



Taming Two Dragons

Poverty, Welfare, and the Future
of Income Support

By Rick August

About the author

Rick August, is a Regina-based analyst with over 35 years' experience in strategic development of social policy. He was an original policy negotiator for the Province of Saskatchewan in the development of the National Child Benefit, and designed or led policy development on a number of initiatives that increased employment and reduced poverty among low-income households in that province. He has consulted with numerous governments on social policy reform and published several articles on behavioural social policy, employment-based anti-poverty strategies, disability income support and other topics.



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Ideas for a better tomorrow

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Executive Summary

This paper examines and rejects the common advocacy claim that governments should increase welfare benefits as a way to reduce poverty and inequality in Canada.

I argue, based on a structural and historical analysis, that, rather than reducing poverty, welfare has helped create and maintain a chronically workless underclass that persists regardless of economic or labour market conditions. Welfare is a cause of poverty, not its solution. It is an historical error that can and should be reversed.

To do this, we need to replace social transfers that support inactivity with those that support work, and we need to impose rigorous work expectations before basic income support is given. This policy shift would mean more income from working, less cost to taxpayers and a more efficient, equitable and sustainable economy.

Because this strategy would reduce or eliminate voluntary dependency, we could make changes to how we support the truly needy. What could emerge is a more efficient and dignified benefit system that, unlike welfare, provides support without undermining human potential.



...welfare has helped create
and maintain a chronically workless
underclass that persists...

Introduction

The issue of poverty in Canada is a subject of vigorous public debate. Several Canadian jurisdictions have announced poverty reduction strategies, and there is pressure on all other governments to do the same.

A common theme in anti-poverty advocacy is to build up the welfare system as a way to reduce poverty.¹ I will argue quite a different approach. I will argue that welfare, as it has developed over the last half-century in Canada, has been a detriment to both the poor and to society. I will argue for its demise, through an incremental process that makes welfare less and less necessary, and ultimately dispensable in its present form.

Governments, not lobby groups, should lead this change. It is fashionable at present to involve anti-poverty groups in policy-making, on the grounds that groups that work with the poor know poverty issues best. This is faulty logic. Most such groups have a powerful stake in the status quo. With few exceptions, they have failed to demonstrate a vision of social policy beyond the scope of welfare. The most important stakeholder in an anti-poverty policy is the public, including the low-income public, not those who work in poverty industries.

Welfare undeniably gives money to poor people. It may seem counterintuitive to argue that such a system could play a role in generating and perpetuating poverty. The arguments that follow will, I hope, demonstrate that welfare is, in fact, self-defeating as an anti-poverty tool.

The central arguments are not complex. Welfare pays people not to work, and we should not be surprised that it creates more of what it pays for. Whereas a rational social policy would encourage economic engagement, welfare has encouraged chronic unemployment and economic marginalization. The welfare model is a failure of vision. It has, over the last half-century, consigned hundreds of thousands of Canadians to a life of diminished well-being, low achievement and diminished happiness.

My solution boils down to a basic premise: Replace policies that buy bad outcomes with programs that buy better outcomes, for the individual and for society. We should, I would argue, set about a systematic displacement of the welfare system in favour of benefits that are better public investments.

My concept of good outcomes is also straightforward. There are obviously those who think the goal of social policy is generous benefits. I disagree. I will argue that a comfortable income from passive welfare benefits is not only unattainable in practice, but also undesirable.

Very few citizens set out toward a life of benefit dependency for themselves or their children. Most plan and work toward an adequate education, a job that provides a decent living standard, respectable status in the community, a home, a family, etc.

These life goals are about connections and achievement, not entitlement to other citizens' money. They are about people becoming active citizens: productive, self-reliant, contributing to the economy and their communities. I will argue that to expect less for low-income citizens is to curse the poor with low expectations.

In fact, our expectations and aspirations for Canada's relative poor should be the same as for all citizens. We know that having useful work and a purpose in life are both good and necessary. Our most important social relationship is with the economy because that is how most of us make a living, but at present, too many citizens live outside its bounds. Solving that problem is the real key to reducing poverty.

To break free of the welfare era will require a culture change. The debate about benefit levels is not helpful. We need to use public resources to achieve better life outcomes. My position is that work is good, and any honest work is a good job. Dependent adults who become workers enjoy better economic status and the dignity of becoming taxpayers, and society trades an unnecessarily dependent person for a contributing citizen.

Of course, this is not at all what welfare is about. Welfare emerged in an era when many people thought the only issue was money, and the job of social policy was to give the poor more of it. Welfare, accordingly, developed as a system that treats the poor as if they are passive vessels into which public money is poured in expectation of good outcomes. We now know that this approach does not work, because it matters how we get our money, not just how much we have.

Everyone needs help at some time, but no one is going to escape poverty without some personal effort. One element that is lacking in the welfare legacy—indeed, actively undermined—is personal responsibility. Moving beyond the welfare era in part means restoring personal responsibility to social policy.

The issue of incentives in social policy also needs close attention. I have argued elsewhere that we should view social policy as a behavioural science, albeit one that is in its infancy.² Incentives and disincentives cannot always predict individual human behaviour, but there is no doubt that in the longer run, governments tend to get the behaviour they pay for in social programs.

Equity and incentive have been competing public policy issues as long as there have been market economies. We have managed this tension poorly in Canada. We have used clumsy, counterproductive methods to transfer wealth from rich to poor, and as a result, we have underutilized human resources and an economically marginalized fraction of our citizenry. Most of our poverty problem is, in fact, policy driven, and that is a good thing in only one sense—what is done by policy can be undone by policy.

Background

Prior to World War II, Canadian governments were cautious about cash-entitlement programs. Depression-era relief, the prototype of modern welfare, was built up in careful stages and then wound down quickly as the economy began to recover. Such entitlements as existed at the start of World War II were small, narrowly targeted and rigorously means-tested.

Wartime full employment made income support irrelevant for a period. The war years, however, changed outlooks on social policy. Roosevelt and Churchill's 1941 Atlantic Charter, for example, defined war aims as not only peace and physical security, but also greater social justice.³ Strategic social engineering was very much in the air, especially in the latter war years when the Allied military situation could be viewed with hope.

Canadian social policy analysts are most familiar with the ideas set out in the Beveridge Report from the United Kingdom and a report to Parliament from a committee chaired by Leonard Marsh.⁴ Both of these argued for a system of social insurance to mediate market forces and for structural investments, such as child benefits, to address inequities.

The post-war federal government took a few steps toward social security with the expansion of Unemployment Insurance in 1943 and the creation of the Family Allowance in 1945. Rapid post-war growth once again sidelined social reform until the mid-1960s, when it was renewed with vigour. Social reform in the 1960s relied on a mixed bag of principles: social insurance, social utilities, structural transfers and, the newcomer to the table, unconditional entitlement. The latter was the key policy driver in the 1966 Canada Assistance Plan or CAP, which provided fiscal support to the expansion of provincial welfare.

Out of this era came not only bigger welfare programs, but also national medicare, expanded Unemployment Insurance and pension reform. Of the latter three, only pension reform can be counted as a sustainable success. Medicare is narrow in scope and shot through with perverse incentives. It excessively subsidizes what it does cover, is distributionally irrational and is generally heading for fiscal disaster. Unemployment Insurance is politically unstable and amenable to off-loading to provincial welfare.

Only pension reform, relying on a mix of forced savings and targeted subsidies, can be counted as a lasting success. Deep poverty among seniors has almost disappeared, as evidenced by the very small number of elderly citizens on the welfare rolls.

With due respect to those who designed pension reform and designed it well, it must be said that tackling seniors' poverty is a relatively easy task, because, by modern Canadian convention, seniors are not expected to work. Income security for working-age adults (and their dependents) is another matter altogether, because policy-makers are confronted with the challenge of reconciling the tension between security and incentive.

