SOCIAL POLICY BY STEALTH

The government camouflages regressive changes to trick Canadians into believing that tax increases are tax cuts and that benefit cuts are increases.

by Grattan Gray

THE MULRONEY GOVERNMENT STUMBLED badly in its first foraging expedition into social program territory. Finance Minister Wilson's maiden budget in May 1985 is best remembered for its ill-fated attempt to partially de-index Old Age Security rates, a proposal that was hastily withdrawn after a firestorm of unexpected criticism from pensioners' groups fanned by media coverage, most indelibly the David-and-Goliath image of the Prime Minister receiving a tongue-lashing from a five-foot-four, 63-year-old woman protesting on Parliament Hill. Labour, social policy and women's organizations universally condemned the partial indexation scheme, and even prominent business lobbies such as the Business Council on National Issues, the Canadian Chamber of Commerce and the Canadian Organization of Small Business acknowledged that the cost-cutting measure would unfairly hurt the elderly poor.

In the end, the old age pension debacle did not lose the Conservatives enough votes to prevent them winning a second electoral majority, but it did cost them dearly in fiscal terms: The plan to index Old Age Security payments only by the amount of inflation over 3 per cent a year, rather than by the full increase in the cost of living, would have saved the federal treasury in the order of $5 billion in total between 1986 and 1990.

Despite the botched effort to trim spending on elderly benefits, the 1985 budget did manage to lay the groundwork for a crafty and successful fiscal restraint policy combining social spending cuts and tax increases. Granted, a $30 billion deficit, public debt charges that consume more than a third of federal revenues and higher-than-forecast interest rates have kept up the pressure on the finance minister to curb public expenditures. Nor has his performance in attacking the deficit been anywhere near what many economists and leaders of the business and financial communities expect of him, especially in light of the 1989 budget's much heavier reliance on tax hikes than spending cuts. Nonetheless, the savings on social programs and the enhanced tax take over the past five years are much larger than meets the eye, have helped cut the deficit by more than one-third, and will save Ottawa billions of dollars more in future.

I have been studying the development of social policy in this country for a number of years, from public documents, House of Commons debates and academic papers, but I have never seen the sort of development that has taken place in recent years, and which seems to have slipped by many of the professionals and academics. In brief, the Tory style of restraint has become what can only be characterized as "social policy by stealth".

It 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. It camouflages regressive changes in the rhetoric of equity in an attempt to convince Canadians that tax increases are tax cuts and that benefit cuts are benefit increases. By further complicating an already complex labyrinth of taxes and social programs, the stealth style of policy-making confuses the electorate and so insulates itself from criticism. The Conservatives' record on social and tax policy constitutes a variation on Newton's Third Law of Motion: for every positive action, there is an equal and opposite negative change. As a result, the goal of a fairer, simpler and more rational system of taxes and transfers remains as distant as ever.

My analysis goes beyond familiar social programs such as family allowances, old age pensions and unemployment insurance to include tax-delivered benefits such as child tax credits and the refundable sales tax credit, as well as the government's ongoing and impending reforms to the income and sales tax systems. The insight that social policy and tax policy are inextricably linked is by now commonplace, so it should come as no surprise that a good deal of the discussion to follow deals with one aspect or another of the tax system and that I will conclude by arguing that the tax system is the most promising vehicle for income security reform in the 1990s.

While the discussion that follows is often critical, it does acknowledge noteworthy advances in social and tax policy that have been made by the Conservative government. These accomplishments include the conversion of income tax exemptions and most deductions to credits, a substantial boost in the refundable child tax credit, improved tax assistance to taxpayers with disabilities, the creation of the refundable sales tax credit, and some reforms to public and private pensions.

The May 1985 budget laid the foundation of the policy of restraint by stealth. Finance Minister Wilson eliminated the federal tax reduction, imposed a temporary (18-month) surtax on upper-income taxpayers and large corporations, and raised and expanded the manufacturers' sales tax. The most important measures in terms of lasting and lucrative payoffs were changes to the indexing formulas for the income tax system, child benefits and federal transfers to the provinces. The finance minister limited the indexation of personal exemptions and tax brackets as well as child benefit programs (family allowances, the children's tax exemption, the refundable child tax credit and the equivalent-to-married exemption for single parents) to the amount of inflation over 3 per cent a year. He also tightened up on the indexation formula for transfers under the Established Programs Financing (EPF) Act (the financing instrument through which the federal government shares in the cost of provincial health services and post-secondary education) by subtracting 2 percentage points from the GNP escalator.

Subsequent budgets have built on the policy of fiscal restraint established in 1985. The 1986 budget imposed a general surtax of 3 per cent of basic federal tax on all taxpayers, whatever their income level, and on corporations. Every Wilson budget has jacked up federal sales and/or excise taxes and duties. As well, government departments have been subjected to a policy of belt-tightening affecting both hiring and spending.

The 1989 budget increased the general surtax rate, reimposed a high-income surtax, pushed up federal sales and excise taxes yet again and subtracted another percentage point from the escalator for federal transfers to the provinces under EPF. It also abolished universal old age pensions and family allowances in one fell swoop by means of a devious mechanism known as the "clawback" which is the crowning achievement to date of social policy by stealth.

Visible and Invisible Budgets

There are two ways of gauging the government's budgetary record. The conventional approach is to look at actual trends in collecting and spending money, as shown in Table 1. Another, more revealing, method is to also take into account the billions of dollars less the government would have collected and the billions more it would have spent in the absence of its changes to the indexation formulas for taxes and transfers; Table 2 gives my estimates of these vast sums. Without the latter, we would come away with a very misleading view of the Tories' fiscal performance.

(By the way, the information presented here is all taken or adapted from public documents available to anyone who is willing to take the trouble to look for them, prepared either by the government or by various interest groups and academics.)

Table 1 shows federal budgetary expenditures and revenues from 1984/85 to 1990/91, based on the government's own figures in the 1989 budget. Note that the finance department does not include Canada Pension Plan payments under its social spending figures nor CPP contributions as revenue, even though it counts payouts and premiums from the other major federal social insurance program—unemployment insurance—as government expenditure and revenue. The social spending figures list gross payments to individuals and provinces, not net costs to the federal treasury.

Table 1
Federal Expenditures and Revenues, Constant (1989) dollars, 1984/85-1990/91

			($ millions)				
Expenditures	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Statutory Social Programs							
unemployment insurance	12,386	11,869	11,888	11,436	11,449	11,930	12,156
old age pensions	14,070	14,839	15,304	15,647	16,013	16,395	16,857
family allowances	2,980	2,963	2,884	2,796	2,725	2,610	2,527
Canada Assistance Plan	4,615	4,640	4,611	4,630	4,816	4,780	4,777
Established Programs Financing	10,591	10,280	10,061	9,596	9,332	9,140	9,228
Total Social Spending	44,642	44,591	44,748	44,105	44,335	44,855	45,545
Total Non-social Spending	62,276	57,057	57,388	61,133	60,464	58,645	58,566
Total Program Spending	106,917	101,648	102,135	105,238	104,800	103,500	104,111
Public Debt Charges	27,670	30,142	30,343	31,654	34,584	39,400	38,041
Total Budgetary Expenditures	134,587	131,790	132,478	136,892	139,384	142,900	142,152
Revenues							
Personal Income Tax	36,048	39,107	43,114	49,207	47,998	50,445	52,638
Corporate Income Tax	11,557	10,912	11,251	11,862	12,576	13,700	13,986
Sales and Excise Taxes	17,377	20,038	23,918	25,016	27,290	28,760	29,166
Unemployment Insurance Premiums	9,307	10,322	10,879	11,368	11,774	10,655	11,827
Other	13,065	10,639	8,479	8,814	9,458	8,830	7,776
Total Revenues	87,354	91,017	97,641	106,268	109,097	112,400	115,403
Deficit	47,233	40,773	34,837	30,624	30,287	30,500	26,749

