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The Squeeze on Social Spending

The assault on social spending is heating up, as witnessed most recently by calls from contenders in the Conservative leadership race to 'review' social programs.

Meanwhile, cuts made in a succession of Tory budgets from 1985 onward continue to squeeze mounting billions of dollars from social programs. Despite this fiscally potent and politically skillful program of restraint, social spending continues to escalate

How can social expenditures increase when major social programs have been cut or shrunk? The issues raised by this apparent paradox are tough and daunting. The next government, whatever its political colour, must contend with a growing crisis in social spending that is deeply rooted in Canada's changing society and economy.

Chiefly through arcane technical changes to indexation formulas, which harness inflation to erode benefits, Ottawa has siphoned billions of dollars from child benefit programs and payments to the provinces for health care, postsecondary education, welfare and social services. The biggest cut was to federal transfers for health and postsecondary education, which will total a cumulative $98 billion by the end of the decade and rapidly will whittle away the financial stick by which Ottawa enforces the principles of universal, accessible and comprehensive health care. The Ontario government has lost more than $3 billion in welfare payments from the federal government as a result of restraints applied to the Canada Assistance Plan, which also affect Alberta and British Columbia.

The sacred cow of universality in child benefits was quietly put to pasture in 1989 by the clawback on family allowances and buried in 1993 with the introduction of the child tax benefit, which excludes upper-income families. The universal foundation of the pension system crumbled about the same time as the Berlin Wall via the clawback on Old Age Security, an innovation in public accounting by which the federal government takes back the benefits it paid upper-income seniors the previous year. Ottawa saved billions of dollars in new social spending when it abandoned its commitment to increase the supply of child care expenses.

Notwithstanding substantial cuts and broken promises, social expenditures continue to grow. In 1984-85, spending on major federal social programs totaled $76 billion in inflation-adjusted dollars or $3,031 per capita. It will reach about $91 billion or $3,290 per capita in 1993-94. Social spending increased by $15 billion or 20 percent under the Mulroney government.

Three major determinants of the upward march of social spending – demographics, social change and the labour market – are swamping Ottawa's cuts to social programs.

Canada's aging population is the chief cause of the geometric rise in public pension payouts. Old Age Security, the Guaranteed Income Supplement and the Spouse's Allowance paid out $16 billion in 1984-85 and will distribute $20 billion – 25 percent more – in 1993-94. Canada Pension Plan benefits grew by 150 percent from $6.0 billion to $15.0 billion during the same period. Federal and provincial income taxes recover roughly one-quarter of these benefits, and the clawback on the old age pension will catch increasing numbers of middle-income seniors as its partially-indexed threshold falls steadily over time. Nonetheless, the relentless growth in the elderly exerts intensifying pressure on pensions, health care and social services.

Two profound social changes are adding to the demand for social programs. One is the dramatic increase in women's labour force participation. While the rise in two-earner couples has considerably improved average family income over the past two decades, it also has created a need for more decent, affordable child care. Another significant trend is the high rate of marriage breakdown, a prime cause of poverty and welfare dependency among women and children. Six in ten single-parent families led by women have low incomes and children constitute a shameful 37 percent of welfare recipients.

Canada's mass unemployment economy – and the high interest rate policy that fuels it – is another powerful fore for rising social spending. The jobless rate rose from 4.2 percent in the 1950s to 5 percent in the 1960s, 6.7 percent in the 1970s and 9.3 percent in the 1980s, and the typically-rosy federal budget predicts double digits until 1994. Unemployment Insurance and welfare costs have skyrocketed in response.

Despite several rounds of belt-tightening, Unemployment Insurance payouts rose from $14.3 billion in 1984-85 to a forecast 19.4 billion in 1993-94. Despite limits on its transfers to Ontario, Alberta and British Columbia under the Canada Assistance Plan, Ottawa's spending on provincial welfare and social services went from $5.3 billion to $7.2 billion over the same period.

The marginal labour market – with its low-paid, unstable, no-future jobs – is thriving in the global economy. Millions of Canadians are trapped in a dispiriting cycle of low pay, Unemployment Insurance and welfare.

Worse still, these strong demographic, social and economic pressures on social programs are additive. Divorce, unemployment and low wages conspire to condemn a large segment of Canadian society to poverty in old age because public pensions are inadequate and workers with below-average earnings lack private pensions and RRSPs. Add to this somber picture a relentlessly aging population and the turbulent new world economy. It is difficult to avoid a bleak scenario of a future Canada with a dangerously widening gulf between haves and have-nots at all stages of the life cycle, from children to working-age adults to the elderly.

The conventional and perennially-popular solution to rising social expenditures is to go after social programs themselves, by eliminating some, restricting access to others and reducing benefits. This slash-and-squeeze strategy is well underway, led by the federal government with the provinces in close pursuit. It doubtless will continue.

Another approach which seems to have an irresistible appeal for some wannabe social policy wonks is to shift part of the cost of social programs from taxpayers to users – as in the current ill-conceived resurrection of user fees for medicate. Others think the solutin lies in greater efficiency in the administration and delivery of government programs. The latest buzz-phrase is 'governments must learn to do more with less.' The more likely reality is that governments will do less with less.

Tired old proposals such as user fees are both ineffectual (they do not save money) and down-right dangerous (they deter low-income patients, who depend on medicare most because they face the highest risks of illness and injury). Nonetheless, there is a good reason and ample scope to update social programs. Unfortunately, Ottawa has pursued a Robin-Hood-in-reverse policy of cutting benefits and raising taxes for low- and middle-income Canadians, while spending more on welfare-for-the-wealthy tax subsidies such as deductions for contributions to RRSPs and private pension plans and the capital gains exemption.

A superior strategy is to attack the economic and social roots of the pressure on social programs. This requires a comprehensive approach to reform embracing economic as well as social policies and more redistribution of resources from haves to have-nots. Admittedly, this is fare more ambitious and difficult than simply cutting social programs. But it is the only effective solution to rising social spending.

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