This tension nearly tore the newly expanded Unemployment Insurance to pieces as the program grappled with moral hazard.⁵ In the welfare world, then less in the public eye, the approach was denial. The entitlement theory rested on the ideological belief that people would do the right thing, even if paid to do otherwise. Slowly but surely, as benefits increased in the name of equity and compassion and more demographic groups like single parents were welcomed in, caseloads and costs began an upward trend that would continue for nearly three decades.⁶

The dominance of entitlement thinking, interacting with some very distinct economic and social trends, quickly began to change the face of Canadian social relations, and not for the better. In the early 1970s, two international oil crises touched off simultaneous high unemployment and inflation. Governments responded with countercyclical spending, using borrowed funds. A dependency crisis and a fiscal crisis were, it turned out, very much in the making.

The last vestiges of structural thinking were snuffed for some time to come, to be replaced by a futile vacillation between looser and tighter welfare, interrupted by occasional unhelpful musings about a guaranteed annual income.

While the early effects of globalization undermined protected Western labour markets, some rapid social changes, especially with respect to the status of women, exaggerated the effect of weak social policies. The proportion of economically vulnerable single-parent families roughly doubled to 15.9 per cent between 1966 and 2001, and many of these found their way on to welfare.⁷ Faddish and ill-considered deinstitutionalization released people with disabilities and mental illness into communities with little help to make their way.

These trends came together drastically to increase dependency. By the time of the deep recession of the early 1990s, about one in eight Canadians received welfare benefits. The small last-resort program of the 1960s had become the 800-pound gorilla of social policy, loose from its cage.⁸ Not surprisingly, poverty, and especially child poverty, became prominent political issues.⁹

The rise in poverty was the result of two factors. Working-age adults, pressed to the edges or right out of the labour force by family circumstance and international competition, went into the welfare system for cash and benefits that could often be more than potential earnings. The system's well-documented barriers and disincentives made sure most stayed there.



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Thinking structurally about poverty

For a very brief time, the prevalence of dependency was enough to bring governments together to work on the problem. The normally combative First Ministers took the very unusual step of ordering their respective public services to get together and do something about child poverty, and do so co-operatively. This was the political origin of what would become the National Child Benefit (NCB) initiative, the first structural reform since the 1960s, and the last major social initiative undertaken in Canada.

The NCB was an old idea—very old, in fact—revived for the occasion. In a labour market, workers are paid based on personal productivity, not household need. Except in the most flush conditions, there will be some households—especially those with dependent children—where adult members can work to maximum capacity and still not meet their family’s needs.

There is no effective solution to this within labour market policy alone. Paying differential wages based on need is impractical, and overinflating all wages for the sake of the needy would be irrational and economically ruinous.

The solution that several astute governments across the world arrived at was for government to help offset the difference in costs between low-income families and singles. Getting more cash to poor families is a secondary goal in this strategy. Its main purpose is to increase earnings so that parents can compete with other workers.¹⁰

The new National Child Benefit Supplement that started in 1998 was intended to replace rather than add to welfare benefits for children. The rationale for this was in part fiscal, of course, for to leave children’s welfare in place would be to pay child benefits twice. More importantly, in the long term, shifting child benefits from welfare to the new, income-tested benefit would lower the earnings level parents needed to escape welfare.¹¹ For reasons that will become clearer as I develop this analysis, reducing welfare exit thresholds is critical in helping poor people move from welfare to work, and thus from poor to non-poor.

Parents reacted to the new structure. In my province of Saskatchewan, several thousand single parents—most of whom, ironically, the welfare system had labelled “unemployable”—left the welfare rolls within months. Over the next few years, a smarter benefit system and a recovering economy led to very significant declines in single-parent poverty and dependency across Canada.¹² Multilateral, asymmetrical, messy and actively undermined by Canada’s welfare lobby, the NCB nonetheless changed work incentives for low-income parents. This success story is worth noting, since, from a welfare perspective, this group was considered essentially unemployable.¹³

The NCB worked for single parents because it changed behaviours and modified social relations in a socially constructive way. Because of this, the NCB was and is good social policy.

However, it did not solve all of Canada's dependency problems. A core group of single parents, relatively unmoved by economic incentives and often more than two generations deep in poverty, remains mired in welfare. As well, Canada's backward, passive disability policies sentence so many people with disabilities to permanent poverty and dependency. And beyond minimal welfare support—the economic equivalent of palliative care, some have said—very little has been done for dependent single males, who ought to find self-sufficiency within fairly easy reach.

Poverty is less of a problem than it used to be, which is a good thing, but what to do about the remaining poor? Doing nothing is wasteful, of both public resources and human capacity, but doing the wrong thing, building up welfare, will inevitably roll us back into greater poverty and marginalization. We need a more-inclusive economy, not more people on benefits. Welfare is an anti-market program; what we really need are policies that make the market economy work better for low-income people.

This seems like a tall order, but there is a growing international body of knowledge on how to transform passive social policy to active social policy. Welfare treats the poor as passive victims of circumstance, but whatever the circumstances leading to poverty, an individual's situation cannot be changed without his or her participation. Essentially, personal responsibility has been driven out of social policy. Better policy will bring it back, replacing welfare's cult of victimhood.

Think, if you will, about the relationship between employment and poverty. One often sees arguments from advocates that unfavourably compare benefit incomes with one of Canada's largely arbitrary low-income standards. I cannot help asking myself how these comparisons would look with a day or two's wages in the mix.

This is not to oversimplify with bootstrap attitudes toward the poor. I have argued above that much of the problem is policy driven. We need to appreciate how bad social policy has trapped the poor in a very real culture of dependency. The fight against welfarism is not a campaign against the poor; it is a campaign against misguided policies that keep people poor. Governments must make sure, however, that new social policies keep poor people themselves on the right side of the struggle, doing everything they can to improve their own lives.

To get there, we will need to close off, step by step, the options that welfare has created for voluntary work avoidance. Work is how people meet their needs—and for that matter, their wants. Work pays the rent and the grocery bills and, indeed, the taxes that fund social benefits. Work is good for people, and social policy should aim for more citizens to share in it.

We live in a society, not in personal bubbles, and cross-subsidy is the glue that holds modern societies together. However, in a healthy society, transfers take place in the context of a fair exchange. An unconditional entitlement to live off the earnings of others makes no sense at all, yet we have built just such an irrational entitlement into welfare. The public has tolerated this for decades, but only as marginal policy. As I will explore below, welfare policies that are not marginal are not only unsustainable, they are positively corrosive to economic and social relations.

I do not underestimate the practical challenge of fighting poverty through employment. It will be human resource reclamation, one person at a time. Not every recovery will succeed, especially in the short term. But progress is progress. It took more than 50 years to create the situation we have today. I hope that it will not take us 50 years to undo it, but we must at least be moving in the right direction. As they say, no time like the present, especially when billions of dollars and hundreds of thousands of lives are being wasted by inaction.

We do need to face the fact, squarely and unapologetically, that the change in direction will involve greater compulsion. This is anathema to welfarists, but otherwise a very normal part of mainstream public policy. We do not pay taxes voluntarily or obey the Criminal Code only if we choose to do so. We cannot choose to ignore child-support obligations without consequence. We should not be allowed to choose not to work when options are available, since this choice has social and economic consequences for others.

This is a culture change as much as it is a policy change. Many of the people who now work in welfare-related industries will not be able or willing to shift paradigms. Governments will need the fortitude to shrink old service systems as the welfare population shrinks. In the meantime, new services, driven by new attitudes, will be needed to make employment services effective. These could come from less dependency-oriented parts of the existing public service or built from scratch, inside or outside government.

These changes are necessary if we are to make further progress against poverty. Canada's only recent anti-poverty success did not rely on more welfare; it came about through policies that encourage more work. Building up the welfare system will only serve to reinforce the barriers between the poor and the economic mainstream. Building up welfare and reducing poverty are, in effect, mutually exclusive choices, because there is no way that welfare can raise incomes enough to make a difference to the poor.

