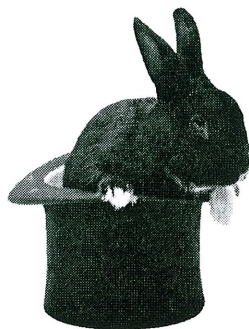


# A COMPARISON OF CANADIAN AND AMERICAN WELFARE REFORMS AND THEIR EFFECTS ON POVERTY AFTER 1990



By Fern Karsh

## I Introduction

The 1990s was a decade of major welfare reformation in Canada and the United States. The reforms came as a response to recessionary times. Unemployment, welfare and poverty are all cyclical. Thus, the 1990-'91 economic downturn brought increased unemployment, welfare rolls and poverty rates. In an effort to reduce the growing federal expenditures on social services, both Canada and the United States underwent a high degree of decentralization and change in the area of social assistance. I intend to compare the Canada and American welfare reforms of the 1990s, and their effectiveness at reducing welfare rolls, unemployment and poverty rates. I intend to show that the United States went further than Canada in the direction of work requirements as part of its aggressive attack on the roots of welfare dependency. I believe that Canada should use the United States as a role model in welfare policy if it intends to

achieve the results that the Americans have achieved in improvements of welfare rolls, unemployment, and poverty. The major Canadian reforms that I intend to discuss are: the cap on CAP, the CHST, and workfare in Ontario. The major American reforms that I will discuss include: PRWORA, private sector delivery of social assistance, affiliations with faith-based organizations, and diversion programs.

## II What is Welfare and Who are its Recipients?

“Welfare” is also known as social assistance, income support and income assistance. It is the social safety net of last resort, which means that a person must have exhausted all other financial means in order to be eligible for welfare assistance. In Canada, welfare recipients are primarily comprised of Aboriginal Canadians, people with disabilities, single parents, children in low-income families, young people, and low-income earners.

## III Welfare in Canada

### (i) Eligibility

Historically in Canada, eligibility for welfare has been dependent on a “needs test”, subtracting non-exempted financial resources (income and liquid assets) from needs. Basic financial assistance to those eligible includes: income assistance for basic needs (food, clothing, personal) and shelter, other benefits (ie. prescription drugs), and Emergency Assistance.<sup>1</sup>

(ii) **Historical Perspective: Welfare in Canada from 1966 –1990**

The Canada Assistance Plan (CAP) was a statute that became effective in 1966. It provided a legal framework for cost-sharing between the federal government and provincial and territorial governments. Four conditions were in place that provinces and territories had to meet in order to qualify for up to 50% reimbursement on social expenditures. These conditions were: (1) that eligibility had to be based solely on a test of financial need; (2) that they had to legislate their own appeal system; (3) that residency could not be a requirement of eligibility; and (4) an administrative condition dealing with disclosure of information.

CAP required no reciprocity conditions for initial eligibility, but rather for continuing eligibility. The reciprocity requirements included participation in a signed “Action Plan” between the recipient and provincial government. The Action Plan could include any or all of: education, training, job preparation and job placement. Refusal of training or work could result in suspension, cancellation or refusal of welfare benefits. Actively looking for work could potentially be sufficient for eligibility.<sup>ii</sup>

(iii) **The Cap on CAP : a Major Turning Point in Canada**

In 1990, the Progressive Conservatives began abandoning welfare with a cap on CAP and an end to the cost-sharing system. Federal welfare transfers to the 3 richest provinces (Ontario, Alberta, British Columbia) were capped at 5% per year. The purpose of the ceiling on

welfare transfers was to cut federal government expenditures. The result was that the cost of social services got dumped onto provincial and territorial governments. Given that the cap on CAP came during the 1990-'91 recession, welfare caseloads continued to grow and the provinces had to shell out all the costs above the 5% ceiling. The cap cost Ontario \$8.4 billion and British Columbia \$1.3 billion.

(iv) **The Canada Health & Social Transfer (CHST)**

The most dramatic Canadian welfare reform of the 1990s came in 1996 when the Liberal government, under Jean Chretien, replaced CAP with the CHST. CHST was about spending less rather than more on welfare reformation. Between the 1994-'95 fiscal year and the 1997-'98 fiscal year, funding for medicare, post-secondary education, and social services fell from \$29.4 billion to \$25.2 billion. In addition to multi-million dollar cuts in federal transfers to provinces, came enormous reductions in control over how the provinces allocated their money between programs. The most significant change made was ending the automatic entitlement to welfare that had been in place since 1966. This change was accomplished by eliminating the “need test” as a national standard for welfare entitlement. In effect, this permitted provinces and territories to put their own barriers to welfare entitlement, such as Ontario’s subsequent work-for-welfare program. The elimination of the needs test meant that more people could be disqualified based on new criteria set out by provincial and territorial governments.<sup>iii</sup>

