenditures may alternatively reflect an abandonment by the state of other social welfare objectives, notably full employment. In Britain, public spending as a proportion of GDP rose during Margaret Thatcher's premiership, notwithstanding her Government's determination to roll back the frontiers of the state. Much of the increased spending was attributable to record-high levels of unemployment for which the Thatcher Government's anti-welfarist monetarist policies were partly responsible.

In addition, substantial welfare benefits are delivered in the form of tax expenditures. Since, as noted above, such expenditures are generally not even recorded in the national accounts, figures reflecting direct spending alone may underestimate the overall level of welfare expenditure.

The chief limitation of the expenditure approach, in short, is that it sheds no light on the uses to which welfare expenditures are put. Nor does it provide even a broad outline of the myriad terms and conditions of income security programmes. Yet these matters are at the centre of political debates about the welfare state. Debate about aggregate levels of social spending per se has not figured prominently in Canada, or other countries, except to the limited extent to which the issue has bolstered larger neo-conservative critiques of Big Government.

B. Esping-Andersen Model

An alternative and more illuminating approach to the analysis of welfare states is that of Gosta Esping-Andersen, the Swedish political economist. By classifying welfare states on the basis of their dominant political characteristics, he identifies "three worlds of welfare capitalism": liberal, conservative, and social democratic. These welfare state archetypes are distinguished from one another in two ways. First, each is associated with a particular mode of programme delivery. Thus, liberal welfare states are associated with means-tested programmes, conservative welfare states with social insurance, and social democratic welfare states with universal programmes. The second basis of classification centres on the effects of welfare programmes, two categories of which are identified. The first of these, which Esping-Andersen refers to as the "decommodification effect," is the extent to which a welfare state promotes social equality by
loosening the individual's reliance on the market as a means of livelihood.\textsuperscript{62} This idea builds on T.H. Marshall's argument that the welfare state adds to civil and political rights a third type of citizenship rights, social rights. Social rights, according to Marshall, embrace a range of rights "from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society."\textsuperscript{63} There is a tension, however, between social rights and capitalism. While the latter gives rise to a class-based system of inequality, the former implies equality of status based on citizenship.\textsuperscript{64}

As Esping-Andersen points out, however, not all social welfare programmes have a significant decommodification, or egalitarian effect. He observes that "it is not the mere presence of a social right, but the corresponding rules and preconditions, which dictate the extent to which welfare programmes offer genuine alternatives to market dependence."\textsuperscript{65} Thus a programme of means-tested poor relief, characterized by low benefits and social stigma, "will compel all but the most desperate to participate in the market."\textsuperscript{66} Even social insurance schemes, he notes, may have a greater or lesser egalitarian effect depending on the content of their eligibility and benefit rules. For example, the higher the level of benefits as a percentage of normal earnings, the higher the egalitarian effect. Universal benefits which are not tied to previous earnings or contributions have potentially the highest egalitarian effect. This effect, however, is vitiates if the level of benefits is too low "to provide recipients with a genuine option to working."\textsuperscript{67}

The second effect of welfare states is what Esping-Andersen refers to as their stratification effect. This term denotes the extent to which social programmes, by their terms and conditions, reinforce class divisions in society or, alternatively, create a new social stratification based on one's status as a citizen.\textsuperscript{68}

\textsuperscript{64}\textit{Ibid.}, p.84.
\textsuperscript{65}Gosta Esping-Andersen, \textit{The Three Worlds of Welfare Capitalism}, op. cit., p.22.
\textsuperscript{66}\textit{Ibid.}
\textsuperscript{67}\textit{Ibid.}, p.23.
\textsuperscript{68}\textit{Ibid.}, p.21.
of social assistance are restricted to those who are at the bottom of the socio-economic ladder. By singling out the "truly needy," such programmes reinforce the social divide between the haves and the have-nots. Earnings-related social insurance also replicates existing class divisions among wage- and salary-earners. Since the benefits one is entitled to draw are linked to one's position in the market economy, such programmes, among other things, reinforce the lowly socio-economic status of low-income earners and of the chronically unemployed or underemployed. Finally, universal flat-rate benefits promote equal status such that "all citizens are endowed with similar rights, irrespective of class or market position." Such "cross-class solidarity," however is less likely to obtain where the benefits are relatively modest and rising affluence has created a large, prosperous middle class. In that case, Esping-Andersen contends, flat-rate universalism may create a two-tiered welfare system under which the poor rely on public benefits while the better-off seek to supplement those benefits with private insurance and improved fringe benefits. The result, Esping-Andersen observes, is a dualism similar to that of the social-assistance state: the poor rely on the state, and the remainder on the market.

Esping-Andersen's characterization of the three welfare state regimes can be summarized as follows. Liberal welfare states, among which he lists Canada, the United States, and Australia, are distinguished by their reliance on means-tested benefits and "modest" universal transfers or social insurance. Under such regimes, there is a strong value attached to individual self-reliance and the work ethic. In promoting these aims, the state imposes strict eligibility rules on benefit programmes, keeps benefit levels low, and often subsidizes private welfare through such measures as making tax deductible employees' contributions to company-sponsored pension plans. Consequently, liberal welfare states exhibit minimal egalitarian effects while creating a system of stratification "that is a blend of a relative equality of poverty among state-welfare recipients, market-differentiated welfare among the majorities, and a class-political dualism.

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69 Ibid., p.25.
70 Ibid.
71 Ibid.
72 Ibid., p.27.
between the two."\textsuperscript{73}

Conservative welfare states, which include such countries as Germany, Austria, France, and Italy, reflect a concern with preserving class and status distinctions. Social insurance is a favoured instrument of such regimes, with eligibility and benefits being strongly linked to work and to earnings-related contributions.\textsuperscript{74} In addition, special benefit programmes are often provided for particular classes or occupational groups, such as civil servants. The decommodification effect of this structure of benefits depends on the extent to which social insurance benefits adhere to the contributory principle; in Germany, for example, where benefits and contributions are strongly linked, decommodification is correspondingly low.\textsuperscript{75} The stratification effect of such regimes, and an explicit goal of conservative reformers such as Otto von Bismarck, is to reinforce divisions among wage-earners and thereby to "accentuate the individual's appropriate station in life."\textsuperscript{76}

Social democratic regimes, the third category of welfare states, emphasize the universality of social rights. Such regimes provide a broad range of welfare benefits and services designed to meet the needs of all income classes. Family services, for example, such as care for children, the elderly, and the infirm, are assumed by the state as a matter of first resort and not only when family income is sufficiently depleted.\textsuperscript{77} Since all classes derive significant direct benefits from such arrangements, social rights are distributed more equally, and there is broader political support for the welfare state. Of particular note, the middle class is more willing than it otherwise might be to pay the high levels of taxation required to finance welfare states of this kind.\textsuperscript{78} The Scandinavian countries typify the social democratic welfare state.

While this three-pronged typology is intended to identify predominant characteristics of welfare state regimes, no country represents a pure case. Thus the Canadian welfare state, until
very recently, contained elements of social democratic universalism, Family Allowances and Old Age Security being prime examples. On the other hand, the low levels of benefits provided by these programmes over time have yielded a relatively low egalitarian effect. In the case of old age pensions, the state has encouraged the development of a two-tiered pension system: a public system (comprising OAS and the CPP) and a private system of tax-deductible retirement savings. Similarly, Unemployment Insurance in Canada has deviated somewhat from the pure actuarial principles one would expect of a liberal, market-driven scheme of social insurance. On the other hand, such deviations, whether it be the adoption in the 1950's of extended benefits for fishermen or the introduction in the 1970's of special sickness, maternity, and parental leave benefits, have sparked heated debate. The nature of the Canadian welfare state is considered in more detail below.

**Canada's Liberal Welfare State**

Liberalism has long been recognized to be the dominant ideological strain in Canada.\(^79\) Moreover, students of social policy are generally agreed that Canada’s income security system has been powerfully shaped by liberal values.\(^80\) The validity of this characterization can be tested by applying Esping-Andersen's analysis to Canada's income security system. Moreover, the effects on social equality of welfare state retrenchment may be observed over a given period. This task requires an examination of relevant terms and conditions of the programmes in question. In order to capture the egalitarian effect of a given programme, Esping-Andersen observes, three aspects of the programme must be measured. The first aspect is the rules which determine eligibility. The easier it is to qualify for benefits, the higher the potential contribution to social equality.\(^81\) Relevant here are such terms as the number of weeks of previous employment, the minimum level of past contributions, and the relative stringency of means (or needs) tests. Also relevant are rules governing the length of time for which benefits may be


drawn. The shorter the duration of benefits, the lower the potential egalitarian effect.\textsuperscript{82}

The second aspect concerns the level of benefits, as measured against average earnings or the minimum income "considered adequate and acceptable in society."\textsuperscript{83} The higher the benefit in relation to either of these measures, the less pressing it is for the recipient to seek private means of economic security.

The third aspect relates to the range of social benefits provided. For example, in the realm of family benefits, most welfare states make at least some provision for paid maternity leave. However, there is considerable variation among welfare states in the provision of other family benefits and services, such as paid parental leave (for either parent), state-run or subsidized child day care, and home-care services for elderly dependents.

As noted above, "stratification" in Esping-Andersen's analysis refers to the effect of social welfare programmes on the social structure.\textsuperscript{84} Broadly speaking, conservative welfare states promote status differences, liberal welfare states promote dualisms between the poor and the better off, while social democratic welfare states promote universalism. Esping-Andersen measures these effects by reference to seven variables, three of which may usefully be applied to Canada's federal income security programmes. The first of these is the proportion of total social spending allocated through means tests. The second variable is the ratio of private to public pensions. The third variable is the extent of universalism, which may be defined as the percentage of the potentially eligible population which is in fact eligible for benefits under a given programme.

By applying Esping-Andersen's analysis, it can be shown that Canada's welfare state, as it stood in the late 1970's, was predominantly liberal in character, though with important social democratic features. Broadly speaking, federal income security programmes had a limited egalitarian effect and tended to perpetuate market-based patterns of social stratification. These features were particularly marked in regard to family benefits and old age pensions. Benefit

\begin{flushright}
\textsuperscript{82}Ibid.
\textsuperscript{83}Ibid.
\textsuperscript{84}Ibid., p.58.
\end{flushright}
levels were too low to obviate the need for private sources of income.

On the other hand, Canada's welfare state embodied important social democratic features, particularly in regard to the range and generosity of benefits provided under the Unemployment Insurance programme and the extent to which income security programmes were provided on a universal basis. In the 1970's the relatively loose eligibility criteria, plus a series of special and regional extended benefits shifted the Unemployment Insurance programme away from the actuarial principles on which it had originally been founded. By the early 1990's, the political character of the Canadian welfare state had clearly changed. Social democratic elements of the system had been diminished and its liberal character correspondingly enhanced. This change reflected two principal developments: first, the curtailment of universality in favour of the income-based targeting of social benefits and, secondly, the adoption of more restrictive eligibility rules for unemployment insurance.

1. Late 1970's

The limited decommodification effect of the public income security system is most evident in regard to the level of benefits provided. Between 1944, the year of their introduction, and 1972, Family Allowances were increased once, and only minimally, in 1957. Thus, while benefits were virtually unchanged during this period, the Consumer Price Index more than doubled. Put differently, in 1946 maximum Family Allowance benefits for a family with two eligible dependents was $16 per month. This sum represented 12% of the average industrial wage that year. By the early 1970's, Family Allowance benefits for a comparable family represented a mere 3% of the average industrial wage. In 1970 the Federal Government conceded that Family Allowances provided "only fractional amounts of the actual cost of child care even at basic subsistence rates." Even as an anti-poverty tool, the programme was deemed to be "completely ineffective in reaching lower-income families with a meaningful level of income

86Department of National Health and Welfare, Income Security for Canadians, op. cit., p.44.
support.⁸⁷ Despite being trebled in 1973, and indexed to the cost of living, Family Allowances represented a small and diminishing fraction of average family income in the 1970's. By 1978 they represented less than 3% of average family income.

Old Age Security payments were also designed to supplement private income and savings rather than to substitute for them.⁸⁸ OAS payments in the late 1970's represented approximately 16% of average earnings in Canada. In recognition of the inadequacy of the OAS as a sole source of retirement income, the Guaranteed Income Supplement was introduced to augment the pensions of those whose earnings fell below a pre-determined level. In 1981, fully 54.1% of all OAS recipients received the GIS.⁹⁰ Nevertheless, the combination of OAS and the GIS still left many recipients poor enough to qualify for social assistance in many provinces.⁹⁰ For this reason most provinces for many years have provided income supplements for the elderly to "top up" their federal pensions. As for the Canada Pension Plan, its impact on the income security system was only beginning to be felt in this period as full retirement benefits only became payable in 1976 under the ten-year transitional provisions discussed earlier. Nevertheless, it may be noted that maximum CPP benefits replace only 25% of average earnings, a figure that is low by international standards. Indeed, the contribution of all public pensions to the income of Canada's elderly citizens ranks among the lowest in the OECD. Thus, according to a twelve-country study of OECD nations, in 1980 public old age pensions in Canada replaced 34% of average earnings, compared to an average replacement rate of 49% across the twelve OECD states surveyed.⁹¹

In contrast to family benefits and old age pensions, the Unemployment Insurance programme in the 1970's provided relatively generous benefits. UI benefits replaced two-thirds

⁸⁷Ibid.
⁹⁰Frank McGilly. Canada's Public Social Services, op. cit., p.130.
⁹¹OECD. Reforming Public Pensions. Paris: OECD, 1988, p.50. The average wage used in the study was that of workers in manufacturing in the year preceding retirement. The countries surveyed were Austria, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK, and the US.
of a claimant's previous earnings, up to a maximum weekly benefit. The maximum weekly benefit, moreover, was indexed annually to changes in average wage levels, a significant feature in view of the rapid escalation of wages and salaries which occurred during the 1970's. Eligibility for UI benefits (including the duration of benefits) was determined not only by the number of weeks of insurable employment but also by regional unemployment rates. Thus, in order to qualify for benefits, a claimant needed between 10 and 14 weeks of employment, the required number of weeks of employment being inversely related to the unemployment rate of the region in which the claim was filed. The three-phase benefit structure also reflected this mixture of insurance principles and social equity. In the first two phases, the duration of benefits was determined by the number of weeks of insurable earnings. The third phase of benefits applied in regions of higher unemployment. In those regions, claimants were entitled to an additional two weeks of benefits "for each 0.5% percentage point increment in the regional unemployment rate in excess of 4.0%, to a maximum of 32 weeks of benefits." In addition to the special rules regarding regions of high unemployment, special provisions were also made for fishermen, including those who were self-employed. Briefly stated, the eligibility rules for fishermen were relaxed in recognition of the seasonal nature of the industry and because of its importance to the economy of the Atlantic provinces.

Among the more stringent eligibility rules under the Act were those relating to sickness, maternity, and retirement. The minimum number of weeks of work required to qualify for these "special benefits" was set relatively high, at 20 weeks, in order to limit access to those having a "major attachment" to the labour force. A further restriction was placed on maternity benefits. Under the so-called "Magic Ten" rule, at least ten of the twenty weeks of insurable earnings in the qualifying period were required to fall between the 31st and 50th weeks before the expected date of delivery. The purpose of this "was to ensure that pregnant women did not enter the labour force solely for the purpose of drawing maternity benefits." Since pregnant women were

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93Gary Dingledine, A Chronology of Response, op. cit., p.62; Leslie A. Pal, "Maternity Benefits and
otherwise ineligible to draw regular unemployment benefits, the stricter requirements imposed on them by the Magic Ten rule not surprisingly were criticized as discriminatory by women's groups.

Another rule, introduced in 1975, reflected the Government's growing concern in the 1970's with the benefit claims of those whose unemployment was either voluntary or arguably self-induced. Thus, applicants were disqualified from drawing six weeks of benefits if they had voluntarily left their former job or been fired for misconduct.

a. Universality

One of the most striking features of the federal income security system as it stood in the late 1970's was the extent to which programme benefits were provided on a universal basis. Broadly defined, universal programmes are those which provide benefits regardless of the income of the programme recipients. Under selective programmes, in contrast, benefits are paid only to those falling below a certain income threshold. To be more precise, universality means that "the gross amount [of benefits] paid (before taxes) does not decrease as the income or wealth of the recipient increases." Selectivity implies that the level of gross benefits paid is inversely related to the recipient's income or wealth. Using this definition, we would classify as universal all demogrant and social insurance programmes while classifying as selective social assistance, income supplementation, and most tax expenditure programmes. A narrower definition of universality takes into account additional criteria restricting the coverage of a programme, beyond the criterion of the income of potential beneficiaries. According to this approach, demogrannts are the quintessence of universality since they typically provide the broadest coverage of a relevant population group. Social insurance programmes, however, are not considered to be universal on this view since eligibility is determined by labour market attachment and the payment of


premiums. Social insurance programmes therefore exclude important categories of the population, such as homemakers and others having a minor attachment to the paid labour force. At the same time, such programmes cannot be categorized as selective since eligibility is not explicitly linked to a recipient’s income. For this reason, some observers, including the Macdonald Royal Commission, consider to be conceptually clearer a three-tiered classification of income security programmes, using the rubrics of universality, social insurance, and selectivity.  

This study will employ the latter of the definitions of universality discussed above. Accordingly, in the late 1970's, two of the seven principal federal income security programmes were universal—Family Allowances and OAS. Moreover, these programmes together accounted for 43% of the total federal benefits paid. Social insurance programmes accounted for a further 43% of benefits paid while selective programmes accounted for the remaining 14%. (See Table 2.4 below.) The significance of this high degree of universality is several-fold. To its supporters, which have traditionally included anti-poverty groups, trade unions, and the political left, universality avoids the stigma and heavy administrative costs often associated with means-tested programmes. Such groups, at various times, have also touted universal programmes as a means of stabilizing the economy by maintaining aggregate purchasing power. A less prominent economic argument for universality relates to its impact on the vertical distribution of income—that is, the distribution of income between income classes. On the one hand, demogrants are mildly progressive in that they confer proportionately larger benefits on low income families. On the other hand, to the extent that benefits are determined by past contributions, as is largely the case with social insurance programmes such as UI and CPP, the impact may be regressive. Yet as Mendelson points out, the redistributive impact of universal programmes ultimately depends on the effect on net benefits of the tax system. Thus, "[i]f the tax system is progressive, the net benefits of a universal programme will also be progressive."  

In addition to these essentially technical arguments, proponents of universality have also

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97 Michael Mendelson, Universal or Selective?, op. cit., p.12.
underscored its broader political importance. The most prominent political justification for universality is its presumed effect in building support for the welfare state among an increasingly affluent middle class. The National Council of Welfare, for example, has expressed the view that the dismantling of universality might undermine the "middle-class majority's willingness to finance improvements in selective social programmes directed to low-income persons, or even to maintain such spending at its present level."^98 A further and peculiarly Canadian argument in favour of universality is its perceived contribution to social integration and national unity. In a country of fragmented regional loyalties, universal social programmes have been heralded by many as "one of the very few spheres of shared experience for Canadians, an important aspect of our lives, which is common, irrespective of our region or our language."^99

Universality, however, is not without its detractors. Critics have variously assailed it as a costly and unnecessary extension of the role of the state. Social benefits, it is argued, should be targeted to those in greatest need. Beginning in the 1970's universality also drew fire from those espousing larger neo-conservative critiques of government spending programmes and of the assumptions underpinning Keynesian demand management. In the 1980's the federal government indirectly signalled a loosening commitment to the national unity-enhancing qualities of universal programmes by agreeing to provincial demands for constitutional limitations on the federal spending power. The influence of these issues on social policy debates and programme changes are explored in subsequent chapters.

2. Early 1990's

In comparing federal income security programmes of the early 1990's with those of the late 1970's, it would appear, at first blush, that the welfare state in Canada emerged largely unscathed from the neo-conservative politics of the intervening period. Virtually all of the original programmes remained in place and there was no dramatic decline in the proportion of government expenditures devoted to income security. Indeed, between 1980 and 1986 social


expenditures (including health and education) actually increased as a proportion of GDP from 19.5% to 22.3%. On closer inspection, however, there were important changes in the structure of income security programmes.

The most visible change was in the area of family benefits. With the abolition of the universal Family Allowance programme and its replacement by the income-tested Child Tax Benefit, there was a decided shift away from the direct payment of benefits on a universal basis to the use of the tax system to deliver benefits on a selective basis. This shift, it should be added, represented the culmination of a process begun in 1979 with the adoption of the Refundable Child Tax Credit. During this period Family Allowances made a derisory and steadily diminishing contribution to average household incomes. As Table 2.2 indicates, Family Allowances constituted 2.8% of average family income in 1978 and a mere 1.6% in 1992, the last year in which Family Allowance cheques were issued. Significantly, the largest drop, registered between 1978 and 1979, reflected a 23% cut in Family Allowance benefits which had been made to offset part of the cost of the RCTC.

Changes in old age pensions, while less conspicuous, were no less important. On the one hand, Old Age Security benefits kept pace not only with changes in the cost of living but also with increases in average earnings. Thus, as Table 2.3 shows, monthly OAS benefits constituted 16% of average earnings in 1975 compared to 17% in 1992. Both the OAS and the supplementary benefits programmes, the Guaranteed Income Supplement and the Spouse's Allowance, were fully indexed to the Consumer Price Index on a quarterly basis during most of this period, and were increased on several occasions beyond the prevailing inflation rate.

On the other hand, by the early 1990's the OAS had ceased to be a universal programme. As of 1989 a special surtax "clawed-back" 100% of the OAS received by upper income earners. Thus, although the OAS continued to be paid to all eligible seniors, the tax clawback rendered it universal in name only. As a consequence of this change, and of the abolition of Family

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Table 2.2: Monthly Family Allowance Payments Per Family Related to Average Monthly Family Income for Selected Years, 1978-1992. (Assumes family of two eligible dependents.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Family Allowance</th>
<th>Family Income</th>
<th>Family Allowance as % of Family Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>$51.36</td>
<td>$1,866</td>
<td>2.75</td>
</tr>
<tr>
<td>1979</td>
<td>40.00</td>
<td>2,020</td>
<td>1.98</td>
</tr>
<tr>
<td>1980</td>
<td>43.60</td>
<td>2,298</td>
<td>1.90</td>
</tr>
<tr>
<td>1982</td>
<td>53.82</td>
<td>2,748</td>
<td>1.96</td>
</tr>
<tr>
<td>1984</td>
<td>59.90</td>
<td>2,981</td>
<td>2.01</td>
</tr>
<tr>
<td>1986</td>
<td>63.16</td>
<td>3,363</td>
<td>1.88</td>
</tr>
<tr>
<td>1990</td>
<td>66.66</td>
<td>4,206</td>
<td>1.58</td>
</tr>
<tr>
<td>1992</td>
<td>69.76</td>
<td>4,375</td>
<td>1.59</td>
</tr>
</tbody>
</table>


Table 2.3: Monthly Old Age Security Pension Related to Average Monthly Earnings for Selected Years, 1975-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly OAS Benefit</th>
<th>Average Monthly Earnings (AME)</th>
<th>OAS as % of AME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>$120.06</td>
<td>$747.80</td>
<td>16.1%</td>
</tr>
<tr>
<td>1980</td>
<td>182.42</td>
<td>1,167.24</td>
<td>15.6</td>
</tr>
<tr>
<td>1983</td>
<td>251.12</td>
<td>1,536.76</td>
<td>16.3</td>
</tr>
<tr>
<td>1984</td>
<td>263.78</td>
<td>1,601.68</td>
<td>16.5</td>
</tr>
<tr>
<td>1985</td>
<td>273.80</td>
<td>1,657.96</td>
<td>16.5</td>
</tr>
<tr>
<td>1986</td>
<td>285.20</td>
<td>1,707.00</td>
<td>16.7</td>
</tr>
<tr>
<td>1987</td>
<td>297.37</td>
<td>1,771.32</td>
<td>16.8</td>
</tr>
<tr>
<td>1988</td>
<td>310.66</td>
<td>1,848.84</td>
<td>16.8</td>
</tr>
<tr>
<td>1989</td>
<td>323.28</td>
<td>1,944.36</td>
<td>16.6</td>
</tr>
<tr>
<td>1990</td>
<td>340.07</td>
<td>2,032.28</td>
<td>16.7</td>
</tr>
<tr>
<td>1991</td>
<td>354.92</td>
<td>2,126.32</td>
<td>16.7</td>
</tr>
<tr>
<td>1992</td>
<td>374.07</td>
<td>2,199.20</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Allowances, universality became a less prominent feature of the income security system while selectivity correspondingly grew in importance. As Table 2.4 shows, universal programmes accounted for fully 43% of total federal benefits paid in 1979 compared to 14% for selective programmes and 43% for social insurance programmes. By 1993 universal programmes had vanished altogether while selective programmes (including the selectively clawed-back OAS) now accounted for 43% of benefits paid and social insurance programmes accounted for fully 57%.

An additional observation which must be made about old age pensions concerns the overall position of public pensions in the retirement income system. By the 1990's, CPP benefits had become a more significant part of the federal government's social expenditure budget as increasing numbers of senior citizens became eligible for full CPP benefits. As Table 2.4 indicates, the share of federal income security payments accounted for by the CPP grew from 9.0% in 1979 to 25.0% in 1993. This development was mainly a reflection of the fact that full CPP benefits were not payable until 1976, being the end of the ten-year phase-in period. It also reflected, to a lesser extent, a demographic ageing of the population.\textsuperscript{101} Despite the growth of the CPP, Canada's public pensions, on the whole, continued to make a smaller contribution to the average income of the elderly than those of most other industrialized countries. Thus, in 1995 it was estimated that public pension benefits in Canada represented 29.2% of the average gross wage, compared to an average among major industrialized countries of 37.5%.\textsuperscript{102}

While CPP payments were growing in the 1980's, so too were private sources of retirement income, notably RRSP's. Encouraged, in part, by the adoption in the 1970's and 1980's of more favourable tax laws relating to RRSP contributions, the number of RRSP's grew markedly. Indeed, the proportion of Canadians filing tax returns who contributed to an RRSP rose from 13.8% in 1982 to 24.2% in 1991.\textsuperscript{103} Participation rates in RRSP's, however, were highly unequal across income brackets. As Table 2.5 discloses, RRSP's appealed principally to

\textsuperscript{101} The proportion of the total population 65 and over rose from 7.67% in 1950 to 9.51% in 1980. The latter figure is projected to double by 2010. OECD. Reforming Public Pensions, op. cit., p.33
Table 2.4: Eligibility Criteria for Federal Income Security Programmes, 1979 compared to 1993.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Type</th>
<th>% of Benefits</th>
<th>Type</th>
<th>% of Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Allowance</td>
<td>Universal</td>
<td>15.2</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Old Age Security</td>
<td>Universal</td>
<td>27.7</td>
<td>Selective(^{104})</td>
<td>26.4</td>
</tr>
<tr>
<td>GIS</td>
<td>Selective</td>
<td>8.0</td>
<td>Selective</td>
<td>7.4</td>
</tr>
<tr>
<td>SPA</td>
<td>Selective</td>
<td>0.8</td>
<td>Selective</td>
<td>0.8</td>
</tr>
<tr>
<td>RCTC</td>
<td>Selective</td>
<td>5.4</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Child Tax Benefit</td>
<td>---</td>
<td>---</td>
<td>Selective</td>
<td>8.4</td>
</tr>
<tr>
<td>CPP</td>
<td>Social insurance</td>
<td>9.0</td>
<td>Social insurance</td>
<td>25.1</td>
</tr>
<tr>
<td>UI</td>
<td>Social insurance</td>
<td>33.8</td>
<td>Social insurance</td>
<td>31.9</td>
</tr>
</tbody>
</table>

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high-income earners. Thus, despite the growth of universal public pensions in the 1980's resulting from the maturation of the Canada Pension Plan, the federal government was simultaneously promoting private retirement savings through the tax system and through the provision of relatively meagre benefits under the public pension system. As a result, public pensions continued to provide only a secondary source of income for most of Canada's elderly.  

A sizeable minority, however, continued to derive all or most of their income from the public system, including a high proportion of certain demographic groups such as elderly single women. The picture which emerges, therefore, is that of a dualistic retirement income system of modest public pensions and the private sources of income and savings which the former are essentially designed to supplement.

Table 2.5: Participation in RRSP Programme by Income Group (1991)

<table>
<thead>
<tr>
<th>Total Annual Income</th>
<th>Participation Rate (% of all taxfilers with same income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>10,000 - 19,999</td>
<td>14.2</td>
</tr>
<tr>
<td>20,000 - 29,999</td>
<td>28.9</td>
</tr>
<tr>
<td>30,000 - 39,999</td>
<td>42.2</td>
</tr>
<tr>
<td>40,000 - 49,999</td>
<td>51.6</td>
</tr>
<tr>
<td>50,000 - 59,999</td>
<td>58.0</td>
</tr>
<tr>
<td>60,000 - 69,999</td>
<td>63.2</td>
</tr>
<tr>
<td>70,000 - 79,999</td>
<td>67.3</td>
</tr>
<tr>
<td>80,000 and over</td>
<td>70.7</td>
</tr>
</tbody>
</table>


While modifications to the Unemployment Insurance Act were many and varied, the overall thrust was to reduce the level and duration of benefits and to make it more difficult to qualify for benefits. Thus, the benefit rate, which had stood at 66.7% of earnings in 1978, was down to 57% in 1993. The minimum number of weeks of work required to qualify for benefits was still linked to regional unemployment rates but was lengthened from 14 weeks in 1978 to 20

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105 In 1985, on average, males 65 and over derived 41.6% of their income from public pensions (OAS-GIS and CPP) while females, having lower average incomes overall, received 55.3% of their income from this source. Robert L. Brown, *Economic Security in an Aging Population*, op. cit., p.19

weeks in 1993 in regions of lower unemployment. Similarly the maximum number of weeks of benefits for minimally qualified claimants was reduced from 42 to 39. Significantly more stringent was the penalty for voluntarily quitting or for job loss owing to misconduct. In 1978 the penalty in these cases was the loss of six weeks of benefits; in 1993 individuals were disqualified from claiming benefits altogether. Salient changes in the Unemployment Insurance Act are summarized in Table 2.6.

V. Conclusion

This chapter has provided an overview of the income security system and of the major structural changes which occurred in federal programmes between the late 1970's and the early 1990's. In the 1970's Canada's comparatively late-developing welfare state had reached maturity and could be described as predominantly liberal in character. In view of the generally low level of benefits provided and the restrictive eligibility criteria for certain types of benefits, such as sickness and maternity benefits, the public income security system obliged Canadians to rely heavily on private sources of income. In the terminology of Gosta Esping-Andersen, Canada's welfare state had a low decommodification effect and tended to reinforce social class divisions. At the same time, the income security system exhibited certain social democratic features, most notably the delivery of programme benefits on a predominantly universal basis and the provision of relatively generous UI benefits. By the early 1990's the liberal character of the income security system had become decidedly more pronounced as a result of the significant curtailment of universality and the tightening of eligibility rules and benefits under the UI programme. The course of events which produced these changes was not, however, linear and pre-ordained. In some cases, such as family benefits, extensive policy changes generated relatively little political debate. In other areas major opposition to proposed changes contributed to a scaling down or abandonment of particular proposals by the government. In still other areas, surface appearances concealed deeper changes which were occurring, such as the government's increasing use of tax expenditures in the fields of family benefits and retirement income. These events, and the political forces which shaped them, are considered more closely in subsequent chapters.
Table 2.6: Comparison of Unemployment Insurance Eligibility, Benefits, and Financing in 1978 and 1993

<table>
<thead>
<tr>
<th></th>
<th>1978</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regular Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum no. of weeks of insurable employment to qualify</td>
<td>10-14</td>
<td>10-20</td>
</tr>
<tr>
<td>% of earnings replaced</td>
<td>66.7%</td>
<td>57%</td>
</tr>
<tr>
<td>Maximum no. of weeks of benefits for minimally qualified claimants</td>
<td>10-42</td>
<td>0-39</td>
</tr>
<tr>
<td>Waiting period</td>
<td>2 weeks</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Penalty for voluntary quitting without just cause or for job loss due to misconduct</td>
<td>Loss of 6 weeks of benefits</td>
<td>Disqualification from any benefits</td>
</tr>
<tr>
<td><strong>Special Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum no. of weeks of insurable employment to qualify</td>
<td>20 weeks; for maternity benefits, claimant to be in labour force at least 10 weeks prior to conception (&quot;Magic 10&quot;)</td>
<td>20 weeks; &quot;Magic 10&quot; rule abolished (1984)</td>
</tr>
<tr>
<td>Maximum no. of weeks of benefits</td>
<td>15 weeks; lump sum for retirement benefit</td>
<td>15 weeks (sickness &amp; maternity); 10 weeks (parental)</td>
</tr>
<tr>
<td>% of earnings replaced</td>
<td>66.7%</td>
<td>57%</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer and employee premiums plus govt contributions</td>
<td>Programme financed exclusively by employer &amp; employee premiums--no govt contributions</td>
<td></td>
</tr>
</tbody>
</table>


I. Introduction

1978 is an appropriate point of departure in examining the process of welfare state retrenchment which became so prominent a feature of Canadian public policy in the 1980’s and early 1990’s. This is not to say that no measures were taken before this time to curtail or restructure income security programmes. In 1970, the Federal Government proposed to replace Family Allowances with an income-tested child benefit, a proposal which was abandoned in 1972 in the wake of a protest by middle-income earners. As for Unemployment Insurance benefits, the Government proceeded in 1975 to restrict eligibility rules and to shorten benefit periods in the face of unanticipated cost overruns, public perceptions of abuse, and a growing conviction in government that too generous a system of benefits undermined work incentives and therefore contributed to unemployment. These measures, however, were ad hoc in nature and did not spring from a fundamental re-examination of the size, structure, and function of the welfare state in general or the income security system in particular.

By 1978, however, the Liberal Government began to articulate a series of themes which would powerfully condition its approach to income maintenance in the future as well as that of its Conservative successor. Specifically, the Government increasingly identified excessive government spending as inimical to the country’s prospects for economic growth and prosperity. Reaffirming its faith in the capitalist market system, the Government increasingly accepted and propounded the view that excessive government expenditures were "crowding out" private investment capital and fuelling potentially ruinous levels of public debt. Since social programmes constituted a sizeable proportion of federal budgetary outlays, they would, by implication, bear the brunt of expenditure restraint measures. At the same time, however, the Government expressed its determination to protect the standard of living of those in greatest need. The

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realization of these two objectives meant, among other things, that income security programmes would increasingly be targeted to lower-income individuals and families.

II. Bonn Economic Summit and Aftermath

Although the themes underpinning its new thinking would profoundly condition income security policy over the following decade and a half, the Government's conversion to the politics of welfare restraint was announced with surprising abruptness. On 1 August 1978, Prime Minister Trudeau made a national TV broadcast to announce the need for a "major re-ordering of government priorities." The PM began by noting that in the communique issued in mid-July from the Bonn Economic Summit meeting of western industrialized countries, Canada had made a commitment to achieve economic growth in 1978 of 5%. In order to reach that goal, the PM intoned, "We must reduce the size of government and use the resources to sustain growth." The idea that government spending and intervention were impairing economic activity was reiterated throughout the address. Decrying the "heavy hand of government and its drag on personal initiatives," the PM pledged to lift unnecessary government "intrusions" and to restore various (though unspecified) functions to the private sector. On the question of youth unemployment, the PM implicitly blamed the generosity of the UI programme. While conceding that the shortage of jobs was an important source of unemployment, the PM also took many job-seekers to task for being too "choosy." The PM did not spell out his thoughts about the link between youth unemployment and UI benefits but the Government's position on this matter were made explicit one month later when the Minister of Employment and Immigration announced important changes to the UI Act. In order to stimulate economic growth, the PM stated that a series of measures would shortly be announced. Such measures, however, were not to be financed by increased government spending. Rather, federal spending would be reduced and the savings used for economic stimulus. Thus, $2 billion, or 5%, of current and planned federal expenditures were to be cut. Moreover, a cap was to be placed on the size of the federal public service while public sector wages and benefits were not to exceed those on the private sector.

2The text of the Prime Minister's address was reprinted in the Toronto Star, 2 August 1978, p.A-11.
III. Programme Developments

During the period 1978-1984, major changes were implemented in the fields of family benefits and unemployment insurance, the overall thrust of which was to diminish the egalitarian effect of the relevant programmes and to elevate market-based criteria at the expense of social rights. Universal Family Allowances were cut by 23% and a new income-tested child tax credit was introduced. The Unemployment Insurance Programme was curtailed through benefit cuts and the adoption of more stringent qualifying rules. The retirement income system was the subject of intensive study by the Federal Government in the early 1980's. During the "Great Pension Debate," the Government solicited extensive public input and appeared to be ready to implement substantial changes to the pension system in Canada. Ultimately, however, the Government made only modest changes to the system--changes which eroded universalist features of the public pension system while promoting private pension plans and individual retirement savings through selected tax measures.

A. Family Benefits

Within weeks of the Prime Minister's August TV address, the Government announced a significant reform to the child benefits system. At a press conference held on 24 August, Finance Minister Jean Chretien announced that under amendments to the Income Tax Act a Refundable Child Tax Credit (RCTC) would shortly be introduced. The RCTC would provide a tax credit of up to $200 a year to parents of dependent children under the age of 18.3 Households whose annual family income fell below $18,000 would receive the maximum credit, benefits being reduced by 5% for each increment of income over the threshold. Being a refundable tax credit, the RCTC would be delivered to families in the form of either a reduction in the amount of tax payable or, in the case of families with little or no taxable income, a direct cash payment. Chretien also announced a reduction in Family Allowances, from $26 a month per child to $20, and the elimination of the $50 (non-refundable) child tax credit. Thus, as the Finance Minister

pointed out, not only would the new RCTC be "self-financing" but the combined effect of the
three measures would be to reduce government spending by $35 million. In this way the
Government could claim success in fulfilling its twin objectives of cutting back on public
spending while ensuring that income security benefits were allocated to those in greatest need.\(^4\)

In the ensuing debate in Parliament, Chretien described the RCTC as "one of the most
significant social policy reforms of the decade in this country."\(^5\) While this observation might be
taken to be an example of ministerial hyperbole, or even a back-handed commentary on the dearth
of new income security programmes introduced since the 1960's, the innovative nature of the
RCTC could not be denied. As the Minister pointed out, the RCTC marked the first time that
the tax system had been used to supplement the earnings of lower-income Canadians.\(^6\) He did
not, however, acknowledge the broader political effects of the RCTC and of the measures which
accompanied it. Most notably, adoption of the RCTC altered the balance of universal social
rights and income-tested benefits in favour of the latter.\(^7\) Upper income families with dependent
children would receive less assistance from the state than before, owing to the cut in Family
Allowances and the elimination of the non-refundable child tax credit; moreover, such families
were not eligible for the new RCTC. Lower income families, on the other hand, would receive
more assistance. By reallocating benefits to the neediest families, the changes were congruent
with the principles of the liberal welfare state. At the same time, they threatened over time to
weaken the cross-class solidarity which universal programmes are widely thought to engender.
Nevertheless, the RCTC was generally well received by all four parties represented in the House
of Commons and was speedily enacted\(^8\).

In 1982, the Liberals altered the family benefits package in a manner similar to the
approach taken in 1978. Again, fiscal austerity, in the form of an across-the-board cut in

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\(^6\) Ibid., p.653.
\(^8\) For an analysis of the RCTC in relation to other family benefits, see Jonathan Kesselman, "Credits, Exemptions and Demogrants in Canadian Taxation Policy." *Canadian Tax Journal.* (November-December 1979).
government spending, provided the impetus behind a restructuring to the family benefits system. Moreover, as in 1978, the effect of this restructuring was to enhance selectivity at the expense of universality. Specifically, under the "6 and 5" programme, unveiled in the Federal Budget of June, 1982, full indexation of Family Allowances was suspended for two years, cost of living adjustments being capped at 6 percent in 1983 and 5 percent in 1984. The RCTC, however, remained fully indexed; indeed, "a 'one shot' $50 increase was...added for 1983 in order to compensate lower-income families for the capping of their family allowances." As a result of these changes, the Government expected to save $320 million from the Family Allowance programme, of which $250 million was to be redirected to the RCTC.

The 6 and 5 restraint policy also affected family and other social benefits in a more subtle way, through the partial de-indexation of the personal income tax system. Pursuant to the 1982 Budget, income tax bracket limits, together with the major exemptions, would be indexed for inflation to a maximum of 6% in 1983 and 5% in 1984. The significance of this measure was that if inflation rates exceeded these levels, individuals and families having taxable income would be pushed into higher marginal tax brackets. According to the National Council of Welfare, the effect of this measure, combined with the indexation caps on universal demogrants such as the OAS and Family Allowances, would be that "many low and moderate-income taxpayers [would] suffer a reduction in their after-tax income."

B. Unemployment Insurance

Scarcely a week after announcing its plans to restructure the family benefits system, the

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Ibid.

Department of Finance. Budget Papers. (June 1982), pp.27-28. Personal income tax brackets and exemptions had been fully indexed to inflation since 1974. This measure had been adopted to avoid the phenomenon of "bracket creep," whereby inflationary increases in wages and salaries would automatically have the effect, under a progressive tax system, of pushing taxpayers into higher marginal tax brackets. In other words, in an inflationary environment, in the absence of indexed tax brackets, real incomes would remain the same (or fall) while the effective tax burden would tend to increase. The solution arrived at was to index the tax system to the annual inflation rate. See W. Irwin Gillespie, Tax, Borrow, and Spend: Financing Federal Spending in Canada, 1867-1990. Ottawa: Carleton University Press, 1991, pp.189-194.

Government unveiled the details of a major retrenchment of the unemployment insurance programme. On 1 September 1978, Employment and Immigration Minister Bud Cullen outlined a series of proposed amendments to the Unemployment Insurance Act designed to reduce the level of weekly benefits, claw back a proportion of UI benefits paid to claimants with above-average incomes, tighten eligibility requirements, and reduce the government’s financial contribution to the programme. Key elements of this overhauling of the Act included the following. First, entrance requirements were to be stiffened for repeat users (i.e., those making a second claim within the same 52-week period), for new entrants to the labour force, and for those re-entering the labour force after an absence of more than one year. Specifically, repeaters were to be required to have at least the same number of weeks of insurable employment as the number of weeks of benefits drawn on their previous claim. New entrants and re-entrants would be required to have a minimum of 40 weeks of work in the qualifying period. Secondly, the benefit rate was to be reduced from two-thirds of insurable earnings to 60%. Thirdly, claimants whose annual taxable income (including UI benefits) exceeded $22,000 would be required to pay back a certain percentage of their UI benefits. The Minister originally suggested that such claimants repay as much as 70% of benefits received and that the clawback be based on family income, rather than individual income. Finally, the Federal Government would no longer pay the total cost of labour force extended benefits; instead such benefits would be financed jointly by Ottawa and by employer and employee premiums.

By these measures the Government expected to "achieve a substantial reduction in the cost of the [UI] program." The more stringent eligibility rules were projected to reduce the number of UI recipients by 10% and to reduce overall UI benefit payments in 1979-80 by $655 million. The proposed changes were also expected to "minimize any negative effects which the program may have on the incentive to work, or on the labour supply." This latter aim reflected

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16 Ibid.
the Government's view that UI was distorting the natural operation of labour markets. On the one hand, the programme was thought to be encouraging claimants to refuse suitable work and to become, in the PM's words, too "choosey." On the other hand, limited work requirements to qualify for benefits were blamed for encouraging workers having only a minor attachment to the labour force to work for the minimum number of weeks simply in order to qualify for UI benefits. Between the Minister's announcement in September and the introduction of the UI bill, Bill C-14, into the House of Commons on 2 November, several notable modifications were made having to do with eligibility requirements. Opening the debate on Second Reading of the Bill, Cullen explained that the stricter rules for repeat claimants announced in September would be relaxed in order to "create less hardship for those in regions of Canada with high unemployment where jobs are harder to find." Thus the proposal that repeaters be required to work for at least the same number of weeks of benefits drawn on their previous claim was dropped. Instead, the maximum number of additional weeks of employment to be required of repeaters would be fixed at six weeks over and above the applicable regional entrance requirement. There would, however, be no additional qualifying period in regions of high unemployment.18

Another concession made by the Minister which was chiefly to the advantage of high-unemployment regions was a reduction in the required number of weeks of insurable employment for new entrants and re-entrants to the labour force. The 40-week requirement proposed in September was reduced to 20 weeks. Finally, the clawback on benefits for upper-income earners was fixed at 30% of benefits received--less than half the rate originally proposed--and would be calculated on claimants' personal income, not their family income.19

Bill C-14 marked a significant retreat from the major expansion of the UI programme adopted only seven years earlier and accordingly generated considerable controversy. It was vehemently opposed by organized labour and by New Democrat MP's, who resorted to using procedural roadblocks to stymie the bill's progress in the House. Women's groups were also

17 House of Commons Debates, 9 November 1978, p.983.
18 High unemployment regions were designated as those in which the unemployment rate was over 11.5%.
highly critical of the bill, arguing that the stricter eligibility rules would have a particularly deleterious effect on working women. They were also disappointed by the Government's failure to liberalize the provisions relating to maternity benefits and, in particular, to abolish the notorious "Magic 10" rule.\(^{20}\)

The Government also attracted criticism from several provincial governments upset about the lack of consultation by Ottawa and concerned in particular about the bill's potential to push unemployed workers onto provincial social assistance rolls.\(^{21}\) Employer groups, however, were generally supportive of the bill, as was the business press, while the Progressive Conservative Official Opposition approved the principles of the bill and was restrained in its criticism. Thus, notwithstanding a filibuster by the NDP, the Government was able to expedite passage of the bill through both houses before the Christmas recess.