Table 2
Federal Savings from Partial Indexation of Family Benefits, Established Programs Financing and Personal Income Tax, Constant (1989) dollars, 1986-1990

	($ millions) Total
1986	$ 1,321
1987	3,008
1988	4,965
1989	7,276
1990	9,957
Total	$26,528

The spending side of the ledger shows that Finance Minister Wilson has managed to restrain the growth of federal expenditures, though he has by no means made the massive cuts called for by the anti-deficit crowd. Total program spending came to $107 billion in 1984/85 and was kept below $105 billion in subsequent fiscal years; the estimate for 1990/91 is $104 billion or 2.8 per cent less in real terms than when the Conservatives came to power.

The Tories' track record on social spending is quite respectable from a fiscal restraint perspective, considering the fact that the aging of the population exerts relentless expansionary pressure on income security expenditures for the elderly. The price tag for the major federal social transfers to individuals listed in Table 1—unemployment insurance, income security benefits for the elderly (Old Age Security, Guaranteed Income Supplement and Spouse's Allowance) and family allowances—and federal transfers to the provinces through the Canada Assistance Plan and Established Programs Financing Act (EPF), has remained between $44 and $45 billion throughout the Conservatives' years in office.

The annual real change in statutory social spending has been plus or minus 1 per cent, with the exception of 1987/88 when real expenditures were 1.4 per cent less than the previous fiscal year and 1990/91 when spending is expected to amount to 1.5 per cent more in real terms than in 1989/90 as a result of continued growth in spending on elderly benefits and an increase in unemployment insurance outlays.

Table 3
Federal and Provincial Income Taxes, Two Earners, Two Children, 1984-1991

	Family Earnings $20,000	$50,000	$100,000
1984	$175	$8,146	$25,617
1987	839	9,479	27,514
1988	765	8,645	25,544
1991	851	9,356	26,621
Increase 1984/91	676	1,210	1,004
% increase	386%	15%	4%
% of earnings	3.4%	2.4%	1.0%

Note: All figures are in constant 1989 dollars.

Table 1 details the trends in spending on the major federal statutory social programs from 1984/85 to 1990/91. The only area where social spending exceeded the inflation rate each year was income security benefits for the elderly, up nearly 20 per cent in real terms between 1984/85 and 1990/91 due to three factors—demographically-driven demand, the government's failure to partially de-index Old Age Security benefits, and an extension of the Spouse's Allowance (the latter is discussed below under pension reform). On the other hand, Ottawa will spend 15 per cent less in real terms on family allowances in 1990/91 than in 1984/85, 13 per cent less on transfers to the provinces for health and post-secondary education and 2 per cent less on unemployment insurance payments.

Table 4
Federal Child Benefits, Families with Two Children, 1984-1991

	Family Earnings $0	$20,000	$50,000	$100,000
1984	$1,731	$1,980	$1,947	$2,166
1991	1,946	1,948	1,461	1,697
Change 1984/91	215	-32	-486	-469
% change	12%	-2%	-25%	-22%

Note: All figures are in constant 1989 dollars.

Some of this spending discipline can be credited to actions of the government, notably its changes to the indexing formulas for family allowances and EPF. The federal government's clawback of family allowances and old age pensions from higher-income Canadians and its withdrawal from the financing of unemployment insurance in 1990 will produce significant savings (over $2 billion in 1990-91), but these economies are not reflected in the expenditure trends in Table 1 which show gross benefit payments to recipients, not net federal costs.

The modest reduction in unemployment insurance outlays between 1984/85 and 1987/88 stems from a gradual decline in the jobless rate from 1983 to 1988 which, depending on your point of view, is the result of a varying mixture of the government's policies, the state of the international economy and luck. A rise in the jobless rate from 7.8 per cent in 1988 to a forecast 8.2 per cent in 1989 and 8.5 per cent in 1990 will cause unemployment insurance outlays to increase in 1989/90 and 1990/91.

Ottawa's expenditures under the Canada Assistance Plan for provincial welfare programs and social services are outside its control because the feds simply match what the provinces spend. Social assistance spending has been relatively constant since 1984 because welfare caseloads have remained stubbornly high, even though the unemployment rate declined steadily from 1983 to 1988.

Economic growth has outpaced social spending under the Mulroney government. Federal social spending has declined from 8.1 per cent of Gross Domestic Product in 1984/85 to a projected 7.1 per cent of GDP in 1990/91. The 17.5 per cent real increase in GDP from 1984 to 1991 far surpasses the 2.0 per cent rise in social spending over the same period.

On the other hand, the published figures would seem to suggest that the Conservatives have managed only to hold the line on social expenditures, not slash spending as most of the business critics want. The federal government will spend close to $1 billion more on social programs in 1990/91 ($45.5 billion) than it did in 1984/85 ($44.6 billion) as a result of increased outlays on old age security programs and unemployment insurance. Statutory social spending has ranged between 42 and 44 per cent of total program spending over the past five years.

Table 1 divides federal expenditures into three large categories—statutory social programs, non-social spending (e.g., on subsidies and transfers, payments to Crown corporations, government operations, defence and overseas aid) and public debt charges. Social spending has remained relatively flat since 1984/85. Non-social spending has moved up and down, though it will be significantly lower in 1990/91 ($58.6 billion) than it was in 1984/85 ($62.3 billion). Total program spending will decline by a modest 2.8 per cent in real terms from $107 billion in 1984/85 to a forecast $104 billion in 1990/91.

As the finance minister never tires of reminding us, it is public debt financing—not program costs—that has driven up overall federal spending. Debt financing charges rose by a substantial 37.2 per cent in real terms from 1984/85 to 1990/91; in constant (1989) dollars, they went from $27.7 billion in 1984/85 to $39.4 billion in 1989/90, though the finance minister hopes to bring that figure down somewhat to a projected $38.0 billion in 1990/91. Total budgetary expenditures (i.e., on programs and public debt charges together) rose from $134.6 billion in 1984/85 to a projected $142.2 billion in 1990/91.

How, then, did the finance minister manage to cut the deficit from $47 billion in 1984/85 to a projected $27 billion for 1990/91, as indicated in Table 1? By hiking all taxes at his disposal.

The revenue figures document the substantial tax increases imposed by the Mulroney government. Projected revenues from federal sales and excise taxes and duties will be 68 per cent greater in 1990/91 than 1984/85; personal income taxes will be up by 46 per cent; unemployment insurance premiums will raise 27 per cent more revenues; and corporate taxes will bring in 21 per cent more in 1990/91 than 1984/85. All in all, federal revenues will be almost one-third larger in real terms in 1990/91 ($115 billion) than they were in 1984/85 ($87 billion).

Important as they are, the official spending and revenue figures tell only part of the story. Table 2 shows the enormous savings the government has reaped by fiddling the indexation formulas for family allowances, Established Programs Financing and the personal income tax system. Over the five-year period from 1986 to 1990, Ottawa will save an estimated $26 billion through inflation-generated income tax increases and restraint in social spending. This hidden budget is proof that the finance minister has been much more successful in curbing spending and raising taxes than most Canadians realize.