Recent Canadian political history bears this out. Political parties whose constituencies include welfare lobbies often adopt, when out of power, welfare-based poverty strategies that they try to implement when in government. They raise rates, loosen eligibility criteria and generally give recipients and their advocates a leg-up over program administrators. In short order, caseloads and costs begin to grow, and the corresponding public backlash leads to a climb-down or a political reckoning.

At the end of this cycle, much public money has been spent and much rancour generated, but little has changed positively for the poor. The public instinctively understands what welfare advocates do not, that welfare is fundamentally bad policy and has to remain marginal to be tolerated.

This sad cycle should be broken. Some redistribution is necessary in a market economy, but there are many ways to redistribute income. Welfare is the worst way, because it undermines incentives and leads to wasted human capacity. Welfare simply cannot deliver the outcomes that anti-poverty advocates seek.

Poverty and citizenship

In all areas of public policy, special interest groups attempt to influence government policy. This is no less the case in social policy, where lobbying often takes the form of public advocacy. Social advocacy, however, does not always promote good social policy nor does it necessarily help clarify issues that governments need to address.

For one example of this problem, take the common claim that poverty in Canada is increasing. There are many ways to define poverty, but it is difficult to find any real evidence that it is increasing. In fact, by all the major measures, poverty in Canada has been going down gradually over the past 15 years, not up. For some demographic categories such as single parents, the improvement has been dramatic.

Part of this is because government income guarantees have also been increasing, especially for families. In my home province of Saskatchewan, for example, a single parent with two children and no earnings qualifies for approximately \$28,000 a year in public subsidy for basic needs.¹⁴ Employment rates among single parents have also risen in the post-NCB era, which is an extremely positive development.

If poverty in general is going down, and if there is essentially no deep poverty, why is there so much effort to convince people otherwise? Far too often, I see cherry-picked numbers, inaccurate comparisons, exaggeration of statistically insignificant changes, leaps of logic and other misuses of statistics to support advocates' arguments. Some measures, such as the before-tax Low income cut-offs (LICO), are so routinely abused as to suggest that it would be better if the statistics themselves were discontinued.

Unfortunately, there is little to stop interest groups from manipulating public opinion. The public media, which often accepts and propagates advocates' claims quite guilelessly, has little social policy expertise. It is one thing to have a sincere concern about some aspect of social policy, but quite another to set out to create a false sense of crisis as a fundraising device or to increase pressure on governments.

It is also important that we keep the nature of poverty in Canada in perspective. An income guarantee from the state, such as the \$28,000 cited above, is a significant investment of public resources in a non-working household.

Because Canada has a welfare system (unlike most developing countries), it has effectively no destitution. Those in Canada who are called poor are those who fall under one of several largely arbitrary income standards, virtually all of which are relative rather than absolute standards.

The poverty debate is therefore more about inequality than want. It is reasonable to be concerned about extremes of inequality, which can have negative consequences for any society, but we need to be aware of logical absurdities. Many groups that support the LICO as a poverty measure also use slogans such as "Zero Poverty!" Achieving zero LICO poverty would mean we would all have the same income, an outcome that is neither attainable nor desirable as a model for society.

Even if we grant that less inequality is better than more inequality, that tells us little about how to get there. We have had more than half a century in which the

predominant theory has been simply to give more money to the poor. Canada already spends about 60 per cent of government revenue on social programs, broadly defined.¹⁵

If we do continue to have a serious problem with poverty, or indeed with inequality, it is difficult to see the scope for dealing with it exclusively, or even principally, through more government spending.

Governments have to reconcile competing demands for money. In Canada, there are many pressing needs, not so much in social programs but in all other areas of government function, particularly infrastructure. Misleading or manipulative advocacy is not just harmless hyperbole if it causes governments to make unwise choices. Surely, the issue is smarter social policy, not more of the same. As in all public policy, social policy decisions ought to be made with clear heads, because bad social policy choices affect us all.

I obviously abhor sensationalist or emotional arguments about poverty, but I do consider economic marginalization to be a significant problem. The relative concentration of poverty and dependency among Aboriginal people is, to my mind, unfinished business of nation-building. I am concerned that too many of my fellow citizens do not achieve the quality of life they could. I am distressed at the unfairness and illogic of social policy that sustains a chronically workless underclass, even in conditions of high labour demand. The question, of course, is what can we do differently with public resources to produce better outcomes?

The concepts I find most useful in understanding social issues relate to citizenship, not as a set of substantive entitlements, but as a relationship between the individual and society. Entitlement views are unhelpful, because the entitlement of one citizen is a disentanglement of another. If citizenship is a one-way street, society quickly degenerates into an unstable and unsustainable tangle of competing cross-claims.

At the simplest level, governments are a means to reach into some citizens' pockets for resources to give to others. Some of this social transfer is necessary to hold a society together, but the nature of this social exchange must be fair and logical. An individual who consumes public resources should do so in the context of a social contract that offers a reasonable promise of mutual benefit for the individual and the collective.

This is my perspective on public investment in an individual. The individual's claim to public resources is not a birthright or a gift from the gods; it is a social exchange of goods. Applied to income-security programs, a public investment in the development of an individual's human resources brings personal benefit to that individual, and it brings benefits to all citizens—dependency-cost avoidance, a stronger economy and greater contributions of an employed adult to a local community.

This perspective leads me to conclude that anti-poverty policy has to be about more than just society's obligations to its poorer citizens. The real goal must be the alignment of the interests of the low-income citizen with those of society, and the main way to do this is to create terms for the social exchange that are transparent, defensible and beneficial for both.

Work versus welfare

A central argument of this paper is that governments should pursue a vigorous employment-based poverty strategy, because to do so creates a public and a private good. I would argue that it would also create conditions for more fundamental reform of income-security policies. An examination of the history of basic income-support programs in Canada, I believe, supports such a contention.

As I have noted, pre-war Canadian governments were cautious with respect to entitlements, because they were concerned about moral hazard, the potential to undermine work incentives and the risk of uncontrollable costs to government. These concerns were not effectively resolved when Canada ventured boldly forth into the welfare era in the 1950s and 1960s. Rather, they were set aside, in an optimistic and expansionary era, in favour of a belief that human beings, at the end of the day, do not need incentives to do the right thing.

Looking back on the welfare era, it should be evident that this was an idealistic misjudgement of human character. Economic rationalism does not completely explain the world, but in general and over time, people tend to respond to incentives and disincentives. If the state chooses to pay citizens not to work, the result will be more people not working or working less.

Paying people not to work is what the welfare system is all about, and that is its fatal flaw. Pretty much everyone who succeeds in life does so by working, yet it is common to hear advocates claim that the poor should not be expected to work unless they can work at so-called good jobs, because low-wage employment is, in their view, exploitation.

I find this perspective hypocritical. Few of those who advance such ideas would find a life of inactive dependency acceptable for themselves or their children.

As I have said, I think any honest work is good work. It is far better for the individual as well as society for someone to apply himself or herself to the work they can get rather than rely on the effort of others. If a life lived on welfare is a blow against capitalism, as this line of reasoning implies, the poor person is the hammer, not the bearer of the weapon.

We should also look more closely at the idea of good jobs. Say the labour market is crying out for more operating-room nurses, high-crane operators and pipeline welders. What value would such highly skilled (and highly paid) work opportunities be to people at the margins of employability? Long-term workless adults need low-skill work, no doubt with low initial pay, to get started in the work world. A starter job gives a person a place to build a work history and to develop the skills that lead to higher pay. The low-skilled entry-level positions thus dismissed so contemptuously are actually the poor person's best chance for a better life.

