

THE STATE FISCAL CRISIS AND THE TRANSFORMATION OF
FEDERAL HOUSING POLICY

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BY

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the University of Manitoba in partial fulfillment of the requirements
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ABSTRACT

In response to contemporary economic and fiscal crises, the Canadian state is radically altering its social and economic interventions. Essentially, politicians and planners are reviving classical political and economic doctrine. The ideology of possessive individualism, the root of a depoliticized society and its acceptance of the inevitability of a poor class, is becoming ever more solidified in the dominant society. This "new philosophy" of state intervention has manifest itself in changes in all areas of intervention. This thesis analyzes the transformation of state housing policy within a discussion of the above, broader metamorphosis.

To this end, Chapter 2 establishes a theoretical framework for understanding changes at the broader level of intervention. The work of neo-marxist theorists who argue that the state performs a dual role of accumulation and legitimation in advanced capitalist societies forms the theoretical base. It is argued that the Canadian state's present response to the country's fiscal and economic crises -- an erosion of the welfare state, monetarism, and wage and price controls, constitutes a withdrawal of legitimation.

Chapter 3 analyzes the role housing interventions have played in fulfilling the state's broader dual function. The legitimation and accumulation aspects of housing interventions directed toward homeownership, private rental housing,

public housing, nonprofit and co-operative housing, and urban renewal and rehabilitation are considered. Contradictions between the state's broader economic function and its housing goals are identified.

The persistence of the housing crisis is discussed in Chapter 4. It is argued that in spite of an historical increase in the level of state intervention in housing (until the mid 1970's) a housing crisis persists and in some ways has sharpened through the latter 1970's and early 1980's.

The final chapter details the current transformation of housing policy. The two underpinnings of this transformation -- declining budgetary expenditures and a withdrawal of state housing capital expenditures are outlined. These changes are linked to the broader withdrawal of legitimation discussed in the second chapter.

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CHAPTER 1
INTRODUCTION

Transformation of the State's Housing Role

Beginning in the latter 1970's, and continuing to the present, the role of the Canadian state in the provision of shelter has undergone a significant transformation. A primary underpinning of this transformation has been a withdrawal from the direct provision of housing capital by the state. During this period, the state increasingly has attempted to induce private capital to invest in housing previously made available by the state. As well, the nature of state housing expenditures has been radically altered. Many kinds of housing expenditures have been curtailed or eliminated. The purpose of new expenditures represent a fundamental change in state housing policy.

To illustrate, in 1978, the state sharply curtailed its public housing activity. While ceasing to provide state owned housing to the poor, the state has attempted to shift the responsibility for meeting such needs to the local community, through non-profit organizations. It is intended that the capital requirements for such housing will be met by private capital, supported by state guarantees against loss.

Mortgage subsidies to new homeownership aspirants have also been eliminated. New mortgage mechanisms, like graduated payment mortgages, requiring state guarantees but no capital or subsidies, are being promoted as a replacement to past state assistance.

Direct subsidies to private rental housing builders and investors have also been phased out. As with individual mortgaged homeownership, mechanisms that require no state subsidies or capital are being presented as an alternative.

As well, federal government assistance to municipalities for the provision of physical infrastructure and recreational, social and cultural facilities will be withdrawn by early 1982.

Further, rent controls, the sole remnant of general wage and price controls introduced in 1975, have either been eliminated or are under review in most provinces.

While these major changes to state housing interventions have transpired, other forms of assistance have been sustained. In particular, selected tax expenditures, used to support both homeownership and the private rental sector, have been retained.

As suggested, certain budgetary expenditures have been increased substantially. For example, state subsidies for home insulation purposes have risen markedly.

Finally, new interventions are being entertained. The federal minister responsible for housing has made strong overtures about the introduction of a shelter allowance in the near future.

The rationale provided publicly by state politicians and planners for the current metamorphosis of state housing interventions has two dimensions. First it is argued that rising budgetary deficits incurred by the federal level of

government, prohibit the continuance of past forms and levels of state involvement. Second, it is argued that the state must decrease its degree of intervention as past levels of intervention are largely the cause of contemporary housing problems. It is suggested that previous interventions have led to a situation of overproduction, the root of the current production crisis in the housing construction sector.

The Interruption of an Historic Trend of Increased State Involvement

The current transformation of the state's role in housing exemplified by the discrete changes outlined above, constitutes the interruption, if not reversal, of a distended interventionist stance initiated in the immediate post-war period. As part of a broader interventionist stance, generally characterized by Keynesian economic policy and social welfare measures, the state greatly increased its involvement in housing Canadians after the second world war.

Prior to the war it had become painfully clear that given its laws of motion, the capitalist mode of production tended inherently to periodic dysfunction. The social effects of this breakdown threatened the existing order.

The economic mobilization of the war effort brought Canada from the depths of depression to a high level of production. The pressing business now was to reorganize production to prevent any recurrence of the pre-war economic catastrophe. The predominant feature of this "reorganization" would be increased state "management" of the economy. Crudely, the state

would attempt to lessen the severity of the business cycle by regulating the level of investment in the economy through the use of Keynesian measures. Since the state would never completely smooth the process of capitalist development, social welfare measures were instituted to ameliorate the negative social effects of unemployment, and disparities in the accumulation of wealth and income.

Housing interventions were an integral part of this "post-war reconstruction" strategy from the beginning. Residential construction would constitute a major sector of the economy. As such, the stability of the economy as a whole could be influenced by regulating investment in the housing sector. Housing investment was regulated often to this end during the 1950's and 1960's. As a further basis for intervention, it was recognized that the provision of adequate housing would promote social stability and enhance the productivity of labour.

With the above as a foundation for intervention, the state expanded its housing interventions immediately after World War II. This distention continued to the latter 1970's. During the 1950's and 1960's, the dominant goal of the state was to facilitate individual, mortgaged homeownership. As insufficient mortgage capital was the major obstacle to homeownership during this period, the state's efforts focussed largely on increasing private investment in mortgages. State mortgage insurance was instituted to this end. Where the provision of private capital could not be induced, the state sup-

plied mortgage capital directly. By 1970, mortgage insurance was insufficient to sustain the level of homeownership desired. The discrepancy between incomes and housing costs rendered demand ineffective. As a result the state began to offer homeownership aspirants low interest capital. By the mid 1970's the state had to provide cash grants and interest free capital to stimulate the desired level of homeownership. A special tax expenditure was also introduced at this time.

The state has also induced the private sector to supply some measure of low income rental housing. To this end, it offered low interest capital and guaranteed profits throughout the 1950's to the mid 1970's. By 1975 interest free capital was being offered to rental housing investors as a further inducement. However, the provision of low rental housing was no longer a prerequisite to assistance. During the mid 1970's a special tax expenditure was also instituted to attract investment in rental housing. While the state was attempting to stimulate new rental housing activity, in 1975 rent controls were imposed on most existing stock with the intent of preventing the realization of monopoly profits arising from housing shortages.

Though the emphasis of state involvement was on mortgaged homeownership and private rental housing, the state also directly furnished public housing and supported community housing to meet the needs of the poor. Little state-owned housing was constructed until the mid 1960's. Such housing was considered only as an option for the poor functioning increasingly as

part of the welfare system. Between 1964 and 1976, substantial relative increases were achieved. However, public housing still constitutes a marginal proportion of the total housing stock in the country, remaining a reserve of the poor.

During the 1950's and 1960's, community housing (non-profit and co-operative housing) primarily served the needs of the elderly. Sponsors were usually service clubs or churches. The type of assistance made available to non-profit organizations was the same as for private low rental housing. Co-operatives were not extended this assistance. In the latter 1960's and early 1970's, as part of the community based reform movement of the time, community groups became involved in providing housing to low income people. However, the level of activity of community housing declined through the early 1970's as the community housing mode was proving ineffective in fulfilling the housing requirements of low income people. As a result state assistance was extended in the mid 1970's. As well, co-operatives were finally eligible for the same assistance as non-profit groups and private entrepreneurs.

The state also assumed an essential role in the urban renewal movement of the 1960's. During the 1950's and early 1960's, the federal government made grants to municipalities for slum clearance. As well, the state assumed some of the economic costs of relocating slum dwellers whose neighbourhoods were demolished. As citizen opposition to the prevailing urban renewal approach mounted, the approach was abandoned in favour of neighbourhood rehabilitation in 1973. New programming pro-

vided for the rehabilitation of homes, new cultural and recreational facilities and the upgrading of municipal services. As well, provision was made for greater citizen participation in neighbourhood planning.

The composite effect of the above trend of increasing state intervention in housing, has been a substantial proliferation in expenditures and capital investment for this purpose, during the period. As suggested earlier, this historic trend is now being interrupted.

The Contemporary Housing Crisis

While state interventions in housing have been undergoing a transformation, of the nature outlined above, the housing crisis has persisted, and in some ways sharpened, from the latter 1970's to the present. Even a conservative analysis of housing need in Canada suggests that a significant level of need expressed as inaffordability, physical inadequacy and crowding still exists. In spite of this need, the housing construction sector is experiencing a production crisis. Housing starts are currently well below estimated new housing requirements. Current high mortgage rates, the result of the state's broader economic policy, have stagnated the residential construction industry. As a result, investment is shifting from housing to non-residential construction. In addition, high mortgage rates are rendering existing housing unaffordable as mortgages become renewable. The problem is empirically evident as mortgage defaults have reached unprecedented levels.

Further, as many mortgage defaults are insured by the state through its insurance fund, the crisis has been partially transferred into the state's administrative system. Losses sustained by the state mortgage insurance fund have swelled in recent years.

A new dimension of the housing crisis has also emerged in the latter 1970's. Energy expenditures, as a percentage of total family expenditures, have risen greatly. Inevitable future increases in such costs will constitute an additional burden on families, particularly those of low income.

The National Economic and State Fiscal Crises

Concomitant with the above developments in the particular sector of housing, we are experiencing national economic and state fiscal crises. Since the mid 1970's, real economic growth has been retarded, unemployment and inflation have reached high, sustained levels and a current account deficit has burgeoned. The state fiscal crisis has also deepened over the period. The consolidated budgetary position of all levels of government has increasingly fallen into deficit. Within this overall deficit position, the budgetary position of each level of government varies substantially. The federal government has incurred high, sustained deficits through the latter 1970's to the present. In contrast, the consolidated budgetary position of the provinces has been in a surplus due to the resource based wealth of the western provinces (surpluses incurred by the western provinces have more than offset the deficits of other provinces).

In response to the national economic crisis and its own fiscal problems, the federal government has fundamentally altered its economic and fiscal policies. The federal government largely determines the country's housing policy. Throughout the period, new policies at the broader level of intervention have often been in contradiction to the fulfillment of housing needs. Such policy changes have either exacerbated the housing crisis, undermined the effectiveness of particular housing programs or caused a shift of resources from housing to other initiatives.

Economic policy changes instituted in 1975 were a departure from the Keynesian approach adopted during the post-war period to the mid 1970's. The effectiveness of Keynesian measures was certainly in question earlier, as "stagflation" became entrenched, however no fundamental changes were introduced until 1975. The primary concern of the state at the time was to reduce inflation. The two policy changes introduced reflected this preoccupation. During 1975 mandatory wage and price controls were imposed and a monetarist-based monetary stance was initiated. The controls program really concentrated on wages, reflecting an adherence to the belief that wage increases were at the root of inflation. The wage control program contradicted a major housing program, the success of which depended on healthy wage gains for participants (Assisted Homeownership Program). The controls program had a short life, as it was phased out in 1977.

The state's altered monetary policy was also aimed at

inflation. It was believed that the expansionary monetary policy of the early 1970's was also a primary cause of inflation. This belief continues. Since 1975, the state has established progressively restrictive money supply growth targets. Such growth targets are being met by increasing the bank rate. By raising the bank rate, the state has, as outlined above, caused all interest rates to rise. Mortgage rates have now reached over 20 per cent. The impact of high mortgage rates on the housing market has been devastating. New construction has been severely retarded and mortgagors facing renewals are suffering hardship. As defaults have swelled, the state's mortgage insurance fund has suffered great losses.

In further response to its fiscal and economic problems, the state, in 1980 instituted the National Energy Program (NEP) and planned increased expenditures to facilitate economic development. The NEP is intended to ameliorate the fiscal crisis over the long-term by shifting oil and gas revenues from the provinces and industry to the federal government. Economic development expenditures are intended to facilitate growth in other sectors, expanding the federal government's revenue base. In order to raise sufficient resources, in the immediate term, without increasing its deficit (now politically unfeasible), other expenditure areas, particularly social services, and housing are being curtailed. Similarly, increased capital requirements related to new energy programs have necessitated that the federal government reduce capital available for other functions like housing.

Statement of the Problem

In the foregoing I have outlined briefly the transformation of state housing policy that has transpired from the latter 1970's to the present. I have suggested that in general this transformation has consisted of a withdrawal of housing capital and reduced budgetary expenditures by the state. As well, I have argued that this housing policy shift constitutes an interruption, if not reversal, of a long-term trend of increasing state housing intervention (through the post-war period to the mid 1970's). Further I have suggested that a housing crisis persists and has even sharpened while housing policy changes have been effected. Finally, I have proposed that the transformation of housing interventions are grounded largely in changes effected at the broader level of intervention (e.g., monetary policy, energy programming). Further, higher level changes have contradicted actual or potential housing interventions and aggravated the housing crisis.

The concern of this thesis is to further develop the above propositions, within a critical, theoretical framework. In so doing we can reach a more clear understanding of the relationship among the housing crisis, changes to state housing interventions, and developments at the level of overall state intervention.

The development of the theoretical framework will begin with a discussion of the role of the state in post-war Canada. The discussion will focus on recent adjustments to this role, outlined briefly above. The work of a number of neo-marxists

(O'Connor, Wolfe, Chorney and Hansen) will serve as the theoretical base. Much new analysis, attempting to explain the role of the state in advanced, western, capitalist countries has recently emerged from such theorists. The pursuit of such inquiry is to explain the endurance of the capitalist social formation in spite of its endemic tendency toward economic and social crisis.

The thesis argues, following neo-marxist theory, that the Canadian state, like its western counterparts, performs a two fold role of accumulation and legitimation. That is, simultaneously it attempts to create the conditions for the profitable accumulation of capital (sometimes supporting, sometimes replacing the capitalist market through fiscal, monetary and regulatory intervention) and maintain social harmony (the primary purpose of social programming). The fulfillment of its twofold role has necessitated an increasing level of intervention during the post-war period. Increased intervention has ultimately resulted in the present fiscal crisis given the inherent contradictions between the increasing assumption of the costs of production by the state and the continued appropriation of profit by capital. The Canadian state's response to its fiscal crisis has crystallized during the latter 1970's and early 1980's. Simplistically, it has withdrawn from interventions that serve primarily a legitimation function in favour of its accumulation function. This discussion is the stuff of Chapter 2.

Chapter 3 concentrates on the historic part housing interventions have played in the fulfillment of the state's dual role. The question of how the state has intervened in the

housing market to facilitate the realization of society's housing needs while serving the interests of capital is considered. As well, contradictions that have arisen between the state's housing pursuits and its overall objective of balancing its accumulation and legitimation functions are identified.

Chapter 4 outlines the nature of the contemporary housing crisis, demonstrating that the need for state intervention remains. That is, the inability of the capitalist market to fulfill society's housing needs persists. Contradictory state policy identified in Chapter 3 is further discussed, illustrating its relationship to the housing crisis.

The business of the final chapter is to relate the current transformation of state housing interventions to the broader state withdrawal of legitimation. It is argued that policy changes in a particular realm, in this case housing, can only be understood within a critical analysis of developments at the broader level of state intervention.

CHAPTER 2

THE ROLE OF THE STATE, RECENT SHIFTS AND THE FISCAL CRISIS

As stated in the introductory chapter, the concern of this chapter is to establish a theoretical framework for understanding the role of the Canadian state during the post-war period and the current fiscal crisis. In considering this question, I will rely on what remains the definitive analysis of the fiscal crisis in advanced, capitalist societies, James O'Connor's The Fiscal Crisis of the State.¹ Since O'Connor's piece analyzes the American experience, it is necessary to draw from recent Canadian work as well. Leo Panitch's, The Canadian State - Political Economy and Political Power,² a compilation of articles considering the essential aspects of the role of the state (e.g., David Wolfe's analysis of federal economic policy) is a paramount work in such inquiry. A recent article³ by Chorney and Hansen, in which the authors question why a crisis in legitimation has not arisen in Canada, in spite of the current assault on social programs, is also an important contribution. This contemporary Canadian work draws extensively from the analysis of other western, critical theorists,⁴ notably Milliband, Poulantzas, Habermas, as well as O'Connor. Let us proceed now to a summary of O'Connor's fiscal crisis thesis.

O'Connor's Theory of The Role of the State and the Fiscal Crisis

O'Connor's thesis begins with the following premise,

The capitalistic state must try to fulfill two basic and often mutually contradictory functions -

accumulation and legitimation (author's emphasis). This means that the state must try to maintain or create the conditions in which profitable capital accumulation is possible. However, the state also must try to maintain or create the conditions for social harmony.⁵

O'Connor further argues that the state cannot use its coercive forces (police, army) to abet the accumulation of capital in the hands of one class at the expense of the other societal classes without forfeiting its legitimacy and therefore mass loyalty and support. At the same time, the state must support the process of accumulation.

The second premise of O'Connor's thesis is based on the adaptation of essential Marxist economic categories. State expenditures that support the accumulation process are categorized as "social capital"; expenditures that fulfill the legitimation function are "social expenses." Social capital expenditures are indirectly productive in that they either increase the productivity of labour (e.g., the provision of infrastructure) or reduce the cost of reproducing labor (e.g., social insurance). Social Expenses (e.g., welfare payments) are not productive.

Having established the above paradigm, O'Connor argues that all expenditures have an accumulation and legitimation function in some degree simultaneously. However, an expenditure's primary function can be determined in relation to the prevailing economic and social conditions.

Continuing, it is argued that the growth of the state over time is a function of the monopolization of capital. There is a dialectical relationship between the growth of these two

sectors. O'Connor elucidates as follows,

The growth of the state sector is indispensable to the expansion of private industry, particularly monopoly industries the growth of monopoly capital generates increased expansion of social expenses. In sum, the greater the growth of social capital, the greater the growth of the monopoly sector. And the greater the growth of the monopoly sector, the greater the growth of the state's expenditures on social expenses of production.⁶

As capital concentrates, the social character of production increases. That is, the state is required to provide new forms of capital (infrastructure, manpower training, education etc.) that private capital cannot supply profitably,⁷ but are necessary for the accumulation of monopoly capital.

The growth of the monopoly sector is accompanied by poverty, unemployment, and economic stagnation. To insure mass loyalty and maintain its legitimacy, the state must provide programs that contain the negative social effects of uneven⁸ capitalist development.

The fiscal crisis is grounded in the contradiction that while the costs of production are increasingly socialized, that is, assumed by the state, social surplus continues to be appropriated privately. The amount of surplus value appropriated by the state to fulfill its dual function does not meet revenue requirements increasingly as the state and monopoly sectors grow. Its revenue base shrinks as a result of stagnation while its fiscal requirements increase. As well, monopoly sector corporations and organized labour can increasingly resist taxing by the state.

O'Connor identifies possible responses by the state to

its fiscal crisis. Generally, the state can but back expenditures, either social capital or social expenses, or attempt to appropriate more surplus by increasing taxes on individuals or corporations. Freezing wages is also a policy option the state can institute.

Having briefly outlined O'Connor's theoretical framework, we can now consider the Canadian state. Specifically we will consider how the federal government⁹ has attempted to fulfill its accumulation and legitimation functions, the nature of its fiscal crisis and its response to this crisis.

The Canadian State and Its Fiscal Crisis

During the 1950's and 1960's, federal government intervention was characterized by Keynesian economic policy and increased social welfare measures. Committed to the pursuit of full employment, stable prices and steady economic growth, the government applied fiscal measures (taxation and spending) aimed at sustaining demand in the economy (both consumption and investment). Budgetary deficits and surpluses were managed according to whether the goal was to stimulate or dampen the economy. In managing the economy in this manner, the federal government was fairly successful in effecting trade offs between unemployment and inflation. The government's monetary objective was to manipulate the supply of money to effect changes in the interest rate and therefore investment. Relying on Keynesian full employment policy, the federal government was generally successful in creating the conditions for the profitable accumulation of capital.

Concomitant with Keynesian economic interventions, unemployment insurance, social welfare and social security programs were introduced to ameliorate the negative effects of the market, supplying the requisite level of legitimation.

Until the mid 1960's the combination of Keynesian economic policy and social welfare programs served the state well in fulfilling its dual function. Growth was high and unemployment low throughout most of the period. As well, inflation was low and the balance of payment position healthy. The standard of living for the average Canadian family rose considerably over the period. State regulated capitalism was supplying the material needs of a large majority of the population.

By the middle 1960's, inflation and unemployment began to appear simultaneously. The state was no longer able to trade off inflation and unemployment effectively. Wolfe argues that this "stagflation" is rooted "paradoxically in the success of the state in emphasizing Keynesian full employment policy." First, following O'Connor, Wolfe suggests that,

Full employment policy is an essential aspect of the accumulation function of the state because it ensures the high and stable level of demand which is the necessary incentive for sustained investment by private firms. At the same time, full employment policy is an essential aspect of the legitimation function of the state because it removes the most destructive consequences of the market economy for members of the working class, the fear of unemployment, and thus helps ensure their loyalty to the system.¹⁰

Further, as social welfare and unemployment insurance measures have been successful in ameliorating the negative effects of the market, the "political and economic" power of

labour has proliferated. As a result in certain periods (on the downside of the business cycle) labour has been able to increase its share of the national income over capital through wage bargaining. As corporations' costs increase the effect is either to reduce profits and therefore money available for investment or increase prices to maintain profit levels. Either option can lead to stagnation. In the first instance investment declines, in the second, international competitiveness is undermined. Wolfe shows empirically that during the late sixties and early seventies, labour's share of income over capital had increased. He suggests that inflation and stagnation has occurred simultaneously as a result.

Although during the late 1960's and early 1970's the inability of Keynesian economic policy to deal effectively with stagflation was apparent, no major economic policy changes were introduced. The government did attempt to convince labour and capital to agree to voluntary wage and price restraint, to no avail. Social programming was heightened during the period as a response to the prevalent social unrest of the late 1960's and early 1970's.

In the mid 1970's, economic conditions worsened as growth diminished and inflation increased to over 10 per cent. As well, the current account deficit began to swell. Table 1 illustrates the condition of the economy through the 1970's.

Through the period, growth has remained anemic, unemployment and inflation have reached high, sustained levels and the current account deficit has increased markedly until 1980.¹¹

Table 1
Selected Economic Indices

| Year | 1 Real GNE Change (%) | 2 CPI Change (%) | Unemployment Rate | Current Account Deficit (\$ billions) |
|------|-----------------------------|------------------------|----------------------|---|
| 1970 | 2.5 | 3.3 | 5.7 | 1.11 |
| 1971 | 6.9 | 2.9 | 6.2 | .43 |
| 1972 | 6.1 | 4.8 | 6.2 | -.39 |
| 1973 | 7.5 | 7.5 | 5.5 | .11 |
| 1974 | 3.6 | 10.9 | 5.3 | -1.46 |
| 1975 | 1.3 | 10.8 | 6.9 | -4.76 |
| 1976 | 5.5 | 7.5 | 7.1 | -3.84 |
| 1977 | 2.7 | 8.0 | 8.1 | -4.30 |
| 1978 | 3.4 | 9.0 | 8.4 | -4.90 |
| 1979 | 2.7 | 9.1 | 7.5 | -4.90 |
| 1980 | 0.0 | 10.1 | 7.5 | -1.90 |

Source: Bank of Canada Review, July, 1981, Tables 1 and 53.