Following the adoption of Bill C-14, unemployment insurance remained a major preoccupation of the Federal Government. Further studies and debates on UI were carried out by the Clark Government in 1979 and by the Trudeau Government of 1980-1984. Among these was a Task Force on UI, set up by the Liberals after the 1980 election. Reporting in 1981, the Task Force echoed the Government's continuing concern about the adverse impact that UI benefits were thought to have on work incentives and on inter-regional labour mobility.\(^{22}\) To deal with these perceived problems, the Task Force proposed further restrictions on the UI programme, such as higher entrance requirements, elimination of regional extended benefits, an increase in the benefit clawback for upper income earners (from 30% to 50%), and a doubling of the disqualification period for claimants who had voluntarily quit their jobs. While the Task Force's proposals would have yielded a net reduction in the cost of UI of some $220 million,\(^{23}\)

\(^{20}\)As described in Chapter 2, the Magic 10 rule required, as a condition of eligibility for maternity benefits, that a claimant have at least ten weeks of insurable earnings in the twenty-week period immediately preceding the thirtieth week before the expected date of delivery. The purpose of the rule was to ensure "that the claimant had been working at or around the time of conception [and to] guard against women who, after becoming pregnant, might take a job simply to collect benefits." Leslie A. Pal, "Maternity Benefits and Unemployment Insurance: A Question of Policy Design." \textit{Canadian Public Policy}. X1:3 (1985), pp.551-560.

\(^{21}\)Gary Dingledine, \textit{A Chronology of Response}, op. cit., p.102.


\(^{23}\)Leslie A. Pal, \textit{State, Class, and Bureaucracy: Canadian Unemployment Insurance and Public Policy}. Kingston
several of its recommendations did entail a liberalization of certain UI benefits, particularly those relevant to women. Thus the Report recommended elimination of the special entrance requirements for maternity and other benefits, abolition of the "Magic 10" rule, and the extension of maternity benefits to adoptive parents.\textsuperscript{24}

With the onset of the recession of 1981-82, no further retrenchment of the UI programme was implemented. As Pal observes, "any substantial cuts in the program would have been difficult to defend in the face of rapidly rising unemployment rates."\textsuperscript{25} Instead, Employment and Immigration Minister Lloyd Axworthy secured $400 million in federal funds to combat the unemployment problem through a variety of job creation, job placement, and work-sharing programmes.\textsuperscript{26} Up to $10 million of this sum was to be financed from UI funds. Further job creation schemes were announced in 1982, to be financed by a mixture of UI funds and general revenues.

The most significant change to UI made by the Liberals in their final term provided for a broadening of maternity benefits along the lines recommended by the Task Force. In June, 1983, amendments to the UI Act were passed abolishing the "Magic 10" rule and extending maternity benefits to adoptive parents. The stringent 20-week entrance requirement for maternity benefits, however, was retained.\textsuperscript{27}

C. Old Age Pensions

Canada's retirement income system was the subject of extensive study in the late 1970's and early 1980's as measured by the volume of federal and provincial studies that were conducted during this period. Notable federal reports include the report of a special Senate committee, two task force reports on pension reform, and a government Green Paper.\textsuperscript{28} There was a remarkable

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\textsuperscript{24}Ibid. \\
\textsuperscript{25}Ibid., p.46. \\
\textsuperscript{26}Christine McCall-Newman and Stephen Clarkson, \textit{Trudeau and Our Times. Vol. 2.} Toronto: McClelland and Stewart, 1994, p.251. An initial $50 million was allocated in December, 1981, of which up to $10 million was to be financed from UI funds. Job creation schemes announced in 1982 were also to be financed by a mixture of UI funds and general revenues. Leslie A. Pal, "The Fall and Rise of Developmental Uses of UI Funds." \textit{Canadian Public Policy. IX:1} (1983), pp.81-93 at pp.87-88. \\
\textsuperscript{27}Leslie A. Pal, "Maternity Benefits and Unemployment Insurance," \textit{op. cit.}, p.558. \\
\textsuperscript{28}Canada. Special Senate Committee on Retirement Age Policies, \textit{Retirement Without Tears}. Ottawa: Minister of
degree of consensus in these reports about the shortcomings of the prevailing retirement income system. Private sector pensions in particular were roundly criticized for their inadequate coverage of the wage-earning population, their restrictive vesting rights, and their weak or non-existent inflation protection. On the other hand, there was considerable disagreement, both in the submissions received from interested parties and in the reports' recommendations, about the steps which should be taken to reform the pension system. Proposals ranged from stricter regulation of existing private sector pension plans—an approach favoured by most business groups—to a major expansion of the public pension system in the form of higher CPP premiums and benefits—an approach favoured by labour and by most social policy groups—to a legislated expansion of private pension plan coverage. These ideas and others were debated at a National Pensions Conference held in Ottawa in 1981. The Conference, which was opened by Prime Minister Trudeau and co-chaired by the Ministers of National Health and Welfare and Finance, was attended by dozens of business, trade union, and social policy groups and received hundreds of written submissions.

The following year, the Federal Government issued a Green Paper on pension reform. The Green Paper identified for discussion numerous piecemeal reform proposals, including further increases in the GIS to augment the incomes of the single elderly, selected improvements to the CPP, and legislated reforms to private occupational pension plans. However, while the Paper refrained from endorsing specific proposals it took a conservative position on the larger question of the appropriate balance to be struck between public and private pensions, asserting

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32 Proposed reforms to the CPP included the splitting of pension credits on marriage breakdown, provision for women dropping out of the paid labour force for child-rearing purposes to continue to accumulate CPP credits, and the establishment of a CPP pension for homemakers. Proposed reforms to occupational pension plans included improved portability of pension credits and mandatory inflation protection of benefits.
that "[w]hile some expansion of mandatory pension arrangements may be needed...employer-sponsored pension plans and individual savings [should] continue to play an essential role."\textsuperscript{33}

The Green Paper was referred to a Parliamentary Committee chaired by Liberal MP Doug Frith. The majority report, endorsed by Liberal and Conservative members of the Committee, but rejected by the NDP, largely accepted the position of private sector business groups that there should be no mandatory broadening of the pension system, either through the CPP or private sector pension plans.\textsuperscript{34} Instead, the Committee endorsed many of the proposed reforms to the CPP and to occupational pension plans which had been raised in the Green Paper. Of particular interest here were proposals for the mandatory indexation of private sector pension benefits and the establishment of a CPP homemaker pension.\textsuperscript{35} The Government’s response to the Parliamentary Committee’s Report, discussed below, was released with the Federal Budget of February, 1984.

In the area of public pensions, the major policy development of the period 1978-1984 was the augmenting of benefits for the neediest pension recipients through a series of increases in the income-tested Guaranteed Income Supplement (GIS). Thus, in August, 1978 Finance Minister Jean Chretien announced that the maximum GIS benefits would be increased by $20 a month. Both the increased GIS benefit and the new RCTC were justified as measures intended to mitigate "the unfair impact of inflation upon lower-income groups."\textsuperscript{36} A second GIS increase, in the amount of $35 a month, was announced in the Throne Speech of April, 1980, while a third, in the amount of $50 a month, was announced in the Throne Speech of February, 1984. In addition, it should be noted that the GIS, like the RCTC, remained fully indexed to the Consumer Price Index throughout this period. In contrast, there were no increases in the basic OAS benefit;

\textsuperscript{33} Ibid., p.35.
\textsuperscript{34} Special Committee on Pension Reform. \textit{Report of the Parliamentary Task Force on Pension Reform}. Ottawa: Minister of Supply and Services, 1983.
\textsuperscript{35} On the question of indexation, the Committee recommended that defined benefit pension plans be subject to mandatory indexation for annual inflation rates over 2.5% (as measured by the Consumer Price Index). (\textit{Ibid.}, p.49) With regard to homemaker pensions, the Committee recommended that women having no labour force earnings be entitled to a pension under the CPP based on 50% of the year’s maximum pensionable earnings (YMPE), or half the average industrial wage. Women working in the paid labour force who earned less than one-half the YMPE would receive a top-up to bring their pension income to the level of one-half the YMPE. (\textit{Ibid.}, pp.25-26)
\textsuperscript{36} House of Commons Debates, 11 October 1978, p.2
moreover, as with the universal Family Allowance, indexation of OAS benefits in 1982 and 1983 was subject to the ceiling established by the 6 and 5 programme. Indeed, as a further buffer for low-income pensioners, the GIS was to be "super-indexed" to compensate for any OAS benefits which might be forgone as a result of the 6 and 5 ceiling.

A second though largely overlapping development in the pension field was the increased attention that was paid to the needs of elderly women. Most to the studies reviewing the retirement income system drew attention to the fact that women constituted a disproportionately large fraction of the elderly poor in Canada. Because of such factors as their employment patterns, child-rearing duties, and relative longevity, elderly women were particularly reliant on the public pension system. In recognition of this fact, the Government took pains to point out that the boosting of GIS benefits would be of particular benefit to women.37

Other measures primarily designed to improve the lot of elderly women included two changes to the income-tested Spouses' Allowance (SPA). The first, introduced in October, 1978, provided for the continued payment of the SPA to a surviving spouse for a period of six months following the death of the older spouse. Previously, the SPA had terminated immediately upon the latter's death.38 The second change, implemented by the Clark Government in 1979 entitled widow(er)s to continue to receive the SPA until the age of 65, at which point they would become eligible for OAS in their own right.39 Another measure chiefly of benefit to women was the so-called child-rearing drop-out clause to the CPP, implemented in 1983. Under this provision, working parents (usually mothers) who left the paid labour force in order to raise children would continue to earn CPP credits. While such a provision had been part of the Quebec Pension Plan since 1977, Ontario vetoed its inclusion into the CPP until finally relenting in 1983.40

With regard to the issues of pension coverage and income replacement rates, the most contentious elements of the pension debate, the Government largely reaffirmed the status quo. In

37 E.g., see House of Commons Debates, 14 April 1980, p.5
40 Louis Ascah, "Recent Pension Reports," op. cit., p.421.
a policy paper released with Finance Minister Marc Lalonde's February, 1984 Budget, it rejected proposals to increase the CPP replacement rate above the existing 25% ceiling or to legislate mandatory occupational pension plans.\(^{41}\) The Government re-asserted the importance of maintaining a dualistic pension system of public pensions, on the one hand, and employer-sponsored pension plans and individual savings on the other.\(^{42}\) The Government did, however, endorse many of the Parliamentary Committee's recommendations regarding the CPP—including the proposal for a homemaker pension—while stressing that any such reforms would require provincial approval.\(^{43}\)

The Government's main aim, however, was to "help build a stronger private pension sector."\(^{44}\) To this end, the Government proposed to legislate stricter standards for established occupational pension plans through amendments to the Pension Benefits Standards Act, the act governing private sector pension plans in industries falling under federal jurisdiction. Under the proposed amendments, the Government planned to impose more limited inflation protection requirements on private pension plans than those recommended by the Frith Committee, while exhorting plan sponsors to make inflation adjustments "whenever financial circumstances permit."\(^{45}\) Other measures would have included earlier vesting, improved portability, compulsory participation of part-time employees in existing occupational pension plans, and rules requiring the disclosure to plan members of information regarding accrued benefits and accumulated contributions. The Government also proposed to encourage individual retirement savings through RRSP's. Thus, the February 1984 Budget proposed to raise the limit on tax deductible contributions to RRSP's and to allow for any unused tax deductions to be carried

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\(^{43}\) The CPP changes proposed included rules providing for the splitting of CPP pension credits between spouses upon marriage breakdown and the continued payment of survivor benefits upon the remarriage of the surviving spouse.


\(^{45}\) Department of Finance. *Action Plan for Pension Reform, op. cit.*, p.6. Under the Lalonde proposals, pension benefits would have been indexed annually by 60% of any change in the Consumer Price Index to a maximum increase of 8%.
forward to subsequent tax years. Owing to the Liberals' election defeat in September, 1984, none of these measures was enacted. Most of them, however, were implemented by the new Conservative Government during its first term of office.

In summary, the "Great Pension Debate" of the early 1980's was an unusual exercise in the new era of welfare state retrenchment. Ken Battle, then Executive Director of the National Council of Welfare, has described it as

...the last gasp of the old welfare state. The proposals to expand the pension system were the last serious proposals to expand our welfare state.

At the end of the day, however, the Government chose to reinforce the dualistic nature of Canada's pension system. The residual nature of the public pension system was reaffirmed by maintaining the ceiling on CPP and OAS benefits while augmenting the income-tested GIS and SPA. At the same time, the private pension system was to be strengthened through stricter federal regulation of existing private sector pension plans and more generous tax incentives for individual retirement savings. As two academic commentators have put it, the net result of the pension debate "was to reinforce the economic divisions that generated the debate in the first place: better quality occupational pensions (for those covered), more tax shelters for the well-to-do (RRSP's), and little or nothing for those whose retirement income depends almost exclusively on the public sector." On the other hand, the Government's approach to pensions differed from its approach to family benefits and unemployment insurance in that it chose not to target old age pensions as an area for significant spending cuts.

IV. Explaining Retrenchment under the Liberals, 1978-1984

A. Class-Based Actors

1. Organized Labour

Income security policy was not a primary focus for organized labour in the period
1978-1984. A more immediate concern for trade unions was the defence of collective bargaining rights. Following three years of federal wage and price controls, public sector unions faced the federal 6 and 5 wage restraint programme in 1983-1984 and analogous programmes in many provinces.49 Private sector unions faced increasing pressure at the bargaining table for wage concessions as unemployment levels reached a post-war high in 1978, only to be outstripped in the recession of 1981-1982. Organized labour nevertheless took an interest in the development of income security policy, particularly in regard to unemployment insurance and pensions. The Canadian Labour Congress, as well as some of the larger national unions, such as the United Autoworkers and the Public Service Alliance of Canada, participated actively in parliamentary proceedings and in wider public debates about the direction of the Canadian welfare state.

Labour's approach to income security policy in the late 1970's and early 1980's continued to reflect the broad social democratic themes which trade unions had advanced in the expansionary stage of Canada's welfare state. Thus the CLC and other labour bodies advocated economic policies such as full employment and higher minimum wages together with such social measures as a high level of social services and universal public pensions, unemployment insurance, and other social security benefits. While labour also supported an expansion of selective income security programmes, such as an income-tested Guaranteed Annual Income, it considered such policies to be complementary to the commitment to full employment and to universal social programmes, rather than a substitute for them.50

On unemployment insurance, labour representatives unreservedly opposed Bill C-14 and the assumptions on which it was based. This position reflected labour's long-held view that government had both the capacity and the responsibility to maintain full employment. From labour's perspective, therefore, it followed that the mounting levels of unemployment of the late 1970's were the consequence of mistaken economic policies. Moreover, labour rejected the

Government's contention that the UI programme itself was contributing to unemployment. This position, on the one hand, was a reaffirmation of the Keynesian idea that unemployment insurance was an automatic stabilizer designed to mitigate the severity of downturns in the business cycle.\(^{51}\) On the other hand, labour leaders angrily denied that abuse of the UI programme was a significant problem. Labour leaders consistently took the position "that the vast bulk of unemployment is involuntary and that therefore UI should not be narrow or restrictive."\(^{52}\) Accordingly, the Government's proposals to restrict eligibility and to reduce benefits struck labour as fundamentally unjust. Donald Montgomery, Secretary-Treasurer of the CLC, denounced the draft bill as "attacking the unemployed rather than unemployment."\(^{53}\) Indeed, labour representatives appearing before the House of Commons Standing Committee on Labour, Manpower, and Immigration accused the Government of exaggerating the scale of UI abuse in order to justify the introduction of restrictive measures. Basil ("Buzz") Hargrove, spokesperson for the United Auto Workers, put this view as follows: "We believe that the Government has been a willing accomplice, if not instigator, in a deliberate plan to dupe the public into believing that the present unemployment insurance program has been savaged by hordes of cheaters with the goal of avoiding work in order to collect benefits...."\(^{54}\)

While labour was seeking to defend the unemployment insurance programme against retrenchment, it simultaneously pressed the Government for a major expansion of the public pension system. In a policy resolution adopted at its convention in Quebec City in April, 1978, the CLC set out its vision of a reformed pension system. The cornerstone of this policy was a proposed doubling of the basic benefit under the Canada Pension Plan to 50% of pre-retirement earnings, up to the level of the Average Industrial Wage.\(^{55}\) The CLC policy also called for increases in OAS and GIS benefits such that the three public pensions would together replace

\(^{51}\) This reasoning was expressed by Julien Major, Executive Vice-President of the CLC, in testimony before the parliamentary committee on Bill C-14. See House of Commons, Standing Committee on Labour, Manpower, and Immigration. Minutes of Proceedings and Evidence. 21 November 1978, 4:9.

\(^{52}\) Leslie A. Pal, State, Class, and Bureaucracy, op. cit., p.83.


\(^{54}\) House of Commons. Standing Committee on Labour, Manpower and Immigration, op. cit., 4:19.

fully 75% of the pre-retirement income of those with earnings equivalent to the Average Industrial Wage. The policy statement argued that public pensions were inherently superior to private occupational pensions as a means of providing both universal coverage and inflation-protected benefits to all Canadians.\textsuperscript{56}

It would appear from a review of the policy developments outlined in the previous section that labour had no significant influence on the major decisions taken by the federal government in the income security field during this period. It was unable to prevent the erosion of existing provisions of benefit to labour, as reflected in the curtailment of the UI programme and, to a lesser extent, the cuts in Family Allowances. Despite its implacable opposition to the scaling back of UI, only technical changes to Bill C-14 were recommended by the parliamentary committee at Report stage.\textsuperscript{57} It is true that the Government made important concessions to critics of the draft proposals released in September by relaxing the rules concerning repeat users of UI and those affecting new entrants and recent re-entrants to the labour force. However, as is discussed below, these concessions were made in response to pressure exerted by MP's from the Atlantic provinces, not in response to representations by organized labour. Labour was equally unable to achieve its goal of a major extension of the public income security system through enriched public pensions. On closer inspection, these failures were not isolated events but formed part of a wider pattern of declining political influence on the part of organized labour dating from the mid-1970's.

In 1975, the Federal Government and the Bank of Canada identified inflation as the principal economic problem facing the country. Accordingly, the Governor of the Bank of Canada, Gerald Bouey, announced in a speech in Saskatoon that henceforth the Bank would adopt a more restrictive monetary policy involving the setting of annual limits on the growth of the money supply.\textsuperscript{58} The Trudeau Government, for its part, made inflation the principal target

\textsuperscript{56} For a more detailed statement of the CLC's pension policy, see \textit{The CLC Proposal for Pension Reform}. Canadian Labour Congress (1982).
\textsuperscript{57} Leslie A. Pal, \textit{State, Class, and Bureaucracy}, \textit{op. cit.}, p.87.
of its fiscal policy through the adoption of a national programme of wage and price controls. This measure was strenuously opposed by organized labour, which regarded it as an unwarranted abrogation of free collective bargaining based on an erroneous analysis of the causes of inflation. During its three-year campaign against the Anti-Inflation programme, the CLC challenged the constitutionality of the policy in the Supreme Court of Canada, withdrew all labour representatives from federal advisory and consultative bodies, and called a one-day general strike in October, 1976, which it euphemistically dubbed the "National Day of Protest." None of these measures was successful in altering the Government's policy. Following the phasing out of the Anti-Inflation Board in 1978, relations between labour and Ottawa remained antagonistic. Back to work legislation was passed by both levels of government with increasing frequency, while fiscal austerity and the fight against inflation remained high priorities, even as unemployment reached a postwar high in 1977 and exceeded the one-million mark a year later. In 1982, in the midst of the most severe economic slump since the 1930's, the Government imposed wage controls on the federal public service under the 6 and 5 programme.

2. Business

If the period after 1978 saw an apparent decline in the influence of organized labour in regard to income security policy, the opposite may be said about the influence of organized capital. For the most part business had reason to be pleased with the direction of government policy in this area. The Government's cuts to UI, its new emphasis on selectivity, and its non-decision on contributory pensions were all congruent with the social policy agenda of Canada's business class. The mere convergence of business demands and government policy is not, of course, necessarily indicative of the effectiveness of business in advancing its demands.

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60 Back-to-work legislation was used on 51 occasions in the period 1965-1980, half of these cases being in the period 1975-1979, and was used a further 43 times in the period 1980-1987. In contrast, such legislation was only used 6 times in the period 1950-1965. Leo Panitch and Donald Swartz, The Assault on Trade Union Freedoms, op. cit., p.30.


However, there is direct and indirect evidence to support the proposition that business interests were increasingly taken into account by government in the formulation of income security policy. First of all, business's capacity to articulate its demands in regard to economic and social policy grew considerably with the advent of the Business Council on National Issues (BCNI). Secondly, adverse economic conditions in the late 1970's and early 1980's, and their impact on the federal government's fiscal position, greatly enhanced the plausibility of business's critiques of the welfare state. Indeed, not only did the government move closer to the substance of business's positions on income security policy, it also increasingly justified its social policy measures as a *sine qua non* to promoting business confidence and renewed economic growth.

In organizational terms, a new national business association, the Business Council on National Issues (BCNI), gave business a strong and authoritative voice in national affairs. Founded in 1976, the BCNI is an organization which attempts to reach consensus positions on national policy issues among the country's largest private sector corporations and to advance those positions both through high-level contacts with public officials and through the preparation of briefs for parliamentary committees, task forces, and royal commissions. The BCNI was founded, in part, to give senior business executives better access to the centralized decision-making structures adopted by the federal government in the 1960's and 1970's. A second aim of the BCNI was to take a more pro-active approach to selected policy issues by developing well-researched and ostensibly balanced position papers. This approach tended to set the BCNI apart from older institutionalized business associations, such as the Canadian Chamber of Commerce and the Canadian Manufacturers' Association. Such organizations tended to react to specific government policies directly bearing on the interests of their members while opposing, often in fiercely polemical terms, any expansion of social programmes.

Despite the variety of business associations active at the national level, there was a high

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degree of uniformity in their formal submissions on income security policy. Consistent with their members' economic (or class) interests, business organizations from the BCNI to the Canadian Chamber of Commerce generally favoured a limited welfare state designed to promote or, at worst, not to hinder unduly, the operation of the free market and the process of private capital accumulation. From this perspective, business groups opposed universal demogrant programmes, such as Family Allowances and Old Age Security, favouring instead income-tested programmes such as the Guaranteed Income Supplement and the RCTC. Business groups opposed what they deemed to be the misguided generosity of UI and its departure from strict insurance principles. With regard to pensions, business largely took a laissez-faire view; while accepting the need for some improvements in the regulation of private sector pension plans, business rejected proposals to expand the public pension system or to legislate mandatory occupational pension plans.

Apart from the BCNI, most business organizations did not take a clear position on family benefits programmes, other than to express a general commitment to a residual concept of social security. Interestingly, the Canadian Chamber of Commerce did criticize the RCTC shortly after its adoption, citing, among other things, its cost and administrative complexity. The Chamber proposed instead that child benefits be delivered through the Family Allowance programme, but that such benefits no longer be indexed.65 By the 1980's, however, as the government launched reviews into pensions, UI, and, in the case of the Macdonald Royal Commission (1983-1985), social and economic policy in general, business groups indicated a clear preference for selectivity over universality. In 1983, in a pre-Budget submission to the Government, the BCNI proposed three options for reform of family benefits, emphasizing in each case the anticipated cost savings. Two of the three options involved the abolition of Family Allowances together with increases in the RCTC; the third option proposed to introduce greater selectivity by means of an income-tested tax clawback of universal benefits.66 As the federal deficit began to grow rapidly in the

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66Letter from Thomas d'Aquino to the Hon. Marc Lalonde (10 March 1983) cited in BCNI, National Priorities: A
early 1980's, the BCNI increasingly stressed the link between selectivity of social benefits and
government expenditure restraint.

With regard to Unemployment Insurance, business organizations were supportive of
those aspects of Bill C-14 and of the UI Task Force Report which provided for more restrictive
qualifying conditions and reduced benefits. Indeed, business groups favoured even deeper cuts to
the programme.\textsuperscript{67} However, this position was of long standing and does not appear to have had a
direct bearing on the Government's decision to cut UI in 1978. Rather, as is noted below, Bill C-
14 was a cost-cutting measure necessitated, on short notice, by the PM's post-Bonn
announcement. Moreover, the 1983 amendments liberalizing the maternity benefits provisions of
the Act were adopted in spite of opposition from business groups\textsuperscript{68} whereas the cuts
recommended by the UI Task Force, which business generally supported, were shelved.

The foregoing suggests that business had little if any direct influence over UI policy
during this period. even if it may be said that business interests were served by the fact that the
UI programme was decidedly less generous following the passage of Bill C-14. Nevertheless,
some measure of indirect business influence in this field may be gleaned from the officially stated
goals of UI reform. On this score, the Government embraced a central critique of the UI
programme which had been articulated by business groups, and the business press, at least since
the major UI expansion of 1971. Specifically, the Government accepted business's claim that UI
undermined work incentives and was itself a significant factor contributing to unemployment. As
noted earlier, Bud Cullen, the Minister of Employment and Immigration, declared the intention of
Bill C-14 to be to reduce disincentives to work and to encourage workers "to look for, accept, and

\textsuperscript{67}The CMA, for example, favoured a uniform UI entrance requirement of 20 weeks, regardless of regional
unemployment rates. See testimony of Frank Burrett, Chairman of the CMA (House of Commons. Standing
Committee on Labour, Manpower, and Immigration. \textit{Minutes of Proceedings and Evidence}. November 1978,
pp.6:73-90-6:76-90. This point was endorsed by the Chamber of Commerce, which also favoured shorter benefit
periods and the disqualification from UI of those who voluntarily left their job without just cause or were fired for
misconduct. Canadian Chamber of Commerce. \textit{Unemployment Insurance in the 1980's: Submission to the
Minister of Employment and Immigration}. (September 1981) [National Library of Canada.]

\textsuperscript{68}Canadian Chamber of Commerce, \textit{Unemployment Insurance in the 1980's}. \textit{op. cit.}, pp.3-4.
remain at work."\textsuperscript{69} The UI Task Force later echoed business criticisms of the impact on labour mobility of the variable entrance requirements and the regional extended benefits, despite acknowledging the lack of conclusive research on this issue.\textsuperscript{70}

Clearer evidence of the Liberal Government's solicitude to business interests can be discerned in relation to pension policy. In this case, business was successful in staving off any appreciable expansion of mandatory pension coverage, notwithstanding the widespread dissatisfaction with which the existing pension system was viewed among policy elites and within Canadian society in general. Business groups were vigorous and virtually unanimous in their opposition to legislated increases in pension coverage and benefits. Unified business opposition, however, is not necessarily sufficient to block a determined government, as evidenced by unsuccessful business campaigns against the CPP in the 1960's and against the UI amendments of 1971. In this case, however, business had a stronger hand, not least because the recession of 1981-1982 bolstered business's case that increased pension costs would be detrimental to the fragile health of the national economy. Business further argued that a weakened economy, in turn, would hinder the growth of the private component of Canada's mixed public-private pension system by depressing individual retirement savings and inhibiting the growth of private pension plans. Indeed, as is elaborated on below, these arguments became part of the Government's epitaph to comprehensive pension reform.

In their contribution to the Great Pension Debate, business groups were united in their opposition to the CLC-inspired proposal to expand public pensions. The Chamber of Commerce admonished the Government "to preserve a proper balance between Government and private sources" of retirement income.\textsuperscript{71} This position reflected, in part, business's ideological support for a dualistic pension system. It was expressed in these terms by E.S. Jackman, Chairman of the BCNI's Task Force on Social Policy and Retirement Income:

\textsuperscript{69}House of Commons Debates, 9 November 1978, p.983.
Our basic philosophy is that Canadians should have as much freedom as possible on whether to spend or to save their money. Government action should be directed towards improving the lot of those in less than average circumstances, rather than towards controlling the decisions of the more affluent.72

Business groups also objected to an expansion of public pensions—particularly the CPP—on the grounds that such a measure would divert pension funds into the public sector and give the state a dominant position in capital markets. Noting the increasing importance of pension funds as a source of corporate capital investment, the BCNI warned that an expansion of the CPP would inhibit private sector "investment and capital accumulation."73 Similar cautions were issued by the CMA,74 while the Chamber of Commerce declared that the increased burden of taxation required to finance expanded social security benefits would undermine economic growth.75 In the view of one observer, business's concern about the control over pension funds was, and remains, "the fundamental reason for the corporate sector's unalterable opposition to the expansion of the public pension system and its staunch defence of the private pension industry."76

Business groups were also concerned to minimize the nature and scope of any legislated standards in the area of private pensions. As a general rule, businesses preferred a voluntary approach under which "employers and employees should be free to design their occupational pension plans as part of a total compensation package satisfactory to each."77 All of the major business groups were opposed to mandatory private sector pensions, with the notable exception of the Canadian Life Insurance Association, which not coincidentally stood to profit from mandatory private pension coverage. According to the BCNI, mandatory private pensions

75Canadian Chamber of Commerce. Canada's Pension System, op. cit., p.3.
77BCNI. Adequate Retirement Income, op. cit., p.7.
would be prohibitively costly for small business owners, while measures such as the compulsory indexing of private pension benefits "would present severe difficulties for the private sector." Business groups proposed instead various tax incentives to promote private sector pension plans and individual retirement savings.

As noted above, the Government largely adopted business's preferred approach to pension reform. And, as in the case of UI, it adopted much of the reasoning used by business groups in support of their position. Thus, in its 1982 Green Paper the Government reaffirmed its commitment to a two-tiered pension system under which private pensions and individual savings would remain the predominant component. More significantly, perhaps, the Government stressed that its proposed reforms had been designed with a view to "not imposing immediate costs that might damage economic recovery." Indeed, the need to promote economic growth and to foster business confidence had become increasingly important themes of Government policy in the wake of the recession of 1981-1982.

In assessing the “power resources” of business, and business’s capacity to influence income security policy, it may be useful to consider changes in the structural power of capital within the context of Canada’s larger political economy. As argued above, reduced economic growth, inflationary pressures, and a secular increase in unemployment weakened labour’s bargaining power while facilitating a more coercive approach by the state toward trade unions. Was there a corresponding shift in public policy in favour of business interests? On this point, the record of the Trudeau Government is mixed. On the one hand, the Liberal Government antagonized sections of the business community in the mid-1970’s to early 1980’s through such policies as the screening of foreign acquisitions of Canadian-owned firms through the Foreign Investment Review Agency and the expansion of Petro-Canada in the late 1970’s, followed in 1980 by the introduction of the National Energy Programme. In addition, the Federal Budget of

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78 Ibid., pp.12, 19.
80 Geoffrey E. Hale, "Learning from the Past," op. cit.
1981, introduced by Finance Minister Allan MacEachen, provoked a storm of protest from wide sections of the business community. Business groups were particularly incensed by the Budget’s proposals to reduce or eliminate numerous tax deductions, write-offs, and other concessions of benefit to business. Moreover, the Government had neglected to consult with the groups affected, including those groups which stood to benefit from the Budget and whose support might have been mobilized in its favour. In the event, business groups waged a “massive and unrelenting campaign” against the Budget over the following twelve months, as a result of which “almost every proposal...was withdrawn or severely watered down.”

An alternative view is that business-government relations did not markedly deteriorate in the late Trudeau period, notwithstanding the intermittent conflicts noted above. According to this view, business critics of the Trudeau Government paid insufficient attention to the international pressures facing all advanced capitalist economies while underestimating the extent to which government policy was concerned with bolstering business confidence. After all, the new emphasis of monetary and fiscal policy on the fight against inflation and the various steps taken by the Trudeau Government to control government spending were broadly consistent with the economic agenda of most business groups.

Nevertheless, there was a clear perception on the part of many business leaders that the Federal Government was paying less heed to the demands of business than to the demands of non-business groups. By 1982, the Government appeared determined to erase this perception, if

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86 In addition to the $2 billion in spending cuts announced in 1978, the Federal Government had curtailed its transfer payments to the provinces the previous year with the adoption of a new federal-provincial cost-sharing formula under the Established Programmes Financing Act. Further reductions in federal transfers to the provinces were imposed unilaterally by Finance Minister Allan MacEachen in 1982. See Donald J. Savoie, *The Politics of Public Spending in Canada*. Toronto: University of Toronto Press, 1990; David Milne, *Tug of War: Ottawa and the Provinces under Trudeau and Mulroney*. Toronto: Lorimer, 1986, chp.5.
only to mitigate the depressing effect on business investment of the recession of 1981-82.\(^{87}\) The Government’s concessions to business on the 1981 Budget arguably represented a first step in this direction. A more pro-active step was the introduction of the “6 and 5” programme of restraint applied to the federal public services and to most categories of federal programme spending. According to some observers, the 6 and 5 programme was chiefly designed as a symbolic gesture to business of the Government’s determination to address the popular perception that public sector wage settlements exceeded those in the private sector and were acting as a spur to the latter. While Finance Department officials questioned the validity of these claims, they acknowledged the intensity of business pressure for political action to restrain public sector compensation.\(^{88}\)

The federal Cabinet shuffle of 1982 was also designed in large measure to improve relations between the Government and the business community. Notable here was the appointment of Marc Lalonde as Finance Minister, replacing the beleaguered Allan MacEachern, and of Marshall Cohen, a tax specialist who was highly esteemed by business leaders, as Deputy Minister of Finance. Business was also reassured by the appointment of Roy MacLaren, publisher of \textit{Canadian Business}, as Minister of State for Finance.\(^{89}\)

In summary, it is clear, on the one hand, that the Liberal Government’s income security and broader economic policies were not driven exclusively by the dictates of business. The Government remained autonomous to a considerable extent. On the other hand, as the condition of the Canadian economy grew more precarious in the late 1970’s, social policy was increasingly subordinated to the imperatives of economic policy--an economic policy, moreover, which was increasingly informed by the assumptions of monetarism. In this new economic and political environment, the Liberal Government appeared anxious not only to adopt social and economic

\(^{87}\) Evidence of the concern of centre-right Liberals with the growing estrangement between business and the Liberal Government is reflected in an exchange of letters between Treasury Board President Donald Johnston and Prime Minister Trudeau. See Donald Johnston, \textit{Up the Hill}. Montreal: Optimum, 1986, pp.62-66.\

\(^{88}\) This rationale for the 6 and 5 programme was disclosed in internal Finance Department documents obtained by the \textit{Toronto Star}. See Eugene Swimmer, “Six and Five,” \textit{op. cit.}, pp.257-260; Stephen Clarkson and Christine McCall-Newman, \textit{Trudeau and Our Times}, \textit{op. cit.}, p.488\

\(^{89}\) Christine McCall-Newman and Stephen Clarkson, \textit{Trudeau and Our Times}, \textit{op. cit.}, pp.265-268.
policies which would meet the approval of business, but also to avoid actions, such as a major expansion of the pension system, which might antagonize business and jeopardize economic growth.  

B. Political Parties

Social welfare policy did not figure prominently in partisan debate, inside or outside Parliament, in the late 1970's and early 1980's. Possible reasons for the paucity of debate on this subject include, first, the fact that the social welfare policies of the Liberal and Progressive Conservative parties were broadly similar. As business-sponsored parties, both parties historically had been reluctant builders of the welfare state. Moreover, in the more straitened fiscal environment of the late 1970's, neither party was prepared to endorse costly new social welfare programmes. On the contrary, both parties were increasingly convinced of the necessity for public spending restraint. At the same time, both parties, being electorally pragmatic, were sensitive to the political perils of social spending cuts. They tended, therefore, to eschew the more strident rhetorical attacks on social welfare voiced by centre-right parties in more polarized liberal democracies, such as Britain, France, and Australia. A second reason for the limited debate on social policy may have to do with the diminished influence during much of this period of the Federal NDP, the only federal party which advocated a significant expansion of the public income security system.

To assess the particular role of political parties in shaping income security policy, we consider two of the hypotheses discussed in Chapter 1: the “blame avoidance” hypothesis and the left party hypothesis. According to the first of these propositions, governing parties wishing to cut programme spending seek to minimize the political cost of doing so through a variety of techniques which lower the visibility of cuts to programme beneficiaries. According to the left party thesis, the nature and extent of social welfare provision is determined primarily by the extent of working class mobilization, as reflected in the strength of both trade union organizations and left-wing political parties. It follows, therefore, that the extent of welfare state retrenchment

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is inversely related to the strength of these organizations. The waning power of trade unions was
discussed in the previous section. This section considers the influence of labour’s political ally,
the NDP.

PoliticsofBlameAvoidance

For the most part, the Liberals’ approach to retrenchment appears to meet the
expectations of the blame avoidance hypothesis in that the Liberals employed all three of the
techniques described by Pierson. Thus, they employed “obfuscation” techniques designed to
lower the visibility and traceability of retrenchment; they imposed cuts on some, but not all, of
the beneficiaries of particular programmes; and they provided compensation to certain vulnerable
losers. There were, however, additional factors which appear to have influenced the Liberals’
retrenchment policies. Before assessing particular measures adopted by the Liberals, it is useful
to identify the Liberals’ stated aims in approaching retrenchment.

A recurrent theme of the Liberals after 1978 was the need to restrain public spending
while protecting the economic interests of the neediest elements of the population. In the Throne
Speech of October, 1978, the Government declared its intention to "reduce[e] government’s share
of the nation's wealth" and "to create a leaner and more efficient government." At the same
time, income security spending was to be allocated more selectively. Reductions in universal
Family Allowances would be offset by a child tax credit designed "so that aid can be provided to
those whose need is greatest." Unemployment Insurance coverage would be narrowed while
other measures, such as an increase in the income-tested Guaranteed Income Supplement, would
"protect from the impact of inflation those who are least able to protect themselves."
Following their re-election in February, 1980 the Liberals reiterated their dual commitment to
fiscal rectitude and to relief for the needy. In its Throne Speech of April, 1980 the Government
pledged to direct "the limited resources available...first to those who need help most."

92 Ibid.
93 Ibid.
94 House of Commons Debates, 14 April 1980, p.5.
Despite their adherence to these principles, the Liberals were evidently wary of the political dangers of abandoning universality. Indeed, during their brief stint in opposition in 1979-80, Liberal Monique Begin, a former (and future) Minister of National Health and Welfare, took her Conservative successor, David Crombie, to task for indicating his preference for a targeting of child benefits to low-income families. Mme. Begin warned the Government that any attempt to abandon universal Family Allowances would be rejected by the Canadian people just as they had rejected the Liberals' proposed Family Income Security Plan in 1972.

The Liberals employed obfuscation techniques in several of their restraint measures. For example, the Liberals (and the Clark Conservatives during their brief sojourn in office) refrained from increasing universal public pensions (the OAS and the CPP), while implementing less costly increases in the income-tested GIS and SPA. In this way, they implicitly shifted the balance between universality and selectivity in favour of the latter. Moreover, the GIS increases were timed to reap maximum political credit for the governing party, all three increases (1979, 1980, and 1984) taking effect in election years.

Another obfuscation technique—albeit one that would be used more extensively by the Mulroney Government—was an item in the 1982 Federal Budget providing for the partial de-indexation of the personal income tax system under the 6 and 5 restraint programme. The effect of this measure on income security programmes was far from transparent. As noted above, the National Council of Welfare estimated that the net effect of capping the indexation of tax brackets and most social transfers would be to reduce the after-tax income of many low and lower-middle income families. However, part of the difficulty of determining the impact of Liberal restraint policies on net welfare outcomes has to do with the Liberals' use of other "blame avoidance" techniques.

One such technique involved the compensation of certain categories of low-income

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95 House of Commons Debates, 5 November 1979, p.936.
96 House of Commons Debates, 15 November 1979, pp.1341-42.
97 Henry J. Pratt, "Aging policy and process in the Canadian federal government." Canadian Public Administration. 30:1 (Spring 1987), pp.57-75 at p.64.
recipients of social transfers. Notable here is the introduction of the RCTC in 1978. This targeted benefit compensated lower-income families for the 23% reduction in Family Allowances implemented at the same time. The Liberals employed the same technique in 1982, when capping the indexation of OAS and other social benefits under the 6 and 5 programme. Low-income seniors were compensated for this measure through a one-time “super-indexing” of the GIS. In both cases, compensation enabled the Liberals to defend their retrenchment policy on the impeccably liberal-residualist basis that scarce social benefits should be targeted to those in greatest need.

The Liberals also imposed certain restraint measures selectively, consistent with the “divide-and-conquer” strategy described by Pierson. This approach was evident in the UI cuts of 1978. Instead of curtailing the programme uniformly across the country—an approach which would have had a disproportionate impact on regions of high unemployment—the Government exempted such regions from the harsher features of retrenchment. Thus, higher qualifying periods for repeat claimants were to be tied not to the number of weeks of benefits drawn on the previous claim, but instead to regional entrance requirements, which were shorter in areas of high unemployment. Similarly, the tax clawback on UI benefits applied only to upper-income earners, not all wage earners.

The Government also, as noted above, applied in a selective manner the indexation cap under the 6 and 5 programme, universal programmes being subject to the indexation ceiling while targeted ones remained fully indexed. In this way, the burden of retrenchment was distributed unevenly across different categories of beneficiaries.

Does the Liberals’ use of “blame-avoidance” techniques mean that they were motivated primarily by a desire to avoid, or to mitigate, political blame? Does the blame-avoidance hypothesis account for the different retrenchment techniques applied to different programmes? On the whole, the hypothesis appears to provide a plausible explanation. As Pierson contends, Governments are likely to incur higher political costs from programme retrenchment where the programmes in question are supported by well organized groups or command wide public
In the case of Unemployment Insurance, the more overt retrenchment measures imposed by the Government—including its cut in the income replacement rate from 66.7% to 60%—may have been influenced by evidence that many Canadians were convinced that abuse of the UI programme was widespread. Thus, in the midst of debate on Bill C-14, the Government released a study indicating that a majority of Canadians favoured stricter rules governing UI. The results of this study confirmed the results of public opinion surveys conducted by the Unemployment Insurance Commission in 1974 and 1975. At the same time, it is clear that certain provisions of Bud Cullen’s original UI proposal which would have adversely affected areas of chronically high unemployment were modified in response to pressure from Atlantic MP’s within the Liberal caucus. Speaking on Second Reading of Bill C-14, the Minister explained that certain changes had been made to the Bill to alleviate hardship in economically depressed regions. Cullen conceded that he had been persuaded to make these changes by "the solid representations of caucus colleagues, particularly those in the Atlantic region."

While UI cuts, in the main, were thought to be politically popular, old age pensions were a different matter. If the employable unemployed were viewed by many Canadians as undeserving recipients of social benefits, in the liberal tradition of distinguishing between the deserving and the undeserving poor, senior citizens were generally regarded as deserving. With this in mind, a more circumspect approach to retrenchment, involving the use of obfuscation techniques, would appear to have been a more rational political choice.

On the other hand, one must be careful not to attribute the Liberals’ retrenchment policies entirely to mere electoral calculus. Other factors, including ideology and the nature of the party system, need also to be taken into account. For example, one might plausibly contend that the

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101 House of Commons Debates, 9 November 1978, p.983.
103 This more sympathetic attitude toward the pension entitlements of seniors is rooted, in part, in the popular belief that seniors have “earned” their pensions through the tax contributions they made during their working lives.
Liberals’ increasing emphasis on selectivity at the expense of universality was not merely a matter of minimizing the political cost of retrenchment, but was quite in keeping with the tenets of the liberal welfare state. After all, a social democratic government, faced with comparable fiscal pressures, might well have chosen to maintain universal programmes by increasing marginal tax rates on upper income earners, by eliminating regressive tax expenditures, or by introducing wealth taxes.

Similarly, the Liberal Government’s decision to refrain from implementing further cuts in the UI programme after 1981, despite the recommendations of the UI Task Force Report, does not necessarily vindicate the blame-avoidance hypothesis. It is probably true that such cuts, introduced in a time of recession, would have struck many Canadians as fundamentally unfair and may have cost the Liberals popular support in the 1984 election. However, it is also the case that, despite their misgivings about the cost of the UI programme and its aberrant effects on labour markets, important elements of the Liberal Government--including the Minister of Employment and Immigration, Lloyd Axworthy--remained ideologically committed to aspects of the Keynesian welfare state. As noted above, Axworthy was successful in winning Cabinet approval for the funding of new job creation programmes in 1981-82.

A further challenge to the blame-avoidance hypothesis relates to the nature of the party system. Pierson implies that one of the factors which makes retrenchment policies politically perilous for governing parties is the certainty that opposition parties will attempt to exploit popular discontent with such policies. To the extent that Governments make use of blame-avoidance techniques, opposition parties face a more difficult task. However, the main federal opposition party in this period, the Progressive Conservative party, not only refrained from criticizing vigorously the Liberals’ retrenchment measures but was itself put on the defensive by the governing Liberals in debates on social policy.

While social policy was hardly raised at all in the federal election campaigns of 1979 and

104 Christine McCall-Newman and Stephen Clarkson, Trudeau and Our Times, op. cit., p.251.
1980, it figured more prominently in the 1984 federal campaign and in the year preceding the election. While the Liberals, as noted, had embraced some of the tenets of monetarism in 1978, they did not adopt a full-fledged neo-conservative critique of social spending, in contrast to the Thatcherite wing of the British Conservative Party and the Reaganite wing of the US Republican party. Indeed, beginning in mid-1983 the Liberals cast themselves as defenders of the welfare state while attempting to characterize the Progressive Conservative opposition as callous budget-cutting zealots. The centrepiece of this political strategy was the introduction of the Canada Health Act, an act designed to compel provincial governments to ban hospital user fees and extra billing by physicians. As most of the provinces by this time had Conservative Governments, and the highest incidence of extra billing was in Conservative-ruled Alberta, the Liberals hoped to goad the Federal PC caucus into voting against the Act. As the Government entered the final year of its term, senior ministers intensified their attack on the Conservatives, Prime Minister Trudeau himself branding the Tories "Social Darwinists" who would unravel the social safety net if given half the chance.

Notwithstanding Liberal efforts in 1983-84 to paint the Conservatives as radical neo-conservatives, the social and economic policies of the two major parties were virtually indistinguishable. Indeed, the Conservatives were broadly supportive of the Liberals' approach to welfare retrenchment. Speaking on Bill C-14, Conservative MP's welcomed measures to cut UI programme costs and to curb what they took to be widespread abuses.

