Public spending cutbacks and impacts on older people

The Swedish experience in the 1990s

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Contents

1: Introduction .................................................................................................................................................. 3
2: The Swedish Experience ............................................................................................................................... 6
3: Overview and Lessons for the UK ............................................................................................................... 17
Annex A: The Canadian Experience .............................................................................................................. A-1

About SQW
SQW is a leading economic research agency working for public, private and not-for-profit organisations. Previous published work includes economic and sustainable development research projects for clients including HM Treasury, Department for Education, Department for Culture, Media and Sport, Department for Business and Innovation and Skills, and UK Trade and Investment.
1: Introduction

Purpose of this report

1.1 In May 2010, following an election from which no party secured an overall majority, the UK’s first coalition government since the Second World War was formed. Confronted with the legacy of the 2008-2009 recession, the coalition published an emergency budget announcing tax increases (including increases in VAT and National Insurance contributions) that aims to generate £29bn per annum in additional income by 2014/15. HM Treasury’s Spending Review in October 2010, meanwhile, provided details of the Government’s plans for £81bn of public spending cuts for the same period.¹

1.2 As indicated by the programme of tax increases and public spending cutbacks, the UK has launched into a period of fiscal consolidation that aims to halve the Government’s annual deficit within four years. The challenge of restoring fiscal probity whilst at the same time ensuring economic growth and recovery requires a delicate balancing of key factors.

1.3 A number of other countries have undergone similar programmes of fiscal consolidation that external commentators – such as the IMF and OECD – regard as having been successful. Many more consolidation efforts however, are judged to have been unsuccessful; the IMF suggest that just 14 out of 75 attempts from 1974 to 1999 can be judged to have worked².

1.4 The UK Government’s commitment to fiscal consolidation has, understandably, raised concerns among some observers that the impacts of public spending cutbacks might be disproportionately borne by some of the more vulnerable groups in society. One particular concern that has been raised is the potential risk that reduced public expenditure on social care might have a knock-on impact on older people’s health, with a concomitant risk of increased demand for public health services.

1.5 For example, a recent report by the King’s Fund identified that:

There will be particular concerns that reductions in care home placements and support for people at home may increase the number of avoidable admissions and delayed transfers of care, working against the efforts of the NHS to reduce the use of expensive acute care.³

1.6 One case that is frequently alluded to as a successful example of fiscal consolidation is that of Sweden in the early-to-mid 1990s. A number of UK public finance commentators have cited the Swedish experience of the 1990s as a potential ‘model’

¹ www.hm-treasury.gov.uk/sr2010
³ The King’s Fund: Social Care funding and the NHS: an impending crisis? March 2011
for the UK to follow in plotting course towards fiscal consolidation, including Roger Latham and Malcolm Prowle in a recent review of consolidations in the journal Public Finance\(^4\).

1.7 The purpose of this research paper is to investigate the experience of fiscal consolidation in Sweden in the 1990s, and to review the evidence available from Sweden as to the potential impacts of the budget cutbacks there on the welfare of older people.

1.8 Specifically, five research tasks are undertaken in this report:

- first, an explanation is provided of the circumstances that led to the need for urgent fiscal consolidation in Sweden during the 1990s
- second, the specific experience is described of the consolidation process in Sweden that followed the fiscal crisis there
- third, the available evidence on how the consolidation measures affected the welfare and circumstances of older people in Sweden is assessed, with a particular focus on social care and health outcomes
- fourth, an explanation is provided as to what happened once the period of cutbacks ended (or was relaxed)
- fifth, the potential lessons and implications for the UK from a review of the Swedish experience are identified.

1.9 In addition to the focus on Sweden, the research effort that underpins this report also considered the experience of Canada, which is another country that is often cited as a potential model for the UK to follow in the process of fiscal consolidation, as the following quotation indicates:

> It is worth noting that the UK Government’s April 2009 Budget sets out plans approximately to freeze total government spending between 2001 and 2014, but in real terms rather than cash terms. This is far less onerous an objective than the Canadian government set itself [in the 1990s] and shows how much more scope there is to be tighter on public expenditure in the UK\(^5\).

1.10 The research undertaken for Canada also yielded useful messages about the potential implications of fiscal consolidation on services provided to and the welfare of older people. But although useful data was obtained regarding the impact on older people’s incomes and on social care, the available information on health outcomes was much more limited than for Sweden.

1.11 As the data availability did not allow for equal treatment of the two countries, the main body of this report focuses research focuses on Sweden only. The findings of the

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\(^4\) Roger Latham and Malcolm Rowle: Been there, done that, Public Finance February 2011, p36-39

\(^5\) How to save £50 billion: reducing spending for sustainable public finances. Institute of Directors and the Taxpayers Alliance, 2009, page 18
research that focused on Canada are presented separately as an Annex to the main report.

Structure

1.12 The structure of the remainder of this report is as follows:

• Chapter 2 provides a narrative of the Swedish experience of fiscal consolidation focusing in particular on the period 1991-1994, and describes the impacts that this programme had on the welfare of older people.

• Chapter 3 draws appropriate conclusions and identifies potential lessons for the UK.

• Appendix 1 provides a narrative of the Canadian experience of fiscal consolidation over the 1996-98 period, and assesses the impacts that this programme of consolidation had on the welfare of older people there.
2: The Swedish Experience

Background to the 1990s economic crisis in Sweden

2.1 Since 1980, Sweden has undergone two cycles of deep recession. The first was between 1980 and 1983 and the second – and sharpest – was between 1991 and 1995. The second crisis, which is the focus of this paper, was caused by the bursting of the financial bubble in 1990 brought on by the deregulation of the credit market and excessive bank lending for real estate. At the same time Sweden’s fiscal condition also deteriorated, as general government expenditure rose from 58 percent of GDP in 1988 to 71 percent of GDP in 1993 and public debt was allowed to reach a high level (approximately 76 percent of GDP in 1993).

2.2 At this time, the Swedish government also made large transfer payments to recapitalise failing banks. The profile of total central government debt as a percentage of GDP during the build up to this period and after is displayed in Figure 2-3.

Figure 2-1: Total central government debt as a percentage of Gross Domestic Product

Source: OECD Statistics

2.3 In the early 1990s, the Swedish economy was also hit by an interest rate shock, with rates peaking at over 13 percent in 1990. There were two reasons for this:

• the re-unification of Germany, which led to a rise in interest rates all over Europe that could not be neutralised for those countries such as Sweden that were linked through the European Monetary System; and

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7 Joint Economic Committee Republicans, Spend Less, Owe Less, grow the Economy, March 2011
a change to economic policies in favour of price stabilisation.