To understand the nature and impact of the strategy of stealth, I will look at four key policy areas where the Conservatives claim or anticipate significant advances—the tax system, child benefits, pensions and unemployment insurance—as well as one other—child care—where so far they have managed to implement only part of their program.

Tax Reform

The finance minister introduced tax reform with a fanfare in his June 1987 White Paper, which contained dozens of proposals affecting the personal income tax and corporate tax systems and the federal sales tax. Over the summer of 1987, the Commons Committee on Finance and Economic Affairs chaired by Donald Blenkarn held public hearings and studied the White Paper, issuing its own report—which generally endorsed the tax reform package—in the autumn. The government, in turn, made some minor changes and then went ahead with its proposed changes. Measures affecting the personal and corporate income taxes took effect in the 1988 taxation year, while a new comprehensive federal sales tax—the Goods and Services Tax—will be implemented in 1991.

Like the Americans who, not coincidentally, recently reformed their tax system, the Conservatives' tax plan is based on the twin pillars of base broadening and rate reductions. The former is being accomplished by trimming personal and corporate tax breaks and by applying the new federal sales tax to as wide a range of goods and services as politically possible. Since more income and consumption will be taxed, the finance minister was able to reduce both personal and corporate income tax rates, and will do the same in 1991 when the Goods and Services Tax replaces the old manufacturers' sales tax.

Although the White Paper made much of the government's purported desire to create a more equitable tax system, the real imperatives of tax reform are economic efficiency, international competitiveness and harmonizing Canada's tax system with that of the U.S.

Converting personal exemptions and most deductions to credits represents a fundamental and progressive change for which the Conservatives deserve more praise than they have received. Unlike exemptions and deductions, which give larger tax savings to higher-income taxpayers, credits are worth more in proportional terms to lower-income taxpayers.

But the conversion to a credit-based tax system was accompanied by a reduction in the top marginal tax rate from 34 to 29 per cent, which cushioned the impact of tax reform on upper-income taxpayers. This contradictory pattern—one policy change working at odds to another—is typical of the Conservative strategy of stealth.

Tax reform continued the process of paring down corporate tax concessions that the government launched in its 1985 budget. For instance, the scientific research tax credit and inventory allowance have been eliminated, the general investment tax credit gradually withdrawn and the capital cost allowance provisions reduced. On their own, these base broadening measures would have saved the government $9.6 billion from 1988 to 1991. However, lowering tax rates will cost $5.5 billion, so the net increase in corporate tax revenues will be only $4.1 billion over four years.

For all its talk of fairness, the government not only retained some of the regressive tax breaks it inherited from its predecessor, but added new ones of its own. The tax

deduction limit for contributions to RRSPs will be substantially increased over a multi-year phase-in period, reaching 18 per cent of earnings to a maximum of $15,500 by the mid-1990s, after which it will be indexed to the increase in average earnings—a costly and indefensible enrichment of a tax subsidy that favours the well-off.

Although the finance minister did away with the $1,000 interest and dividend income exemption—a tax advantage that had been used by many modest and middle-income Canadians—he brought in a $100,000 capital gains exemption which will mainly benefit wealthy taxfilers. He doubled the tax deduction for child care expenses from $2,000 to $4,000 per child six and under—a change that is worth most to well-off families—yet gave parents without receipted child care expenses (generally those with below-average incomes) only a $200 increase in their refundable child tax credit for children under seven.

True to form, the new tax legislation retained partial indexation of tax brackets and credits. This makes a mockery of tax reform on two counts. First, it hits lower-income taxpayers hardest, since they benefit most from the protection against inflation assured by a fully indexed tax system. Second, partial indexation generates an automatic tax hike that will resume the upward march of income taxes that has characterized the pattern of taxation under the Tories.

Tax breaks for disabled taxfilers are another example of the contradictory nature of tax reform. In 1986, the income tax deduction for blind persons and those confined to a bed or wheelchair was replaced by a disability deduction for all taxfilers who are severely impaired either mentally or physically, and the deduction was raised from $2,590 in 1985 to $2,860 in 1986. An estimated 65,000 more disabled Canadians benefitted from the broader qualifying criteria.

The 1988 tax reform converted the disability deduction to a credit. However, many Canadians with disabilities cannot benefit because their incomes are so low that they do not owe any income tax. Because the disability credit is non-refundable, it only reduces taxes owing; if it were refundable—like the refundable child tax credit and sales tax credit—it would help the poorest individuals with disabilities.

The 1989 budget announced a new tax break in the form of a tax deduction for the cost of care provided by a part-time attendant required to enable a severely disabled person to work in the paid labour force. Welcome as this assistance is, it should not have come in the form of a tax deduction, which will pay the largest benefits to disabled workers with the highest incomes and will do little or nothing for those with low earnings.

Anyone other than a tax expert would think that tax reform was the best thing since medicare, judging by the purple prose in the 1987 White Paper and its popular version condensed in pamphlets that were widely distributed to the public. But the government's claims simply do not stand up to scrutiny.

True, tax reform reduced income taxes for most taxpayers, but only by a relatively modest amount. The income tax cuts were nowhere near generous enough to make up for the tax increases imposed since 1985 as a result of partial indexation, the removal of the federal tax reduction, the levying of surtaxes and successive increases in federal sales and excise taxes. After a one-year respite in 1988, income taxes will rise again from 1989 onward because the new tax system is only partially indexed.

Yes, tax reform raised the taxpaying threshold and removed some 850,000 lower-income taxpayers from the tax roles, as the finance minister claimed. But more than a million working poor taxpayers had been added to the tax roles from 1985 to 1987. Partial indexation will depress the taxpaying threshold again after 1988 and will force more and more low-income Canadians to pay income tax with each passing year. The Tories have failed to remove the burden of taxation from Canada's working poor: A single parent with one child and earnings of only $15,000 still forked over $500 in federal and provincial income taxes after tax reform.

For all its egalitarian rhetoric, tax reform resulted in little redistribution of the income tax burden among taxpayers in different income groups. The finance department's own estimates show that taxfilers with incomes under $15,000 paid 1.6 per cent of federal taxes before tax reform and 1.3 per cent after tax reform, while those in the top $100,000-plus group saw their share increase from 12.1 per cent to 12.4 per cent.

A closer look at the government's figures reveals an even more depressing picture. The 2.3 million taxpaying households with incomes under $15,000 who paid less income tax after tax reform in 1988 received only 7.7 per cent of overall tax savings, yet accounted for 26.2 per cent of all

Cartoon: *Frampton*

winning households. On average they saved $140 in combined federal/provincial income taxes, which amounts to 1.4 per cent of their income. By contrast, those with incomes over $100,000 got an estimated 18.2 per cent of total tax savings but represent just 2.0 per cent of all households with tax cuts. They enjoyed an average federal/provincial tax savings of $4,365 or 2.6 per cent of their income.

Part of the strategy of stealth involves a highly selective presentation of statistics. The government's tax reform documents focussed on the effects of the income tax changes in their first year of implementation—1988. This is neither accidental nor surprising, since the perspective of time is not flattering: Even with tax reform, taxes in 1988 were substantially higher than when the Tories came to power in 1984, and they will be higher still in future.

The overall impact of the changes made to the income tax system since 1985 is strikingly regressive.

