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Ending Welfare as We Know It: Lessons From Canada

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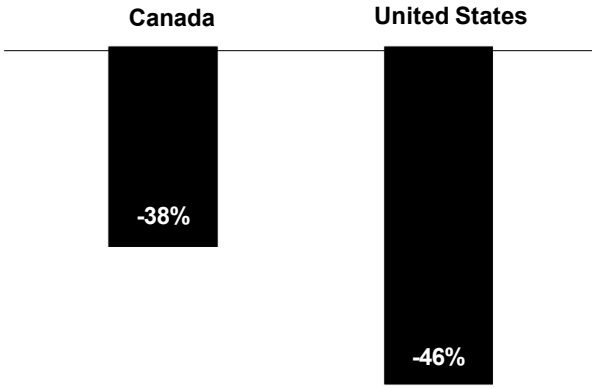
Welfare rolls in both Canada and the United States reached all-time highs in the 1990s. One province and a few states introduced reforms to slow the rate of increase or reduce the escalating cost. However, in both countries local reforms were limited by the conditions attached to federal financing. In 1996, both countries introduced federal legislation designed to reduce welfare dependency. In just a few years, those reforms dramatically cut the number of people dependent on cash assistance:

- The number of individuals receiving welfare in the United States fell 46 percent from 1994 to 2002. [See Figure I.]
- Canadian welfare rolls fell 38 percent over the same period.
- As a result, the proportion of the population dependent on welfare fell from 5.5 percent to 2 percent in the United States and from 10.7 percent to 5.9 percent in Canada.

The U.S. legislation ended the entitlement to welfare. Although Canada's 1996 reform was less successful in ending "welfare as we know it," it may hold the key to the larger goal of dismantling the welfare state.

FIGURE I

Decrease in Welfare Recipients In Canada and the United States (1993 to 2002)



Sources: National Council of Welfare (Canada); Administration for Children and Families, U.S. Department of Health and Human Services.

Federal Financing and Control. In Canada, the driving force behind the growth of the welfare state has been the power of the federal government to tax and spend in areas of provincial jurisdiction, such as education, health and welfare. Under the 1966 Canada Assistance Plan (CAP), additional provincial spending on social programs was matched dollar-for-dollar by the federal government. In order to receive federal funding, however, provinces had to provide welfare benefits to individuals on the basis of need alone. They were prohibited from requiring work or a period of residency to qualify for benefits, and they had to establish an elaborate appeals process.

The 1996 Canadian reform eliminated the federal match and the conditions attached to it, replacing it with a block grant to each province. The only condition that still remains is the prohibition against requiring a period of provincial residency for eligibility. The reforms opened the door to innovation and experimentation in provincial welfare policy. In fact, by transferring the power to set welfare policy from the federal government to the provinces, Canada became a far more decentralized federation than the United States.

Provincial Welfare Reforms. Prior to 1996, Alberta was the only province to begin overhauling its welfare administration. It reduced its welfare rolls by tightening eligibility requirements and reducing welfare fraud. It also cut benefit rates and eliminated some supplemental benefits for single employable adults while increasing benefits for disabled recipients.

Soon after, Ontario undertook serious reforms. Ontario had one of the highest welfare rates in the country, and benefits were well above the national average. It reduced benefits for all recipients except seniors and those with disabilities, implemented programs similar to Alberta's to find people work and aggressively cracked down on welfare fraud. It also took a step toward privatizing social services by contracting with a private firm to redesign its social services administration. Perhaps most significantly, Ontario became the first Canadian province to introduce a "workfare" program in 1998.

These two provinces have experienced the greatest declines in dependency:

- By 2002, the proportion of Albertans receiving welfare had dropped from a 1993 high of 7.3 percent to 1.7 percent, a decline of more than 77 percent. [See Figure II.]
- Welfare dependency in Ontario fell from its 1993 peak of 12.7 percent of the population to 5.7 percent in 2002, a 55 percent decline.