Work and reward are what make the world go round. This is true of every form of social organization that humans have tried. The characteristic that most defines Canadian poverty today is not a lack of money but rather a lack of access to the benefits of work. Welfare is not good for people but work is, and not just in terms of income.¹⁶ Work is one of the most important ways to make a good life for ourselves, to build our self-esteem and our standing in a community. To expect less for poorer citizens—in fact to bar them from it through bad social policy—is simply wrong.



“ If a life lived on welfare is
a blow against capitalism,
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Inherently marginal policy

I have referred to the core belief of the welfare era that incentives are irrelevant and fighting poverty is purely a matter of the redistribution of wealth. This belief underlies the routine advocacy calls for public benefits that are keyed to some normative standard such as the average industrial wage or the LICO. This perspective has many problems, an important one of which is that welfare is a demographic program that must be looked at in the context of the distribution of market income among the general public.

Welfare operates on a budget-deficit system. The benefit rate set for a given household type is the desired minimum target income. In the purest of welfare programs, when a household has non-benefit income resources, they are compared with the rate, and the difference paid as benefit.¹⁷

If a notional benefit for a household is \$1,000 per month, every similar household with earnings under \$1,000 has a potential entitlement. Not all who are entitled will take up the benefit, of course, but some will. Raise the rate to \$1,500, and everyone with earnings under \$1,500 potentially qualifies. Welfare rate increases move the program's entry point up the income curve, qualifying everyone in those income cohorts and below.

A detailed demonstration of this phenomenon would require matching specific welfare rate structures to detailed income distributions of household types, which is nearly impossible with current public data sources. The representation in Chart 1, which plots the reach of notional welfare rate levels against a real income distribution, should serve to illustrate the problem.¹⁸

The leftmost vertical bar divides the income distribution at a notional welfare rate of \$10,000 per year. Simply counting the numbers in cohorts below this level, we can see that approximately 47 per cent of the population is potentially included in the scope of welfare. If we raise the notional benefit to \$20,000, represented by the middle vertical bar, we can see that 58 per cent of the population has a potential entitlement. The rightmost vertical bar is set at \$30,000, with a 67 per cent potential entitlement.¹⁹

This illustrates that there are severe limits on how far any government can go in raising passive welfare benefits relative to market incomes. If benefit increases outpace market incomes, the relative value of work and benefits changes, creating an unfavourable shift in the overall economics of the community. The number of dependents relative to workers will rise, and the incremental value of work over benefits declines. This is a formula for social and economic disaster.

In the context of this understanding, consider the common demand for a government income guarantee at or above LICO. Such a policy would create an income entitlement for more than half the population, the economic and social danger of which should be clear to all.

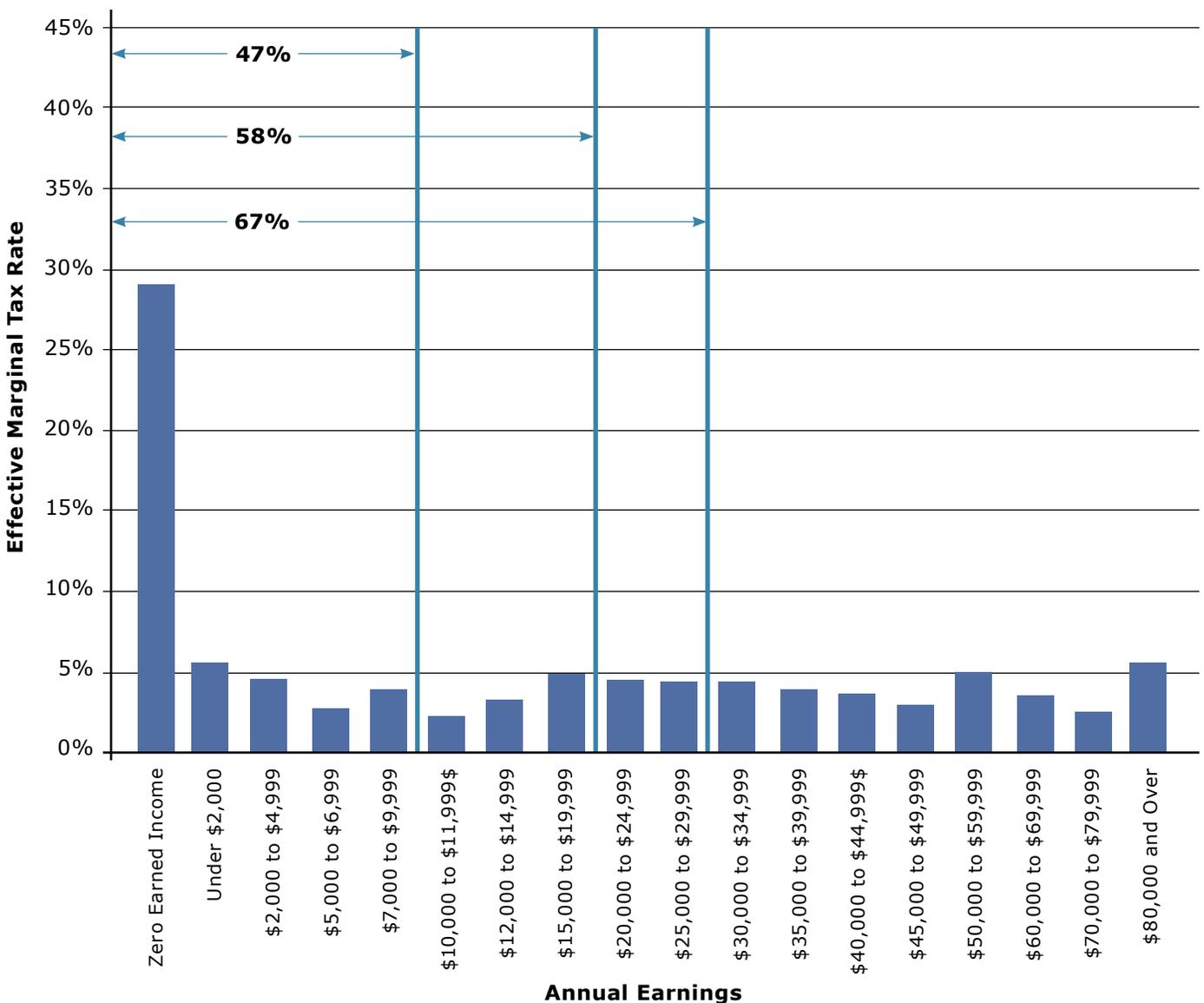
This example reveals, in effect, the microeconomics of the welfare pendulum. First-term New Democratic Party governments in British Columbia and

Saskatchewan and sequential Liberal and NDP governments in Ontario built up their welfare systems significantly, both in terms of rates and eligibility standards. In each case, a predictable backlash from the public led to subsequent climb-downs, and in Ontario’s case, a political defeat.²⁰

For those who may still hope to defeat poverty through more welfare, the way many people hoped in the 1960s and 1970s, the unavoidable conclusion is this—you can’t get there from here. Advocates who are serious about reducing poverty must learn to think beyond the welfare paradigm for solutions. Otherwise, they push governments toward unsustainable policies that will squander both public money and the life potential of the poor.

CHART 1

Earned Income and Welfare Entitlements



Loading and unloading the welfare trap

Once people find themselves inside the welfare system, it can often be quite difficult to escape. Some reasons are obvious: demoralization, deteriorating skills, declining workforce credibility, etc. However, governments make policy choices—usually well-intentioned—that actually make it harder to get out of welfare and into work, which is what people need to do to improve their lives.

A major factor in the welfare-to-work transition is the size of the overall welfare benefit, as this benefit level determines how much net earnings a household needs to reach to get off welfare. Understanding this factor is critical to good systems design, because it should dictate design choices when governments set out to manage earnings for adults while they are still on welfare. There are many helpful ways to increase net returns from employment, but none of them is within the realm of welfare policy.