(v) **Ontario's Welfare Reformation**

Ontario is an interesting province to focus on because its reforms more closely resemble the American reforms than any other province or territory. Ontario experienced the largest drop in welfare rolls in Canada (along with the province of Alberta).<sup>iv</sup> Ontario was the only province to implement mandatory work-for-welfare. The Ontario Works Act formally created Canada's first workfare program and it replaced two existing welfare laws: the General Welfare Assistance Act and the Family Benefits Act.<sup>v</sup>

What led up to the introduction of workfare? During the 1990-'91 recession welfare transfers to provinces were capped, and social assistance got very expensive for Ontario. The number of people on welfare skyrocketed in 1991 and continued to rise until 1994. By 1993, Ontario had the highest welfare dependency rate in Canada. This may have helped provoke Premier Bob Rae's speech at the Ontario Institute for Studies in Education where he promised to fix welfare so it would no longer pay people to sit at home. This also came after an announcement by the Auditor-General that mismanagement of social assistance cost Ontario as much as \$500 million over the preceding 10 years. Ontario's Expenditure Control Plan of 1993 resulted in decreased monthly earnings exemptions to the working poor, cuts in special assistance, ending top-ups to the working poor, and reduced benefits for youth dependents living on their own.<sup>vi</sup>

The 1995 provincial elections replaced the NDPs with the Progressive Conservatives under Mike Harris. Mike

Harris brought us the "Common Sense Revolution". His platform was less government, less regulation, less welfare. Huge changes were made including a cut in welfare rates by 21.6% to all recipients except the disabled and seniors, totaling a whopping \$469 million in savings. Using Ontario's 2-tier welfare system, welfare costs were dumped onto municipal governments, who were given total discretion on how much special assistance they would pay out, if at all.

"Ontario Works" – a mandatory work-for-welfare program – was introduced in 1996 once CAP ended. It required a brand new administrative infrastructure, and its projected costs were up to \$1 billion. The purpose of Ontario Works was to help people become employed and achieve self-reliance. To be eligible for social assistance, it became mandatory to participate in "employment assistance" activities. "Employment Assistance" activities could include: community participation, job search, job placement, literacy training, basic education or job-specific skills training.<sup>vii</sup>

Welfare rolls decreased by 400,000 between 1995-'99 in Ontario and Ontario Works was claimed to be a major factor in this. But more importantly, how did employment improve for those still on welfare and for those who left welfare? In 1998, only 14,000 out of 300,000 welfare recipients had some employment.

As for those who left welfare, in 1996 it was found that 30% of them had found jobs. The rest moved in with someone in a common law relationship, moved in with parents, moved to another province,

or moved onto the Family Benefits program. The Toronto Star's follow-up survey tracked 3500 of those who left welfare over '95-'96, and found that 43% found jobs, 72% of whom had no dental or drug plan. And as for the earnings of those with jobs, 20% were making under \$200/wk and 64% were earning only \$200-500/wk. Although the decline in welfare rolls were largely due to increased employment, it can partly be attributed to other factors, including the new spouse-in-the-house rule, the cut to top-ups, and the fact that youth aged 16-17 were no longer eligible.

## U.S.A.

### **V 1990s Welfare Reform in the United States**

#### **(i) Personal Responsibility and Work Opportunity Reconciliation Act**

On August 22, 1996, Clinton enacted the PRWORA which replaced the Aid to Families with Dependant Children Program (AFDC), Emergency Assistance (EA) and Job Opportunities and Basic Skills Training (JOBS) programs with Temporary Assistance for Needy Families (TANF). The country's welfare system was changed into one requiring work for assistance. PRWORA also imposed a federal lifetime limit of 5 years on welfare, while states could impose even shorter terms (i.e. Wisconsin at 24 months). These lower levels of government would operate their own programs and currently (in 2002), receive \$16.5 billion yearly to cover benefits, administration and services. The goals of TANF were: "assisting needy families so that children can be cared for in their homes; reducing dependency of needy parents by

promoting job preparation, work, and marriage; preventing out-of-wedlock pregnancies, and encouraging the formation and maintenance of two-parent families."<sup>viii</sup> TANF required that recipients of social assistance begin to work no later than two years after coming on assistance. To obtain welfare benefits, single parents had to participate in 20 hrs of work activity per week in 97; this went up to 30 hrs a week in 2000. For two parent families, the minimum hours of participation required was 35-55 hrs per week. States had to meet certain labour force participation rates. For example, in 1997, 25% of families in a state that had to be participating in "work activities". Work activities include:

- Employment
- On-the-job training
- Community service
- Job search
- Vocational training
- Job skills training
- Education directly related to work

Activities other than actual employment do not count towards a state's participation rate past a certain limit. In other words, each state must ensure that people on social assistance get into jobs as soon as possible, rather than lingering in training or job search.