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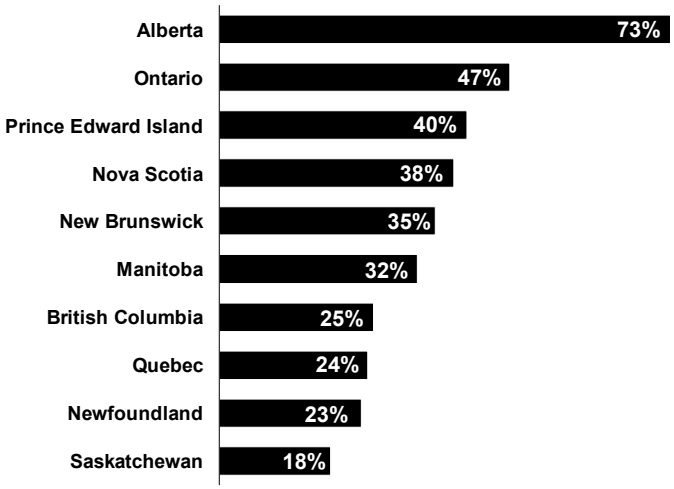
Other provinces have a more mixed reform record. Saskatchewan, for instance, has increased social services spending more than any other province over the past decade, but it also has implemented a series of accountability controls and antifraud measures and is experimenting with modest work-oriented programs.

In 2002, however, British Columbia unveiled the most sweeping reform package of any province. It is the first province to end the entitlement to welfare by introducing benefit time limits, requiring immediate work for employable individuals and instituting a delayed full-check sanction for families without dependent children. The sanction means that benefits can be withheld for refusing to work. BC has also moved toward privatization by contracting with private, for-profit companies to provide job search assistance and to transition welfare recipients to work. JobWave BC, for example, has already helped over 22,000 British Columbians get off social assistance and back to work, saving the province over C$30 million.

Most of the other provinces have limited their reforms to tightening eligibility, cutting benefits and improving administrative efficiency. Thus, only a minority of Canadian provinces have taken advantage of their new flexibility by attempting the kinds of large-scale reforms that have yielded dramatic results in the United States.

FIGURE II

Reduction in Provincial Welfare Rolls in Canada
(1993 to 2002)



Source: National Council of Welfare.

The Effects of Interprovincial Competition. Due to broader eligibility requirements and more generous benefits, the overall welfare rate in Canada is still higher than the rate the United States reached before commencing its reforms. Only Alberta has come close to reducing welfare rolls to levels competitive with reform-minded states like Wisconsin and Idaho. Nevertheless, Ontario's 1995 initiatives and BC's sweeping reform program indicate that intergovernmental competition spurs innovation and efficiency in program delivery.

In an age of mobile capital and labor, provinces have strong incentives to keep their personal and corporate tax rates competitive in order to attract investment. Indeed, Alberta and Ontario not only cut their welfare rolls faster than all the other provinces, they also benefited from stronger economic growth spurred by tax relief.

Decentralized Government. Currently, the Canadian federal government's involvement in welfare is restricted to determining the size of block transfers apportioned to the provinces. However, government accountability and the delivery of social programs would improve if Canada abolished the system of federal cash transfers to the provinces altogether and reduced federal taxes proportionately. Provinces could raise their own revenues to pay for the programs they deliver. This would unleash the potential of provinces to serve as laboratories of innovation in welfare administration and delivery.

Conclusion. The conditions attached to federal welfare funds ultimately reinforce the taxing and spending power of the central government. That is true even if, as in the United States, the federal requirements include the desirable goals of raising caseload reduction targets or strengthening work requirements. In the United States, individual states have demonstrated the benefits of local experimentation and innovation in welfare policy. In Canada, provinces that have not undertaken reforms must reconsider the costs of their social programs. In both countries, if the objective of welfare reform is to rein in the welfare state, not empower it, the next step is to greater decentralization.

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