The earnings escape threshold is the net earnings level required for a given household to reduce welfare benefits to zero. This is an important concept for understanding the relationship between welfare and work potential. Chart 2 (next page) illustrates some examples of different welfare scenarios and their effect on escape thresholds and employment prospects. The vertical axis represents monthly benefits and the horizontal, monthly net earnings.

In a pure welfare system, every dollar of net earnings would offset a dollar's benefits. Thus, if we look at vector AA in Chart 2, we can see that in a household that qualifies for a notional \$1,000 benefit, the adult earners would need net earnings of at least \$1,000 to escape welfare. Below this level, there is little economic reason to work, as benefits are reduced dollar for dollar. If benefits increase to \$2,000, the disposable income dead zone would increase accordingly. The higher the welfare benefit, in short, the harder it is to get off welfare, and thus the harder it is to benefit from one's work.

Can welfare policy fix this disincentive problem? The most common attempt to do so is the earnings exemption. Let a recipient keep some earnings while on welfare, it is argued, and he or she will be encouraged to work. This is, unfortunately, almost completely untrue. To understand why, we need to look at earnings

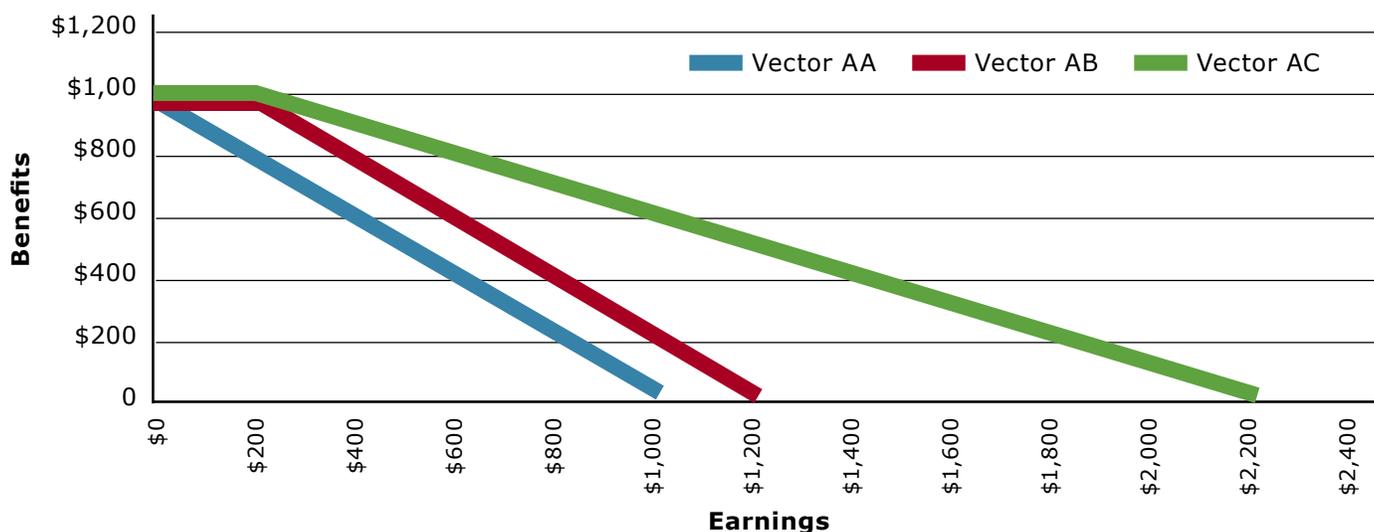


... [the size of] welfare benefit ...

this level determines how much net earnings a household needs to reach to get off welfare.

CHART 2

Earnings Exemptions and Escape Thresholds



exemptions from the perspective of escape thresholds.

Consider what would happen if we were to allow the recipient in our first example to keep, for example, the first \$200 per month of net earnings. This is a common welfare approach to earnings.

This scenario appears on Chart 2 as vector AB. Because the recipient can keep \$200 of earnings, he or she can now have a maximum disposable income while on welfare of \$1,200—that is, \$1,000 from benefits and \$200 from retained earnings. This is obviously better than \$1,000, but there is no economic reason to earn more than \$200 unless the person can jump straight to the escape threshold in one leap.

But this escape threshold is no longer \$1,000. As one can see from Vector AB, because of the \$200 flat exemption, the escape threshold is now \$1,200. Therefore, for the sake of \$200 per month more in disposable income, the policy has made it an equivalent amount harder to work one's way off welfare.

To continue the analysis, I add another common welfare policy intended to address the dead zone of disposable income, the proportional earnings exemption. Let us say that in addition to disregarding the first \$200, the program now exempts 50 cents on the dollar of additional earnings. Vector AC represents this scenario.

In this case, the recipient household sees a gradual rise in disposable income as earnings rise over \$200, but the program is taking back half of the after-tax earnings.

The earner's actual tax rate on earnings is more than 50 per cent. Considering that Canada's richest earners pay less than 50 per cent income tax, the work incentive for our beneficiary while on welfare remains, at best, muted. Of course, there is no alternative, for without benefit reductions with income, welfare becomes a universal benefit, not targeted income assistance.

To regain a substantive incentive, as in previous examples, this individual needs to get over the earnings escape threshold and right out of welfare. As Chart 2

shows, however, because of the addition of the 50 per cent exemption, the escape threshold is no longer \$1,200 per month but \$2,200, because \$2,200 of earnings are now needed to reduce the initial \$1,000 benefit to zero.

The exemption approach imposes a trade-off: minor net income benefits from marginal, casual employment while on welfare in exchange for much-reduced prospects for leaving welfare. To my mind, this is an extremely poor bargain.

This is a poorly understood factor in welfare design. Attempting to reward work from inside welfare programs does much more harm than good to recipients' prospects for a better life through employment. The design goal must be to make welfare as compact as possible so that it is as easy as possible to work one's way off it. Again, there are many possible ways to get money to people. Welfare is the worst.

When government commits both errors, building up benefit levels and adding exemptions, even worse results occur. At the risk of unfairly isolating one province (since all do more or less the same wrong thing), Alberta's Assured Income for the Severely Handicapped (AISH) illustrates the point well.

AISH is a categorical welfare program often misdescribed as a disability pension. Unlike ordinary welfare, AISH pays base benefits similar in amount to the seniors' income guarantee, and it exempts more earnings than most welfare programs do. The result of the high benefit and "generous" earnings exemption is that a single AISH recipient would have to earn \$25,000 or more to benefit substantially from work.

This is not an issue if we assume, a priori, that disability and unemployability are the same thing. Tell that to Stephen Hawking, however.²¹ Disability policy should be about realizing human potential. Programs like AISH, well meaning as they might be, are actually dependency traps from which few, if any, emerge.²²

The illustrations above have to do with the scope of welfare, which is an important issue in social policy. Contrary to many advocates' demands, however, a narrow scope is much better for the poor—and for society—than a wide scope. I have illustrated this point as it pertains to working one's way off welfare. A further reason a narrow scope is better is that the higher the reach of welfare, the greater are its interactions with the tax system and with other more broad-based social programs.

Benefit reductions and taxes are really the same thing, since they both reduce net earned income, and when they occur simultaneously, they are additive. The additive effects of tax-backs and taxes can lead to some extreme disincentive problems, and the management of this interaction is very important to social policy design.

A common analytical tool for understanding the overall impact of taxes and benefit reductions is the effective marginal tax rate (EMTR). In its purest form, the EMTR, calculated at any given income point, is the cumulative disposable income loss on the next dollar of earnings. Since this is very difficult to calculate precisely, and it is essentially impossible to display, for our purposes, I have simplified the concept to the impact of increments of \$2,000 in earnings.