2.4 The reason behind the switch to policy focused on price stabilisation was that Swedish inflation had grown out of control in the late 1980s, peaking at around 13 percent per annum in 1990. The graphic below illustrates the trend in the Swedish CPI since the late 1980s, and indicates that the price stabilisation strategy was highly successful at bringing the inflation rate under control.

![Figure 2-2: Inflation rate (Mid year Consumer Price Index)](image)

Source: Statistics Sweden

2.5 The introduction of these policies, however, also had the effect of producing a sharp increase in unemployment. As the figure below shows, unemployment rose from 2 percent in the first quarter of 1990 to over 11 percent over the three year period to 1993. Participation in the labour force fell from 84.5 percent in 1990 to 78.2 percent by 1995 which contributed to a lag in revenues. On top of this, the country’s demographics were placing the sustainability of the public pension system in danger.

![Figure 2-3: Unemployment rate in Sweden 1990 to 2010](image)
The Swedish Government’s response

2.6 In 1994, the Social Democratic Party came into power and introduced a fiscal consolidation program which involved tax increases and expenditure cuts in an attempt to try and restore the budgetary balance.

2.7 The focus of the program was on reforming the budget process, and included measures such as lengthening the Parliamentary period, the introduction of three year expenditure ceilings on certain categories of expenditure, a budgetary committee to share budgetary control (having the provision to carry over a certain proportion of the budget, thus reducing the incentive to exhaust annual expenditure), tightening transfer payments to business and households, and increasing selected taxes.

2.8 The reform program included an overhaul of the Swedish pension infrastructure to a partially privatised system, which was introduced in 1998. The key features of the new system were:

- workers were allowed to invest 2.5 percent of the total 18.5 percent mandatory set-aside of income
- payroll taxes funded notional accounts with the remaining 16 percent, with the beneficiaries receiving benefits based on the taxes paid out of the general revenues
- current retirees and near-to-retirement workers remained under the old system.

2.9 Major pension reforms were legislated in Sweden in the 1990s, which included the abolishment of the universal national pension, early retirement being made more difficult and employee contributions to earnings-related pensions being introduced. The part-time pension was also phased out. Therefore, in general, the pension reforms involved a radical shift from a defined benefits system to a defined contributions regime. In addition, 2 percent of employees’ gross wages started to go into personalised funds under private sector control.

2.10 In 1992, the European Economic Area agreement meant the public pension was only payable to those who had lived in Sweden for a minimum of 40 years. Tying pensions to a wage index in the country resulted in pensions fluctuating in accordance with economic developments, in contrast to the certainty and security of the previous system. The risk of pensions becoming an unsupportable burden was reduced as the cost of payments under this system was automatically adapted to resources.

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8 Northern Ireland Assembly, Re-balancing Public Finances: Lessons from Past Experiences, July 2010
9 Joint Economic Committee Republicans, Spend Less, Owe Less, Grow the Economy, March 2011
2.11 Expenditure on unemployment compensation increased dramatically from 1990 to 1995 when Sweden entered the European Union. This, coupled with a fall in tax revenues, led to rapidly increasing budget deficit. As a result, several transfer systems (excluding unemployment compensation) were reduced, and budgets for welfare systems were also cut back whilst income taxes (especially at the higher end of the income distribution) were increased. The tax system overall was broadened to include compensation in kind and realized capital gains. At the same time, employee contributions to social insurance were reintroduced and continued to increase until 1998, when they reached 6.95 percent of earnings.\(^\text{11}\)

2.12 During this period however, it must be noted that the stock market was very healthy and equities became a popular method of saving and wealth creation, with 60 percent of households (primarily the older more established) becoming shareholders. This phenomenon clearly benefited better-off pensioners and those workers close to retirement.

**How Sweden’s elderly were affected by the austerity measures**

*Income and poverty*

2.13 Young adults, single parents and recent immigrants encountered most of the burden from the austerity measures as they were most likely to be made unemployed and numbers of new entrants to the labour force were restricted. The average income of the elderly (aged 75+) remained unchanged, whilst the real average disposable income of those aged 65 to 74 decreased only slightly. Thus, old-age pensioners were largely insulated from the overall effects of the recession compared to those of working age, as they are less connected to the business cycle than those of working age and did not suffer through unemployment or reduced earnings.\(^\text{12}\)

2.14 A study by Gustafsson and others\(^\text{13}\) investigating in detail how pensioners fared in the recession of the nineties, revealed that although pensioners did indeed fare better than the working age population, they were not completely insulated as pension benefits were cut, full indexation was abandoned and taxes were increased. Poverty among pensioners therefore increased, as did income inequality among the elderly.

2.15 The income of most persons aged 65 or over in Sweden prior to 2001 consisted mainly of their pensions, the major components of these being a public pension, (a flat rate benefit based on years of residence) and an earnings-related pension (those without an earnings related pension received a supplement to their flat-rate benefit). Most employees however also earn the right to an occupational supplement to their public pension and capital income.\(^\text{14}\) Women born prior to 1945 may also receive a widow’s

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\(^\text{11}\) WRAMSOC Paris Conference, September 2002, Report on Sweden and Finland

\(^\text{12}\) Gustafsson and Palmer, Was the burden of the deep Swedish recession equally shared?, Review of Income and Wealth, Series 48, Number 4, December 2002

\(^\text{13}\) Gustafsson et al, Sweden’s Pensioners: How they have fared in the roller coaster ride through the past decade and a half of deep recession and economic exuberance, Institute for the study of Labor, December 2007.

\(^\text{14}\) Is defined as income made up of interest, dividends, imputed rents of owner occupied housing and capital gains
pension. Moreover, prior to 2001, pensioners with low pensions were exempt from income taxes.

Figure 2-4: Relative Income of pensioners 65+ to the population as a whole

Source: Sweden’s Pensioners: How they have fared in the Roller Coaster Ride through the Past Decade and a Half of Deep recession and Economic Exuberance, Gustafsson et al, 2007

2.16 Benefit levels in Sweden are related to the consumer price index and are stated as multiples of a ‘base amount’ which is indexed with inflation. During the 1990s however, as policy makers attempted to reduce their expenditure, this relationship became somewhat blurred. Over the period 1991 to 1998, the increase in indexation was approximately 10 percent lower than it would have been if it had been adjusted to the increase in the consumer price index.

2.17 In addition, the basic pension was reduced by 2 percent in 1993, which continued until 1998, thus causing the real value of pensions to fall. Policy focused on the poorest during the recession, with pension supplements to people with no earnings-related pension higher during that time, whilst income taxes were increased at the highest end of the income distribution.