Table 3 charts the income tax burden for low, middle and upper-income two-earner couples with two children (one under seven years old and one over seven) from 1984 to 1991. Refundable child tax credits received by the low and middle-income families were subtracted to show actual income taxes payable. All figures are shown in constant 1989 dollars.

The working poor family's earnings are $20,000 or 37 per cent of the estimated $54,000 average income in 1989 for two-earner couples with children. This low-income family's federal/provincial income tax burden rose from $175 in 1984 to $839 in 1987, dipped to $765 in 1988 thanks to tax reform, and will increase to an estimated $822 by 1991—$676 more than 1984.

The up-down-up trend is the same for the middle-income family earning $50,000, whose total income taxes went from $8,146 in 1984 to $9,479 in 1987, $8,645 in 1988 and an estimated $9,356 for 1991. The chief culprit is the partial indexation of tax brackets and credits, which hits both lower and middle-income taxpayers.

The upper-income family earning $100,000 also will pay more income taxes in 1991 ($26,621) than in 1984 ($25,617), though the increase ($1,004) is actually smaller than the $1,210 tax hike for the middle-income couple. The $100,000 family benefits from higher tax deductions for child care expenses and retirement savings contributions and the lower marginal tax rate, which help offset the conversion of exemptions and most deductions to credits and the effects of partial indexation.

The overall impact of the various changes made to the income tax system since 1985 is strikingly regressive. The low-income couple with two children, struggling to make ends meet on earnings of just $20,000, confronts a whopping 386 per cent real increase in its income tax burden from 1984 to 1991; its $676 tax hike amounts to 3.4 per cent of earnings. The middle-income couple earning $50,000 will pay 15 per cent more in 1991 than 1984, and its $1,210 tax increase represents 2.4 per cent of earnings. The affluent family's income tax burden is only 4 per cent higher in 1991 than in 1984; its $1,004 tax hike comes to only 1.0 per cent of earnings.

Despite these shortcomings, the government managed to implement its reforms to the personal and corporate income tax systems with relatively little political difficulty. But the road to the new Goods and Services Tax (GST) has been long, winding and rocky, and the perilous journey is not over yet.

The government began studying the idea of replacing the creaky old manufacturers' sales tax with a value-added sales tax soon after it took office in the autumn of 1984. The June 1987 White Paper provided a tentative sketch of a new consumption tax, Ottawa's preference being a joint federal/provincial system in which both levels of government would share a common tax base.

However, subsequent negotiations with the provinces failed to bring them on side, so the April 1989 budget (supplemented by a more detailed technical paper issued four months later) proposed a federal-only sales tax that would apply to all goods and services except for basic groceries, prescription drugs, medical devices, residential rents, most health, dental and educational services, and daycare and legal aid services. To protect low and modest-income consumers, the government pledged to increase the refundable sales tax credit and raise the income threshold for maximum credits.

The Goods and Services Tax is new and unknown, and probably for that reason alone has inspired fear and loathing on the part of many Canadians. Groups representing small business object strenuously to the GST because they believe it will increase their administrative burden. A number of witnesses who appeared before the Blenkarn Committee, which held public hearings on the finance minister's August 1989 Technical Paper on the Goods and Services Tax and released its own report in November of 1989, raised concerns about the inflationary effect of the proposed 9 per cent GST rate.

While it generally endorsed the Goods and Services Tax proposal, the Finance Committee's majority report listened to witnesses and proposed that the GST rate be pegged at 7 per cent instead of the 9 per cent rate proposed by the government. The finance minister heeded the critics and the government's pollsters, announcing in his December 1989 report to the Commons that the rate will be 7 per cent when the GST is introduced in 1991.

The finance minister has promised that families with incomes under $30,000 will end up better off and that Canada will have a fairer federal tax system after the coming of the Goods and Services Tax in 1991 completes his program of tax reform. Can he pull off the seemingly impossible feat of creating a fairer tax system overall by shifting the tax mix from income taxes—which, for all their faults, are progressive—to consumption taxes, which by nature are regressive?

In a word, no. You can't make a silk tax out of a sow's ear.

Despite what its critics generally believe, the GST will not be more unfair than the manufacturer's sales tax that it will replace—at least, not at first. To the contrary, the GST actually will be somewhat less regressive than the old sales tax because it will cover most services and goods—which affluent consumers spend most on—and because it will afford lower-income families with children more tax relief when the GST is introduced in 1991 than they would get from the old sales tax credit.

Sales taxes are by nature regressive. The current refundable sales tax credit eases—but does not remove—the weight of the federal sales tax on poor consumers. This simply shifts the regressivity a notch up the income scale, so that modest-income Canadians with incomes above the poverty line but below average bear the highest proportionate federal sales tax burden of all income groups.

The new Goods and Services Tax will shift the heaviest tax load higher into middle-income range, but the well-off will still carry a lighter proportionate burden than the middle class. The tax distribution will be less regressive under the GST than under the old federal sales tax, but it will not be and can never be progressive like a properly designed income tax (not the one we have now).

Granted, the finance minister did jack up the high-income surtax (by 2 percentage points) and lowered its income threshold (from basic federal tax of $15,000 to $12,500) in order to help make up the revenue loss from the decision to set the GST rate at 7 rather than 9 per cent. As a result, affluent taxpayers will fork out fractionally more federal income tax once the GST is introduced. However, it is not certain that this small step towards a more progressive income tax system—which, in typical stealth fashion, works opposite to the reduction in the top marginal tax rate brought in by the 1988 tax reform—will hold, since the surtax is supposed to be temporary.

Middle and upper-income Canadians will pay more federal sales tax under the GST than they did under the manufacturers' sales tax, and the well-off will pay a bit more income tax to boot so long as the high-income surtax remains in place. Finance department figures indicate that a single wage-earner under age 65 with income of $35,000 will pay $262 more in federal sales taxes (0.7 per cent of income) after the GST comes into force in 1991, while someone at the $100,000 level will pay an additional $1,234 worth of sales and income taxes or 1.2 per cent of income. But these are minor changes and will not result in a significantly more equitable tax system.

The picture is more complicated for the poor. Once again, their apparent gains will be undermined by the policy of stealth.

On the positive side, the sales tax credit will be bolstered as promised. The adult rate will rise from $140 in 1990 to $190 in 1991 and the children's rate from $70 to $100. Single parents will get a bonus by being allowed to claim the adult rate for one child. Single adults who maintain their own households (including single parents) will be able to claim an additional sales tax credit of up to $100 although, perversely, the poorest of the poor—those with incomes under $6,169—will not be eligible, yet individuals with incomes many thousands of dollars above the poverty line will get the maximum amount. The income threshold for sales tax credits will rise from $18,000 to $24,800, so they will help more people than before.

The refundable sales tax credits will increase more than the sales tax, which means that lower-income families and individuals will end up somewhat better off after the GST comes into force in 1991 than under the old federal sales tax regime. Poor families with children will fare best because the finance minister kept the children's credit at the $100 rate proposed under his original 9 per cent GST proposals. However, all poor Canadians will still pay some GST, even with the enhanced sales tax credits.

Unfortunately, the sales tax cuts for Canada's poor will be short-lived. Consistent with the policy of stealth, the sales tax credits and their income threshold will be only partially indexed (to inflation over 3 per cent), so both the credits and the threshold will sink year after year. Sales tax credits will steadily lose value after 1991 and will assist fewer and fewer poor people as time goes by. As a result, lower-income Canadians—the economically weakest and most vulnerable group in our society—are the only ones who will face automatic sales tax increases in future.