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107 Introduced into the House of Commons in December, 1983, the Canada Health Act consolidated the Hospital Insurance and Diagnostic Services Act (1957) and the Medical Care Act (1966). The new Act declared accessibility to be a principle to which provincial Medicare plans must adhere in order to qualify for federal funds. Provinces permitting hospital user fees or extra billing by doctors would suffer reductions in federal Medicare payments on a dollar-for-dollar basis.
109 Michael J. Prince, "Whatever happened to compassion?" op. cit.
111 House of Commons Debates, 9 November 1978, p.991.
For example, the Conservatives proposed reduced UI benefits for persons without dependents and for those quitting their job without just cause.\textsuperscript{112} They did, however, ultimately oppose the Bill, ostensibly because the more stringent work requirements applicable to repeat users of UI would impose an undue burden on high-unemployment regions, notably Quebec and the Atlantic provinces.\textsuperscript{113}

On the issue of Family Allowances, the Conservatives supported the introduction of the Refundable Child Tax Credit (RCTC), a measure that was entirely in keeping with Conservative policy. During his campaign for the Federal PC leadership in 1976, Joe Clark had proposed that Family Allowances be targeted to low-income families.\textsuperscript{114} In 1977, Clark had called for a review of universality as part of a five-point economic plan.\textsuperscript{115} This pledge, however, was not a prominent part of the Conservatives' 1979 election platform. As a result, the Clark Government's announcement, in November, 1979, that it was considering the elimination of universal Family Allowances was vigorously opposed by the Liberals and New Democrats as "an unexpected attack on what had appeared to be settled policy."\textsuperscript{116}

Following their stunning defeat in the 1980 federal election, the Conservatives were even more circumspect about social policy. For the most part, they confined their public pronouncements to stock criticisms of cuts in federal social spending, such as the reductions in federal transfer payments to the provinces announced in 1982 under the Established Programmes Financing Act and the partial de-indexation of Old Age Security and Family Allowances which accompanied the 6 and 5 programme.\textsuperscript{117} On assuming the Conservative leadership in 1983, Brian Mulroney emphatically disavowed any plans to curtail existing income security programmes. Social programmes, Mulroney declared, were part of the "dimension of tenderness" of Canadian society and a "sacred trust."\textsuperscript{118} On the question of universality, Mulroney reiterated the

\textsuperscript{116} William Irvine, "Epilogue," \textit{op. cit.}, p.345.
\textsuperscript{117} Michael J. Prince, "The Tories and the NDP," \textit{op. cit.}, p.39.
\textsuperscript{118} Michael J. Prince, "Whatever happened to compassion?" \textit{op. cit.}, p.112; David Bercuson et al, \textit{Sacred Trust?}
Conservative view that social programmes should be designed "to get the most money into the hands of the people who need it most." He added, however, that because of the political delicacy of the issue, a Conservative government would only raise it with the agreement of all parties. Consistent with this desire to avoid controversy on social policy matters, the Conservatives unexpectedly voted in favour of the Liberal-sponsored Canada Health Act, introduced into the House of Commons in December, 1983, notwithstanding their professed commitment to a more conciliatory approach to federal-provincial relations. Moreover, in the 1984 election campaign the Conservatives even promised new social welfare programmes, including a CPP homemaker pension and national day care.

**Left Party Hypothesis**

As discussed in Chapter 1, many studies of welfare state development has assigned importance to the presence and relative strength of socialist or labour parties in national politics. Such studies purport to show a positive relationship between left party strength--typically measured by the number of years during which the left held office or the proportion of cabinet posts held by left-wing parties in coalition governments--and the nature and extent of welfare state development. Although a left-wing party has never held power in Canada at the federal level, many scholars consider the left (i.e., the NDP and its predecessor, the CCF) to have had a significant influence on the development of Canada's welfare state.

In the minority parliaments of the 1960's and early 1970's, NDP pressure not only facilitated the expansion of social programmes, but also blocked several planned retrenchment.
measures. For example, during the minority Parliament of 1972-74, the New Democrats, holding the balance of power, successfully pressured the Trudeau Government into abandoning its White Paper proposal to replace Family Allowances with an income-tested benefit called the Family Income Security Plan (FISP). In October 1973 the NDP also succeeded in forcing the Government to withdraw Bill C-125, a bill designed to curb alleged abuses of the UI programme by stiffening eligibility requirements for claimants who had quit their job voluntarily or been fired for misconduct.

As the Liberals proceeded to retrench social programmes after 1978 and to erode the universality principle, one would expect, pursuant to the left party thesis, to observe a marked ebbing of NDP strength during this period. Evidence on this point is somewhat ambiguous. While the electoral fortunes of the NDP fluctuated widely during the period 1978-1984, it remained a significant force in federal politics. In the 1979 federal election, the Party regained the traditional support base which had deserted it in the 1974 election. Sharply critical of the neo-conservative cast of many of the social and economic policies of the PC Government of Joe Clark, the NDP was instrumental in defeating it in December, 1979 when the Liberals unexpectedly supported an NDP motion of non-confidence. While the NDP held its own in the 1980 federal election, it slumped badly in the polls from 1983 to the run-up to the 1984 election. Though widely expected to be decimated in the election, the Party managed to stave off defeat and retain its customary level of support.

In assessing the NDP’s influence over federal policy developments in this period, several observations may be made. First of all, true to its social democratic approach to the welfare state, the NDP strongly opposed the curtailment of UI and the cuts to Family Allowances. With regard to old age pensions, the Party advocated increases in the universal OAS in preference to

127 The Federal NDP was supported by only 11% of decided voters according to polls released in March, 1984.
the Government's increasing reliance on the income-tested GIS. As for the Canada Pension Plan, New Democrats echoed the CLC's demand for a significant increase in benefits. The NDP was also strongly supportive of a national day care programme, to be organized on a universal, non-profit basis.

Given the NDP's opposition in principle to the rollback of Family Allowances and the cutbacks in UI, it is reasonable to suppose that the Party would have blocked these measures had it possessed the parliamentary leverage to do so. However, as the Liberals went on to form majority governments after the 1974 and 1980 federal elections, the NDP's capacity to exert a direct influence over legislation was limited.

Even if the NDP was unable to block the Liberals' retrenchment measures, its presence in Parliament nevertheless may have tempered the nature or extent of such measures. Indeed, since welfare states in this period were under strain in virtually all advanced capitalist states, a more appropriate barometer of left party influence may lie in the success of such parties in forestalling or mitigating retrenchment measures which might otherwise have been implemented. Such a proposition, by definition, cannot easily be proven. However, there is some evidence to suggest that, despite the more conservative cast of many of their social and economic policies after 1978, the Liberals continued to be influenced by the NDP. Indeed, leading Liberal strategists of the 1970's and 1980's, such as Senators Keith Davey and Jerry Grafstein, propounded the view that a key ingredient of the Liberals' electoral success lay in their occupying a centre-left position. Such a position, Senator Davey later explained, allowed the Liberals to distinguish themselves from the Conservatives and to out-manoeuvre the NDP.

This strategy seems to be reflected in Liberal efforts, described above, to magnify the differences between themselves and the Conservatives, especially in the field of social policy. More generally, the NDP, by attacking the Government from the left, may have strengthened the hand of the more left-leaning members of the Liberal Caucus and Cabinet. On this point,

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128 New Democrat MP Ted Miller, a member of the Parliamentary Task Force on Pension Reform, issued a strongly worded dissenting report in which he set out the NDP's case for an expansion of the CPP.
National Health and Welfare Minister Monique Begin claims that persistent NDP questioning in the House of Commons in the early 1980's on the practice of extra-billing by medical doctors helped her to win Cabinet approval for the introduction of the Canada Health Act in 1983.\(^{130}\)

As noted above, many of the Liberals' traditional business supporters were dissatisfied with the Trudeau Government's economic policies and with the overall level of public spending. Indeed, Treasury Board President Donald Johnston expressed the view of many centre-right Liberals that the Government was not so much outflanking the NDP as seeking to replace it.\(^{131}\)

In his successful bid for the Liberal leadership in 1984, former Finance Minister John Turner emphasized a "business liberal" approach to social and economic policy, stressing in particular the need to reduce the Federal budget deficit.\(^{132}\) Nevertheless, as the Liberal election campaign of 1984 began to founder under Turner's leadership, and as the NDP began to stage a dramatic recovery in the opinion polls, the Liberals belatedly re-emphasized their commitment to maintaining social programmes.\(^{133}\)

These observations suggest that the NDP may have had a moderating effect on the Liberals' retrenchment policies. Further research, however, is required to determine more clearly the nature and extent of the NDP's influence.

**C. Non-Class Pressure Groups**

For reasons discussed in Chapter 1, it was not anticipated that non-class-based pressure groups would exert a significant influence on income security policy in the period under study. Historically, national organizations representing the beneficiaries of income security programmes were weak or non-existent and played a marginal role at best in the expansionary and consolidation stages of Canada's welfare state. A similar pattern was predicted in the era of retrenchment and reformulation. By and large, this prediction is confirmed for the period 1978-

\(^{130}\) Monique Begin, *Medicare: Canada's Right to Health*. Ottawa: Optimum, 1988, pp.91-92. It must also be conceded, however, that the Canada Health Act formed part of a larger strategy of the last Trudeau Government of re-asserting the powers of the Federal Government vis-a-vis the provinces. See David Milne, *Tug of War*, op. cit


1984, though with important qualifications.

1) Seniors' Groups

In the area of old age pensions, there were three major organizations of senior citizens operating at the national level in the late 1970's, not including organizations, such as the Royal Canadian Legion, a high proportion of whose members were seniors. The oldest and largest of these was the National Pensioners and Senior Citizens Federation (NPSCF), founded in 1945 as the Canadian Old Age Pensioners Federation. A second national group, Canadian Pensioners Concerned (CPC), was founded in the late 1960's. A separate Quebec-based group, l'Association quebecoise de defense des droits des retraites-es et preretraites-es (AQDR), was founded in 1977; it had no formal links with either of the other groups. None of these organizations had major political influence.\textsuperscript{134} The NPSCF operated with a volunteer staff and is not known to have conducted any national campaigns before 1985 on behalf of its policy aims.\textsuperscript{135} In 1980 the federal government established the National Council on Aging to advise the Minister of National Health and Welfare on policy issues related to the elderly. The Advisory Council, chaired by a government appointee, was also intended to provide a forum for dialogue on such issues between ministers and bureau crats and leading seniors.\textsuperscript{136}

Nevertheless, given their limited organizational resources and expertise, seniors' groups were not intimately involved in policy-making.\textsuperscript{137} Their chief role in the policy process was interest articulation and policy legitimation.\textsuperscript{138} The NPSCF fulfilled the first of these functions primarily by delivering to the federal government policy resolutions passed at its annual convention. Ministers, for their part, often addressed meetings of seniors' groups to explain and to seek support for government initiatives.\textsuperscript{139}

\textsuperscript{136}Ibid., p.38.
\textsuperscript{137}Henry J. Pratt, "Aging policy and process in the Canadian federal government," \textit{op. cit.}, p.69.
\textsuperscript{138}Ibid., pp.72-73.
\textsuperscript{139}Ibid.
2. Social Policy Groups

While pensioners had at least some form of national organization expressly dedicated to defending their interests, the same cannot be said for the large beneficiary groups of such programmes as Family Allowances and Unemployment Insurance. Their interests were most consistently articulated by research and advocacy groups such as the Canadian Council on Social Development (CCSD), the National Council of Welfare (NCW), and the National Anti-Poverty Organization (NAPO), which endeavoured to address all aspects of the income security system. Each of these groups, however, was severely constrained in its ability to represent its vast notional clientele and to influence public policy. The CCSD is a non-profit society which was founded in 1970 with a mandate to conduct research, public education, and advocacy activities on behalf of "progressive social policies and programmes." However, it lacked a mass membership or, indeed, a membership that was representative of those segments of the Canadian population most reliant on the public income security system, such as the poor, single parents, and elderly women. Moreover, although the CCSD had the largest research staff of any national social agency, its resources were dwarfed by those of relevant government departments. Thus, the CCSD "did not possess the expertise that state actors had to rely on, and it was not consulted in detail by officials in preparing legislation." Finally, the CCSD was constrained to some extent in its ability to critique government policy by its reliance on the federal government for approximately 90% of its budget. On a related note, the CCSD's status as a registered charity explicitly precluded it from lobbying and even from engaging in many forms of advocacy.

While the CCSD was committed to the principle of universality and to the further

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142Ibid.
development of income security programmes, it generally accepted broad statements of
government policy and tailored its policy proposals accordingly. Thus, as early as June, 1978
the CCSD passed a resolution conceding that new social expenditures to reduce income inequality
were unlikely to be forthcoming; it therefore called for a "restructuring of social programmes now
in place" to redistribute existing resources more equitably. This pragmatism on the part of the
CCSD often led it to propose a range of alternative policies to government, including both its
preferred choice and other policies thought to be more congenial to the government. Thus, during
the pension debate, the CCSD advocated an increase in the OAS but also proposed as a fall-back
position an increase in the GIS, coupled with a reduction in the tax-back rate on supplementary
income.

The National Council of Welfare was even more constrained than the CCSD in critiquing
government policy because of its status as a government advisory body. Established in 1970 and
fully funded by the federal government, the NCW is governed by a board whose members are
appointed from outside the civil service to provide policy advice to the Minister of National
Health and Welfare. Originally, it was intended to act as an advocate for the poor, but few of its
appointees were themselves poor. The NCW’s most effective contribution to social policy
debates lay in the quality of its research reports, which were highly valued by non-governmental
groups. Like the CCSD, the NCW was a strong supporter of universality and expanded
pension coverage. However, as a governmental advisory body, it was precluded from lobbying
for the policies it favoured.

The only national social policy organizations which represented and was run by the poor
was the National Anti-Poverty Association, founded in 1971. Also funded almost entirely by
the federal government, NAPO had limited resources to conduct in-house research or to engage in
grassroots organization. Like the CCSD, NAPO’s status as a registered charity severely

restricted its ability to act as a lobby group.

NAPO's positions on income security matters were broadly similar to those of the CCSD and the NCW, although it had fewer reservations about the targeting of benefits to low-income earners. Thus, NAPO recommended increases in the GIS, not so much as a low-cost alternative to the OAS, but as an effective anti-poverty tool. NAPO also endorsed the RCTC with enthusiasm, describing it as "an important step toward initiating an income distribution system which will put more money in the hands of those who need it most--Canada's poor." However, NAPO did not accept the increasingly prevalent view within governmental circles that improved selective benefits to the poor necessitated the dismantling of universal programmes. Together with the CCSD and the NCW, NAPO advocated measures to eliminate tax loopholes for the affluent with the proceeds to be used to fund new or enriched social programmes.

3. Women's Groups

Women's groups were arguably the most successful of the non-class-based pressure groups which addressed income security policy in the late Trudeau period. National organizations such as the National Action Committee on the Status of Women (NAC) and the Canadian Advisory Council on the Status of Women (CACSW) were not exclusively concerned with social welfare policy; their agenda embraced a broad range of social, economic, and political issues relevant to women. In the years following the release in 1970 of the Report of the Royal Commission on the Status of Women, the women's movement in Canada increasingly succeeded in focusing national attention on "women's issues," from abortion to discriminatory pay and hiring to children's day care. An early sign of the growing political salience of women came in 1973 when the Liberal Government designated a Minister responsible for the status of women and appointed special advisers on women's issues in numerous government departments, including National Health and Welfare and Employment and Immigration. In 1975,
International Women's Year, the Spouse's Allowance was introduced.

As the era of welfare state retrenchment began in earnest, women's groups posted some notable gains, particularly in the area of pensions and Unemployment Insurance. These gains both complemented and defied the overall trend toward greater selectivity. Thus, women's groups, by drawing attention to the incidence of poverty among single elderly women, deserve some credit for spurring the Government to increase the basic GIS benefit. A clearer example of the growing attentiveness to women's issues of both the Trudeau and Clark Governments was the broadening of the income-tested SPA in 1978 and 1979. While these measures were expansionary, they were consistent with the Government's new emphasis on selectivity. Demands by women's groups for new universal programmes, such as homemaker pensions or national day care, were studied but never implemented.

At the same time, women's groups played a supporting role in defending the universality of existing programmes, notably Family Allowances, and an instrumental role in expanding social rights under the Unemployment Insurance programme. On the question of universality, women's groups were ardent defenders of Family Allowances. While echoing the arguments traditionally advanced by proponents of universality, women's groups also tended to characterize Family Allowances as a women's entitlement. It was noted, for example, that Family Allowances were the sole source of discretionary income for many women. To target benefits on the basis of household income would ignore the reality that the distribution of household income between spouses is often highly unequal. These arguments were articulated not only by women's groups but also, within the state, by the new federal and provincial advisory councils and policy advisers on women's issues.\(^{151}\)

It is in relation to Unemployment Insurance that women's groups scored their most conspicuous success. As noted earlier women's groups had long been critical of the stringent

\(^{151}\)E.g., in late 1979 the Senior Adviser on the Status of Women in the Department of National Health and Welfare urged the retention of Family Allowances, noting that "the program accomplishes redistribution within families as the cheque goes to the mother who, in a vast majority of cases, is either a non-earner or the spouse with the lower income." [Original emphasis] Public Archives of Canada. Freda L. Paltiel to J.E. Osborne, 9 November 1979. RG 29, Box 84, File 3201-3-3, Pt.3.
qualifying conditions for UI maternity benefits and the effective denial to pregnant women of access to regular UI benefits. Women's groups regarded these rules as discriminatory and lobbied vigorously for their removal. When Bill C-14 failed to address these concerns, women's groups increasingly sought to characterize the issue as a human rights question. They were assisted in this effort by the creation of the Canadian Human Rights Commission, which began to receive numerous complaints on the subject of UI in 1978 and 1979. The most important legal challenge to the maternity benefits provisions that was raised during this period was the case of Stella Bliss. Bliss contended that the special qualifying rules for regular UI benefits which applied to pregnant women constituted discrimination on the basis of sex, contrary to the equality provisions of the Canadian Bill of Rights. In 1978 the Supreme Court of Canada rejected the appeal, ruling that the UI Act did not discriminate against women as such; rather, the Court found, the law merely distinguished between persons who were pregnant and those who were not. The Bliss case became a cause celebre for the women's movement, spurring it to intensify its lobbying campaign. These efforts bore fruit when the Government set up the UI Task Force in 1980 to undertake a comprehensive review of the UI programme. The Task Force's recommendations in relation to maternity benefits were accepted by the Cabinet in 1982 and enacted the following year.

Another consequence of the Bliss case was to convince women's groups of the importance of securing more effective constitutional guarantees of equality than those contained in the Bill of Rights. Thus, when the Trudeau Government proposed the constitutional entrenchment of a Charter of Rights in October, 1980, women's groups participated actively in

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152 Gary Dingledine, A Chronology of Response, op. cit., p.95.
153 Bliss applied for UI maternity benefits in 1976 but was rejected under the Magic 10 rule because she had not been employed at the time of conception. After giving birth, she immediately applied for regular UI benefits, but ran afoul of the rule disqualifying pregnant women from receiving such benefits sooner than six weeks after giving birth. Leslie A. Pal, "Maternity Benefits and Unemployment Insurance," op. cit.
155 The UI amendments of 1983 granting up to 15 weeks of "maternity" benefits to adoptive parents may also be regarded as a response to feminist critiques of the programme. Women's groups had long maintained that the post-natal portion of maternity benefits ought to be treated as a parental benefit since child care is not the exclusive responsibility of the mother. Applying this logic, the new adoptive benefits were made available to either the mother or the father. Post-natal maternity benefits for natural parents, however, were still restricted to mothers.
the subsequent parliamentary committee hearings. Their interventions significantly broadened the scope of the equality guarantees in Section 15. As the proclamation of Section 15 was postponed by three years to April, 1985, its impact on the development of the income security system is discussed in subsequent chapters.

D. State Actors

The final vantage point from which to assess developments in income security policy is that of the policy-makers within the federal government. While political parties, class interests, and non-class-based groups participated in, and influenced, the policy process in various ways, income security policy was ultimately formulated and implemented by bureaucrats and ministers. As noted earlier, the principal line departments were the Department of National Health and Welfare (responsible for pensions and family benefits), and the Department of Employment and Immigration (responsible for Unemployment Insurance). The key central agencies were the Department of Finance and the Treasury Board, the twin guardians of the government's pursestrings. Other central agencies, from the Privy Council Office (PCO) and the Prime Minister's Office (PMO) to the Cabinet Committee on Planning and Priorities, also played important, though intermittent, roles.

Numerous studies have examined the role of bureaucrats and ministers in shaping particular income security programmes. Broadly speaking, these state-centred studies examine episodes in the expansion of Canada's welfare state and describe the success of federal officials sympathetic to an expansion of income security programmes in overcoming opposition from officials whose principal concern was to restrain the growth of government expenditures. Given the importance attached by the Federal Government to fiscal restraint and to the promotion of private sector economic activity beginning in the late 1970's, a state-centred approach would anticipate a decline after 1978 in the influence of the leading social policy department, the

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Department of National Health and Welfare, and a corresponding enhancement of the influence of the leading fiscal guardian, the Department of Finance. Broadly speaking, Finance did acquire more authority over public policy in general after 1978, including income security policy. Nevertheless, National Health and Welfare (NHW) under its reform-minded minister, Monique Begin, was successful in influencing the Government's agenda and in mitigating somewhat the impact of fiscal austerity on federal social programmes. In the field of Unemployment Insurance, the battle lines were not as clearly drawn between the Department of Finance and the Department of Employment and Immigration. Rather, with the amalgamation of UI and manpower policy which occurred in 1977, the Department of Employment and Immigration endeavoured to pursue a more active labour market policy under which UI eligibility and benefits would be curtailed and UI funds increasingly diverted to skills training and other "developmental" uses.

1. Family Benefits

When Monique Begin became Minister of National Health and Welfare in 1977, the Department had recently suffered a major defeat at the hands of both the Department of Finance and the provinces. In 1975, Begin's predecessor, Marc Lalonde, had failed to win cabinet approval for a $2 billion federal-provincial income supplementation scheme for the working poor.157 Finance objected to the cost of the proposal while other ministers feared that its adoption "would preclude expansion of their own programmes."158 A pared down proposal was accepted by the cabinet in 1976, only to be rejected by the provinces.159 In response to the provinces' rebuff, Lalonde announced that the Federal Government would examine ways of delivering an exclusively federal income supplement through the tax system. To this end, an interdepartmental task force was established, "comprising officials from the Departments of Finance and National Health and Welfare and from the Treasury Board Secretariat."160 After

158 Ibid.
159 Ibid., pp.497-498.
reporting to cabinet in mid-1977, the Task Force was instructed to explore specific mechanisms for the integration of social benefits and the tax system.

Monique Begin and her officials favoured the use of refundable tax credits to deliver income transfers to the working poor. As executive secretary of the Royal Commission on the Status of Women in the late 1960's, Begin had strongly favoured the idea of a federal cash allowance for one-parent families with dependent children. She later came to support the idea of a negative income tax as a means of delivering a guaranteed annual income (GAI). Finance officials, however, were opposed to using the tax system as a mechanism for income transfers. While favouring measures, like the GAI, to target more resources to individuals and families on low incomes, Begin was committed to maintaining the universality of Family Allowances and Old Age Security. In her view, universality provided the "mass political support that permits reform politicians to move ahead on other social programs." Begin, however, saw little prospect for major extensions of the social welfare system in the political and economic environment of the late 1970's. As she subsequently recorded:

I came to the Department of Health [and Welfare] hoping to implement a guaranteed annual income for Canadians through a negative income tax. Barely four months had passed when I realized I would have to be content with the much more modest role of defending, inch by inch, our previously acquired rights. I would be lucky to save family allowances, universal pensions, and the existing level of social services.

Begin's fears were realized in August, 1978 when she was advised at a special cabinet meeting that Family Allowances were one of the programmes singled out for spending cuts. Ironically, this situation afforded Begin the opportunity to revive the idea of a targeted tax-based income transfer programme. In the three-week period following Trudeau's TV address, Begin convinced Finance Minister Jean Chretien and then the full cabinet of the merits of a refundable child tax credit. The technical feasibility of the RCTC had already been affirmed by the Tax-Transfer Integration Task Force. Politically, the RCTC was attractive to the Government in
several respects. For the Cabinet, the RCTC was a "good news" announcement which would help to divert public attention from the cuts in Family Allowances.\textsuperscript{166} Finance, for its part, relented in its opposition to tax-based social transfers once it became clear that no further direct spending on social programmes was planned. Finance was also reassured by the fact that the Government would be spending $35 million a year less on family benefits. Another advantage of the RCTC was that it allowed the Government to avoid making a clear choice in the on-going debate over universality and selectivity. By taking a two-tiered approach to family benefits, involving the retention of universal Family Allowances and the introduction of a targeted benefit for poorer families, the Government would be "having [its] cake and eating it too."\textsuperscript{167}

While some social policy activists feared that the RCTC was an augury of greater selectivity to come, it was evidently not designed with such a goal in mind. According to a former NHW official, "there was no hidden agenda to abolish universality." At all events, he added, "Begin would have been an improbable party to such a plot!"\textsuperscript{168} Nevertheless, it was a testament to Finance's growing influence over social policy that the only new social programme introduced by NHW during this period was a programme financed from reductions in other family benefits programmes.

2. Pensions

If the Finance Department played a key, if indirect, role in recasting the child benefit system, it was instrumental in shaping the outcome of the "Great Pension Debate" of the early 1980's. As noted earlier, pension reform was one of the few explicit promises made by the Liberals in the 1980 federal election campaign. Following the election the Trudeau Government announced the convening of a National Pensions Conference to discuss ways to provide "flexible, portable, and secure pensions both in the private and public sectors."\textsuperscript{169} Public attention remained focused on the pension issue with the release of the federal Task Force report (the


\textsuperscript{167}Interview with former NHW official, Ottawa, 13 June 1996.

\textsuperscript{168}Ibid.

\textsuperscript{169}\textit{House of Commons Debates}, 14 April 1980, p.5.

In contrast to its attitude toward child benefits and Unemployment Insurance, the Government appeared to be seriously considering an expansion of the welfare state in the area of pension benefits. Proposals ranging from an increase in CPP benefits to legislation requiring employers to establish workplace pension plans were endorsed by a number of the federal and provincial reports noted above. Prime Minister Trudeau opened the National Pensions Conference in February, 1981, declaring pension reform to be a top priority of the Government. While the Government did not disclose specific policy preferences until 1982, when it released its Green Paper on pensions, the PM did set out five principles that would govern its approach to the issue. These principles included universal coverage, protection of pension benefits against inflation, equity for women, and improvements to the private pension system.

Pension reform, therefore, was the main income security policy issue with which NHW was preoccupied in the period 1980-1984. For Monique Begin, pension reform was her "main dossier" following the 1980 election. NHW was the dominant department involved in the Government's pension review until 1981. After 1981, however, the Department of Finance assumed a more important role as it grew increasingly antagonistic to reform proposals being floated by NHW officials. Echoing business objections about the economic costs of increased pension benefits, Finance favoured a more modest set of measures than those advocated by NHW. Briefly stated, NHW favoured a mandatory approach to pension coverage, although Begin was non-committal on the issue of mandatory private pensions versus an expansion of the Canada Pension Plan. Finance preferred stricter regulation of existing occupational pension

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171 Ibid.
172 Interview with former NHW official, Ottawa, 15 June 1996.
173 Ibid.
174 Begin sent conflicting signals on this point. In 1980, she warned that if private industry failed to agree on improvements to private sector coverage and benefits, "then we will have to consider doubling immediately contributions to the CPP, on a mandatory basis, for everybody." Jim Robb, "Monique Begin: The Reluctant Politician," op. cit., p.28. Several months later she appeared to signal a preference for private pensions. Speaking of the forthcoming National Pensions Conference, she said: "I want this Conference to focus on the
plans coupled with increased tax incentives for private savings.\textsuperscript{175}

During the 20-month interval between the close of the Pensions Conference and the issuance of the Government's Green Paper on pensions, NHW and Finance were at loggerheads over the direction of pension reform—"Health and Welfare wanting to make progress and Finance wanting to exercise caution."\textsuperscript{176} Since NHW and Finance were unable to reach a mutually satisfactory position, a coordinating body was established by the Privy Council Office under Michael Kirby to mediate between the two departments and then to conduct consultations with provincial officials.\textsuperscript{177} The Green Paper which ultimately resulted from this exercise was decidedly closer to Finance's position than to that of NHW. Declaring that "the government's first priority is to restore the health of the Canadian economy to its full vigour,"\textsuperscript{178} the Green Paper's recommendations dealt with improved standards for employer-sponsored pension plans, such as earlier vesting and better portability. The Parliamentary Task Force to which the Green Paper was referred largely replicated its recommendations. In rejecting mandatory private pension plans and an increase in the CPP replacement rate, the Task Force Report expressed a reluctance to add "to the burden of non-wage labour costs carried by the Canadian economy."\textsuperscript{179} The Report also indicated a preference for private pension plans, remarking that private industry should be given "a further opportunity to demonstrate that coverage of adequate scope and depth can be achieved without recourse to a universal public plan."\textsuperscript{180} As if to underscore the ascendency of Finance over pensions policy, the Government's policy papers on pension reform,

\textsuperscript{175}Interview with former NHW official, Ottawa, 15 June 1996.
\textsuperscript{177}Ibid.
\textsuperscript{180}Ibid.
released in early 1984, were issued by the Department of Finance as part of the Federal Budget.

In summary, the battle over mandatory pension coverage and improved benefits never reached the stage where the state was directly pitted against business. The Pension Debate therefore differed from the debate over the establishment of the Canada Pension Plan in the 1960's. In the latter case the federal government had made a clear commitment to the establishment of a mandatory public contributory pension plan. In the 1980's, in contrast, it never formally endorsed an expansion of mandatory pension coverage, thanks in large measure to Finance's opposition to the concept.\(^{181}\)

3. Unemployment Insurance

If family benefits and pensions were battlegrounds of sorts between the Departments of National Health and Welfare and Finance, unemployment insurance was a comparatively placid field of conflict within the federal government. As early as late 1972, when escalating UI costs had been a prominent issue in the federal election campaign, Ministers responsible for UI began actively to pursue cost-cutting measures. Indeed the UI cuts of 1978 were the third round of programme reductions dating back to 1975. The first two rounds had been planned with a view to eliminating the deficit in the UI Account and to curbing perceived abuses of the programme. The timing and depth of the 1978 cuts, however, were driven by Trudeau's cost-cutting decree of August. The Minister, Bud Cullen, was given less than one month to find cost savings he had not expected to have to make.\(^{182}\)

Yet it should also be pointed out that the tightening of the UI programme was part of an overall change in the aims of UI and of the government's broader labour market policy. On the one hand, as noted above, the Department of Employment and Immigration favoured UI retrenchment as a means of strengthening work incentives and controlling the politically

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\(^{181}\)This point was brought to my attention by a federal official, formerly of the Department of Finance, who was involved with the Lazar Task Force on pensions and co-wrote the Green Paper on pensions. (Telephone interview conducted in Ottawa, 18 June 1996.) According to this official, when the Federal Government unveiled its initial CPP proposal in the 1960's, the provinces responded with detailed positions of their own, thereby giving impetus to the principle of an expanded public pension system. Indeed, in the expansionary phase of federal social programmes, the usual rule was that "the Federal Government proposes, the provinces dispose." In the 1980's, in contrast, there was no Federal proposal for mandatory pension coverage to which the provinces needed to respond.

\(^{182}\)Leslie A. Pal, *State, Class, and Bureaucracy*, op. cit., p.86.
controversial cost of the programme. On the other hand, the Department was also increasingly committed to pursuing a more active labour market policy through the introduction of training, work-sharing, and other programmes concerned with the management of the labour supply. In order to fund these projects while restraining overall UI spending, the Department sought to make use of the savings generated from cuts in UI coverage and benefits.

Given this broadening of the mandate of the UI programme to embrace goals beyond mere income maintenance, it is perhaps not surprising that Ministers of Employment and Immigration failed to defend UI benefits as vigorously as they might otherwise have done.

V. Conclusion

In the late 1970's and early 1980's, Canada's liberal welfare state entered the new era of retrenchment. The immediate impetus for this development was ostensibly economic, as the Prime Minister, in his 1978 TV address, declared existing levels of public spending to be unsustainable in the face of declining economic growth and continuing high inflation. Proceeding from this assumption, the Government embarked on a path of social welfare restraint. During the period 1978-1984, the Unemployment Insurance programme was significantly curtailed and family benefits programmes were restructured. After an extensive national debate on reform of the pension system, only piecemeal changes were ultimately approved. The clear pattern to emerge from these measures was a decline in the relative importance of universality in Canada's welfare state and a corresponding enhancement of the relative importance of selectivity. In this way, the liberal or residual character of the welfare state was reinforced at the expense of the social democratic features which had been appended to it in the postwar period.

The factors which conditioned the process of welfare state reformulation were both society-centred and state-centred. As the political-class (or power resources) approach anticipates, business appeared to exert increasing influence over social and economic policy beginning in the late 1970's while organized labour evidently had little effect. Not only did the

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Federal Government move closer to business's policy preferences but it increasingly invoked the market-oriented reasoning traditionally used by business in relation to social policy. Labour's policy prescriptions, in contrast, fell out of favour as Ottawa endeavoured to foster business confidence. These efforts by the federal government were especially evident after the recession of 1981-1982, when proposals to expand mandatory pension coverage were decisively rejected by the Trudeau Government. Trade unions, moreover, were weakened by a secular rise in the unemployment rate and by the increasing use of coercive measures by the Federal Government, such as the 6 and 5 programme and the growing use of back-to-work legislation, both federally and provincially.

In their approach to retrenchment, the Liberals employed several techniques of political blame-avoidance while being careful to justify their retrenchment efforts on the grounds of liberal equity. Surprisingly, the Conservatives did not vigorously attack the Liberals' austerity policies. Since the Conservatives largely approved of the Liberals' measures, and were being assailed by the other parties as neo-conservative wolves in sheep's clothing, they apparently chose to avoid active engagements in debates on social policy. The NDP, as expected, did challenge the direction of social and economic policy. In view of its minor party status and reduced parliamentary leverage during most of this period, the NDP was unable to exert direct influence on social policy. However, its presence in Parliament broadened the terms of debate and may have tempered the liberal-residualist proclivities of the main parties.

As predicted the pluralist approach fails adequately to explain the flight from universality. Most of the social policy groups were supporters of universality, yet failed to have a discernible effect on programme developments. Most of these groups, moreover, only emerged in the 1970's, after the major elements of the welfare state had already been put in place. Women's groups, however, did help to set the social policy agenda to some extent and were even instrumental in securing new, albeit limited, social rights, particularly in relation to Unemployment Insurance.

Finally, conflicts within the state over income security policy evidently had some bearing
on policy outcomes. In particular, the role of the PM and the traditional rivalry between the Department of National Health and Welfare and the Department of Finance was important and, at times, decisive in advancing or blocking particular policy proposals. On the whole, there was a decline in the influence of NHW in relation to Finance, the latter's role being significantly enhanced by the PM's 1978 conversion to important tenets of neo-conservatism. Thus, new social programmes were indefinitely postponed, despite Monique Begin's support for new initiatives. Even the RCTC, a step in the direction of a more selective social benefits system, was approved only at the price of a cut in the universal Family Allowance. The recession of 1981-82 appears to have led to a significant enhancement of the authority of the Department of Finance. The limited scope of the pension reform proposals contained in the Government's 1982 Green Paper appear to reflect Finance's more active role in social policy. Similarly, the 6 and 5 restraint programme implicated Finance in the restructuring of income security programmes, a development that would continue under the Conservatives.
Chapter Four: "Social Policy by Stealth":
The Conservatives and Income Security, 1984-1993

I. Introduction

As discussed in Chapter 3, the late Trudeau period marked the beginning of a new stage of retrenchment for the Canadian welfare state. As the Liberal Government began to characterize public spending as an important cause of economic under-performance, it repeatedly moved to restrain and where possible to reduce such expenditures in the name of economic renewal. Thus, among other things, Unemployment Insurance benefits were reduced and qualifying conditions were made more restrictive, Family Allowances were cut, while OAS benefits (exclusive of indexation) were not increased. To the extent that social benefits were increased or coverage expanded during this period, piecemeal improvements were made to existing programmes, particularly those, like the GIS and the SPA, which delivered benefits on a selective basis. However, no major new income security programmes were introduced.

Notwithstanding these developments, it was far from universally accepted that the Canadian welfare state had reached "maturity" and was incapable of further growth. The labour movement, the NDP, social policy groups, and women's organizations continued to press for the adoption of new social security measures, and social services, often modeled on programmes in place in the conservative and social democratic welfare states of Western Europe. The predominant view, however, was that the introduction of new national social programmes would have to await economic recovery and a concomitant improvement in the federal government's financial position. Indeed, the election of a Progressive Conservative government in September, 1984 appeared to signify that, with the possible exception of national day care and a CPP homemaker pension, the introduction of new social welfare programmes would be left off the Government's policy agenda indefinitely.

In numerous policy areas the two Conservative Governments of Brian Mulroney departed radically from the policies of their immediate Liberal predecessor. With the signing of the Canada-US Free Trade Agreement (FTA) in 1988, the Government repudiated two decades
of policies reflecting a concern with US economic domination of Canada. In the realm of constitutional reform, the Conservatives evinced a willingness to cede substantive and symbolic authority to the provinces, with no quid pro quo, in two separate rounds of constitutional discussions; in so doing they made a sharp break with the constitutional position taken by previous federal governments. While the failure of the Meech Lake and Charlottetown Accords stymied the Mulroney Government's efforts to decentralize the federation through formal constitutional amendment, the Government did succeed nevertheless in scaling back the role of the federal government in areas of social and economic policy it had occupied hitherto. Sharp reductions in federal transfer payments to the provinces under the Established Programmes Financing Act significantly reduced the federal government's contribution to health care and post-secondary education in the late 1980's and early 1990's. Limits introduced in 1990 on federal contributions to Alberta, BC, and Ontario under the Canada Assistance Plan began a similar process of federal fiscal withdrawal in the field of social assistance.1

The Mulroney Government also joined a growing trend among industrialized countries in the 1980's towards privatization and deregulation as dozens of federal crown corporations, including Petro-Canada and Air Canada, were sold to the private sector. Other significant and politically controversial measures pursued by the Conservatives include the introduction of a national value-added tax, known as the Goods and Services Tax, in 1989 and a major reform of the personal income tax system in 1987.

The neo-conservative character of much of this agenda was foreshadowed early in the life of the new Government with the release in November, 1984 of a policy paper entitled *A New Direction for Canada: An Agenda for Economic Renewal.*2 The most urgent task identified by

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1 Under the Canada Assistance Plan (CAP), the federal government reimbursed the provinces 50% of eligible social assistance costs. In the 1990 Federal Budget, in an effort to limit its open-ended funding commitment under CAP, the federal government imposed a 5% ceiling on increases in CAP funding to Ontario, BC, and Alberta, the three "have" provinces not in receipt of equalization payments. These provinces contended that the "cap on CAP" contravened the terms of the Act, which requires at least one-year's notice of proposed changes in the terms of federal-provincial agreements under CAP. The Supreme Court of Canada ruled that such agreements were political in nature and, as such, not legally enforceable. Reference re Canada Assistance Plan (1991) 83 DLR (4th) 297 (SCC).

the need to reduce the cycle of budget deficits and the continued growth of the public debt, the latter of which was described as "the most serious obstacle to economic growth."\(^3\) The paper pledged to take measures to "promote growth in the private sector" through such means as deregulation, the sale of certain crown corporations, and a reduction in various market-distorting subsidies. In addressing the income security system, the paper underscored the liberal-residualist principle that "scarce resources should be diverted first to those in greatest need."\(^4\) The UI programme was faulted, among other things, for promoting work disincentives, discouraging inter-regional labour mobility, and incurring excessive costs. The paper pledged a redesign of the UI programme, one which would strike an "appropriate balance" among its competing social, economic, and redistributive objectives.\(^5\)

With regard to social policy, the Conservatives engineered a significant transformation of federal income security programmes during their nine years in office. In contrast to many of the measures described above, the Conservatives' approach to income security was tentative, cautious, and not obviously at variance with the approach of the previous Liberal Government. Nevertheless, through a series of small, seemingly innocuous programme changes, typically announced in the federal budget, the Conservatives eroded the principle of universality in the area of public pensions and family benefits, replacing it with greater selectivity. Indeed, a hallmark of the Conservatives' approach to retrenchment was their reliance on obscure changes to the formulae under which benefit programmes were funded and taxed. This approach was unflatteringly described by Ken Battle as "social policy by stealth," which he defined as a policy style which "relies heavily on technical amendments to taxes and transfers that are as difficult to explain as they are to understand and thus largely escape media scrutiny and public attention."\(^6\)

Retrenchment, however, was not the sole theme of social policy under the Conservatives. A leading topic of debate was national day care, the only field of social welfare in which the

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\(^3\) Ibid., p.15.
\(^4\) Ibid., p.71.
\(^5\) Ibid., pp.77-79.
Government declared its intention to develop, and commit funds to, new programmes. However, as with pension reform under the Liberals, the Conservatives ultimately rejected ambitious and costly proposals for national day care, adopting instead selected tax deductions for parents with dependent children.

This chapter examines the evolution of the federal income security system during the Conservatives’ two terms in office. As before, it surveys leading policy developments in regard to family benefits, unemployment insurance, and pensions. Subsequent chapters consider the explanatory power of the various hypotheses raised in Chapter One in accounting for the observed policy outcomes.

II. Programme Developments

A. Family Benefits

Income security benefits for Canadian families are delivered through a complex system of cash transfers and tax expenditures which are not widely understood. During their nine years in power, the Conservatives made numerous modifications to that system, most of which attracted little media attention. The cumulative effect of these measures produced a significant restructuring of state benefits to families. By 1993, their last year in office, the Conservatives had abolished the Family Allowance programme, originally established in 1944, and replaced it with the income-tested Child Tax Benefit. Other changes, having to do with the indexing and taxation of benefits, sharply reduced the federal government’s contributions to family incomes, particularly in the area of child maintenance. During the period 1984-1989, expenditures on the three largest family benefits programmes—Family Allowances, the RCTC, and the Child Tax Exemption—fell by 3.2% in current dollar terms and by 21.4% in constant dollar terms.7 Despite its emphasis on deficit reduction, the Government did increase its financial support to working parents in respect to child care expenses. However, it abandoned its original and more ambitious plans to establish a new federal-provincial shared-cost programme to increase the number of day

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care spaces.

Shortly after taking office, the Government sent mixed messages about its intentions regarding social policy. On the one hand, Brian Mulroney during the election campaign had attempted to allay fears that the Conservatives planned a major assault on social programmes, referring to them as a "sacred trust." Its first Throne Speech, moreover, provided no hint that the Government was contemplating any restructuring of social programmes or reductions in benefits. On the contrary, the Government pledged to expand the Spouse's Allowance, study options for child care, and to lift immediately the 5% indexation cap on OAS imposed under the 6 and 5 restraint programme. On the other hand, Finance Minister Michael Wilson soon raised doubts about the future of universality. In an Economic Statement delivered three days after the Throne Speech, and in a policy paper which accompanied it, Wilson declared that "controlling the deficit must be our priority for this year and for each year of our mandate." To this end, he announced that a comprehensive review of government spending programmes would be undertaken, including unemployment insurance and transfer payments to individuals. A central aim of this exercise, the Minister continued, was to reduce government spending by $15 billion by 1990. As an initial step in this direction, Wilson reported that the Treasury Board had identified $4.2 billion in expenditure cuts that could be implemented without delay.

With regard to programme review, the Government stated that such a review would be based on the principles of "social and fiscal responsibility," which were defined in the following terms:

Social responsibility dictates that wherever possible, and to a greater extent that is the case today, scarce resources should be directed first to those in greatest need. Fiscal responsibility suggests that the best income security is a job, and that government expenditures must be allocated to provide immediate employment opportunities and better ensure sustained economic growth.

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8House of Commons Debates, 5 November 1984, p.7. The promise to terminate the 6 and 5 programme was largely symbolic as it was due to expire on 31 December 1984.
10House of Commons Debates. 8 November 1984, p.98.
More generally, the Government hoped to "ensure that our social support systems encourage self-reliance rather than create a dependency on government." 12

Comments in the press by the Finance Minister and the Prime Minister made more explicit the Government's interest in curtailing and even eliminating universal Family Allowances and Old Age Security. On numerous occasions the Prime Minister questioned whether bank presidents earning $500,000 a year should be receiving Family Allowance or OAS cheques. 13 In an interview with La Presse, Michael Wilson referred to universality as an unaffordable luxury. 14 For six weeks, in what was soon dubbed the "Great Universality Debate," the Liberals and New Democrats repeatedly accused the Government of reneging on its promise to preserve social programmes. 15 The PM vehemently denied that the Government intended to end universality, going so far at one point as to repudiate his Finance Minister's intimations to the contrary. 16

The Government appeared to have put the universality genie back in the bottle in early 1985 with the release of a discussion paper on income security reform, entitled the Child and Elderly Benefits Consultation Paper. 17 While reiterating the principles of social and fiscal responsibility enunciated earlier in Agenda for Renewal, the Consultation Paper enumerated three additional principles to guide social policy reform. The first of these was universality, which the Paper referred to as "a keystone of our social safety net." 18 To further underscore this point, the Paper insisted that the "integrity [of universality] must not and will not be called into

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12Ibid., p.100.
13Thomas Walkom, "PM changes stand on social programs," Globe and Mail, 10 November 1984, pp.1,2.
15During this period, the Liberals requested an emergency debate on universality and NDP leader Ed Broadbent was ejected from the House for accusing the PM of deliberately misrepresenting comments attributed to Michael Wilson in the aforementioned La Presse interview. On the last day of the 1984 parliamentary sitting, both parties devoted a full opposition day to the universality issue.
question.\textsuperscript{19} The second principle rejected means tests as the appropriate method by which to determine eligibility for selective programmes; taxable income was deemed to be a more suitable criterion. According to the third principle, any savings which might result from programme changes were to remain part of the social affairs spending envelope and not to be applied to deficit reduction. The Paper emphatically ruled out any changes to the OAS and GIS programmes.