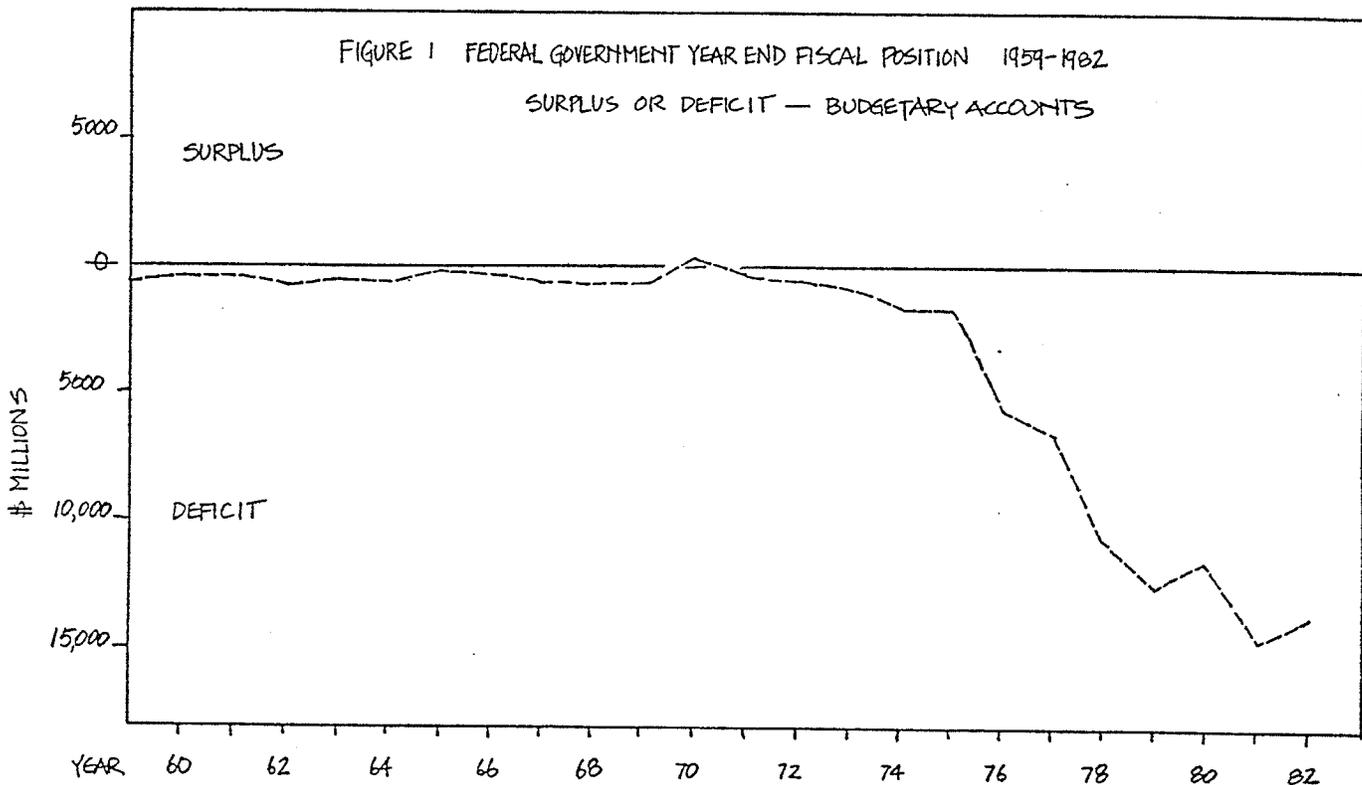
Soaring world oil prices exacerbated inflation, while substantial increases in interest and dividends flowing out of the country created a large current account deficit.¹² Table 2 outlines increases in the latter.

As the country's economic difficulties magnified, its fiscal crisis also sharpened. Since the mid 1970's, budgetary deficits have mounted. Not since the war years has the federal government experienced such high, sustained deficits. The following figure illustrates its increasing fiscal problems.

Table 2
Interest and Dividends Abroad

| Year | \$ Billions |
|------|-------------|
| 1970 | 1.6 |
| 1971 | 1.7 |
| 1972 | 1.7 |
| 1973 | 2.1 |
| 1974 | 2.4 |
| 1975 | 2.9 |
| 1976 | 3.3 |
| 1977 | 4.5 |
| 1978 | 5.9 |
| 1979 | 6.5 |
| 1980 | 7.2 |

Source: Bank of Canada Review,
July 1981, Table 70.



SOURCE: THE NATIONAL FINANCES 1980-81, CANADIAN TAX FOUNDATION, P.54

NOTE: 1981-82 FIGURES ARE ESTIMATES

As growth has declined during the latter seventies, the base from which the federal government can extract revenue has also diminished. The following table illustrates the degree to which revenues have fallen off during this period. In three of the five years from 1975-1979, revenues experienced a real decline.

Table 3
Federal Government Revenue
(1971-1980)

| Year | Revenue (\$ Millions) | % Increase | C.P.I. (%) | Real Increase |
|------|--------------------------|------------|------------|---------------|
| 1971 | 17,241 | 11.0 | 2.9 | 8.1 |
| 1972 | 19,560 | 13.4 | 4.8 | 8.6 |
| 1973 | 22,809 | 16.6 | 7.5 | 9.1 |
| 1974 | 29,978 | 31.4 | 10.9 | 20.5 |
| 1975 | 31,703 | 5.8 | 10.8 | -5.0 |
| 1976 | 35,313 | 11.4 | 7.5 | 3.9 |
| 1977 | 36,214 | 2.6 | 8.0 | -5.4 |
| 1978 | 38,019 | 5.0 | 9.0 | -4.0 |
| 1979 | 43,518 | 14.5 | 9.1 | 5.4 |

Source: The National Finances 1980-81, The Canadian Tax Foundation, Table 2-7, p.24.

Economic stagnation has clearly contributed greatly to the fiscal crisis.

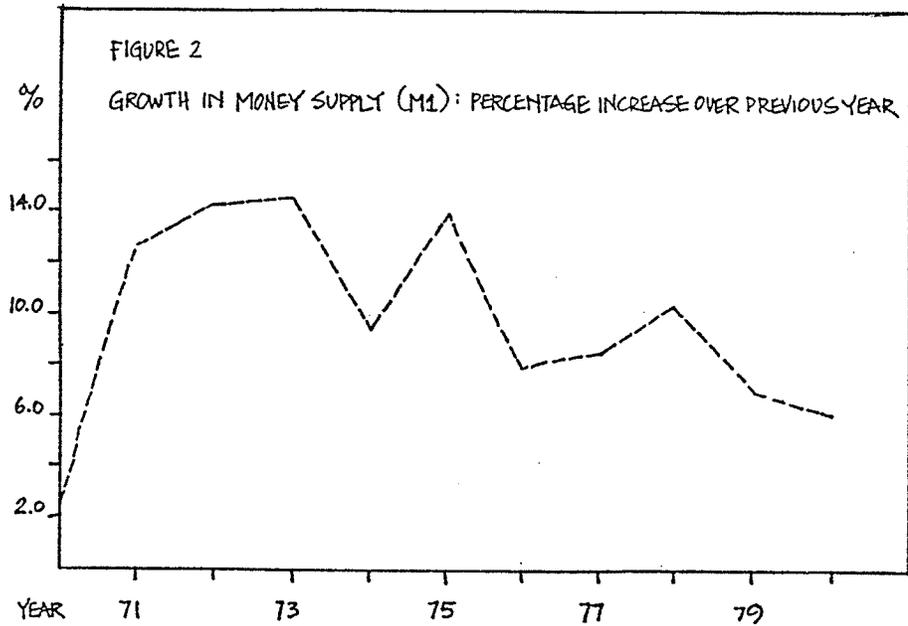
In response to mounting economic and fiscal problems, the state began to fundamentally alter its policy. Having failed to induce voluntary wage and price controls in the early 1970's, mandatory controls were imposed in October of 1975. Chorney and Hansen discuss the effects of the wage and price controls program in their aforementioned article. They

argue that the program has effectively reduced labour's share of income and maintained corporate profits. During 1974-76 wages exceeded productivity gains and inflation. By 1977 the program had accomplished the reverse.

The overall result of the program was to shift income from labour to capital, dampen labour's expectations and, with the increase in unemployment which accompanied the program - the rate rose from 5.4 per cent in 1974 to 8.5 per cent in 1978 - allow accumulation to take place, thereby it was hoped, laying the foundation for a new round of capital investment. 13

The other major element of the shift in economic policy in 1975, was to begin relying on the rate of growth of the money supply to curb inflation. At this time, the Bank of Canada announced that over the coming years it would establish money supply growth targets intended to restrict progressively the money supply, the ultimate goal being to curb inflation. The basis for this shift in monetary policy was the belief that high levels of growth in the money supply during the first half of the decade were a major cause of inflation. That is, an excess supply of money led to excessive consumption and investment. The bank rate would now be adjusted to achieve money supply growth targets in reverse of the past, where money supply was altered to fulfill interest rate, and thus credit condition goals. Monetary policy has shifted from its Keynesian roots to Monetarism.

A restriction in growth in money supply has been achieved since 1975 but inflation has persisted (see the following figure and C.P.I. rates in Table 1).



SOURCE: BANK OF CANADA REVIEW, FEBRUARY 1981, TABLE 1

The federal government's monetarist stance, has not been successful in realizing its major goal -- curbing inflation. It has, however, promoted the accumulation of capital as large corporations can more easily withstand the effects of high interest rates.

The third component of the federal government's economic stance initiated in 1975 has been a reduction in spending. As indicated in Table 4, the federal government has achieved substantial decreases in the rate of growth of its expenditures during the period 1977 through 1980. As it has been unable to ameliorate its fiscal crisis by increasing its revenue base (i.e., by facilitating sufficient economic growth), the government has had to reduce its expenditure growth considerably.

The objective of reduced government expenditure is also a function of an adherence to the monetarist belief that

Table 4

Federal Government Expenditure
(1971-1980)

| Year | Expenditure (\$ Millions) | % Increase | C.P.I. (%) | Real Increase |
|------|------------------------------|------------|------------|---------------|
| 1971 | 15,728 | - | 2.9 | - |
| 1972 | 18,218 | 15.8 | 4.8 | 11.0 |
| 1973 | 20,912 | 14.8 | 7.5 | 7.3 |
| 1974 | 24,277 | 16.1 | 10.9 | 5.2 |
| 1975 | 30,891 | 17.2 | 10.8 | 16.4 |
| 1976 | 36,865 | 19.3 | 7.5 | 11.8 |
| 1977 | 41,217 | 11.8 | 8.0 | 3.8 |
| 1978 | 45,965 | 11.5 | 9.0 | 2.5 |
| 1979 | 50,614 | 10.1 | 9.1 | 1.0 |
| 1980 | 57,177 | 13.0 | 10.1 | 2.9 |

Source: Federal Government Finance 1974, 1979, Statistics Canada Catalogue - 68211 (1979-Table 15, 1974-Table 17).

current government spending is replacing private investment. It is argued that as government demands capital to pay off debt incurred for prior consumption, private investment in future productive capacity is foregone. Thus inflation arises. The validity of this position hinges on the level of real slack in the economy. Without attempting a definitive conclusion, it would seem difficult to argue that the economy is currently operating to capacity and that private productive capital is being replaced by unproductive government spending. For example, corporations seem to have ample capital available for unproductive mergers.

While the federal government has reduced its increases in overall expenditures, program spending for certain functions has been reduced at a greater than average rate. Table 5 com-

compares expenditures on social services, health, education, and housing with total federal expenditure for the period 1971 through 1981. By 1981 it is expected that spending on these functions as a percentage of total expenditure, will have declined to a share lower than in 1971. The greatest reduction has been in social services spending.

Table 6 compares increases in federal government spending for the period 1971 through 1980. Real increases in total expenditures have begun to out-strip real increases in combined expenditures on social services, health, education and housing. In 1980, there was a real decrease in spending on the latter (-2.3%), while the former increased by (2.9%).

Table 5
Federal Government Expenditure by Function
1971-1980
(Fiscal Year Ending March 31)

| Year | (1) | | (2) | | (3) | | (4) | | (5) | (6) | | (7) |
|-------|-----------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|---------------------------------|-----------------------------------|-----|
| | Social Services | | Health | | Education | | Housing | | Total | Total Federal Expenditure | % Total Federal Expenditure | |
| | \$ Millions | % of(6) | \$ Millions | % of(6) | \$ Millions | % of(6) | \$ Millions | % of(6) | \$ Millions | (\$ Millions) | | |
| 1971 | 4,496 | 28.6 | 1,308 | 8.3 | 872 | 5.6 | 41 | 0.3 | 6,717 | 15,728 | 42.7 | |
| 1972 | 5,418 | 29.7 | 1,603 | 8.8 | 864 | 4.8 | 70 | 0.4 | 7,955 | 18,218 | 43.7 | |
| 1973 | 6,858 | 32.9 | 1,789 | 8.6 | 847 | 4.0 | 99 | 0.5 | 9,593 | 20,912 | 45.9 | |
| 1974 | 8,109 | 33.4 | 1,951 | 8.0 | 919 | 3.8 | 138 | 0.6 | 11,117 | 24,277 | 45.8 | |
| 1975 | 10,079 | 32.6 | 2,296 | 7.4 | 1,039 | 3.3 | 212 | 0.7 | 13,626 | 30,891 | 44.1 | |
| 1976 | 12,385 | 33.6 | 2,781 | 7.5 | 1,178 | 3.2 | 338 | 0.9 | 16,682 | 36,865 | 45.3 | |
| 1977 | 14,033 | 34.1 | 3,305 | 8.0 | 1,372 | 3.3 | 487 | 1.2 | 19,197 | 41,217 | 46.6 | |
| 1978 | 15,643 | 34.0 | 3,129 | 6.8 | 1,931 | 4.2 | 517 | 1.1 | 21,220 | 45,965 | 46.2 | |
| 1979 | 17,070 | 33.7 | 3,849 | 7.6 | 2,232 | 4.4 | 675 | 1.3 | 23,826 | 50,614 | 47.1 | |
| 1980 | 18,289 | 32.0 | 4,202 | 7.3 | 2,385 | 4.2 | 818 | 1.4 | 25,694 | 57,177 | 44.9 | |
| 1981* | 19,407 | 30.6 | 4,546 | 7.2 | 2,293 | 3.6 | 747 | 1.2 | 26,993 | 63,336 | 42.6 | |

- Source: 1. 1971-1980 - Federal Government Finance 1974, 1979, Statistics Canada Catalogue - 68211 (1979 - Table 15, 1974 - Table 17).
2. 1981 Canadian Tax Foundation Estimates, National Finances 1980-81, Table 5-1 and 5-2.

Table 6
Increases in Federal Government Expenditure Compared to the Consumer Price Index

| Year | (1) CPI Increase | (2) Increase in Federal Expenditure on Social Services, Health, Education and Housing | (3) Real Increase in (2) | (4) Increase in Total Federal Expenditures | (5) Real Increase in (4) |
|------|---------------------|--|--------------------------------|--|--------------------------------|
| 1971 | 2.9 | | | | |
| 1972 | 4.8 | 18.4 | 13.6 | 15.8 | 11.0 |
| 1973 | 7.5 | 20.6 | 13.1 | 14.8 | 7.3 |
| 1974 | 10.9 | 15.9 | 5.0 | 16.1 | 5.2 |
| 1975 | 10.8 | 22.6 | 11.8 | 27.2 | 16.4 |
| 1976 | 7.5 | 22.4 | 14.9 | 19.3 | 11.8 |
| 1977 | 8.0 | 15.1 | 7.1 | 11.8 | 3.8 |
| 1978 | 9.0 | 10.5 | 1.5 | 11.5 | 2.5 |
| 1979 | 9.1 | 12.3 | 3.2 | 10.1 | 1.0 |
| 1980 | 10.1 | 7.8 | -2.3 | 13.0 | 2.9 |
| 1981 | | 5.3 | | 10.8 | |

Source: Calculated from Table 5.

Note: Expenditures are based on a fiscal year ending March 31, while the CPI is based on the calendar year. As such these indices are not strictly comparable.

This analysis of federal expenditure leads to the conclusion that the welfare state has been eroded during this period. Lest it be argued that expenditures have simply been shifted to lower levels of government, Tables 7 and 8 show that when expenditures by the provincial and local governments are included, the same trend is apparent.

It is clear, then, that spending on social services, health, education and housing have disproportionately borne the burden of an overall decrease in state expenditures. It is also clear that this trend will continue. According to the federal government's fiscal plan, spending on social affairs will be reduced in order to "finance other initiatives".

While the Social Affairs envelope clearly remains one of the government's most basic priorities, as is reflected in the fact that it continues to account for by far the largest share of expenditures, the

Table 7
Total State Expenditure on Social Services, Health, and Education
as a Percentage of Total State Expenditure
1968-1978
(Fiscal Year Ending December 31)

| Year | (1) Social Services | | (2) Health | | (3) Education | | (4) Total | (5) Total State Expenditure (\$000.) | (6) |
|------|---------------------|----------|------------|----------|---------------|----------|------------|--------------------------------------|------|
| | \$000. | % of (5) | \$000. | % of (5) | \$000. | % of (5) | \$000. | (4) as % (5) | |
| 1968 | 4,228,030 | 17.1 | 2,665,184 | 10.8 | 4,713,555 | 19.0 | 11,606,769 | 24,755,124 | 46.9 |
| 1969 | 4,738,507 | 17.0 | 3,440,078 | 12.3 | 5,403,299 | 19.4 | 13,581,874 | 27,868,657 | 48.7 |
| 1970 | 6,044,830 | 19.2 | 4,262,416 | 13.5 | 5,993,650 | 19.0 | 16,300,896 | 31,483,583 | 51.8 |
| 1971 | 7,250,969 | 20.0 | 4,886,153 | 13.4 | 6,538,472 | 18.0 | 18,675,594 | 36,327,197 | 51.4 |
| 1972 | 8,819,536 | 21.5 | 5,477,993 | 13.4 | 6,953,040 | 17.0 | 21,250,569 | 41,008,554 | 51.8 |
| 1973 | 10,619,553 | 22.6 | 6,069,434 | 12.9 | 7,303,057 | 15.5 | 23,992,044 | 47,012,973 | 51.0 |
| 1974 | 13,386,584 | 22.6 | 7,357,494 | 12.4 | 8,792,442 | 14.8 | 29,536,520 | 59,298,211 | 49.8 |
| 1975 | 16,247,770 | 22.6 | 8,961,018 | 12.5 | 10,653,571 | 14.8 | 35,862,459 | 71,810,482 | 49.9 |
| 1976 | 18,447,065 | 22.9 | 10,140,299 | 12.6 | 12,189,746 | 15.1 | 40,777,110 | 80,580,029 | 50.6 |
| 1977 | 20,735,993 | 22.8 | 10,994,908 | 12.1 | 13,487,851 | 15.2 | 45,578,752 | 90,850,113 | 50.2 |
| 1978 | 23,293,526 | 23.3 | 12,010,831 | 12.0 | 14,796,189 | 14.8 | 50,100,546 | 99,756,771 | 50.2 |
| 1979 | 25,040,675 | 22.7 | 13,093,847 | 11.9 | 15,931,123 | 14.4 | 54,065,645 | 110,541,663 | 48.9 |

Source: Statistics Canada Catalogue 68-202, Consolidated Government Finance 1973, 1977. 1973 Table 6; 1977 Table 4.

NOTE: Housing expenditures not available.

Table 8
Increases in State Expenditure Compared to the Consumer Price Index

| Year | (1) CPI Increase | (2) Increase in State Expenditure on Social Services, Health, and Education | (3) Real Increase in (2) | (4) Increase in Total State Expenditure | (5) Real Increase in (4) |
|------|------------------|---|--------------------------|---|--------------------------|
| 1971 | 2.9 | 14.6 | 11.7 | 15.4 | 12.5 |
| 1972 | 4.8 | 13.8 | 9.0 | 12.9 | 8.1 |
| 1973 | 7.5 | 12.9 | 5.4 | 14.6 | 7.1 |
| 1974 | 10.9 | 23.1 | 12.2 | 26.1 | 15.2 |
| 1975 | 10.8 | 21.4 | 10.6 | 21.1 | 10.3 |
| 1976 | 7.5 | 13.7 | 6.2 | 12.2 | 4.7 |
| 1977 | 8.0 | 11.8 | 3.8 | 12.7 | 4.7 |
| 1978 | 9.0 | 9.9 | .9 | 9.8 | .8 |
| 1979 | 9.1 | 7.9 | -1.2 | 10.8 | 1.7 |
| 1980 | 10.1 | | | | |

Source: Calculated from Table 7.

rate of growth of this envelope will be held below that of total outlays. The government intends to achieve net savings in this area to help finance initiatives in other envelopes.¹⁵

Other initiatives include economic development, energy, external affairs, defence and servicing the public debt (the fiscal crisis). Table 9 outlines the federal government's fiscal plan, according to the recently established envelope system.

Table 9
Federal Government Fiscal Plan by Envelope

| | 1981-82 | 1982-83 | 1983-84 |
|---|-----------------|---------|---------|
| | per cent change | | |
| Energy* | -13.9 | 7.7 | 17.3 |
| Economic development | 21.6 | 13.5 | 9.2 |
| Social affairs | 10.6 | 6.3 | 6.9 |
| Justice and legal | 9.5 | 3.2 | 10.5 |
| Fiscal transfers | 9.0 | 11.9 | 11.0 |
| External affairs | 15.2 | 19.3 | 14.3 |
| Defence | 12.8 | 10.4 | 11.2 |
| Parliament | 10.1 | 9.9 | 9.0 |
| Services to government | 11.9 | 6.8 | 8.9 |
| Total outlays excluding public debt charges | 11.6 | 9.2 | 9.5 |
| Public debt charges | 18.8 | 16.4 | 12.7 |
| Total outlays | 12.8 | 10.5 | 10.1 |

*As a result of the implementation of blended oil pricing, net petroleum compensation payments are reduced to zero in 1982-83. This causes a decline in the envelope in 1981-82 and dampens growth in 1982-83.

Source: National Finances 1980-81, Canadian Tax Foundation, Table S-4, p.107.

Increased economic development expenditures are intended to support the accumulation of capital. Such expenditures will be diverted toward research and development, industrial development, restructuring the transportation system, grain handling, export development, manpower training etc., what O'Connor categorizes as social capital.

Increased energy expenditures will be made under the newly established National Energy Program (NEP). Approximately \$8 billion of new initiatives will be introduced under the program. Although the list is too long to include, most expenditures can be categorized as social capital in O'Connor's terms. The NEP is also intended to play an important role in ameliorating the fiscal crisis and reducing the current account deficit. As the NEP is a major development in the federal government's economic strategy it warrants further elaboration.

Since our energy sector, like the economy in general, is dominated by the United States, a considerable amount of interest and dividends on energy investments flow south. Between 1975 and 1979 interest payments and dividends on energy investments that left the country amounted to \$1.6 billion.¹⁶ This outflow has a substantial negative effect on the current account. To the extent that such interest and dividend payments are kept in Canada, by Canadianizing the energy sector, the current account deficit will be reduced.

Under the new energy program, the federal government, through Petro Canada, will acquire the Canadian operations of foreign multinationals. It has already acquired controlling interest in a large multinational, Petrofina. Equity infusions have been, and will in the future, be required from the federal government for this purpose.¹⁷ The government maintains that such equity will be derived from gas and oil revenues. Indeed a special account will be established to pool revenue for takeovers. In the early years of implementation, it is highly un-

likely that sufficient revenue will be collected to fulfill capital requirements. Capital will rather be shifted from other functions like housing.

Loans, investments and advances . . . are forecast to decline . . . in 1980-81. . . . requirements for Canada Mortgage and Housing Corporation are expected to be substantially lower. The loan requirements for 1980-81 to 1983-84 include provisions for energy initiatives which are quite substantial in 1981-82 and subsequent years. 18

The primary intent of the NEP is to ameliorate the federal government's fiscal situation. The program is an attempt to shift a portion of provincial energy revenues and oil industry profits to the federal government.