It would take a trusting soul to believe that tax reform will not increase the burden for most Canadians.

As the sales tax credits shrink in value, the Goods and Services Tax will weigh heavier on the poor. The GST will become more regressive and its distribution will increasingly resemble that of the unfair federal sales tax that it replaced.

Partial indexation of the sales tax credits will add another lucrative weapon to Ottawa's arsenal of hidden tax hikes. The government in effect will be able to collect more and more money with the Goods and Services Tax even without having to run the political risk of raising the 7 per cent rate. The GST's higher sales tax credits are only attractive on the surface: The GST will be a Trojan Horse for Canada's poor.

In the end, it would take a very naive and trusting soul to believe that the finance minister's various tax reforms have not imposed a heavier tax burden on most Canadians, even those struggling to live on low incomes. The old federal sales tax and excise taxes have been cranked up repeatedly since 1985. Partial indexation guarantees an ever-increasing tax take from federal and provincial income taxes and will do the same for the Goods and Services Tax.

A tax system that requires poor people to pay any tax can hardly be characterized as fair. A tax system that imposes an ever-heavier tax burden on those who can least afford it is unconscionable.

Child Benefits

The strategy of stealth has been very successfully applied to federal child benefits. The same techniques are at play as with tax reform—partial indexation, counteracting changes whereby progressive reforms are undone by regressive measures, confusion through complexity, and a succession of modifications in program design that only a handful of experts can decipher.

In his 1985 consultation paper, the Minister of National Health and Welfare presented a refreshingly thorough and straightforward discussion of the long-criticized system of federal income transfers to families with children. Social policy and women's groups did not embrace the particular option he appeared to favour—reducing the family allowance and children's tax exemption and increasing the refundable child tax credit—preferring instead to eliminate the children's tax exemption and redirect the savings to one or both of the other programs. However, they applauded the consultation paper's putting tax expenditures on the table with direct spending programs, its commitment to a universal but progressive child benefits system, and its assurance that any savings resulting from reform would be kept in the social policy envelope and not applied to reducing the deficit.

The clawback spells an end to universality – one of the supposed sacred tenets of our welfare state.

Unfortunately, the health and welfare minister's January 1985 discussion paper and the consultation process it set in motion were swept aside by the finance minister's May 1985 budget. Additional changes made to child benefits since then—above all the clawback in the 1989 budget—have complicated matters further. It is inconceivable that an average member of Parliament, let alone a parent, could understand what the government has done to child benefits and how the system now operates.

The 1985 budget announced a gradual reduction in the children's tax exemption from \$710 per child in 1986 to \$560 in 1987, \$470 in 1988 and an amount equal to the family allowance from 1989 on. The refundable child tax credit was gradually increased from \$384 per child in 1985 to \$454 in 1986, \$489 in 1987, and \$549 in 1988; its threshold (the net income level above which benefits are reduced by 5 per cent) was lowered from \$26,330 to \$23,500 in 1986. Family allowances were partially de-indexed as of 1986, as were the children's tax exemption and refundable child tax credit in 1989. The threshold for the refundable child tax credit was also partially de-indexed, starting in 1987.

The 1986 budget announced that families with net incomes below \$15,000 will receive their refundable child tax credit in two installments rather than just once a year, as had been the case since the program came into being in 1978. The first installment (\$300 per child) is paid in November and the remainder the following spring. Eligible families with net incomes over \$15,000 continued to receive their child tax credit in a lump sum after filing their tax return. The 1988 budget amended this feature to set the income cutoff for the prepayment at two-thirds of the threshold, which amounts to \$16,060 for 1988.

The June 1987 White Paper on tax reform proposed that the children's tax exemption (slated to be \$470 for the 1988 tax year) be converted to a non-refundable credit of \$65 per child and that the \$3,740 equivalent-to-married exemption—which single parents can claim in respect of one child—be changed to a non-refundable credit of \$850. Reacting to criticisms from social policy and women's organizations and both the Commons Committee on Finance and Economic Affairs and the Senate Committee on Banking, Trade and Commerce, the finance minister made some minor amendments to his proposals before enacting them. The non-refundable credit for the third and subsequent children was raised to \$130 and the refundable child tax credit was boosted by another \$35, bringing it to \$559 per child for 1988.

The unveiling of the national child care strategy in December of 1987 brought more tinkering with the child benefits system. The child care expense deduction was doubled from a maximum of \$2,000 to \$4,000 for children six and under and the \$8,000 family limit for child care expense deductions was removed, though the maximum child care expense deduction for children seven to 14 years of age remains \$2,000.

The government sowed further confusion by adding a \$200 supplement to the refundable child tax credit (\$100 in 1988 and another \$100 in 1989) for children six and under, bringing the maximum benefit to \$659 for 1988. (The maximum for children seven and older remained \$559 for 1988). It sold this increase as part of the national child care strategy on the pretence that the extra money would help families which lack the receipts required in order to claim the child care expense deduction. This claim is nonsense, since the supplement is available to all refundable child tax credit families with children under seven, whether or not they spend money on child care. The argument that another \$200 a year would help families with their child care needs is even more ludicrous. The real motive was to placate those who complain that the federal government has ignored stay-at-home mothers.

The latest and biggest change to child benefits came with the 1989 budget's plan to apply a special taxback or "clawback", as it is popularly known, to family allowance payments for parents with net incomes over \$50,000. This cost-saving scheme so complicates the federal child benefits system that many families will not know how much benefits they are actually getting from the family allowance program. It also spells the end of universality, one of the supposedly sacred tenets of Canada's welfare state.

The upshot of these numerous changes is a child benefits system that is far more complicated than it was before the Tories came to power. There are still no fewer than five federal programs for children—family allowances, the non-refundable children's credit, the refundable child tax credit, the equivalent-to-married non-refundable credit and the child care expense deduction. They have different qualifying criteria, delivery mechanisms, benefit rates and distributional consequences.

Table 4 shows the trends in federal child benefits for two-earner couples with two children, one under age seven and the other over seven. The only family that comes out ahead is the welfare family, whose family allowances and refundable child tax credits total $1,731 in 1984 and an estimated $1,946 in 1991, for a real increase of 12 per cent. Keep in mind, however, that this poor family's child benefits will diminish steadily from 1990 on as a result of partial indexation.

The working poor family, with combined spouses' earnings of just $20,000 in 1989, experiences a small (2 per cent) decline in its benefits from family allowances and the refundable and non-refundable child tax credits between 1984 and 1991. The middle-income ($50,000) family suffers a 25 per cent drop in its benefits from family allowances, the two tax credits and the child care expense deduction. The upper-income family earning $100,000 loses 22 per cent of the value of its benefits from family allowances, the non-refundable children's credit and the child care expense deduction over the same period— less than the middle-income family's loss.

The other striking finding in Table 4 is the fact that upper-income families with child care expenses will still receive a substantial child benefit. Under the old (pre-Conservative) and oft-criticized child benefits system, shown for 1984, well-off families enjoyed the largest benefit of all the income groups. Even after tax reform, the abolition of universal family allowances and the other changes made since 1985, high-income families with receipted child care expenses still get a larger subsidy from the state than middle-income families.

The significance of the partial de-indexation of federal child benefits cannot be emphasized enough. The value of child benefits will be steadily eaten away by inflation. Because the income threshold for the refundable child tax credit also is only partially indexed, over time fewer and fewer families will qualify for benefits from this important program. Because the income threshold for the family allowance clawback is only partially indexed, more and more families at lower and lower income levels will pay back more or all of their family allowances. Child benefits are being squeezed from all sides.