With regard to child benefits, the Paper put forward two proposals. Under the first of these, the Child Tax Exemption would be eliminated, Family Allowances would be retained, and the RCTC would be increased, but the turnover point (i.e., the income threshold at which RCTC payments begin to be reduced) would be lowered. According to the second option, the Child Tax Exemption would be retained but reduced, Family Allowances would be cut, the RCTC would be raised (by a larger increment than in the first option), and the turnover point would be lowered (by a smaller increment than in the first option).\textsuperscript{20} With regard to the taxation of social benefits, the Paper made two points. First, it endorsed the taxability of universal Family Allowances and OAS. Secondly, while ruling out a surtax (or clawback) on OAS benefits paid to upper income earners (discussed further below), the Paper stated that a comparable surtax on Family Allowance benefits "should not be arbitrarily excluded from consideration."\textsuperscript{21}

The Consultation Paper appeared to signify the Government's commitment to the general approach to family benefits taken by the previous Liberal Government. In both of the proposals canvassed, Family Allowances would be retained but basic benefits would either be reduced or frozen whereas additional benefits would be targeted to low-income families through the RCTC.

The Consultation Paper was referred to the House of Commons Standing Committee on Health, Welfare and Social Affairs, which invited submissions from interested groups. In its report, the Committee did not endorse either of the options presented in the Consultation Paper,

\textsuperscript{19}Ibid.
\textsuperscript{20}Ibid., p.12.
\textsuperscript{21}Ibid., p.9.
nor did it recommend an alternative. It did, however, favour the retention of Family Allowances "in recognition of the importance of children to society and of the value of parenting."22 It also recommended that family benefits continue to be indexed to the cost of living, an issue not addressed by the Consultation Paper. The Committee rejected the idea of a surtax on Family Allowances received by upper income earners. However, only the Liberal and NDP members of the Committee went so far as to describe such a surtax as being incompatible with the principle of universality.23

Despite their declared support for universality, the Conservatives proceeded to downgrade the role of Family Allowances in the child benefits system, culminating it their abolition in 1992. Thus, in the 1985 Budget, the Government announced that Family Allowance benefits would no longer be fully indexed to the cost of living. Starting in 1986, benefits would only be "adjusted each year by the amount of inflation less three percentage points."24 At the same time, while there were no increases in the basic Family Allowance, the RCTC was increased several times between 1985 and 1988. Moreover, the RCTC itself was made a more narrowly targeted benefit in 1986 when the turnover point was lowered and partially de-indexed. In announcing these changes, Michael Wilson emphasized that more support would be directed to low-income families while the overall child benefits system would become more progressive.25

The 1989 Federal Budget reinforced this dual emphasis on selectivity and expenditure reduction with the introduction of a surtax—popularly known as the clawback—on Family Allowance benefits received by upper income families. Under this scheme, parents with net incomes over $50,000 would be "required to repay Family Allowance benefits received the previous year at a rate of 15%."26 Thus, for a family with two children with a net income over

23Ibid., p.19.
24Ken Battle and Sherri Torjman, Federal Social Programs: Setting the Record Straight. Ottawa: Caledon Institute of Social Policy (Spring 1993), p.2 Under this formula, if inflation exceeded 3%, Family Allowances would decline by 3% in real terms. If inflation fell below 3%, they would decline by the amount of the inflation.
$55,240, the clawback would reclaim 100% of the Family Allowance. This measure was regarded by most observers to mark the effective end of universal Family Allowances. The Government, however, disputed this interpretation, contending that the clawback was not incompatible with the universality principle.

By 1992, the Government was ready to eliminate even the facade of universality in the area of family benefits. In a White Paper on the subject, the Government proposed to consolidate Family Allowances, the RCTC, and the non-refundable child tax credit into a single Child Tax Benefit (CTB). The CTB would be paid monthly to families with dependent children under 18, benefits to be reduced to the vanishing point for upper income families. While basic benefits would be indexed annually to the Consumer Price Index, adjustments once again would be limited to inflation levels exceeding 3%. Another feature of the CTB was the so-called Earned-Income Supplement (EIS), an additional payment targeted to families with dependent children and low earnings. According to economist Jonathan Kesselman, the CTB represented "the most sweeping reform of Canada's tax-transfer treatment of children, at least since Family Allowances were introduced in 1945." A key feature of the new CTB was its exclusive concern with vertical equity and its neglect of horizontal equity. As with earlier initiatives, the officially stated aim of the CTB was to "concentrate more assistance on those who need it most." Yet, as Kesselman notes, by eliminating the non-refundable child tax credit, the new child benefits system would remove "all fiscal recognition for children in families at upper


27Ibid., p.288. The clawback, however, was to be phased in over three years, such that families liable to pay it would pay one-third of it in 1989, two-thirds in 1990, and the full amount in 1991.
29The income threshold at which benefits were gradually reduced was also subject to this partial indexation formula.
30Families receiving "unearned income," such as social assistance, were ineligible for the EIS.
incomes—in both the personal tax and cash transfer systems...[a situation] almost without parallel among the OECD countries."^33

As noted above, the only major commitment to new social programmes which the Conservatives made in the 1984 federal election campaign was the commitment to child care.34 In May, 1984, the Liberals had established a task force on child care, chaired by Dr. Katie Cooke, a University of Victoria sociologist and former President of the Canadian Advisory Council on the Status of Women. In its report, released in March, 1986, the Task Force called on the federal, provincial, and territorial governments to "jointly develop complementary systems of child care and parental leave that are as comprehensive, accessible and competent as our systems of health care and education."35 Under the first tier of this approach, Ottawa would initiate the development of a national day care system by providing funds to the provinces on a conditional-grant basis. Federal conditions to be attached to such grants were to include the stipulation that only licenced, non-profit centres be eligible for public subsidies. Under the second tier, the Task Force recommended a broadening of parental leave benefits under the UI Act for natural and adoptive parents, including those employed part-time. The Task Force explicitly rejected tax relief to parents as a means of developing child care facilities; instead it advocated direct financing, the annual cost of which it estimated to be $11.3 billion by 2001, once fully implemented.36

The Government referred the Report to a special parliamentary committee which had been established in November, 1985 under the chairship of Conservative MP Shirley Martin. The Martin Committee Report, released in March, 1987, was more to the Government's liking than the Cooke Report. Briefly stated, the Martin Committee rejected the Cooke Report's espousal of a new national shared-cost programme to expand the number of day care spaces, favouring instead the very approach that Cooke had rejected: additional tax relief to parents with

36 Ibid., p.331.
dependent children. Thus, the Committee recommended converting the existing Child Care Expense Deduction into a tax credit to provide more assistance to low-income users of day care centres. For poorer families, with little or no taxable income, and for stay-at-home parents and those using informal means of day care, such as relatives, a refundable child care tax credit was recommended. Meanwhile, the day care cost-sharing arrangements under the CAP for low-income families would remain in place. The Committee did, however, call for broader maternity and parental leave benefits made under the UI Act.

Day care advocacy groups were uniformly critical of the Report's reliance on tax relief measures, as were both of the opposition members of the Committee. Both the Liberals and New Democrats issued dissenting reports.

The Government's day care proposals, unveiled in December, 1987, largely mirrored those of the Martin Committee, though with several notable differences. Jake Epp announced that the Federal Government would spend $5.4 billion on day care over a period of seven years, in the form of tax relief for parents and a new cost-sharing arrangement with the provinces to replace the existing provisions under the CAP. Fully $2.3 billion (or 43%) of this sum would take the form of tax relief. Specifically, the Child Care Expense Deduction was to be doubled for users of day-care facilities while a supplement to the RCTC would be introduced for the benefit of poorer families and for those not using formal day-care services. A Canada Child Care Act would be enacted to allocate up to $3 billion to the provinces to fund commercial and/or non-profit day-care centres at the provinces' discretion. The Government claimed that 200,000 new day-care spaces--twice the number then existing--would be created during the seven-year development phase of the programme. Whereas the federal government was liable to pay 50% of eligible provincial day care expenditures under CAP, the new Act would impose limits on the federal government's financial contributions in this area. Much to the disappointment of day care

advocacy groups, the Government made no commitment to expanded maternity or parental leave benefits.

So dismayed were day care groups with the Government's National Child Care Strategy that they resolved to campaign actively for its defeat. Efforts to this end were to include lobbying efforts and the commitment of resources to the upcoming 1988 federal election campaign.\textsuperscript{40}

Knowing there to be widespread organized opposition to Bill C-144, the Government's child care bill, and anxious to expedite its passage before calling a federal election for the fall of 1988, the Government allowed for only two days of hearings before the Commons Legislative Committee in early September, 1988. All of the groups testifying at the hearings spoke in opposition to the Bill.\textsuperscript{41} When the Bill reached the Senate, where the Liberals were in the majority, day care activists lobbied Liberal Senators to hold public hearings. Since the Bill had already undergone "pre-study" in the Senate, Jake Epp expected it to be speedily passed.\textsuperscript{42} To Epp's dismay, Allan MacEachen, the Liberal leader in the Senate, acceded to the request of day care groups for public hearings on the Bill. Parliament, however, was dissolved on the first day of the Senate hearings, as a consequence of which the Government's child care bill failed to obtain parliamentary approval.

Thus, while the tax relief measures had already been implemented in the 1988 Federal Budget, the proposed Child Care Act was never adopted. The Conservatives stood by their pledge to create 200,000 new day care spaces during the election campaign. Following their re-election, however, they did not re-introduce the child care bill or any variant of it, citing a deterioration in the Government's fiscal position.\textsuperscript{43} While professing still to be committed to a national day care plan, the Government prevaricated on the issue until February, 1992 when

\begin{itemize}
\item \textsuperscript{40} Canadian Day Care Advocacy Association. Child Care: Meet the Challenge. Ottawa: 1988, pp.55, 60-61.
\item \textsuperscript{41} Martha Friendly, Child Care Policy in Canada: Putting the Pieces Together. Don Mills, Ont.: Addison-Wesley, 1994, p.173.
\end{itemize}
Health and Welfare Minister Benoit Bouchard formally pronounced the patient dead.44

B. Unemployment Insurance

With regard to Unemployment Insurance, the Conservatives continued the pattern of policy change established by the Liberals in the mid to late 1970's. Benefits were reduced, eligibility criteria were made more stringent, and the government's direct financial contribution to the programme was reduced and ultimately terminated. At the same time, the Government continued to apply the savings from reduced UI outlays to training and other labour market programmes.

The Government signalled its dissatisfaction with the UI programme shortly after taking office. In Agenda for Economic Renewal, the Government reiterated criticisms which increasingly had been levelled against the programme by the previous government, latterly by the UI Task Force of 1981. Thus, it was suggested that in its existing form the UI programme "may create obstacles to labour market adjustment and to economic growth and investment" and that it may undermine work incentives and "discourage labour mobility among regions and industrial sectors...."45 In the 1985 Federal Budget, the Government announced that a major review of the UI programme would be undertaken with a view to simplifying it and to "ensur[ing] that it promotes flexible adjustment in the labour market."46 In July, 1985, a royal commission on UI was established, headed by Claude Forget, a former Liberal minister of social affairs in Quebec.

The Forget Commission Report, released in December, 1986, advocated a radical redesign of the UI programme.47 In essence, the Report recommended that UI operate as an income maintenance programme in accordance with strict insurance principles rather than attempting to fulfill a disparate variety of goals, including inter-regional redistribution and income supplementation for seasonal workers. Among the Report's recommendations was the elimination of regional extended benefits and of special benefits for fishermen and the calculation

45 Hon. Michael Wilson, A New Direction for Canada, op. cit., pp.77-78.
of UI benefits on an "annualization" basis. Altogether the Report's recommendations would have reduced UI payments by some $3 billion while the annualization formula would have reduced benefits for most claimants. In 1985, for example, 78% of claimants would have received lower UI benefits under the Forget proposals. The Report went on to recommend the establishment of a separate federal-provincial income supplementation programme for those who would no longer be eligible for benefits under a revamped UI programme, but provided few details.

The Forget Report was highly controversial, even among members of the Commission. The two labour-appointed Commissioners, Jack Munro and Frances Soboda, rejected the Report in toto and released a detailed minority report in which they advocated the restoration of the 1971 UI Act. Refusing all comment on the Report, Employment and Immigration Minister Benoit Bouchard referred it for study to the House of Commons Standing Committee on Labour, Employment and Immigration. The Committee, in a unanimous all-party report, rejected the Forget Report's key recommendations and proposed instead a liberalization of the programme, including reduced entrance requirements and longer benefit periods for most categories of claimants. After a six-week interval, Benoit Bouchard announced, on 15 May 1987, that the Government planned to introduce no amendments to the UI Act.

Interestingly, the Government's unwillingness to implement the extensive retrenchment recommended by Forget had been foreshadowed the previous year when the Government actually reversed a more limited retrenchment of the UI programme. As noted above, Michael Wilson announced in his Economic Statement of November, 1984 that the Government would proceed forthwith with some $4 billion in spending cuts. Among the cuts announced was a

48 Under annualization, benefits would be based on a claimant's average income over the previous 52 weeks, not on the earnings of the relevant qualifying period, which at that time ranged from 10 to 14 weeks.
proposal to disqualify persons from drawing UI benefits in the year preceding their retirement. When the regulation giving effect to this change came into force in January, 1986, it provoked a furious reaction. Among the policy's most vehement opponents were RCMP officers and armed forces personnel, two groups which face mandatory early retirement. In the face of this reaction—which included a sizeable demonstration on Parliament Hill—the Government not only rescinded the regulation but passed legislation to reimburse those who had been adversely affected by it.52

Following its re-election in 1988, the Government introduced two major revisions to the UI Act, the effect of which was to curtail the programme on a scale which overshadowed previous retrenchment measures. The first and most extensive of these changes were introduced in 1989 as part of a broader labour market policy called the Labour Force Development Strategy. In a policy paper released in April, 1989, the Government announced its intention to cut UI benefits by $1.3 billion, or 10% of total benefit expenditures, and to reallocate $800 million of the proceeds to a variety of training and "adjustment" programmes.53

Bill C-21 was introduced into the House of Commons on 1 June 1989. Delayed by the Liberal-dominated Senate for over a year, it was eventually adopted when the Conservatives gained a majority in the upper house through the appointment of additional Conservative senators.54 The Bill, once passed, increased the variable entrance requirement from 10-14 weeks to 10-20 weeks and reduced the maximum duration of benefits from 46-50 weeks to 35-50 weeks. Stiffer penalties were imposed on workers quitting employment without just cause, refusing suitable work, or having been fired for misconduct: not only was the waiting period for benefits for such workers increased but benefit levels were reduced from 60% to 50% of average weekly insurable earnings.55 Cuts were also made to two categories of special UI benefits. Parental

54 This step was taken by the Government, using a hitherto unused section of the Constitution Act 1867, primarily to ensure the passage of the Government's Goods and Services Tax bill.
55 Ken Battle and Sherri Torjman, Federal Social Programs, op. cit., p.4.
leave benefits for adoptive parents were reduced from 15 weeks to 10, while retirement benefits—a three-week lump sum payable to insured persons at age 65—were abolished altogether. Meanwhile, the federal government's contribution to the cost of regional extended and fishermen's benefits was terminated, thereby withdrawing $2.9 billion from the $12.6 billion cost of UI in 1989.56 Further cuts to UI were announced by Finance Minister Don Mazankowski in December 1992 as part of a renewed deficit-fighting plan aimed at reducing overall programme spending by $8 billion. UI cuts alone were to account for $2.5 billion of this total.57 Bill C-113, passed in early 1993, reduced the UI earnings replacement rate for regular benefits from 60% to 57% while disqualifying from benefits altogether voluntary job quitters and those fired for misconduct.58

While the thrust of Bill C-21 was to make the terms of the UI programme decidedly more restrictive, the legislation did provide for a broadening of certain UI benefits. Specifically, Bill C-21 repealed the rule, introduced in 1976, prohibiting employees 65 or older from claiming UI benefits. The Bill also provided for the introduction of up to ten weeks of child care benefits for the parents of new-born infants.59 Significantly, both of these changes resulted from court challenges to the relevant sections of the UI Act, a point the Government acknowledged.60 These changes suggested that the Charter of Rights might serve as an important tool for welfare-seeking individuals or groups, or their allies, to expand the benefits provided under income security programmes, thereby counteracting, to some extent, the seemingly relentless downsizing of such programmes. Indeed, numerous similar cases were launched after 1985, alleging discrimination under such programmes as the SPA, the OAS, and various provisions of the

56Ibid., p.13. The termination of federal funding was offset in part by increases in UI premiums announced in the Federal Budgets of 1990, 1991, and 1992 and in part by the cost savings resulting from the more restrictive terms of the programme.
58As the Minister of Employment and Immigration, Bernard Valcourt, put it: “A person who has a job who quits for no good reason should not expect Canadian workers and employers to give them a free ride.” Hugh Winsor, “The high and bumpy road,” Globe and Mail, 4 December 1992, p.A-5.
59Prior to these changes, 15 weeks of parental benefits had been available to adoptive parents, but only maternity benefits were available to biological mothers.
60Employment and Immigration Canada. Success in the Works, op. cit., p.10.

In summary, the UI cuts implemented by the Conservatives continued the pattern of UI reductions begun in the mid-1970's. Taken together, the implementation of steeper work requirements, shorter benefit periods, and smaller benefits eroded the egalitarian effect of the UI programme. Indeed, only 68% of unemployed persons were eligible to draw UI benefits in 1993 compared to 88% in 1990.\(^{61}\)

Interestingly, while certain features of Bills C-21 and C-113 affected all UI claimants—notably the successive cuts in the earnings replacement rate—the Government resisted recommendations of the Macdonald and Forget Commissions for the elimination of preferential regional benefits. Thus, the variable entrance requirement, regional extended benefits in areas of high unemployment, and fishermen's benefits were retained. On the one hand, the Government's reluctance to curtail significantly the regionalized structure of UI was inconsistent with its rhetorical commitment to unfettered free market policies as exemplified by its embrace of the Canada-US Free Trade Agreement. On the other hand, the Government's approach to UI was arguably congruent with its approach to other income security programmes. Universal aspects of such programmes were reined in or abolished in the interests of fiscal restraint, while benefits aimed at the most disadvantaged were maintained or slightly improved.

C. Pensions

During their two terms of office, the Conservatives effected two important changes in Canadian pension policy. First, they made it clear that the Government would refrain from pursuing comprehensive improvements in pension coverage or benefits through mandatory occupational pensions and/or increased CPP benefits. While the previous Liberal Government had effectively chosen this path by 1983, it had nevertheless held out the possibility of legislating improvements in pension coverage and benefits if the private sector failed to take voluntary action.\(^{62}\) The Conservatives, however, foreclosed the use of mandatory measures to

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\(^{62}\) Referring to the various pension-related tax incentives for employers contained in the Federal Budget of February,
bring about comprehensive pension reform. As is discussed below, this position did not preclude
the introduction of limited measures to benefit selected categories of persons, such as part-time
workers, divorcees, and widowed persons.

The second and more substantive policy change wrought by the Conservatives was the
dismantling of the universal Old Age Security pension through the introduction of a special tax
clawback on OAS recipients with above-average incomes. This step, combined with fiscal
measures to promote private retirement savings, deepened the dualistic nature of Canada's
pension system. Public pensions, which had always been residual to market-derived and market-
contingent income, were redesigned to accentuate their status as a secondary source of retirement
income.

1) Public Pensions

The Government's first major foray into the pensions field was its decision to partially
de-index OAS benefits. Announced by Michael Wilson in the Federal Budget of May, 1985, the
Government proposed to apply the same indexing formula to the OAS as that provided for
Family Allowances: viz., benefits would not be indexed for the first three percentage points of
inflation. It was projected that the partial de-indexation of both of these programmes would save
the treasury some $1.6 billion by 1990-91.63 The proposal to end full indexation of the OAS
provoked a furious reaction, particularly from the opposition parties and from seniors groups,
which accused the Government of betraying its commitment to universality. Indeed, Wilson's
announcement came as a surprise since the Consultation Paper, released only three months
earlier, had explicitly ruled out any changes to elderly benefits programmes. As is discussed
further below, the OAS proposal soon became the focus of opposition attacks in Parliament and
was widely criticized in the media and by a wide variety of groups, including business groups. In

63 David Bercuson, J.L. Granatstein, and W.R. Young, Sacred Trust? Brian Mulroney and the Conservative Party
the face of this barrage, the Government sheepishly withdrew the de-indexation proposal in relation to OAS—though not in relation to the Family Allowance—in what was unquestionably the most decisive and embarrassing defeat suffered by the Government during its two terms in office.

The Government revisited the OAS following its re-election in 1988. In the 1989 Federal Budget, Michael Wilson introduced a surtax on OAS benefits received by claimants whose annual net income exceeded $50,000. Quickly dubbed the "clawback" by media commentators, the tax was to be applied at a rate of 15% on every dollar earned over the threshold, such that seniors with net incomes over $76,332 would be subject to a 100% clawback.64 As the clawback was to be phased in over three years, it would not be fully payable until the 1991 tax year. Meanwhile, the income threshold above which the surtax was payable was to be only partially indexed, again using the 3% inflation formula. In this way, increasing numbers of seniors would be liable to pay the surtax in future years.

As noted earlier in regard to Family Allowances, the introduction of the clawback was taken by social policy groups, the opposition parties, and most academic observers to mark the end of the universal nature of the OAS.65 However, by maintaining universality in form if not in substance, Government spokespersons denied that universality had been impaired. After all, all seniors would continue to receive an OAS cheque. As Prince observes, this view "defines universality solely as an administrative process for program eligibility, completely ignoring...[its] political, personal, and sociological aspects."66

With regard to the Canada Pension Plan, the Government inherited from its predecessor a package of proposals which had been released with the Federal Budget of February, 1984. Following discussions with the provinces in late 1984 and early 1985, the Federal Government

released a set of proposals in May, 1985 which were substantially similar to the Lalonde proposals of 1984. Legislation enacting the proposed changes was passed in July, 1986 and took effect on 1 January 1987. The changes included the extension of marital credit-splitting provisions to marital separations and to common law marriage break-ups, the continued payment of CPP survivor benefits to a surviving spouse who remarried, and the commencement of CPP benefits at any age between 60 and 70, benefits to be actuarially adjusted upward or downward as appropriate. No action was taken on the promised homemaker pension.

Although CPP disability benefits were increased, there was no general increase in the maximum pensionable earnings or the CPP replacement rate, which remained subject to the 25% ceiling originally set in 1966.

Other public pension programmes were subject to little or no change. The GIS remained fully indexed to inflation, but there were no increases in the basic rate during the entire period of Conservative rule. The only notable extension of the public pension system related to the SPA. In 1985, the Conservatives extended the SPA to eligible widows and widowers aged 60-64, irrespective of their spouse's age at time of death. This measure added approximately 85,000 new eligible claimants to the SPA, at an additional cost of some $200 million in 1985-86. According to Jake Epp, Bill C-26 was the fulfilment of a Conservative campaign promise and a gesture of compassion to widowed persons in need whose prospects for employment might well be limited. While applauding the Bill, both of the opposition parties called for the programme to be widened to cover all needy persons in the 60-64 age bracket, regardless of marital status. According to critics, the SPA discriminated on the basis of marital status since it excluded persons 60 to 64 years of age who had never married or who had divorced without remarrying.

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67Under the existing CPP provisions, application could be made in the event of divorce for an equal division between each spouse of CPP credits earned during the period of the marriage.

68Under the new flexible retirement age, CPP benefits would be subject to "actuarial adjustment downward of 0.5 percent for each month between 60 and 65 and upward of 0.5 percent for each month between 65 and 70." Ken Battle and Sherri Torjman, Federal Social Programs, op. cit., p.10.

69Up to that point the SPA had been available only to those whose spouse was 65 or older and in receipt of the OAS at time of death.

70House of Commons Debates, 8 November 1984, p.105.

71House of Commons Debates, 4 February 1985, p.1941.
2) Private Pensions

While the Government curtailed certain elements of the universal public pension system, as in the case of the clawback on OAS, and left others in a holding pattern, as in the case of CPP, the Government actively sought to expand the private pension system.\(^{72}\) This latter objective was realized through regulatory reforms to occupational pension plans and through more generous tax treatment of RRSP contributions. In the area of private employer-sponsored pension plans, the Government adopted a series of amendments to the Pension Benefits Standards Act (PBSA) which were broadly similar to those proposed by the Liberals in 1984. The PBSA changes, which took effect on 1 January 1987, included earlier vesting of pension contributions, improved portability of vested pension benefits, and the right of part-time employees to join company pension plans.\(^{73}\)

These changes, coupled with the CPP amendments described above, were hailed by Finance Minister Michael Wilson as the culmination of a decade of debate on pension reform.\(^{74}\) A closer examination, however, reveals how little was accomplished by these measures, complex and voluminous though they surely were. First of all, the PBSA itself only applied to employees in federally regulated industries such as banking, air and rail transportation, and broadcasting. Only 10% of the labour force is employed in such industries, the remainder being employed in industries subject to provincial jurisdiction. This objection, however, is offset by the fact that by collaborating closely with the provinces in 1984 and 1985, the federal government was able to reach a high level of agreement of the coordination of federal and provincial pension standards. A second and more important point relates to the limited coverage of occupational pension plans. In 1988, only 37% of the paid labour force had some form of private pension coverage. Among


\(^{73}\)Specifically, employees were to have a "vested" entitlement to the pension contributions made to the pension plan by their employer after belonging to the plan for two years; employees changing jobs were to have the choice of transferring vested pension benefits to their new employer's pension plan, if the new plan permitted such transfers; and part-time workers earning at least $9,000 annually were entitled to join a pension plan after two years' employment.

\(^{74}\)House of Commons Debates, 26 February 1986, p.10983.
female workers, the figure was 31% compared to 41.6% among male workers. Moreover, the extent of private sector pension coverage was not increasing, contrary to the long-range expectations of Liberal and Conservative Governments; indeed, such coverage was fractionally lower in the late 1980's than it had been in 1978, when 39.6% of workers were covered. Nevertheless, having rejected mandatory pension coverage, the Federal Government and many of the provincial governments continued to profess confidence in the prospects for voluntary action in this area by employers.

A third observation relates to the issue of inflation protection. As noted earlier, a recurrent issue in the Great Pension Debate of the early 1980's was whether and how to protect the value of private pension benefits from inflation. While the 1983 Parliamentary Committee had recommended a limited form of mandatory inflation protection, the Liberals ultimately proposed to rely on tax incentives to induce employers to provide cost-of-living adjustments to pension benefits. By 1985, the new Conservative Government had rejected these proposals and left the indexation issue to be resolved by employers as they saw fit. As Finance Minister Michael Wilson put it, "[t]here are too many uncertainties about the future costs of various proposals for inflation protection and there is no consensus on how best to achieve it."

The Conservatives made a further commitment to the private pension system by providing increased tax relief to individuals making contributions to RPP's and RRSP's. The 1986 Budget abolished the limit on income tax deductions which could be claimed on RPP contributions while raising the limit on tax deductions claimable on RRSP contributions. Further increases in the allowable tax deductions on RSP contributions were introduced in the 1991 and 1992 budgets.

76 Ibid.
77 For example, at a federal-provincial meeting held in 1984 to discuss the drafting of uniform federal and provincial legislation, Ontario Treasurer Larry Grossman claimed that inter-provincial variations in pension standards were a deterrent to the establishment of private pension plans, particularly for employers having operations in more than one province. He predicted that greater standardization of pension regulations would itself promote the growth of employer-sponsored pension plans. Virginia Galt, "Pension reform gets consensus," Globe and Mail, 6 June 1984, p.B-7.
78 House of Commons Debates, 23 May 1985, p.5018.
By the end of its second term, the Mulroney Government had implemented far-reaching changes to aspects of Canada's income security system. Chapter 4 described the nature of those changes and concluded that universality, a prominent feature of the child and elderly benefits system, had been significantly weakened during the Conservatives' tenure in favour of the targeting of benefits to individuals or families on the basis of income. At the same time the egalitarian effect of the UI programme was undermined through a major retrenchment. This chapter considers the Conservatives’ income security policies through the prism of class analysis in an effort to understand better how and why they came about. Alternative analytical approaches are applied to this question in each of the three chapters which follow.

The Power Resources Approach

According to the power resources theory, the nature and extent of a state's income security provisions is fundamentally determined by the relationship between labour and capital. It contends that working class power, measured by the strength of trade unions and left-wing political parties, underpins those welfare states in which social benefits are allocated on the basis of universal entitlement, eligibility is free from market-based criteria, and benefits are relatively generous. On this view, welfare state retrenchment is reflective of, and made possible by, a decline in working class power relative to the power of business and its political allies. This chapter considers the contribution of organized labour and organized capital to social policy debates during the Conservatives’ tenure and attempts to assess their relative influence over policy outcomes.

Organized Labour

In the 1960's and 1970's the main preoccupation of organized labour in the field of social policy was to agitate for the adoption of programmes designed to fill the many gaps in Canada's residual welfare state. In the 1960's labour's demands included the adoption of national health
insurance and of a state earning-related pension and the public provision of sickness and
maternity benefits. In the 1970's, labour sought a doubling of the benefits provided by the public
pension system and the introduction of a national system of public day care. In the mid-1970's,
however, as is discussed in Chapter 3, labour increasingly found itself on the defensive as federal
and provincial governments began to curtail collective bargaining rights and elements of the social
wage.

With the election of the Progressive Conservatives in the federal election of September,
1984, it may be said that organized labour became primarily concerned with the preservation of
existing gains, both at the bargaining table and in the political arena. This is not to say that labour
leaders did not actively seek improvements in the social wage. On the contrary, labour waged
campaigns in the 1980's for national day care and for reform of the pension system. The
predominant theme, however, was one of resistance to measures or proposals to curtail social
programmes, such as the UI cuts announced in 1989 and the de-indexation of Family Allowances
in 1985. Given this defensive posture, labour found itself cast in the unaccustomed role of
guardian of the welfare state status quo. In fulfilling this role, labour scored some modest
victories, but was unsuccessful in its larger aim of blocking the marketization of the income
security system.

In the 1980's and early 1990's, organized labour continued to agitate for an expansion of
the public pension system, reiterating many of the proposals advanced during the "Great Pension
Debate" of the early 1980's. Thus, at its 1984 Convention the CLC demanded that OAS benefits
be increased by 25% and that CPP benefits be doubled "so that all retirees with moderate and low
earnings could fully maintain their standard of living in retirement."1 This demand was repeated
at the 1986 and 1990 Conventions.2 The 1984 Convention called on the Government to make
full OAS, GIS, and CPP benefits available at age 60 to workers forced to retire due to ill health or
prolonged unemployment.3 The CLC broadened this demand for a lowering of the pensionable

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3 ibid., p. IV-H-12.
age in 1986, offering it as a partial solution to the problem of high unemployment. Under the CLC's proposed "Bridge to Retirement" plan, workers aged 60-65 would be eligible to retire and to draw OAS and CPP benefits in regions having an unemployment rate over 6%.  

Interestingly, the CLC did not endorse the idea of a CPP homemaker pension until the late 1980's. In a 1982 policy paper, the CLC noted, among other things, the inequity inherent in homemaker pension proposals which would provide CPP benefits to women who had permanently withdrawn from the labour force while providing no benefits to women in part-time work who are ineligible for CPP yet who also do housework. However, by 1988 the CLC was advocating changes to the C/QPP "to permit pensions for homemakers based on the mandatory equal sharing of retirement benefits under these plans."

Labour's plea for the expansion of public pensions went unheeded. As noted earlier, the Lalonde proposals of February, 1984 provided for the introduction of stricter requirements for occupational pension plans and for enhanced tax relief for RRSP contributions. While the Liberals promised selective reforms to the CPP, they rejected calls for a major expansion of CPP benefits. In June, 1984, in a last-ditch effort to keep pension reform on the political agenda in the run-up to a widely anticipated federal election, the CLC, together with 11 other national organizations, sent a communique to all MP's and Senators. Noting the high incidence of poverty among the elderly and the limited coverage and benefit levels provided by private pension plans, the communique declared that "[a]n increase in C/QPP benefits is absolutely essential." The Lalonde proposals, however, proved to be the last word on the subject since, as noted earlier, they were adopted in broadly similar terms by the Mulroney Government in 1986.

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1Ibid., p. IV-H-11. Under the CLC plan, the age at which such benefits could be drawn would decrease by one year- to a minimum age of 60--for each percentage point by which the regional unemployment rate exceeded 6%. The programme would be financed from general government revenues.

2Canadian Labour Congress. The CLC Proposal for Pension Reform. Ottawa: 1982, p.44. In lieu of a CPP homemaker pension, the CLC favoured an increase in the basic CPP replacement rate to boost household income, coupled with the splitting of CPP credits between spouses to ensure an equitable division on marriage breakdown.


4Canadian Labour. 29:6 (June-July 1984), p.3. The other signatories were the Canadian Association of University Teachers; the Canadian Association on Gerontology; the Canadian Council on Social Development; the Canadian Federation of University Women; Canadian Pensioners Concerned; Canadian Teachers' Federation; National Action Committee on the Status of Women; National Anti-Poverty Organization; National Farmers' Union; National Federation of Nurses' Union; National Pensioners' and Senior Citizens' Federation.
In their 1984 communique, the CLC and its allies observed that "so much was promised and so little delivered in the field of pension reform." In accounting for the paucity of its gains in relation to pensions, the CLC's senior social policy analyst, Bob Baldwin, suggested that whereas business opposition to an expansion of the public pension system had been clearly registered, popular support for such reform had not been clearly demonstrated. In Baldwin's view, the Federal Government was "feeling little direct pressure to increase C/QPP from their constituents...For the supporters of C/QPP benefits, the clear challenge is to convert passive support for C/QPP increases into support sufficiently active to make MP's feel the pressure from their constituents."

However, labour itself was unable or unwilling to mobilize its membership behind an effective campaign on behalf of pension reform. Indeed, by 1985, the larger trade unions began to shift their attention away from reform of the public pension system and toward securing improvements in company pension plans and other non-wage benefits through collective bargaining. This strategy was a response, in part, to employer resistance to wage increases. In this new economic environment, larger unions, such as the United Auto Workers (UAW), sought to improve existing benefits, such as drug, dental, and pension plans, and to acquire new benefits, such as maternity and adoption leave, and even employer-paid legal aid. At the same time, this renewed emphasis on collective bargaining reflected a conviction on the part of CLC officials that the political climate was no longer conducive to the pursuit of public pension reform. According to Dick Martin, Executive Vice-President of the CLC, "Getting improvements in the [company] pension plans has to be the No. 1 item on the agenda." In Martin's view, the Federal Government's proposal to de-index OAS, while successfully thwarted, was a sign that major CPP reforms were effectively off the political agenda.

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8Ibid.  
10Ibid.  
12Ibid. The UAW secured legal aid plans from General Motors and Ford effective in the fall of 1985.  
13Ibid.  
14Ibid.
Labour's inability to influence significantly the content of pension policy after 1984 is reflected in the amendments made to the federal Pension Benefits Standards Act (PBSA) in 1986. On the question of occupational pension plans, organized labour had two paramount and interrelated concerns in the mid-1980's. The first of these was to require employers to build cost-of-living adjustments into their pension plans in order to protect pension benefits from the effects of inflation. A second demand was that employers be prohibited from removing surpluses from company pension plans and that all pension funds be dedicated to improving pension benefits. The amended PBSA failed to address either of these demands. Indeed, as the CLC noted in its analysis of the changes, the Government's non-decision with regard to the indexation of pension plan benefits represented a retreat from the Liberal Government's modest proposals of 1984.

With regard to family benefits and child-care policy, organized labour played a less prominent role than non-economic groups, most notably women's organizations. On universality, the CLC denounced the de-indexing of Family Allowances and their abolition in 1992. However, family benefits were decidedly lower on the CLC's list of priorities than either pensions or unemployment insurance. This was equally true of child care. While individual trade unions had some success in winning, through collective bargaining, paid parental leave and even on-site day-care facilities, organized labour did not wage an independent campaign on behalf of national day care in the 1980's. Indeed, even after it had become clear that the Mulroney Government was not prepared to re-introduce the child care bill, or any variant of it, following its re-election in 1988, day care supporters within the CLC were still striving to raise the importance of the issue among the Congress's affiliated locals. Thus, a resolution adopted by the 1992 CLC

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18 The CLC did, however, publicly support the position of day care advocacy groups in calling for a national programme to increase the supply of non-profit day care spaces. Thus, in 1987 CLC President Shirley Carr joined with the Canadian Day Care Advocacy Association, the National Action Committee on the Status of Women, and the Canadian Conference of Catholic Bishops in criticizing the Martin Committee Report and calling for direct federal grants to the provinces to expand non-profit day care services. "Child-Care proposals well-intentioned but misdirected--CLC," Canadian Labour. 32:4 (April, 1987), p.7.
Convention calling for the launching of a national campaign for universal non-profit child care found it necessary to add that the CLC "in conjunction with its affiliates, coordinate a strategy to ensure support for this issue from within the labour movement."^{19}

It was in relation to unemployment insurance that labour waged its most vigorous campaign in the field of social policy. Given the direct bearing of UI on the economic security interests of Canadian workers, this focus is unsurprising. Moreover, in light of the cuts made to UI benefits by the previous Liberal Government, labour was determined to resist further erosion of the programme. In assessing labour's success in this regard, two points may be made. First, labour appears to have played a contributing role in dissuading the Federal Government from cutting UI benefits during its first term (1984-1988). Secondly, while labour's opposition to Bills C-21 and C-113 did inflict some political damage on the Government, labour was ultimately unable to forestall a Government determined to reduce UI outlays while relying increasingly on UI premiums to finance federal job training programmes.

Following its election in 1984, the Mulroney Government refrained from proceeding with immediate cuts to the UI programme. Instead, it instituted a series of studies and reviews which included the establishment of a Task Force on Programme Review, headed by the Deputy Prime Minister, Erik Nielsen, and the issuance of a Consultation Paper on Child and Elderly Benefits. Unemployment Insurance was excluded from the purview of the Nielsen Task Force and instead submitted to a Royal Commission, established in July, 1985 by Employment and Immigration Minister Flora Macdonald.\textsuperscript{20} The Commission, headed by Claude Forget, was composed of six commissioners, two of whom, Jack Munro and Frances Soboda, were vice-presidents of the CLC.

The CLC suspected from the outset that the Government's aim in establishing the Commission was to prepare the groundwork for a further round of cuts to the UI programme. With this in mind, the two CLC commissioners engaged in numerous public and private

confrontations with Claude Forget and proceeded to prepare a detailed dissenting report. Following the release of the Forget Report, Munro and Soboda continued their attack on it in an appearance in February, 1987 before the Commons Standing Committee on Labour, Employment, and Immigration. In their testimony, they claimed the Government had interfered with the Commission and that Claude Forget had a hidden agenda "to produce a report that would help legitimize new options for the government to cut the federal deficit." The most politically telling criticism levelled by the CLC Commissioners was the charge that key elements of the Commission Report—including the controversial proposal to annualize benefits--had not been raised by any of the witnesses appearing before the Commission during the course of its public hearings.

The ferocity of labour's attack on the Forget Report may have been a factor contributing to the Government's decision, announced in March, 1987, to make no changes to the UI Act. Indeed, the Forget Commission, which held six months of public consultations, including two months of cross-country public hearings, afforded ample opportunities for supporters of the programme to rally to its defence, trade unions being prominent among the groups which made submissions. According to a Finance Department official seconded to the Forget Commission, the majority report was "dead on arrival" because of labour's implacable opposition.

It seems unlikely, however, that labour had the power single-handedly to veto the adoption of the Forget Commission's proposals. Opposition to the Forget Report came from various quarters, including, most notably, the House of Commons Standing Committee on Labour, Employment, and Immigration, chaired by Calgary Conservative MP Jim Hawkes. As described in Chapter 4, the Committee's Report, supported by representatives of all three parties, rejected key elements of the Forget Report. The Committee went on to endorse an enrichment of the UI programme estimated to add some $180 million per annum to UI outlays.

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22 Ibid.
23 Interview with Finance Department official, Ottawa, 13 June 1996.
As is discussed further in Chapter 6, the radical nature of the Forget proposals exposed a serious rift in opinion among Conservative MP's, as many Tory backbenchers were dismayed by the position taken by Hawkes and the other Conservative members of the Committee.

If labour had some success in resisting UI retrenchment in the Conservatives' first term, it was singularly unsuccessful in 1989 and 1993 when the Government passed Bills C-21 and C-113. First of all, despite widespread public disapproval of Bill C-21, the CLC had little time to mount a campaign against it. Passage of Bill C-21 was expedited by the Government, which invoked closure at both Second and Third Reading. The CLC could only protest that the overall nature of the UI changes was "in fundamental conflict with the views of the Congress" and pledge to "use all means available to rescind the measures" in question. In this connection, a CLC-led coalition formed to fight passage of Bill C-21 was apparently successful in persuading Liberal Senators to delay passage of the Bill for almost a full year. However, as argued in Chapter 6, this manoeuvre was part of a larger partisan battle between the Conservative Government and the Liberal-dominated Senate which ended only when the Government acquired a majority in the upper house in late 1990 through the appointment of additional Conservative Senators. When a further round of UI cuts was introduced in early 1993 in Bill C-113, labour was powerless to block or significantly modify them.

Organized labour, in short, had little impact on income security policy between 1984 and 1993. It effectively abandoned its decade-long campaign for a major expansion of the public pension system and was forced to settle for selected regulatory changes to the occupational pensions system. Meanwhile, despite labour's strenuous opposition, a major retrenchment of the UI system was implemented. These developments suggest that labour's capacity to influence

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25 A Government-commissioned Decima poll revealed that 61% of respondents opposed the changes outlined in Bill C-21. Furthermore, many believed that the real purpose of the Bill was not job training, as the Government maintained, but deficit reduction. Susan Delacourt, "Ottawa knew of risks over cuts to UI plan," Globe and Mail. 11 August 1989, pp.A1-A2.


27 Ibid.

public policy in the 1980's continued to deteriorate, a process that had begun in the mid to late 1970's. Broadly speaking, labour's economic position weakened in the 1980's. Average yearly wage increases, which had exceeded 10% in the early 1980's, fell to 4% by 1984 and remained well below 6% into the early 1990's. Moreover, average wage settlements declined more steeply than the decline in the inflation rate. This trend, in turn, was reflected in the sluggish growth of real wages, increases in which averaged 2% in the 1980's compared to 8.5% in the 1970's and fully 36.8% in the 1960's.

Labour was also weakened by the persistence of high unemployment in the 1980's and early 1990's. The average unemployment rate in the period 1985-1988 stood at 9.1%, only fractionally lower than the 9.8% average of the period 1980-1984. By 1991, unemployment had risen to 10.2%, a reflection of the onset of the recession of the early 1990's. Moreover, the structure of the labour market was undergoing changes in this period which undermined labour's bargaining power. Specifically, there was a marked growth in the 1980's in non-standard forms of employment, such as part-time and temporary jobs and self-employment.

Notwithstanding the foregoing, and in contrast to the US experience, union membership in Canada did not decline significantly in the 1980's. While 39% of the non-agricultural workforce in Canada belonged to unions in 1978, the comparable figure for 1992 was only slightly lower at 37.4%. Nevertheless, there was a continuing decline in the 1980's and early 1990's in the militancy of the labour movement as measured by strike activity. The average yearly number of

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32Part-time employment, defined as jobs involving less than 30 working hours a week, accounted for 15% of the labour force in the mid-1980's, compared to 4% in 1953. All forms of non-standard employment accounted for 30% of total employment in 1988 and for one-half of all new jobs created between 1981 and 1986. Canada. Economic Council of Canada. Good Jobs, Bad Jobs: Employment in the Service Economy. Ottawa: Minister of Supply and Services, 1990, pp.11-12.
33Leo Panitch and Donald Swartz, The Assault on Trade Union Freedoms, op. cit., p.141.
strikes and lockouts in Canada for the period 1984-1988 stood at 706, compared to 890 for the period 1979-1983. Between 1989 and 1992, the yearly average had dropped still further to 518.\textsuperscript{34} In the 1980's and early 1990's, the number of strikes in a typical year was 50-60% of the rate of the 1970's.\textsuperscript{35} Moreover, many of the strikes undertaken in the 1980's were defensive actions aimed at preserving previously won benefits and resisting employer demands for concessions.\textsuperscript{36}

Despite the decline in strike activity, federal and provincial governments continued to use back-to-work legislation at the accelerated rate established in the late 1970's. In contrast to the earlier period, however, such legislation was often backed up with heavy fines for non-compliance, fines which were levied directly on union officers and union coffers.\textsuperscript{37} Public sector employees also had to endure statutory abridgements of collective bargaining rights, such as wage freezes and unilateral alterations in job security provisions made by financially strapped governments. The right to strike was also curtailed in many jurisdictions through the expedient of declaring services to be essential to public health or safety.