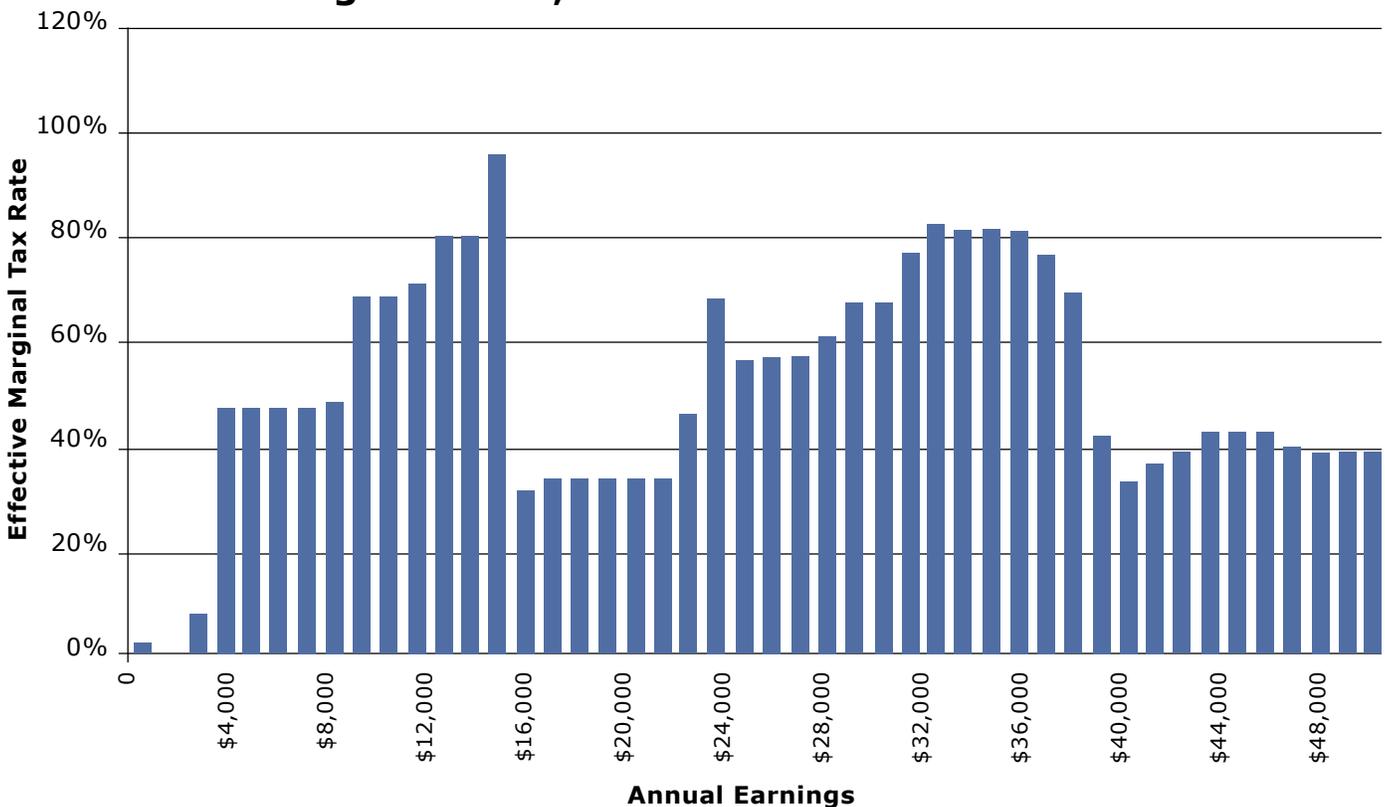
Chart 3 shows an EMTR model for a single-parent family with one child in a Canadian province. The underlying program rules and taxes are real—or at least they were in 2010. This analysis shows the extreme impact on incentive that welfare program interactions and overlaps generate. In this case, EMTRs over the welfare eligibility range to almost 100 per cent, decline through the low-income earning range (not a bad thing), then rise again from approximately \$20,000 to, at points, over 80 per cent.

One can compare an EMTR profile to a half-empty tube of toothpaste with the cap on—one can push the toothpaste (and the taxes) up or down the tube, but the quantity of toothpaste remains the same. A tax-back foregone at one income range must be recouped at another. The skill of good program design is EMTR management, which generally requires choosing relatively empty tax-back ranges to recapture benefits.

Many newcomers to integrated tax analysis are outraged to realize that, counter to their expectations of a progressive tax system, the poor generally pay higher tax rates than do the rich. There is no simple solution to this, save the drastic one of not paying the benefits in the first place. High taxes on the poor are, in effect, an unavoidable consequence of providing an income guarantee for citizens.

CHART 3

Effective Marginal Tax Rates, Single Parent, One Child



Toward a solution

If not with more welfare, how do we further reduce poverty? The answer is easy to state and harder to accomplish, but a solution is achievable. The key is simply to increase employment levels among low-income citizens.

To make this happen, first the income scope of welfare must be narrowed. This can be done by cutting benefits, as some jurisdictions have occasionally done, but another proven way to accomplish this without reducing benefits is to replace parts of the welfare system with employment-friendly alternatives—in other words, use the NCB model.

This will accomplish two things: It will lower welfare escape thresholds, and it will move public subsidies from passive to active measures that support employment outcomes.

The substitution approach often widens the scope of subsidy in the sense of reaching more households, but it makes it shallower in the sense that each household will require less subsidy. The new policies will encourage earnings. This is a social leveraging strategy that uses benefits to induce behaviour change.

Welfare itself, or whatever replaces it in future as basic income support, must be designed as part of an overall benefit system. The basic core benefit should be minimal, with other social transfers made portable into low- and medium-wage employment. In addition to encouraging work, this approach stabilizes the financial circumstances of low-income households, making them better able to weather short-term problems without falling back into welfare.

Low-income households will benefit from this type of active social policy, as will society as a whole. More low-income people will be working. They will have higher incomes, better health outcomes and improved status in their communities. Costs to the taxpayers will be lower, and a bigger, more capable labour force will help the economy grow over the longer term.

Critics will hasten to argue that this strategy depends on the availability of jobs to accommodate new workforce entrants, which of course is true. Canada's economy is very uneven on a regional basis, with boom times in some provinces and recession in others. Booms and busts, however, come and go. Maximizing workforce participation should be a permanent public policy goal, pursued in good and bad economic times.

The Deconstruction of Welfare

One important fact must be clear in developing anti-poverty strategy. Welfare is part of the problem, not part of the solution. Welfare creates and sustains inactivity, with harmful outcomes for individuals and society. Where Canada has made progress against poverty, it has been by reducing the scope of welfare, not by increasing it. I hope this paper encourages some governments to think strategically about low income and poverty rather than accepting the status quo welfare frame of reference.

Each Canadian jurisdiction is different, so there is probably no single reform program that will work everywhere. Based on my experience, however, I can suggest some general approaches that I think are applicable everywhere.

Reduce the Scope of Welfare

As I have said, reducing the scope of welfare is Job 1 of reform. Core income support should focus on basic subsistence benefits, with all the ancillary benefits attached to current welfare programs removed. The kind of benefits that should be removed from welfare are housing benefits, single-parent supplements, special needs benefits, child benefits, earnings supplements, disability payments, health benefits, etc.²³

The reason for stripping non-core benefits out of welfare is to reduce the attractiveness of welfare over work and to make it easier to get off welfare through employment. Whatever governments choose to subsidize beyond subsistence benefits (which should be quite hard to get) should be through work-friendly programs outside welfare.

At the end of this reform process, the welfare system would still have its central role, which is to prevent destitution. All policies that aim to reduce poverty should be vested in other programs that are, if not work-friendly, at least neutral to labour-force participation. Basic welfare benefits must be low enough to be exceeded by the kind of wages that are within reach of welfare recipients.

I would re-emphasize my belief, based on experience, that if we ignore this aspect of reform, there is little likelihood of success through other measures. The deconstruction of welfare is a key link in a real anti-poverty strategy.

Impose Real Employment Tests

There are exceptions, of course, but too many welfare programs pay only lip service to employment expectations. Rigorous employment testing must become prominent, consistently enforced and part of the program culture for applicants, the staff and management of agencies responsible for basic income-support.