In terms of intergovernmental sharing, the existing system is unfair to the Government of Canada. It gives most of the revenue (from oil and gas production) to the producing provinces and the industry, leaving the national government with insufficient revenues to address the country's economic burdens, including those caused by rapidly rising world and domestic energy costs. 19

Further, a major element of the program is to eliminate the Oil Import Compensation Program in its current form. Under this program, the federal government subsidized the costs of imported oil consumed in the eastern provinces. The purpose of the program was to reduce the cost of imported oil to that of domestic oil, achieving parity across the country. Given recent, astronomical rises in world oil prices, the costs of the program have risen from \$157.4 million in 1973-74 to an estimated \$3 billion in 1980-81. ²⁰ The new blended price scheme, as an alternative to the present subsidy program, is intended to shift the costs of subsidizing eastern consumers of imported oil to all consumers

rather than the federal government. The extent to which the NEP is successful, is subject to question. For our purposes it is adequate to identify its intent.

Summary and Conclusions

At the outset of this chapter, with the purpose of establishing a theoretical basis for explaining the role of the Canadian State and its fiscal crisis, I outlined the basic premises of O'Connor's Fiscal Crisis of the State.²¹ I argued, following O'Connor, that the state performs a dual and often contradictory role in advanced capitalism -- accumulation and legitimation. It attempts to support the accumulation of capital and secure mass loyalty concurrently. I further argued that the fiscal crisis is rooted in a contradiction inherent to this function. That is, as production is increasingly socialized, profit continues to be appropriated privately. The dialectical relationship between the growth of the monopoly and state sectors was outlined. As the monopoly sector grows so is growth of the state sector required and vice versa.

Next, I placed the experience of the Canadian state within the above framework. I argued that during the 1950's and early 1960's, Keynesian economic policy and social welfare measures, served the state well in fulfilling its accumulation and legitimation functions. During the late 1960's and early 1970's, the ineffectiveness of such measures became apparent as stagflation became entrenched. In response, during this period, the state instituted no major policy changes. Social program-

ming continued to increase.

By the mid 1970's, as economic problems deepened (stagnation, inflation, current account deficit) and the fiscal crisis magnified, the state began to introduce policy changes. Wage and price controls were imposed to shift income from labour to capital to promote a new round of investment in the economy. A monetarist stance was adopted, intended to curtail inflation. Inflation has not been curtailed but sustained high interest rates will surely have the effect of further concentrating capital as larger firms can better endure such rates. In response to its fiscal crisis, and the growing belief that government spending is a primary cause of inflation, the state has reduced its expenditures overall. Within this overall reduction, expenditures have shifted from functions like social services and housing to energy (under the National Energy Program) and economic development. In O'Connor's terms, this can be described as a shift from expenditures having primarily a legitimization function to those having an accumulation function.²² Further, it is clear that the above trend, an erosion of the welfare state, will continue at least to the mid 1980's. With current inflation rates, the social affairs envelope will suffer a real decline.

The provision of direct capital by the state has already shifted from functions like housing to energy. This trend will also continue.

It is also unlikely that the federal government will deviate from its present tight monetary policy. The Bank of

Canada has unwaveringly allowed the bank rate to increase to unprecedented heights. As such, a further concentration of capital will occur through the 1980's.

Wage and price controls are, of course, no longer in effect, but recent scuttlebutt suggests that the federal government is considering the imposition of a tax-based incomes policy, a more sophisticated attack on wages. This version of wage controls provides tax incentives to corporations that restrict wage increases. Thus we can expect the confrontation between labour and capital to heighten if such a policy is implemented.

The reduction of state expenditures has not yet been accompanied by large tax cuts benefitting the capitalist class as has recently occurred in the United States at the hands of the Reagan administration. Only time will tell if the neo conservative movement that has taken control of U.S. state policy, will become strong enough in Canada to effect such tax cuts.

Footnotes - Chapter 2

1

O'Connor, James, The Fiscal Crisis of the State, St. Martin's Press, New York, 1973.

2

Panitch, Leo, ed., The Canadian State-Political Economy and Political Power, University of Toronto Press, Toronto and Buffalo, 1977.

3

Chorney, H., and Hansen, P., "The Falling Rate of Legitimation: The Problem of the Contemporary Capitalist State in Canada," in Studies in Political Economy, No. 4, Autumn 1980.

4

See for example: Milliband, Ralph, The State in Capitalist Society, Quartet Books, London, Melbourne and New York, 1969; Poulantzas, Nicos, Political Power and Social Classes, NLB and Sheed and Ward, London, 1973; Habermas, Jurgen, Legitimation Crisis, Beacon Press, Boston, 1973; and O'Connor, op.cit.

5

O'Connor op.cit. p.6. The work of Milliband and Habermas provide a more expanded concept of the state's legitimation function than O'Connor. Chorney and Hansen offer a particularly succinct restatement of Habermas' theory of legitimation. An elaboration will be especially useful in a later section that will outline the role of state housing interventions in fulfilling the legitimation function of the state.

6

Ibid., p.9.

7

Ibid., p.8.

8

Ibid., p.8.

9

The analysis will concentrate on the federal level of government as it is responsible for national fiscal and economic policy. As well, since this level of government largely determines housing policy, we can appropriately focus our analysis here.

10

Wolfe, David, "The State and Economic Policy in Canada, 1968-75" in Panitch op.cit.

11

The improvement of the current account deficit is a result of the low value of the Canadian dollar. While the deficit in the service transaction component (which includes interest and dividends to foreign investors) continued to increase, the merchandise trade component increased in surplus by nearly \$3.7 billion.

12

The negative effect of interest and dividends paid to foreign investors on the current account is testimony to the ill effects of the American domination of our economy.

13

Chorney and Hansen, *op.cit.*, pp.74-76.

14

Social services expenditures include social security programs, unemployment insurance, workers compensation, family allowances, veterans benefits etc.

15

Government of Canada, Budget Speech, Department of Finance, Ottawa, October 28, 1980.

16

Government of Canada, The National Energy Program, Department of Energy, Mines and Resources, Ottawa, 1980, p.17.

17

As of March 31, 1980, the federal government's investment in Petro-Canada totalled \$1,003.8 million (cited in the National Finances, 1980-81 *op.cit.* p.12.) This of course does not include any further investment required to acquire Petrofina.

18

Budget Speech 1980, *op.cit.*, p.35.

19

National Energy Program, *op.cit.*, p.33.

20

The National Finances 1980-81, *op.cit.*, p.12.

21

O'Connor, *op.cit.*

22

Chorney and Hansen (op.cit.) refer to this shift as "the falling rate of legitimation." The concern of their aforementioned article is to question why, according to Habermas' legitimation crisis thesis, the legitimacy of the capitalist social formation is not being threatened as legitimation is currently being withdrawn by the Canadian state.

CHAPTER 3

HOUSING INTERVENTIONS AND THE STATE'S ROLE OF ACCUMULATION AND LEGITIMATION

As outlined in the introduction to this thesis, the concern of this chapter is to emphasize the evolution of state housing policy in relation to the state's role of accumulation and legitimation. I will begin by explaining the foundations of state housing intervention laid immediately after the second world war.

Foundations of State Housing Intervention

As suggested in Chapters 1 and 2, immediately after the war, the state embarked on an interventionist course characterized by Keynesian economic policy and social welfare initiatives. The economic and social crises that arose periodically throughout the liberal-competitive phase of capitalism reached their historically most serious magnitude in the 1930's. Government was intent on preventing any recurrence after Canadians had basked in the domestic prosperity spurred by the war effort. Housing intervention would play an integral part in this post-war reconstruction.

During the latter part of the war, the state began to plan for the post-war period. A new National Housing Act was established in 1944¹ and an advisory sub-committee was established to recommend directions in housing policy.² Excerpts from the Curtis Report and the government's white paper on employment and income³ illuminate the basis for housing interventions during the post-war period.

The Curtis report compared the post-war situation with that prevalent following the first world war. A Royal Commission report on industrial relations⁴ had identified the housing shortage as a critical element of post-war industrial unrest. The Curtis Report reiterated the following findings,

Another cause of unrest which we met at practically every place we visited was the scarcity of housing and the poor quality of some of those which did exist. In nothing has production more significantly fallen off during the four years of war than in the building of dwelling houses. The existing condition of the worker is affected not only by the absence of sufficient housing accommodation, but also by the inadequacy of those that are in existence. Poor sanitary conditions and insufficient rooms are the chief complaints. The high price of building land and of building materials have made it impossible for the worker to provide himself with a house, and some means should be adopted with as little delay as possible to remedy this defect.⁵

Twenty-five years later the Curtis Report argued that the country would face the same situation in the immediate post-war period.

Current industrial unrest and unsatisfactory social conditions were, to a considerable degree, the consequence of land speculation, poor and insufficient housing and high rents.⁶

Clearly the provision of adequate housing was regarded as a necessary measure in the appeasement and prevention of social unrest.

A national emergency will soon develop unless the building of dwellings be greatly increased.⁷

The amelioration of slum conditions also had a fiscal rationale for these state advisors,

The slum areas, which have been shown to cast very heavy expenses on many branches of public

administration such as health, welfare, fire prevention, administration of justice etc., may justify public assistance; which is likely to prove as sound financially as it is certainly socially desirable. 8

The above arguments provide strong evidence that housing interventions were considered to have a primary role in the state's legitimation function. It was clear that the legitimacy of a social formation that could not provide adequate housing to its members was in danger of being threatened, manifest in general industrial unrest. Housing problems, grounded in the growing contradiction between the labour market and the housing market (described in liberal, reformist terms as an affordability problem), would emerge as increasing wage demands if the state did not intervene.

Further, poor sanitary conditions, causing health problems for labour, were seen to undermine its efficiency and employability. By ameliorating these conditions, the productivity of labour would be enhanced. Thus housing had, and still has, an important role in the reproduction of an efficient labour force.

Notwithstanding a recognition of the need for a large expansion of housing construction on the above grounds, the provision of shelter would be subordinate to the broader commitment to high and stable employment.

On the above basis, 60,600 units annually would be built in Canada during the first ten years. It does not follow, however that an equal number should be built steadily each year. The housing program should undoubtedly be subject to a flexible margin for the purpose of fitting it into the larger framework of post-war policy, aiming at economic stabilization and "full employment" (Authors' emphasis).

in other words, the aim would be towards a retarded housing program as one of the means of counteracting an unhealthy boom. 9

The provision of shelter would be of secondary importance in relation to the state's overall role in stabilizing the tendency of capitalism to periodic fluctuations in economic activity, an essential element of its accumulation function. 10

In establishing the basis for future state housing intervention, it was recognized that low-rental housing needs would not be met by private capitalists.

There is no apparent prospect of the low-rental housing need being met through unaided private enterprise building for profit. 11

State assistance would be required in providing this kind of shelter. However, housing would not be constructed by any government agency as it had been during and immediately after the war through Wartime Housing Ltd. The private sector would be relied upon, having been encouraged through public assistance.

It is the policy (of the federal government) to ensure that as large a portion as possible of housing be built by private initiative. 12

This policy was further entrenched when the Central Mortgage and Housing Corporation was established. One of the crown corporation's principles of operation was that it would not be involved in the "direct construction of housing." 13 The goal was to provide low income housing while facilitating the accumulation of capital in the private sector through various forms of state assistance. Further, CMHC's primary role would be financial. 14

The basic principles of state housing intervention can be summarized. The provision of decent housing would contribute greatly in defusing social unrest. Notwithstanding the importance of the above goal, housing provision would be subordinate to broader employment stabilization objectives. Homeownership would be the emphasis of housing intervention as indicated in the early legislation. The state would be required to provide assistance to encourage mortgage lending. As well, there was a recognition that some level of rental housing stock was required as homeownership was not a universal option. Further it was recognized that the private sector could not provide low rental housing without state assistance. Finally, the state would not directly provide housing; its role would be predominantly financial. In short, the state would intervene in the housing market to facilitate its goal of adequate housing for Canadians (broadly speaking its legitimation role) while it served the interests of capital (its accumulation role). The state would have to balance the need for both functions.

Having established the foundations of state housing interventions we can turn to a consideration of the evolution of such intervention. The history of state housing policy has been outlined in detail by a number of authors.¹⁵ The concern here is not to reaccomplish this feat. Rather the intent is to highlight the essential elements of housing policy over time, focussing on its relationship to the accumulation and legitimation functions of the state.

Facilitating Homeownership

A primary goal of state housing policy has been to facilitate mortgaged homeownership for as many Canadian households as possible. Before reviewing state homeownership measures, it is important to delve into why the commitment to this form of tenure has been so strong. In discussing this question, I will draw from the work of Engels and contemporary neo-marxist writers.

16
Although Engels wrote The Housing Question, essentially a critique of reformist and philanthropist solutions to the housing shortage of the time, over one hundred years ago, his insights into the role of homeownership in the capitalist social formation are as relevant now, as then.

Criticizing reform proposals that issued homeownership for workers as a solution to the housing shortage, Engels writes,

The task of the new science of social economy invented by Dr. Sax is therefore to find ways and means, in a state of society founded on the antagonism of capitalists, owners of all raw materials, instruments of production and food-stuffs, on the one hand, and of propertyless wage workers, who own only their labour power and nothing else, on the other hand, by which, inside this social order, all wage workers can be turned into capitalists without ceasing to be wage workers. 17

Thus Engels argued, homeownership would serve to nurture the ethics of capitalism within workers, without altering the relationship between labour and capital. The legitimacy of the institution of private property, a driving force of capitalism, would be imbued in workers contributing to the preservation of

the social formation as a whole. Engels further refers to the disciplinary effect of mortgaged homeownership upon workers.

In this way the workers must shoulder heavy mortgage debts in order to obtain even these houses and thus they become completely the slaves of their employers; they are bound to their houses, they cannot go away, and they are compelled to put up with whatever working conditions are offered them. 18

19

Stone furthers this idea in his recent work.

Homeowners become tied to a location, not able to move freely and negotiate most powerfully their conditions of employment. They become reluctant to jeopardize the stability of their incomes through strikes or other militant actions fearing foreclosure and consequent loss of both their shelter and their investment. 20

Anyone that has experienced being tied to a mortgage will attest to its pervasive impact on one's employment decision.

Mortgaged homeowners also have an overwhelming interest in the preservation, if not appreciation of, the value of their mortgaged house and land. This interest has a significant effect on the political and social motivation and relations of the society. Neighbourhood relations become to a great extent private property relations. That is, neighbours interact often as "owners" of properties whose value is interdependent. Each owner has an interest in the other sustaining and increasing the value of his property through maintenance and improvement (continued investment). Their interest in how their community is developing is largely guided by how certain developments (e.g., state intervention, in-migration of low income groups) will affect their properties' value. Political action is often restricted to supporting or opposing such development on the

basis of property value considerations. Political activity, then, becomes focussed on enhancing one's material standards through preserving and increasing housing equity rather than through wresting surplus value from capital.

There is also an inherent conflict between those members of society who have secured a mortgage and are aspiring homeowners, and those that would like to, but have not yet been able to secure a mortgage. The former group's interest in appreciating land values is in contradiction with the latter group's interest in static or decreasing land values (at least until the latter group secures a mortgage, joining the ranks of the former). One group's fortune is another's misfortune. As such, the development of a common interest is undermined. As well, gains that accrue to homeowners as a result of housing inflation, make inflation, in general, much easier to swallow. Mortgaged homeownership is perceived as a "hedge against inflation".

The role of homeownership in the capitalist social formation can also be linked to Habermas' concepts of civil and familial-vocational privatism.²¹ Habermas argues that the legitimation of advanced capitalism, or the mass loyalty of its members, is achieved through our system of formal democracy (formal democracy referring to our system of representative democracy, "responsible" administrative system or bureaucracy, and "separate" judiciary). This formal political process, according to Habermas, characterized by periodic elections in which "the citizenry enjoy the status of passive citizens with

only the right to withhold acclamation" rather than the "genuine participation of citizens in the processes of political will formation or substantive democracy," amounts to a "depoliticized public realm."²² Habermas emphasizes the concept of civic privatism as one prerequisite of legitimation.

In the structurally depoliticized public realm, the need for legitimation is reduced to two residual requirements: the first, civic privatism-- that is, political abstinence combined with an orientation to career leisure and consumption-- promotes the expectation of suitable rewards within the system (money, leisure time, and security).²³

Continuing, Habermas argues that civil privatism, coupled with "familial-vocational privatism", both arising from the socio-cultural system, are the important motivating forces behind the sustenance of the prevailing social formation.

The most important motivation contributed by the socio-cultural system in advanced capitalist societies consists of syndromes of civil and familial-vocational privatism . . . civil privatism thus corresponds to the structures of a depoliticized public realm. Familial-vocational privatism complements civil privatism. It consists in a family orientation with developed interests in consumption and leisure on the one hand, and in a career orientation suitable to status competition on the other. . . . Both patterns of motivation are important to the continued existence of the political and economic systems.²⁴

How, then, are these concepts linked to the role of homeownership in advanced capitalist societies?

The physical form, that has emerged as a result of the pursuit of individualized homeownership, namely the suburbs, has created the physical environment necessary for the development of these two motivational patterns. The suburban

milieu, with its single family dwellings, uniformly and sufficiently separated from one another has provided the conditions that promote a lifestyle based on civil and familial-vocational privatism. The neo-marxist Stanley Aronowitz, also points to the role of suburban development in the levels and patterns of consumption and status attainment.

It (suburban development) had a profound effect on the way people were to live, the way in which energy resources would be consumed, and the configuration of consumer goods production and consumption. The production of durable goods, particularly automobiles and appliances was given an enormous shot in the arm.

. . . The infrastructure was established for new patterns of production, new modes of living and a new culture. . .

Status could not be on the basis of occupation alone; it was necessary to own a bigger home and a more powerful car than your neighbour. Prestige was not to be found in creative labour nor even a job well done. 25

With the development of suburban life a primary form of leisure became, and continues to be, television watching. Families huddle around their televisions nightly, ingesting their daily dose of being portrayed as a consuming unit, ²⁶ consciously and subliminally. The consumption of television by family unit, is a critical factor in the entrenchment of the consumer culture.

As Aronowitz points out, the pattern of production, as well as consumption, has been altered by individual homeownership. Angotti argues that this alteration militates against the development of collective political consciousness and action among workers.

Individual homeownership, along with the private automobile, has reinforced the atomization and isolation of working people from one another. It brutally separates workplace from residence, reinforces family instead of factory relations, and isolates the worker as worker from the worker as consumer. 27

In summary, mortgaged homeownership has an integral role in legitimating the existing social formation. It legitimizes a major driving force of capitalism, private property, by turning workers into capitalists without changing the nature of the historical relationship between labour and capital, it has a disciplinary effect on workers therefore it defuses potential social unrest; and, it displaces potential co-operative relations with private property relations; it provides legitimation through the consumptive lifestyle and culture engendered by its physical expression, the suburbs; and, it serves to preserve the capitalist system by isolating the worker from his fellow workers undermining the development of collective consciousness.

Having considered the role of mortgaged homeownership in advanced capitalist society, we can continue on, to a discussion of how the state has attempted to facilitate homeownership in Canada. Beginning in 1935, and continuing to 1954, the state attempted to increase the amount of capital available for mortgages by instituting a system of joint loans. Under this arrangement, loans to homeownership aspirants were shared between the federal government and lending institutions on a 25 per cent state 75 per cent lender basis. As well, losses would be borne in proportion to the respective share of the loan.

Through the 1944 housing act, there was also an interest subsidy since the state offered its portion of the loan at 3 per cent while the lender received a 5 per cent rate. Pickvance²⁸ refers to subsidized capital provided by the state as "devalorized" capital intended to sustain average rates of profit for various sectors of the economy (e.g., the building industry). He discusses the provision of devalorized capital within the context of a theory of "state monopoly capitalism."

A central role in the theory is placed by the 'capital' advanced by the state at a nil or below-average rate of profit. This capital is described as (completely or partially) 'devalorized', i.e., not seeking its own self expansion. 29

Since mortgage capital was not being provided, there was little effective demand for new housing. It was anticipated that if the state supported the profits of finance capital by providing a portion of the required mortgage capital, devalorized, a sufficient flow of funds would be induced. As well, the state began to assume a fundamental role that has continued to the present -- the socialization of risk. As the state agreed to share in any losses, it reduced the potential losses of finance capital as a further inducement to mortgage lending.

In spite of the state's efforts, sufficient mortgage capital to meet need was not forthcoming during the immediate post-war years. Lenders were neither providing enough loans in aggregate nor in areas of specific need like rural areas and poor urban areas (in these latter areas the risk was considered too high). In 1947, CMHC was empowered to provide capital

directly where lenders feared to tread. The state would now begin to provide capital where the dictates of the capitalist market prevented the fulfillment of homeownership goals. Even in combination, the joint loan program and CMHC direct lending proved to be insufficient to generate the level of homeownership required.

In 1954, the joint loan instrument was abandoned, in favour of a system of mortgage insurance. Under this system the state would insure finance capital against losses on mortgage defaults. All risk was then socialized. Insured loans were to be provided at a below market rate established by CMHC. As well, in 1954 CMHC was empowered to buy and sell mortgages. The intent was to develop a secondary mortgage market to increase the liquidity of the mortgage instrument. At the time the illiquidity of mortgages in relation to other investments was a major obstacle to a steady, adequate flow of mortgage capital. The state also attempted to increase the flow of mortgage funds by increasing the potential sources of such capital. Prior to 1954, life insurance and trust companies were the primary source of mortgage capital. In 1954, the Bank Act was amended to allow banks to lend on the security of mortgages. The direct provision of capital by CMHC was also continued.

The nature of state interventions aimed at facilitating homeownership changed very little through the latter 1950's and early 1960's. Measures instituted in 1954 remained largely intact. Reductions in equity requirements and increases to the NHA mortgage rate were the only changes instituted through-

out the period. As well, during the period, following Keynesian doctrine, amortization periods were extended, increasing effective demand through the expansion of credit. Dennis and Fish argue that there was little pressure for change as single family homeownership was within the reach of even a significant number of low income people.³¹ As state politicians and bureaucrats were resigned to the fact that a certain sector of the population would never realize homeownership, state objectives were being met.

During the late sixties the discrepancy between the cost of homeownership and incomes increased considerably. As Dennis and Fish point out, in 1965 18 per cent of NHA borrowers came from the lower third of the income band; and by 1969 this percentage had dropped to 6.4 per cent. In early 1970, CMHC implemented a program to subsidize homeownership. The method used was the provision of devalorized capital. CMHC provided loans to households at 2 per cent below the market rate for the purchase of specially designated low priced units. Dennis and Fish suggest that a primary objective of those subsidies was to maintain the level of residential construction activity reached in 1969.³³ By providing devalorized capital, the state attempted to sustain profit levels in the building industry. The program was continued through 1971. Eligible incomes, were increased in order to further stimulate the industry and promote homeownership.

As the contradiction between the labour market and homeownership market continued to deepen, in 1973 the state

again altered the form of its homeownership assistance. The Assisted Homeownership Program (AHOP) was born. Under the program, in addition to the provision of devalorized capital, eligible families were provided with cash grants. The demand for assistance increased markedly from the previous program.

Since the price of new housing increased rapidly after 1973, the number of applicants increased as well. From June, 1973, to the end of 1974, there were 165,000 applicants for assistance compared to 5,000 under the \$100 million program in 1972 and part of 1973. To reduce the demand for funds under AHOP, CMHC restricted assistance in June, 1974, to new dwelling units only. 34

Previously, assistance was provided to families purchasing both new and existing housing. As the fiscal consequences of continuing this were prohibitive, assistance would now be restricted to families purchasing newly constructed units. The state would balance its accumulation and legitimation functions. The state needed to continue promoting homeownership but it also had to facilitate accumulation in the residential construction industry.

In 1974, the state through its tax function, introduced the Registered Homeownership Savings Plan to increase the effective demand of first time home purchasers.

In October 1975, mandatory wage and price controls were established. In the homeownership sector of the housing market it was intended that the establishment of maximum house prices eligible for assistance would have an anti-inflationary effect.
35

In November, 1975 homeownership assistance was again

revamped. The state had a number of objectives to balance. Its fiscal problems were increasing, inflation was on the rise, the demand for housing was unprecedented and unemployment was high. CMHC's AHOP evaluation sums up the basis for new programming at the time.

- . the large demand on the federal budget of the old AHOP program,
- . the desire to control inflation in homeownership;
and
- . the need to generate new employment.

36

The design of the new program reflects these imperatives.