2.18 More specifically, the average income of persons aged 65 and older decreased by 3 percent between 1991 and 1995. Arguably, this masks what would have been a far greater reduction (closer to the 13 percent experienced by the rest of the population) due to the continuous inflow of new pensioners with pensions based on higher earnings than their predecessors. At the same time, ageing and its inevitable conclusion meant that a proportion of the oldest pensioners – with on average the lowest pensions – were no longer receiving payments.

2.19 The Gustafsson study also assessed the proportion of elderly people in poverty (as defined\textsuperscript{15} by the Swedish Board of Health and Social Welfare) during the recession. At the lower end of the income distribution, there was an increase in the proportion of

\textsuperscript{15} Based on a consumption basket including regionally delineated costs for housing, indexed to the consumer price index
people over the age of 65 under the poverty line – 3.5 percent in 1993 (53,800 people) rising to 7.7 percent in 1998 (118,400 people), the same as the level in 1980. Looking at age groups among the elderly, people aged over 75 are more likely to be in poverty (4.1 percent in 1993, increasing to 11.6 percent in 1998), compared with 3.0 percent (1993) to 3.7 percent (1998) for people aged 65 to 74.

Health effects

2.20 Turning now to healthcare, the fiscal consolidation process also meant that fewer resources were available for public services across the board. This affected the elderly more heavily as they tended to be more frequent users of services such as health care, the delivery of which in Sweden is the responsibility of municipal authorities.

2.21 One of the key issues was the reduction in the number of available hospital beds, which is attributed in part to the increasing effectiveness of health care, but also due to cutbacks. Vogel and Häll (2006) identify that between 1992 and 2003 there was a 69 percent reduction in the number of hospital beds for geriatrics, and 27 percent for general medicine.16

2.22 One of the implications was that increased demands were placed on the social care sector.

The number of hospital beds was nearly halved during the 1990s, and care times shortened. As a result, many of the demands that had been previously placed on the health care sector were shifted onto the municipal social care sector.17

2.23 In addition, Trydegard18 reported that the percentages of older people receiving homecare at the beginning of the 1980s had halved by 2000. Hospital stays also shortened suggesting that the elderly with considerable care needs were returned home much sooner than previously19. The number of elderly dying annually is shown in the Figure below. There is a clear peak in 1993, followed by a dip in 1994, which may be explained by an increased number of premature deaths the previous year.

16 Vogel, J and Hall, L: Living conditions of older persons, Statistics Swden and Umea University, (2006), page 627
17 WRAMSOC Paris Conference, September 2002, Report on Sweden and Finland, p45
18 Trydegard, G-B (n.d.), Welfare services for the elderly in Sweden at the beginning of the 21st century- still in line with the Nordic welfare state model? Stockholm university Centre for Health Equity Studies
19 H Lachs Ginsburg and M Rosenthal, The current status of the Swedish welfare state, Adelphi University, November 2004
2.24 This trend was not without implications for the health of older people in Sweden. A number of studies have shown a considerable decline in several domains of health among older people in Sweden since the 1990s. For example, a study by Thorslund et al (2004) identified a number of areas where health outcomes for older people had deteriorated significantly over the previous decade.

2.25 A 2007 study led by Stefan Fors looked at these issues in more detail, and found that there was an increase in the reporting of health problems among older people for different age groups (using five year groups starting from 55-59 to 80-84, then 85+) when data from two periods (1991-92 and 2002-2002) were compared. In particular, the study identified a significant increase in reports of impaired mobility, pain and psychological distress between the two points in time. It was notable that the reported deterioration was evident across all of the age groups, and not just the oldest; this suggests that the increased gradient of ill health cannot be explained by the ageing of unhealthy cohorts. The study also suggested a tendency for the deterioration in health between the two time points to be greatest for older people from less well-off socio-economic groups. Other studies cited by Fors suggest that socioeconomic inequalities in health among younger age groups (that is, for groups aged <55) had remained stable over the same time periods.

2.26 This implies that there is very likely to have been a link between the reduced provision of health services in poorer areas in Sweden in the 1990s (given that the majority of services are locally financed) and the reported greater deterioration of health among older people from poorer backgrounds between 1991-92 and 2000-02.

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20 Thorslund et al: The health status of the oldest old has changed for the worse, Lakartidningen, 2004
The mid-1990s austerity period in Sweden also brought about major personnel reductions in social care services for older people. Over this period, de-institutionalisation and re-targeting of services towards more needy groups of older people became common features of Swedish policy.

A number of commentators have identified deterioration in the overall quality of social care in Sweden, following the period of austerity in the 1990s. Ginsburg and Rosenthal (2005), for example, identified an accelerated trend towards the rationing of home-help services to older people, citing evidence that the proportions of both those over 65 and those over 80 who received home care had halved between 1980 and 2000.22

Vogel and Häll (2006) reported that the proportion of people over 80 who received home help services declined from around 34% in the 1980s compared to around 20% by the 2000s.23 The primary reason for this shift, they suggested, was the move from earmarked to general grants for municipalities following the old peoples’ care reform, disability reform, and the psychiatry reform in Sweden, making municipalities the main providers of social care services with more responsibility for the allocation of resources.

Research undertaken by the central Swedish social services administration (Socialstyrelsen) in 2001, found that in the late 1990s one in seven people over the age of 75 who needed personal or home help refrained from getting it on the grounds of expense. The majority of these non-users were less educated and from poorer socio-economic backgrounds.24

The very high proportion of one-person households, coupled with an increase in the number of older people requiring care services placed a lot of pressure on municipalities, either to expand service provision or to look for new ways of restricting access or involving service users in financing their services. However, the kommunala skattestopp (prohibition of increase of municipal taxes) meant that municipalities were unable to raise taxes in order to cover increased expenditure and to compensate for lower tax revenues due to the increasing volume of unemployment.25

Consequentially, this led to families and the private and voluntary sectors playing a larger role in the provision of services for older people. More specifically, the role of the private sector in delivering (publically financed, free at the point of delivery) public services expanded dramatically following the Swedish crisis. The increase in privately produced services was not however uniform across the country and was more common in big cities and municipalities with a high share of people with high educational achievement.