The Child Care Strategy

The long arm of the finance minister has reached into the contentious area of child care as well, with what most child care advocates regard as disastrous results. And the status of this vital policy area is as cloudy and confused as any the government has touched.

The government's long-awaited national child care strategy, put forward in 1987 but only partly implemented by the time the 1988 election was called, owed as much to the desire to put a lid on future federal spending as to do something about the inadequate system of child care in this country. As a cost-saving move, the 1989 budget set aside plans to spend a purported $4 billion that would have increased the supply of badly needed child care spaces. As a result, the only major element of the child care program that has seen the light of day so far is the worst—larger tax breaks for parents with young children.

The national child care strategy was to have comprised three major elements—a change in federal cost-sharing arrangements with the provinces for child care, including increased funding to create 200,000 additional child care spaces in licensed child care centres and homes; bigger tax breaks for families with young children (doubling the maximum child care expense deduction for children under age 7 from $2,000 to $4,000 and supplementing the refundable child tax credit for children under 7 by $200); and a $100 million fund for research and development into child care initiatives.

The government went ahead with the tax breaks and special initiatives fund but, due to "the fiscal situation ... decided not to proceed at the present time" with the first and by far the most important part of the strategy—the new resources to increase the supply of child care spaces committed in the Canada Child Care Act that died on the order paper.

All the experts agree that there is a crying need for more

Under complex new rules, which few understand, child benefits are being squeezed from all sides.

child care spaces: Of the 1.9 million children under age 13 whose parents work outside the home or are in school full time, only 243,545—just 13 per cent—are in some form of licensed care. Many low and middle-income families have a hard time finding and affording decent child care. There is a chronic shortage of subsidized spaces for children from poor families.

By creating 200,000 new spaces over seven years, the national child care strategy would have brought the total number of licensed spaces to 443,545 or approximately 23 per cent of the potential demand. Child care lobbyists and social policy groups argued that this was simply not good enough and that more money must be allocated to grapple with the cardinal problem of inadequate supply of child care.

What particularly incensed the critics was the government's decision to squander a big chunk of its child care spending—about $3.7 billion—on the child care expense deduction and supplementing the refundable child tax credit. It simply does not make sense to allocate so many scarce dollars to tax breaks that will do nothing to address the central issue—the severe shortage of child care spaces.

The government's rationale was that enriching tax benefits will enhance "parental choice" in selecting the kind of care they want for their children. How adding $200 to the refundable child tax credit for each child under seven years of age (whether that youngster is in child care or not) will help parents find and pay for child care is a mystery. Nor will doubling the child care expense deduction increase the supply of child care spaces; instead, it will reward upper-income parents with larger income tax savings. Enriching the child care expense deduction is both socially and fiscally perverse because it allocates scarce public funds to upper-income parents who least need state assistance with their child care costs.

Lower-income families will welcome a larger refundable child tax credit, but it is hard to imagine many of them swallowing the government's line that this change will help them find adequate subsidized child care. Perhaps the "parental choice" argument will have more appeal to middle and upper-income voters, who doubtless will not complain about being allowed to deduct up to twice as much in child care expenses from their taxable income, especially since tax reform has stripped away their exemptions and most of their deductions. Yet many middle-income parents will continue to have trouble finding and affording decent child care, even with a larger tax deduction.

What we are left with now is an arguably worse child care system than we had before but, ironically, probably better than we would have had if the entire child care strategy had been brought in. Worse, in the sense that almost $4 billion will be wasted on tax breaks rather than used to increase the supply of child care spaces. Better, in that federal spending will continue to be open-ended so long as the Canada Assistance Plan child care provisions remain in effect.

However, the status quo cannot last much longer. One argument of the child care advocates that the government probably will pay heed to is that the child care system actually would grow faster under the Canada Assistance Plan than under the proposed Child Care Act, which set a limit on federal transfers to the provinces. Before the end of its current term, the government likely will carry through on its original plan to "cap CAP" and put a brake on future federal child care spending.

Pension Reform

The 1985 old age pension fiasco aside, the Conservatives did manage to make some changes to Canada's retirement income system. But their record on pensions typifies their style of mixing positive and negative measures in such a way as to produce only halting progress.

On the public pension front, they extended the Spouse's Allowance to all widowed persons 60 to 64 in financial need, regardless of their spouse's age at death (previously, the spouse had to have been 65 or older at the age of death). This improvement added 46,000 more widows and widowers to the program, which pays up to $647 a month. However, like the Liberals before them, the Tories failed to correct the key failing of the Spouse's Allowance that is broadcast by its very name—its exclusion of low-income single persons aged 60 to 64 who never married or are separated or divorced, as well as couples in which both spouses are aged 60 to 64.

The Conservatives' response to this criticism is the same as the Liberals': It would cost too much—in the order of $1.5 billion—to extend benefits to low-income Canadians aged 60 to 64 who are currently excluded. In any event, the government will have to deal with a case before the courts arguing that the Spouse's Allowance contravenes the Charter of Rights and Freedoms because it discriminates on the basis of marital status.

The most radical change to the retirement income system is the clawback of Old Age Security benefits from pensioners with net incomes over $50,000, announced in the April 1989 budget. This scheme works the same way as the clawback on family allowances and is open to the same criticisms.

The clawback will affect more and more pensioners at lower and lower income levels as inflation automatically lowers the threshold with the passage of time. How many elderly Canadians will pay the clawback in future will depend critically on how frequently and how adequately the threshold is "adjusted" as promised. And you can be sure that such adjustments to the clawback threshold will be billed as "increases", when in fact they will likely only partly restore the threshold to its original real value of $50,000.

Suppose, for example, that a 35 year-old worker earning $40,000-just $1,000 above the estimated $39,000 average for a male working full-time in 1989—sees his earnings rise by 10 per cent to $44,000 by the end of his career and that he retires at age 65 on a retirement pension equal to 80 per cent of his pre-retirement earnings, which amounts to a relatively modest retirement income of $35,200. (All figures are in constant 1989 dollars).

If the threshold for the clawback on the old age pension is partially indexed by the amount of inflation over 3 per cent a year but is never periodically adjusted to restore any of its original value, it will decline by 3 per cent in real terms each year. By the time this 35-year-old retires at age 65 in the year 2019, the threshold would be just $20,050 and the worker's Old Age Security benefits after taxes and clawback would amount to $990 or only one-quarter of the gross pension of $3,930.

However, if the clawback threshold is periodically adjusted so that it loses only 2 per cent a year in value, it will be $27,224 when the worker retires and his after-tax and clawback old age pension would come to $1,632 or 42 per cent of gross payments. If the clawback loses just 1 per cent a year on average, the threshold would be $36,985 and the worker would avoid the clawback, so his after-tax old age pension would be $2,346 or 60 per cent of gross payments.

The clawback will tax over-$50,000 seniors' income from their old age pension differently from their income from other sources such as private pensions, annuities, investments and earnings. Indeed, the 100 per cent tax rate on Old Age Security benefits that will be borne by those with net incomes high enough that the clawback reduces their pension to zero (those with net incomes over $76,200 at first, though this figure will decline in future as partial indexation reduces the value of the threshold) must be regarded as confiscatory. Only welfare recipients are required to bear such a high effective tax rate at present, since their social assistance benefits are reduced dollar-for-dollar for earnings above a modest amount.