That is not usually the case today. Income security administrators spend most of their time wrangling very complex program rules and fending off (or facilitating, depending on personal inclination) attempts to get more out of the system. The idea of a welfare worker helping people get jobs is largely a myth.

Most welfare administrators are not, for that matter, social workers. Even if they were, more of the traditional practice of social work is not what is needed. Successful work transition programs must deal realistically with personal barriers to work and develop work culture so a dependent adult can get and keep a starter job. The best of such programs resemble reality therapy more than social work.²⁴ Many social workers and people in social work roles are ill-equipped, by training or inclination, for a role that bridges the gap between potential workers and employers.

I have said that welfare should be hard to get and hard to keep. The welfare era has proven in spades that unconditional entitlement does not work. Governments should openly embrace conditionality as a good and necessary thing and have the courage to enforce it if they are serious about fighting poverty.

Subsidize Work, not Inactivity

Governments, like people, tend to get what they pay for. In the welfare era, in the name of fighting poverty, governments created elaborate and expensive systems to pay people not to work. The result was a chronically unemployed class of citizen trapped by public policy within a form of state charity—demoralized, deskilled and discouraged from pursuing its own best interests.

The welfare era habits are deeply ingrained in social policy culture, and it will take a type of behavioural audit to root out perverse incentives of the sort that underpin the current system. The growing body of international experience should help. Canada already has some behavioural social policy in place. The NCB program is one. Many governments have implemented some form of non-welfare wage supplement. These programs are incremental steps to a strategic realignment of basic income support.

Some claim that in-work subsidies are a subsidy to employers, not households. I find this argument unconvincing. One could equally argue that public investment in health care, for example, is a subsidy to employers. Proper program design can easily manage most risk of benefit leakage to employers. In particular, it is important that in-work subsidies should go directly to households and not through employers.

Protect Entry-level Jobs

One of the most common criticisms one hears of employment expectations for welfare recipients is that no one should be expected or required to work unless there are “good jobs” available. On the face of it, this attitude reflects a disdain and disrespect for the social value of those who perform honest, albeit relatively low-paying labour. It also implies that low-income adults are better off on welfare than in a job, which is untrue in almost every respect.

In fact, low-skilled and low-wage work is often the only reachable goal for welfare recipients, most of whom would enter the workforce from a marginal position. What welfare recipients need is not “good jobs” but entry-level jobs that do not require high levels of education, job skills or experience.

Entry-level jobs pay entry-level wages. If they did not, they could not exist. Currently, welfare policies encourage adults to choose benefits over entry-level work, leaving entry-level jobs to be taken up (usually eagerly) by the teenage children of the middle class. The jobs teenagers cannot fill are increasingly exported to lower-wage economies or replaced by technology.

The public policy challenge is to manage the microeconomics of low-skill work without unduly distorting the labour market. Entry-level jobs cannot provide middle-class comfort at Canadian standards. However, entry-level employment is usually a transient state, the base upon which new workers build the skills, work habits and experience that will increase their earnings over the longer term.

Governments can and should take steps to make entry-level work more attractive to low-income adults. Benefit systems as a whole can be designed to ensure that disposable income from working is higher than welfare benefits are. Well-designed social subsidies can also make certain that low-income working people achieve a socially acceptable standard of living.

Avoid Wage Regulation as Social Policy

Some interest groups think that a higher minimum wage forces employers to redistribute businesses’ revenue in the workers’ favour, and, therefore, higher minimum wages will reduce poverty. There are a number of serious flaws in this logic.

The first is that the core problem is not the working poor but the workless poor, so in the first instance, minimum wage simply misses the mark. The real “low-hanging fruit” in anti-poverty policy (to torture a cliché) is to turn the work-capable poor into workers. For this, minimum wage is counterproductive, because raising it—at least raising it faster than market wages—will reduce entry-level employment, which will reinforce rather than reduce poverty.

Why will entry-level jobs disappear? In short, an uneconomical job cannot exist, at least not for long. If government regulations (as opposed to market forces) increase wages, only a few things can happen. Prices will rise where markets will bear, with consequences for everyone but especially those on fixed incomes.

Where market conditions prevent price rises, low-skilled work will be exported to lower-wage economies, or business process improvement or technological change will reduce employment.

The other significant problem is that most minimum-wage earners are not actually poor. There are, no doubt, some hard-working breadwinners stuck in low-wage employment for life, but they are relatively rare. Studies show that most minimum-wage earners are in non-poor households or at worst are in a transitory and voluntary state of low income. A 2004 Statistics Canada study using data from the Labour Force Survey described the majority as young (two-thirds under 25), single, working to pay for their education and, in nearly two-thirds of the cases, living at home with their parents.²⁵

It is not within the scope of my experience to comment on minimum-wage regulation as an economic management tool. Forcing up wages through regulation in the name of poverty reduction, however, is clearly wrong-headed.

It imposes costs across the whole economy in order to help only a small number of working poor, while reinforcing the poverty of a larger number of non-working poor. The real politics of minimum wage today is surely more about the votes of middle-class parents than about bettering the lot of the poor.

Support Flexibility in Child Care

The availability and high cost of regulated, institutional child care is commonly cited as a work barrier for low-income parents. This is only partially true. Some parents need paid child care, and the cost is certainly burdensome even for better-off parents. Licensed institutional care is usually the most expensive option, however, and not many parents actually need this type of child care. In fact, only a small minority actually prefers it to other options when given a choice.²⁶

It can make sense for governments to assist low-income parents with employment-related child care, but it does not make sense to restrict those parents' choice of care. There is no real scientific evidence that favours one care format over another in terms of child outcomes. The licensed care lobby, which exerts a virtual industry capture over public policy, has pushed governments to limit or suppress unlicensed options while demanding stronger regulation and higher wages in the licensed sector, which reduces supply and pushes up costs. This hardly serves parents' best interests.

Support Households, not Houses

Housing support is another issue for debate in formulating anti-poverty strategies. Shelter is a basic life necessity, and the economics of shelter can be a big challenge for low-income households. This is especially the case in markets like my home province of Saskatchewan, where housing demand from a strong economy is running headlong into the effects of policy that has suppressed rental-housing supply for decades.

Again, I would argue that public subsidy can be an appropriate way to address this aspect of the poverty challenge, but subsidy form and design are crucial. I would advise against further investment in social housing, by which I mean government-owned housing units. Social housing as policy has generally done more harm than good. It ties up public money for decades in investments that often turn out to be bad deals—such as Saskatchewan’s rural social housing push in the 1970s—that burden taxpayers with expensive white elephants.²⁷

Social housing is also the most expensive way conceivable to help an individual household. The most efficient approach is usually household subsidies for private market rentals, where hundreds, if not thousands, of low-income households can benefit for the cost of one new social housing unit. If properly designed, rental-housing supplements can empower tenants in the marketplace and reward landlords who supply better-quality units. Governments would be wise, if entering into supply-enhancement programs, to consider capital subsidies for market housing units.

Work-based Human Resource Development

The threshold of employability in the labour market naturally rises and falls with changes in the balance of labour supply and demand. Whatever the labour market conditions, however, governments need to work on the same problems—helping individuals with little or no successful work history improve their work habits, work ethic, literacy and numeracy so that they will be minimally acceptable to employers.

We have in the past favoured educate-first, credential-oriented approaches such as adult basic education. These approaches easily become institutionalized and disconnected from the real needs of people who are building employability. Completion rates and value-added are usually low. Such programs often decay into yet another element of the welfare system rather than an alternative to it.

On the other hand, work-first models that build human resources on the job have shown more promise. U.S. research in the follow-up to mid-1990s welfare reform shows rather clear evidence that, overall, work-first strategies are superior to educate-first approaches.²⁸ Work-based strategies for entry-level employment, based loosely on the trades apprenticeship model, are becoming more common, and pending further rigorous evaluation, appear to offer potential for good results.