As indicated in the introductory chapter, the state withdrew extensively from the direct provision of mortgage capital. Such capital would come from private sources, with state guarantees against losses. Maximum eligible house prices were retained under the program.

An interest subsidy was again provided, however the subsidy was in the form of a loan repayable after five years. Grants were also provided by both the federal level of government and some provincial governments if after the interest subsidy was provided, the gross debt service to income ratio exceeded twenty-five per cent.

The design of AHOP assistance was based on inflation. In fact, the success of the program would depend on continued inflation. It was intended that subsidies be reduced yearly as incomes increased relative to house payments, since wages would

rise while mortgage payments were fixed for a five year term. It was further anticipated that over the period of assistance incomes would rise to the extent that further assistance would not be required when the mortgage was up for renewal. The program did not anticipate a rise in interest rates to over 20 per cent in the year that a major portion of AHOP mortgages were scheduled for renewal. As current interest rates are a function of the state's monetary policy a contradiction becomes apparent. As the state has adopted a certain monetary stance, it has undermined considerably the effectiveness of a particular housing intervention.

In further critique of the AHOP measure, state planners did not seem to understand that those families eligible for the highest levels of assistance, who would ultimately require the largest income gains, were least likely to make significant wage gains, particularly in the face of wage controls. Another contradiction emerges. The state had initiated a housing intervention, the success of which was dependent upon considerable wage gains. At the same time, at a broader policy level, it imposed controls intended to restrict such wage gains.

The program did serve the interests of capital very well during 1976.

Housing starts in 1976 totalled 273,023 units, up from 231,456 in 1975 and above the previous record of 268,529 in 1973. . . . Private institutional lending for new residential construction increased from \$4.7 billion in 1975 to \$6.5 billion in 1976, or by 38 per cent. This increase was almost entirely attributable to NHA activity,

and particularly to the AHOP and ARP (Assisted Rental) programs . . . The demand for mortgage funds for new residential construction was strong throughout 1976. . . The strength in the second half of the year was due in large part to the AHOP and ARP programs. 37

The program continued to provide its "economic stimulus" through 1977. In 1978, as will be outlined in a later chapter the program was terminated. The graduated payment mortgage, requiring no state subsidy or capital, was encouraged as a replacement. The only marginal willingness of finance capital to embrace this mortgage instrument is verified empirically, later.

The fiscal crisis of the state has sharpened and it seems that the state has pushed its homeownership goal to the limit. The massive subsidies required to continue ameliorating the contradiction between the homeownership and labour markets are not feasible given the state fiscal situation. Homeowners, particularly AHOP recipients have been defaulting increasingly and future prospects are not bright. As a result of its role in socializing the risk on such mortgages, the state's mortgage insurance fund has suffered staggering losses.

Although the state has interrupted its pursuit of homeownership for the majority of Canadians, this should not be construed as an ideological shift away from homeownership goals. The commitment to mortgaged homeownership by our political representatives remains strong. During the recent debate on the Tory mortgage interest deductability proposal, a Conservative member of parliament issued the following polemic,

This right to own private property extends beyond pride and personal satisfaction. It is a means of ensuring that Canadian citizens have a personal stake in their country. It is of vital importance to ensure social harmony and social stability, which we cherish so greatly, that we maintain, reinforce and expand the number of Canadians who feel that owning a home is a wonderful means of bringing about this goal.

In conjunction with this is the often overlooked and yet vitally important fact that private ownership of property is a critical means of ensuring that individuals retain their freedom from the state. Just as individuals with a stake in society, such as a home, provide the basis of stability and cohesion in that society, so too do they guard this right against excessive incursions by the state. It provides a strong bulwark against those who would rob us of our freedoms and our rights. Those who have something to lose are those with something to defend.

I have expressed the reasons I believe it is important to encourage Canadians to own a home-- to protect individuals from manipulation by the state, and thereby protect personal freedom and liberty, and to have Canadians own a stake in society with a source of personal pride that provides both social stability and personal incentive. 38

For this member of parliament, homeownership does not only "ensure social stability and a personal stake in the country", it is also fundamental to a separation of the individual from the state, the answer to personal liberty and freedom. Thus, homeownership may find further ideological impetus, within the growing neo-conservative movement in the country.

Supporting Private Rental Housing

Another primary function of state housing intervention has been to support the production, and attempt to affect the distribution, of privately constructed and owned rental

housing. Although the state has attempted to facilitate homeownership for the majority of the citizenry, it also recognizes that a certain sector of the population will be limited to tenancy as the costs of homeownership, relative to income, are too great. As well, a certain portion of the society has desired to either delay the pursuit of homeownership or has not shared the homeownership goals of the dominant society.

The form and extent of state assistance to the private sector prior to 1944 NHA amendments is outlined in a previous section. To reiterate, under the 1938 Act, the federal government was empowered to provide devalorized capital to municipalities or limited dividend companies for the construction of rental housing for the poor. A condition of such loans was that the lower levels of government would have to provide tax relief or guarantee any losses on such projects. As indicated earlier, in spite of these inducements, no rental projects were constructed using this assistance.

In 1944, the power to provide devalorized capital was continued. The state offered limited dividend companies 90 per cent financing at a rate of 3 per cent. The state also guaranteed such companies a minimum profit of 2 1/2 per cent on the operation of low income houses constructed. Profits could not exceed 5 per cent, so in effect rents were controlled.

39

The Dennis and Fish analysis of assistance to limited dividend corporations from its inception to the early seventies shows that the program did more to advance the interests

capital than provide adequate low rental housing.

Until the mid 1950's there was only marginal activity
40
under the program. Activity accelerated for the next three years, while the economy was generally in a recession. Dennis and Fish argue that,

The sudden burst of activity was the result of government interest in funding the program as part of overall stabilization policy and of the lack of other forms of financing. Banks had been less eager to give loans for residential construction, interest rates on other available capital rose, and sources of financing generally dried up. Limited dividend housing which had been unattractive to builders because of its restricted dividends, became the only source of funds for many. 41

The effect of state assistance at this time was to provide a safety net for capital, supporting the average rate of profit in the rental construction sector.

It eventually became clear that "entrepreneurs" building under the program were realizing benefits that exceeded the 5 per cent profit limit. In many cases the amount of the loan provided exceeded the costs of construction. As such these entrepreneurs did not have to provide any of their own equity.

In the early 1960's a number of projects were repossessed by CMHC as many entrepreneurs abandoned their projects. As a result the programs regulations were made so tight that
42
the program produced no rental dwellings during 1966 and 1967.

In 1968, the program was "rejuvenated" by increasing the lending ratio to 95 per cent of the value of the building. As well, the 5 per cent limit on profits was removed. Further,

the loan could be repaid after 15 years rather than the full life of the loan. As the program was even more lucrative for entrepreneurs, activity increased dramatically. In 1970 almost 20,000 rental dwellings were constructed.⁴³

Further advancing the interests of capital, the program was often used by entrepreneurs to develop marginal sites they had assembled. A CMHC memorandum verifies this.

For a variety of reasons, among them land cost, L.D. (limited dividend) and N.P. (non-profit) sites are frequently found to be on the periphery of a town or city, or in a neighbourhood where objectionable features tend to preclude use of the property for normal residential development. The latter locations were often characterized by proximity, to heavy or obnoxious industrial areas, railway tracks, run down residential districts or other undesirable attributes. 44

Thus the state was supporting the average rate of profit in the development industry by providing a way to realize profits on otherwise unprofitable holdings.

While the limited dividend program served the interests of capital well, it is highly questionable whether suitable low income housing was provided. Dennis and Fish point out that rental dwellings provided were not for low income people as rents were only slightly below market rents (\$20. - \$25. per month less).⁴⁵ CMHC information provides evidence that people accommodated in limited dividend housing had much higher median annual incomes than those living in public housing in 1970--\$5,838 and \$3,870 respectively.⁴⁶

Dennis and Fish also argue that dwellings constructed during the late 1960's and 1970 were not suitable for families. They show that the proportion of dwellings that were high rise

units with too few bedrooms to accommodate families, increased⁴⁷ considerably during this period. As a CMHC official had recognized in 1961, "it would seem that the profit motive cannot⁴⁸ be in harmony with housing of the low income group."

The program continued through the early 1970's but by 1974 activity had dwindled to around 2,000 dwellings.⁴⁹ During this period a special tax provision, allowing the use of real estate as a tax shelter for non-real estate income, introduced earlier was not in effect. As all private multiple dwelling starts had dropped dramatically, the provision was reintroduced in late 1974. Limited Dividend projects increased again in 1975 as a result.

In 1975 to further advance the interests of building capital, the limited dividend program was replaced by a new assisted rental program (ARP). The new program was part of the Federal Housing Action Program announced in late 1975, the objectives of which were to:

- . increase the supply of new housing;
- . to do so at prices that moderate or low-income purchasers and renters could afford; and⁵⁰
- . to stimulate employment.

Under the new program the state attempted to shift the responsibility for providing most of the capital to private sources. Of course, all risk was socialized through the state mortgage insurance fund. By 1975, the costs of providing rental dwellings had exceeded market levels. The contradiction between the labour market and the new rental housing market had sharp-

ened to the extent that the market was dysfunctional. In order to manage this contradiction the state offered to provide interest free capital to entrepreneurs for a period of ten years. In combination with the tax incentive reintroduced in late 1974, ARP assistance was intended to increase the flow of investment into the construction of new rental dwellings.⁵¹ The essence of this form of state assistance is to fulfill housing goals by facilitating the accumulation of capital in the hands of the wealthy. CMHC's evaluation of the program maintains that the marginal tax rate of investors in ARP properties was 50 per cent (not your average worker's income).⁵² CMHC estimates that the tax subsidy to investors in relation to the 44,000 plus ARP dwellings approved to July 1977 could amount to \$192 million over the succeeding ten years.⁵³ While wealthy investors enjoyed such tax gains, dwellings constructed under the program were not accessible to low income people.

Since CMHC maintains no control on tenants of ARP units, there is no direct information on who occupies the units. Presumably the typical ARP tenant is very much like the typical non-ARP tenant renting a unit at or above the average rent in that market area. While ARP units are at the upper end of the range of rents for rental accommodation. . . 54

In some projects CMHC and its provincial counterpart worked out an agreement to provide rent supplements for a portion of dwellings rented to low income people on the public housing waiting list. The proportion of units subsidized in this way was minimal. It is likely that the motivation for providing assistance was as much to deal with rising vacancy problems as to assist the poor.

Neither was the program intended to provide needed family accommodation. Only 14.6 per cent of ARP units approved to July 1977 had more than two bedrooms. 55

Previously, the propensity for entrepreneurs to "mortgage out" under the limited dividend program was discussed. The ARP program also had an endemic incentive for the builder to over value his project as loan assistance increased with the appraised value of the project. Irwin Lithwick points out in his evaluation of ARP that this practice is now the norm in the rental construction sector.

Most persons involved in the construction industry would agree that it is an essential aspect of all rental production. 56

It is essentially a hidden profit to the builder.

Further, the potential for reaping enormous profits on resale is high. The special tax benefits increase the market value of the property substantially. Lithwick suggests that a return on equity of 100 per cent is quite easy to realize. 57 The state could have prevented such resale bonanzas by placing restrictions on the resale of ARP projects. Rather it chose to leave such profit potential unfettered in the interests of capital.

Through the ARP program, the state was very successful in stimulating the accumulation process in the rental construction sector. To the end of 1979, approximately 123,000 units, at a total loan value of over \$3.2 billion, were receiving ARP assistance. 58

In 1974 and 1975 the construction of new multiple

dwelling structures had declined considerably. During 1976 and 1977, the program's heyday, multiple starts increased 29 and 3⁵⁹ per cent respectively. In 1978, as the program was phased out, multiple dwelling starts declined.

The decline in housing starts is entirely accounted for by the multiple sector. Apartment starts dropped 16 per cent to 77,327 whereas the decline in row housing starts was 23 per cent to 20,379 units. High inventories and the termination of the Assisted Rental Program were the main reason for the slow down in multiple starts. 60

The decline in multiple dwelling starts continued through 1979 and 1980 as the program's replacement, the graduated payment mortgage instrument has not been embraced by finance capital. Again, this will be elaborated upon in the final chapter.

In spite of the massive levels of state assistance provided to the multiple rental sector, high interest rates are causing many ARP projects owners to default. As with the AHOP program, many ARP projects have defaulted at mortgage renewal time. To the end of 1980, the state mortgage insurance fund had accumulated a loss of \$225 million dollars in relation⁶¹ to the ARP program. As noted earlier, in 1981, interest rates have spiralled to over 20 per cent. If this rate is sustained ARP defaults will inevitably increase tremendously as approximately 70 per cent of ARP projects will come up for mortgage⁶² renewal in 1981 and 1982. The state's mortgage insurance fund will consequently incur further heavy losses. In addition, as the budgetary subsidy under ARP is in the form of interest foregone on capital, this subsidy will increase substantially with present interest rates, exacerbating the state's fiscal problems.

The future of state assistance to the private rental sector is presently in question. Given its fiscal crisis, past forms of assistance have become prohibitive. The costs of managing the contradiction between the labour and rental housing markets have become enormous. As such the state has abandoned its attempts. As outlined in the introduction of this thesis, attributing current problems to past levels of state intervention, the state has adopted, for now, a stance of leaving the provision of such housing to the capitalist market.

State Owned Housing

In the preceeding I have discussed the state's role in facilitating homeownership and supporting the private rental sector. These two goals have served as the focii of state housing interventions, historically. To be sure, great success has been achieved in meeting the physical shelter needs of the majority of Canadian households. However, in spite of state intervention, homeownership has not proved feasible for all households and the private sector is incapable of meeting the housing needs of the entire tenant class. The state has therefore also attempted to provide housing to poor tenants, both the working poor and the surplus population.

The initial legislative provisions enabling CMHC to be involved in the provision of public housing were made in 1949, under Section 40 of the housing Act. Under these provisions, public housing would be commonly owned by the federal and provincial, and in some cases, municipal governments. The fed-

eral government would provide seventy-five per cent of the required capital and operating losses. The province would be responsible for twenty-five per cent of capital and operating costs with municipalities making varied contributions.

It was clear from the beginning that state owned and managed housing was intended to have only a very residual role to play in meeting the housing needs of Canadians. Housing was rather a commodity to be exchanged according to the motions of the capitalist market. Public housing was only an option to the extent the state was unable to rationalize the market, successfully managing the contradiction between the housing and labour markets, through other forms of intervention. Obviously, other forms of intervention served the interests of capital much better than state housing. As well, the pervasive, integrative function of individualized, mortgaged homeownership could not be fulfilled through public housing. Dennis and Fish have pointed out that from its inception the overriding operational principle of public housing provision was that the state must not compete with the private sector.⁶³ State housing could constitute only the barest minimum of shelter requirements by contemporary standards. It was intended for those unable to secure housing through the private market without foregoing the fulfillment of other basic needs like food and clothing. Public housing is intended to meet housing needs where the contradiction between the labour market and housing market has its worst effect. Stone has argued that public housing's primary function is to defend the system, or ful-

fill legitimation requirements. He suggests, following Piven and Cloward,⁶⁴ that

public housing has actually served in the postwar years as an important device for regulating the poor, often in close conjunction with the welfare system. Large and depressing projects, patronizing and authoritarian management practices, and the threat of eviction into the costly private housing market have made public housing an effective tool for social control. 65

Stone, then, maintains that public housing in the United States has had an important role in suppressing the social unrest that arises as the hard core poor rebel over their housing conditions. This is not to say that more adequate housing is not provided, but that public housing also performs an important systemic function by the way it is provided -- paternalistically and in insufficient quantities.

What has been the specific Canadian experience in state owned housing? Between 1950 and 1964 the state provided approximately 12,000 public rental dwellings, .7 per cent of all dwelling starts in the country during the period.⁶⁶

As slum conditions continued to worsen in both urban and rural areas, and political pressure to ameliorate the situation was mounting, the state attempted to kindle its public housing efforts. Increased public housing would complement the broader urban renewal movement to be elevated through the latter 1960's. The responsible federal Minister of the day, J. R. Nicholson, maintained that, to date, the government's accomplishments in public housing "represent the greatest single area of failure in our federal housing policy."⁶⁷ The Minister con-

tinued that about 90 per cent of state housing assistance had⁶⁸ "been provided for the middle and upper income classes." Further he maintained that public housing would be the vehicle for meeting the housing needs of the some "100,000 families in Canada," the poor and urban slum dwellers unable to secure housing in the private market. Recognizing that the partnership arrangement had failed to provide sufficient quantities of public housing, a new arrangement was established. This new arrangement, established under Section 43 of the housing Act, was introduced as an alternative to, not a replacement of, the old method. Under this alternative, the federal government would provide 90 per cent of the required capital as a loan to a province or municipality and 50 per cent of operating losses. Generally speaking, the latter arrangement became the vehicle for providing public housing in urban areas. With minor exceptions, the original partnership arrangement became the measure through which public housing was provided in rural areas (often for Native people).

Relative to past levels of activity, the provision of state owned housing increased considerably from 1964 to the mid 1970's. The following table outlines levels of housing provided. The level of public housing provided annually reached over 20,000 by 1971. Activity hovered around 13,000 thereafter until 1977 when a sharp decline occurred. This decline continued through 1978, when the Section 43 arrangement was rescinded as indicated earlier. The state has now abandoned public housing as a measure for ameliorating the housing conditions of the

urban poor, citing exacerbated social problems and the state fiscal crisis as determinants.

Notwithstanding the relative upsurge in public housing construction during the latter 1960's and early 1970's, public housing remains a very small proportion of total housing in the country. To illustrate, by the end of 1978, approximately 175,000 new dwellings had been authorized by the state.

Table 10
State Owned Housing

| Year | Sec. 40 (dwellings) | Sec. 43 (dwellings) | Total (dwellings) |
|-----------|------------------------|------------------------|----------------------|
| 1950-1964 | 12,574 | - | 12,574 |
| 1965 | -109 | 2,919 | 2,729 |
| 1966 | 604 | 4,583 | 5,187 |
| 1967 | 1,330 | 7,657 | 8,987 |
| 1968 | 1,494 | 8,252 | 9,746 |
| 1969 | 1,057 | 16,027 | 17,084 |
| 1970 | 2,176 | 17,803 | 19,979 |
| 1971 | 2,120 | 19,360 | 21,480 |
| 1972 | 1,875 | 14,609 | 16,484 |
| 1973 | 2,536 | 10,944 | 13,480 |
| 1974 | 2,501 | 10,003 | 12,504 |
| 1975 | 886 | 12,582 | 13,468 |
| 1976 | 1,706 | 12,199 | 13,905 |
| 1977 | 1,562 | 5,454 | 7,016 |
| 1978 | 1,923 | 5,974 | 7,897 |
| 1979 | 1,661 | 143 | 1,804 |
| 1980 | <u>1,377</u> | <u>237</u> | <u>1,614</u> |
| TOTAL | 37,192 | 148,746 | 185,938 |

Source: CMHC, Canadian Housing Statistics 1980, Table 60, p.53, and Table 62, p.54.

This represents only 3.6 per cent of the total housing starts
in the country over the period. In its recent review of social
housing policy, the Canadian Council on Social Development
maintains that in none of Canada's large cities does public
housing represent over 5 to 8 per cent of the total housing
stock.⁷⁰

As Stone has argued regarding the public housing pro-
gram in the United States, state owned housing in Canada has
worked in concert with the welfare system. As well, public
housing has been the major vehicle for housing the elderly who
can either no longer maintain or afford their own property.
According to the aforementioned Council,

In Ontario in 1975, the province with the largest
number of public housing units, welfare families
and low income senior citizens comprised over
two-thirds of public housing tenants. . . over
60 per cent of the family tenants in Metropolitan
Toronto and approximately 75 per cent in Ottawa
were mother-led. . . Only 21 per cent of British
Columbia public housing tenants were full time
wage earners. 71

As with the American experience, state owned housing
has also been managed paternalistically. The Dennis and Fish
and the Canada Council on Social Developments' reviews of pub-
lic housing have confirmed this. Dennis and Fish argue that
managers were imbued with a "residual or charity housing phil-
osophy" and the attitude that "residents should be happy that
they have cheap, clean housing and that they have no right to
ask for more."⁷² Further, management practices were character-
ized by a high degree of regulation and severe intrusions of

privacy. In concert with Stone, Dennis and Fish maintained that the threat of eviction has served as a social control measure. Until reform legislation governing landlord-tenant relations was passed in most provinces in the mid 1970's, the public housing tenant, like the private tenant, had few rights. According to Dennis and Fish,

The public landlord can terminate the lease on one month's notice, without cause, and the tenant's sole redress is through the political process. It is not the actual exercise of that arbitrary power, but the mere potential use of it which serves to keep public housing tenants concerned and with some exceptions, passive in their relations with project administrators. 73

In response to oppressive state-tenant relations in public housing, tenants organized associations that pressed for participation in management. Through such collective action the fear of reprisal against individuals was to some degree reduced. The organizations have pressed continuously for state funding but the response has been predictably ambiguous and sporadic. The state, as with other organized citizens, has teased the associations with its on again, off again funding approach for fear that strength through permanence may emerge.

The state's residual approach to public housing has served to divide, further, the middle class and the poor. Its focus of intervention, engendering homeownership and private rental dwellings (with hidden rather than explicit subsidies) as legitimate forms of housing, has sealed the fate of public housing -- the sole reserve of the poor and socially alienated. The middle class has opposed publicly the provision of state

housing on the grounds that it has tended to concentrate people prone to asocial behavior, maintaining that this concentration serves to reinforce alienated behaviour. Withholding an analysis of whether social degradation, in whatever form it becomes manifest, is greater in the middle class suburbs or poor inner city neighbourhoods, this rather incredible assertion ignores the fact that whether the poor must secure housing through the market, or they are provided with state housing, they are segregated and ghettoized. As the Canadian Council on Social Development argued in its recent review, in response to the above assertion,

Moreover, one might ask, are the "undesireable" social effects really caused for the people living in public housing, or for their middle class neighbours? That municipal councils and governments often object to additional servicing costs or the provision of social services is well known. Property owners, often fear the effects on their property values, of "low income" housing. Municipal councils too are often dominated by propertied interests and share their wish to maximize all property values. 74

The basis, then, for opposition has been property interests, not a concern for the social well being of public housing tenants. The fulfillment of housing needs for the poor through state owned housing, is in this way, contrary to the interests of propertied classes.

The federal government, citing the exacerbation of social problems and its own fiscal crisis (the levels of public housing capital and subsidy expenditures will be outlined in the last chapter of this thesis) as determinants, ended the Section 43 public housing measure in 1978. As such, the pro-

vision of state-owned housing is no longer to be utilized in meeting the needs of the urban poor. Such needs, it is suggested can, and will be, met through an increase in non-profit and co-operative forms of housing. The final chapter considers the potential success of the new non-profit/co-operative housing program in replacing public housing measures.

Supporting Community Housing

In addition to directly providing public housing, the state has provided assistance to non-profit groups (charitable organizations, service clubs and community self-help groups) and co-operatives that have attempted to meet the housing needs of the elderly and poor. The forms of assistance have been primarily the provision of devalorized capital, grant funds and rent subsidies.

During the 1950's and early 1960's the non-profit mode was predominantly a vehicle for providing housing to the elderly. Non-profit groups that mobilized assistance from the state were in the main voluntary service clubs. Assistance provided by the federal government was the same as that provided to limited dividend companies, a preferred interest loan for 90 per cent of the capital value of the project. The non-profit group was required to make an equity contribution. This contribution was usually in the form of land already held by the non-profit organization. In some provinces, the provincial government would make a capital grant to the organization to reduce its capital costs, and therefore, rents, to enhance the capability for sheltering the elderly poor. The physical form

of shelter provided was usually high-rise.

During the late 60's and early 70's, community groups began to organize to tap state assistance for non-profit housing. These groups, in contrast to service clubs and churches, were concerned with purchasing existing housing in their own neighbourhoods rather than constructing new multiple dwellings.