#### **(ii) Diversion Programs, Privatization, and Faith-Based Organizations**

Some states (i.e. Wisconsin and Florida) have implemented diversion programs. Such programs divert potential recipients away from social assistance through charities, help from family, emergency

financial assistance, and other welfare alternatives.

Some states have experimented with privatizing certain aspects of welfare. There has been some contracting out to for-profit and non-profit organizations for welfare and employment assistance programs. This has allowed governments to save money on welfare programs, increase efficiency of welfare services and help recipients find and keep jobs. America Works is an example of successful use of privatization in welfare provision. America Works is a for-profit company in New York whose job it is to put long-term unemployed recipients of welfare in jobs and keep them there over the long-term. America Works receives no payment from the NY government until the recipient is placed in a job and only receives full payment (\$5490) if the participant stays in the job for a 7 month period. America Works tackles the problem of finding employment for hard-to-employ individuals (i.e. half of those successfully placed in a job do not have a high school diploma). Follow-up by the New York State Department of Labor show that 88% of those placed in jobs by America Works are still off welfare three years later. America Works often utilizes a four-month training program called "Supported Work", during which America Works is the employer and gets the recipient off to a strong start. They also provide intensive case management. The cost to the state of this privatized program is \$5500, compared to \$24,000 for programs run by the state government.<sup>ix</sup>

Section 104 of PRWORA, called the Charitable Choice clause permitted states to contract with faith-based organizations. These organizations have networks of volunteers who assist the

poor in various ways, such as transportation, child-care, housing assistance and employment advice. At any time, approximately 2000-2500 welfare recipients are receiving help from faith-based organizations. These groups spend about \$15-20 billion yearly on social services. One example is Texas, which has been successfully collaborating with Pathfinders – a community-based partnership of volunteer teams helping families achieve self-sufficiency.<sup>x</sup> A study in 1999 showed that 75.6% of families who had taken part in the program were off welfare and 54.4% had jobs that provided a higher income than welfare benefits.<sup>xi</sup>

### **(iii) Job Retention**

Job acquisition does not equate with job retention. A study at Mathematica Policy Research in Princeton, New Jersey, shows that many of those who left welfare and found jobs did not keep their jobs for long, either because they quit or were laid off, and subsequently experienced long periods of unemployment between jobs.<sup>xii</sup> Job retention is important because sporadic employment is a major contributor to low average earning of and low chances of advancement. There is evidence that the quality of the first job, in terms of wages and benefits, has a major impact on job retention and future advancement. In fact, studies show that programs that have encouraged people to seek good jobs with higher wages and benefits have been more successful than regular welfare-to-work programs. A Portland, Oregon program emphasizing the importance of good wages and benefits is one example. California, because of its high welfare benefits has an incentive to keep its welfare rolls low. As a result

California focuses on job advancement so that recipients can climb up to high enough earnings not to need welfare. Some states have tried to improve job retention through wage subsidies. Wage subsidies provide an incentive to stay employed by compensating for lost welfare benefits and higher income taxes.

## VI Impact of 1990's Welfare Reform in the USA

Welfare transformation in the United States over the 1990s primarily targeted single mothers. Its goal was to get these women into jobs and off welfare. We can determine whether this goal was accomplished by examining unemployment rates of single mothers, as well as changes in welfare rolls after the 1996 reforms.

After the reforms, welfare rolls decreased dramatically. Between 1994-2000 the number of welfare recipients in the United States declined by 59.4%, constituting 8.4 million individuals off welfare, compared to a decline of 32.7% in Canada.<sup>xiii</sup> Employment rates of single mothers rose from 47% to 65% over 1994-1999, a significant increase compared to previous trends in employment figures for single mothers. This increase appears to have been the result of a number of factors, including mandatory work requirements, financial incentives (i.e. The Earned Income Tax Credit), time limits, as well as growth in the economy over this period. Prior to 1996, employment rates of mothers on welfare did not exceed 9%. After PRWORA was introduced in 1996, the employment rate of welfare leavers climbed to 60-75%.<sup>xiv</sup>

How have time limits and other sanctions affected American families? Most states have been using the federal 5-year limit on welfare receipt, rather than imposing their own shorter limits. Studies have shown that the employment rates of families hitting the time limit are at least as good as employment rates of those who left welfare on their own accord. The impact of non-compliance sanctions, however, is less positive. As for women thrown off welfare as a result of non-compliance, their employment rates are lower. Why so? Those sanctioned for non-compliance with work-related requirements are people with poorer health, lower levels of human capital, and are therefore at a greater disadvantage in the job market. They have trouble acquiring and retaining employment.