In the case of the federal public service, and the broader federal public sector, the Conservatives aggressively pursued their neo-liberal vision of a radically downsized state. This aim was largely accomplished through the privatization of numerous crown corporations and agencies, reductions in the size of the public service, and stringent limitations on public sector compensation. By the end of their first term, the Conservatives had reduced the number of public servants by 15,000.\textsuperscript{38} In their second term, they announced further cuts, including a 10% reduction in the management cadre and a freeze on the federal wage budget, both of which were

\textsuperscript{34}\textit{Ibid.}, p.145. \\
\textsuperscript{35}\textit{Ibid.}, p.144. \\
\textsuperscript{36}While the "no-concessions" stance taken by Canadian autoworkers in the early 1980's is often cited as evidence of the militancy of Canadian trade unions in comparison to their US counterparts, it should not be overlooked that many Canadian unions were obliged to make significant concessions in the 1980's on both monetary and non-monetary issues (such as part-time work and contracting out). This trend intensified in the 1990's with the implementation of the Canada-US Free Trade Agreement. \\
\textsuperscript{37}Leo Panitch and Donald Swartz, \textit{The Assault on Trade Union Freedoms}, \textit{op. cit.}, p.83. \\
announced in the 1991 Budget. These measures provoked an unprecedented general strike in 1991 by members of the Public Service Alliance of Canada (PSAC), a union not known for its militancy. The strike, which was ended by back-to-work legislation, did not produce any tangible benefits for the Union.\footnote{Gene Swimmer and Kjerstine Kinaschuk, “Staff Relations under the Conservative Government: The Singers Change but the Song Remains the Same,” pp.267-312 at pp.290-291 in Frances Abele (ed.), in How Ottawa Spends 1992-93: The Politics of Competitiveness. Ottawa: Carleton University Press, 1992. The strike was, however, regarded as a political victory for PSAC in that union members demonstrated unexpected solidarity and public opinion was largely sympathetic to the Union position.}

In short, the erosion of labour's power in the industrial relations arena continued unabated under the Conservatives. To the extent that labour was a force defending the universality of income security programmes and seeking improvements in the social wage, its diminished strength facilitated the retrenchment measures implemented in this period.

*Business*

There was a noticeably more cordial relationship between the business community and the Federal Government during the Progressive Conservatives' two terms in office than had been the case during the late Trudeau period. The Liberal Government of 1980-1984 had angered multinational oil companies, and western Canadian-based energy producers, with the introduction of the National Energy Programme in 1980. The Federal Budget of 1981, replete with provisions to close or restrict the use of many tax loopholes of benefit to business, had provoked a furious reaction from business groups. While relentless business pressure forced the embattled Finance Minister, Allan MacEachen, to rescind or dilute many of the measures contained in the Budget, and while MacEachen's successor at Finance, Marc Lalonde, was more to the liking of business leaders, business continued to view the Liberals warily and was generally pleased by the election of the Conservatives in 1984.

The Conservatives' nine years in power were punctuated by a series of politically contentious measures, from the introduction of the Goods and Services Tax (GST) and the implementation of the Canada-US Free Trade Agreement to the pursuit of two rounds of constitutional change. These measures, and the extensive debates they generated, tended to
overshadow the Government's policies on income security. An examination of those policies, and of the Government's case for them, reveals a remarkable convergence with the demands of business.

A central theme of national business groups in their public pronouncements on social and economic policy in the mid-1980's to early 1990's was the necessity for the federal government to deal with its recurring budget deficits. To attain this objective, business groups favoured expenditure reductions, including cuts in social programmes, rather than tax increases. Warnings about the deleterious effects of the deficit became a regular part of business's economic advice to the Government after 1983, when the deep recession of 1981-1982 simultaneously reduced inflation to proportions which no longer seemed critical while causing the federal deficit to balloon from $21.1 billion in 1982 to over $30 billion by 1985.40 Before 1983, business groups had demanded public spending restraint as a means of reducing inflation. However, when the inflation rate returned to single-digits in 1983, it ceased to provide as plausible a justification for public spending cuts and the deficit came to serve that purpose.

In its brief to the Macdonald Royal Commission, the BCNI warned that the continued growth of the federal deficit was itself a major threat to maintaining low inflation and low interest rates. It went on to caution that if the deficit were left unchecked, government borrowing requirements increasingly would crowd out private sector investment by claiming an ever larger share of domestic savings.41 This preoccupation with the deficit also marked the policy statements issued by the CMA and the CCC during the period 1984-1993.42 Business groups were united in ascribing the existence of the federal deficit to excessive government spending, a diagnosis which suggested its own prescription. Social programmes were high on business's list.

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41BCNI. *National Priorities: A Submission to the Royal Commission on the Economic Union and Development Prospects for Canada.* December 12, 1983, pp.8-9. It is true that the BCNI, more so than either the CMA or the CCC, continued to emphasize the need to maintain a low inflation policy and even to insist on the necessity for zero inflation. See David Langille, "The Business Council on National Issues and the Canadian State," *Studies in Political Economy.* 24 (Autumn 1987), pp.41-85. However, the federal deficit figured prominently in the public statements made after 1983 by all three groups to support the claim that federal social spending was excessive.
of proposed public spending cuts; according to business groups, income security programmes were no longer affordable in their existing form. Prominent among their suggestions for reform was to replace universality with a system of benefits targeted to those in greatest need.43

Business's insistence on the connection between deficit reduction and greater selectivity in income security programmes corresponded closely to the Federal Government's official pronouncements on the subject. Early in its first term, the Government echoed the analysis of business groups about the harmful economic effects of the federal deficit.44 Moreover, deficit reduction was identified as the primary goal of the Government's fiscal policy in all seven of the budgets delivered by Michael Wilson and in the two budgets delivered by his successor, Don Mazankowski. On the spending side, the Government's message was less consistent. While affirming its determination to pursue deficit reduction primarily through cuts in public expenditure rather than through tax increases, the Government relied on a combination of the two approaches. Thus, while business groups were broadly satisfied with the direction of federal fiscal policies during the Mulroney years, they were critical of the Government's failure to make deeper spending cuts and to make more progress on the deficit.

A convergence of positions taken by the Government and by business groups can also be seen in relation to other key items on the Government's agenda. The income tax reforms of 1987 and the GST, introduced in 1989, were favoured by most business groups. The CMA had long favoured a broad-based value-added tax to replace the federal manufacturers' sales tax, a tax which was generally conceded to put Canadian-produced goods at a disadvantage vis-a-vis imports.45

43 BCNI. Social Reform and the National Agenda. 1986, p.22. In its 1986 pre-Budget submission, the CCC called for an immediate 5% cut in social spending to reduce the deficit by an estimated $1.5 billion. Savings were to be realized either through a targeting of OAS and Family Allowances or through the introduction of a tax clawback on upper-income earners. "Cuts urged in social programs," Winnipeg Free Press, 20 November 1986, p.23.

44 Hon. Michael Wilson. A New Direction for Canada: An Agenda for Economic Renewal, op.cit., pp. 20-21. In March, 1985 the Government convened a two-day National Economic Conference, attended by 136 representatives of business, labour, consumers, women, aboriginals, and other groups. While the Government's ostensible aim was to reach a "national economic consensus," Finance Minister Michael Wilson made it clear, in his opening remarks, that deficit reduction was the Government's paramount priority. He invited the participants to advise the Government on how this goal should be achieved. See "Deficit is focus of conference, "Canadian News Facts, 4 April 1985, 19:6, p.3231.

The GST was also supported by the CCC (albeit with reservations) and by the BCNI. The two ill-fated constitutional reform initiatives of the Government, the Meech Lake and Charlottetown Accords, were also supported by major business groups. Indeed, senior business executives were enlisted by the Government to shore up public support.

The nature and extent of business's collaboration with the Progressive Conservative Government reached its highest stage in 1987-1988 on the subject of the Canada-US Free Trade Agreement (FTA). Thomas d'Aquino and David Culver of the BCNI, together with leading pro-free trade politicians Peter Lougheed, Donald Macdonald, and Darcy McKeough, were instrumental in founding the Canadian Alliance for Trade and Job Opportunities, an umbrella organization of some 112 Canadian-based corporations whose purpose was to build public support for the FTA. In the year preceding the federal election of November, 1988 the Alliance spent an estimated $3 million promoting the FTA. The Alliance's intervention in the 1988 federal election campaign may well have assured the Conservatives' re-election. When the Liberals, running on an anti-FTA platform, appeared to be ahead of the Conservatives in voter support following the strong performance of Liberal leader John Turner in a televised debate among the party leaders, the Alliance unleashed a barrage of pro-FTA advertisements intended to bolster the Conservatives' faltering campaign. The resurgence in voter support for the Conservatives which occurred in the last three weeks of the campaign coincided with this massive pre-election media blitz.

For the most part the Conservatives' record on income security policy was well received by business. Many of the measures taken or deliberately not taken by the Government reflected the positions advocated by business groups. Moreover, as was the case in the late Trudeau period, the Government increasingly justified its income security policies by reference to its

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46 *Ibid.* BCNI. *Taxation Policy Reform and the National Agenda.* Ottawa, October 1986, pp.19-21. On the other hand, certain business groups opposed the GST, including the Canadian Federation of Independent Business, the Canadian Bankers' Association (GST Task Force), and the Canadian Restaurant and Food Services Association.


broader fiscal and economic policy objectives. Thus, changes to social programmes were explained in terms of their projected impact on government expenditures, on the federal deficit, and on Canada's competitiveness in international markets.

With regard to pensions and family benefits, business groups were consistent throughout the Mulroney years in demanding an end to universal entitlements. In a major policy paper issued in 1986, the BCNI summed up its approach to income security policy as reflecting "a desire to ensure that scarce resources are targeted more effectively, and that the collective impact of social policies, both tax and transfer and both federal and provincial, is such as to create positive incentives and to facilitate adaptation to economic change."49 In concrete terms, business favoured income-tested benefits, such as the GIS and the RCTC, over the universal OAS and Family Allowance. In its 1986 pre-Budget submission to the Minister of Finance, the CCC proposed that eligibility for OAS and the Family Allowance be determined on the basis of family income such that individuals whose annual family income exceeded $40,000 would no longer receive such benefits. As alternatives, the CCC recommended the introduction of a tax clawback or the merging of the Family Allowance with the RCTC.50 For its part, the CMA favoured the retention of Family Allowances and other universal benefits "so long as the benefits are collected through the [tax] system from higher income earners."51

Interestingly, when the Government proceeded to rein in the OAS in 1985 through partial de-indexation, it was criticized for doing so by business groups. In a joint statement, the CCC, the BCNI, and the Canadian Organization of Small Business urged the Government to restore full indexation of OAS benefits received by the elderly poor, who were defined as those receiving the income-tested GIS.52 (Curiously, business did not criticize the Government's concurrent decision to de-index Family Allowances.) Already besieged by angry protests launched by seniors groups, the Government was surprised and dismayed at business's rebuke. However, its abrupt

49BCNI. Social Policy Reform and the National Agenda, op. cit., p.22.
change of policy was not a capitulation to business pressure. On the contrary, business groups cannot have been pleased by the outcome of this episode. Not only did the Government restore full indexation for all OAS recipients, but it offset the forgone savings, in part, by extending the 5% surtax on corporations announced in the 1985 Budget from 12 to 18 months.

Ultimately, however, the Government did despatch universality along the lines favoured by business groups. The tax clawback of OAS and Family Allowances introduced in the Budget 1989 began this process in earnest, while the abolition of Family Allowances, effective in 1992, largely completed it. None of these decisions, however, can be said to have been taken as a direct response to representations by business. To the extent that business influenced these decisions, it did so by helping the Government after the 1988 election to create a sense of urgency about the federal deficit and about the necessity for stringent cuts to federal spending. Thus, while the Government issued increasingly dire warnings about the deficit and the debt in its second term, business groups complemented these efforts with increasingly pointed demands for deficit and debt reduction measures.53

These pronouncements figured prominently in the press, which, for the most part, accepted uncritically the claims of business and Government spokespersons that public spending was excessive and that it was chiefly, if not entirely, responsible for plunging the nation into a calamitous state of indebtedness.54 In a particularly effective publicity stunt conceived by the right-wing Fraser Institute, the Vancouver Board of Trade erected a "debt clock" in downtown Vancouver in 1988 purporting to record, by the minute, the alarming growth of the national debt. A similar apparatus, installed in Ottawa, was officially unveiled by Finance Minister Michael

Wilson in 1991. More generally, there was a marked increase in the coverage of "business news" in the Canadian media in the latter half of the 1980's from a decidedly business-friendly perspective.

Notwithstanding the sustained attention given to the deficit in the media after 1988, it failed to register in public opinion surveys as the most pressing issue facing the country among more than 3-5% of respondents. Throughout the Government's second term, the deficit lagged far behind unemployment and the economy as a priority issue for Canadians. Nevertheless, deficit reduction was an explicit or implicit rationale behind many of the Government's post-1988 social policy measures. The Government's decision to scrap its national day care strategy after the 1988 election, discussed more fully in Chapter 8, was explained, in large part, as a deficit-controlling exigency. The Child Tax Benefit, unveiled in 1992, recommended itself to the Government as a less costly alternative both to the Family Allowance (which it replaced) and the national day care strategy (for which it served as a substitute of sorts). Being a targeted benefit, the CTB met the twin imperatives of liberal equity and fiscal conservatism, goals which were shared by business leaders and state actors.

With regard to earnings-related pensions, business was not obliged to make strenuous efforts to ensure an outcome congruent with its interests. As described in Chapter 3, the previous Liberal Government had rejected calls to expand the CPP or to legislate mandatory occupational pensions, endorsing instead a series of piecemeal improvements to the public and private pension systems. The Conservatives' acceptance of this position effectively closed the door to a comprehensive review of pensions policy. However, two major issues which remained on the pensions agenda after the 1984 election were CPP homemaker pensions—for which the

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56 Stephen Brooks and Andrew Stritch, *Business and Government in Canada*. Scarborough: Prentice-Hall, 1991, pp.249-250. The mainstream media expanded their coverage of business news, with an emphasis on financial markets, financial analysts appeared more frequently on local newscasts to present "expert" commentaries on economic issues, while more specialized business papers, such as the *Financial Post* and the *Globe and Mail Report on Business* became nationally distributed in the 1980's. Even the CBC was not unaffected by this trend as reflected in the launching of TV programmes like *Venture* and *Business World*. See also, Thom Workman, *Banking on Deception: The Discourse of Fiscal Crisis*. Halifax: Fernwood, 1996.
Conservatives had campaigned in 1984—and inflation protection of private sector pension benefits.

Business groups had registered their opposition to CPP homemaker pensions during the Great Pension Debate. However, business opposition per se does not appear to have been pivotal to the Government's decision not to implement such reforms. As is discussed in Chapter 7, there was little organized support for homemaker pensions within the Conservative Government, among the provinces—whose consent was required to enact changes to the CPP—or even among the presumptive supporters of homemaker pensions, notably women's groups and organized labour.

On the mandatory indexation of occupational pension plan benefits, the Government evidently did heed the views of the business community. Although Conservative members of the Parliamentary Task Force on Pension Reform had endorsed its indexation proposals in 1983, Finance Minister Michael Wilson was quick to disavow this commitment in his first Budget, explaining that there were "too many uncertainties" about the costs and a lack of consensus on an appropriate mechanism. Eight months later, in introducing amendments to the Pension Benefits Standards Act, Barbara McDougall, Minister of State for Finance, acknowledged that business interests were a material consideration in the Government's rejection of mandatory inflation protection. As McDougall put it:

...[T]o mandate inflation protection at this time could have serious negative repercussions on the willingness of businesses to establish or to continue pension plans for their employees.

Changes made to the Unemployment Insurance programme during the Conservatives' second term in office were generally well received by business. Despite the retrenchment of the

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60 House of Commons Debates, 28 January 1986, p.10251. McDougall also offered as a reason the lack of provincial agreement on the matter, notwithstanding the fact that, unlike changes to the CPP, amendments to the federal PBSA do not require provincial consent. On this point, Liberal MP Doug Frith urged the Federal Government to "lead by example...in areas in which it has responsibility." Ibid., p.10253.
UI Act which had begun in the mid- to late-1970's, business groups remained critical of it. According to business groups, lax eligibility criteria promoted a weak attachment to the labour market while excessive benefit periods undermined work incentives. Extended regional benefits were also blamed for discouraging "mobility towards occupations and places offering more stable employment prospects." In general, business groups demanded more stringent entrance requirements and shorter benefit periods, although there were variations among business groups on proposed changes, the CCC tending to take a harder line than the BCNI. For example, both the CCC and the BCNI demanded that the minimum period of insurable earnings be doubled to 20 weeks and that the maximum duration of benefits be fixed at 26 weeks in place of the existing 50-week maximum. Business groups also called for a reduction in the benefit rate from 60% to 50% of insurable earnings. With regard to extended regional benefits, the BCNI urged that they be "significantly reduced" while the CCC called for their outright abolition. As for those voluntarily leaving a job or those fired for misconduct, the BCNI called for shorter benefit periods (and no eligibility for regional extended benefits) while the CCC urged their disqualification.

On the question of financing, business maintained that the federal government should finance "social" aspects of the UI programme, such as maternity and retirement benefits, as well as regional extended benefits. Business groups also maintained that developmental uses of UI funds, such as training programmes, should be financed by general revenues, not by UI premiums. This position was consistent with the contention of business groups that UI premiums and other payroll taxes, such as employer contributions to the CPP, discouraged hiring and job creation.

Most of the UI measures introduced by the Government were at least somewhat favourable to business interests. Bill C-21 increased the variable entrance requirement and

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63 Ibid., p.29; CCC, Unemployment Insurance Review, op. cit., p.7.
64 BCNI, Social Policy Reform, op. cit., p.23.
reduced the maximum duration of benefits applicable in most regions. Bill C-113 went further by reducing the benefit rate from 60% to 57% and by denying UI benefits altogether to workers who quit their job without just cause or who were fired for misconduct.

Again, however, there is reason to question the presumption that these changes were made as a direct response to business pressure. First of all, the positions taken by business and labour groups on UI reform have been remarkably consistent since the 1950's and were well known to policy-makers. Yet the Liberals, after their re-election in 1980, and the Conservatives in their first term of office, refused to comply with business demands for further UI retrenchment. Secondly, while Bills C-21 and C-113 went some considerable distance to satisfying business interests, the Government refrained from going as far as business groups had demanded. For example, business's demand for the elimination of regional extended benefits and of the variable entrance requirement was not heeded. Moreover, the Government appeared to ignore business interests in Bill C-21 by terminating its contributions to the UI fund, leaving it to be financed entirely by employer and employee premiums.

In short, while the UI changes of 1990 and 1993 were preponderantly to the advantage of business, a simple model of business pressure cannot satisfactorily explain the relevant policy outputs of the state. To understand more fully the nature and timing of the UI reforms, it is necessary to take account of other policy determinants.

**Conclusion**

A review of the Conservatives' period in office seems broadly to confirm the validity of

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66 While this move by the Government was at odds with business's insistence that social and developmental uses of UI funds be financed by the Government, it is arguable that this measure would have served the long-run interests of business. As noted, one of the aims of the Labour Force Development Strategy was to divert a higher proportion of UI funds to training and other developmental uses and away from income maintenance. Labour vehemently opposed this move for reasons that business would be expected to support: namely, that employees, through UI premiums, would be helping to finance their own training. Besides, the use of UI funds to finance training programmes arguably imposed a lesser burden on business than would an employer training tax. The latter idea, proposed by the Government-appointed Advisory Council on Adjustment in early 1989, was adamantly rejected by business groups. See Rianne Mahon, "Adjusting to Win? The New Tory Training Initiative," pp.73-111 at p.91 in Katherine A. Graham (ed.), *How Ottawa Spends 1990-91: Tracking the Second Agenda*. Ottawa: Carleton University Press, 1990.
the power resources hypothesis. The economic power of organized labour in Canada waned during the 1980's and early 1990's as high unemployment and the growth of part-time work, among other factors, contributed to declining average wage gains and a lessening of labour militancy. Labour assumed a more defensive posture at the bargaining table as it sought to defend previously acquired gains. Symptomatic of labour's weakened position was the state's willingness, increasingly evinced since the late 1970's, to employ coercive measures, such as back-to-work legislation, in its dealings with trade unions.

In policy terms, labour was manifestly unsuccessful in its struggle to extend social entitlements. By 1985, it appeared to have conceded defeat in its decade-long campaign for an expansion of the public pension system. In the political arena, as in the industrial relations setting, labour's actions were largely defensive and reactive. With regard to the UI programme, labour's vigorous opposition to the Forget Report gave the Government pause; however, as is discussed further in the next chapter, the Government’s unwillingness to retrench the programme in its first term was equally attributable to divisions within the Government caucus and to a general decision to postpone particularly controversial measures to its second term. In any event, following the 1988 election labour failed to dissuade the Government from proceeding with two rounds of UI retrenchment.

Macroeconomic conditions which had undermined labour's position had the opposite effect in relation to business. In the context of high unemployment, unsteady economic growth, and an ebbing of public confidence in the capacity of the state to manage the economy, business acquired new economic leverage over labour while the state grew more attentive to the demands of business. Thus the Conservatives proceeded to reverse policies that had angered business, such as the National Energy Programme and the Foreign Investment Review Agency, and to implement measures which business, in the main, strongly supported, from the Free Trade Agreement to the privatization of crown corporations.

In regard to social policy, there was a close correspondence between the measures taken (or not taken) by the Mulroney Government and the stated preferences of leading business
groups. Business groups opposed universality, favouring selectivity through the targeting of benefits or through tax clawbacks. While favouring a more radical retrenchment of the UI programme, along the lines proposed by the Forget Commission, they were generally supportive of the UI cuts introduced in 1989 and 1993.

However, as in the previous period studied, there is little evidence that particular policy decisions were taken expressly in response to business pressure. Indeed, as is discussed in subsequent chapters, there were more proximate forces, within the state and within the Progressive Conservative caucus and cabinet, militating in favour of the social policy orientation of the Government. Business groups undoubtedly reinforced these proclivities through their public submissions to ministers and parliamentary committees and through confidential representations, notably pre-Budget meetings with the Minister of Finance. More specifically, business's insistence on the link between the federal deficit and the alleged profligacy of social spending lent added authority and *gravitas* to the Government's pronouncements on the subject. Indeed, business's increasingly strident demands for spending cuts in the late 1980's and early 1990's were extensively reported by the media and were broadly reflected in the Government's post-1988 programme of retrenchment.

However, specific measures taken in fulfillment of this agenda, such as the indefinite postponement of national day care and the introduction of the clawback, were the result of choices made within the state. A macro level of analysis lacks the precision necessary to identify factors which may have been shaped particular policy choices. For this reason, additional analytical tools must be used.
Chapter Six: Political Parties and Social Policy, 1984-1993

In assessing the impact of party politics on the development of income security policy during this period, two preliminary observations should be made. First, the retrenchment policies of the Mulroney Government gave rise to an unusually high degree of conflict between the opposition parties and the governing Progressive Conservatives. The proposed de-indexing of OAS and Family Allowances, the subsequent introduction of the tax clawback, and the two rounds of cuts to Unemployment Insurance generated furious confrontations between Government and Opposition in the House of Commons and, in the case of the UI bill, Bill C-21, a year-long deadlock between the Liberal-dominated Senate and the PC Government. The conflictual nature of partisan debate over social policy during this period stands in marked contrast to the building and consolidation stages of the welfare state, roughly dating from 1944 to 1971, during which there was relatively little discord between the federal Liberals and Conservatives over such landmark measures as the introduction of Medicare, the Canada Pension Plan, and the major expansion of the UI programme in 1971. This observation lends support to the hypothesis that the politics of dismantling social programmes, or of making them more restrictive, are significantly different from the politics of establishing or expanding such programmes.

Secondly, there was a high degree of volatility in the popularity of the parties in the mid-1980's to early 1990's according to public opinion polls. The NDP enjoyed historically high

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1 The federal Progressive Conservative Party formally committed itself to the principles of a Beveridge-style welfare state in 1942 with the adoption of the Port Hope programme drafted earlier that year. While the federal Liberals had adopted a welfarist programme as early as 1919 and introduced public old age pensions in 1927, they did not begin to advocate and implement a broad range of social welfare measures until 1944.

2 E.g., the Medical Care Act 1966 was passed on Third Reading in the House of Commons on 8 December 1966 by a vote of 177 to 2. There was, however, greater partisan conflict at the provincial level. The first Medicare programme, introduced by the CCF Government of Saskatchewan, was strongly opposed by the provincial Liberals. The Conservative Government of Ontario registered serious misgivings about both the CPP and Medicare plans. See Kenneth Bryden, Old Age Pensions and Policy-Making in Canada. Montreal-Kingston: McGill-Queen's University Press, 1974; Malcolm G. Taylor, Health Insurance and Canadian Public Policy. Kingston-Montreal: McGill-Queen's University Press, 1978; Andrew F. Johnson, "A Minister as an Agent of Policy Change: The Case of Unemployment Insurance in the Seventies." Canadian Public Administration. 24 (Winter 1981), 612-633.
levels of support during much of this period, eclipsing at times the official opposition Liberal party. The Conservatives, after recovering lost ground in 1988 and securing re-election, saw their popularity plummet to unprecedented depths in their second term as they proceeded to introduce a host of highly controversial measures. By the early 1990's, growing support for the nascent Reform Party appeared to pose a serious threat to the Conservatives' political base in western Canada.

To gain some insight into the distinctive role played by political parties in shaping social policy during this period, we consider the two hypotheses applied in Chapter 3: the "blame-avoidance" hypothesis and the left-party hypothesis.

*The Politics of Blame Avoidance*

As noted in Chapter 3, the Liberals were largely successful in avoiding political blame for the retrenchment measures they undertook. Rather than adopting techniques of obfuscation, they tended to impose cuts selectively (as in the case of UI) or to compensate vulnerable losers (as with family benefits and the 6 and 5 programme). On the whole, the Liberals' policies were reasonably transparent. While affirming their commitment to the principle of universality, they defended their retrenchment measures on the impeccably liberal-residualist basis that social benefits should be targeted to those in greatest need.

The Conservative record is similar to that of the Liberals in certain respects, but significantly different in others. Like the Liberals, the Conservatives compensated certain vulnerable losers for cuts made in, or caps placed on, universal benefits. Thus, while basic Family Allowances benefits were not increased in the period 1984-1992 and benefits were only partially indexed, low- and middle-income families were compensated, in part, through increases in the income-tested RCTC. Then, when Family Allowances and the RCTC were abolished in 1992, an enriched selective programme, the Child Tax Benefit, was introduced to replace them,

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3They did, however, pursue an "implicit privatization" of the public pension system through their non-decision on expansion of the CPP, while proposing to strengthen employer-sponsored pension plans and private savings through tax and regulatory measures. Another obfuscation technique used by the Liberals to diminish universal programmes in favour of selective ones was their failure to increase basic OAS benefits (exclusive of indexation) while raising the income-tested GIS on several occasions.
together with a cash supplement for the working poor. In addition, cuts to the UI programme, in
the main, were aimed at areas of average or below-average unemployment, leaving largely intact
more generous provisions for areas of high unemployment.

However, the Conservatives' retrenchment measures were more far-reaching than those of
the Liberals and their techniques were more varied. In particular, the Conservatives relied more
heavily on obfuscation techniques, especially the use of arcane indexation formulas affecting both
benefit schedules and tax clawbacks. At the same time, it must be said that not all of the
Conservatives' retrenchment measures conform to the blame-avoidance thesis. In their second
term in particular, the Conservatives showed a greater willingness to impose cuts that were direct
and visible.

In their first term, the Conservatives were wary of the political perils of retrenchment.
As noted in Chapter 3, the Liberals and the NDP, before and during the 1984 election campaign,
raised questions about the fate of social programmes under a future Conservative government.
To allay public fears on this score, Conservative Leader Brian Mulroney declared social
programmes to be a "sacred trust." Even after the election, the opposition parties kept the
Conservatives on the defensive on the issue of universality, badgering the Government on the
seeming inconsistency of remarks on the subject made by Messrs. Epp and Wilson. With the
issuance of the *Consultation Paper on Child and Elderly Benefits* in January 1985, the
Government reaffirmed its commitment to universality while declaring its intention to reallocate
social expenditures so as to enhance vertical equity.

(a) 1985 Budget

The Conservatives were rudely alerted to the political perils of welfare state retrenchment
following the introduction of Michael Wilson's first budget on May 23, 1985. The Budget's
proposal to partially de-index OAS provoked a chorus of protest in response to which the
Government felt it wise to back down. In this instance the Government failed to anticipate the
extent and intensity of opposition to its OAS proposal and to take certain blame-avoiding steps
which might have mitigated such opposition. For example, de-indexation was aimed at all OAS
recipients, rather than those in upper-income brackets, thereby giving all OAS beneficiaries a common cause around which to rally. The Government also neglected to pursue a strategy of compensation, such as through the use of a grandfather clause or, as the Liberals had done in their 1982 Budget, the superindexing of GIS. On the other hand, it must be conceded that there was considerable uncertainty about the precise impact of a policy that was contingent on future rates of inflation. In short, it was far from clear that opponents of the Government's policy would grasp its adverse effects and would have the will or the capacity to mount an effective campaign against it.

In the event, the opposition parties played a central and possibly decisive role in orchestrating opposition to OAS de-indexation. While the opposition parties and the media, in their immediate reaction to the May 23 Budget largely overlooked the OAS provisions, within days OAS de-indexation had become the focus of Budget-related questions in the House of Commons. This focus, in turn, awakened media interest in the issue and led journalists to solicit the views of seniors groups. The opposition parties were thus instrumental in placing the de-indexation issue on the political agenda. They also played an important part in mobilizing public opposition to the Government on this issue. Both parties sent representatives on cross-country tours in early June to circulate petitions demanding the reinstatement of full indexation. Scores of these petitions were tabled in the House of Commons in June over a three-week period.

The vehemence of the opposition parties' attack on the OAS proposal was not unexpected. First, as Rodney Haddow has observed, the federal political parties have tended to be highly attentive to universal programmes, such as the OAS, because such programmes, by definition, affect large numbers of voters. Secondly, the plight of the elderly poor had received

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4Indeed, while NHW Minister Jake Epp made himself available in the lobby of Parliament after the Budget Speech had been read, in anticipation of media questions about the de-indexation of OAS, journalists ignored him in favour of the Finance Minister. Linda McQuaig, *Behind Closed Doors: How the Rich Won Control of Canada’s Tax System and Ended Up Richer*. Markham, Ont.: Penguin, 1988, p.303.


7In his study of the Canada Assistance Plan and the Social Security Review of the 1970’s, Haddow found that the
considerable attention in Parliament since the release of the Report of the Special Senate Committee on Ageing (the Croll Report) in 1966; concern with this issue crossed party lines and led, *inter alia*, to the creation of the GIS and the SPA. It is not surprising, therefore, that the Conservatives would be heavily criticized for ignoring the needs of the poor by imposing a uniform indexation cap on the benefits of all OAS recipients, regardless of income.

However, the effectiveness of the opposition parties' campaign against de-indexation was aided by several additional factors. First, they were able to make a plausible case that the Government had been dishonest. Not only had the PM declared social programmes to be a "sacred trust" but the Government, in its Consultation Paper on Child and Elderly Benefits released four months earlier, had explicitly ruled out any changes to the elderly benefits system. Secondly, a prominent feature of opposition criticism of the Budget was the contrast between the Government's attentiveness to the interests of the well-off, in the form of a lifetime $500,000 capital gains exemption, and its apparent indifference to low-income pensioners. Indeed, this assessment of the inequitable nature of the Budget figured prominently in media analyses of it.\(^8\)

Thirdly, the opposition parties struck a responsive chord with public opinion, which was decidedly sympathetic to the plight of the elderly. Even the *Globe and Mail*, normally a staunch supporter of the Conservatives, criticized the Government in an editorial for its "shabby treatment" of pensioners.\(^9\) Finally, the efforts of the opposition parties were bolstered significantly by an unprecedented campaign by seniors groups, discussed further in Chapter 7.

In contrast to their success on OAS de-indexation, the opposition parties were unable to pressure the Government to reverse identical provisions proposed for the Family Allowance. While both parties demanded the retention of full indexation, the issue was initially overshadowed by the campaign on OAS. Nevertheless, following the Government's capitulation on that issue, both opposition leaders declared their intention to defend Family Allowances. As opposition parties paid less attention to anti-poverty programmes, such as the CAP and proposals for a Guaranteed Annual Income than to universal programmes such as Medicare, the OAS, and the Canada Pension Plan. Rodney S. Haddow. *Poverty Reform in Canada*, op. cit.


before, extra-parliamentary tours were planned to circulate petitions and generate publicity.\textsuperscript{10} This time, however, the Government would not be moved and, despite an NDP filibuster mounted in December, 1985, the Family Allowance Act was duly amended.

The opposition parties' failure on this issue had to do in part with the relative weakness of the advocacy groups concerned with the maintenance of family benefits, as discussed below. However, the opposition parties also had to contend with lower levels of public support for the universality of Family Allowances than was the case for OAS. A Gallup Poll conducted in December, 1984 indicated that 75\% of respondents approved of limiting Family Allowances to those "who need them," compared to 69\% who approved of restricting OAS eligibility on this basis.\textsuperscript{11} The opposition parties' inability to influence public opinion may also have to do with the fact that the monthly Family Allowance was significantly lower than the OAS; interference with the former would therefore be less likely to evoke an indignant response from programme recipients.

The de-indexation episode had a chastening effect on the Government and no further modifications were made either to public pensions or family benefits in the Conservatives' first term. The amendments made to the PBSA and the CPP in 1986 reflected a political consensus reached by the Conservative and Liberal members of the Parliamentary Task Force on Pension Reform in 1983 and accepted by most of the provinces in subsequent inter-governmental discussions. Consequently, they were not debated extensively in Parliament, although NDP members criticized the Government for failing to expand public pensions or to mandate the indexing of private sector pension benefits.

(b) Forget Commission

Because of the complexity of the Unemployment Insurance programme, and its political sensitivity in regions of chronic unemployment, the Government had decided to appoint a royal commission to examine alternatives for reform. Labour's dissent from the Forget Report,


discussed above, was not wholly unexpected. Nor, for that matter, were the critical remarks the Report elicited from the NDP and Liberal employment critics. More remarkable was the open dissension which the Forget Report provoked among Conservative MP's.

Released in December, 1986, the Forget Report was referred to the Standing Committee on Labour, Employment, and Immigration, chaired by Calgary Conservative MP Jim Hawkes. Despite its tight three-month deadline, the Committee produced a report which was unanimously accepted by representatives of the three parties. The Committee rejected two of the Commission's central proposals, as described in Chapter 4. The first of these was the annualization proposal which, in the Committee's view, would "create undue hardship [and] increase the costs of other social programs." Secondly, the Committee rejected, without comment, the Forget Report's call for the severance of "income security" components of UI. Indeed, the Committee advocated the augmentation of maternity and sickness benefits.

Deep divisions within the Conservative caucus over the Forget Commission and over the Parliamentary Committee's response to it soon became evident. Within hours of the release of the Forget Report, Transport Minister John Crosbie publicly rejected its recommendations and assured that "No one needs to fear that they will lose their unemployment benefits." However, the Forget Report was not without its supporters on the Government side of the House. Don Blenkarn, chair of the Standing Committee on Finance and Economic Affairs, castigated his colleague, Jim Hawkes, for ignoring the negative effect of UI benefits on work incentives. Over a six-week period, the two committee chairs debated each other through a pointed exchange of letters that were circulated to Conservative caucus chairs, selected cabinet ministers, the PM, and various business groups. Employment and Immigration Minister Benoit Bouchard's terse announcement in May 1987 that the Government intended to make no changes to the UI programme in the remainder of its first term only added fuel to the debate. In an extraordinary

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move, members of the Commons Labour, Employment, and Immigration Committee, angered by Bouchard's failure to provide a detailed response to their Report, appealed to the Speaker, John Fraser, to compel the Minister to appear before the Commons Privileges and Elections Committee, a disciplinary body.\textsuperscript{15} Meanwhile, Blenkarn claimed that many Conservative MP's would continue to agitate for a tightening of the UI scheme.\textsuperscript{16}

\textbf{(c) 1988 Federal Election}

Apart from the partial de-indexation of Family Allowances the Conservatives refrained in their first term from cutting federal income security programmes in pursuit of their goal of deficit reduction. Indeed, Prime Minister Mulroney was aware of the broad public support commanded by social programmes and the precarious nature of the Conservatives' electoral base.\textsuperscript{17} Thus, a "radical assault on the welfare state was a dubious place to start" the process of "consolidating their electoral gains and establish[ing] an enduring political base."\textsuperscript{18} As the Conservatives entered the 1988 election campaign, they chose to emphasize their economic achievements, most notably the tax reforms of 1987 and the signing of the Free Trade Agreement (FTA) with the United States.

While the FTA dominated the election campaign, particularly in the wake of the televised party leaders' debate, social policy did emerge as an election issue. Early in the campaign, all three parties pledged to introduce a national system of day care. While the Conservatives promised to re-introduce the day care bill which had expired in the Senate with the election call, Liberal leader John Turner promised to create 400,000 new day care spaces over seven years, double the Conservatives' target.\textsuperscript{19} Much of the media coverage of this announcement centred on

\textsuperscript{15}A motion to this effect was introduced by New Democrat John Rodriguez and seconded by Conservative Fernand Jourdenais. Specifically, the Minister was taken to task for ignoring a Standing Order requiring the Government to provide a "comprehensive" response to parliamentary committee reports. Ironically, this rule had recently been introduced by the Mulroney Government as part of a wide-ranging series of reforms proposed by the McGrath Committee on Parliamentary Reform in 1985.


\textsuperscript{18}Ibid.

the vagueness of the Liberals' cost estimates, which the Party eventually fixed at $7.4 billion.\textsuperscript{20}

For its part, the NDP, in a pre-election announcement, had promised to reach the Conservatives' target of 200,000 spaces in half the time and at one-third the cost.\textsuperscript{21} While both the Liberals and New Democrats criticized the Conservatives' willingness to fund new for-profit day care centres, they agreed to continue to provide operating grants for existing for-profit centres.\textsuperscript{22} According to Liberal MP Lucie Pepin, it was up to the provinces to decide whether or not to support private day care operators.\textsuperscript{23}

While national day care assumed some prominence in the early stages of the campaign, partisan debate of social policy was largely conducted within the context of the Canada-US Free Trade Agreement.\textsuperscript{24} This debate paralleled that of 1984 in as much as the opposition parties sought to cast the Conservatives as saboteurs of the welfare state, while the Conservatives sought to reassure voters that social programmes were safe in their hands. According to the Liberals and NDP, and a host of other critics, the FTA would have a deleterious effect on Canada's social programmes, both directly and indirectly. On the one hand, programmes such as Medicare and Unemployment Insurance would be vulnerable to challenge under the terms of the FTA as unfair subsidies. On the other hand, it was contended that pressures resulting from a more integrated North American market would inexorably force Canada "to harmonize social policy downwards to US standards, thus reducing Canada's capacity to continue building a different kind of society from that of the United States."\textsuperscript{25}

This critique of the FTA had a significant impact on public opinion in the early stages of the campaign, outweighing the concerns of free trade sceptics about the erosion of national sovereignty and the loss of jobs expected to result from the FTA.\textsuperscript{26}

\begin{enumerate}
\item["In the 1984 campaign, the issue of national day-care had a higher profile in part because a separate three-hour debate among the party leaders had been dedicated to "women's issues." In the 1988 campaign, only the second hour of the three-hour leaders' debate was devoted to women's issues.
\item["NDP vows cheaper and faster day-care," \textit{Globe and Mail}, 16 August 1988, p.A-8.\textsuperscript{28}]
\item[Canadian Daycare Advocacy Association. \textit{Child Care: Meet the Challenge}. Ottawa, 1988, p.73.\textsuperscript{29}]
\end{enumerate}
responded by accusing the opposition of alarmism. Their cause was greatly assisted by the intervention in the campaign of Emmett Hall, retired justice of the Supreme Court of Canada whose 1964 Royal Commission report had led to the establishment of national Medicare. In a statement which received wide publicity, Hall opined that the FTA had no adverse implications for the integrity of Medicare. Evidently satisfied by these assurances, 43% of voters gave the Conservatives a second majority government.

(d) Second Term

In their second term the Conservatives were less tentative about restructuring the welfare state than they had been in their first term. Indeed, between 1989 and 1993, the Government implemented a significant retrenchment of UI and effectively abolished the universality of the OAS and Family Allowance programmes. In implementing these measures, the Conservatives employed various techniques consistent with the blame-avoidance thesis. However, they were largely unsuccessful in escaping political responsibility for their retrenchment measures. While the opposition parties were unable to cow the Government into reversing or modifying significantly its social policies, they did inflict considerable damage on the Conservatives, particularly in relation to the UI cuts contained in Bill C-21. Yet it should also be noted that by the early 1990's, the Government appeared to be less concerned about the political costs associated with retrenchment. Indeed, the blame-avoidance thesis has only limited explanatory power in accounting for several measures taken by the Government in its second term. After the 1988 election the Conservatives placed renewed emphasis on controlling the deficit and on reducing public spending. This policy focus suggests that the Conservatives were less inhibited about retrenchment than they had been in their first term. Indeed, as the Conservatives grew increasingly concerned about the growing popularity of the Reform Party in the early 1990's, they appear to have concluded that there were political gains to be made from drawing attention to certain kinds of cuts.

Johnston and his colleagues, the contention that the FTA seriously jeopardized Canada's social programmes was effective, early in the campaign, in persuading two in five FTA supporters to reconsider their position.
The tax clawback on OAS and Family Allowance benefits, introduced in 1989, embodied several elements of a blame-avoidance approach to retrenchment. It certainly marked a more circumspect approach than that taken in 1985, the result of which had been a public relations disaster for the Government. With regard to OAS, the clawback ostensibly affected only a minority of seniors, those in the upper income bracket. In its first year, the clawback would only have applied to 4% of seniors. As a further precaution, designed to mitigate its impact and lower its visibility, the clawback was to be phased in over a three-year period. However, the most obfuscatory aspect of the clawback was the indexation formula attached to it. As in 1985, the income threshold above which the clawback applied was only partially indexed. This device, combined with the partial de-indexation of income tax brackets introduced in 1985, would have had the effect over time of automatically bringing increasing numbers of seniors into the grasp of the clawback.

The complexity of this formula, and its gradual implementation, allowed the Conservatives to maintain the facade of universality while effectively abolishing it. As the outspoken Tory MP Don Blenkarn remarked, the clawback was an admittedly "unfair and sneaky" way of accomplishing the Conservatives' aim of targeting social benefits to those in greatest need. In addition, the obliqueness of the clawback greatly hindered the efforts of social policy groups to mobilize public opinion against it. According to Ken Battle, social policy groups laboured in vain to explain the subtleties of these measures to politicians, journalists, and the general public.

Abolition of the Family Allowance in 1992 was also accomplished in a manner consistent with the blame-avoidance approach. Employing a strategy of compensation, the Government partially offset the cancellation of Family Allowances through the creation of the Child Tax

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Benefit (CTB) and the Earned Income Supplement (EIS). Introduction of these measures, which were heralded by the Government as steps designed to address the problem of "child poverty," diverted attention from the repeal of the Family Allowance programme while compensating some of the losers. In this case, the Conservatives' actions were similar to those taken by the Liberals in 1978, when reductions in Family Allowances had been offset for low and middle-income families by the introduction of the RCTC.

If the clawback exemplifies "social policy by stealth," the Conservatives' cuts to UI cannot be so characterized. On the contrary, the Conservatives neither disguised nor finessed their retrenchment measures, contrary to the expectations of the blame-avoidance thesis. Bill C-21, introduced in 1989, proposed an immediate tightening of minimum UI entrance requirements, a shortening of maximum benefit periods, and a higher disqualification period for those voluntarily leaving their job and those fired for misconduct. The Bill also abolished the 3-week UI retirement benefit and reduced to ten weeks the 15-week child care benefit for adoptive parents.

Unlike the Liberals' UI retrenchment of 1979, the Conservatives proceeded with their measures as the economy entered a recession and as job security and unemployment became a leading preoccupation of Canadians. Indeed, even as the Liberal-dominated Senate delayed passage of the Bill for nearly a year and gave its critics a platform from which to denounce it, the Government defiantly stood its ground. In taking this stand, the Government may have been emboldened by evidence of public scepticism about the legitimacy of many UI claims. According to a poll conducted at the time of Bill C-21’s introduction into Parliament, 74% of respondents believed that a “significant” number of UI recipients abused the programme by failing to conduct serious job searches. A mere 19% disagreed.

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30 There was also an element of stealth built into the new CTB in that it was only partially indexed.
31 As noted above, the prospect of massive job losses resulting from the Canada-US Free Trade Agreement figured prominently in the 1988 election campaign.
Equally blunt were the UI cuts unveiled in 1992, which proposed to cut the benefit rate from 60% to 57% of insurable earnings and to disqualify altogether voluntary job quitters. These measures were highly controversial and attracted extensive media attention. As with the Forget Commission, the Conservative caucus was divided on the merits of the UI Bill (C-113). Quebec Conservative MP's were particularly worried about a political backlash that appeared to be building after some 50,000 protesters marched in Montreal in February, 1993 in opposition to the Bill. Nevertheless, as with Bill C-21, the Government did not expect its UI measures to elicit significant public sympathy for the unemployed. Indeed, the Government anticipated that its proposal to disqualify voluntary job quitters from applying for UI would actually command popular support.34

The Conservatives' direct and highly visible retrenchment of the UI programme can be better understood in the context of the changed political environment of the Government's second term. As is elucidated in Chapter 8, the Government demonstrated a firmer resolve after the 1988 election to curtail public spending in an effort to reduce its budget deficit. One of the factors driving this political re-positioning was the Conservatives' concern in the early 1990's about the growth of the Reform Party.