Dennis and Fish' liberal analysis of the relationship between the state and community groups (predominantly composed of low income people with a smattering of progressive liberal professionals and leftists) focusses on the trials experienced by the groups in securing state assistance. Indeed, grant difficulties were experienced by such groups. First, it was hard, if not impossible, to amass the required equity for their proposed projects. Second, the state bureaucracy was initially reluctant to make loans to neighbourhood groups that had no experience in project planning, development and management. As Dennis and Fish argued in 1972,

Government lending officers react not only to political activism and lack of professional ability, but to what they perceive as a substantial increase in the lending risk. They are concerned about the ability of community or neighbourhood non-profits to plan, supervise construction, and ultimately manage the building. The result is a great reluctance to become involved in funding their projects. 75

In spite of this wariness toward such groups, grounded in their lack of experience, the state was not prepared to make appropriate technical and developmental assistance available. There was little commitment to increase the capability of non-profit groups to provide housing. In addition to these bureaucratic

obstacles, rising economic rents were rendering the existing form and levels of assistance inadequate to provide low income housing.

The Dennis and Fish report endorsed strongly the role of community self-help groups in providing shelter.

These groups have learned (particularly from their experience with urban renewal) that if they do not help themselves, no one else will do it adequately. And the financial costs of a self-help program are minimal. If a self-help, non-profit program is not available, then a public housing or institutional non-profit program will have to provide the housing. But neither of these carry the satisfaction of doing the job alone, rather than relying entirely on state or institutional help. Neither can create the same sense of control over one's own destiny. 76

Their report recommended a removal of the equity requirement and a provision of developmental and management assistance by the state to such groups.

Non-profit housing activity declined steadily from 1970 to 1973 (from a peak of 3,527 dwellings to 1,059 dwellings⁷⁷). In 1973, the state renewed its efforts to assist non-profit housing, following largely Dennis and Fish' recommendations. Amendments to the National Housing Act enabled CMHC to provide 100 per cent of capital at the usual preferred rate, "start-up funds" to a maximum of \$10,000 per group and a 10 per cent capital contribution. With these amendments the prohibitive equity requirement was waived. In addition, organizational resources were provided. Further, a federal capital contribution was available to reduce the gap between rents and the incomes of prospective non-profit housing tenants.

In mid 1974, funding was made available through CMHC

for community resource organizations designed to provide technical and developmental assistance to local non-profit groups. As well, some provinces have made such assistance available.

The Canadian Council on Social Development, in its aforementioned review, argues that this new commitment to the non-profit mode was a response to the growing opposition to public housing.

The encouragement of such housing developments stemmed in part from discontent with public housing. Community housing projects, it was felt, would be less likely to be opposed by local rate-payers groups and also would be more amenable to resident involvement in development and management. 78.

It was most certainly a response to the simmering community-based political activism of the period. During this time there was a strong movement by community organizations, fed up with the highly centralized, paternalistic state delivery of social services, to become involved in the development and delivery of such services. The commitment cannot, however, only be viewed as an acquiescence or "knuckling under" by the state to the demands of a vocal, organized urban poor for a greater role in urban policy decisions. The state support of non-profit groups also fulfilled a systematic function, that of legitimation.

During the period, the system of formal democracy as conceptualized by Habermas, was failing to provide the necessary quantities of legitimation at the local level. Particularly through its role in the urban renewal movement, the state was too obviously advancing the interests of capital over the

needs of inner city urban dwellers, supporting the destruction of neighbourhoods in favour of the accumulation of commercial capital. The state sought to curb this growing "legitimation deficit" by providing community activists with the opportunity to participate in planning and delivering social programming, including community sponsored housing. The support of non-profit housing groups was, then, part of a broader state commitment to citizen participation, that arose in the latter 1960's.

Martin Loney argues that the growth of state assistance to citizens' interest groups during this period was at least, in part, a program of social control. ⁷⁹ Loney suggests that

State aid to minority and dissident groups plays an important role in legitimation, in sustaining the view that the state is not the agent of a particular social class, but rather the benefactor of all. The acceptance of this view necessarily directs political activity towards conventional channels. These channels may at one level simply involve efforts to influence politicians and civil servants to produce a change in policy. Such efforts are, of course, premised on the assumption that the cause of present problems is not rooted in the very structure of society but is rather a function of particular decisions which are changeable by persuasion. Poverty is not rooted in the opportunity structures and labour markets of capitalist societies but rather in a failure of political will or imagination by politicians and their advisors. Hence with different advice and stronger pressure, effective steps can be taken to eliminate poverty. 80

By funding citizen groups, political opposition was directed away from a challenge to the late capitalist social formation and its endemic relationship among labour, capital, and the

state, toward reforms within the existing order. In this way, by "managing democracy", the maintenance of the system was effected. Through the latter 1970's the state has continued to increase its support of non-profit housing groups. In 1975, the state began to provide rent supplements to a portion of tenants in non-profit housing projects. In 1977, such subsidies were available in about one half of the provinces.⁸¹ As a result of changes to state assistance non-profit housing activity was boosted from 1974 through 1976. Activity declined between 1977 and 1978 as assistance became inadequate as economic rents again out-stripped the incomes of eligible tenants. In 1979 and 1980 the provision of non-profit housing has again increased as the form of assistance has been altered in an attempt to replace the Section 43 housing program. The nature of those changes are considered in the final chapter.

In the 1950's and 1960's continuing co-operatives did not receive the same kind of assistance, however limited, as non-profit groups. The state would not support a housing mode based on principles of co-operation and collective action. Not until the early 1970's was devalorized capital made available to co-operative organizations. Until then, capital was provided on a residual basis as for individual homeownership. Dennis and Fish argue that there were two reasons for the lack of state support for co-operatives--the negative attitude of state planners and the debate over whether or not co-operative housing was eligible for rental housing assistance since it constituted a form of ownership. The following quote taken

from Dennis and Fish' review, is presented as representative of the attitude of state planners. It is rather lengthy, but warrants repeating.

Perhaps the strongest claim for a preferential attitude towards co-operatives springs from an evangelical point of view associated with the co-operative movement. The co-operative movement is based on a genuine and admirable socialist view that people should be able to conduct their own affairs for their own well being, without the element of private profit and without being prejudiced by outside economic interest. . . . To live in a city neighbourhood happily and successfully people find that they must maintain a polite but somewhat withdrawn "arm's length" relationship with neighbours. Home is a very private thing and anything to do with one's private affairs is best kept independent and separate from the friendly contacts with neighbours. This is the nature of life in cities and city people are wise to avoid getting into situations that may cause disagreements, friction and entanglements with neighbours. I can't imagine anything more likely to jeopardize this kind of stability of family life than becoming involved in a venture of co-operative housing. 82

Early on, the co-operative housing mode was being indicted by planners in the name of family stability! Collective action around the question of shelter would run counter to the "polite, somewhat withdrawn, 'arms length'" neighbourhood relations required for city life. This particular planner argued that co-operative housing should not be pursued as an alternative to atomized, single family, mortgaged homeownership. Not only does this provide us with insight into the prevailing opposition to co-operative housing, but we are also treated to a further support of the argument presented earlier regarding the function of homeownership in the society.

Co-operative housing was also denied access to assistance available to other groups providing low rental housing on the basis that it represents a form of ownership. As such, only that assistance provided to other forms of ownership, that is, single family, mortgaged homeownership, was available. Proponents argued that co-operative housing was theoretically rental housing as under this mode ownership was held corporately and individual shareholders were rented housing by the corporation. Further, proponents argued that co-operative shareholders did not have the same property rights as individual, mortgaged homeowners. The right to benefit from appreciation in value, or make alterations to his dwelling without the consent of the co-operative was denied the co-operative shareholder.

In spite of the lack of state support for co-operative housing, some co-operatives were developed through the 1960's, with the help of the co-operative movement. Continuing co-operatives, were developed for example in Quebec and Manitoba where a strong co-operative movement was in place in other sectors.

In 1973, continuing co-operatives were finally given access to the forms of assistance available to non-profit organizations. However, given the lack of previous support, to 1977 co-operative housing served primarily moderate to middle income people. From 1973 to 1980, approximately 11,000 co-operative dwellings were assisted. In 1978, with changes

to assistance, continuing co-operatives, along with non-profit housing, were touted as replacements to public housing. Again the validity of this claim is considered in the concluding chapter.

Urban Renewal and Rehabilitation

The state has also played an integral role in urban renewal and inner city rehabilitation. Beginning in 1944 grants were offered to municipalities for slum clearance on the condition that low rental housing be built on the site. There was literally no activity under this arrangement.

Changes to legislation in 1956 really marked the beginning of the urban renewal movement. Beginning in that year grants were offered to municipalities without any stipulation of acceptable successive uses. Cleared land could now be used for industrial, commercial or high rental housing projects. As capital concentrated toward the centre of the city, inner city neighbourhoods found themselves on high value land, ripe for redevelopment. In the interests of capital, the state would now "clear the way" for "higher and better uses."

Commercially in 1960, as opposition from residents of slums proliferated, the state provided some resources toward relocating displaced slum dwellers in the interest of social harmony.

In 1964, urban renewal provisions were further expanded. Grants would now be available to clear land presently used for other than housing. With this program change, the

state truly galvanized urban redevelopment, serving the concentration of capital.

During the late 1960's citizen opposition to urban renewal solidified. The state was too obviously advancing the interests of the capitalist class over those of the inner city poor. Ergo, in 1969, the state put a freeze on new projects allowing existing projects to be completed.

By 1973 new initiatives, with an emphasis on the rehabilitation and preservation of inner city neighbourhoods, were undertaken. The focii of this new effort were the Neighbourhood Improvement and Residential Rehabilitation Assistance Programs. Under these programs housing could be renovated, cultural and recreational facilities provided, and municipal infrastructure upgraded. The programming also had a citizen participation dimension that can be seen in the same light as increased non-profit housing activity discussed previously.

In 1978 an amalgam of discrete rehabilitation programs (e.g., Neighbourhood Improvement Program, Municipal Infrastructure Program) was established. By 1982, this consolidated program (Community Services Program) will be terminated. The withdrawal of such assistance will be discussed further in the final chapter.

Summary and Conclusions

In summary, the business of this chapter has been to consider the part state housing interventions have played in the fulfillment of the state's broader, dual function. I began by outlining how housing interventions are historically grounded in the state's post-war Keynesian economic strategy and related growth of the welfare state. It was apparent that the unaided capitalist market could not fulfill the society's housing needs. In order to defuse potential social unrest arising from this state of affairs, the state intervened to bridge the contradiction between the labour and housing markets. Housing interventions were also intended to enhance the productivity of labour and stabilize the business cycle. In general, state involvement in housing was intended to serve both its accumulation and legitimation functions.

In its attempts to manage the contradiction between the housing and labour markets, the state has relied upon a range of housing interventions related to mortgaged homeownership, private rental housing, public housing, community housing, urban renewal and rehabilitation etc. This chapter outlines the evolution of each kind of intervention, identifying its accumulation and legitimation aspects.

In this chapter I have argued that the facilitation of mortgaged homeownership has been a primary goal of the state. The major elements of the state's efforts in this regard have been the socialization of risk (state mortgage guarantees) and the provision of devalorized capital (low

interest loans, interest subsidies). During the 1950's and early 1960's, the socialization of risk was sufficient to induce an adequate flow of mortgage capital, satisfying homeownership goals. As well, mortgaged homeownership was affordable for a "sufficient" proportion of the population. By the 1970's, as the contradiction between the labour and housing markets grew, devalorized capital and cash subsidies were necessary to sustain effective demand for mortgaged homeownership. As a prelude to the final chapter, I pointed out that as the fiscal crisis has sharpened, the state no longer has sufficient resources to bridge this contradiction. As such, its homeownership goals have been interrupted.

The facilitation of homeownership has contributed greatly to the fulfillment of the state's accumulation and legitimation functions. The legitimating effects of homeownership are considered at some length above, drawing from the work of Engels, Habermas, Aronowitz and others. Briefly, I have argued that individualized homeownership engenders a privatist culture based on material consumption and individual achievement. These motivations are prerequisites of a depoliticized public realm, in turn at the root of mass loyalty. The development of such a culture has countered collective awareness and action, or meaningful political participation. As well, I have argued that mortgaged homeownership disciplines the work force, as a worker's shelter security is jeopardized by any withholding of labour power. Further by turning workers into "capitalists" through homeownership (in highly buoyant markets, such as

Vancouver in 1980, workers often earned more through the appreciation in value of their real property than wages) the institution of private property, a driving force of capitalism, is legitimized.

In supporting homeownership, the state has also promoted the accumulation of capital. The fact that state mortgage insurance was only available for newly constructed dwellings until late 1978, ensured that the masses would be housed in new suburban developments. During the 1960's and 1970's, as suburbia developed, large development corporations very quickly assumed control of the process. Ultimately, given the scale of suburban development only large corporations were capable of mustering sufficient resources to undertake its development. Large profits were reaped, further concentrating capital. New patterns of consumption (i.e., large suburban shopping centres) resulting from the form of suburban development contributed considerably to the concentration of commercial capital.

State intervention in support of the private rental market has served, primarily, the interests of capital. Between 1944 and 1975, the state offered devalorized capital to limited dividend corporations that agreed to provide low income, rental housing. In spite of this assistance, relatively few low rental dwellings were constructed under this arrangement. Such assistance did serve to support the average rate of profit in the residential construction sector during periods of recession, as entrepreneurs resorted to the program in the absence of other opportunities. Further, the program provided opportunities to

private capital for developing its assembled, marginal sites. By 1975, the state had abandoned its attempts to induce the private sector to supply housing for the poor. State assistance was intended to stimulate the rental sector, with no consideration of tenant group served. Devalorized capital and special tax incentives for the wealthy were furnished to this end. Again, as a prelude to the final chapter, the relationship between the withdrawal of assistance and the fiscal crisis was introduced.

State owned housing, even during the peak of state activity in this area, has always had only a marginal role in serving the housing needs of Canadians. It is intended to be a reserve of the poor, rather than a legitimate way of housing the masses. It has fulfilled predominantly a legitimation role working in conjunction with the welfare system. The period of peak activity, 1969 through 1976 coincided with a time of heightened social unrest in the country. The state's commitment to mortgaged homeownership has directly contradicted its efforts in supplying state owned housing. The propertied classes have politically opposed the provision of public housing to preserve the value of their property. As a result of property based opposition and its fiscal crisis the state has now withdrawn almost entirely from the provision of public housing.

State support to non-profit and co-operative housing has also fulfilled predominantly a legitimation role. Through the 1950's and early 1960's non-profit housing, sponsored by service organizations, served the elderly. The state provided

such organizations with devalorized capital. During the late 1960's and early 1970's, community organizations began to tap the program to provide inner city housing for low-income families. The state commitment to such groups was a response to the community-based political opposition that prevailed. In this chapter I have argued, following Loney, that this commitment was in part a social control measure. I argue that by funding citizen groups, political opposition can be directed away from challenging capitalism to reforms compatible with a continuance of the prevailing social formation. Assistance to community organizations has broadened in the latter seventies, with the goal of replacing state owned housing as a means of housing the poor.

Support to co-operative housing was extremely limited until the early 1970's. Capital was only provided on a residual basis during the 1950's and 1960's. The state was simply not prepared to promote a housing mode based on co-operative principles. By the 1970's, as mortgaged homeownership was deeply entrenched, as the goal of most, assistance identical to that provided to non-profit groups was extended to co-operative housing groups.

The state has also been involved integrally in the amelioration of inner city slum conditions. Initially the state approached the problem by providing incentives to municipalities for slum clearance. The effect of this approach was to obliterate the housing of the poor to make way for intense commercial development in the interests of capital. By the early 1970's,

again in response to community activism, urban renewal programming was replaced by programs aimed at rehabilitating and preserving inner city housing. Citing its fiscal crisis, the state has announced that such programming will be withdrawn by 1982.

In addition to tracing the evolution of state housing interventions in relation to the state's accumulation and legitimation functions, I have identified contradictions between the state's economic policy and its housing goals during the latter 1970's and early 1980's. Most significantly, I have outlined how its monetarist stance has sharpened the contradiction between the housing and labour markets to such an extent that homeownership and private rental assistance is fiscally impossible. As well, I have shown how the state's wage and price control program directly contradicted its homeownership program. That is, while wage controls attempted to curtail wage gains, the success of the AHOP program depended on healthy wage increases. In this way we have seen that the state's latest attempts to facilitate capital accumulation have contradicted its housing goals, to the point where it has withdrawn housing interventions significantly.

Footnotes: Chapter 3

1

This act did not represent the state's initial involvement in housing. In 1918, under the War Measures Act, loans were provided to provinces to assist municipalities in constructing housing. In 1935, the first housing act was established (the Dominion Housing Act). Under this act, the Minister of Finance was empowered to make joint loans with finance capital for new house construction. In 1937, under the Home Improvement Loans Guarantee Act, the federal government was able to guarantee loans for the improvement of existing housing. In 1938, the first National Housing Act was passed. The joint lending technique was continued. The act also enabled the federal government to make loans for the construction of low-rental housing to municipalities and limited dividend companies. The lower levels of government were required to offer tax relief and operating loss guarantees on such projects. The 1938 Act served as the foundation for legislation passed in 1944.

Under the 1918 scheme 6,000 units were constructed. Under the 1935 and 1938 legislation joint loan measure, approximately 26,000 housing units were financed. No rental projects were developed under the 1938 Act. (This synopsis of legislation and activity is derived from an internal working document on the history of the housing acts provided by CMHC's old Winnipeg regional office.)

2

Advisory Committee on Reconstruction, Housing and Community Planning, Final Report of the Subcommittee, Ottawa, March 24, 1944 (The Curtis Report).

3

Government of Canada, White Paper on Employment and Income, submitted by the Minister of Reconstruction, April, 1945.

4

Report of the Royal Commission on Industrial Relations (Mr. Justice Mathers, Chairman), Supplement to Labour Gazette, Ottawa, July 1919.

5

Curtis Report, op.cit. p.25. Quoted from the Mathers Commission Report, p.13.

6

Ibid. p.25.

7

Ibid. p.35. The Advisory Subcommittee identified the need for at least 730,000 new houses over the ensuing decade.

8

Ibid. p.35.

9

Ibid. p.50.

10

This "subordination" of housing provision continued through the 1950's and 1960's. It has been discussed at length elsewhere, for example, Dennis, M. and Fish, S., Programs in Search of Policy-Low Income Housing in Canada, Hakkert, Toronto, 1972, and Barker, G., Penney, J., and Seccombe, W., Highrise and Superprofits, Dumont Press Graphix, Kitchener 1973, and Economic Council of Canada, Fourth Annual Review, 1967.

11

The Curtis Report, op.cit., p.35.

12

Dominion-Provincial Conference on Construction, August 6, 1945. Report of the Planning Session No. 1, p.67. cited in Sewell, J., "The Suburbs," City Magazine, 1977, Vol. 2, No. 6.

13

CMHC Memorandum, June 3, 1949, cited in Dennis and Fish op.cit., p.132.

14

Ibid. p.132.

15

See for example, Bettison, D. G., The Politics of Canadian Urban Development, University of Alberta Press, Edmonton, 1975. Bettison's work is an extremely detailed history of Canadian urban policy that subsumes the development of housing policy. The study, essentially reformist, provides a very comprehensive analysis of inter-governmental politics and jurisdictional conflicts as a dimension of policy. As well, the development of urban policy is necessarily related to changing social, economic, and therefore political, conditions in the country. The work draws extensively from government documents and parliamentary records.

A very recent work regarding the evolution of state housing policy is Rose, A., Canadian Housing Policies 1935-1980, Butterworth and Company, Toronto, 1980. Rose provides a good cataloguing of housing policy to the 1973 NHA amendments. In contradiction to the title there is little analysis of major housing policy shifts initiated in 1978.

The Dennis and Fish report cited earlier provides a number of useful insights into the history of low-income housing policy.

It is particularly revealing about the operations of CMHC as internal memoranda are a major source. Originally funded by CMHC, the study was initially suppressed but eventually released privately by the authors. The study represents a left liberal analysis of low income housing initiatives to early 1970's.

16

Engels, F., The Housing Question, Progress Publishers, Moscow, 1975.

17

Engels, Op.Cit. p.45.

18

Ibid. p.35.

19

Stone, Michael, "Housing, Mortgage Lending and the Contradictions of Capitalism," in Tabb, W.K. and Sawers, L. ed., Marxism and the Metropolis, New Perspectives in Urban Political Economy, Oxford University Press, New York, 1978. In this article Stone discusses interventions of the United States government in housing. He argues that the housing crisis is grounded in an endemic contradiction between the housing and labour markets. He further argues that the development of the mortgage system and a proliferation of state intervention rose from the need to manage this contradiction. Stone maintains that both phenomena serve the interests of capital. In considering the role of the state Stone identifies its role using the concepts of accumulation and legitimation (in his terms "advancing the interests of capital" and "defending the system" respectively).

Stone has contributed significantly to a political-economic analysis of housing. His work consists of "Federal Housing Policy: A Political-Economic Analysis" in Pynoos, J., Schafer, R., and Hartman, G. eds. Housing Urban America, Aldine, Chicago, 1973; "The Housing Crisis, Mortgage Lending, and Class Struggle" Antipode, Sept. 1975; and "Gimme Shelter!" in U.S. Capitalism in Crisis, Union for Radical Political Economics, New York, 1976.

20

Stone, Op.Cit. p.186.

21

Habermas, Op.Cit.

22

Ibid. pp.36-37.

23

Ibid. p.37. The other prerequisite, not particularly relevant to our discussion, is aimed at justifying the structurally depoliticized realm itself. Habermas points to the role of democratic elite and technocratic systems theories in this justification.

24

Ibid. p.75

25

Aronowitz, S., Food Shelter and the American Dream, The Seaburg Press, New York, 1974.

26

Aronowitz, Op.Cit. p.22.

27

Angotti, Thomas, "The Housing Question: Engels and After," Monthly Review, October, 1977, p.43.

28

Pickvance, C. G., "Housing, Reproduction of Capital and Reproduction of Labour Power: Some Recent French Work," Antipode, Vol. 8, No. 1, March, 1976, p.58.

29

Ibid. p.58.

30

In recent times of high inflation and volatile interest rates the problem of liquidity is even more pronounced. Lenders are obviously reluctant to get locked into any long-term loans as their profits will diminish. As such, we have experienced, historically, a reduction in the mortgage term to the point where one year terms are common.

31

Dennis and Fish, op.cit. p.268.

32

Ibid. p.268.

33

Ibid. p.268.

34

Lithwick, I., An Evaluation of the Federal Assisted Homeownership Program, CMHC, Ottawa, July, 1977.

35

Ibid. p.8.

36

Ibid. p.8.

37

CMHC, Canadian Housing Statistics 1976, Ottawa, CMHC, 1977, pp.viii-x, quoted in Rose Op.Cit. p.56.

38

Mr. Albert Fish, House of Commons Debates, November 1979. pp. 1509-1510.

39

Dennis and Fish, Op.Cit. pp.225-243. Barker, Penney and Seccombe also provide an analysis of the limited dividend measure but it is based largely on the work of Dennis and Fish.

40

CMHC, Canadian Housing Statistics 1974, Table 52, p.46. Approximately 11,500 new rental dwellings were constructed between 1946 and 1956. Of these, about 3,500 were built in 1946.

41

Dennis and Fish, Op.Cit. p.226.

42

CMHC, Canadian Housing Statistics 1974, Table 52, p.46.

43

Ibid.

44

CMHC Memorandum cited in Dennis and Fish, Op.Cit. p.233.

45

Dennis and Fish, Op.Cit. p.230.

46

CMHC, Canadian Housing Statistics 1971, Table 101, p.80.

47

Dennis and Fish, Op.Cit. pp.234-235.

48

Ibid. p.227.

49

CMHC, Canadian Housing Statistics 1974, Table 52, p.46.

50

Lithwick, I., An Evaluation of the Federal Assisted Rental Program (1976-77), CMHC, Ottawa, 1978. p.1.

51

The tax measure allows the building owner(s) to accelerate the depreciation of his building. The acceleration of depreciation often "creates" an operating loss. This "paper" operating loss can be claimed against other, non-real estate income to reduce taxes payable. The lucrativeness of this tax measure is enhanced by the fact the ARP assistance is in the form of a loan. As such, the interest free loan does not have to be included as income on the rental property. Owners of ARP units can have a real positive income stream while claiming losses for tax purposes.