One Voice, the Senior Citizens and Pensioners Federation and other advocates for the aged have slammed the clawback as a breach of trust on the grounds that it changes the rules of the retirement income system without the players' consent.

The Mulroney government has strengthened the Canada Pension Plan. It increased disability benefits, introduced a flexible age of retirement (retirement benefits can now be claimed as early as age 60 and as late as 70, with actuarial adjustment) and stopped the practice of cutting off survivor benefits if widowed persons remarry. These changes brought the Canada Pension Plan in line with the Quebec Pension Plan, which already had these desirable features.

Unfortunately, the amendment making splitting of CPP credits between spouses mandatory upon marriage breakdown was weakened by allowing provincial family laws to state otherwise; Saskatchewan has chosen not to permit mandatory credit-splitting. CPP contribution rates are being gradually increased each year in order to pay for future pensions and to maintain a fund from which the provinces can continue to borrow. But the federal government did not attempt to raise contribution rates further in order to finance the single most pressing pension reform required—improving the C/QPP's earnings-replacement capacity beyond its current inadequate 25 per cent of pensionable earnings.

Beyond releasing a discussion paper, the government made no progress on reforming survivor benefits under the CPP. Nor did it deliver on the homemaker pension it promised during the 1984 election campaign.

The Tories' record on private pension plans is also mixed. On the positive side, they beefed up the minimum standards governing employer-sponsored pension plans in federally-regulated industries such as Crown corporations, telecommunications and banks. The improvements include earlier vesting requirements, measures to improve portability of pension benefits for workers who switch employers, and extending the right of pension plan membership to all full-time workers after two years of service in an occupational group covered by a private pension plan and to part-time workers who earn at least 35 per cent of the CPP's maximum pensionable earnings. All plans must provide the option of a survivor benefit worth at least 60 per cent of the pension of a member who dies after retirement, although this provision can be waived if both spouses agree in writing.

On the negative side, the federal government failed to prohibit employers from withdrawing surplus funds from their pension plans, to require worker/employer co-management of pension plans and to provide for automatic credit splitting upon marriage breakdown. The Conservatives also did nothing to rectify the fatal flaw of most employer-sponsored pension plans—their lack of full indexation of pension credits and benefits. The decision to boost the tax deduction limits for contributions to RRSPs flies in the face of the government's stated commitment to a fairer tax system and will waste scarce public dollars on affluent taxfilers.

In the end, improving private pension plans (a good thing) and enriching tax breaks for retirement savings plans (a bad move) will simply widen the gap between the haves and have-nots in the labour market. The haves are those with good wages or salaries, comprehensive employee benefits and private pension and/or retirement savings plans. The have-nots are the majority of working Canadians with below-average earnings who are not covered by private pension plans—53 per cent of paid employees do not belong to an employer-sponsored plan—and who cannot afford to sock much if any money away in an RRSP. They must rely on public pension plans for their retirement income.

Unfortunately, like its Liberal predecessor, the Conservative government has failed to act on the only lasting solution to the retirement income needs of the majority of workers who do not enjoy the protection of private pension plans—bolstering the earnings-replacement power of the Canada and Quebec Pension Plans.

Unemployment Insurance

During its first term, the Mulroney government ignored the Macdonald and Forget reports' calls for radical surgery to unemployment insurance and steered a safe course away from the minefield of UI reform. Presumably acting in accordance with the venerable rule of politics that it is better to administer bad medicine early in your term of office, the government decided to bite the bullet soon after gaining its second electoral majority and recently announced several changes to the unemployment insurance program which are motivated by four main concerns—reducing federal spending, conforming with the Charter of Rights and Freedoms, redirecting resources from so-called "passive income maintenance" to "more active measures such as skills training", and giving the private sector a more prominent role in devising and carrying out training efforts.

The 1989 budget announced that the federal government will no longer pay for the cost of regionally extended benefits, fishermen's benefits and extended benefits paid to participants in approved training or job creation projects, which together currently run $2.9 billion or 23 per cent of the $12.6 billion tab for the unemployment insurance program. The net savings

No amount of training can make up for the fact that there are simply not enough jobs to go around.

to the federal treasury after taking into account UI premiums paid on behalf of federal employees and the tax expenditures for UI contributions claimed by employees and employers will be $1.9 billion in 1990-91.

UI premiums will be increased in order to make up for the loss in the federal contribution, as the program will now be funded solely by employees and employers. The finance minister's assurance that Ottawa will consider contributing to the UI program "in difficult economic times when it is inappropriate to raise premiums" is no more reassuring to critics who view the federal government's withdrawal as an abdication of its responsibility for macro-economic policy than his statement that the clawback threshold for family allowances and old age pensions will be "adjusted as appropriate".

The government claims that it will save $1.3 billion by tightening up on entrance requirements for unemployment insurance, shortening the maximum duration of benefits, and imposing heavier penalties for persons who quit their jobs voluntarily as well as for claimants and employers who defraud the program. The lion's share of these savings ($800 million) will be used to pay for skills upgrading, while the remaining $500 million will go for improvements to benefits for maternity, sickness and parental leave and the inclusion of workers over 65 in order to bring the program in line with the Charter.

While more resources for training and reforms in benefits for parents and elderly workers are worthy enough measures, financing them through what amounts to cuts in benefits for unemployed Canadians—many of them on the margins of the labour force because they earn poor wages or can only find seasonal or part-time work—goes against the social insurance *raison d'être* of the UI program, which is to replace the earnings of the jobless.

A fairer approach would be to fund training and other employment programs out of general revenues, perhaps supplemented by a special tax on employers (refundable to companies that provide equivalent training) as recommended by the de Granpré report, though of course this is precisely what a finance minister fixated with deficit reduction does not want to hear and will not do.

In fact, Ottawa has already cut back substantially on its budget for "human resource development programs" (i.e., the panoply of employment programs under the Canadian Jobs Strategy that provide training, work experience, counselling, relocation assistance, worksharing, small business development and local economic development support), which fell from $ 2.6 billion in 1984/85 (in constant 1989 dollars) to $1.6 billion in 1989/90, for a 39 per cent real decline over five years.

For all the government's rhetoric of fairness and progress—the new rules "will make the UI program more equitable and sensitive to the needs of Canadians"—in fact the changes will hurt many low-income workers and could swell the ranks of both the working and welfare poor.

Except for those living in the few areas where the official jobless rate exceeds a very high 15 per cent, employees will have to work longer (from one to six weeks more, depending on the regional unemployment rate) in order to qualify for UI benefits. Many unemployed marginal workers will no longer qualify for unemployment insurance benefits because they cannot find enough work and will have to settle instead for welfare. Reducing the length of time that UI recipients can receive benefits will push some unemployed Canadians who exhaust their benefits into poorly-paid jobs or, failing that, onto welfare. The harsher penalties for persons who quit their jobs without just cause could lock some low-wage workers into dead-end work that they do not want but cannot afford to leave.

A recent study published by the Canadian Centre for Policy Alternatives concludes that the changes to the unemployment insurance program will have a more destructive impact than the government would have Canadians believe. The report estimates that 168,000 claimants would have been ineligible for benefits using 1988 data—more than five times the government's projection of 30,000 applicants in 1990. The resulting savings would have amounted to $1.8 billion for 1988, substantially more than the government's estimate of $1.2 billion for 1990. The study concluded that Ottawa has underestimated the impact of its planned UI changes for Atlantic Canada, Quebec, British Columbia and Alberta; New Brunswick will suffer a 33 per cent cut in UI benefits, not 7.5 per cent as predicted.