Reform Party

The Reform Party was founded in Vancouver in 1987. In its formative years, it gave voice to a long-standing sense of alienation felt in western Canada toward the national government and to a more recent conviction, held by many self-styled political conservatives, that the Progressive Conservative Government of Brian Mulroney was failing to deliver conservative social and economic policies.35 On the first point, many westerners were convinced that, notwithstanding the sizeable contingent of western Canadian MP's sitting in the cabinet and the government caucus since 1984, the interests of Ontario and Quebec continued to hold sway

over federal policy. Preston Manning himself considers the Mulroney Government's awarding of the CF-18 fighter contract in 1986 to a Quebec-based firm over the lower-priced bid of Winnipeg-based Bristol Aerospace to have been a key event leading to the founding of Reform.36

The policy orientation of the Reform Party encompassed a range of political traditions, from populist demands for direct democracy to conservative disdain for the permissive society to a neo-liberal enthusiasm for free markets and limited government. On social policy, the Party subscribed to a liberal-residualist conception of the welfare state. Decrying what it took to be the excessive costs of social programmes, it demanded an end to universality in favour of "focusing benefits on the needy."37 To this end, it called for the replacement of many existing income security programmes with a comprehensive "family or household-oriented" system of benefits, delivered through the income tax system.38 On unemployment insurance, Reform echoed the Forget Commission's call for the severance of those aspects of UI concerned with regional development, job training, and "social security (welfare) consideration."39 It also urged the abolition of regional variations in entrance requirements and benefit periods; but, unlike the Hawkes Committee, Reform insisted that this goal be met "in ways that do not increase the costs of the program."40 On day care, Reform registered its opposition to "state-run day care," favouring instead selective subsidies for parents in financial need.41 More generally, the Reform Party deplored the Conservative Government's failure to eliminate the federal deficit and called for legislation requiring the federal government to run consecutive balanced budgets "or call an election on the issue."42

Until 1991, Reform was widely regarded by the national media as merely the latest in a series of short-lived protest parties to have emerged from western Canada since the early 1980's.

38Ibid.
39Ibid., p.21.
40Ibid.
41Ibid.
42Ibid., p.16.
This view appeared to be confirmed by the derisory level of support won by Reform candidates in the 1988 federal election.\(^{43}\) By 1990, however, support for the Reform Party began to grow rapidly, mainly among erstwhile Conservative supporters in western Canada, many of whom were disaffected by the Mulroney Government's sponsorship of the Meech Lake Accord.\(^{44}\) According to a Gallup Poll released in April, 1991, Reform had pushed the Conservatives into fourth place in voter approval.\(^{45}\)

Various measures taken by the Government in 1991 and 1992 were widely interpreted as reflecting its apprehension at the growing popularity of the Reform Party. Despite the increasing toll being taken by the recession of the early 1990's, in terms of rising unemployment and lengthening social assistance rolls in the provinces, the Government steadfastly refused to accede to demands for increased public spending on the grounds that such action would worsen the deficit. Instead, the Government proceeded to introduce concrete measures to restrain public spending.\(^{46}\)

Not only did the Government fail to disguise or downplay this substantive programme of restraint but it appeared anxious to reassure its more conservative supporters of its commitment to achieving a balanced budget through spending cuts. The 1991 and 1992 Budgets contained measures which symbolically reaffirmed that commitment. Notable here was the introduction of the Spending Control Act, which purported to impose statutory limits on programme spending for five years, and the establishment of the Debt Servicing and Reduction Fund, into which GST revenues were to be placed.\(^{47}\) In the 1992 Budget, Don Mazankowski announced the abolition of 46 federal boards and agencies, including the Economic Council of Canada, the Law Reform

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\(^{43}\)The Reform Party did, however, win a by-election in Alberta in early 1989. Later that year, Reform candidate Stan Waters won a provincial "Senate election" called by the Alberta Government to fill a Senate vacancy for the province.

\(^{44}\)Membership in the Reform Party grew from 27,000 in early 1990 to 54,000 by late 1990. One year later, membership had reached 100,000. Sydney Sharpe and Don Braid, *Storming Babylon*, op. cit., p.8.


\(^{46}\)The Expenditure Control Plan, introduced in the 1990 Budget, and extended in 1991 and 1992, imposed a 5% ceiling on the growth of spending for various programmes, including defence, native programmes, foreign aid, and transfers under the Canada Assistance Plan to the three "have" provinces (BC, Alberta, and Ontario). Spending on EPF transfers to the provinces was frozen for two years.

Commission, and the Science Council of Canada as part of a "streamlining" of government operations.\(^4^8\) 

It was openly speculated that these measures were calculated to undercut support for Reform.\(^4^9\) Within the Conservative caucus, Reform's growth enhanced the influence of a group of 35 right-leaning MPs known as the Caucus Committee on Family Issues. This group, a majority of whose members were from western Canada (with a preponderance of MPs from Alberta), favoured selectivity over universality and advocated tax and other laws designed to promote the traditional family unit.\(^5^0\) Family Caucus members therefore favoured the abolition of Family Allowances and the scrapping of the Government's day care plans. They supported the new Child Tax Benefit and its weighting in favour of the working poor.\(^5^1\)

**Left Party Thesis**

Given the accelerated pace of retrenchment after 1988, the power resources thesis would anticipate an associated decline in working class power concurrent with, or in the period preceding, the adoption of retrenchment policies. The declining power of trade unions was discussed in Chapter 5, but what of the NDP? Here the evidence is more ambiguous. On the one hand, the NDP's parliamentary representation after the 1984 and 1988 federal elections was not substantially higher than it had been for most of the period since the Party's founding in 1961.\(^5^2\) Moreover, the Party's leverage over government bills in the 1980's was limited because of the majority position occupied by the governing party.

On the other hand, as was argued in Chapter 3, the influence of the NDP cannot be gauged

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\(^4^8\) Also abolished was the Court Challenges Programme, a federal programme established in 1985 to fund litigation under the equality, multicultural, and linguistic rights provisions of the Charter of Rights. It was viewed unfavourably by conservatives as advancing the aims of "special interest" groups. Antipathy toward the Programme on the part of the political right reflected its larger critique of judicial activism under the Charter. For an elaboration of this critique, see F.L. Morton, "The Charter Revolution and the Court Party," *Osgoode Hall Law Journal.* 30 (1992) 648.


\(^5^1\) *Ibid.* According to Alberta MP Albert Johnson, this feature of the CTB would give working mothers a greater incentive to stay at home to raise their children.

\(^5^2\) The NDP held an average of 9% of the seats in the period 1961-1980, compared to 11% and 15% of the seats, respectively, following the 1984 and 1988 federal elections. Based on figures in Rand Dyck, *Canadian Politics: Critical Approaches.* Second Ed. Scarborough: Nelson, 1996, p.351.
by reference to its parliamentary representation alone. As many scholars have contended, growing support for the left in Canada in the 1940's and 1960's induced both of the major national parties to accept and implement many of the welfarist policies espoused by the CCF-NDP. In the mid- to late 1980's, public support for the Federal NDP again appeared to be reaching historically high levels. During most of 1987 and 1988, the NDP surpassed both of its rivals in voter support according to public opinion polls.\(^53\) There was also evidence to suggest that the Party was on the verge of a breakthrough in Quebec, a province in which it had never elected a single MP. In the early stages of the 1988 election campaign, opinion polls showed the NDP to be ahead of the Liberals and to have a realistic prospect of forming the official opposition.\(^54\) By election day, however, the expected gains failed to occur as support subsided to its traditional levels. Nevertheless, the NDP continued to post above-average levels of support in opinion polls after the election and during the next four years. Moreover, a majority NDP government was elected in Ontario in the provincial election of 1990, followed twelve months later by the election of NDP governments in Saskatchewan and British Columbia.

The impact of these developments on the course of social policy is difficult to assess. It is clear that NDP demands for the expansion of social welfare programmes failed to be taken up by the Government. In the 1988 election, the Party called for a 38% increase in the monthly Family Allowance in addition to the restoration of full indexation.\(^55\) The NDP also demanded an increase in UI maternity benefits from 15 weeks to 17, with an additional 11 weeks of parental leave, divisible between the mother and father at their discretion.\(^56\) On day care, the Party insisted on the necessity for universal free access, a key point which distinguished it from the Liberals on this issue.

The apparent surge in NDP popularity after 1987 did not persuade the Government to

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\(^53\) In July, 1987 the NDP won three federal by-elections, following which a Gallup Poll indicated NDP support to be at 41% of decided voters, compared to 35% for the Liberals and 23% for the Conservatives. Paul Gessell, "On the March," *Maclean's*, 100:31 (3 August 1987), pp.8-11 at p.8.


\(^56\) "NDP vows cheaper and faster day-care," *Globe and Mail*, op. cit.
expand social entitlements. However, as was argued in Chapter 3, in an era of retrenchment across most capitalist welfare states, it may be more appropriate to enquire into the NDP’s effectiveness in defending existing programmes, or in minimizing the extent of retrenchment measures taken by the Mulroney Government.

For example, in the United States the Reagan Administration, facing no party of the left and a labour movement whose political influence had peaked in the mid-1940’s, implemented in its two terms of office cuts in Federal spending on such programmes as food stamps and Aid to Families with Dependent Children, while reducing Federal grants to the state governments under its “New Federalism” policy. In Britain by late 1987, the Thatcher Government, facing a thrice-defeated Labour Party, had cut unemployment benefits and was in the process of effecting an “implicit privatization” of the State Earnings-Related Pension and an overt privatization of the country’s public housing stock. In West Germany, in contrast, the Christian Democrat Government of Helmut Kohl, elected in 1983, pursued a more modest programme of retrenchment in its first term, restricting eligibility for unemployment benefits among other measures. Strong electoral challenges from the SPD in the run-up to the 1987 and 1990 Federal

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57 An interesting comparison of NDP influence at the Federal and Ontario provincial levels may be made on the issue of pensions policy. Federally, the NDP was unable to persuade the Mulroney Government to introduce mandatory indexation of federally regulated private pension plans when amendments were made in 1986 to the Pension Benefits Standards Act. In Ontario, a minority Liberal government, led by David Peterson, had held office between 1985 and 1987, dependent on NDP support. Pension reform, an issue on which the Ontario NDP had campaigned in the 1985 election, was one of twenty-eight items agreed to by the Liberals and NDP in a written accord drawn up after the election. In December, 1986, the Peterson Government introduced legislation requiring private pension plans registered in Ontario to provide inflation protection. The question of how such protection was to be provided was referred to a Task Force headed by Professor Martin Friedland of the University of Toronto. Appointment of the Friedland Task Force proved to be fateful to the NDP’s ability to continue exerting pressure on the Liberals on this issue. By the time the Task Force issued its Report, the Liberals had gained a majority on the provincial election of September, 1987. No longer beholden to the NDP, the Liberals lost their enthusiasm for pension reform. A substantially weakened version of the Friedland proposals was put forward by the Government in 1989 but never implemented. Ann Finlayson, Whose Money is it Anyway? The Showdown on Pensions. Markham: Penguin, 1988, pp.133-191.


elections, combined with the institutionalized power of organized labour under Germany’s corporatist system of governance, tempered the CDU’s promise on taking office to engineer a far-reaching dismantling of the welfare state.

With reference to Canada, one would expect the NDP to have been regarded as a serious political threat to the Conservatives in their first term, a period in which the Government refrained from implementing substantial cuts to income security programmes. Conversely, one would anticipate a decline in NDP strength in the Government's second term, a period during which significant retrenchment measures were implemented. While there is some evidence consistent with these hypotheses, it is far from conclusive.

First, it would appear that the NDP’s presence in the Parliament of 1984-1988 shaped to an important degree the nature of partisan debate over the Government's social policies. The NDP played a leading role in the "Great Universality Debate" in late 1984 and in the debate on OAS de-indexation the following year. The Party was also effective in keeping child care on the national political agenda. It was observed by media commentators that the NDP frequently seized the initiative from the Liberals on these issues and appeared to have established itself as the de facto official opposition. Indirectly, too, the NDP set the tone for much of the debate in Parliament on the Government's social and economic policies.

This point is underscored by the apparent influence exerted by the NDP on the positions taken in the House of Commons by the Liberal Party, a party whose social policy orientation did not differ significantly from that of the Progressive Conservatives. For example, the Liberals were not ideologically averse to the greater targeting of social benefits, having taken steps in this direction in the late 1970's and early 1980's with the introduction of the RCTC, the indexation cap imposed on OAS and Family Allowances in 1983-1984, and the boosting of GIS benefits. Accordingly, one might have expected the Liberals to have supported, or at least to have

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61Rather than examining the ideological differences which existed between the NDP and the Conservatives, or considering the ideological proximity of the Conservatives and Liberals, in accounting for the NDP’s more critical attitude toward the Government’s social policies, the media typically attributed it to the fact that NDP MP's were more accustomed to serving in opposition than were Liberal MPs. NDP Leader Ed Broadbent was also portrayed as a more experienced opposition leader than his Liberal counterpart.
criticized more mildly, the Government's proposals on the partial de-indexation of OAS and Family Allowances. In fact, the Liberals joined the NDP in demanding the maintenance of full indexation for both programmes.

Further to this point, as discussed in Chapter 3, is the tendency of the Liberals to move to the left in times of political difficulty, the better to differentiate themselves from the Conservatives and to outflank the NDP. This tendency was undoubtedly accentuated after the 1984 federal election, which reduced the Liberals to 40 seats, a mere 10-seat plurality over the NDP. The relative strength of the NDP may account, at least in part, for the fact that Liberal positions on many social policy issues during the Mulroney years closely approximated those of the NDP. A further explanation for this phenomenon may also have to do with the ideological orientation of the Liberal caucus after 1984, which was decidedly closer to welfare liberalism than to business liberalism, notwithstanding Liberal Leader John Turner's identification, at the outset of his leadership, with the latter tradition.

In summary, it seems plausible to suggest that the popularity of the Federal NDP, and its influence on the Liberal Opposition, raised the political stakes for the Government of an overt attack on social programmes. At the very least, the NDP's unusually high political stock after 1986, combined with the Conservatives' low ratings, served to remind the Government of the volatility of public opinion and to reinforce its determination to avoid controversy in the field of social policy in the run-up to the 1988 general election.

How well does the left party thesis account for the Government's willingness to pursue retrenchment more vigorously in its second term? On the face of it, the anticipated decline in

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62 The NDP, sensing an opportunity to displace the Liberals as official opposition, strived to embarrass the Liberals whenever possible by drawing attention to continuities between Conservative policies and those of previous Liberal Governments. The most successful instance of this strategy was in March, 1987 when the NDP introduced a motion to cancel an agreement, signed by the Trudeau Government in 1983, allowing the testing of Cruise missiles in Canada. In the vote on the motion, several Liberals defied their Leader and voted in favour. See Greg Weston, *Reign of Error: The Inside Story of John Turner's Troubled Leadership*. Toronto: McGraw-Hill Ryerson, 1988, pp.228-233.

63 William Christian and Colin Campbell, *Political Parties and Ideologies in Canada*. Third Ed. Toronto: McGraw-Hill Ryerson, 1990, pp.78-80. Leading members of the Liberal front-bench after 1984, such as Herb Gray, Warren Allmand, Lloyd Axworthy, and Jean-Claude Malepart, were all identified with the welfare liberal, or centre-left, wing of the Party.
NDP strength in the period 1988-1993 is belied by the evidence. Indeed, the NDP won its largest number of seats in the 1988 federal election. While the Party's third-place finish fell short of pre-election expectations, its share of the popular vote, at 20.4%, had never been higher.

On the other hand, notwithstanding the NDP's apparent gains in voter approval, it should be noted that leading political journalists and pollsters expressed scepticism at the time about the resilience of such gains, particularly in the period 1987-1988. According to the most widely accepted interpretation, many voters were temporarily disenchanted with the two major parties and were "parking" their support with the New Democrats. In other words, political elites did not consider the NDP's popularity, nor that of its leader, Ed Broadbent, to be a reflection of popular approval of the Party's economic and social policies.\textsuperscript{64} This view may be contrasted with that which prevailed in the earlier periods of growth for the political left in Canada, in the 1940's and 1960's, when opinion polls suggested that a large section of the Canadian public supported the left's demands for an enlarged role for the state in social and economic affairs, and political elites were prepared to accede to such demands, at least in part.\textsuperscript{65}

In addition, as argued above, by the early 1990's the Government was apparently less concerned about the NDP than it was about the emergence of the Reform Party, which was actively soliciting the support of disaffected Conservative voters in western Canada. Thus, as the Conservatives became increasingly preoccupied with appeasing rank-and-file supporters on the right-wing of the party, the relative influence of the NDP evidently declined.

\textit{Conclusion}

The Conservatives' social policy record was influenced in various ways by the dynamics of party politics. On the face of it, the behaviour of the governing Conservatives conforms to a considerable extent to the expectations of the blame-avoidance thesis. Like the Liberals, the Conservatives did not articulate a radical ideological critique of the welfare state. On the

\textsuperscript{64} E.g., see comments of UBC Professor Donald Blake, quoted in Paul Gessell, "On the March," \textit{op. cit.}

contrary, continually challenged by the Liberals and the NDP in 1984-85 about their intentions regarding universality, the Conservatives reaffirmed their commitment to the principle. Given their equally explicit pledge to reduce the federal deficit through spending cuts, the Conservatives employed a variety of blame-avoidance techniques, with varying degrees of success. One such technique, partial de-indexation, was used in relation to child benefits, tax brackets, and even the tax clawback of OAS and Family Allowances. In those instances, it was used successfully to lower the visibility of benefit reductions. The political failure of de-indexation in 1985 in the case of OAS can be attributed to the opposition parties' success in exposing it and in mobilizing popular opposition.

Nevertheless, not all of the Conservatives' retrenchment measures were introduced surreptitiously or neutralized through strategic compensation. UI cuts which took effect in 1990 and 1993 were substantial, highly visible, and implemented in the midst of a recession. By these measures, together with the shelving of their high-profile promise of a national day care programme, the Conservatives sought to demonstrate their fiscal rectitude. These actions do not conform to the rational, vote-maximizing expectations of the blame-avoidance thesis. Indeed, the Conservatives appear to have considered UI retrenchment, and other spending cuts introduced after 1988, to be potentially popular with conservative voters. Other factors, including the receptiveness of the Conservatives to business's policy recommendations, should also be considered.

As in the earlier period examined, evidence concerning the left party thesis is inconclusive. On the one hand, the Federal NDP took a leading role in social policy debates in defence of the universality principle and probably emboldened welfare-liberal elements in the Federal Liberal Opposition. The unprecedented popularity enjoyed by the NDP in the period 1987-1988 may have dissuaded the Conservatives from adopting unpopular retrenchment measures in their first term. On the other hand, whatever restraining influence the NDP may have had on the Conservatives in their first term apparently dissipated after the 1988 election, even though the Party won the largest number of seats and the highest popular vote in its history. With the rise
of the Reform Party, the NDP was likely regarded by the Conservatives as a less serious electoral threat.
Chapter Seven: Pressure Groups and Social Policy, 1984-1993

In Chapter 3 it was seen that non-class pressure groups had a marginal effect on developments in income security policy in the period 1978-1984, women's groups proving, to some extent at least, to be an exception to this rule. Just as the pluralist approach did not satisfactorily explain policy developments during this period, it was anticipated that the influence of non-class pressure groups would continue to be severely limited. Given the Government's proclaimed commitment to reducing its budget deficit, it was unlikely that policymakers would be receptive to the traditional demands of such groups for major extensions of public spending commitments. Moreover, since non-class social policy groups remained organizationally weak and fragmented, one would expect such groups to have only a limited capacity to defend existing social rights against retrenchment.

Indeed the social policy community became more fragmented in the 1980's and early 1990's with the advent of new organizations, such as One Voice (the senior citizens' group) and REAL Women (the anti-feminist group), to say nothing of the emergence in the late 1980's of serious divisions within NAC over both objectives and tactics. A further fragmentation of the social policy community resulted from the growing political self-consciousness of a host of groups whose political identity was based primarily on race, gender, sexual orientation, disability, or family status. Members of these social categories and sub-categories often articulated their political claims in the language of constitutional rights.\footnote{Alan Cairns, "The Fragmentation of Canadian Citizenship," in William Kaplan (ed.), Belonging: The Meaning and Future of Canadian Citizenship. Montreal and Kingston: McGill-Queen's University Press, 1993.} At the same time, the Conservative Government grew more antagonistic in its second term toward social policy groups, which were increasingly dismissed as self-serving "special interests."

1. Social Policy Groups

Social policy groups funded by the federal government to represent the interests of the recipients of income maintenance programmes continued to have only a weak influence on income
security policy during the period 1984-1993. The three leading national social policy groups, the Canadian Council on Social Development (CCSD), the National Council of Welfare (NCW), and the National Anti-Poverty Organization (NAPO) found themselves increasingly at odds with Government policy in the income security field. Moreover, by the Government's second term, such groups were increasingly critical of the process by which social policy decisions were reached.

Concerned about the prospect of significant cuts in social spending following Michael Wilson's Economic Statement of November, 1984, leading members of the CCSD, the NCW, NAPO, and several other groups formed an umbrella organization, the Social Policy Reform Group (SPRG), to co-ordinate their efforts and to seek common ground on social policy issues. In its presentation in early 1985 to the parliamentary committee studying child and elderly benefits, the SPRG reached a consensus on retaining universality while simultaneously directing larger benefits to low-income families through the abolition of regressive tax exemptions and deductions (notably, the Child Tax Exemption) and through an increase in the RCTC.²

This position was largely accepted by the Parliamentary Committee in its report, which recommended that Family Allowances be retained and that any savings resulting from changes in the structure of other family benefits programmes remain within the social development envelope.³ The 1985 Budget, however, repudiated the Committee Report by retaining the CTE and providing for the partial de-indexation of Family Allowances and other child benefits, the latter measure not having even been raised in the Government's own Consultation Paper. Moreover, the savings accruing from de-indexation, estimated by the Social Policy Reform Group at some $635 million per year by 1990-91, would not be restored to the child benefits system.⁴

Following this inauspicious beginning, social policy groups had little success in

influencing government policy. The CCSD, the NCW, and NAPO remained strongly committed to universal programmes and stood opposed to measures which undermined them. Accordingly, they registered their opposition to the de-indexation of the OAS and Family Allowances in 1985, the introduction of the clawback in 1989, and the abolition of Family Allowances in 1992. For the most part, the arguments presented in defence of universality reiterated those made in the early 1980's. Most notably, universality was said to promote social solidarity and to provide a political base of support for the welfare state among the middle class. In 1985 NAPO's Executive Director, Patrick Johnston, warned that a shift toward income-based eligibility would transform universal programmes into "welfare" which, in his view, enjoyed "absolutely no support by middle-income Canadians."\(^5\) Family Allowances, on the other hand, were credited with providing social recognition to parents for their contribution to child-rearing as well as providing "horizontal equity," within income brackets, to families with children.

The support lent to the universality principle by social policy groups did not preclude them from seeking improvements in programmes aimed at low-income individuals and families. On the contrary, they regularly called for increases in income-tested benefits such as the RCTC, the GIS, and the SPA.\(^6\) However, they differed from the Government by their insistence that such improvements not be financed through reductions in spending on universal programmes, whether such reductions take the form of cuts in benefits, partial indexation, or tax clawbacks. As in the past, social policy groups exhorted the Government to remove regressive elements of the tax system and to direct the resultant savings into social programme spending.

The NCW in particular was assiduous in documenting the cumulative effects of partial de-indexation in eroding the value of social benefits and in progressively diminishing the pool of eligible claimants for selective programmes. In a series of reports, the NCW drew attention to the declining real value of Family Allowance and RCTC benefits resulting from the implementation

of partial de-indexation, even as the nominal level of such benefits periodically was increased.\(^7\)

The NCW also observed that through the partial de-indexation of the income threshold above which benefits ceased to be payable (as in the case of a programmes like the RCTC), or were clawed back (as in the case of the OAS and Family Allowance programmes after 1989), ever fewer Canadians would be eligible over time to receive social benefits.

Social policy groups had little or no influence on two of the most significant income security measures introduced by the Conservatives after 1988: the cuts to UI made in 1989 and 1993 and the introduction of the Child Tax Benefit in 1992. Like the CLC, social policy groups deplored the curtailment of UI benefits contained in Bills C-21 and C-113. According to NAPO, measures such as the lengthening of benefit qualification periods for certain categories of workers and the heavier penalties imposed on voluntary quitters and those fired for misconduct were "unduly harsh" and liable to "enslave people in low wage and frustrating jobs" for fear of losing their only source of income.\(^8\) While welcoming the additional training services that formed part of the Government's Labour Force Development Strategy, social policy groups were critical of the use of UI funds to pay for such services, especially in light of the Government's intention to terminate its contributions to the UI fund.\(^9\) Again, however, social policy groups appear to have had little effect on the UI changes that were ultimately enacted.

A similar pattern of limited influence on the part of social policy groups is evident in the development of the Child Tax Benefit announced in 1992. Social policy groups had long advocated improvements in child benefits, the NCW being particularly keen on the use of refundable tax credits. However, none of the major social policy groups was consulted by the Government on the design of the CTB.\(^10\)

\(^7\)For example, while the Government announced several increases in the RCTC between 1985 and 1989, the NCW contended that such increases restored only a portion of the moneys withheld from the programme as a result of partial indexation. E.g., see National Council of Welfare. \textit{Fighting Child Poverty.} (April 1990), p.9.


\(^9\)\textit{Ibid.}, p.11.

There were aspects of the CTB with which social policy groups were pleased. The Earned Income Supplement, introduced in tandem with the CTB, was the first federal income supplementation programme for the working poor, an idea that had been extensively debated during the Social Security Review of the 1970's but never implemented. Moreover, both the CTB and the EIS were seen as improvements on the RCTC in that the former were payable monthly rather than yearly.\(^\text{11}\)

Nevertheless, most social policy groups registered objections to the new measures. First, they disapproved of the fact that families on social assistance were ineligible for the new EIS. To social policy activists, the EIS drew an invidious distinction between the deserving poor (those in the paid workforce) and the undeserving poor (those on social assistance). As NCW Chair Ann Gagnon put it: "[Children] should not have their benefits raised or lowered simply because their parents happen to be in or out of the paid labour force at some point in their lives."\(^\text{12}\) Secondly, social policy groups objected to a feature of the CTB that had long since become a standard feature of Conservative social policy: the partial indexation of both CTB benefits and the income threshold above which benefit levels were reduced. Thirdly, the social sector was united in its condemnation of the abolition of Family Allowances which formed part of the CTB legislation.

In summary, groups representing the interests of the vast categories of Canadians in receipt of federal income security benefits had little discernible effect on public policy during the Conservative era. That is not to say that the Government failed to respond favourably to any of the proposals advanced by social policy groups. However, in those instances in which the Government did accept their advice, it typically did so only where such advice was consistent with its larger policy aims, such as deficit reduction or increased selectivity. For example, social

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11 Social policy groups had long been critical of the practice by which a single annual RCTC cheque was issued since it forced many low-income families to use the services of tax discounters. Monthly cheques would alleviate this problem.

12 House of Commons. Minutes of Proceedings and Evidence of the Legislative Committee on Bill C-80. (16 July 1992), p.8:36. See also NAPO, Written Submission by the National Anti-Poverty Organization to the Legislative Committee on Bill C-80. (July 16 1992), p.4. It should be noted that the CCSD parted company with other social policy groups on this point. Executive Director Patrick Johnston explained that as social assistance recipients were eligible for many benefits in kind not available to the working poor (such as dental treatment, prescription drugs, and spectacles), the EIS would help to "rectify that imbalance" (ibid., 14 July 1992, p.6:108).
policy groups were generally pleased when the Government, in its 1987 White Paper on Tax Reform, announced that many of the tax deductions and exemptions in the field of social policy would be converted into tax credits, a mechanism long favoured by advocates of the poor because of its accessibility to lower income persons. However, this measure was part of a larger tax reform package designed to harmonize Canada’s tax system with that of the US, which had been restructured in 1986 by the Reagan Administration. By reducing the number of tax brackets from ten to three, the Government fashioned a flatter, less progressive tax system, one less suited to the goal of income redistribution favoured by the social sector. Similarly, the large increase in the refundable sales tax credit announced in the 1989 Budget was taken to be an important concession by the Government to social policy activists. On the other hand, this measure was enacted as a prelude to the introduction of the Goods and Services Tax, a flat-rate consumption tax that was opposed by social policy groups because of its disproportionate impact on the poor.

2. Seniors Groups

One of the most enduring TV images of the Conservatives' first year in office was that of the Prime Minister, flanked by a crowd of protesting seniors, being accused by a diminutive pensioner of having lied to senior citizens about honouring old age pensions. Within days, Finance Minister Michael Wilson revoked the partial de-indexation of OAS announced in the May 23 Budget and a contrite Prime Minister rose in the House of Commons to apologize for the Government's transgression. The Government's capitulation on this issue was interpreted by many as evidence of the emergence in Canada of "grey power." More specifically, it appeared

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to indicate that seniors groups, not previously known to be militant, had acquired the capacity to exert effective influence on public policy and would be a political force to be reckoned with in the future. Organized seniors groups, however, remained marginal players in the policy process and were unable to create a cohesive associational system. While the de-indexation issue fostered cooperation among seniors groups which had had little to do with one another hitherto, such cooperation was short-lived.

As noted in Chapter 3, seniors groups in Canada in the early 1980's were organized primarily along regional and linguistic lines. In English Canada, the leading national group, the National Pensioners and Senior Citizens Federation (NPSCF), had affiliated organizations in all of the provinces, the largest of which was United Senior Citizens of Ontario, with a membership of 300,000. However, the NPSCF lacked representation in Quebec, where FADOQ, the largest francophone seniors group, repeatedly declined invitations to affiliate. A second national seniors group, Canadian Pensioners Concerned (CPC), had affiliates in only three provinces, Ontario, Nova Scotia, and Alberta.

The mid-1980's saw the emergence of additional seniors groups, the most important of which was One Voice Seniors Network, founded in 1987. One Voice differed from other national and provincial seniors groups in several respects. Groups like NPSCF and CPC relied on volunteers, lacked a national office, and derived most of their income from membership dues. One Voice, in contrast, had a full-time director and well-staffed national office and was generously funded by a private endowment.

In their protest against the 1985 Budget, seniors groups showed unexpected political clout. Nationally, seniors groups circulated petitions, convened meetings, and organized other

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19 Another national organization, the Canadian Association of Retired Persons (CARP), became active in 1985. According to Pratt, CARP did not take positions on public policy issues, concerning itself instead with the provision of various services to its members, such as insurance, travel services, and discounts. *Ibid.*, p.159.
local activities. In Ontario, 26 seniors groups formed a coalition to coordinate their activities, which included a mass rally in Toronto and the despatching of a delegation to deliver their demands to the federal Finance Minister. However, it is important not to exaggerate the impact that seniors groups *per se* had on the Government's ultimate decision. As was contended in Chapter 6, seniors were favoured on the de-indexation issue with sustained and overwhelmingly sympathetic coverage by the national news media. Moreover, media interest was sparked in large measure by the opposition parties in Parliament. Seniors also benefited from the support lent to their cause by a wide range of other organized groups, including business groups. Finally, seniors enjoyed overwhelming support from the Canadian public at large, according to opinion polls. This combination of factors was not repeated on other issues in which seniors groups were engaged, notably the OAS clawback introduced in 1989.

Despite their success on the de-indexation issue, seniors groups were unable to maintain a united front on other matters. For the most part, coalitions formed in 1985 did not endure and the associational system remained as fragmented as before. Of particular interest after 1987 was the rivalry between the NPSCF and One Voice. While both organizations had similar goals, their organization and tactics differed markedly. As noted above, the NPSCF remained a voluntary organization in the 1980's with close relations with the trade union movement, from which many of its volunteer activists were drawn. Lacking a national office and professional staff, the NPSCF did not conduct its own research, relying instead on research provided by its trade union allies. Like many volunteers, NPSCF activists were proud of their closeness to "the grassroots" and convinced that a professional staff would be liable to be co-opted by federal

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24 A notable exception to this observation was in Ontario, where, in the aftermath of the de-indexation episode, 12 seniors groups established the Ontario Coalition of Senior Citizens' Organizations (OCSCO). By 1989 26 groups had joined. In 1985-1986, OCSCO supported the Ontario Government's ban on extra-billing by doctors, and opposed the ensuing strike called by the Ontario Medical Association. OCSCO also campaigned, unsuccessfully, against the Federal Government's drug patent legislation in 1986. C.G. Gifford, *Canada's Fighting Seniors, op. cit.*, pp.108-109.
officials.\textsuperscript{26}

One Voice emerged in 1985 following the decision of the Bronfman family to sponsor the establishment of a national seniors organization that, among other things, would work closely with government in the development of policy affecting the aged, and do so in a less confrontational manner than was the case with existing seniors organizations.\textsuperscript{27} The NPSCF was deemed unsuitable for this task and, indeed, an application for funding made by its president was rejected by representatives of the Bronfman Foundation, including Ivan Hale, who later became national secretary of One Voice.

While One Voice soon established itself as a leading member of the social policy community, it was viewed warily and with some resentment by other seniors groups.\textsuperscript{28} Although it enlisted certain seniors groups, such as CPC and the Quebec-based AQDR, the largest seniors groups chose not to affiliate with One Voice.\textsuperscript{29} In the late 1980's, the NPSCF blocked One Voice's application to join the Social Policy Reform Group. This move was supported by NAPO, which took the view that One Voice was not an authentic grassroots organization.\textsuperscript{30}

The exceptional nature of the 1985 seniors protest is revealed by reference to the limited impact made by seniors groups on two important pension-related measures that were subsequently implemented. The first of these, amendments to the Pension Benefits Standards Act (Bill C-90), introduced into the House of Commons in late 1985, was clearly relevant to the interests of hundreds of thousands of retired workers covered by occupational pension plans.

\textsuperscript{26}Nevertheless, certain NPSCF leaders at this time, such as Charlie McDonald and Les Batterson, felt that the NPSCF needed to adopt more professional methods, including the hiring of full-time staff. To this end, they sought, without success, to expand the NPSCF's sources of income through the introduction of per capita dues to be levied on affiliated provincial organizations "To supplement the fairly modest dues revenue already obtained from [NPSCF's] roughly five thousand directly contributing members." Henry J. Pratt, \textit{Gray Agendas, op cit.}, p.167.

\textsuperscript{27}\textit{Ibid.}, p.166.

\textsuperscript{28}One source of resentment for the NPSCF was the fact that One Voice's application for charitable status under the Income Tax Act was approved while the NPSCF's was rejected. Such a designation facilitates fund-raising efforts since charitable donations are tax deductible. The NPSCF was judged to be ineligible for charitable status because of its "extensive lobbying role and campaigning on issues considered politically controversial." \textit{Ibid.}, p.168.

\textsuperscript{29}In addition to NPSCF, such groups included USCO, FADOQ, the Coalition of Senior Citizens Organizations (COSCO), an umbrella group of BC seniors groups, and the Saskatchewan Seniors Association Inc. (SSAI). C.G. Gifford, \textit{Canada's Fighting Seniors, op. cit.}, p.114.

\textsuperscript{30}Interview with Havi Echenberg, Ottawa, 16 July 1997.
Organized labour had recognized the importance to its members of improving the private pension system and had identified mandatory inflation protection as a primary objective. However, no seniors groups appeared before the House of Commons Legislative Committee on Bill C-90. It is true that at the legislative stage in this case, Parliament was effectively being asked to ratify the terms of an agreement that had already been reached between Ottawa and the provinces. However, it also appears to be the case that seniors groups lacked the expertise to master the complexities of occupational pensions legislation. According to its national secretary, Ivan Hale, One Voice had little influence over the content of the PBSA legislation, partly because the organization was still in its formative stages and partly "because we didn't understand the issues as well as we should have." Other seniors groups, notably the NPSCF, presumably relied on the trade union movement to represent their interests.

With regard to the OAS clawback, seniors groups were singularly ineffective. Like the social policy groups discussed above, seniors groups had not been forewarned by the Government in its pre-Budget consultations that the clawback was being actively considered. Following its announcement, all of the major seniors groups were harshly critical. Even the more conciliatory One Voice accused the Government of breaking a contractual obligation to seniors. However, while seniors groups took certain measures to induce the Government to reverse course, they were unable to mobilize their constituency on the scale of the 1985 protest. Unlike the earlier campaign, media coverage of the clawback was less extensive and the measure itself did not evoke mass indignation either among the public at large or among seniors themselves. While the de-indexation proposal would have affected all seniors, including the poor, the clawback was ostensibly aimed only at the most affluent seniors. Moreover, as noted above, the complexity of the formula used to apply the clawback made it difficult for seniors groups to explain its implications.

31 Interview with Ivan Hale, Ottawa, 15 July 1997.
32 Ibid.
34 C.G. Gifford, Canada's Fighting Seniors, op. cit., pp.113-114.
35 For example, One Voice claimed to have collected 50,000 names opposing the OAS clawback on petitions. "Seniors groups vows to keep fighting pension clawback," Montreal Gazette, 14 December 1989, p.B-4.
3. Women's Groups

As discussed in Chapter 3, agitation by women's groups in the late 1970's and early 1980's contributed to the enactment of certain legislative measures in the social welfare field of particular benefit to women. Notable here were amendments to the maternity benefits provisions of the UI Act, passed in 1983, several increases in the GIS, and a broadening of the SPA. In addition, on leaving office in 1984, the Liberal Government had established a Task Force on Child Care and proposed to the provinces a package of amendments to the CPP and the PBSA which responded to at least some of the demands of women's groups. In political terms, women's groups by 1984 had achieved a remarkable prominence in national affairs. NAC in particular emerged as the pre-eminent national women's group in this period under the presidencies of Doris Anderson (1982-1984) and Chaviva Hosek (1984-1986). Its membership grew substantially, it made more frequent contacts with cabinet ministers, and it gained greater exposure in the media.36

The Liberal Government had also substantially increased the budget of the Women's Programme within the Department of the Secretary of State, the agency charged with funding women's groups such as NAC.37 Emblematic of the salience of gender in federal politics was the participation of the three main party leaders in a three-hour TV debate on women's issues, sponsored by NAC, during the 1984 election campaign.38

During the first twelve months of its first term, there was little to distinguish the Conservative Government's approach to social policy, from the point of view of women's groups, from that of the previous Liberal Government. Amendments to the CPP and the PBSA, introduced in 1985, largely replicated those put forth by the Liberals, while the Cooke Task Force on Child Care was allowed to continue its work. In 1985 legislation was introduced to broaden the SPA to cover widows and widowers 60-64 regardless of their spouse's age at time of

death. While women's groups sought further measures on all of these matters, they were broadly satisfied with the incremental gains made. However, relations between women's groups and the Federal Conservatives became increasingly strained over the course of the Government's two terms in office. The first major confrontation between the two occurred in late 1985 when women's groups in Ontario and Quebec formed a coalition in defence of fully indexed Family Allowances. While the coalition staged a rally on Parliament Hill in October 1985 that attracted twice the number of protesters that had attended the OAS rally four months earlier, the Government stood firm. Together with other social sector groups, women's groups found themselves mounting largely unsuccessful rearguard actions against the clawback, the tightening of UI, and the termination of universal Family Allowances.

If the outcomes of social policy debates were seldom to their liking, women's groups nevertheless had some considerable success in placing certain issues onto the political agenda and, in some cases, influencing the content of public debate on those issues. Homemaker pensions and national childcare were two issues which found their way onto the political agenda largely thanks to the efforts of the women's movement. Given the climate of fiscal restraint which had prevailed since the late 1970's, and more particularly since the recession of 1981-82, it is remarkable that proposals for the introduction of new social programmes should have been taken up by the new Conservative Government. Nevertheless, on neither of these issues were women's groups able to secure an outcome favourable to their interests.

As noted earlier, the Conservatives had campaigned in the 1984 federal election in favour of a homemaker pension, to be provided through the Canada and Quebec Pension Plans. The principle of homemaker pensions had been endorsed by NAC and by the CACSW in the early

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39E.g., on the PBSA, NAC joined organized labour in demanding mandatory inflation protection for occupational pension plans and stronger regulations to protect women's interests, such as the automatic splitting of pension credits on marriage breakdown and the recognition of joint survivors benefits to ensure that the former spouse of a deceased pension plan member would be entitled to a share of the survivors benefits, not merely the deceased's current spouse. On the SPA, women's groups joined social policy groups in calling for SPA benefits to be made available to all individuals 60-64, regardless of marital status. See Minutes of Proceedings and Evidence of the Legislative Committee on Bill C-90 (1986), 2:5-2:24.
1980's, though not without controversy. Indeed, homemaker pensions and the related idea of "wages for housework," the latter of which had been raised by some women's groups outside NAC in the late 1970's, were problematic for many Canadian feminists. To liberal and socialist feminists, remuneration for housewives might have the unintended effect of perpetuating the traditional sexual division of labour and the stereotypes associated with it. Indeed, during the "Great Pension Debate" of the early 1980's, homemaker pensions were not endorsed by numerous women's organizations, including Vancouver Status of Women and the Manitoba and Saskatchewan Action Committees on the Status of Women. Meanwhile, organized labour and various social policy groups, including NAPO, had serious reservations about their desirability. Given the limited support they enjoyed within the social sector, it is perhaps unsurprising that little more was heard about homemaker pensions after 1985, following their omission from the federal-provincial accord reached on changes to the C/QPP.

It was on the issue of national day care that women's groups waged perhaps their most concerted and sustained campaign in the field of social policy in the 1980's. The leading day care advocacy group was the Canadian Day Care Advocacy Association (CDCAA), a NAC affiliate. Established following the Second National Conference on Day Care, held in Winnipeg in 1982, the CDCAA was a non-profit organization "committed to accessible, affordable, high quality day care services for Canadians." With funding from the Department of National Health and Welfare and the Women's Programme of the Department of the Secretary of State, the CDCAA opened a national office in Ottawa and soon boasted some 200 member-organizations and 1,500 individual members. Like most of NAC's affiliates, the CDCAA supported a public or social democratic model of day care, based, at minimum, on the principles of universally available

43Ibid., p.258.
services, financial accessibility, and non-profit operation.47

With all three of the major parties pledging support for a national day care plan it appeared that "childcare [had] moved from being a radical and militant demand of feminists and socialists to a legitimate issue on the social policy agenda of the state."48 This development was driven by the growing participation of women in the paid labour force in the 1970's and by evidence of an increasing demand for child care services by middle class families. By the 1980's there was broader public acceptance of the need for publicly funded day care.49 However, as with other components of the welfare state, the principles on which a national day care programme was to be built were politically contentious. Thus, the public model favoured by most day care advocacy groups was profoundly at odds with that favoured by the Progressive Conservative Government, whose approach to child care was characterized by a preference for private enterprise, a commitment to parental choice regarding the mode of child care delivery, and a reluctance to use the federal spending power to impose national standards on the provinces.50 Moreover, as is discussed in Chapter 8, the Minister of National Health and Welfare during the development of the Government's National Child Care Strategy, Jake Epp, had strong personal convictions regarding the importance of at-home parenting.

With the release of the Martin Report in March, 1987, it appeared unlikely that the Government would embrace the public model of child care advocated by most women's groups and endorsed by the Cooke Task Force Report. Indeed, as described in Chapter 4, Jake Epp incorporated many of the Martin Committee's key recommendations into the National Child Care Strategy unveiled in December 1987. While the child care bill, Bill C-144, was criticized by

47CDCAA. For Today's Families: A Solution to the Crisis in Child Care Facing Canadian Families. Brief to the Special Committee on Child Care. Executive Summary. Ottawa, 1986, p.3.
labour and social policy groups, its most determined critics were in the women's movement. Women's groups deplored the use of tax deductions to parents, which they contended would not address the shortage of child care spaces. They also opposed the latitude afforded the provinces to fund commercial day care operators, the ceiling imposed on federal day care contributions through the Canada Assistance Plan, and the absence of any provision for extended parental leave.\(^{51}\)

While women's groups were largely unsuccessful in shaping the content of the Government's child care bill, they did play an instrumental role in its demise. As noted in Chapter 4, delegates attending a CDCAA conference in April, 1988 resolved to work actively to defeat the National Child Care Strategy.\(^{52}\) Efforts in this regard were to include the commitment of resources to the upcoming federal election campaign for the purpose of opposing the Child Care Strategy (and any candidates endorsing it) while publicizing the CDCAA's alternative model.\(^{53}\) In the meantime, a coalition was formed, including the CDCAA, NAC, the CLC, and other groups, to mobilize opposition to the child care bill.\(^{54}\)

As described in Chapter 4, this ad hoc coalition successfully lobbied Liberal Senate leader Allan MacEachen to hold public hearings on the child care bill, thereby derailing the Government's plans to expedite its passage before the dissolution of Parliament. This tactical victory for day care activists, however, did not ultimately advance their cause. Hopes that the Government would return to the drawing board to draft a new day care bill were not to be realized. Although day care figured prominently in the 1988 election platforms of the three major parties, the Conservatives, following their re-election, announced in the 1989 Budget an indefinite postponement of their day care plans.

In summary, the record of women's groups in influencing the income security and broader social welfare policies of the Conservative Government is a mixed one. On the one hand, 


\(^{52}\) CDCAA. *Child Care: Meet the Challenge*. Ottawa. 1988, p.57.


\(^{54}\) Martha Friendly, *Child Care Policy in Canada*, op. cit., p.173.
women's groups continued to draw attention to the particular income security needs of women and had some success in securing changes to selected programmes that went at least some way to meeting those needs. Thus, eligibility criteria for the SPA were relaxed somewhat, a measure primarily of benefit to low-income widows. Several amendments to the CPP were clearly designed with women in mind. Notable here were the provisions relating to the splitting of pension credits on marriage break-down. In late 1992, women's groups were extraordinarily successful in branding proposed changes to the UI Act as inimical to women. According to NAC, the Government's proposals to deny UI benefits to persons quitting a job would deter women suffering from sexual harassment at work from leaving their job. This critique became the focus of the opposition parties' attack and was widely covered in the media. In response to this pressure, the Government amended the legislation, Bill C-113, to designate sexual harassment as grounds for voluntary job-leavers to retain their right to claim UI benefits.  

Other measures, while not as clearly aimed at women, were chiefly of benefit to them. Notable here were amendments to the PBSA entitling part-time workers to participate in occupational pension plans. Owing to the predominance of women in part-time work, this measure constituted an important gain for female employees, a point for which the Government was quick to take credit. Indeed, as in the late Trudeau period, ministers often made a point of emphasizing the anticipated benefits for women of many of the income security measures that were announced.