Another evident trend during the 1990s was been a greater reliance on Swedish municipalities being responsible for providing home care services, resulting in a

23 Vogel, J and Hall, L: Living conditions of older persons, Statistics Sweden and Umea University, (2006), page 632
24 WRAMSOC Paris Conference, September 2002, Report on Sweden and Finland
'postcode lottery' type effect, where coverage varies enormously. Unlike many advanced western countries, municipalities in Sweden play a central role in the financing and administration of many welfare services. Even in the 1960s, district and city governments financed around 70 percent of public health care in Sweden. Since the fiscal crisis, the central government has retreated even further from playing an important role in service financing, as state funding towards municipalities has further reduced.\(^26\)

2.34 In a 2003 report, Jegermalm\(^27\) undertook a review of trends in welfare services targeted at older people in Sweden. The conclusion was that whereas up until the 1990s Sweden’s welfare system has undergone almost continual expansion, with deteriorating public finances national and local authorities made cutbacks across a range of services that include social care (as well as medical care) as major targets. One consequence was far greater targeting at older people with the greatest needs, meaning that a large group who would have received public services in the earlier period now did not get any help at all, especially with tasks such as cleaning and shopping.

2.35 Moreover, a study by Kristina Larson in 2006\(^28\) found that between 1988 and 2003, the reduction in the percentage of the oldest age groups that received informal care could not be explained by lessened need.

2.36 Echoing this last sentiment, Ginsburg and Rosenthal (2005) conclude that a profound change has occurred within the Swedish welfare state model, and that the impact on older people has been adverse:

*One thing is clear: the public commitment to the care of the elderly – even the oldest of the old – has diminished, while the care burden for relatives and especially women has increased. A core component of social solidarity has been eroded and this pattern will apparently continue as the population ages.*\(^29\)

2.37 The Swedish government was eventually prompted to take action around issues relating to care of older people because of the disparities across municipalities regarding the share of privately employed staff in this sector (and issues relating to their recruitment). As such, a national action plan for care for the elderly was adopted.

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\(^26\) WRAMSOC Paris Conference, September 2002, Report on Sweden and Finland, page 8  
\(^27\) Jegermalm, M. *Support for Carers of Older People: the role of the public and voluntary sectors in Sweden*, Social Policy and Administration, December 2003  
\(^28\) Larson, K: *Care Needs and Home Help services for older people in Sweden: does improved functioning account for the reduction in social care?*, Cambridge University Press, 2006  
by the Swedish Riksdag after 1998, which declared that care of the elderly must be
publically financed and available in accordance with need, not purchasing power30.

**How the recession played out**

2.38 As a result of the fiscal crisis, Sweden reformed its institutional systems for price
stabilisation and introduced a more independent central bank. The inflation rate has
subsequently been kept low in Sweden31. Like the UK, Sweden has remained outside
of the Euro zone and has retained control its own monetary policy.

2.39 As a result of the various reforms, Sweden’s fiscal health drastically improved from a
deficit of 115 percent of GDP in 1993 to a surplus of almost 4 percent of GDP in 2000.
The central government debt to GDP ratio also reduced, from 71 percent in 1993 to 57
percent in 2000.

2.40 In the five years prior to the reform real GDP was contracting by and average of 0.1
percent per year, in contrast following the reform Sweden enjoyed an average real
GDP growth rate of 3.5 percent per year. The government then proceeded to set a
medium term target of a 2 percent surplus of GDP32.

2.41 Moreover, between 1995 and 2004 productivity grew by an average of 2.4 percent
annually, which was above the OECD average of 2.2 percent for the same period.
Government spending settled to around 55 percent of GDP, and deficits were
eliminated so central government debt was halved between 1996 and 2004.33

2.42 Much of the recovery was driven by exports, which rose from 28 percent of GDP in
1992 to 45 percent in 200034. This is the largest expansion of Swedish exporting in its
economic history. This export boom was strongly assisted by the concurrent growth in
key trading partner markets in the 1990s, particularly in Germany, as well as the
depreciation of the Swedish Krona.

2.43 Problems remained in the labour market however, with employment rates recovering
somewhat but remaining stubbornly below their pre-consolidation levels, largely due to
a seemingly permanent contraction of employment in the public sector. There is a
lingering labour market problem in Sweden that makes it hard to conceive that a
return to the full employment that was a feature of the Swedish economy from the
1950s to the 1980s will return.

2.44 In terms of the effects on older people, with the exception of those pensioners in the
highest quintile income bracket, real per capita income for pensioners did not reach its
pre-recession levels until around the middle of the decade starting in year 2000.

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30 WRAMSOC Paris Conference, September 2002, Report on Sweden and Finland
Commission, December 2008
32 Joint Economic Committee Republicans, Spend Less, Owe Less, grow the Economy, March 2011
33 Freeman and Swedenbourg: Reforming the Welfare State in Sweden, January 2006
Institute, November 2009
3: Overview and Lessons for the UK

The UK’s austerity proposals

3.1 The UK is currently suffering from high public sector debt levels exacerbated by large-scale bank bailouts. The coalition government has acknowledged the urgency in remedying the country’s unstable debt position to avoid the possibility of the UK’s credit rating being downgraded, which would result in reluctance from the international money markets to lend to the UK, making credit less accessible and more expensive and thus in turn adding to the current costs of servicing the public debt.

3.2 The documentation setting out the coalition agreement between the conservative and liberal democratic parties, states that “deficit reduction and continuing to ensure economic recovery is the most urgent issue facing Britain”.  

3.3 Following the emergency budget in June 2010 and the comprehensive spending review in October 2010, the UK government is fully committed to a program of immediate and deep fiscal austerity measures. The announced austerity measures include:

• a two year wage freeze for most public servants
• an increase of the maximum rate of VAT to 20 percent
• capping of welfare payments
• the removal of child benefit payments from higher-income families
• the removal of the cap on university tuition fees
• increases to national insurance payments for employers and employees.

3.4 An example of how cuts may be affecting public services for older people in the UK was recently explored by the BBC which looked at a survey of 76 percent of councils in England carried out by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA reported that spending on adult social care is set to fall by an estimated 4.7 percent to £3.4 billion in the North and by 2.7 percent to £3.3 billion in the South in 2011/12, translating to the closure of some council care homes for older people, day centres, luncheon clubs and shops selling disability aids.

3.5 In addition, the additional £2bn per year up until 2014/15 allocated to social care services announced in the spending review is not ring fenced and therefore the real extent of the cuts may be hidden, although some adult services have been incorporated into housing and leisure plans in some areas.

35 https://www.libdems.org.uk
36 http://www.bbc.co.uk/news/uk-england-13332882
3.6 The Guardian\textsuperscript{37} reports that the cuts are already biting, with many older adults having to stay in hospital even after they have recovered. This is attributed to local authorities redefining the criteria that guarantee older people access to some home healthcare after staying in hospital.