The changes to unemployment insurance will hit the unemployed poor hardest. Among families that will lose out from the UI changes, those with incomes under $12,000 will experience a 20 per cent reduction in family income, compared to less than 5 per cent for families with incomes over $36,000. An estimated 50,000 families will end up below the poverty line as a result of the UI cuts.

The Minister of Employment and Immigration added $50 million to the $50 million in federal funds already allocated to the "four corner agreements" under which the federal and provincial governments are directing more employment programs to welfare recipients. This initiative is in line with the other UI changes emphasizing training and the efforts underway in Quebec, Ontario, Prince Edward Island and other provincial welfare ministries to create "opportunities" for employable social assistance recipients.

Unfortunately no amount of training and job preparation, however good it may be, can change the fact that there simply are not enough jobs to go around in many parts of the country, or the reality that many of the jobs that exist pay wages that leave families and even many single workers under the poverty line and no better off—and in some cases worse off—than on welfare.

Deficit reduction—not comprehensive reform—is clearly the primary motive behind the government's UI changes. The finance minister will save money in two ways—directly, by stopping the sizable federal financial contribution to the program, with employers and employees making up the difference through higher premiums (a regressive payroll tax); and indirectly, by using monies culled from tightening the rules for UI benefits to help pay for an expanded training effort, rather than funding the latter out of general revenues.

The Politics of Stealth

Why has the Conservative government gotten away with its program of tax hikes and spending cuts? After all, widespread negative publicity and popular opposition forced the minister of finance to back down on his 1985 plan to trim the old age pension, which relied on the same technical trick of partial indexation that he then so successfully applied to child benefits, the tax system and federal transfers to the provinces for health and post-secondary education. Nor have protests from seniors groups, social welfare organizations and the Opposition parties thwarted his scheme to clawback family allowances and old age pensions.

One possible reason is that the old age pension controversy deflected attention from the other changes introduced in the 1985 budget that put in place the automatic spending cuts and tax increases which have since proved so valuable to the federal treasury. The spectacle of a Scrooge-like government attempting to squeeze money out of poor pensioners in the name of deficit reduction was a gift to a media hungry to end the post-election honeymoon with the Conservatives, and evoked widespread opposition among the public. But such technical modifications as the partial indexation of child benefits, tax exemptions and brackets, the imposition of a 15 per cent taxback on benefits for higher-income families and pensioners, and changes to the escalator for EPF transfers to the provinces do not make for good copy or compelling television.

The role of the media warrants mention. The old age pension indexing issue had two good things going for it from the media's point of view—a single idea easily grasped (Old Age Security payments would no longer keep up with inflation) and a sympathetic subject (pensioners on fixed incomes are the "deserving poor" in our society).

By contrast, the partial de-indexation of the personal income tax system, child benefits, the clawback threshold for family allowances and old age pensions, and EPF transfers is difficult to understand and explain, and affects a much more diffuse and varied collection of Canadians—taxpayers, some parents and seniors, children, patients and those who use and operate post-secondary institutions, which in the end covers just about the entire population one way or another.

With some exceptions, the press and electronic media reported the various changes to social programs and the tax system in a pretty superficial and uncritical manner: Many so-called expert commentators rely far too heavily on Department of Finance press kits and bureaucrats when covering budgets.

Social welfare groups in Ottawa figured out what the finance minister was up to within minutes of his maiden budget speech in May of 1985 and subsequently published scathing critiques. They and other defenders of the welfare state—labour, women's and pensioners organizations—have dogged the finance minister's heels every time he ventures onto social policy terrain.

The National Action Committee on the Status of Women and family rights groups from Quebec mounted a concerted lobby against the partial indexation of family allowances. The Manitoba finance minister waged a public campaign against cuts in transfers to the provinces, to no avail. Child care advocacy organizations savaged the proposed Canada Child Care Act, though its demise stemmed much less from their outrage than the onset of the 1988 electoral campaign and the 1989 budget's decision not to proceed with the additional spending required.

For all the light the government's critics have shed on its social and tax policies, they have generated precious little heat. Social policy groups lack political clout with a government which considers them fiscal naifs and does not believe they carry much popular support. They have made little headway with editorialists and columnists who typically look to business organizations and economists for comment on "serious" matters such as tax reform.

Nor does the Canadian public appear much interested in the impact of child benefit changes, tax reform and subtracting 3 percentage points from the EPF escalator. In part this indifference is a tribute to the success of the government's strategy of stealth, which is not dedicated to raising the level of public awareness and understanding.

We must not forget another obvious but crucial consideration in all this—the government had a large majority in its first term and won another one in the 1988 election. Perhaps its retreat on de-indexing the old age pension so early in its first term steeled its resolve to push through its subsequent changes. The only major social policy initiative that it failed to get through in its first term was the Child Care Act, which was cut short by the election. As noted above, it seems likely that the government will follow through this term in some fashion on its commitment to a new child care cost-sharing arrangement with the provinces, if only to put a cap on future federal spending in this growth area.

Social Reform by Stealth

The strategy of stealth has helped the Tories put in place an effective system of automatic social program reductions and tax hikes. If the 1989 budget is any indication, the federal government will continue to rely heavily on the same techniques—complexity, obfuscation, silver policies with cloudy linings—that it perfected during its first term in office. Few Canadians will understand the clawback on family allowances and old age pensions or lament the passing of universality—if, in fact, they realize it's gone.

The policy of stealth has worrisome implications for the future. Partial indexation of the tax system and child benefits has given the government a perpetual-motion money machine. Will future finance ministers, whatever their party, choose to dismantle this silent and powerful device?

Is there any hope for real progress in social policy during the 1990s? Despite the rather pessimistic tone of this article, I think there might be, and the likely vehicle will be the finance minister's current policy hot potato—sales tax reform.

The Tories' tax reform, for all its contradictions and weaknesses, has laid the groundwork for a realistic guaranteed income plan. The sales tax credits planned for the GST are flawed, but they could be fixed.

If the credits were fully indexed, large enough—in the order of $400 per adult and $200 per child—and reached the welfare poor (provinces cannot be allowed to steal back the credit by offsetting social assistance benefits) as well as the working poor, then low-income Canadians would receive a sizable income transfer that would lift the burden of the new Goods and Services Tax and leave them better off than they are now. If, as seems likely, the provinces eventually come on board the GST train, the sales tax credit system could be expanded to shelter the poor from provincial as well as federal sales taxes.

The Tories have put in place a system of automatic social program reductions and tax hikes.

Add one more vital but hitherto ignored initiative—a tax credit to remove the income tax burden from the working poor—and the government which authored these reforms could claim considerable progress towards a tax-delivered guaranteed income for Canada's poor. The combination of stronger refundable sales tax credits, a new low income tax credit and re-indexed child benefits would constitute a major advance against child poverty.

Canada's tax reform owes much to the United States. The finance minister could borrow yet another idea from the Americans, who allow their taxpayers a tax deduction for financial contributions earmarked for deficit reduction. (Yes, it's true.) Of course, in the spirit of our tax reform philosophy and in order to maintain our national identity, Canada's anti-deficit tax break would have to be a tax credit.

Grattan Gray is a retired journalist and longtime observer of the Ottawa scene. His work has appeared in many Canadian magazines, including *Maclean's* and *Quest*.