On the whole, however, women's groups had little influence on the content of income security policy during the Mulroney years. Key social policy proposals advanced by women's groups were either not taken up by the Government, or, as in the case of the National Child Care Strategy, were formulated by the Government in a way that was unacceptable to women's groups. For example, pension proposals that would have benefited women directly, such as the introduction of CPP homemaker pensions or the establishment of mandatory private sector

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pension plans, were never seriously considered by the Government.\footnote{The extension of private pension plan coverage to part-time workers only applied to those firms already having an employer-sponsored pension plan. As noted, only a minority of women in the paid labour force were covered by such plans.} Meanwhile, many of the Government's key social policy measures were vigorously opposed by women's groups, notably the de-indexing and abolition of Family Allowances and the growing restrictiveness of UI.

It should perhaps be noted that most of the Government's retrenchment measures were introduced in its second term, a period in which relations between NAC and the Government underwent a marked deterioration. Unlike other non-governmental organizations which relied heavily on federal funding, such as NAPO and the CCSD, NAC was increasingly outspoken in its criticism of government policy in the late 1980's and given to the use of militant tactics. For example, the tone of NAC's annual lobby of cabinet ministers became increasingly rancorous under the Conservatives. Ministers attending the 1988 lobby session were loudly jeered, prompting a boycott by Ministers the following year.\footnote{Paul Koring, "Tories to break tradition by boycotting women's lobby sessions," \textit{Globe and Mail}, 13 May 1989, p.A-7; Carol Goar, "Why Tories spurn feminist group," \textit{Toronto Star}, 20 May 1989, p.D-4.} In the spring of 1988, day care activists attending a CDCAA conference in Ottawa protested Jake Epp's absence from a panel discussion by marching to his office and occupying it for several hours.\footnote{Martha Friendly, \textit{Child Care Policy in Canada}, op. cit., p.173. Later, at a lobby session held on Parliament Hill to which representatives of the three parties had been invited, activists ritually pitched copies of the National Child Care Strategy into a wastepaper basket (p.174).} NAC and other women's groups also played a leading role in campaigning against the Meech Lake Accord and the Canada-US Free Trade Agreement. A leading part of their critique, in both instances, was the presumed harm that these agreements would do to new or existing social programmes.

NAC's strident criticisms of the Government caused some dissension within its ranks. Feminists active in the PC party were particularly uncomfortable with the organization's growing militancy and its shift to the left in policy terms. Meanwhile, REAL Women, an anti-feminist women's group favouring the maintenance of traditional gender roles, attracted increasing attention through its attacks on NAC's claim to represent the views and interests of Canadian women. It gained some measure of legitimacy in 1987 when it received its first grant from the
Secretary of State.\textsuperscript{60}

For its part, the Government, following its re-election, proceeded to reduce sharply the level of federal funding to women's groups. The 1989 Budget announced a three-year freeze on the budget of the Women's Programme.\textsuperscript{61} The following year, federal core funding to NAC was reduced by 20\%. Further cuts in 1991 reduced NAC's federal subsidy to $300,000, half the sum granted in 1989.\textsuperscript{62} Further cuts still were announced in the 1992 and 1993 federal budgets.\textsuperscript{63} These funding reductions were driven by various factors. There was a growing tendency, beginning in the late 1980's, for the Federal Government to provide funding to NGO's in the form of project grants rather than core funding.\textsuperscript{64} Project funding, in turn, reflected a new emphasis on ensuring that public moneys received by NGO's were spent on client services, rather than advocacy, and that expenditures were more fully accounted for.\textsuperscript{65} Funding cuts were also justified by the Government as part of its renewed attack on the deficit. However, there is also evidence that the Government was becoming increasingly intolerant of groups engaged in advocacy, particularly if it was critical of Government policies. Referring to such groups, one Conservative MP asked, "Why give them the bullets to shoot us with?"\textsuperscript{66} NAC was certainly quick to characterize its reduced funding as retribution for its criticism of Government policy.\textsuperscript{67}

\textit{Conclusion}

As proved to be the case in the earlier period under study, pluralism fails to provide a convincing explanation for most of the observed social policy outcomes of the Conservative era. Organized groups seeking to articulate the interests of the large populations in receipt of income security benefits were highly critical of much of the Conservative Government's social policy.


\textsuperscript{61}Leslie A. Pal, \textit{Interests of State, op. cit.}, p.147.


\textsuperscript{67}"Retaliation seen in cuts to NAC," \textit{Globe and Mail}, 29 April 1989, p.A-11
Social policy groups such as NCW, NAPO, and the CCSD continued to occupy a position on the periphery of the social policy community. As such, they were not directly involved in the formulation of social policy and their advice was frequently ignored.

Seniors groups scored a notable coup in 1985 when they co-ordinated a massive protest against the partial de-indexation of OAS benefits. This event, however, was more in the nature of an anomic mass action by the elderly, catalyzed as much by the opposition parties and the media as by seniors groups. In any event, seniors groups remained weak and fragmented and were unable to exert effective influence on the state four years later to forestall the OAS clawback.

Women's groups, notably NAC and CACSW, remained active in social policy debates and enjoyed some success in the Conservatives' first term. Their success lay in helping to draw attention to gaps in the income security system which put women at a disadvantage. The Conservatives, no less than the Liberals and New Democrats, appeared anxious to demonstrate their commitment to addressing the social policy needs of Canadian women. Thus, despite the Conservatives' emphasis on fiscal responsibility, they proceeded in their first term to broaden the SPA and to make certain amendments to the PBSA and the CPP which directly or indirectly served the interests of women. The Conservative Government also endorsed and nearly implemented a multi-billion dollar national day care programme, a central demand of the women's movement.

However, the impact on these events of women's groups *per se* should not be exaggerated. The Conservatives' national day care policy was bitterly opposed by most women's groups. And while these groups can take some credit for blocking its implementation, they were unable to alter the course of Government policy after the 1988 election when the Conservatives chose to sacrifice national day care to the cause of deficit reduction. More generally, women's groups were no more successful than social policy or seniors' groups in defending universality.
Chapter Eight: State Actors and Social Policy, 1984-1993

In examining the various departments and agencies of the state which formulated and implemented social policy in the Mulroney era, the traditional distinction between guardians and spenders serves as a useful point of departure. In the late Trudeau period, fiscal guardians played a central role in many of the major social policy decisions taken by the Government. The $2 billion spending cuts announced in 1978 were conceived by the Prime Minister and a coterie of advisers in the PMO. The relatively modest pension reforms outlined by the Government in its 1982 Green Paper reflected in large measure the influence of the Department of Finance, supported by the Privy Council Office, and the diminished influence of the Department of National Health and Welfare.

On the other hand, fiscal guardians were obliged to make concessions from time to time to spending departments and their allies. NHW Minister Monique Begin played an important role in initiating debate on pension reform while successfully pressing for increases in the basic GIS benefit and for the super-indexing of GIS payments during the operation of the "6 and 5" restraint programme. With the onset of the recession of 1981-82, efforts by fiscal guardians to reduce UI outlays through further retrenchment of the UI programme were indefinitely postponed.

Guardians and Spenders

The more extensive retrenchment measures implemented by the Conservative Government after 1984 suggest that the power of the Department of Finance or of other fiscal guardians was significantly enhanced during the period 1984-1993. This hypothesis is substantially supported by the evidence. The leading fiscal guardian, the Department of Finance, assumed an increasingly important role in the development of social policy. With the release in November, 1984 of its policy paper, A New Direction for Canada: An Agenda for Economic Renewal, the Finance Department foreshadowed much of the Government's economic and social policy agenda for the next nine years. While the Paper’s emphasis on deficit-reduction and the
bolstering of business confidence closely reflected the inclinations of the PC Government, it also reflected the views of a Department of Finance which had already assumed a more important voice in economic and social policy under the Liberals, particularly since the appointments of Marc Lalonde as Finance Minister, and of Marshall Cohen as Lalonde's Deputy Minister, in September, 1982.

As a general rule the Finance Minister requires the support of the Prime Minister in maintaining the integrity of the Government's fiscal and budgetary policy.¹ For the most part, Finance Minister Michael Wilson enjoyed unstinting support from Prime Minister Mulroney, as did Wilson's successor, Don Mazankowski. A Bay Street investment analyst prior to entering Parliament, Michael Wilson served as Opposition Finance critic and was an acknowledged heavyweight in the Mulroney Cabinet from its inception. His stature grew during his unusually long tenure at Finance (1984-1991), in the course of which he delivered seven budgets.² Don Mazankowski lacked his predecessor's blue chip business credentials but more than compensated for it by his unparalleled political influence within the Cabinet. Having served as Transport Minister in the first Mulroney Government, Mazankowski became Deputy Prime Minister and Government House Leader in 1986. One of the PM's most trusted advisers, Mazankowski headed several cabinet committees, including the all-important Operations Committee (discussed below), and was Minister of Agriculture at the time of his appointment as Finance Minister in 1991.³

It should be noted that in the development and implementation of the Government's expenditure budget, Prime Minister Mulroney's role went beyond that of merely supporting his Finance Minister. Indeed, after the 1988 election, the PM reorganized the cabinet committee system so as to facilitate restraint in government expenditures. The PEMS system of expenditure management, introduced in 1979 by the Clark Government, was discontinued, the

²In contrast, five men served as Finance Minister during Pierre Trudeau's last two terms in office (1974-79, 1980-84), for an average tenure of 22 months.
general verdict being that it had failed to control government spending as intended.4 The system which replaced it, unveiled on 30 January 1989, further centralized control over public spending. A new cabinet committee, the Expenditure Review Committee (ERC), was created to assist the traditional fiscal guardians, the Finance Department and the Treasury Board Secretariat, in reviewing spending programmes. Chaired by the Prime Minister, the ERC consisted of seven senior ministers and was charged with the task of reviewing the expenditure budget to ensure that spending was directed to areas of highest priority to the Government.5 The ERC was also empowered to impose spending cuts.

While the Treasury Board continued to have responsibility for authorizing small spending increases for authorized programmes, major new spending initiatives were subject to approval by the Priorities and Planning Committee of Cabinet, after being screened by a smaller committee, chaired by the Deputy Prime Minister, called the Operations Committee.6 Meanwhile, policy committees of cabinet, which had previously had the authority to reallocate spending within their respective policy envelopes, were stripped of all spending power.7 As Doern and Phidd observe, "these changes strengthened the guardians against the spenders."8

In chairing the ERC, the Prime Minister demonstrated, at least symbolically, the importance attached by the Government to controlling public spending. A further sign of that commitment, even if it was primarily a gesture to forestall the growth of the Reform Party, was the adoption in 1991 of the Spending Control Act and the Debt Servicing and Reduction Act.

The Judiciary

Before examining the role played by the leading guardian and spending agencies in shaping the income security policies of the Conservative era, due reference must be made to the courts.

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6Ibid.

7On the spending power of policy committees under PEMS, see Ian Clark, "Recent Changes in the Cabinet Decision-Making System in Ottawa," Canadian Public Administration. 28:2 (Summer 1985), pp.185-201.

8G. Bruce Doern and Richard W. Phidd, Canadian Public Policy, op. cit., p.186.
As discussed previously, the courts were not major participants in the development of social policy before 1982 because of the limited scope of judicial review. While the courts in the pre-Charter era were competent to determine jurisdictional issues arising from the federal division of powers, they could not question the wisdom or fairness of impugned laws. The advent of the Bill of Rights of 1960 did little to change this situation, as revealed by cases such as Stella Bliss's abortive challenge to the Unemployment Insurance Act, discussed in Chapter 3. By 1985, however, it was widely recognized that the newly proclaimed Charter of Rights and Freedoms would likely have a significant impact on social welfare legislation. Although there was extensive debate, among academics and social policy activists, about the probable nature of the Charter's impact, the predominant view among state actors was that the Charter would expand social entitlements by prohibiting, under Section 15, the discriminatory treatment of various categories of benefits claimants or potential claimants. In this respect, the judiciary, while neither a fiscal guardian nor a spender, may be deemed, on balance, to be a de facto institutional ally of the latter.

In anticipation of a surfeit of equality rights litigation, proclamation of Section 15 was postponed for three years to allow governments to conduct Charter "audits" of legislation thought to be susceptible to challenge. The Department of Justice's survey of federal legislation identified several income security programmes it considered to be vulnerable to Charter scrutiny. These included the exclusion of employees 65 and over from coverage under the UI Act, the denial of CPP survivor benefits to persons whose spouse remarries, and the denial of extended UI benefits to claimants whose sickness benefits have expired. Also cited was the use of sex-based mortality tables by many employer-sponsored pension plans, under which female employees receive smaller pension benefits than male employees, based on equal contributions, because of the former's greater life expectancy.

A parliamentary sub-committee that was subsequently established under the chairmanship of Conservative MP Patrick Boyer made a series of recommendations in this area,

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all of which entailed the broadening of entitlements. Among its proposals was the abolition of the longer qualifying period for special UI benefits, the provision of SPA benefits to all persons 60-64 years of age irrespective of marital status, and amendments to the PBSA to entitle part-time workers to pro-rata benefits under private pension plans.

In his response to the Boyer Sub-Committee, Justice Minister John Crosbie noted that several of the CPP-related recommendations had been accepted by the federal and provincial governments and would be enacted in 1986. However, no commitments were made regarding the UI-related recommendations, ostensibly because they were being studied by the Forget Commission. The need for further study and consultation was also raised in relation to other issues. A perhaps more significant reason for the Government's hesitancy, however, was its stated concern about the impact of many of the Sub-Committee's recommendations on the "allocation of scarce resources in these times of restraint."11

In short, while the Government was prepared to a limited extent to broaden eligibility in anticipation of court rulings requiring it to do so, for the most part it took a wait-and-see attitude. Indeed, in the mid-to late 1980's, it was far from clear how the courts would address these matters. Would they interpret equality rights narrowly, as they had under the Bill of Rights, or more broadly? To what extent would the courts defer to Parliament in determining the appropriate coverage and benefit structures of income security programmes? What remedies were the courts likely to issue in cases in which programmes were found to be discriminatory? Would the courts simply declare the offending provisions to be of no force or effect, or would they issue positive remedies, such as requiring the state to provide benefits to groups hitherto denied them? How much discretion would the state have in bringing the law into conformity with the Charter? As the overview below reveals, the courts indeed did exert a mildly expansionary influence on the Canadian welfare state in the Mulroney era. In this respect, one

arm of the state, the judicial branch, compensated somewhat for the diminished influence of another arm, the Department of National Health and Welfare, and challenged, if only in a limited way, the hegemony of the state's fiscal guardians.

Guardians and Spenders in the policy process

1. Pensions

During the Conservative era the Department of Finance assumed a leading role in the development of income security policy primarily through its control of the tax system. Income security programmes were re-shaped through the imposition of new taxes on direct spending programmes and through the use of tax expenditures, such as tax credits and deductions. Since tax policy is a product of the annual budget process, a process over which the Department of Finance has a virtual monopoly, Finance was intimately involved in the formulation of most of the income security initiatives of the Mulroney Government. Even as regards direct spending programmes, Finance increasingly took the initiative. Thus, decisions to de-index statutory benefit programmes, such as the OAS and Family Allowance—programmes which traditionally fall within the preserve of NHW—were made at the behest of Finance and announced in the Budget.

These tendencies were evident in the field of pensions policy. The decision to de-index OAS was proposed by Finance officials as a means of achieving the Government's grandiose plan to reduce public spending by $15 billion by 1990, as announced in Michael Wilson's Economic Statement of November, 1984. Together with Treasury Board President Robert De Cotret, Wilson had drawn up a list of proposed spending cuts and invited the comments and suggestions of other ministers. In putting forward their proposals for the partial de-indexation of OAS and Family Allowances, Finance officials estimated savings of $1.6 billion by 1990-91. NHW Minister Jake Epp, while sympathetic to the objective of fiscal restraint, considered any tampering with OAS to be politically dangerous.\(^{12}\) As an alternative, Epp proposed that de-

indexation be applied only to Family Allowances. His suggestion was not heeded.

The Prime Minister supported the Wilson-De Cotret cost-cutting exercise; indeed, he signalled the Government's determination to economize by appointing the Task Force on Programme Review, headed by Deputy Prime Minister Erik Nielsen. It was only when public reaction to OAS de-indexation became politically intolerable that the PM overruled his Finance Minister on that issue. However, it should be noted that the Government also yielded to political pressures to increase direct spending in other areas in its first term, a notorious example being the PM's decision to approve a $1 billion "deficiency payment" to western grain farmers in 1986 at the urgent request of Conservative premier Grant Devine on the eve of the Saskatchewan provincial election.¹³

Through the introduction of the clawback on OAS in 1989 the Finance Department sought to use the tax system to accomplish its goal of restraining OAS outlays. This measure was announced in the Budget, the principal theme of which was the necessity for deficit reduction. Being a budgetary matter, and thus subject to the norms of budget secrecy, the clawback was not openly flagged in advance as a proposal that was under active consideration by the Government, despite the fact that it was widely thought to represent an abandonment of the universality principle. Significantly, NHW was not involved in the formulation of the clawback. Indeed, NHW had never formally repudiated its 1985 Consultation Paper, in which it expressly rejected the introduction of a surtax on child or elderly benefits.

2. Family Benefits

As was the case with the OAS, Family Allowances were largely recast by Finance, with only limited input by NHW. While NHW had a role in designing the Child Tax Benefit unveiled in 1992, this programme emerged from the ashes of a major defeat suffered by the Department at the hands of Finance: the demise of the National Child Care Strategy.

Given the Government's emphasis on fiscal restraint, the unveiling of a $5.4 billion

¹³Another conspicuous deviation from the Government's fiscal path in this period was its $1-billion bailout of depositors of the failed Northland and Canadian Commercial Banks. Ironically, the initiative here came from the Finance Department itself. (Donald J. Savoie, The Politics of Public Spending in Canada, op. cit., pp.94-96.)
national child care plan in December, 1987 may appear somewhat incongruous. Nevertheless, it was a leading Conservative campaign commitment and was assigned high priority by the Government in its first term. NHW was the leading federal agency involved in formulating the Child Care Strategy. As with health care, education, and social services, jurisdiction over the regulation of child care services lay with the provinces. Thus, even as the Martin Parliamentary Committee was conducting public hearings on day care in 1986, Jake Epp began consulting with his provincial counterparts on the principles of a national day care plan. Epp's position in those consultations was conditioned by several factors. First, the Government was loath to impose uniform conditions on provinces participating in a national shared-cost programme. Since taking office in 1984 the Government had vowed to establish more conciliatory relations with the provinces, a policy that was reflected in the Meech Lake constitutional accord, signed in June, 1987.14

A second point has to do with the contentious issue of public subsidies to commercial day care centres. Most day care advocates opposed commercial day care centres; provincial subsidies to such facilities, moreover, were ineligible for cost-sharing under the Canada Assistance Plan (CAP). Epp, however, reflecting the Conservatives' strong predisposition to free enterprise, declared that he was "philosophically not opposed" to the funding of for-profit day care.15 Third, while Epp was willing to accommodate the provinces' request for more generous federal funding for day care, he was determined to avoid the open-ended funding liability of CAP.16 Indeed, since the negotiation of the Established Programmes Financing and Fiscal Arrangements Act (EPF) in 1977, CAP was the last major shared-cost programme under

16In response to complaints by the provinces that the additional federal funds promised under the Government's Child Care Strategy were inadequate to meet the demand, Epp announced in July, 1988 that a further $1 billion would be added to the $5.4 billion originally committed. (Department of National Health and Welfare. News Release, "Epp Announces Additional $1 Billion for Child Care in Canada," 13 July 1988. National Archives. RG 29, Box 12, File: 2637-88-59.)
which the federal government was obliged to match provincial expenditures on a 50-50 basis. For its part, the Mulroney Government had already moved to reduce its EPF transfers to the provinces in the 1986 Budget.

Finally, it should be noted that Jake Epp was personally committed to enhancing public support for parents raising children at home. An Evangelical Christian, Epp was "a strong believer in free enterprise and self-reliance." Despite his reputation in some quarters as a Red Tory, he was also regarded as an ally by the Family Caucus, a conservative faction within the PC caucus. With regard to day care, Epp was on record as favouring greater public recognition of stay-at-home parents. In comments that caused some consternation to day care advocates, Epp expressed the view that while day care centres were a necessity for many families, children were better off being raised at home by a parent. This philosophy found expression in the Child Care Strategy's provision that parents caring for children at home would be eligible to claim a higher RCTC benefit. Meanwhile, parents incurring receipted child care expenses—whether through the use of day care centres or nannies—would benefit from enriched tax deductions. In defending this approach, an NHW release declared: "It is the right and the responsibility of Canadian parents to choose how they want to raise their children."

Despite its high political profile, the Child Care Strategy encountered stiff resistance from the Department of Finance. In January, 1987, Epp and the provincial social services ministers resolved to reach agreement on a revamped day care system by the end of June of that year. Repeated delays on the part of the Federal Government in presenting its child care policy drew criticism from several provinces. However, the cost of the programme—in particular, the amount of "new money" to be allocated, over and above the amount that would otherwise have been spent under CAP—was a point of contention between NHW and Finance as late as November, 1987. According to the Globe and Mail, Epp's proposals were stuck in the Cabinet

Committee on Social Development and had not yet reached the Priorities and Planning Committee. The impasse reportedly was resolved only by the intervention of the PM.21

As noted above, it was the Senate's delay in passing the Government's child care bill that prevented it from being adopted before the 1988 election. This move proved to be fatal to the Child Care Strategy in view of the augmented power acquired by the state's fiscal guardians following the election. Indeed, expenditure control emerged as the paramount theme of all of the Budgets delivered between 1989 and 1993.

The advent of the CTB exemplifies the dominant position assumed by the Department of Finance in the making of social policy in the Mulroney Government's second term. In 1985, changes to the child benefits system has been preceded by the issuance by NHW of a discussion paper which was then referred to a parliamentary standing committee. In 1992, there was no advance public consultation on the new CTB. Moreover, the Government's intention to proceed with the CTB was announced not by the NHW Minister, Benoit Bouchard, but by Finance Minister Don Mazankowski in his 1992 Budget.22 Two days after the release of the Budget, Bouchard formally announced that the Government was jettisoning national day care, ostensibly because "It's not seen any more by Canadians as the first priority for children." Mazankowski later gave a different explanation for the demise of the day care plan. According to the Finance Minister, it was unaffordable in light of "the deterioration in the fiscal situation."24

Mazankowski's leading role was underscored when a White Paper on the CTB was

released by the Department of Finance (albeit containing a brief message from Benoit Bouchard). Then, following the introduction of the CTB legislation (Bill C-80) into the House of Commons, Mazankowski, not Bouchard, appeared before the Legislative Committee to explain the contents of the Bill. At first blush, the Finance Minister's appearance before the Committee was unexceptional since Bill C-80 involved amendments to the Income Tax Act. However, the Bill also provided for the repeal of the Family Allowance Act, a matter on which the NHW Minister might reasonably have been expected to comment.

3. Unemployment Insurance

Broadly speaking, changes made to UI by the Conservatives built upon policies initiated by the Liberals in the period 1978-1984. In particular, the ministry responsible for UI, Employment and Immigration, continued to emphasize the need for UI to move beyond "passive" income maintenance and toward "active" labour market measures, such as training and skills development, mobility grants, and programmes to promote the employment of certain categories of workers, such as youth and the disabled. The Canadian Jobs Strategy (CJS), introduced in 1985, was consistent with this objective, while shifting the emphasis of UI developmental programmes toward assistance for employment-disadvantaged groups. The Labour Force Development Strategy (LFDS), introduced in 1989, retained the programmes established under the CJS while re-ordering the allocation of funds among them. The main innovation of the LFDS was its proposal for the establishment of consultative bodies, representing business, labour, and other interests, to advise the Government on labour market policy. However, it is important to note that changes to the UI programme were also driven by


Minutes of Proceedings and Evidence of the Legislative Committee on Bill C-80, op. cit.


the Government's larger objective of restraining public spending. Several of the UI retrenchment measures implemented by the Conservatives resulted from funding cuts instigated by the Government's fiscal guardians. But whereas cutbacks to pension and family benefits programmes tended to pit guardians against spenders, UI retrenchment, directed at the income maintenance component, was not considered by officials at EI necessarily to be incompatible with the Department's objectives. On the contrary, Employment and Immigration Minister Barbara McDougall defended the tightening of UI eligibility in 1989 on the grounds that it would promote a stronger "adhesion" of workers to the labour market. Moreover, as noted in Chapter 3, since the advent of fiscal restraint in the late 1970's, EI ministers had come to see the UI Account as a potentially more accessible source of funds for employment programmes than the Government's general revenues.

Significantly, while the overall balance of forces within the state after the 1988 election favoured guardian agencies, the judiciary, armed with the Charter of Rights, began to act, albeit in a limited way, as an institutional counterweight, particularly in regard to the UI programme. In two notable cases, the Supreme Court of Canada declared unconstitutional two limitations imposed on UI eligibility. Furthermore, the Court asserted its right, in certain circumstances, to order that benefit programmes be extended to cover groups of claimants not originally envisaged by Parliament.

In its first term, the Government refrained from engineering substantial changes to the UI programme. EI Minister Benoit Bouchard chose to forgo major retrenchment in light of the furor which greeted the recommendations of the Forget Report. Even the vaunted Canadian Jobs Strategy did not entail the commitment of additional funds by the Government. Rather, CJS programmes were funded by the cancellation of existing training and employment programmes. In the one notable instance in its first term when the Government did attempt to curtail UI benefits, it was forced to back down. As recounted in Chapter 4, the Government in 1987 rescinded a measure disqualifying persons from claiming UI benefits in the year preceding their

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The retrenchment of UI after the 1988 election reflected the enhanced influence of the fiscal guardians as discussed above. This was most vividly underscored by the Government's decision to end its financial contribution to the UI Account, a reduction in UI funding of some $2.9 billion in 1990. This measure, combined with the PM's pledge, made in the heat of the 1988 election campaign, to introduce a generous job adjustment programme for workers displaced by the Free Trade Agreement—presumably to be financed, at least in part, from UI premiums—threatened to put severe pressure on the UI programme. The Government responded to these cross-pressures in two ways. First, it announced a tightening of UI eligibility, chiefly through longer qualification and shorter benefit periods, for an anticipated cut in UI benefit payments of $1.3 billion. The training initiatives that were to form part of the LFDS were to be financed from the diversion of $800 million of the proceeds of these savings. A second way in which the Government sought to offset its termination of direct UI contributions was through UI premium increases. Successive increases in UI premiums were announced in the 1990, 1991, and 1992 Budgets.

These measures attested to the dominant influence of the Department of Finance in shaping both the Government's macroeconomic and social policies in the late 1980's and early 1990's. As noted above, aspects of the previous Liberal Government's restraint programme were abandoned in 1981-82 in response to the onset of an unexpectedly severe recession. Not only was a planned retrenchment of the UI programmes indefinitely suspended but EI Minister Lloyd Axworthy secured increased funding for job creation programmes. In contrast, the Mulroney Government proceeded to implement cuts to the UI programme in 1990 in the midst of a

31 Following the election, the Government appointed a task force, headed by Bell Canada CEO Jean de Grandpre, to examine the feasibility of an adjustment programme and to advise on labour market policy in general. In its report, the de Grandpre Commission rejected as impracticable the idea that an adjustment programme could be designed exclusively for workers affected by the FTA. Its call for a renewed commitment to training by business, labour, and government, including the greater use of UI funds for training programmes, was echoed by the Government in its Labour Force Development Strategy. See Advisory Council on Adjustment, Adjusting to Win: Report of the Advisory Council on Adjustment. Ottawa: Minister of Supply and Services, 1989.

recession, following a year-long battle with the Liberal-dominated Senate. Moreover, the Government steadfastly refused to deviate from its deficit-fighting strategy by introducing counter-cyclical fiscal measures, such as job creation programmes or planned increases in social welfare spending. Instead, the Government repeatedly insisted that deficit reduction was an essential pre-condition for economic growth and (private sector) job creation.

The second round of UI cuts, implemented in 1993, were even more clearly inspired by the Department of Finance. In the early 1990's, the Government's deficit targets proved increasingly difficult to meet, chiefly because of the combined effect on public finances of the recession (which depressed federal revenues while increasing income security spending) and a sharp rise in interest rates (which greatly increased the Government's debt-servicing costs).

Within months of the tabling of the February 1992 Budget, it became clear that the deficit would exceed the Government's projections. Convinced of both the economic and political importance of avoiding a surge in the deficit, Finance Minister Don Mazankowski unveiled a package of spending cuts totalling $8 billion in an Economic Statement delivered in December 1992. As noted in Chapter 4, UI cuts alone were expected to account for $2.5 billion of this total.

Finance vs. NHW: the view of social policy groups

A final observation to be made has to do with the view taken by social policy groups regarding the locus of power over social policy during the Conservative years. The 1985 Budget sent a signal to the social sector that the Minister of Finance was the leading formulator of social policy in the field of income security. In particular the peremptory introduction of partial de-indexation by Finance Minister Michael Wilson, apparently without reference to NHW Minister Jake Epp, suggested that Wilson had eclipsed Epp as the leading voice on social policy and that social policy groups accordingly should focus their lobbying efforts on the former. During her tenure as Executive Director of NAPO (1986 to 1991), Havi Echenberg concluded that NHW,

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34 Ibid., pp.73-74.
from a policy point of view, "was not where anything was happening that was useful." While enjoying good relations with line bureaucrats in NHW about the operation and delivery of income security programmes, NAPO chose to deal with the Finance Department, particularly its Tax Policy and Legislation Branch, to discuss tax-delivered benefits and the tax treatment of direct spending programmes.37

For its part, the Social Policy Reform Group met regularly—usually twice a year—with Michael Wilson beginning in 1985, while holding few meetings with the Health and Welfare Minister.38 The efforts of social policy groups to coordinate their inputs to government and to target the Finance Department were facilitated by a consultation Division established within the Department to formalize pre-Budget consultations with selected interest groups.39

The Judiciary

As the Government had anticipated, constitutional challenges to aspects of various income security programmes were launched following proclamation of the equality rights provisions of the Charter of Rights in 1985. Moreover, as anticipated, the applicants in these cases sought to extend the coverage of income security programmes by contending that the state's differential treatment of certain categories of claimants, or its exclusion of various classes of potential claimants, constituted a denial of "equal benefit of the law," contrary to Section 15 of the Charter. While most of the Charter cases in the field of social welfare were directed at provincial social assistance and family law statutes, several cases concerning federal income security programmes reached the Federal Court of Canada in the late 1980's. Rulings in two cases concerning the UI Act obliged the Government to expand the programme.

The first case, Re Tetreault-Gadoury and Canada Employment and Immigration

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36Interview with Havi Echenberg, Ottawa, 16 July 1997.
37Ibid.
Commission,\textsuperscript{40} concerned a provision of the UI Act (Section 31(1)) barring persons 65 years of age and over from receiving UI benefits. Under the Act, claimants aged 65 and over having sufficient insurable earnings were restricted to receiving a retirement benefit equivalent to three weeks' of UI benefits. This section of the UI Act was challenged by the 65-year-old Ms. Tetreault-Gadoury after she had lost her job and been denied UI benefits. Following an unsuccessful appeal to a UI board of referees, she applied to the Federal Court of Appeal for a declaration that s.31(1) constituted discrimination on the basis of age. In a decision rendered in September, 1988, the judges accepted this contention, arguing that the age limit on UI eligibility perpetuated the "insidious stereotype" that older persons were no longer employable. In defence of the age bar, the Government argued that at age 65 persons are eligible to receive federal and provincial pension benefits. The objective of preventing older workers from stacking UI and pension benefits was said to constitute a reasonable limit on Section 15 rights under Section 1 of the Charter. The Court rejected this argument on the grounds that the means chosen were not proportional to the objective.

The Government appealed the decision to the Supreme Court of Canada in order to obtain a more authoritative ruling on the permissibility of age-based limits on social security eligibility.\textsuperscript{41} However, it conceded defeat on the UI issue; in its 1989 discussion paper on the Labour Force Development Strategy, Employment and Immigration declared that the age bar would be repealed in compliance with the Federal Court's ruling.\textsuperscript{42} At the same time, however, the Government announced the elimination of the UI retirement benefit.\textsuperscript{43} These two measures appear to have been linked. If so, the Charter decision was a dubious victory for the elderly. The minority of persons who continue to work past the age of 65 clearly stood to benefit; the majority who do not--many of whom face mandatory retirement at 65--lost their 3-week retirement benefit.\textsuperscript{44} In

\textsuperscript{40}53 DLR (4th) 384 (Fed. C.A.)
\textsuperscript{42}Canada. Department of Employment and Immigration. Success in the Works, op. cit., p. 10.
\textsuperscript{43}This benefit, introduced in 1971, was intended to provide a source of income to retired workers to bridge the gap between the termination of employment income and the commencement of pension benefits.
\textsuperscript{44}In a judgment rendered at about the same time, the Supreme Court of Canada upheld mandatory retirement policies as "reasonable limits" on equality rights. See McKinney v. Board of Governors of the University of Guelph [1990]
other words, use of the Charter by one group of claimants to extend its eligibility failed to prevent, and may even have provoked, the disentitlement of a much larger group of claimants.

Another important UI case heard by the Federal Court of Canada dealt with the availability of special parental benefits. In *Schachter v. Canada Employment and Immigration Commission*, the applicant, Shalom Schachter, claimed that the UI Act violated Section 15 of the Charter by granting parental benefits to adoptive parents while denying them to natural (or biological) parents. In 1983 the Liberal Government had amended the UI Act to allow adoptive parents to draw up to 15 weeks of special UI benefits following the placement of an adopted child in the adoptive home. These benefits could be claimed by either parent, provided that each had the requisite number of weeks of insurable earnings. In contrast, the only benefits available to natural parents were 15 weeks of maternity benefits which only the mother was entitled to claim.

A key issue in the case had to do with the appropriate order to be made by the Court in the event that the parental benefits provisions were found to be unconstitutional. Schachter urged the Court to declare UI benefits to be payable to adoptive parents. In other words, he proposed that the Court read into the UI Act the right of natural parents to receive such benefits. Lawyers for the Government, in contrast, urged that if the Act were found to violate Section 15, the relevant section should be declared invalid and struck down.

In June, 1988 Federal Court Justice Barry Strayer ruled that the Act discriminated against natural fathers by denying them benefits available to adoptive fathers. It also discriminated on the basis of sex by effectively designating the mother as the "natural and inevitable caregiver" while designating the father as the principal breadwinner.

Having found the parental leave provisions of the Act to be discriminatory, Strayer

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3 SCR 229.
45*(1988) FTR 199 (F.C.T.D.)*
46In 1988 an amendment was passed permitting natural fathers to claim parental benefits in the case of the death or disability of the mother.
turned to the question of an appropriate remedy. He observed that the Act’s defect lay in the fact that it was under-inclusive: that is, it failed to go "far enough in equally providing benefits to others who are similarly situated." It would be neither appropriate nor just to strike down the defective provisions, he reasoned, since the effect of such an order would be to deprive adoptive parents of their entitlements. Instead, he issued a declaration that natural parents of either sex were entitled to receive child care benefits—separate from the existing maternity benefits—on the same terms as adoptive parents.

The landmark quality of Strayer’s ruling was immediately evident. First, the Court had ruled that in establishing a scheme of social benefits, the state incurs a positive duty to provide benefits on a "non-discriminatory" basis. Secondly, the Court had presumed to extend the coverage of a social welfare programme to a class of persons whom Parliament had not seen fit to include within the purview of that programme. The cost of such an extension was estimated to be $500 million a year.

Strayer tempered the effect of this exercise of judicial legislation by suspending the judgment pending appeal. This measure, he noted, would permit Parliament to amend the Act in order to bring it into conformity with the Charter. On this point, he noted that Parliament had three broad alternatives: it could extend parental benefits to natural parents, similar to those available to adoptive parents; it could eliminate benefits to adoptive parents; or it could provide equal, but more limited, benefits to both classes of parents.

In response to the Federal Court’s judgment, the Government filed an appeal which was ultimately heard by the Supreme Court of Canada. The appeal did not contest the Trial Court’s finding of discrimination; rather, it took issue with the nature of the remedy granted by the Court. In a judgment issued in July 1992, the Supreme Court of Canada ruled that courts were indeed empowered to grant remedies “reading in” to under-inclusive benefits programmes the eligibility

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49 As the Government, unexpectedly, chose not to invoke Section 1 of the Charter in its defence of the Act, it was unnecessary for the Court to determine whether the discrimination was reasonable.
50 Schachter v. CEIC, op. cit., p.214.
of excluded groups, thereby broadening such programmes and, hence, the budgetary obligations of
the state.52 In the judgment, Chief Justice Antonio Lamer stressed that despite the additional
costs which such a remedy might impose, the state may not invoke cost as a “reasonable
limitation” under Section 1 of the Charter to vitiate its constitutional obligations.53

However, Lamer qualified the foregoing by stating that cost may be relevant in
determining an appropriate remedy. Specifically, the courts would refrain from issuing a remedial
order affecting budgetary policy if such an order would constitute “an intrusion...so substantial
as to challenge the nature of the legislative scheme in question....”54 In the case of social benefits
legislation, Lamer held that the court would be less likely to read in the eligibility of an excluded
group if that group were “much larger” than the group already in receipt of benefits. In such an
instance, the court would be more likely to adopt the less intrusive remedy of declaring invalid
the impugned section of the legislation while temporarily suspending such a declaration in order
to allow Parliament to decide “whether to cancel or extend the benefits.”55

Despite the importance of the issues addressed on the appeal to the Supreme Court of
Canada, the last chapter in the Schachter saga had already been written by the Federal
Government. In April, 1989, some ten months after the original Trial Court ruling, the
Government addressed the parental benefits issue as part of its overhaul of the UI Act. Under
the terms of Bill C-21, 10 weeks of parental benefits would be available to natural parents,
divisible between the mother and the father. However, in an attempt to mitigate the net cost of
the Justice Strayer’s ruling, the Government chose to reduce the number of weeks of benefits
available to adoptive parents from 15 weeks to 10. As a result, the gains made by Schachter, for
himself and for other natural parents, through the use of litigation were offset, at least in part, by
a sharp reduction in benefits for adoptive parents.

53 Ibid., p.21. On this point, Lamer reiterated the position famously articulated in an early Charter case in which the
Court imposed on the Federal Government the obligation to provide oral hearings for refugee claimants. In that
case, Justice Bertha Wilson ruled that considerations of “administrative convenience,” including cost, may not be
invoked under Section 1 of the Charter to override constitutional rights. Re Singh and Minister of Employment and
54 Schachter v. The Queen, op. cit., p.21.
The Schachter case is instructive in several respects. First, it revealed the potential utility of the Charter to welfare-seeking groups. Through Charter litigation, Schachter was able to force the Government to rectify its differential treatment of two categories of benefit claimants. It is true that the Government had been urged by the Boyer Committee in 1985 and by the Forget Commission in 1986 to extend parental benefits to natural parents. However, it seems unlikely that the austerity-minded Mulroney Government would have addressed this matter as soon as it did, if at all, in the absence of the Court's ruling. After all, the thrust of Bill C-21 was the retrenchment of the UI programme. The only parts of the Bill to broaden eligibility were those which had been the subject of successful Charter challenges.

On the other hand, Schachter revealed the limitations, and potential dangers, of Charter litigation in this field. First, the Court made it clear that the Charter did not oblige the state to provide UI benefits per se. This finding had been made by lower courts in numerous cases dealing with provincial social welfare programmes and was now reiterated by the Supreme Court of Canada. Secondly, the case demonstrated that Charter victories for dispossessed groups may inadvertently trigger the cancellation of benefits to other groups as the state seeks a means of achieving equality without incurring higher programme costs. In the Schachter case, as in Tetreault-Gadoury, the applicant was successful in using the Charter to obtain a larger slice of the social welfare pie at the cost of leaving a smaller slice for others.

For social policy activists and numerous academics who had initially hailed the Charter as a constitutional guarantor of social rights, Schachter provided further evidence of the Charter's limited utility in this respect. Disappointment with the Charter's record as a bulwark against the retrenchment of the welfare state was one of the reasons social sector groups embraced the Ontario NDP Government's proposal in 1991 for a constitutional Social Charter that would

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57To be fair to Mr. Schachter, this was not part of his intention. Indeed, Schachter criticized the reduction in adoptive parents' benefits, accusing the Government of using the Federal Court ruling as a pretext behind which "to accomplish part of its hidden agenda of cutting back social programmes." Letter to Globe and Mail, 8 January 1991, p.A-14.
explicitly protect social rights.

Within the state, however, the Schachter decision served as a warning that distinctions built into the structure of social benefit programmes were potentially vulnerable to judicial scrutiny. Indeed, by the early 1990's, more Charter cases were working their way through the court system, alleging discrimination against gay couples under the OAS and SPA programmes,\(^58\) against casual workers under the Unemployment Insurance Act,\(^59\) and against women\(^60\) and married couples under the Income Tax Act.\(^61\) When the Mulroney Government left office in 1993, it remained to be seen how the appellate courts would dispose of these (and other) cases. It also remained to be seen in what manner, and to whose advantage or disadvantage, the social development resources of the state ultimately might be reallocated as a result of these cases.

**Conclusion**

This chapter considered the making of social policy under the Conservatives from the vantage point of the relevant agencies of the state. At this meso level of analysis it was hypothesized that the retrenchment and growing restrictiveness of income security programmes was indicative, and largely a consequence, of a shift in the distribution of power between the guardian and social spending agencies of the Federal Government in favour of the former.

Evidence considered in this chapter tends broadly to confirm this expectation. The leading fiscal guardian, the Department of Finance, acquired a leading role in formulating the social policy of the Mulroney Government. This development had begun with the Liberals as numerous social benefit programmes--such as the RCTC and the Child Care Expense Deduction--were now delivered through the tax system. Through its preparation of the Budget, the Department of Finance has virtually exclusive authority over tax expenditure programmes and over the tax treatment of direct spending programmes. In pursuit of its aim of reducing federal spending levels, the Department of Finance made use of this authority to restructure certain

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\(^59\) Canada v. George [1991] 1 FC 344 (F.C.A.)
income security programmes. One of its most significant measures was the introduction of the tax clawback on OAS and Family Allowances, a measure which effectively ended the universal nature of these programmes. Finance also intruded into the domain of the Department of National Health and Welfare by proposing to end the full indexation of OAS and Family Allowance benefits, the latter of which it accomplished.

The power of the fiscal guardians was enhanced in 1989 under the cabinet committee reforms instituted by the Prime Minister. The establishment of an Expenditure Control Committee, chaired by the PM, with the power to cut spending signalled the Government's renewed emphasis on deficit reduction. In this new context, social policy became even more clearly subservient to fiscal policy.

However, not all of the institutional changes of this era augmented the power of the fiscal guardians. With the proclamation of the Charter of Rights and Freedoms, the judiciary emerged as a new, if unlikely, participant in the social policy process. Less centrally concerned than the executive with the budgetary implications of its decisions, the judiciary held the potential to augment the social spending obligations of the Federal Government through an expansive reading of the appropriate scope of income security programmes. More specifically, such programmes were now susceptible to challenge if they discriminated against designated groups by failing to provide "equal benefit of the law." While relatively few case concerning federal programmes had reached the courts by the early 1990's, it was already clear that the courts were prepared to declare unconstitutional benefit programmes which were "under-inclusive" or which provided differential benefits to two groups of claimants on grounds deemed by the judges to be arbitrary and unreasonable. In the Schachter case, the Supreme Court of Canada was even willing to arrogate to the courts the power to order the extension of benefits to a wrongfully excluded group.

Nevertheless, the ultimate impact of litigation of this kind requires an examination of the legislative aftermath. In the two UI cases considered in this study, the courts struck down provisions barring or restricting access to UI benefits on the part of a particular category of
claimants. Such claimants, the courts declared, were entitled to the same access to benefits as other claimant groups. However, in complying with these rulings, the Government eliminated or reduced the benefits of other UI beneficiaries. Thus, to the extent that they prohibit the state from discriminating against certain groups in allocating social benefits, the courts may affect net welfare outcomes. The nature of such outcomes, however, depends on the response of other agencies of the state.
Chapter Nine: Conclusion

The retrenchment of welfare states has been a generalized phenomenon among advanced industrialized states since the late 1970's. While the economic pressures promoting retrenchment have been roughly comparable across capitalist welfare states, political scientists have been intrigued by the variety of ways in which different states have responded to such pressures. The aim of this study has been to enquire into the retrenchment of Canada’s income security system during the period 1978-1993 and to consider various explanations for the observed pattern of retrenchment.

This chapter summarizes the principal changes that were made to leading federal income security programmes over this fifteen-year period and specifies the cumulative impact of such changes on the political character of the Canadian welfare state. The chapter also assesses the strengths and weaknesses of the theoretical approaches applied in the preceding chapters: class analysis, institutionalism, and pluralism. It is contended here that each approach provides only a partial explanation for the observed patterns of retrenchment. In order to harness their explanatory power, a tentative model is proposed whereby the strengths of each approach may be integrated. The chapter concludes by speculating briefly on the future course of Canada’s welfare state.

I. Retrenchment of Canada’s welfare state—a recapitulation

In the fifteen-year period surveyed in this study, Canada’s welfare state was retrenched in ways which altered its political character. Applying Gosta Esping-Andersen’s three-tiered taxonomy of welfare capitalist regimes, it was suggested that Canada's income security system in the late 1970's was predominantly liberal though with important social democratic features. It was liberal in the sense that income transfers were relatively low and intended to be residual to sources of income derived from the market. Indeed, basic eligibility under many of the direct expenditure programmes and under all of the tax expenditure programmes within the social policy field were closely linked to the claimant's income. Other benefits, such as retirement pensions
under the CPP and maternity benefits under UI, were contingent on one’s past participation in the paid labour force.

