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Who bears the burden of welfare state expenditure, capital or labor? To some, the answer is capital. Some go so far as to claim that this "vertical" redistribution was responsible for the economic stagnation that occurred in the late 1970s and early 1980s. Was this really the case in Canada and the United States? This paper empirically examines the distributive activities of the Canadian welfare state for period 1955-1988, and compares these findings to the US during the same period.

State Revenues and Expenditures

Like many industrialized nations after World War II, Canada embarked on a period of extensive social service programs. Total government expenditures rose from 33% of GDP in 1965 to 44% in1975. In addition, net transfer payments to individuals rose from 8% of personal income in 1955 to 14.5% in 1985. How are these expenditures paid for?

For the purposes of this study, tax revenues have been classified into three categories which are assumed to be paid by different classes: 1) health and social insurance levies; 2) corporate income taxes, property taxes, consumption taxes, and so forth. Taxes under category 1 (parallel to others) are entirely allocated to labor, category 2 are paid by non-labor. Category 3 are levied on both labor and non-labor, with labor's share estimated as the ratio of total wages and salaries to personal income. Labor's share rose steadily in the second half of the 1960s and began to decline in the 1970s.

State expenditures can be classified into four categories: 1) social security, housing; 2) social welfare; 3) transportation and communication, health, education, and so forth; 4) general services such as protection of persons and property, foreign affairs, resource conservation and the like. All expenditure in category 1 are allocated to labor. Welfare recipients gain from expenditures in category 2. Category 3 accrues to both labor and non-labor according to their share in adjusted personal income. Category 4 expenditures go entirely to non-labor when viewed as expenditures to secure the capitalist class.

The Performance of the Canadian Welfare State

How do the allocations of state taxes and expenditures balance out? This can be estimated by comparing the total taxes paid by each class with the total social benefits received by that class from state expenditures. Such estimates can be summarized by an examination of the transfer ratio (the ratio of taxes paid by workers to the social expenditures paid to them), and the welfare adjusted transfer ratio (ratio of taxes paid to the state by workers over the income and benefits received by workers as well as families on welfare). A ratio of greater than one indicates that the benefits and income received by workers and welfare recipients falls short of taxes paid by workers.

In Canada from 1955-1988 the transfer ratios always exceeded 1.0. That is, taxes paid to the state by workers exceeded the benefits and income received by them. The welfare-adjusted transfer ratio fell below 1.0, indicating that workers and families on welfare received more benefits than they paid in taxes for only 15 years out of the 34 examined. Within that period however, four broad historical phases can be distinguished.

During the first phase, 1955-69, there was a steady decline in the value of the transfer ratio. Despite rapid economic growth and expanding social programs during this era, the redistribution of income was within the working class and welfare recipients rather than from profit recipients to workers and families on welfare. In fact, there was a net transfer from labor to the state during this period.

The transfer ratio continued to decline during the second phase, 1970-1975. The welfare adjusted transfer ratio actually dipped below one for the first time, and the transfer ratio came to as low as 1.17. Thus there was a small net payment by workers to the state as well as a net transfer from the state to families on welfare. All this was accompanied by a rise in the unemployment rate and the consolidation of social programs.

Workers and welfare recipients together continued to receive net transfers during the third phase, 1976-1983 -Canada's worst post-war economic years. This economic slowdown was coupled with a squeeze on social expenditure, leaving the transfer ratio constant from 1975-1979, followed by a dip that was accompanied by non-labor to welfare recipients transfers that set the stage for large scale cutbacks in the 1980s.

During the fourth phase, 1984-88, both transfer ratios rose sharply, coupled with a decline in unemployment and a state "attack" on social programs. This suggests that workers and welfare recipients lost the ground they gained in the 1960s and 1970s.

Canada vs. the United States

Comparison of the United States and Canada is used to isolate the effects of cyclical changes in economic activities from other forces that influence the distributive activities of the state. The post-World War II period in both countries reveal some general similarities. In the 1950s and 1960s, social programs were established and expanded in the two countries and were cut back in the late 1970s and 1980s. A more detailed comparison can be carried out using the same four periods discussed in the last section.

During the first two phases, 1955-1975, the transfer ratios in the two countries followed each other fairly closely. This was also associated with small or stable unemployment rate differential between the two countries. These similarities changed in the late 1970s and 1980s. The US welfare adjusted transfer ratio rose steadily after 1975, while Canada stood below one from 1975-1983. During this period, Canada's unemployment rate was much higher than the US rate. The last phase, 1984-88, is characterized by a steady rise in the Canadian welfare adjusted transfer ratio (similar to the US ratio) and a steady decline in the unemployment rate differential between two nations.

There are two principal explanations for the divergence between the Canadian and US transfer ratios during the last phase. First, there is an important difference between the unemployment rates in two countries. For most 1975-1988, the Canadian unemployment rate exceeded the US rate by three to four times its past historical value. Such high unemployment could have accelerated the state's unemployment insurance and welfare payments to labor and therefore reduce the ratio.

Others have rejected this explanation. They claim that deep recessions in the 1970s and 1980s, coupled with high unemployment weakened labor's power, saying that the state responded to the crisis by joining the private sector's attack on labor. This "harmonization" assault on labor in the two countries occurred both in expenditure and taxation -shifting the burden more on labor.

Conclusion

Contrary to popular wisdom, the empirical evaluation of Canada during 1955-1988 reveals that "net transfers from labor to the state were used to finance the state transfer payments to families on welfare as well as other state expenditures whose beneficiaries were neither labor nor welfare recipients" (87). If these trends continue, a "negative social wage could be used to improve profitability by reducing capital's responsibility for paying for non-labor supporting state activities such as for the military, administrative costs or capital grants, by transferring surplus through to corporations and/or by undermining labor's ability to protect its wages and working conditions by reducing unemployment insurance and welfare payments." (87).