Employment rates by themselves do not give a complete picture of how welfare leavers fared after the 1996 reforms. Studies show that half the women who left welfare and found employment experienced a decrease in income. This can be explained by the loss of TANF benefits, low wages, and high incidence of part-time work. Part-time work is insufficient to compensate for the loss of social assistance. As a result, the Earned Income Tax Credit (EITC) –a refundable tax credit) has been important in increasing the after-tax incomes of mothers who left welfare rolls. On a positive note, employed welfare leavers seem to do better after a year or two off welfare rolls in terms of earnings gains. There is a 20% increase in total household income after 2 years. However, these figures don't take into account the impact of the loss of food stamps and Medicaid that hits welfare leavers.

## **VII A Comparison of Welfare Rolls, Unemployment Rates and Poverty Rates**

The number of welfare recipients in the United States declined by 59.4% between 1994-2000, compared to a 32.7% decline in Canada. Unemployment rates decreased in Canada and the United States following the 1990s reforms. In US it reached a high of 7.5% in 1995 and declined to 4.2% by 1999. In Canada there was a high of 11.3% in 1992 (see Figure 1) which fell to 7.6% in 1999 (see Figure 2).<sup>xv</sup> The poverty rate in the US decreased from 13.8% in 1989 to 11.3% in 2000 (see figure 3). In contrast, the poverty rate in Canada increased over the 1990s in terms of both pre-tax and post-tax income measurements. The pre-tax LICO poverty rate increased from 14% in 1989 to 16.2% in 1999. The post-tax poverty rate increased from 10.2% in 1989 to 11.8% in 1999 (as shown in Figure 4). The only age group in Canada whose poverty rate did not increase over these years is the elderly. Pre-tax child poverty rates in Canada rose from 15.2% to 18.5%, or 11.8%-13.7% post-tax (as shown in Figure 5). The depth of poverty (the gap between the poverty line and the average income of people below that line) in Canada also grew between 1989-1999 in pre-tax and post-tax terms (as shown in Figure 6).<sup>xvi</sup> These statistics show that the United States made greater reductions than Canada in welfare rolls, unemployment rates and poverty rates over the 1990s welfare reforms.

## **VIII Summary**

Both countries imposed conservative, decentralist welfare reforms in the

1990s. Both countries lowered welfare spending and gave more leeway to lower levels of government to make their own welfare policies. Both increased the incentive to work, largely through the tax system. One major difference between American and Canadian welfare reforms was the extent of compulsion to work. Work was made compulsory in exchange for welfare benefits across the United States. In Canada, only Ontario imposed workfare. And so workfare in Ontario was more a result of the leeway given to provincial governments, as opposed to a decision of the federal government.

Why did the United States impose universal mandatory work-for-welfare while Canada did not? I believe that the evidence shows that the United States made an overall greater commitment to getting people off welfare and into self-sufficiency. The United States showed a willingness to intrude into the realms of work and family in order to ensure an employed population. When Clinton said that people just need a "hand up, not a hand out" he acted on it. And if that meant the need to introduce what some may call socially invasive policy, then so be it. To the United States, ending a system of hand-outs meant attacking this system at its roots: out-of wedlock pregnancies, single parent family formation, and of course unemployment. This can be illustrated by examining the official goals of Ontario Works compared to those of TANF. The purpose of Ontario Works was to help people become employed and achieve self-reliance. In contrast the purposes of TANF are: "assisting needy families so that children can be cared for in their homes; reducing dependency of needy parents by promoting job

preparation, work, and marriage; preventing out-of-wedlock pregnancies, and encouraging the formation and maintenance of two-parent families.” The differences between the goals set out by the Americans and the goals set out in Canada illustrate how much more aggressively the US attacked the roots of welfare and unemployment compared to Canada. And this difference can largely account for the greater success in the United States than in Canada at reducing welfare rolls, unemployment and poverty.

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<sup>xvi</sup> Canadian Council on Social Development: A Good Year Tops Off a Lost Decade [On-line WWW]. (n.d.) Income Trends in Canada. Available:

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