3.7 The cuts have prompted comment from a number of groups representing the elderly, who are concerned that the impact of the cuts will fall on the most vulnerable as care homes and domestic services are squeezed further and those who are lucky enough to receive services could be charged a significant amount for them. A government White Paper detailing reform of the adult social care system is expected to be published later this year.

3.8 Contrary to recent claims by the Institute for Economic Affairs that pensioners had escaped the effects to public spending and welfare, a recent report (March 2011) carried out by the Institute for Fiscal Studies on behalf of the National Pensioners Convention\textsuperscript{38} concludes that pensioners are among the worst affected by the governments austerity measures. The key findings of the report were as follows:

- pensioners are up to £710 per year worse off than other households as a result of increases in the cost of living and VAT
- annual rises to the basic and second state pensions are to be reduced by linking them to the Consumer price Index rather than the Retail price Index
- winter fuel allowance would reduce under proposed measures by £100 for the over 80’s and £50 for the under 80’s
- pension credit for the poorest pensioners is being frozen for four years from 2011 meaning that about 1.7m pensioner households will lose an average of £3.20 per week
- 20 percent cuts in grants to bus services will mean fewer routes and cuts in services increasing isolation
- cuts in housing benefit will affect 25 percent of households of pensioners who live in rented property.

International Comparisons

3.9 The growing political debate regarding fiscal consolidation is mirrored by a growing academic literature that has examined past experiences with consolidations across a range of developed economies. For example, Alesina and Ardagna (2009) examined

\textsuperscript{37} http://www.guardian.co.uk/society/2011/jan/04/bed-blocking-care-cuts
\textsuperscript{38} http://www.npcuk.org/publications/NPCpercent20CSRpercent20Briefingpercent20October2010.doc
107 large scale adjustments in 21 OECD member countries from 1970 to 2007 and concluded that these were based predominantly or entirely on government spending reductions.\textsuperscript{39}

3.10 Similarly, Biggs, Hassett and Jensen (2010) found that government spending reductions outweigh revenue increases in successful consolidations. They also note that one of the key features of such consolidations is that the ratio of tax increases to spending cutbacks is approximately 1:5.\textsuperscript{40}

The Swedish Experience

3.11 Sweden is often cited as a successful (and relatively uncommon) example of a successful fiscal consolidation. Moreover, the fact that Sweden – like Britain – is an advanced western country and a member of European Union means that the potential relevance to this country is potentially greater than that of any non-European alternative.

3.12 There are two strands to the discussion regarding relevance; first, the relevance of the economic lessons, and second, the relevance of the social consequences of consolidation. Each is considered in turn below.

Economic Considerations

3.13 The experience of Sweden described earlier in this report highlights that the most successful consolidation programmes are those based on expenditure reduction rather than substantial tax increases which restrict economic growth.

3.14 From the perspective of ensuring a successful consolidation – purely in terms of achieving fiscal stability (i.e. setting aside for one moment the potential social consequences of the consolidation process) – the lessons from the Swedish experience appear to be as follows:

• **Importance of leadership.** Many successful consolidations were undertaken as part of a broader programme of economic and social reform. There is also a requirement for openness and transparency to ensure public confidence and to generate buy-in. The current UK government approach has some echoes, including the mantra ‘we are all in this together’. The Swedish programme was however implemented by a government elected with a good working majority and a strong mandate for cost-cutting. That is not so evidently the case in the UK, where no party won a majority and a post-election coalition was formed to implement a programme that inevitably is reflective of compromise.

• **Expenditure based approach.** Evidence does suggest that an expenditure based approach is more effective than a tax-increase based approach. The UK


\textsuperscript{40} Biggs, A, Hassett, K and Jensen, M. *A Guide to Deficit Reduction in the United States based on Historical Consolidations that Worked*. American Enterprise Institute, Working Paper 2010-04, December 2010
balance of 5:1 in favour of spending cuts does reflect the average across successful consolidations studies by the IMF and OECD across developed countries over the past 20 years or so.

- **Scale and speed.** Scale makes possible reforms that may not otherwise be possible. Cuts affecting individual programmes can mobilise stronger opposition more quickly than cuts that appear to affect nearly everyone. Similarly, speed is important; moving swiftly creates hope that there is light at the end of the tunnel.

- **Complementary reforms.** The Swedish programme included additional, complementary reforms (currency, central bank independence, tax reform etc.) that boosted economic competitiveness and hastened the process of economic revitalisation. Many of these measures are already in play in the UK, and the current UK government may not have scope to do anything as dramatic or effective to revitalise business confidence.

- **Monetary and currency policy.** A depreciated currency and lower interest rates were both important to the Swedish recovery. Because the UK still has its own currency, these tools are still available and relevant to the UK situation, unlike countries such as Greece and Ireland that are constrained within the Euro zone.

3.15 It must be noted, however, that Sweden benefited from a substantial depreciation of its currency that allowed it to export its way out of economic difficulty. In this process, Sweden was considerably aided by the concurrent strong growth in the economies of its key trading partners, notably Germany. The current uncertainty regarding the Euro zone economy is a potential key point of difference between the situation facing the UK in 2011, compared to the situation facing Sweden in the 1990s.

3.16 Also, although the balance of measures implemented by the UK (£81bn spending cuts and £29bn tax increases by 2014/15) do show similarities with the consolidation measures undertaken by these countries, there are concerns that the macroeconomic environment (especially in Europe) means that UK recovery may not be as successful (or, at least, as swift) as the economic recovery Sweden experienced in the 1990s.

**Social Considerations**

3.17 The cutbacks in public spending in Sweden were not achieved without significant social costs. These costs were mainly in the form of reductions in transfer payments to people in receipt of social welfare, and in the greater rationing of public service delivery to recipients, including older people.

3.18 As a result, older people – particularly those who were more reliant on state pensions for their income – appeared to suffer reductions in living standards and reductions in delivery of social care services in Sweden. The decline in the quality of service delivery
was particularly evident for recipients of social care services where need was identified as being of lower intensity.

3.19 Policymakers in Sweden appeared to have attempted to insulate older people from the worst effects of the fiscal consolidation process. But, nevertheless, a decline in service provision to older people was still evident there, particularly in terms of social care.

3.20 The evidence on the extent to which service rationing resulted in adverse impacts on health outcomes is mixed. The data for Sweden suggest that some deterioration in health outcomes for older people did occur during and after the period of most intense rationing. This raises the question of whether efforts to save money in the short term by cutting back on service delivery could have the effect of creating additional demand for more intense health services in the longer term. The analysis is complicated by the fact that public expenditure on healthcare was pared back significantly in Sweden in the mid-1990s, with the overall number of hospital beds – and the average length of hospital stay – reduced significantly.