52

CMHC, ARP Evaluation, op.cit. p.53.

53

Ibid. p.117.

54

Ibid. p.18.

55

Ibid. p.150.

56

Ibid. p.15.

57

Ibid. p. 16. For example, if the builder provides 10% equity and the selling price is 10% higher than his costs, his return on equity amounts to 100 per cent.

58

CMHC, Canadian Housing Statistics 1979, Table 60 and 61, p.54.

59

CMHC, Canadian Housing Statistics 1976, P.viii and Canadian Housing Statistics 1977, p.viii.

60

CMHC, Canadian Housing Statistics 1978, p.viii.

61

CMHC, Annual Report 1980, p.7.

62

CMHC, Evaluation of ARP, p.148. This evaluation indicates that 68.9 per cent of ARP projects have a 5 year term on the first mortgage.

63

Dennis and Fish, op.cit. p.174.

- 64 Piven, F.F. and Cloward, R.A., Regulating the Poor: The Functions of Public Welfare, Pantheon Books, New York, 1971.
- 65 Stone, op.cit. p.186.
- 66 CMHC, Canadian Housing Statistics 1980, calculated from Table 1, p.1, and Table 62, p.54.
- 67 House of Commons Debates, 1964, 4:3714 cited in Bettison, op.cit. p.154.
- 68 Ibid. p.3,716.
- 69 CMHC, Canadian Housing Statistics 1980, calculated from Table 1, p.1, Table 60, p.53, and Table 62, p.54.
- 70 Canadian Council on Social Development, A Review of Canadian Social Housing Policy, Ottawa 1977.
- 71 Ibid. pp.72-73.
- 72 Dennis and Fish, op.cit. p.198.
- 73 Ibid, p.207.
- 74 Canadian Council on Social Development, op.cit., p.75.
- 75 Dennis and Fish, op.cit. p.246.
- 76 Dennis and Fish, op.cit. pp.246-247.
- 77 CMHC, Canadian Housing Statistics 1973, Table 54, p.47.
- 78 Canada Council on Social Development, op.cit. p.117.
- 79 Loney, Martin, " A Political-Economy of Citizen Participation" in Panitch, op.cit. p.446.

80

Ibid., p.453.

81

Canadian Council on Social Development, op.cit., p.119.

82

CMHC Memorandum, October 11, 1963 cited in Dennis and Fish op.cit., p.250.

83

CMHC, Statistical Handbook From National Survey of Clients and Managers in Non-Profit and Co-operative Housing in Canada (1977), Ottawa, 1978. According to this survey co-operative housing served low to moderate income senior citizens and moderate to high income non-senior citizens.

84

CMHC, Canadian Housing Statistics 1980, Table 59, p.52.

CHAPTER 4

THE CONTEMPORARY HOUSING CRISIS

Although increased state intervention has resulted in an improved material standard of housing for the Canadian populace in aggregate, a housing crisis persists. The concern of this chapter is to outline the nature and magnitude of this contemporary housing crisis.

The housing crisis, as argued by Stone,¹ is grounded in a growing contradiction between the housing and labour markets. Though the state has intervened historically to manage this contradiction, housing needs persist for a significant proportion of the population. The following table outlines the level of unfulfilled need in Canada in 1979.

Table 11
Estimated Housing Need in Canada, 1979

| Problem | Owners | Renters | Total |
|--|---------|---------|-----------|
| Affordability only | 100,100 | 350,000 | 450,000 |
| Adequacy only | 188,700 | 60,600 | 249,300 |
| Crowding only | 110,100 | 66,400 | 176,500 |
| Affordability, adequacy and/or crowding combined | 48,600 | 155,800 | 204,400 |
| Total | 447,500 | 632,800 | 1,080,300 |

Source: CMHC, Long Term Outlook for Housing in Canada, and its Implications for the Residential Construction Industry, May 1980.

According to the above analysis, households with an affordability problem are paying in excess of 30 per cent of total income on shelter. An inadequate dwelling has one or more major physical defects or an absence of facilities like running water or a toilet. A household is experiencing crowd-

ing problems if more than one person per room are occupying the dwelling. This analysis of need is rather general and is therefore wanting. For example, lower income households paying 30 per cent of their income on shelter suffer much more than higher income households paying the same proportion. As incomes decrease, there is less income available for other necessities like food. This has long been recognized and is reflected in the fact that rents extracted from public housing tenants are done so on the basis of a graduated income scale. That is, such tenants may pay between 17 and 25 per cent of their income on shelter. The point to be made is that the 30 per cent criterion understates the affordability problem.

The analysis also ignores the extent to which households have had to become two income households to meet the 30 per cent criterion. Over the last 20 years there has been an overwhelming increase in two income households in Canada.

Table 12
Two Income Households

| Year | Number | Per cent of Total |
|------|-----------|-------------------|
| 1961 | 900,000 | 20 |
| 1971 | 1,800,000 | 37 |
| 1976 | 2,400,000 | 44 |

Source: CMHC, Long Term Outlook for Housing in Canada, and its Implications for the Residential Construction Industry, May 1980.

Furthermore, the above needs analysis obscures regional income and housing quality disparities since it is presented on a national basis.

Notwithstanding such shortcomings, the analysis does indicate that significant housing problems persist in this country as over 1 million households are experiencing some level of difficulty, and over 200,000 households have serious housing problems.

A new dimension of the housing crisis has arisen during the latter 1970's. The portion of family income directed toward energy costs has risen significantly from the early 1970's to 1981. Such increases will be even greater over the next 10 years (see Table 13).

Table 13
Home Heating Costs as a Component of
Urban Family Expenditure (%)

| Year | Home Heating Costs |
|------|--------------------|
| 1972 | 4.1 |
| 1979 | 4.4 |
| 1981 | 4.8 |
| 1985 | 5.6 |
| 1989 | 6.5 |
| 1991 | 7.0 |

Source: CMHC, The Long Term Outlook For Housing in Canada, and Its Implications for the Residential Construction Industry, May 1980.

Rising energy costs will hit low income homeowners hardest. Table 14, outlines the impact of increased energy costs between 1976 and 1978 by income group and tenure.

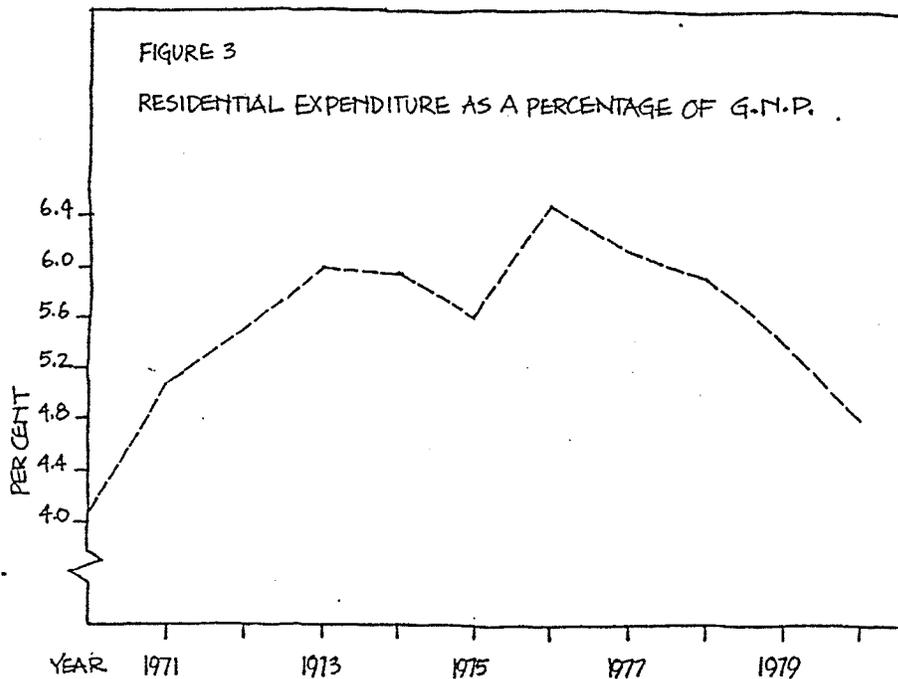
Table 14

Energy Expenditures as a Per Cent of
Total Family Expenditures

| Owners | Under \$7,500 | \$7,500 - \$20,000. | Over \$20,000. |
|----------------|---------------|---------------------|----------------|
| 1976 | 15.5 | 4.6 | 2.9 |
| 1977 | 18.1 | 5.3 | 3.4 |
| 1978 | 19.5 | 5.8 | 3.8 |
| Renters | | | |
| 1976 | 6.2 | 2.2 | 1.6 |
| 1977 | 7.2 | 2.6 | 1.8 |
| 1978 | 7.8 | 2.8 | 2.0 |

Source: CMHC, The Long Term Outlook For Housing in Canada, and Its Implications for the Residential Construction Industry, May 1980.

While housing need has persisted, growth in the residential construction sector has slowed substantially. For the first time since 1970, residential construction expenditures

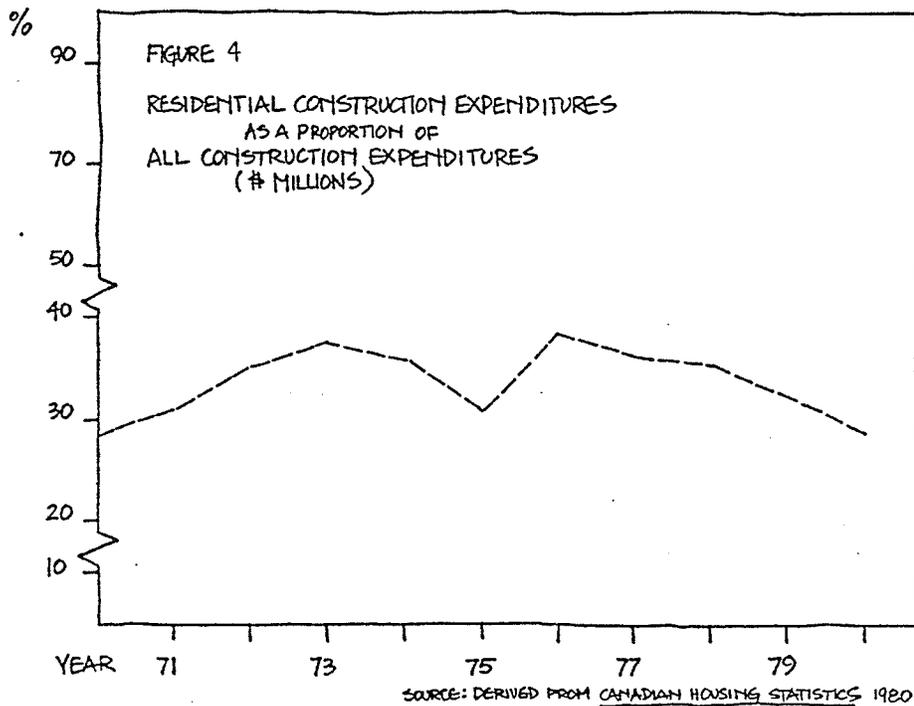


SOURCE: CANADIAN HOUSING STATISTICS, 1980, TABLE 22

NOTE: BETWEEN 1960 AND 1970 THIS FLUCTUATED BETWEEN 4 AND 5 %

constituted less than 5 per cent of total Gross National Expenditure.

As well, for the first time in a decade, residential construction expenditures declined as non-residential construction expenditures continued to increase.



As outlined in Figure 4, residential construction expenditures, as a percentage of total construction, peaked in 1976 at almost 39 per cent. By 1980 this percentage fell to around 29 per cent. A substantial investment shift from housing capital to other business capital has transpired during this period. This shift is, of course, reflected in housing starts over the period. Between 1976 and 1980 housing starts declined by 42 per cent.

Table 15
Housing Starts: Canada

| Year | Starts |
|------|---------|
| 1970 | 190,528 |
| 1971 | 233,653 |
| 1972 | 249,914 |
| 1973 | 268,529 |
| 1974 | 222,123 |
| 1975 | 231,456 |
| 1976 | 273,203 |
| 1977 | 245,724 |
| 1978 | 227,667 |
| 1979 | 197,049 |
| 1980 | 158,601 |

Source: Canadian Housing Statistics 1980, Table 9, p. 9.

Early in 1981 both the federal government and the building industry predicted a partial recovery for the residential construction industry to 180,000 starts for the year. By late May, the Housing and Urban Development Association had tempered its enthusiasm and was predicting a slight increase over 1980 activity (165,000 starts²). The association attributed the current slump to high interest rates.

HUDAC officials said at a news conference that the current crisis in their industry will get worse unless the federal government finds an alternative to high interest rates to bring the economy under control. 3

Prospects for the future look scary when the existing level of activity is compared to projected new housing requirements. The following table, prepared by CMHC, outlines future requirements based purely on demographic trends (the effect of immigration rates was not considered).

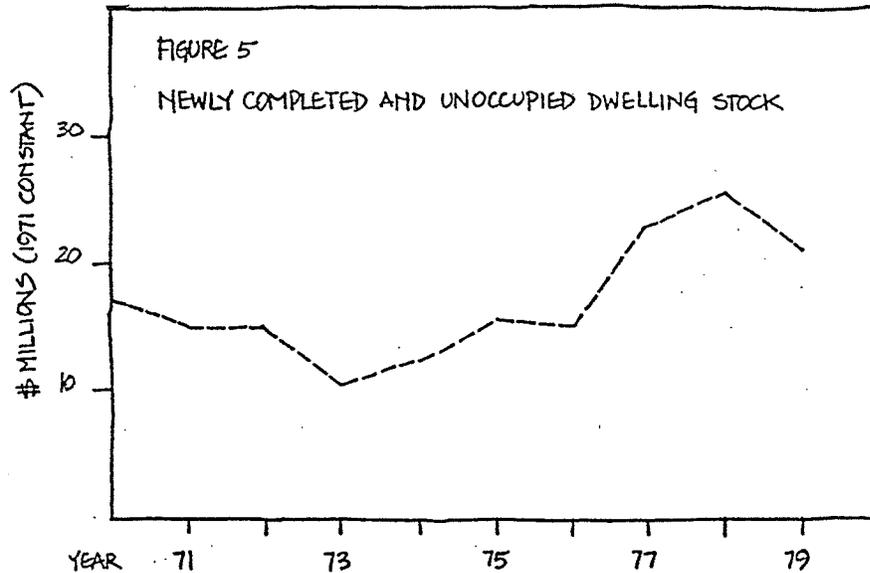
Table 16
New Housing Requirements

| Year | Rental | Ownership | Total |
|------|--------|-----------|---------|
| 1980 | 99,200 | 136,000 | 235,200 |
| 1981 | 97,000 | 140,000 | 237,300 |
| 1982 | 92,700 | 143,100 | 235,800 |
| 1983 | 87,700 | 145,300 | 233,000 |
| 1984 | 79,500 | 145,000 | 224,500 |
| 1985 | 69,700 | 144,200 | 213,900 |
| 1986 | 58,800 | 142,700 | 201,500 |
| 1987 | 47,400 | 141,600 | 189,000 |
| 1988 | 37,400 | 139,300 | 176,700 |
| 1989 | 28,900 | 136,800 | 165,700 |
| 1990 | 28,000 | 128,200 | 156,200 |

Source: CMHC, The Long Term Outlook For Housing in Canada, and Its Implications for the Residential Construction Industry, Ottawa, May 1980.

The crisis of course is exacerbated by the backlog of unfulfilled requirements that have accumulated over past years. For example, from 1976 to 1980 the federal government, following the analysis of the Economic Council of Canada, has estimated that 1 million dwelling starts were required for this period.⁴ This target was not met.

While aggregated housing requirements were left unfulfilled during the latter 1970's, inventories of complete unoccupied units were accumulating. Figure 5 outlines this trend. Thus demand was there, but a growing contradiction between the housing and labour markets rendered demand, in Keynesian terms, ineffective.



SOURCE: DEPARTMENT OF FINANCE ECONOMIC REVIEW, APRIL, 1980 p. 83

Recently, the Federal Minister responsible for housing reflected on the mid-seventies as a period of overproduction. He attributes overproduction to the degree of government intervention in the market.

We have learned through past experience that too much government intervention in the market place results in overproduction and we have to tailor-make our response to avoid this. 5

Cosgrove has singled out the Assisted Homeownership and Assisted Rental programs as major culprits.

Another most important consideration is that part of the trouble we are in now results from the federal response to the problems that beset the industry during the early 1970's. As all of you are well aware, programs such as ARP and AHOP provided such stimulus that the industry overproduced while a number of home buyers over extended themselves. 6

Having attributed current production problems to past state intervention, the Minister now displays a renewed confidence in the workings of the capitalist market.

We feel very strongly that the proper balance of supply and demand will be reached if we allow market forces to operate normally. 7

We believe that the best interests of most Canadians and of the housing industry itself, are best served by relying on the normal operations of the market place. We do not feel that federal intervention is advisable or desirable at this time. 8

As indicated earlier, the industry itself does not share the Minister's zeal about the unfettered market. They have lobbied hard for a "not so normal operation of the market" as industry representatives have called upon the state to make permanent, tax incentives for rental construction, and control the mortgage market. In March of this year the Ontario real estate industry called for a mortgage rate freeze at 12 per cent. These industry representatives also argued that the state should subsidize the difference between 12 per cent and prevailing market rates. 9

It is important to note that rhetorical statements about the market and free competition are not unique to this period. Indeed, the recent Minister's predecessors have waxed eloquently in this regard in the past.

I believe that the housing needs of most Canadians can best be served through a stable, efficient and competitive private residential construction industry. . . . That is why an important part of our activity is directed towards helping to support this kind of market place. 10

The fundamental distinction to make is that in the past, the state has actively intervened in support of the private accumulation process in the housing sector while today the state response is one of withdrawal from intervention.

There is a difference between "supporting" private production and leaving private production to the contradictions of the market.

Returning to a consideration of the current situation, while the Minister has been promoting a stance of leaving the market alone, he has seemingly in contradiction, recognized the ill effects of such a stance.

In the field of housing, however, the last few years have been corrective in nature, restoring the balance between supply and demand. It appears now that the correction in housing activity has actually over run its course. 11

. . . . we are not producing housing at a rate that meets the predicted requirements for the coming years. In other words we have bottomed out. 12

The Minister has argued against direct state intervention in the housing sector on grounds that it would run contrary to current federal monetary policy.

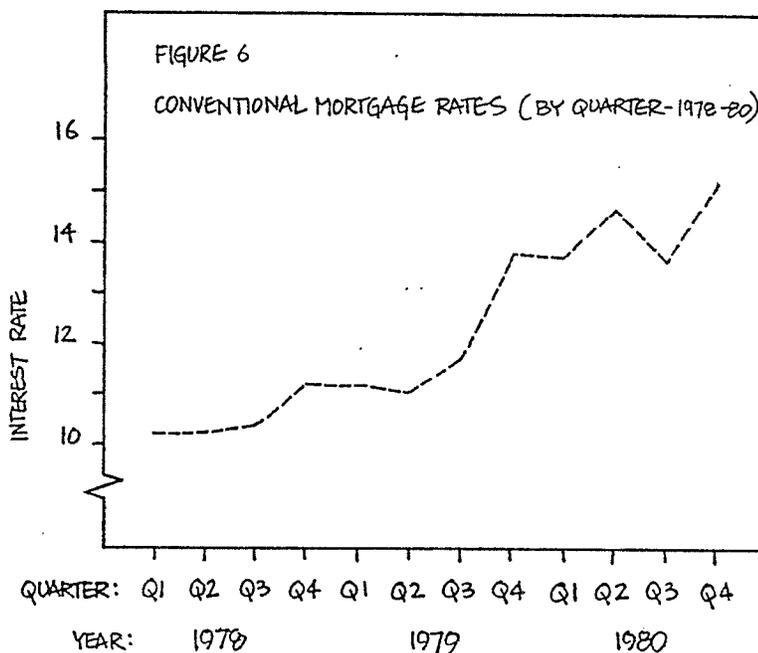
You can appreciate the cumulative effect of extensive federal subsidies. Not only would they run counter to federal monetary policy at this time, they would inevitably contribute to even higher interest rates at some future date. 13

In the past, the state instituted subsidies and transfer payments to individuals and families to support aggregate demand in the economy. Such payments are now considered inflationary and contrary to current attempts to restrict growth of the money supply.

Since late 1979, mortgage rates have climbed dramatically in response to state controlled increases in the central bank lending rate. As outlined earlier, during the 1970's and

early 1980's the state has adopted a monetarist economic policy in its attempt to control inflation. This stance maintains that restricting growth in the money supply by raising rates will cool the demand for money, ultimately reducing inflation in the long term. Resisting, at this point, a critique of such policy, our concern here is its effect on mortgage rates.

Figure 6 illustrates mortgage rate movements from 1978 through 1980. During the first half of 1981 mortgage rates have escalated further to a current rate exceeding 20 per cent.



Such rises in mortgage rates have increased substantially the costs of homeownership for those negotiating their first mortgage and those renewing existing mortgages.

The extent to which these homeownership aspirants are now being squeezed, is an empirical question that cannot be

precisely determined. It is possible to provide some meaningful insights based on available empirical information and plausible theoretical assumptions.

Federal government representatives, Prime Minister Trudeau among them, argue that the number of people facing foreclosures does not warrant concern. Trudeau offered the following at this weekly press conference on May 15 of this year.

For the time being, since foreclosures are not increasing in number, we don't feel that we should call upon our expenditure program to increase the deficit any further. 14

This confidence in the ability of homeownership aspirants to weather the storm, is shared by status quo housing analysts. In a paper that was presented to the recent federal-provincial housing Ministers conference,¹⁵ the mortgage interest rate was put "into perspective". It is argued that average family incomes have risen more quickly from 1976 to 1981 than interest payments on an average mortgage written in 1976 and renewed in 1981 at 18 1/4 per cent (52 per cent compared to 46 per cent). Therefore, mortgage payments as a percentage of income will not have increased at renewal. By dealing in averages, the impact on families with radically varied income and wealth positions is obscured. As well, regional disparities in housing markets (i.e., mortgage sizes) is also ignored. For families with below average income, experiencing below average increases in income, the fact that average income families are doing okay offers little solace.

Further the "status quo" argument is based on a mortgage with a five year term. Since 1978, the prevalence of one to three year terms has increased considerably. Those families that assumed, say, an 11 per cent mortgage on a 2 year term in 1979 will face increases in excess of 30 per cent if they are forced to renew their mortgages at prevailing rates (assuming a \$40,000. mortgage amortized over 25 years and a gross debt service to income ratio of 30 per cent). Such a mortgage payment increase exceeds considerably average income increases for the period.

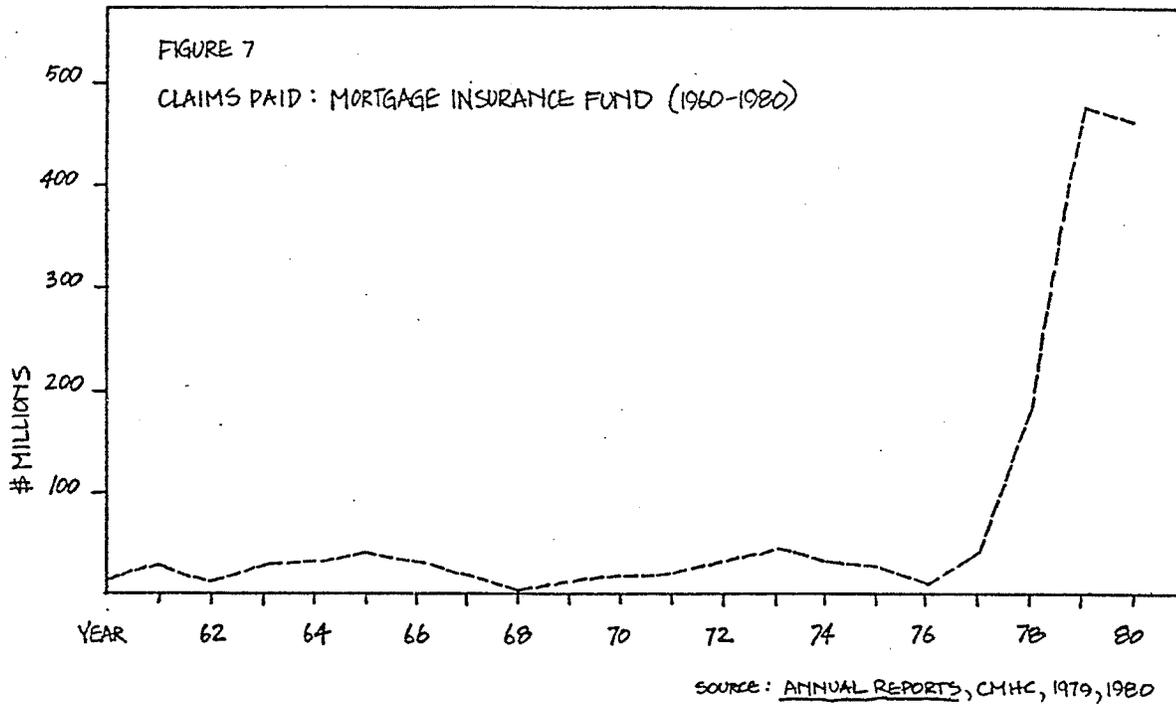
Aggregate information regarding mortgage defaults suggests that the situation worsened terrifically during the period 1978 through 1980. The following table and figure illustrate well the situation regarding state insured mortgages.