Nevertheless, Canada’s welfare state also exhibited some notable social democratic features. The most significant of these was the universality of the OAS and Family Allowance programmes, according to which flat-rate benefits were payable as of right to persons belonging to the relevant demographic groups. While the “decommodification” (or egalitarian) effect of these programmes was vitiated to a large extent by the low level of benefits provided, their status as social rights, free from market-based criteria, set them apart from other components of the income security system.

Piecemeal changes made to Canada's income security system profoundly altered its political character. Social democratic elements were significantly weakened, or replaced, as a consequence of which the system as a whole moved closer to the archetype of a liberal welfare state. The principle of universal entitlement, in its various guises, was curtailed, most conspicuously through the introduction of a tax clawback on upper-income recipients of the OAS and Family Allowance, followed in 1992 by the abolition of the latter programme and its replacement by the income-tested Child Tax Benefit. Moreover, the cash value of these universal programmes diminished during this period in relation to selective benefit programmes such as the GIS and the RCTC. While basic OAS and Family Allowance benefits remained static and Family Allowances were only partially indexed to inflation after 1985, RCTC benefits were increased on numerous occasions and remained fully indexed during most of this period.

Changes to the UI programme significantly narrowed its scope and eroded several of its egalitarian features. Stricter entrance requirements, shorter maximum benefit periods, and harsher disqualification penalties were introduced, all of which took their toll on programme coverage. Benefit levels also declined. On the other hand, certain non-actuarial features of the programme were retained, notwithstanding their incompatibility with a liberal model of unemployment insurance. Variable entrance requirements, while made more restrictive, remained intact, as did regionally extended benefits. In addition, eligibility criteria for UI maternity benefits were made
less onerous while parental benefits were introduced for adoptive and later for natural parents.

With regard to old age pensions, appearances are deceiving. On the one hand, by the early 1990's, the CPP accounted for a substantially larger share of federal income security expenditures than it had in the late 1970's and constituted a more significant source of income for Canadians over the age of 65. For the most part, however, these developments were a reflection of the maturation of the CPP, which had only begun to pay full pension benefits in 1976, and, to a lesser extent, of the ageing of the population.\footnote{See generally, Keith G. Banting and Robin Boadway (ed.), Reform of Retirement Income Policy: International and Canadian Perspectives. Kingston: School of Policy Studies, Queen’s University, 1997.} In other words, apart from the impact of demography, by 1993 the elevated importance of the CPP in Canada’s retirement income system was the fruit of political decisions taken in the 1960's, and owed little if anything to policy decisions made in the intervening period. Indeed, the most momentous policy choice made by the Federal Government in the 1980's in regard to the CPP was its decision, at the culmination of the Great Pension Debate, not to broaden substantially the scope of the Plan. Instead, the Trudeau and Mulroney Governments chose to bolster the private components of Canada’s dualistic pension system by granting larger tax incentives to RRSP contributors and by continuing to exhort employers to establish occupational pension plans.

II. The Death of Universality—Competing Explanations

Having described leading developments in the evolution of federal income security policy during the period 1978-1993, this study considered hypotheses associated with three major theoretical approaches to public policy analysis. In this section, I assess the strengths and weaknesses of these approaches in explaining policy outcomes while suggesting some directions for further research.

A) Class Analysis (Power Resources Approach)

1) Business and Labour

According to power resources theory, the welfare state is a crucial battleground between labour and capital. On this view, the nature and extent of welfare provision reflects the relative
power of the two contenders. In general, labour favours a social democratic welfare state, characterized by universal income transfers and universal social services, provided within a context of full employment and financed by a progressive tax system. Business, in contrast, is resistant to universality, fearing that the cost of maintaining it imposes a tax burden which hinders the process of capital accumulation. Other things being equal, business favours a liberal welfare state in which transfers are provided on a selective basis and benefit levels (and payroll taxes) are kept to a minimum in order to preserve work incentives and, in current parlance, to encourage "labour market flexibility."

In a context of welfare state retrenchment, the power resources approach anticipated an associated decline in the power of Canadian trade unions in the 1980's and early 1990's and a corresponding increase in the power of business. Evidence presented in this study appears to lend some support to this thesis. The period 1978-1993 was one in which the power of organized labour declined in relation to that of business. High unemployment, job insecurity, and structural changes in the labour market (such as the growth of part-time work) took their toll on wages, labour militancy, and, to a lesser extent, trade union density. In addition, the state, federally and provincially, showed a new willingness to take coercive measures against trade unions in the 1980's. Indicative of this trend was the privatization of certain public services, the more frequent use of back-to-work legislation, and various forms of interference with federal public sector collective bargaining (from the 6 and 5 programme to the pay restraint measures of the late 1980's and early 1990's).

Trade union strength, however, is only one dimension of labour's power according to power resources theory. Another dimension is the capacity of workers to advance their interests through parties of the left. This aspect of the power resources thesis, as it applies to the role of the Federal NDP, is considered separately below.

Indicative of the evident paucity of labour's influence on social policy in the period under review, there was an increasing divergence on major issues of economic and social policy between labour's demands and the policies adopted by the state. While labour continued to advocate new
or expanded social welfare programmes, and to demand counter-cyclical fiscal measures to alleviate unemployment, Liberal and Conservative Governments increasingly emphasized fiscal restraint as a means of achieving low inflation and, latterly, of controlling the deficit. In the 1980’s organized labour found itself on the defensive both in the workplace and in the political arena. Its chief concern was the maintenance of gains previously made.

Business, in contrast, acquired additional leverage in the 1980’s. Economic conditions not only gave many employers greater power in the workplace vis-a-vis labour, but also tended to make governments more attentive to their interests. At the same time, business’s capacity to convey its interests to the state was significantly enhanced by the advent of the BCNI. Its policy advice to the state was articulated in more measured tones than those often used by other business organizations, and was delivered with the imprimatur of many of Canada’s most prestigious and powerful corporate CEO’s.

In the fields of economic and social policy, BCNI positions—which were largely shared by the other major business groups, notably the CCC and the CMA--increasingly found favour with the Federal Government. Beginning in 1978 the Trudeau Government took decisive steps to control public spending and to restore business confidence, steps which had some success until the onset of the recession of 1981-82. While other measures taken by the Trudeau Government encountered resistance from certain sections of the business class (such as the National Energy Programme and the Foreign Investment Review Agency), the Government was generally responsive to business interests on issues on which the business community was unified and uncompromising. Notable examples here include the Government's retreat on the 1981 Budget and its decision to endorse only a modest package of pension reforms in its 1982 Green Paper. Even the controversial 6 and 5 restraint programme was evidently designed as a goodwill gesture toward business.

The Mulroney Government was also anxious to maintain business support and, in particular, to reassure capital markets. Indeed, the Government risked incurring the wrath of voters on numerous occasions as it pressed ahead with business-friendly policies, from the
Canada-US Free Trade Agreement to the GST to extended patent protection for multinational pharmaceutical firms. On social policy, the Conservatives jettisoned the Liberals' proposal for the mandatory indexation of occupational pension plan benefits, citing the adverse effects such a measure would have on employers. Through partial de-indexation and the introduction of the clawback, the Conservatives went further than the Liberals had been willing to go in curtailing the universality principle, a particular *bête noir* of the BCNI and other business groups.

As a model for explaining developments in income security policy, the power resources approach has certain strengths. Most notably, it draws attention to the economic context in which social policy is formulated and, more specifically, to the impact of economic conditions on the capacity of key economic producer groups to advance their class interests. In the 1980's, the economic context was one of reduced economic growth, higher unemployment, and increasing job insecurity. As previously stated, these conditions reduced the capacity of organized labour to advance its social and economic policy interests and forced it more often to adopt a defensive posture. Business, in contrast, acquired additional leverage with governments as the latter proved increasingly amenable to tailoring social policy to serve the goals of a more neo-conservative (and pro-business) economic policy.

Nevertheless, the power resources thesis lacks the precision necessary to account for the nature and timing of particular decisions (or non-decisions) taken. While there is evidence that certain policies, or aspects of them, were shaped by the state with business interests in mind, especially in the field of pensions, most of the evidence is circumstantial. Moreover, there are numerous instances in which the Government failed to heed business demands. For example, the Mulroney Government's non-decision on the Forget Report and its reliance on tax increases to mitigate public spending cuts were sharply criticized by business.

A further issue has to do with the role of organized labour. On the one hand, it is clear that labour had little success in the 1980's in advancing its expansionist social policy proposals. On the other hand, the sharp decline in labour' power resources arguably might have been expected to precipitate a more extensive programme of retrenchment, comparable to the far-
reaching neo-liberal economic measures adopted by the Federal Government in the 1980’s, such as privatization, deregulation, and more stringent fiscal and monetary policies. Moreover, the decline in labour’s power resources provides no insight into the distinctive retrenchment measures adopted within and between different social programmes. On this point, the power resources approach overlooks the variety of non-class interests which bear on the welfare state.2 As Pierson contends, the historical importance of working class power to the establishment of social programmes may lead us to overestimate labour’s continuing importance to the maintenance of such programmes.3

In short, an exclusive focus on the interests of economic producer groups fails to capture the complexity of welfare state retrenchment. The primordial political power of business in advanced capitalist societies is almost universally acknowledged.4 However, mono-causal explanations are no more appropriate to capturing the complexity of welfare state retrenchment than they are to accounting for its emergence.5 A more nuanced explanation of the many dimensions of welfare state retrenchment in Canada in the 1980’s requires the application of numerous public policy approaches.

2) Left Party Thesis

A variant of the power resources thesis concerns the impact on the welfare state of socialist or labour parties. According to this thesis, high levels of welfare spending, and certain design features of social programmes, notably universality, are positively associated with the strength of parties of the left. If follows that the weakness (or absence) of such parties would be a factor facilitating welfare state retrenchment. With reference to the Canadian experience, the left party thesis would anticipate as decline in NDP strength in the late 1970’s and throughout the 1980’s as governments proceeded to dismantle universality and other social democratic

aspects of Canada's welfare state. Events, however, belie this expectation. Although the fortunes of the Federal NDP fluctuated in the 1980's, on the whole the Party held its own and even experienced a sustained period of popularity in the second half of the decade. On the other hand, even if the NDP lacked the power to prevent the erosion of social rights, it may have played a role in mitigating the extent of retrenchment.

The NDP's parliamentary leverage was limited in the 1980's in the context of majority Liberal and Conservative Governments. In the minority parliaments of the 1960's and early 1970's, in contrast, NDP pressure had facilitated the expansion of social programmes and blocked several planned retrenchment measures. Moreover, despite an unprecedented surge in popular support for the Federal NDP in 1987, and above-average levels of support until the early 1990's, the Party was unable to elicit support from the governing parties for its expansionist social policies.

At the same time, the NDP's presence in Parliament arguably affected national debates on social policy. As strong advocates of universal social programmes, the NDP raised the profile of such programmes and, it seems reasonable to suppose, the political costs of retrenchment. NDP pressure also appears to have strengthened the hand of welfare liberals within the Liberal Party, while goading the Conservatives into affirming their support for universality. Given the major parties' liberal-residualist orientation to the welfare state, they may have been less circumspect in their retrenchment of social programmes in the absence of a vigorous NDP presence in Parliament. On this point it is perhaps significant that the more stringent and overt retrenchment measures were introduced by the Conservatives in their second term, a period in which the Tories began to perceive the right-wing Reform Party as a more immediate threat to their electoral interests than the NDP.

It is difficult, however, to state with greater precision the NDP's impact on the course of social policy during the period under review. Further research on this question is required, involving interviews with former ministers (and their political staffs), PMO personnel, and
Liberal and Conservative caucus members.\(^6\)

\textit{B) Institutionalism}

Another perspective from which retrenchment policies were assessed was that of institutionalism. Here, hypotheses associated with two distinctive variants of institutionalism were considered. The first hypothesis, associated with rational choice institutionalism, suggested that retrenchment policies are profoundly shaped by the policy legacy of the welfare state. On this view, cuts in social programmes carry the risk of electoral retribution for governing parties at the hands of voters on whom losses are imposed. To avert this outcome, such parties have powerful incentives to lower the visibility of retrenchment measures through a variety of techniques of political blame-avoidance.

The second institutional hypothesis focused on the policy-making agencies of the state. Here it was suggested that the nature and extent of retrenchment reflects the balance of power between fiscal guardians and spenders within the state.

\textit{1) Politics of Blame-Avoidance}

Given their aversion to an overtly ideological politics, the blame-avoidance thesis was expected to be of some utility in explaining the approach to welfare state retrenchment taken by the Liberals and the Conservatives during their respective terms of office. The thesis does provide a plausible explanation to certain retrenchment measures which were introduced. It is persuasive in regard to the steady erosion of universal Family Allowance and OAS benefits which was engineered by the Conservatives through the mechanisms of partial indexation and tax clawbacks. Despite their desire to introduce more selectivity into the income security system, both of the major parties were conscious of the political dangers inherent in a direct assault on the universality principle. The Liberals had beaten a forced retreat in 1972 on their plans to replace Family Allowances with a selective Family Income Security benefit in the face of a middle-class backlash. The Conservatives, for their part, were anxious to cast themselves as

\(^6\) Unfortunately, there is a dearth of published political memoirs by former Canadian PM's and cabinet ministers. British politicians, in contrast, have been more inclined to record and publish accounts of their years in government.
trustworthy guardians of the welfare state and to disavow the neo-conservative epithet with which the Liberals and the NDP sought to brand them.

Selectivity was promoted, therefore, by indirect means. Rather than reducing Family Allowance and OAS benefits, the Conservatives sought to de-fund these programmes through partial indexation, while maintaining full indexation of selective benefit programmes. When even this limited measure triggered a revolt on the part of OAS recipients, the Conservatives devised a more oblique means of promoting selectivity in the form of the tax clawback. The clawback's complexity, its phased introduction, and its initial application to only the most affluent seniors appear to have been designed with a view to neutralizing opposition to it. In that respect, it appears to have succeeded. Also consistent with the blame-avoidance hypothesis was an implicit privatization of the pension system, as the basic OAS benefit was not increased (apart from indexation) and the CPP was left largely intact, while higher tax expenditures on RRSP's went into effect in the early 1990's.

The foregoing measures exemplify what Paul Pierson refers to as the political management of welfare state retrenchment by "obfuscation." By means of one such technique, the partial de-indexation of tax brackets and benefit schedules, the Government withheld hundreds of millions of dollars which would otherwise have been allocated to the child benefits system in the 1980's; and it did so without attracting much attention. Indeed, because of their notional nature, such cutbacks could not easily be attacked by retrenchment opponents. After all, rather than reducing existing benefits, the Government was committing the more abstract act of taking by not giving. Retrenchment in the child benefits area was obscured further by periodic increases in the RCTC, which were announced with great fanfare in the Budget. As social policy groups contended, to little avail, these increases restored only a portion of the moneys removed from the child benefits envelope as a result of less visible changes made.

In the 1980's, retrenchment by obfuscation evidently recommended itself to the Conservatives and, to a lesser extent, the Liberals because it allowed them to maintain at least the facade of universality in regard to Family Allowances (until 1992) and the OAS, even as they
were promoting greater selectivity by indirect means. However, the blame-avoidance thesis does not as clearly account for other retrenchment measures which were implemented, particularly the cuts made to the UI programme. UI cuts introduced in 1978, 1989, and 1993 were visible, direct, and implemented without delay. Moreover, UI claimants whose benefits were reduced or whose eligibility was curtailed were not compensated by means of offsetting measures. On the contrary, both the Trudeau and Mulroney Governments openly questioned the design of the UI programme (and, by implication, the legitimacy of many claims) by suggesting that the availability of UI benefits undermined work incentives, encouraged short-term attachments to the labour force, and impaired labour mobility.

A potential pitfall of the blame-avoidance thesis is its assumption that voters cast their ballots entirely on the basis of their material interests. This assumption may be particularly suspect in Canada, given the importance of regionalism and culture as determinants of voting behaviour. More generally, there are many non-economic factors which “might lead voters with similar economic positions toward different interpretations of their interests.”

Equally questionable is the assumption of the blame-avoidance thesis that political parties are motivated primarily by calculations of electoral gains and losses. Such a perspective leaves little scope for party ideology, which may diverge from, or underpin, the rational choices indicated by the blame-avoidance thesis. While the Liberal and Conservative parties eschewed strident ideological attacks on the welfare state of the kind launched by business-sponsored parties in Britain and the United States, they did make a distinctive liberal-residualist case for their retrenchment policies. Specifically, both parties emphasized the need to protect the poor from the harsher effects of spending restraint and, indeed, to reallocate social transfers in their favour. They also reaffirmed, in the face of demands for reform, their confidence in the dualistic nature of Canada's pension system.

This professed commitment to liberal welfare principles casts in a different light certain

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retrenchment measures which Pierson would characterize as mere stratagems to avert political blame. In particular, Pierson contends that governments may seek to mitigate the political impact of spending cuts through "strategies of compensation," whereby at least some programme beneficiaries are shielded from the effects of cuts through grandfather clauses, expanded private benefits, or other offsetting measures. Several of the retrenchment measures examined in this study do appear to conform to this pattern. For example, the 23% cut in Family Allowance benefits announced in 1978 was offset, for middle- and lower-income families, by the introduction of the Refundable Child Tax Credit. As noted, the Liberals were aware of the political benefits of linking these two measures.

Nevertheless, any expected political advantage may simply have been incidental to the Government's larger aim of promoting selectivity in the income security system and protecting the needy. In other words, the Liberals considered the RCTC to have intrinsic merit, rather than viewing it merely as a means of making Family Allowance reductions politically more palatable. Similarly, the Liberals' super-indexing of the GIS may be regarded as a means of neutralizing the political impact on low-income seniors of the capping of OAS indexation under the 6 and 5 programme. However, it too was consistent with a welfare liberal approach to retrenchment. The Conservatives' failure to extend a similar benefit to seniors in their 1985 Budget was not merely a political miscalculation; it also represented a departure from their professed concern for the poor. It not only antagonized seniors but also offended the liberal sensibilities of a majority of Canadians.

2) State Actors

In addition to considering the contribution of economic class groups to the development of income security policy, this study addressed the role of selected state actors. This analysis proceeded from the assumption that the state has at least some degree of autonomy and that decision rules and the distribution of policy-making authority within the state can affect policy outcomes. More specifically, it was hypothesized that the emphasis placed on retrenchment since the late 1970's reflected, at least to some extent, an enhancement of the authority of fiscal
guardians vis-a-vis the spending agencies of the state.

On the evidence of this study, the leading fiscal guardian, the Department of Finance, acquired a larger role in the making of social policy after 1978. This shift in the locus of power within the state, while especially marked after the election of the Conservatives in 1984, can be traced to the higher priority attached by Pierre Trudeau to public spending restraint in the latter phase of his premiership. This new emphasis was inaugurated by the PM's unilateral decision in 1978 to cut $2 billion in federal public spending, the immediate result of which included significant cuts in Family Allowances and UI benefits. The PEMS system of expenditure management, introduced by the Clark Government and continued in modified form by the Liberals on their return to power in 1980, signalled the intent of the Federal Government to restrain the growth of public spending. However, the Department of Finance did not immediately eclipse the largest social spending agencies, NHW and the Department of Employment and Immigration. In the early 1980's, NHW, with the PM's blessing, presided over a major national debate on reform of the retirement income system with a view to expanding coverage and increasing benefits. During the recession of 1981-82, Employment and Immigration Minister Lloyd Axworthy secured additional funds for job creation. In 1983, he liberalized access to UI maternity benefits and introduced parental benefits for adoptive parents.

Nevertheless, by 1982 social policy was increasingly subordinated to the demands of conservative fiscal policy. The 1982 Budget placed a two-year ceiling on the indexation of universal Family Allowances and OAS, while continuing to index fully selective programmes. This step, while ostensibly a budgetary measure designed to combat inflation, continued the process, begun with the advent of the RCTC in 1978, of promoting selectivity at the expense of universality. Also in 1982, following a lengthy battle with NHW, Finance won the argument for a severely restricted reform of pensions with its contention that more ambitious plans would undermine economic recovery.

With the election of the Conservatives in 1984, the Department of Finance became more central to the formulation of income security policy. This development was foreshadowed by
the Finance Minister's delivery of *Agenda for Renewal*, a document which declared deficit and debt reduction to be an essential pre-condition to economic growth, which identified public spending as the source of the government's fiscal troubles, which implicitly called for more selectivity in the income security system, and which attacked what it took to be the misguided generosity of the UI programme.

The new importance in the social policy process of Finance and, to a lesser extent, the Treasury Board was evident within weeks of the Conservatives' accession to power. In November, 1984, Finance Minister Michael Wilson, following a Treasury Board audit of programme spending, announced the disqualification of persons within one year of retirement from receiving UI benefits. In May, 1985, against the advice of NHW Minister Jake Epp, Wilson announced the partial de-indexation of OAS and Family Allowance benefits.

Finance's efforts to effect cuts in direct spending were not wholly successful. The aforementioned plans to retrench UI and OAS were reversed in the face of vociferous protests from beneficiary groups. Finance was more successful, however, in engineering a transformation of income security through its use of the tax system. More specifically, the tax system was increasingly used as an instrument to deliver social benefits and to convert universal programmes into selective ones. With regard to the first point, refundable tax credits grew in importance as a means of targeting income assistance to lower income households. The RCTC, the CTB, and the sales tax credit exemplify this trend. Less conspicuously, Finance recast income security through its partial de-indexation of the personal income tax system in 1985. This measure had the effect of making selective programmes more narrowly targeted over time and, as a result, limiting the Government's financial obligations. Introduction of the tax clawback in 1989 effectively abolished the universality of the OAS and Family Allowance programmes.

Following its re-election the Conservative Government redoubled its attack on the deficit. In institutional terms, the status of the fiscal guardians was elevated through reforms made to the cabinet committee system. The effect of these reforms was to replace the PEMS system with a structure in which authority to approve major new spending or to impose spending cuts was
centralized in two key committees, the Operations Committee and the Expenditure Review Committee (ERC). Backed up by the PM, who chaired the ERC, Finance Ministers Wilson and Mazankowski introduced a series of high-profile retrenchment measures in the Government's second term, from the termination of direct government funding of UI to the capping of federal transfers to BC, Alberta, and Ontario under the Canada Assistance Plan. As late as 1992-1993, the Government's continued emphasis on deficit control prompted it to cancel its long-delayed day care plan, to abolish Family Allowances, and to implement further UI cuts in the midst of a recession.

The enhanced power of the Department of Finance was not the only institutional development of the 1980's. With the advent of the Charter of Rights and Freedoms, the courts assumed a potentially important role in the social policy process. As the judiciary is neither a guardian or a spending agency of the state, it was not initially clear how the courts might affect social welfare legislation. However, the predominant view of legal scholars in the mid-1980's was that, pursuant to Section 15 of the Charter, social groups denied "equal benefit of the law" under existing social programmes would be able to challenge the discriminatory nature of such programmes. To the extent that such cases succeeded, the state would be obliged to extend social welfare benefits to groups arbitrarily denied them.

With regard to income security policy, the courts were receptive to certain Section 15 challenges brought by persons seeking to extend social rights. In two notable cases concerning the UI Act, discussed in Chapter 8, the courts declared unconstitutional the denial of regular UI benefits to persons over the age of 65 (Tetreault-Gadoury) and of parental benefits to natural parents (Schachter). In the latter case, the Supreme Court of Canada went so far as to affirm the power of the courts to read in the eligibility of an excluded beneficiary group and thus to require Parliament to broaden the scope of a benefit programme.

At first blush, these cases suggest that the courts may serve to some extent as counterweights to the ascendant power of the fiscal guardians. In contrast to the primordial concern of the Department of Finance with the restraint of social programme costs, this concern
is "at best a secondary consideration for the courts." Thus, as was stated by Chief Justice Lamer in his ruling in Schachter, where social programmes or other public policies violate constitutional rights, "budgetary considerations cannot be used to justify [such] a violation under Section 1."9

As discussed in Chapter 8, Lamer qualified this statement by stressing that the courts would refrain from mandating the extension of an under-inclusive social programme if to do so would alter its fundamental purpose. Nevertheless, a judicial finding of discrimination constitutes a potentially important political resource for welfare-seeking groups. In both Tetreault-Gadoury and Schachter, the Federal Government responded to the court rulings by extending benefits to the groups on whose behalf the cases had been brought. However, the net result of these cases left no cause for celebration on the part of other groups—adoptive parents and prospective recipients of UI retirement benefits—whose benefits were reduced or terminated by the Federal Government to offset its new obligations. In short, it would appear that while the judiciary may serve as an ally to groups seeking to fill gaps in the coverage of income security programmes, it may inadvertently prompt austerity-minded governments to curtail the benefits of other groups.

The state-centred approach provides important insights into the course of social policy over the period in question. The overall shift toward retrenchment and toward selectivity in income security programmes was driven to a large extent by the Federal Government’s overarching aim of containing public spending. In furtherance of this objective, the authority of the Department of Finance, and of other fiscal guardians was deliberately enhanced. More specifically, the capacity of the Finance Department to formulate and modify income security policy was significantly broadened through increasing use of the tax system as a means of delivering and targeting social benefits. In consequence, federal social transfers in the fields of child and elderly benefits increasingly became part of the annual budgetary process; as such,
social policy became more of an adjunct of the Government’s larger fiscal policy.

A state-centred approach also illustrates the contributions to social policy of the judiciary. Nevertheless, as is evident from the foregoing discussion, it is not enough to examine judicial rulings declaring unconstitutional “under-inclusive” social welfare programmes. Rather, the legislative aftermath of such rulings must be considered before any assessment may be made of the ultimate redistributive impact. To this end, one is obliged once again to examine the relative power of the spending and guardian agencies of the state.

As with other perspectives, the state-centred approach cannot account fully for the policy developments surveyed in this study. On an empirical level, the Finance Department was forced to capitulate, on UI cuts and OAS de-indexation, to pressures exerted by irate beneficiary groups during the Mulroney Government’s first term. In addition, following the curtailment of UI in 1978, further retrenchment of the programme was delayed for a full decade.

On a theoretical level, the state-centred approach is also problematic. A particular difficulty here has to do with the putative autonomy of the state. For example, in pursuing retrenchment, was the Finance Department acting independently or was it, and other components of the state, merely responding to exogenous forces, such as business groups, political parties, the media, or other outside interests? Can the truncated nature of the Liberals’ pension proposals of 1982-84 be ascribed primarily to the ascendency of Finance or to the increased leverage acquired by business in the midst of the recession of 1981-82? If the latter be true, the enhanced authority of Finance, like the policy outcome itself, would merely represent a capitulation by the state to business’s enhanced power resources. In other words, “if institutions simply respond to changes in the balance of power in society around them, then...they are epiphenomenal and we should be studying the forces that affect them.”10

On the other hand, changes in the institutional locus of policy-making within the state may continue to structure political conflict and to shape policy outcomes long after the forces which gave rise to such institutional changes have dissipated. This tendency results from the

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10 Kathleen Thelen and Sven Steinmo, “Historical Institutionalism in Comparative Politics,” op. cit., p.15.
characteristic inertia or "stickiness of historically evolved institutional arrangements."\(^{11}\)

\(C\) \textit{Pluralism: The impact of non-class pressure groups}

As anticipated, pluralism is the least useful approach to understanding developments in social policy. Generally speaking, groups representing the recipients of income security benefits had a marginal influence on social policy. Social policy groups such as the National Council of Welfare, the Canadian Council on Social Development, and the National Anti-Poverty Organization were not intimately involved in the formulation of income security policy. In addition, the status of such groups—the NCW being an advisory body to the Department of National Health and Welfare and the CCSD and NAPO being registered charities—precluded them from lobbying for the policies they favoured and even from engaging in many forms of advocacy. Even groups which did not face such constraints, such as many seniors groups and NAC, had limited organizational capacity to mobilize their vast notional constituencies. Nevertheless, certain groups, notably seniors' groups and women's groups, had more success than others in influencing aspects of social policy.

Social policy groups were dismayed as retrenchment increasingly became the order of the day, and were evidently powerless to stop it. Leading non- or quasi-governmental members of the social policy community examined in this study (the NCW, the CCSD, and NAPO) strongly defended the universality of social programmes while urging an extension of the public pension system and the introduction of a national day care programme. While also favouring more targeted assistance to those on low incomes, social policy groups regarded universality to be a crucial foundation on which to build political support for more selective measures.

The associational system representing senior citizens remained weak and fragmented. The principal seniors groups were divided along regional and cultural lines, with limited organizational capacity. The unprecedented protest by seniors in 1985 to the proposed de-indexation of OAS underscored the latent power of seniors and the need for governments to exercise caution in curtailing pension benefits. However, this episode did not reflect, nor give

\(^{11}\)\textit{Ibid.}
rise to, a more cohesive associational system of seniors groups. On the contrary, the system became more fragmented as new organizations emerged at the provincial level while the pre-eminence of the NPSCF in English-Canada was challenged in the late 1980's by the emergence of a new national group, One Voice Seniors Network.

Of the three categories of social sector groups examined in this study, women's groups appear to have had the most pervasive impact. In the field of income security, they lobbied for more liberal access to maternity benefits, for national day care, and for various pension reforms to better protect the economic interests of women. Many of the demands articulated by groups such as the Canadian Advisory Council on the Status of Women and the National Action Committee on the Status of Women were ultimately addressed by the Government. The Liberal Government relaxed the eligibility criteria for maternity benefits in 1983 by repealing the infamous "Magic Ten" rule while introducing the first federal statutory parental benefits. While unsuccessful in their campaign for comprehensive pension reform, they secured important piecemeal reforms of benefit to women from both Liberal and Conservative Governments, such as the broadening of the SPA and amendments to the PBSA and the CPP extending pension benefits to certain part-time workers and safeguarding the interests of women on marriage breakdown.

As with economic class organizations, one must be cautious in drawing conclusions about the apparent influence exerted by women's groups under a pressure politics model. Organized groups are not the only conduits through which policy ideas are transmitted from society to the state.¹² What accounts, then, for the apparently greater success of women's groups in achieving at least some of their objectives in comparison to the record of social policy groups? The answer may have to do with the unequal political status of the social groups whose interests they addressed.

Social policy groups spoke primarily to the interests of the poor, a vast and heterogeneous section of the population whose members are united by their shared socio-

¹² Margaret Weir, "Ideas and the politics of bounded innovation," *op. cit.*, p.190.
economic status though by little else. The poor not only lack political organization but have a weak sense of class consciousness. Women's groups, in contrast, sprang from a feminist movement which emerged in the 1960's in Canada as elsewhere. The demands of that movement were taken up, in varying degrees, by the three major parties in Canada. And, as noted in Chapter 3, the federal government in the 1970's even appointed advisers on women's issues in numerous government departments. In short, the attentiveness of Liberal and Conservative Governments to the special effects on women of income security programmes—and their willingness to reform some of the more discriminatory aspects of those programmes—is perhaps best explained as a reflection of the emergence in Canada in the 1970's and 1980's of gender as an important political cleavage. Indeed, despite the limited organizational resources of women's groups, the political salience of women's issues was powerfully reflected in policy debates and legislative activity across a broad spectrum of issues, including pay and employment equity in the federal public service, sexual harassment in the workplace, Criminal Code amendments restricting the admissibility of evidence for the defence in sexual assault proceedings (the so-called "Rape Shield" law), and family law reforms in the provinces concerning the enforcement of spousal and child maintenance orders.13

Interestingly, when NAC, adopting a more socialist orientation in the late 1980's under Judy Rebick and Sunera Thobani, became more outspoken in its opposition to the Conservative Government's retrenchment and broader economic policies, its relationship with the Government deteriorated markedly and, as noted, federal funding to NAC was sharply reduced after 1989. Yet as Sylvia Bashevkin has observed, the Conservative Government's record on a range of women's issues compared favourably to that of governments in Britain and the United States in the same period.14 This implies that forces other than pressure group activity had a decisive bearing on social policies affecting women. Nevertheless, this study suggests that, even if NAC

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14 Ibid.
and other women's groups were not intimately involved in the policy process, they played an important role in helping to maintain a high political profile for certain social welfare issues in the 1980's, national day care and homemaker pensions being prominent among them.

III. Toward an Integrated Theory of Retrenchment

As the foregoing discussion demonstrates, none of the leading theories of public policymaking considered in this study provides an entirely satisfactory explanation for the process by which Canada's welfare state was retrenched after 1978. This section considers the possibility of synthesizing these theories into an integrated approach to explaining the modern politics of welfare state retrenchment.

The class power resources thesis has been one of the most influential theories of the comparative development of welfare states. Many scholars contend that it accounts with equal cogency for national variations in the growth and in the dismantling of welfare states. According to Esping-Andersen, "A theory that seeks to explain welfare-state growth should also be able to understand its retrenchment or decline." More generally, Hall concedes the power of theories linking patterns of public policy with the interests of key economic producer groups. Such theories remind us of the centrality to politics of the "struggle for control over scarce resources"; they also "speak directly to the widespread intuition that, if a pattern of policy is to be sustained, it must advance the interests of broad segments of society."

Nevertheless, the findings of this study cast doubt on the proposition that class struggle explains the retrenchment of welfare states in the same way as it explains their historical growth. Following Pierson, the emergence of welfare states transformed the politics of mass democracies in important ways. Among other things, the postwar expansions of welfare states created new categories of beneficiaries having an interest in, and attachment to, the maintenance of established

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17 Peter A. Hall, "The Role of Interests, Institutions, and Ideas," op. cit., p.178.
programmes. While many of these beneficiary groups remain latent--facing classic obstacles to collective action\(^{19}\)--others have succeeded in forming organizations to articulate their interests. Moreover, political parties, including business-sponsored parties which remain ambivalent or even hostile toward the welfare state, have tended to tread carefully before advocating or implementing retrenchment policies. Finally, by contributing to the rise of a host of bureaucratic agencies within the state--many of which are at cross-purposes to one another--the welfare state has added further layers of complexity to the process of formulating social policy.

It should also be stressed that the economic environment which gave rise to demands for retrenchment in the late 1970's may have broader implications than the power resources thesis allows. That is to say, while general economic conditions across the OECD contributed to a weakening of labour's power resources (subject to certain national exceptions), they also provoked a partial though important rethinking of the purposes and presumed effects of the welfare state. In particular, neo-liberal ideas about social programmes and their relationship to economic performance clearly gained political and wider intellectual currency in the 1980's. This development suggests the need to incorporate ideas, as a separate variable, into any integrated theory of welfare state retrenchment.\(^{20}\)

Without presuming to have elaborated a fully developed model of welfare state retrenchment, this study advances the following scheme of such a model. To begin with, the power resources of business and labour undoubtedly have a bearing on the nature and extent of retrenchment. Broad measures of the power resources of labour, such as trade union density, the strength of labour-sponsored parties of the left, and the degree of centralization in collective bargaining, tell us something about the capacity of organized labour to influence general patterns of public policy. For example, other things being equal, we would expect states having centre-left governments or facing strong trade union movements to be less inclined to respond to inflationary


pressures by jettisoning full employment policies or by adopting welfare-curtailing austerity measures. More specifically, we would expect national labour movements which had achieved some degree of institutionalized power in times of historic strength to have more political influence than those which had failed to do so. For example, despite a doubling of trade union membership in Canada during the Second World War—a high watermark of trade union strength in Canada—these gains were not consolidated in the postwar period through the formation of unified or centralized labour federations or the willingness of Canadian workers to support the CCF-NDP.21 As a result, when higher levels of unemployment in the 1970's depleted its decentralized bargaining power, Canadian labour lacked the resources to resist the introduction of neo-liberal economic and social policies.

The power resources approach, in short, can help us to identify the broad parameters of policy. That is to say, it can allow us to determine the general policy orientations—such as the choice between austerity and expansionism—which are likely to be taken seriously by governmental officials. However, below this macro level of policy, the power resources approach is likely to be of less utility. It is less likely to help us to anticipate the particular programmes or services which may be the target of retrenchment measures. Indeed, as this study suggests, a general decline in labour's power resources does not necessarily mean that all income security programmes are equally vulnerable to retrenchment. Economic producer groups, after all, are not the only groups having an interest in the fate of particular social programmes.

At the meso, or sectoral, level of policymaking, institutionalist and pluralist approaches are more likely to illuminate the contours of retrenchment policy. One variant of institutionalism, a rational choice approach known as the "blame-avoidance" model, focuses on the political hazards of retrenchment and the tendency of governing parties to seek to minimize such hazards. This model of retrenchment is based on the insight that social welfare programmes,

like all public policies, generate “policy feedback” which in turn conditions future politics.\footnote{Paul Pierson, “When Effect Becomes Cause: Policy Feedback and Political Change.” \textit{World Politics}. 45:4 (July 1993), pp.595-628.} Such feedback effects include mass public opinion, the formation of pressure groups representing programme beneficiaries, and broad shifts in savings habits resulting from the “lock-in effects” of pension policies.

The blame-avoidance model anticipates that governments will endeavour to lower the political visibility of retrenchment measures through various obfuscation techniques. Thus, rather than cutting basic benefit levels, they will reduce future funding commitments by de-indexing benefits or recouping a proportion of benefit outlays through tax clawbacks. As this study has demonstrated, the Conservative Governments of Brian Mulroney made extensive use of both of these techniques to retrench child benefits programmes and public pensions. More overt measures may be taken, however, in regard to programmes which command lower levels of public support or which are represented by pressure groups having a limited capacity for political mobilization.

Further insights into the retrenchment of welfare states may be gleaned from a state-centred perspective, as modified by the power resources and blame-avoidance approaches. A statist approach would expect an emphasis on retrenchment to reflect the pre-eminence to fiscal guardians within the state. On this view, retrenchment requires fiscal guardians to go beyond their customary role of vetoing new spending proposals and instead to assume a more active role by initiating spending cuts. However, this supposition leaves unanswered the question of how fiscal guardians acquire and exercise such power.

The question of institutional change has tended to be neglected by institutionalists, whose focus is on the continuity of institutions.\footnote{Kathleen Thelen and Sven Steinmo, “Institutionalism in Comparative Politics,” \textit{op. cit.}, p.15.} To account for the process by which the fiscal guardians acquire additional authority, we may apply Stephen Krasner’s model of “punctuated equilibrium.”\footnote{Stephen D. Krasner, “Approaches to the State: Alternative Conceptions and Historical Dynamics,” \textit{Comparative Politics}. 16:2 (January 1984), pp.223-246.} According to this theory, long periods of institutional stability may be terminated...
from time to time by crises which bring about a new set of institutional arrangements. In the case of the welfare state, such crises would be most likely to be economic or budgetary in nature. In this study, the authority of the Department of Finance was enhanced in stages, apparently in response to periodic economic crises. Specifically, Finance in 1982 became the leading voice in the Federal Government on pension reform (as reflected in its influence on the modest Green Paper proposals) and on family benefits (as reflected in the 6 and 5 restraint programme) as the Liberal Government attempted to cope with the effects of the recession of 1981-82. Finance’s role, and that of other fiscal guardians, was strengthened again after the 1988 election when the Conservative Government became alarmed at the rapid growth of the federal budget deficit.25

Once the Finance Department, or its equivalent, has acquired a larger measure of authority over social policy, it is uniquely equipped to implement many of the obfuscatory retrenchment measures required by the blame-avoidance strategy. More specifically, as the custodian of the budget, Finance has pre-eminent authority over tax policy. And, if the Canadian experience is typical, tax policy may be the governing instrument of choice for retrenchment. The use of tax expenditures and tax clawbacks enabled the Federal Government to introduce greater selectivity into the income security system, while gradually superseding universal direct expenditure programmes.

The foregoing scheme, admittedly, is far from comprehensive. Among other things, it does not incorporate two variables which, for reasons of parsimony, were not addressed by this study: the effect of ideas and the effect of federalism on the politics of welfare state retrenchment. Given the overarching institutional importance of federalism for policy-making in Canada, this chapter concludes with some thoughts on the subject.

25 As touched on earlier, an alternative account of institutional change may be provided by the power resources thesis by virtue of the link between general economic conditions and the power resources of business and labour. The economic crises afflicting welfare states since the late 1970’s have tended to weaken labour by increasing the unemployment rate, while strengthening business’s hand in demanding the adoption of austerity policies. Given the general desire of governmental officials to promote economic growth, they are likely to be amenable in periods of economic crisis to adopting policies intended to bolster business confidence. Assigning additional policy-making authority to the Treasury, or its functional equivalents, arguably represents an important step in that direction.
IV. Federalism and Retrenchment

Among the various institutional perspectives from which the Canadian welfare state may fruitfully be analyzed, federalism can scarcely be discounted, even in regard to programmes falling exclusively under federal jurisdiction. After all, the provincial premiers rarely hesitate to criticize the exercise of federal powers when provincial interests are at stake. Thus, while it has been widely observed that federalism impedes or delays the establishment of national social programmes, the inherent conservatism of federalism may likewise impede their retrenchment. For example, provincial premiers may choose to oppose cuts in federal income security programmes (such as Unemployment Insurance and child benefits) on the grounds that the effect of such cuts would be to increase demands on provincial social assistance programmes.26 Indeed, the overlap of federal and provincial responsibility in the field of income security, discussed in Chapter 2, may influence in various ways policy decisions taken at both levels of government. For example, the Federal Government’s decision to reallocate funds within the social development envelope may be influenced by the anticipated reactions of provincial officials and by the impact of such reactions on net welfare outcomes.27

Another, albeit indirect, effect of federalism on federal income security policy might be to limit the magnitude of cuts that would otherwise be made to federal programmes. Indeed, it has been suggested that successive federal governments have found it to be less damaging politically to cut transfer payments to the provinces than to cut programmes with which the federal government is more closely identified.

The impact of federalism on the building stages of Canada’s welfare state is well documented. Further research is now required to determine its effect on retrenchment.


27 For example, one of the obstacles to the establishment of a federal guaranteed annual income programme in the 1970’s was the Federal Government’s concern that a federally funded GAI might be offset by corresponding reductions in provincial welfare benefits.
V. The Future of the Welfare State

A salient feature of the retrenchment of Canada’s federal income security system since the late 1970’s has been the shift away from universality and toward greater selectivity. Given the incremental nature of policy-making, federal governments are more likely to tinker at the margins with income eligibility thresholds and indexation formulae than they are to reverse this fifteen-year trend. Moreover, the election of a Liberal Government in the 1993 federal election was unlikely to change this fundamental policy orientation. The Liberals initiated the shift away from universality in the late 1970’s and, notwithstanding their opposition in Parliament to many of the social policy measures of the Mulroney Government, the two major parties continued to subscribe to the tenets of the liberal-residualist welfare state. Indeed, it was widely remarked that business liberals had a decidedly preponderant influence in the new Chretien Cabinet.

There was also a broader movement to the right in Parliament following the 1993 election, a development tending to conduce to continued restraint in social programme expenditures. In a dramatic realignment of the national party system, the election saw a collapse in the support base of the Progressive Conservatives and the emergence of the anti-welfarist Reform Party as the dominant party of the Western provinces. At the same time, the federal New Democratic Party suffered its worst election defeat since 1958, losing official party status in the House of Commons.

To the extent that the decline of universality reflects a secular change in the balance of class forces in Canada in favour of business at the expense of labour, the social policy configuration of the early 1990’s seems likely to persist for the foreseeable future. Consistent with the power resources thesis, social democratic aspects of Canada’s welfare state were grafted onto its liberal framework in periods in which organized labour was relatively strong. By the mid-1970’s labour’s power had diminished in both economic and political terms and trade unions assumed an increasingly defensive posture. Structural changes in the nature of the Canadian economy, from the rise of non-unionized service industry occupations to the deepening integration of the Canadian and US economies, symbolized by the conclusion of the FTA and
NAFTA, seem on balance to militate against the power of trade unions. Moreover, insofar as
governments continue to privatize and contract-out public services, the influence of public sector
unions will continue to diminish.

As the Mulroney Government left office in 1993, it also appeared that the fiscal
 guardians of the state, the Finance Department in particular, would continue to have an important
voice in formulating income security policy. In the short term at least, the Government’s budget
deficit, estimated by the incoming Liberal Government to be some $40 billion, would continue to
assist Finance in resisting demands by other departments for increased programme spending. Of
significance in the longer run is the increased power Finance acquired over social policy through
the tax system. By means of its traditional responsibility for tax policy, Finance is well
positioned to continue re-shaping federal income security programmes.

In closing, retrenchment has been a central theme of the politics of the welfare state in
Canada and other industrialized nations in the past two decades. Canada’s experience, as
described in this study, underscores the fact that the dismantling of social programmes confronts
policymakers with new challenges—challenges which are significantly different from those which
accompanied the building stages of the welfare state. Other things being equal, cancelling or
reducing social benefits is an unpopular exercise. Spending cuts are assailed not only by
traditional allies of the welfare state—notably, organized labour and the political left—but also by
newer groups representing the interests of beneficiary populations. Canadian policymakers must
also be careful to structure benefit programmes, or cuts thereto, in ways that are not susceptible
to attack under the equality provisions of the Charter of Rights.

A larger challenge stems from the fact that the economic rationale for retrenchment
remains controversial. While neo-liberal doctrines have been widely adopted by western
governments in recent years, they have not yet been incorporated successfully into a broader
political consensus comparable to that which underpinned the postwar Keynesian welfare state.
As a result, governments, fearing electoral retribution, frequently seek to disguise retrenchment
through the use of obfuscatory measures. In the long run, the costs of such fiscal sleight-of-hand
may outweigh the benefits. By obscuring cumulatively significant changes in policy—such as the shift from universality to selectivity—governments pre-empt informed democratic debate and may inadvertently contribute to the growing disillusionment of many voters with democratic government. In any event, as governments continue to restrain social programmes in an era of modest rates of economic growth, the political management of retrenchment undoubtedly will remain a central preoccupation of policymakers.
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VI. Interviews

In addition to the interviews listed below, four confidential interviews were conducted with current or former civil servants connected with the Departments of Finance and National Health and Welfare in the 1970's and 1980's.