3.21 The interaction between cuts in health care and social care are especially interesting. Although spending on both areas was reduced, health expenditure was especially affected, with resulting impacts on the need for social care. The simultaneous rationing of spending on social care provision meant that demand increased for private provision for those who could afford it, and a much increased burden on families for those that could not.

3.22 In the UK, the coalition government has been even less explicit regarding its distributional approach to rationing welfare payments and services to recipients, particularly for older people. One key point of difference is the coalition pledge to maintain spending on the National Health Service. This contrasts with significantly reduced levels of spend in Sweden (where health service delivery is a matter for municipal authorities) of between 5 percent and 50 percent. On the face of it, the protection of spending on health in the UK should mean that impacts on older people – who comprise a significant proportion of health care service users in the UK – may not be as acute as was the case in Sweden.

3.23 One area that potentially offers stronger parallels is the delivery of social care services, where the Swedish national government imposed constraints on the funding for services that were delivered by lower tiers of government. The result, inevitably, was pronounced local variation of responses to the financial constraints, which led to a patchwork of service provision of varying intensity and reach.

3.24 Evidence is already emerging that that effect is starting to occur in the UK, with some local authorities imposing greater levels of cutbacks in social care provision compared to others. With social care services being rationed at local level, there is a danger that any widespread withdrawal or reduction in intensity of support maintaining older people’s independence in their own homes demand will increase for care of older people in NHS hospitals, thereby resulting in greater financial pressure on the NHS.
Annex A: The Canadian Experience

A.1 As was explained in the introduction to this report, the research effort that underpins this report also considered the experience of Canada, which is another country that is often cited as a potential model for the UK to follow in the process of fiscal consolidation.

A.2 The research undertaken for Canada also yielded useful messages about the potential implications of fiscal consolidation on services provided to and the welfare of older people in that country. Although useful data was obtained regarding the impact on older people’s incomes and on social care, the available information on health outcomes was much more limited than for Sweden.

A.3 As the data availability did not allow for equal treatment of the two countries, the main body of this report focuses on Sweden only. The purpose of this Annex, therefore, is to explain how the need for fiscal consolidation arose in Canada in the mid-1990s, to describe how it was undertaken, and to assess the impacts that the process had on the welfare of older people in Canada.

Background to the 1990s economic crisis in Canada

A.4 Canada entered the 1990s with a set of economic challenges that had been building for nearly 20 years. From the mid 1970s, Canada’s budget deficit began to increase following a period of stagflation. This period included a number of cuts to personal income tax rates introduced by a conservative government that in hindsight were unaffordable. The growth of central government debt in Canada over the 1980s as a percentage of GDP is depicted in the Figure below.

A.5 By the early 1990’s, Canada found itself with an unsustainable public sector deficit of around eight to nine percent of GDP. At this time this represented the second most serious debt and deficit situation among G7 countries (after Italy). In 1990, expenditure controls were announced which were then extended in 1991. In 1992, departmental operating budgets were cut by 3 percent and public service salaries were frozen; these spending cuts were used to fund tax reductions, new spending on infrastructure and training. Further cuts were introduced in 1993 as net federal debt had reached C$471 billion (64.8 percent GDP) totalling 22 budget cuts since 1984.

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A.6 Despite these measures however, the deficit problem worsened. When the new Liberal Government took office in 1993, they faced a C$41 billion deficit. The country’s credit rating was downgraded in June 1994 and the Canadian dollar was being dubbed ‘the Peso of the North’. At this time approximately 36 percent of Government revenue was being expended on debt servicing.\footnote{Professor David Cook: \textit{Adapting the Canadian Experience to help Resolve the UK’s Problems}, Cornerstone Global, 2010}

![Figure A-1: Total central government debt as a percentage of Gross Domestic Product](image)

Source: OECD Statistics

A.7 The fundamental problem was that Canada wasn’t producing enough growth to pay for the standard of living that Canadians expected. As a result, total public sector debt rose from 18 percent of GDP in 1974 to 70 percent in 1983. Meanwhile, the Canadian provinces were also becoming more indebted; by 1993 the combined federal/provincial debt-to-GDP ratio was over 100 percent. Also by 1993, the net external debt had reached 44 percent of GDP.\footnote{Professor David Cook, op cit.}

The Canadian Government’s response

A.8 Following close behind the election of the Liberal Party led by Jean Chretien in 1993, the collapse of the Mexican currency brought renewed attention to the weakness of the Canadian dollar and the sustainability of the country’s debt. In response – and consistent with their election manifesto – the new Government launched a collegiate approach to the review of Government spending (Program Review) to bring discipline to Government spending.

A.9 The Program Review process was comprehensive, phrasing itself in terms of ‘what to preserve’ rather than ‘what to cut’. At the same time, the Government undertook a campaign to educate the public about what was
needed to turn Canada’s budget around and published a report, *A New Framework for Economic Policy*, which contained two important messages; the interest rate (8 percent average) on the debt exceeded the growth rate of nominal GDP (4.5 percent) and that in order to reduce it the government would have to run a substantial surplus on its program budget.\(^45\)

A.10 The decisions of the Program Review were then announced in the 1994 Budget. Following further review, the 1995 Budget was even more aggressive in terms of cuts. The results of the Program Review included a reduction in public expenditure in absolute terms by over 10 percent between 1994-95 and 1996-97 when net federal debt peaked nominally at C$588 billion (69.1 percent of GDP).\(^46\)

A.11 The resulting expenditure reductions for the three years 1995/96 to 1997/98 amounted to around C$17 billion. Additional reductions brought the total direct impact to a level of around C$25 billion over the three years. Meanwhile, tax increases resulted in the generation of an out-turn C$3.7 billion in revenue raised over the same three year period.

A.12 Cuts in government consumption, particularly regarding public employee compensation, accounted for almost half of the overall retrenchment. Approximately one third of the consolidation programme was achieved by reducing subsidies and transfers to households.\(^47\) Unemployment insurance systems were amended, and ultimately discontinued. There was also a reduction in health care services and agricultural subsidies.

A.13 Specifically, the reforms included the following individual elements:\(^48\):

- **Reforming Canada’s Employment Insurance (EI) benefit program** by reducing the duration of benefits, increasing the amount of time people needed to be employed to qualify for the benefits, and reducing the maximum benefit from 60 percent to 55 percent of previous pay. This achieved a saving of C$5.7 billion over five years. Specific measures were also introduced to increase labour flexibility and improve skills levels in the workforce.