Table 17

Insurance Claims Paid by the
Mortgage Insurance Fund

| Year | Number |
|------|--------|
| 1977 | - |
| 1978 | 5,078 |
| 1979 | 17,250 |
| 1980 | 11,812 |

Source: CMHC Annual Reports
1977, 1979, 1980.



Available information for privately insured mortgages suggest that, at least in 1978, defaults burgeoned.

Table 18
Mortgage Insurance Claims on Total Portfolio as a Percentage of Premiums Written in Given Year (average of three insurers)

| Year | Per Cent |
|------|----------|
| 1975 | 10.2 |
| 1976 | 11.2 |
| 1977 | 17.4 |
| 1978 | 83.7 |

Source: CMHC, The Long Term Outlook For Housing in Canada, May 1980.

Based on averages of three private insurance companies, claims as a percentage of premiums written increased from 17.4 per cent in 1977 to a staggering 83.7 per cent in 1978.

In 1979, 70 per cent of the increase in state insured claims were related to loans approved under the Assisted Home-ownership and Assisted Rental programs.¹⁶ This trend continued¹⁷ into 1980. The trend is likely to continue through 1982 as even greater numbers of AHOP mortgages come up for renewal.

Popular accounts of the effects of unprecedented mortgage rates on AHOP participants have been numerous in the Canadian Press. According to a Globe and Mail account, the AHOP default rate is 7.6 per cent, nationally, and 12.1 per cent in Ontario.¹⁸ Although the state has provided, and will continue to provide, grant assistance to AHOP participants a high level of defaults has occurred. Grant assistance has been provided to date (743 grants totalling \$392,000.) and CMHC estimates that in 1981-82, 3,000 additional households will¹⁹ require assistance at a cost of \$1.3 million.

AHOP participants have argued against grant assistance as it creates an image of AHOP projects as "slums built from government handouts".²⁰ They are requesting instead forgiveness of downpayment loans provided. These participants have homes in an Ontario project in which 170 of 451 owners have abandoned their homes. Another organized group of participants²¹ has called for a moratorium on AHOP foreclosures.

A severe effect of current difficulties with the program has been the devaluation of AHOP property. In many cases²² outstanding mortgages are higher than market values.

CMHC has incurred substantial losses on the resale of units acquired through defaults. In 1980, CMHC's AHOP losses

23

totalled \$145 million.

It is interesting to note that the blame for the "AHOP debacle" is being foisted off on the participants of the program as people who "over extended themselves" (see quote on page 97). In their rather zealous pursuit of homeownership for Canadian families during the mid seventies, the state politicians and planners can be excused for their lack of ability to foresee current rates and their effects on AHOP participants. Such participants "should have known better" according to current state representatives.

Summary and Conclusions

In this chapter I have argued that in spite of a high degree of state involvement in housing, a housing crisis persists. I have shown that over 1 million Canadian households are experiencing some level of housing need while over 200,000 households have serious housing problems. A new dimension to the housing crisis has also arisen during the 1970's as energy expenditures are increasing greatly as a proportion of total family expenditure. The greatest impact will be felt by the poor. While housing need has persisted, residential construction has fallen off considerably. New house requirements will not be met at current production levels.

As a consequence of federal monetary policy mortgage rates have reached unprecedented levels. Many mortgage homeowners facing renewal have to date experienced hardship, to the point of default. First time home buyers, without substantial

equity, have been squeezed out of the market. This trend will undoubtedly continue. As many defaulting homeowners have secured state guaranteed mortgages, the state has suffered losses exacerbating its fiscal crisis. In this way, the state's broader economic policy has created a default situation that has in turn created a crisis for its housing administration. A high level of mortgage defaults on state assisted rental properties has had the same effect.

The state's immediate response to the contemporary housing crisis has been one of inaction. In defending this posture, state representatives now attribute current problems to past levels of intervention. They argue that too much government intervention has resulted in a period of overproduction. In contradiction, they indicate a recognition of the fact that current levels of production are inadequate to meet accumulated need. With regard to high mortgage costs, state representatives argue that as the average Canadian household's income gains have exceeded average increases in mortgage costs, no assistance is required. The plight of households with below average incomes or above average mortgage cost increases are ignored.

Representatives of building, property, and finance capital do not share the state's confidence in the capitalist market. They are currently lobbying hard for state intervention in the mortgage market.

The concluding chapter of this thesis considers the transformation of state housing policy in detail.

Footnotes: Chapter 4

- 1
Stone, op.cit., 1977.
- 2
Regina Leader Post, Housing Forecast Drops, May 29, 1981.
- 3
Ibid.
- 4
CMHC News Release, Ottawa, November 3, 1975. Cited in The Canadian Council on Social Development, A Review of Canadian Social Housing Policy, January, 1977, p.11.
- 5
Notes for Remarks by the Honourable Paul Cosgrove to the Association of Ontario Housing Authorities, September 22, 1980, Windsor.
- 6
Housing and Communities in the 1980's - New Opportunities for the Building Industry. Notes for an address by the Honourable Paul Cosgrove to the Annual Conference of the Housing and Urban Development Association of Canada, February 2, 1981, Montreal.
- 7
Ibid.
- 8
Ibid.
- 9
Toronto Sun, Real Estate Bubble Ready to Burst, March 10, 1981, and Toronto Globe and Mail, Freeze Urged on Mortgages, February 25, 1981.
- 10
Ouellet, Andre, Speech to the Property Forum, November 2, 1977, Toronto.
- 11
Speaking Notes for Honourable Paul Cosgrove, Minister of Public Works and Minister responsible for CMHC to the Annual Conference of the Lumber and Building Materials Association of Ontario, February 17, 1981, Toronto.
- 12
Ibid.

- 13
Speaking Notes for the Honourable Paul Cosgrove to Saskatchewan Housing Authorities, April 28, 1980, Saskatoon.
- 14
Press Release, Canadian Press, May 15, 1981.
- 15
Putting the Mortgage Interest Rate Problem Into Perspective, a paper prepared for the Toronto Home Builders Association by Clayton Research Associates Ltd., March, 1981.
- 16
CMHC, Annual Report 1979, pp.16-17.
- 17
CMHC, Annual Report 1980, p.13
- 18
Toronto Globe and Mail, AHOP Debate Leaves CMHC a Giant Landlord - But Broke, November 11, 1980.
- 19
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- 22
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- 23
Press Release, Canadian Press, March 24, 1981.

CHAPTER 5

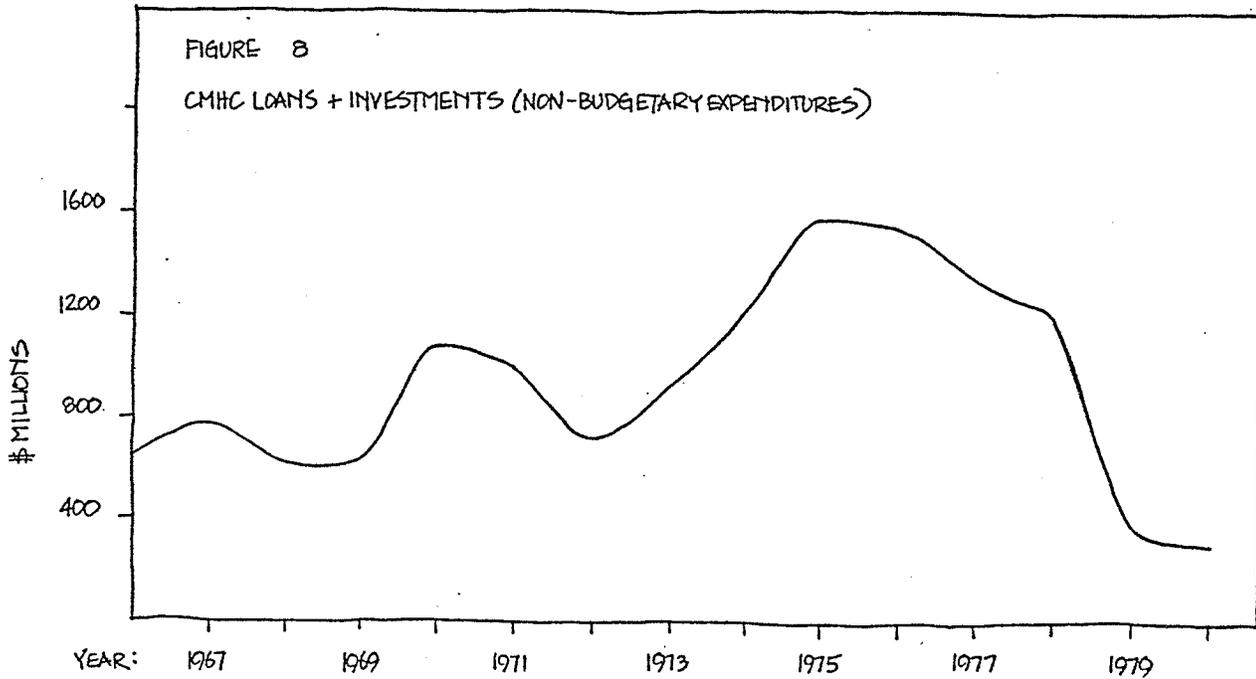
THE CURRENT TRANSFORMATION OF STATE HOUSING INTERVENTIONS

In the introduction to this thesis I stated that the purpose of this final chapter is to consider the current transformation of state housing policy within the theoretical framework established in antecedent chapters. More specifically, the intent is to relate policy changes in the particular realm of housing to the broader shift in the role of the state outlined in Chapter 2. In this chapter I will discuss how discrete housing policy changes, and the cumulative fiscal impact of such changes, relate to the federal government's response to its sharpening fiscal crisis, namely, the erosion of the welfare state. In O'Connor's terms, this curtailment of social program expenditures in favour of expenditures on economic development and energy can be expressed as a shift from interventions that serve primarily a legitimation role to those fulfilling an accumulation function. A withdrawal of housing capital and budgetary expenditures can be seen as part of this broader withdrawal of legitimation.

The Cumulative Fiscal Impact

Current housing policy changes constitute the reversal of a trend of increasing state involvement in housing that began after the second world war and continued to the mid 1970's. The cumulative fiscal impact of this reversal is now considered. As outlined in Chapter 3, a fundamental element of state intervention in housing was the direct provision of capital where it was not forthcoming through the capitalist market.

The state provided housing capital increasingly until 1975. Figure 8 graphs the trend from 1966 to 1980. The amount of housing capital supplied by the state peaked in 1975 at \$1.6 billion. From 1975 to 1980, CMHC's loans and investments budget declined dramatically to \$327 million. Manifest in differ-



SOURCE: SELECTED YEARS - CANADIAN HOUSING STATISTICS

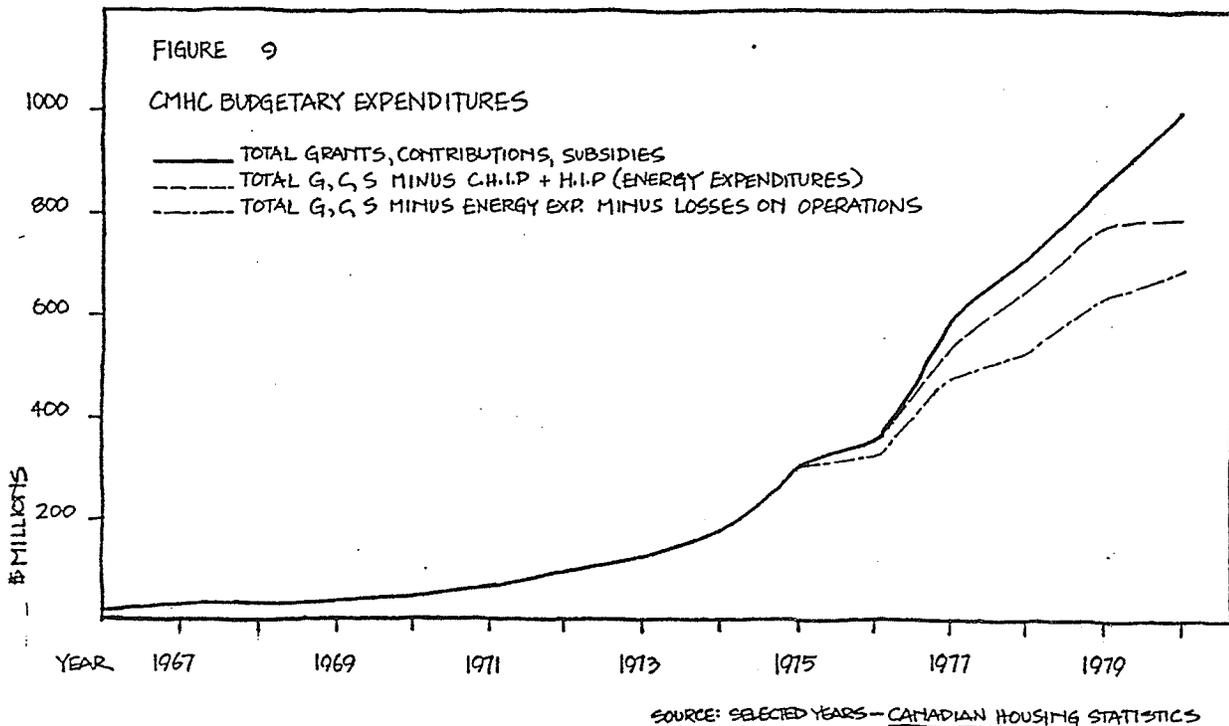
ent terms, in 1975, 44,884 housing starts constituting 19 per cent of all activity in the country, were financed directly with public funds through CMHC. By 1980, only 6,835 dwellings or 4.3 per cent of all housing activity was financed with public funds.

The withdrawal of housing capital initiated in 1975 was clearly a response to the state's fiscal crisis. To the extent that CMHC's capital requirements have been reduced, the federal government has required less borrowed capital. As

such, increases in its interest payments on public debt have been reduced accordingly. Further, as indicated in Chapter 2, as housing capital requirements have been reduced, capital is available for other purposes like the National Energy Program.

It is apparent from the previous discussion on the continuing housing crisis that the state's renewed commitment to "the fullest possible utilization of private sector capital for activity previously funded by the federal government"² has failed as a strategy for meeting the country's housing needs. Further empirical verification of the failure of this new posture is provided in the following section.

In aggregate, in contrast to the trend in loans and investments, CMHC's budgetary expenditures have continued to increase through the latter 1970's. Figure 9 graphs the trend in budgetary expenditures from 1966 to 1980.



Upon careful scrutiny it becomes clear that sustained increases in budgetary expenditures do not reflect an ever-increasing degree of state involvement in housing. In many cases, budgetary expenditures in a given year reflect long term commitments made in previous years. For example, state owned housing provided in 1970 will have budgetary implications for many years hence, as tenants will require continued subsidies. As another example, interest loss subsidies incurred through assisted rental programs have been committed for a number of years into the future. As is the case with the provision of capital, it is not politically feasible for the state to shift, or pretend to shift the responsibility for such expenditures elsewhere. The state must continue to bear the fiscal burden of its past commitments. Continuing, additional insight into this budgetary trend can be gained by considering where the most significant changes have occurred by expenditure category. As indicated in Figure 9, total budgetary expenditures increased by approximately \$160 million between 1979 and 1980. Increases in home insulation grants to homeowners account for \$135 million of this total increase. Table 19 outlines home insulation sub-

Table 19
Home Insulation Subsidies

| | Year | | | |
|----------------------------------|------|------|------|-------|
| | 1977 | 1978 | 1979 | 1980 |
| Home Insulation Program | 40.3 | 28.9 | - | - |
| Canadian Home Insulation Program | 3.1 | 18.4 | 77.9 | 212.9 |
| Total | 43.4 | 47.3 | 77.9 | 212.9 |

Source: Canadian Housing Statistics, 1980, Table 27

sidies from 1977 through 1980. For the period 1976 to 1980, CMHC losses have also constituted a significant proportion of increases in budgetary expenditures. Table 20 summarizes this expenditure category.

Table 20
Loss Expenditures
(\$ Millions)

| Expenditure Category | 1976 | 1977 | 1978 | 1979 | 1980 |
|-------------------------------|------|------|------|-------|------|
| Discount in Sale of Mortgages | - | - | 38.1 | 60.0 | -0.1 |
| Losses Re Property Sales | 0.3 | 1.2 | 1.2 | 7.8 | 41.5 |
| Interest Rate Loss | 11.6 | 27.2 | 25.9 | 27.6 | 24.9 |
| Real Estate Loss-Operating | 10.3 | 11.3 | 13.7 | 21.1 | 14.7 |
| Losses on Loans | - | 0.1 | 0.9 | 4.8 | 12.6 |
| Total | 22.2 | 39.8 | 79.8 | 121.3 | 93.6 |

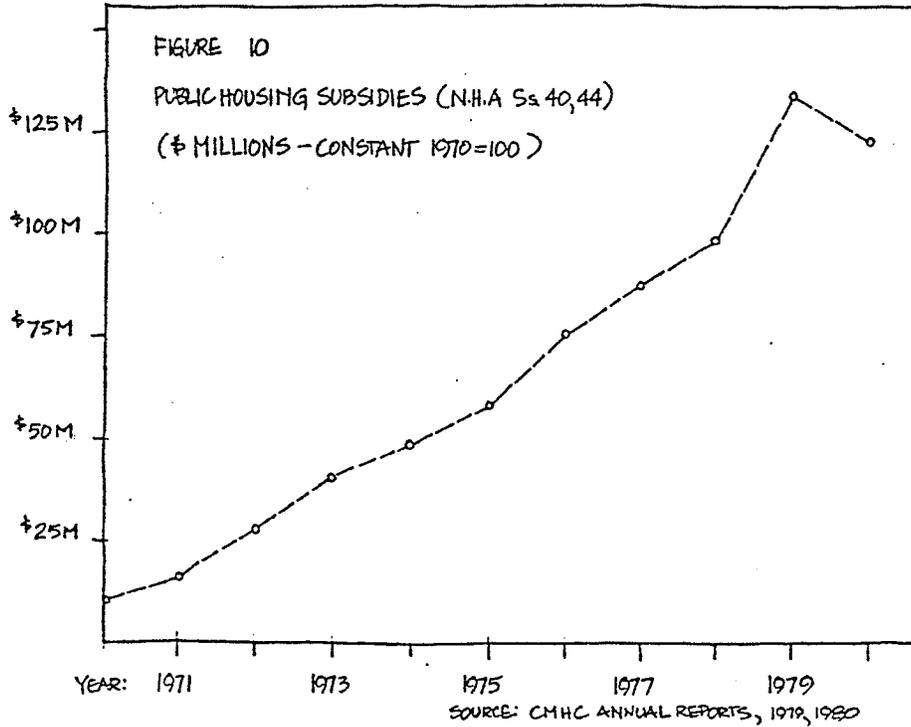
Source: Canadian Housing Statistics, 1980, Table 27, p. 22.

As argued in Chapter 4, the state's commitment to high interest rates has ultimately created a crisis in its housing administration. Thus a significant portion of budgetary increases are a function of the aforementioned contradiction between the state's macroeconomic goals and its housing goals.

Returning to Figure 9, we can see that if energy related expenditures and CMHC's losses are discounted, increases in budgetary expenditures have flattened out between 1979 and 1980.

Public housing subsidies are normally trotted out as the major determinant of increased expenditures. Indeed, year over year increases were substantial until 1980. Figure 10 graphs public housing subsidies between 1970 and 1980. Between

1979 and 1980, public housing subsidies actually experienced a real decline. It seems that such subsidies have peaked and ceased to be a major determinant of budgetary increases.

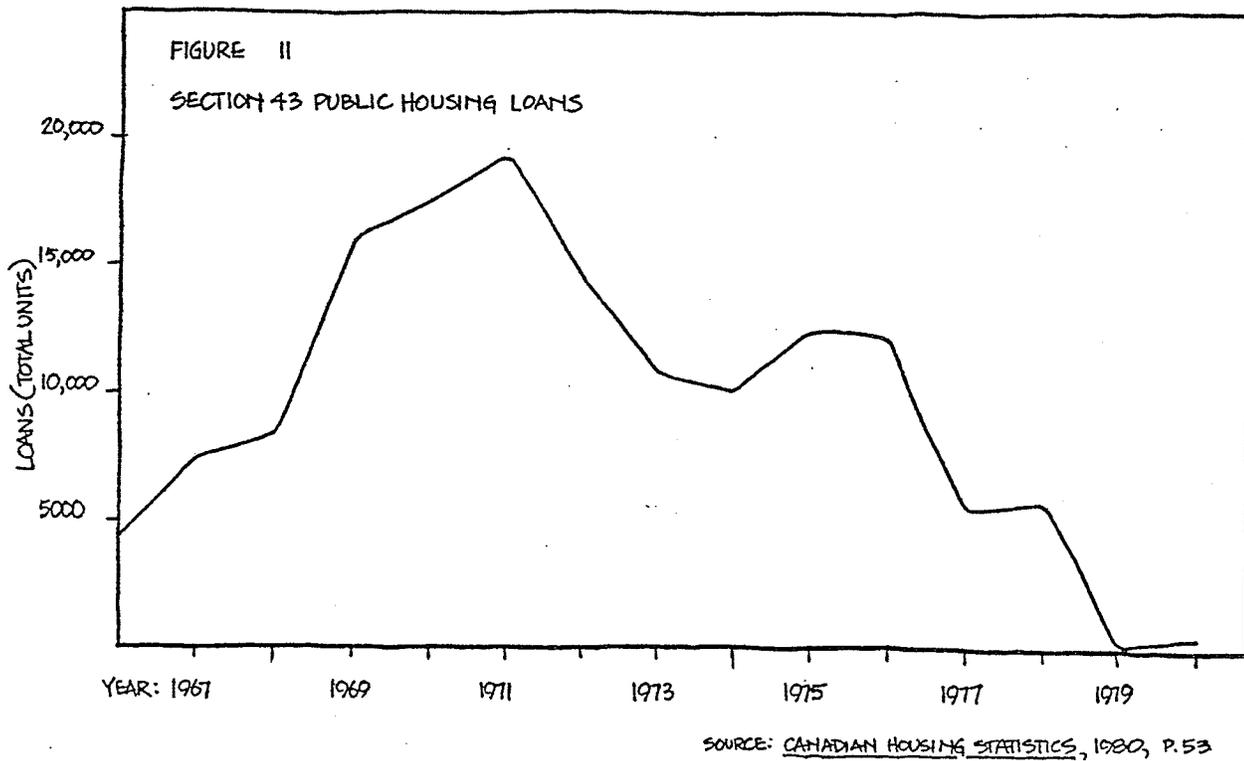


In summary, although in aggregate CMHC's budgetary expenditures have continued to rise, the main determinants of this increase have become energy expenditures and CMHC's operating losses rather than interventions directly intended to ameliorate the contradiction between the housing and labour markets. As we shall see in the following section the latter have been substantially reduced, concomitant with the erosion of the welfare state.