- **Reforming the Canadian Pension Plan (CPP) for the elderly** by moving from a ‘pay as you go’ system to a combination of ‘pay as you go’ and a fully funded plan. This involved an increase to the employer-employee contribution rate from 5.85 percent in 1997 to 9.9 percent to 2003. The additional revenues accumulated were used to improve the future sustainability of the CPP through the creation of a diverse portfolio of financial assets.

\(^{45}\) D R Henderson, Canada’s Budget Triumph, Mercatus Centre, George Mason University, August 2010
\(^{48}\) Joint Economic Committee Republicans, *Spend Less, Owe Less, Grow the Economy*, March 2011
• **Cancelling various military equipment programmes** (such as the EH-101 helicopter), thereby reducing defence expenditures by C$2.1 billion over five years

• **Reducing transfer payments to Canadian provinces and private firms** by C$6.1 billion

• **Substantially reducing the operating budgets of federal departments.** Following a period of public consultation and scrutiny of all departments by a ‘Star Chamber’ there were big cuts across many departments including regional development (49 percent), defence (15 percent), transport (50 percent), and international aid.

A.14 Whilst the overall rate of spending cuts by department averaged 20 percent, some departments – notably Health, with a cut of 5 percent – were spared the worst of the cuts. Meanwhile, welfare benefits for the elderly are reported to have increased by 15 percent over the same six year period.\(^{49}\)

A.15 In addition to the spending cuts outlined above, a number of privatisations were also undertaken (such as CN railway, Cameco, Petro Canada), whilst other Government assets – such as the Air Navigation System – were commercialised.

A.16 Meanwhile, financial legislation was restructured to increase competition, innovation and efficiency within the sector and the tax base was broadened to improve the fairness of the system and lower the burden.

A.17 The programme of public education launched by the Liberal Party under Jean Chretien prepared the public so well that many were actually disappointed that Government spending wasn’t cut more. According to Canadian economist Thomas Courchene:

> Canadians were deeply disappointed with the [1994] budget: they were ready for much more in the way of meaningful fiscal belt-tightening and [Finance Minister] Paul Martin let them down. He would not make that mistake again. The politics of stiffening the budget stance [in 1995 and 1996] were made much easier because the principal opposition… came from the fiscally conservative Reform Party.\(^{50}\)

A.18 This is not to say however that there was little opposition to the cuts. One of the biggest causes of opposition was the cut in spending on Unemployment Insurance.\(^{51}\) Nevertheless, the Government called an early election in June 1997 and – although seats were lost – a working majority was maintained.

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\(^{49}\) Alexandra Frean, *The Times*, *Canada was on the brink of going bust until savage spending cuts*, May 2010

\(^{50}\) Thomas Courchene: “Half-way Home: Canada’s remarkable fiscal turnaround and the Paul Martin legacy” IRPP Policy Matters, July 2002 Vol 3 No.8 pp19-20

\(^{51}\) David Henderson: *Canada’s Budget Triumph*, George Mason University, August 2010
The impact of austerity measures on older people

A.19 Although the cuts were ultimately considered successful – in terms of achieving the sought fiscal consolidation – they were not painless, and nor was the burden shared evenly. Groups that carried a disproportionate share of the burden included poorer families, women (who were over-represented in the public sector and took the brunt of the job losses that stemmed from the cutbacks) and immigrant communities.

A.20 Meanwhile, the Government sought to protect other groups from the effects – or at least the worst effects – of the cuts. Examples of groups that were insulated included the indigenous population (First Nations), children and – according to some commentators – older people.

Changes in federal department spending
1997-98 relative to 1994-95

percent change

-100 -90 -80 -70 -60 -50 -40 -30 -20 -10 -20 0 10 20

Economic programs

Social and Justice programs

International and Defence programs

General Government Services programs
A.21 Services to older people were affected by cuts, in particular the 5 percent reduction in health expenditure that has already been referred to. Expenditure cutbacks on healthcare that affected living standards among Canada’s older people included longer hospital waiting lists, the closure of some hospitals, a reduction in thousands of medical staff, overcrowding of hospitals and increased infection rates\(^{52}\).

A.22 Although life expectancy and mortality rates improved overall due to new medical knowledge and technologies, the mortality rate of Canadians aged 85 and above increased from 1991 to 1996. The increase was most dramatic in the over 90s category where mortality rates increased from 210.2 per 1000 population to 219.7 per 1000 population, suggesting that the very elderly may have been worst hit by changes to the public health service\(^{53}\).

A.23 The cuts also affected trends towards more equal income distribution among older age groups. Analysis undertaken by John Myles (Florida State University) indicates that income inequality as measured by the Gini index declined substantially for the over 65s from 1980 (0.325) to 1994 (0.25), whereupon it began to increase again (to 0.265) by 1997\(^{54}\).

A.24 The progress made during the 1980s in achieving income equality among older populations was certainly substantial. In 1980, almost 40 percent of the elderly were in the bottom income quintile, twice the rate of the population as a whole. By 1995, just over 17 percent of the elderly were in the bottom quintile, less than the proportion calculated for the total population (20 percent). Although the elderly moved up significantly over the period, virtually all of the movement was from the bottom to the middle income distribution\(^{55}\).

| Table A-1: The Distribution of the Elderly by Population Quintile 1980-95 |
|-----------------------------|---------------|---------------|---------------|-------------------|
| Bottom Quintile             | 39.7          | 25.2          | 17.5          | -22.2             |
| 2nd Quintile                | 22.1          | 29.7          | 32.5          | 10.5              |
| 3rd Quintile                | 12.2          | 16.2          | 20.0          | 7.8               |

\(^{52}\) Public Finance, *Been there, done that*, Feb 2011

\(^{53}\) Statistics Canada http://www.statcan.gc.ca/pub/89-519-x/2006001/t/4122030-eng.htm


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<td>14.9</td>
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<td>Top Quintile</td>
<td>12.8</td>
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A.25 Between 1996 and 2000, elderly unattached males experienced a fall in their average income after tax from C$23,900 to C$23,200 at 2003 constant prices, whilst elderly unattached females and couples continued to see an increase in their average annual income.\(^{56}\) Although there has been a downward trajectory regarding the proportion of the Canadian elderly population within the low income bracket both before and after taxes, in 1996 the proportion of unattached elderly males with low incomes after tax reached almost 20 percent, indicating that changes to tax rates had more of an impact on unattached men rather than females or couples.\(^{57}\)

A.26 Despite all the issues regarding income inequality and health outcomes, there is evidence that the design of the public spending cutbacks was always intended to provide older Canadians with a level of protection not afforded to most other groups. For example, commentators such as Paul Jackson have pointed out that:

*Part of the decline in total Canadian government spending over the mid to late 1990s was cyclical, driven by a gradual fall in the national unemployment rate from a very high level. But by far the greater part came from a major retrenchment of the welfare state. With elderly benefits virtually untouched, most of the burden fell on the federally administered Unemployment Insurance.*

*Because of the cuts to unemployment insurance and welfare, poverty rates remained at near recession levels throughout most of the 1990s and the incomes of the bottom half of households rose very modestly, despite falling unemployment.*\(^{58}\)

Aftermath: the post 1999 experience in Canada

A.27 Through the use of tax increases and spending cuts of 20 percent\(^{59}\) implemented by a comprehensive zero based budget review, the fiscal crisis situation was brought under control in a relatively short period of time, and the country was in surplus by C$3 billion by 1998. More specifically, over the five years, nominal federal outlays fell reduced from C$164.2 billion (22.3 percent of GDP) in 1993/4 to C$157.9 billion (17.9 percent of GDP) in 1997/8.

\(^{56}\) Statistics Canada http://www.statcan.gc.ca/pub/89-519-x/2006001/t/4122034-eng.htm
\(^{57}\) Statistics Canada http://www.statcan.gc.ca/pub/89-519-x/2006001/t/4122039-eng.htm
\(^{58}\) Andrew Jackson: Beware the Canadian Austerity Model, 21st Century Socialism, May 2010
\(^{59}\) David Halpern & Jerret Myers, A model of brutality Britain can build on, The Sunday Times, May 2009
Consequently, general government spending fell by nine percentage points of GDP, while the tax/GDP ratio rose by just 0.3 percentage points.\textsuperscript{60}

A.28 Within two years, total and primary expenditure was cut by around 3.5 percent of GDP, and within seven years total spending had fallen by 11 percent of GDP, the budget was balanced and the public debt ratio had reduced.\textsuperscript{61} The government estimated that around 55 percent of the deficit reduction came from economic growth with 35 percent attributable to the spending cuts.\textsuperscript{62}

A.29 By 2000, the Government’s fiscal position had improved to the extent that the Chretien government was in a position to introduce cuts in personal income tax rates and corporation tax rates (in stages, from 28 percent to 21 percent by 2004).\textsuperscript{63}

A.30 Due to strong economic growth, from 1998 until 2006 the Canadian Government’s general spending continued to decline, reaching 39.4 percent of GDP in 2006. As such, despite a growth in nominal federal outlays, Canada continued to enjoy federal budget surpluses throughout this nine year period. Overall, Canada’s fiscal consolidation program had a positive effect on economic growth, resulting in an average, real GDP growth rate of 3.4 percent between 1994 and 2006. The approach was also politically popular with the Liberals being re-elected in 1997, 2000 and 2004.\textsuperscript{64}

A.31 In every year between 1997 and 2008, Canada’s federal government had a fiscal surplus. A strong economy in the later part of the decade provided governments with an expanding stream of revenue that in turn fuelled new spending. Two of the largest cost drivers for the government over this period were a growing public sector, including higher wages and benefits, and an increasingly expensive healthcare system.

A.32 The view from the voice of Canadian business – CFIB, the Canadian Federation of Independent Business – continued to be very positive about the results of the fiscal consolidation process that was enacted in the mid 1990s. From the mid 2000s however, the CFIB started to express concern that the lessons from the 1990s were being forgotten, and that spending was starting to accelerate beyond levels that could be afforded in the longer term.\textsuperscript{65}

A.33 In retrospect however, the early years of the new century represented a brief period of balanced budgets and relatively large budgetary surpluses for

\textsuperscript{60} Institute of Directors & The TaxPayers Alliance, \textit{How to save £50 billion: Reducing spending for sustainable public finances}


\textsuperscript{62} David Cook et al, \textit{Adapting the Canadian Experience to help resolve the UK’s problems}, Cornerstone Global, June 2010

\textsuperscript{63} David Henderson, page 19

\textsuperscript{64} Canadian Federation of Independent Business, \textit{Restoring Canada’s Fiscal Fitness, Tools to reform government spending}, 2011

\textsuperscript{65} \textit{Restoring Canada’s Fiscal Fitness}: CFIB 2011
Governments. A strong economy in the early part of the 2000s provided Governments – federal and provincial – with an expanding stream of revenue that in turn began to fuel new spending. By 2008 as a result of the recession, business and consumer credit seized up, businesses halted expansion plans and held on to their cash reserves, consumers felt the effects of redundancies and wage restraints and exports declined on weaker international demand.

A.34 A massive fiscal stimulus plan was put into place to counteract the impact of the global financial meltdown on the Canadian Economy. By 2010, healthcare spending alone represented approximately 35 to 40 per cent of total government expenditure.

A.35 That is to say, the Canadian government had appeared to forget the lesson of the 1990s and the value of controlled spending. This meant that its recovery from the most recent recession was more difficult. Canada is now located in the middle of the road on the scale of total government spending compared to the rest of the world.

A.36 The International Monetary Fund predict that even with a decline in relative government spending to GDP through 2015, Canada will be unable to get its debt to GDP ratio down to pre-2008 recession levels.

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Conclusions and Implications for the UK Austerity Programme

A.37 The experience of Canada in the 1990s largely reinforces that of the experience of Sweden discussed earlier in this report. Moreover, the main conclusions that were put forward in the last chapter are entirely supported by the Canadian experience later in the same decade, and these are not repeated here. There are some particular aspects of the Canadian experience that are worth highlighting:

A.38 The Canadian experience underlines in particular the importance of leadership; the collegiate approach to the Program Review in Canada, coupled with a major public education/relations exercise generated broad political support for the measures despite the unavoidable pain.

A.39 A key difference between Canada and Britain is that Canadian national spending on health was not spared, although the cutback to health (5 percent) was far less severe than the overall reduction averaging nearly 20 percent. Another key difference was that in Canada specific attempts were made to insulate older people from the worst effects of the consolidation process. For older people in Canada, this insulation was less explicit than was the case for other vulnerable groups, such as indigenous populations (where spending on Indian and Northern Affairs increased by around 12 percent, compared to the overall average reduction of nearly 20 percent). Nevertheless, a decline in service provision to older people was still evident there, particularly in terms of social care.
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