Discrete Program Changes

As introduced in Chapter 3, the federal/provincial arrangement under which most public housing was constructed in

the country (Section 43 Housing) has been phased out since 1978. Figure 11 shows the rapid decline in the provision of Section 43 housing during the latter 1970's. As outlined in

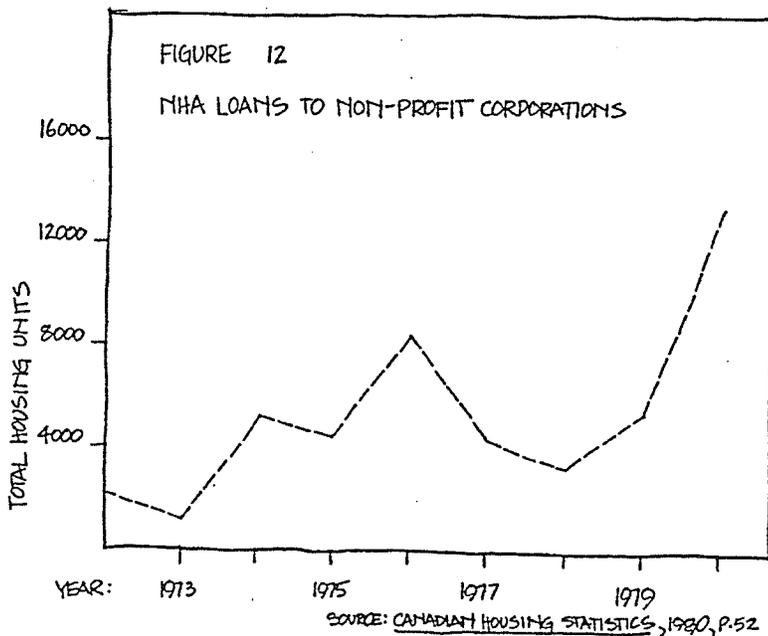


the foregoing, activity under the Section 43 arrangement actually peaked in 1971. The level of activity dropped significantly in the ensuing years until 1976 as a result of the growing opposition of the propertied class. The death knell was finally sounded in 1978.

The state has attempted to "replace" this public housing program with a new non-profit housing scheme. This new program relies on finance capital to provide all required capital while the state furnishes a guarantee against private loans. Rents are subsidized through an interest reduction contribution (i.e., from the prevailing market rate to an effec-

tive rate of 2 per cent). When the program was introduced in 1978, mortgage rates were around 11 per cent. Thus the state subsidy amounted to an interest reduction grant sufficient to reduce the mortgage rate by 9 per cent. If mortgage rates are sustained at current levels (i.e., 20 per cent), as non-profit organizations renew their mortgages, state subsidies can only increase enormously. Increased subsidies could result in a future reduction in the program, as the fiscal burden becomes much greater than anticipated.

Without raising the question of whether or not the new non-profit program can provide housing to the same income group as the public housing program, an analysis of activity levels alone illustrates that the program has not constituted a replacement of the Section 43 program. Figure 12 graphs loans to non-profit corporations through the 1970's to 1980. Under previous non-profit capital and subsidy arrangements, activity



levels peaked in 1976 at approximately 8,400 dwellings. Activity declined dramatically during 1977 and 1978 as did activity under the Section 43 program. In 1979 under the new program, activity picked up again. In 1980 approximately 13,400 dwellings were supplied. In 1976 combined Section 43 and non-profit activity totalled 20,000 plus dwellings. During the period of decline for both programs (1977 and 1978), combined activity amounted to between 9,000 and 10,000 dwellings. Thus the new non-profit program has replaced activity reached in declining, but not peak, years. In general, it is apparent that during the period the state has withdrawn interventions that facilitate the provision of low income housing. This of course is related to the broader withdrawal of legitimation discussed in preceding chapters.

To further demonstrate the transformation of the state housing function, significant changes to programming directed toward middle income, aspiring homeowners and renters have also been effected. As outlined in Chapter 3, during the early and mid 1970's substantial budgetary outlays and capital were provided to these groups and investors in such housing through the Assisted Homeownership and Rental programs (AHOP and ARP). Under the AHOP program, CMHC provided homeownership aspirants with grants, interest subsidy loans and direct mortgage financing. Table 21 shows levels of assistance. Grants to participants of the program rose from \$700,000 in 1973 to \$34.8 million by 1978. Since 1978, grants have decreased to 25.3 million. Interest subsidy loans have decreased from a

peak of just over \$85 million to just over \$3.3 million, while direct loans diminished from almost \$460 million in 1975, to zero by 1979.

Table 21
Assisted Homeownership Program
(\$ Millions)

| Year | Grants | Interest Reduction Loans | Direct Loans |
|------|--------|-----------------------------|--------------|
| 1972 | - | - | - |
| 1973 | 0.7 | - | 133.1 |
| 1974 | 5.0 | - | 435.2 |
| 1975 | 10.1 | - | 458.2 |
| 1976 | 21.7 | 80.4 | 80.0 |
| 1977 | 29.3 | 85.1 | 23.7 |
| 1978 | 34.8 | 55.0 | 1.8 |
| 1979 | 32.3 | 17.6 | - |
| 1980 | 25.3 | 3.3 | - |

Source: Canadian Housing Statistics, 1980, Table 27, p. 22,
Canadian Housing Statistics, 1976, Table 29, p. 24.

Under the ARP program, CMHC provided 10 year interest free loans and regular direct financing to builders. The intent was to subsidize the difference between market rents and the costs of providing rental housing. The interest free loan, coupled with accelerated depreciation allowances (provided through tax legislation) on new rental properties was provided

Table 22
Assisted Rental Program
(\$ Millions)

| Year | Interest Forgiveness | Loans |
|------|----------------------|-------|
| 1975 | 0.2 | - |
| 1976 | 2.6 | 137.5 |
| 1977 | 9.9 | 320.8 |
| 1978 | 17.7 | 96.2 |
| 1979 | 19.5 | 0.4 |
| 1980 | 24.8 | - |

Source: Canadian Housing Statistics, 1980, Table 27, p. 22,
Canadian Housing Statistics, 1976, Table 29, p. 24.

to stimulate construction by subsidizing rents, thereby increasing effective demand and ensuring a 'sufficient' return to investors. Direct loans to builders reached a high of over \$320 million in 1977 and were ceased by 1980. Interest assistance will continue in the coming years as CMHC has a ten year interest free commitment to builders under the program.

As CMHC has phased out the AHOP and ARP programs it has attempted to induce finance capital to replace this assistance with graduated payment mortgages. In effect this mortgage mechanism can provide the same kind of assistance without state subsidy or capital. The response from the private sector has not been energetic. The initial reaction of private lenders was rather hostile, as the following excerpts substantiate.

The graduated payment mortgage program being phased in by the federal government's Central Mortgage and Housing Corp. as the assisted homeownership plan is phased out, has no future and is irresponsible, says W. Peter Carter of Montreal, assistant general manager of retail lending and mortgage services for the Royal Bank of Canada.

He (Carter) said the GPM lending scheme is an example of both 'irresponsible lending' and 'irresponsible government'.

The major chartered banks have told Central Mortgage and Housing Corporation of our concerns and have told them bluntly that we are not prepared to promote such a scheme he (Carter) said.

Indicative of finance capital's reaction to graduated payment mortgages, by the end of 1980 approximately 10,000 GPM loans, totalling about \$1.2 million only, have been provided.

While the state has eliminated interventions in homeownership and private rental housing requiring explicit subsid-

ies and/or the provision of capital, tax expenditures that support such housing remain intact. There are three tax expenditures that support homeownership - the Registered Homeownership Savings Plan (RHOSP), non-taxation of capital gains on principal residences and non-taxation of imputed income on equity in owner occupied houses. RHOSP's are for the benefit of those purchasing their first home. Introduced in 1974, these plans allow a tax deduction to a maximum of \$10,000 per year if tax savings are placed in a special account and ultimately used to purchase a house. The latter tax expenditures benefit the existing homeownership class. Capital gains accruing to the owner upon the sale of his principal residence are not taxed by the state. The appreciation in value is therefore not taxed. As well, income on equity in owner-occupied residences is not taxed. Imputed income is the income an owner could receive in the event that he chose to rent his home. In choosing not to rent the home, income is taken rather in kind. Such income is not subject to state taxation. Table 23 summarizes the costs of the tax expenditures to the state in 1979.

Table 23
Housing Tax Expenditures
(\$ Millions)

| Tax Expenditure | Dollars |
|--|---------|
| Non taxation of capital gains on principal residence | 2,500 |
| Non taxation of imputed income | 3,700 |
| Registered Homeownership Savings Plan | 115 |
| Total | 6,315 |

Source: CMHC Background Document on Social Housing, Prepared for All-Sector Housing Conference, March 1981, p.4, based on Department of Finance Estimates, December, 1979.

Housing tax expenditures constituted a \$6.3 billion "housing program" for homeowners in 1979. It is clear that tax expenditures favour existing homeowners heavily as \$6.2 billion accrued to this group while only \$115 million accrued to new homeownership aspirants. In Chapter 3, I argued that a main function of homeownership in our society is to make workers into capitalists without transforming the historic relationship between labour and capital. The fact that homeowners can receive large benefits from the accumulation of equity and the appreciation of value of their dwellings contributes substantially to the legitimization of private property as an institution of capitalism. State taxation of the economic benefits of homeownership would serve to negate the strong legitimation role of such benefits. The state has not withdrawn from its legitimation role to the degree that these tax expenditures have been eliminated.

Certain tax expenditures have also benefitted investors in private rental properties. Investors can shelter income from other sources by investing in rental properties that show book losses.⁷ Such expenditures have also survived the present transformation of housing policy. Although the provision is renewed on an annual basis it has been in place since November 1974 save for a period during 1980. The industry is currently lobbying vociferously for the federal government to lend some permanence to the measure for future years. The value of this tax measure is estimated at \$15 million annually.⁸ The essence of this measure is that the state foregoes

revenue in supplying tax cuts to upper income investors as an incentive to invest in housing for the renter class. The accumulation of capital is thus facilitated for the wealthy while housing is provided for the less wealthy.

The evolution of the state's involvement in urban redevelopment is outlined in Chapter 3. Early urban renewal programming fulfilled largely an accumulation function as it created the conditions for a concentration of commercial capital in areas previously occupied by the poor. Programming in the 1970's, emphasizing the preservation and rehabilitation of inner city neighbourhoods served mainly a legitimation function. In late 1980, the Minister responsible for CMHC announced the termination of the Community Services Contribution Program effective March 31, 1982. With the termination of this program, the federal government will withdraw assistance to municipalities for the provision of municipal infrastructure, and social, cultural, and recreational facilities. In 1980, spending under the program totalled nearly \$87 million.⁹ A press account of the Minister's announcement provides some insight into the reasons for ending the program.

The community services contribution program is the first project funded from the government's social affairs 'envelope' to be marked for elimination since the Liberals returned to power in the February 18th election.

Cosgrove said he considered many of the items funded through the program 'soft projects' that had to give way because of the government's tight fiscal situation.¹⁰

It is apparent that the elimination of the program is related

directly to the state fiscal crisis and the erosion of the welfare state.

In addition to the above program changes, rent controls, and/or rent review established in most provinces in the mid 1970's, at the request of the federal government as part of its wage and price controls program, have either been eliminated or are being phased out, or at least, strongly reviewed. Alberta eliminated rent controls in 1980. The B.C. government announced its intentions to eliminate controls in early April¹¹ of this year. The B.C. Rentalsman's office estimates that uncontrolled stock will constitute 63 per cent of the total¹² rental stock by 1983. In 1980, 78 per cent of total rental¹³ units were under controls.

Subsequent to winning a majority government in Ontario, the Conservatives have initiated an extensive review of rent review in the province. Under the rent review program in Ontario, a ceiling of 6 per cent was established for rent increases. A political debate is currently being waged over whether the Ontario government is going to at least raise this ceiling, if not eliminate the program. The following quote from the Ontario Housing Minister (Claude Bennett) suggests that at least the 6 per cent ceiling will be raised.

I think we're all practical enough to understand that if you retain it (rent controls) it has to be more in line with what the cost of living is. You can't go along forever and a day saying you're going to have (only) a six per cent increase in rent. 14

The province of Quebec, in reverse of the trend toward

the elimination of rent controls and/or review in most provinces, in the spring of this year, strengthened its controls. Saskatchewan seems to be standing pat.

Representatives of the federal political and administrative systems now publicly oppose rent controls. They have thrown in their lot with the building industry and right wing apologists (like the Fraser Institute) who have opposed rent controls dogmatically since their inception. Suggesting that rent controls have been a major determinant in the current slump in rental construction, the federal Minister has said,

One of the reasons people aren't building is that they're not getting . . . a return on their investment because the return, the income they can earn from that, is controlled. 15

I think most objective people will agree that rent controls were the main cause of the problems we have. 16

The president of CMHC, Ray Hession, putting rent controls in a negative light has uttered the following,

Rent controls can create more problems than they solve and the hardest hit are often among those whom the measures are designed to protect - those of low income. 17

Hession is referring to the possible neglect of maintenance by landlords and the lack of choice and mobility for renters as negative effects of rent controls.

Rent controls are essentially a state imposed limit on the rate of profit received from rental properties by landlords and investors, for the benefit of renters who enjoy restricted rent increases. With the removal of rent controls the accumulation of capital resumes unrestricted by the state.

In 1979, during the brief Conservative interlude a shelter allowance scheme was introduced as a possible new housing measure. In a speech to the national conference of the Housing and Urban Development Association of Canada, the then Minister responsible for CMHC recounts the government's plans prior to defeat,

. . . . the bricks and mortar approach will take too much time. Direct subsidies in the form of a shelter allowance is a less expensive approach over the long term. . . . Such a program should be included in our options for assisting in the delivery of housing in the eighties.

. . . . concept of a housing allowance was interrupted not formally assessed by Cabinet. But informally I received support in principle from the Prime Minister and the Minister of Finance. 18

The idea has resurfaced recently under the Liberal government. The federal Minister has been "flying" the idea in private sector and provincial government milieus. The proposal was given a particularly high profile in the early months of this year. In early February, the federal Minister discussed shelter allowances in an address to HUDAC.

It means that in contrast with such countries as Britain, there will be a public commitment to a viable private rental sector. The temptation to try to supplant privately owned by publicly owned stock will significantly diminish. A housing allowance means that primary reliance will continue to be placed on the private sector to meet the housing needs of Canadians. 19

The ideological motivation behind the proposed shelter allowance program is rather clear. With a public housing approach to providing low income housing, rents are subsidized by the state while ownership and control of capital (housing stock)

remains with the state. Under a shelter allowance scheme, rents are subsidized by the state while capital accumulates in private hands. Private accumulation will be even more enhanced if rent controls are not in place.

Housing the poor through shelter allowances will also serve to further divide the poor. Notwithstanding the social control function of state owned and non-profit housing, tenants have organized and collectively opposed exploitation. As such tenants can readily identify the members of their group and their landlord, a degree of collective awareness based on common experience has emerged. With shelter allowances, individual tenants will receive a monthly cheque from the state. Their ability to identify the members of their group will be severely undermined, in turn undermining collective action. Individualized, dependence on the state will be an effective means of social control.

At an All-Sector National Housing Conference, sponsored by the Canadian Real Estate Association, Cosgrove said:

. . . . the time has clearly come for all of those truly interested in the meeting of people's housing needs to seriously consider the idea of a housing allowance,20

However, the following passages from a Globe and Mail article suggest that although a program had been in the works for 1981, it has been delayed.

The federal government's plan to give renters a long awaited break on housing costs has been relegated to a low priority item, Public Works Minister Paul Cosgrove has acknowledged.

Mr. Cosgrove who three weeks ago said he would introduce the housing shelter allowance this year, admitted in an interview on Saturday that the government will not provide funds for the multi-million dollar program for at least 18 months. 21

It seems likely that funds previously allocated to the Community Services Contribution Program will be shifted to a new shelter allowance program. As Cosgrove suggested in announcing the termination of the CSCP program.

If I'm going to have any elbow room to come in with new programs, I have to find my own room. 22

So far the initiative amounts to posturing, though it seems inevitable that a shelter allowance program will be established in the not too distant future.

Conclusion

In this thesis I have attempted to develop a critical analysis of state housing policy changes effected through the latter 1970's and early 1980's. The analysis, following neo-Marxian theory is grounded in the identification of contradictions endemic to the existing social formation. That is, I argue that the current transformation of housing interventions is a function of the state fiscal crisis and its response to that crisis. The fiscal crisis, following O'Connor emanates from the growing contradiction between the increasing socialization of the costs of production and continued private appropriation of surplus value. Further, I argue that the continuing housing crisis is based in the contradiction between the housing and labour markets. The *raison d'etre* of state

housing intervention is to manage the latter contradiction. Finally, I have identified contradictions between the state's macro economic policy and its housing interventions. State monetary policy and wage and price controls have undermined the state's housing goals.

Since the inability of state-regulated capitalism to provide adequate shelter to all society's members is rooted in the above systemic contradictions, this inability will endure. State intervention has not in the past, and cannot in the future, alleviate these contradictions. At best it has been more or less successful in ameliorating the effects of such contradictions. The extent to which the state has been successful in containing the housing crisis is historically related to prevalent economic and social conditions.

Through most of the post-war period, as economic growth was strong, inflation low and real incomes were rising, the state was generally successful in meeting the housing needs of most of society. This is not to say that the state has ever created conditions in which the poor could be adequately housed. I am only suggesting that the middle and upper classes have for the most part, been well housed.

During the 1970's growth declined, inflation increased, and real incomes began to fall. As well, the fiscal crisis emerged and sharpened through the latter 1970's. As a consequence, the state's efforts to manage the contradiction between the labour and housing markets was interrupted. This interruption has continued into the 1980's.

A resurrection of state housing intervention is dependent upon a number of factors. If the state is successful in ameliorating its fiscal crisis in the short term (it cannot achieve this over the long term as the fiscal crisis is endemic), it may create some room for increasing its housing expenditures. An improved fiscal position is dependent upon the success of the National Energy Program in increasing revenues and decreasing expenditures. It is also dependent upon the future success of the state in creating the conditions for increased economic growth, thereby bolstering its revenue base. I have argued in this thesis that state economic policy intended to stimulate growth (e.g., monetary policy and wage and price controls) has to date had the effect of concentrating capital. Accumulating capital is being employed for non-productive corporate mergers rather than productive investment. This trend will continue. To improve its fiscal position, the state could also increase its revenues through taxation. Raising personal income taxes would constitute a significant withdrawal of legitimation, likely to spur strong opposition among the middle class. As such, the state is unlikely to exercise this option. Raising corporate taxes would be contrary to the state's strategy of facilitating capital accumulation in the hope of encouraging a new round of investment. Therefore, increasing corporate taxes is not likely to occur.

In the future, the state will also continue to "re-arrange" its fiscal crisis. That is, the federal government will increasingly attempt to shift expenditures to the provin-

cial realm. The federal finance Minister has already served notice that his government intends to shift expenditures in the areas of social services, health, and continuing education to the provinces. There seems to be a similar agenda in the area of housing. The federal government has already announced its plans to terminate its community service programming. As well, since it has remained firm in its stance that homeowners will have to bear the burden of current mortgage rates, the provinces may be forced to provide assistance. Alberta recently announced a new program to subsidize homeowners through its mortgage corporation, in turn capitalized through its Heritage Fund. Other of the wealthier provinces may follow suit. It is important to note that the federal strategy will not solve the fiscal crisis, it will simply shift the burden to other levels of government.

The costs of managing the housing crisis would be reduced considerably if interest rates were to fall. Thus housing intervention would be more feasible fiscally. Interest rates may ease slightly in the immediate term but their historic rise will continue as the international economy becomes ever more integrated. As such, relief in the discrepancy between incomes and housing costs through a reduction in mortgage rates is not on the horizon.

The future of state housing intervention will also be affected by the extent to which the state can continue to withdraw legitimation without threatening mass loyalty. To date, public opposition to cutbacks in housing has only been sporadic

and isolated. The two most recent attempts to mobilize opposition to the lack of state relief for mortgaged homeowners facing renewals, attracted only a handful of protesters. The elimination of public housing in urban areas has, so far triggered a less than vociferous response from tenant organizations. Provincial governments and federal opposition parties have pressed the government to intervene. Thus some level of protest over the housing crisis has been channelled through the system of formal democracy. But why hasn't mass loyalty been eroded as a result of the withdrawal of legitimation? I would offer the following hypothesis.

To date, the most severe effects of housing cutbacks have been felt by the poor. A portion of the lower middle class have been affected by high mortgage rates, but due to past levels of state intervention, the middle class is generally still not suffering. The poor in our society have always been considered "undeserving"; that is, at fault for their situation. This middle class belief is rooted in the dominance of our society's individualist ideology. It is not accepted that poverty is systemic, or inherent to the social formation. Thus, as the poor are undeserving, the middle class has not begun to question the legitimacy of the social formation. As long as the ideology of possessive individualism survives mass loyalty will be sustained.

Footnotes: Chapter 5

- 1
Canadian Housing Statistics, 1980, Table 14, p.14.
- 2
CMHC News Release, Ouellet Seeks Legislation for Low Income Housing and Community Services, December 12, 1978, Ottawa.
- 3
Marie Elliot in A Review of Family Public Housing in Winnipeg: The Achievements, The Constraints, The Alternatives, in unpublished Masters Thesis, University of Manitoba, June, 1980, has shown that the federal subsidy alone is insufficient to allow the new program to match the income penetration of the Section 43 program. Thus the extent to which the program is successful in replacing public housing is dependent upon the level of provincial subsidy available. To date, additional provincial subsidy has been spotty. For example, Manitoba has made some provision for supplementing federal subsidies; Saskatchewan is now subsidizing a limited amount of non-profit housing for Native people.
- 4
Under graduated payment mortgage schemes mortgage payments are reduced for the first five years of the mortgage. Thus lending institutions subsidize the borrower during this period. Payments are increased steadily until the payment level equal to that of a traditional mortgage is reached. Payments continue to increase in ensuing years to a level whereby the initial subsidy can be repaid. Through the GPM mechanism the borrower ultimately pays more for his house than under traditional arrangements. Further, outstanding principle is greater in the 6th year than in the initial year.
- 5
Winnipeg Tribune, Government Mortgage Plan Assailed by Lenders, February 17, 1979.
- 6
CMHC, Canadian Housing Statistics 1980, Table 64, p.56, Ottawa.
- 7
As indicated in Chapter 3, accelerated depreciation provisions can result in a rental project having a positive cash flow while showing a book loss.
- 8
Budget Speech 1980, op.cit., p.27.
- 9
CMHC, Canadian Housing Statistics 1980, Table 27, p.22, Ottawa.

- 10 Regina Leader Post, Government To Eliminate Building Grants Program, November 13, 1980.
- 11 Toronto Globe and Mail, Government Incentives Not 'Gimmicks' Thought Needed to Ease Housing Crisis, April 10, 1981, Toronto.
- 12 Vancouver Sun, More Rental Units Seen Under Altered Policy, March 24, 1981.
- 13 Ibid.
- 14 Canadian Press Release, April 19, 1981.
- 15 Montreal Gazette, Rent Curbs Attack Hailed By Landlords, April 20, 1981.
- 16 The Financial Post, Housing Starts Build, But Footings Shakey, February 7, 1981.
- 17 Housing and Urban Development Association of Canada, National Focus - The Voice of the Canadian Housing Industry, Jan/Feb., 1981.
- 18 Honourable Elmer MacKay, A Speech to the National HUDAC Conference, January 14, 1980, Calgary.
- 19 Notes from an address by the Honourable Paul Cosgrove to the Annual Conference of the Housing and Urban Development Association of Canada, February 2, 1981, Montreal.
- 20 Speaking notes for the Honourable Paul Cosgrove Minister responsible for Canada Mortgage and Housing Corporation to the All-Sector Housing Conference, March 6, 1981, Ottawa.
- 21 Toronto Globe and Mail, Cosgrove Delays Promise of Subsidy for Renters, March 23, 1981.
- 22 Regina Leader Post, Government to Eliminate Building Grants Program, November 13, 1980.

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