These approaches are about work outcomes, not credentials. Workers who have basic employment literacy and numeracy can, if they wish, raise their formal education levels once they have established themselves in the labour force. In my part of the country, I have heard complaints about young men who leave high school to work in the oil patch. Those who do so, and who can mind their money, commonly enough return home in their mid-twenties and buy large houses, often for cash. Not every “undereducated” person will be so fortunate, obviously, but the point is success in life, not credentials.

Better Employment Services

An employment-based anti-poverty strategy depends on matching the skills and abilities of would-be employees to the employers' needs. Employers will, of course, be more prepared to adapt to employee shortcomings in periods of high labour demand, but from an anti-poverty standpoint, the basic task of governments is the same in conditions fair or foul—to help as many low-income people as possible get and keep jobs.

Without tarring with too broad a brush, Canada's traditional employment services are not generally very good at this task. The federal employment service that grew out of Unemployment Insurance was designed to help mainstream workers deal with frictional unemployment, not to reclaim marginalized human resources. Its provincial successors have generally not been able or willing to shift focus enough to be effective with people who need more help. They tend to be, in short, employment services for people who do not really need employment services.

In their present form, these employment services add little value to an anti-poverty strategy. A new model of employment service is needed to create a bridge between people needing jobs and employers needing workers. Staff in such programs will need the outlook, skills and determination to help both parties meet their needs.

Relentless Optimism

Many advocates see the poor as victims of social forces who are in their situation through no fault of their own. Whether that is true is not, however, relevant to what is necessary to fix their situation. If we were to examine in detail the life course that leads to dependency for a given individual, we would usually see not just a bad start and unlucky circumstances, but poor choices and personal failures at key points in life. We cannot change the past, but we can change the future.

We know that, in general, people tend to rise and fall to expectations of them. Treating people like passive objects of state charity causes society to write off their human potential, thus grinding down their hopes and expectations so that they become content with unsatisfying lives. Such institutional pessimism that consigns young working-age adults to welfare or people with disabilities to pensions is one of the saddest legacies of the welfare era.

Our policy and program culture need an institutional culture change that bases policy and programs on positive, optimistic expectations rather than expectations that generate defeat among people that already are at a disadvantage.

Consider people with disabilities. In the disability world, it is common for people to speak of citizenship, of full participation in society, of realizing human potential. Many lobby groups, however, continue to press governments for higher passive benefits and the build up of programs that reward demonstrated incapacity. As a result, caseloads continue to rise in virtually every passive, work-discouraging disability program in the country.

This is a concrete, specific example of how attitudes, reflected in policy, negatively affect life outcomes.²⁹

Institutional attitude will also be important when it comes to the matter of dependent single men who, with the decline of single-parent dependency, make up a growing proportion of welfare caseloads. I have seen and heard the arguments that this group is overwhelmingly mentally ill, and, therefore, there is little to be done except maintain them on welfare indefinitely.

In my view, this is another example of the curse of low expectations. Mental illness per se is poorly understood and its diagnosis and treatment sometimes rudimentary. Many single people in welfare programs could be better classified as anti-social rather than mentally ill. Some are, to borrow a British term, simply “work-shy.” Whatever descriptor applies, it is counterproductive and wrong to write off dependent single men as we have written off so many in the past.

We cannot quantify the motivational element in life success, but we know it is critical. Rules-driven programs have a lot of trouble distinguishing “can’t” from “won’t”. When we let people define themselves as can’ts we create a potential sinecure—albeit a very modest one—for the won’ts. This is how we developed this troubling and often troublesome underclass. Just as it is often possible to prove oneself disabled enough to get disability benefits, it is also quite possible to behave madly or badly enough to avoid work expectations.

There is no defence against this except unflinching optimism, even when people do not have faith in themselves. Success is a continuum, and steps along the continuum bring real benefits. We need to learn, in program terms, how to take people from wherever they are to somewhere better, to count our success and then start the process again.

Conclusions

This analysis has focused on welfare as historical error, a very large and costly error in terms of wasted fiscal resources and lost human potential. Passive welfare systems have not only failed to eliminate poverty, they have created and sustained a class of citizens who are economic wards of the state, largely barred from personal economic advancement and the opportunity to become respected, productive members of their communities. This is the opposite of the original intent of modern social security programs, for it has fostered voluntary idleness coexisting with poverty—the two dragons of my title.

Canada, like most developed Western nations, struggled throughout the 20th century to find policies and programs to manage the involuntary social risks associated with advanced industrial economies. Managing them has been a learning process for government, to say the least. I think it is past due for us to reflect seriously upon how we approach the social risk of income needs, to learn from our own and other countries' mistakes and to move on to better policy.

The short NCB development era excepted, Canadian governments still seem disinclined to challenge welfare lobbies that sustain our passive entitlement system. It may be possible for us to continue to stumble along as we are, with welfare as marginal, if unproductive, policy. We will not, however, make further progress against poverty or economic marginalization, because welfare does not provide us with the tools.

The status quo is not that comfortable from a fiscal point of view. A significant amount of overall government tax revenue—just over \$12-billion in 2008 by one federal estimate—is tied up in welfare programs.³⁰ Given other cost pressures on government—infrastructure, for example—it seems important to explore alternatives that could produce better outcomes for less money.

In attempting to make better social policy, one pitfall to avoid is the trap of “welfare reform” thinking. Welfare so chronically irritates the public that the need for its reform hardly needs explaining. Welfare reform can fit easily into political programs. However, welfare has been in reform for decades, and yet welfare is still welfare. What we need is not welfare reform but the creation of new programs that are not welfare and do not look like welfare.

Another shift in thinking involves encouraging program take-up. Active social programs must be used to be effective, unlike welfare, which we instinctively try to minimize. New programs must be aggressively marketed, promoted and made attractive to potential participants outside the welfare system. This is a difficult shift in outlook for governments, but a necessary one. Spending on well-designed active programs is not a social burden but an investment in economic participation that will lead to longer-term savings.

It will be important to break free of the social casework model that is closely linked to welfare. We need to replace the paternalism of welfare with the dignity of an adult relationship of mutual obligation, the exchange of personal benefit

for social good. However skilled the professionals involved in this process might be, they will no doubt come from a different culture, and they will be much more focused on hard outcomes than has been the tradition among social workers.

I have not spoken much to administrative models in this paper, but I do think administrative culture is important. While this subject certainly deserves its own treatment, suffice it to say, for now, that I think that administrative culture has to reflect and support policy. The administrative culture of welfare, with its intrusive micromanagement of the poor's lives, has been one of its most damaging features.

I have advocated a hard-nosed approach to enforcing work expectations. This does not require complex rules or intrusive administration; it requires the will to say "no" when behaviours do not conform to society's expectations. This can be done at the gateway to a simple program as easily as at the gateway to a complex one, at far less moral and fiscal cost.

People with a stake in the status quo will resist this enormous culture shift. In my estimation, the best tactic for governments is to build new programs from scratch, with a defined plan for reducing or winding down the old. New programs should be based on the mainstream model—an assumption of rules compliance with a risk of heavy penalty for non-compliance. Naturally, there is ample room for modern technology in the administration of a new social policy.

I think it is important to take a broad view of social policy as it relates to where our country is going in the world. Right now, Canada supports voluntary worklessness while at the same time importing labour to meet demand. This is good for would-be immigrants from poorer countries, and in the short term, it is good for Canada to have energetic newcomers to meet our workforce needs.

But as *The Economist* perceptively observed in a U.S context, this is a type of societal Ponzi scheme that requires new "investors" in order to pay off existing "investors."³¹ It will collapse when those countries that now feed us their human resources no longer need to do so. Many parts of Asia are well on the path to development, and Africa will not be far behind.

I do not have all the answers to better human resource management, but I know we are wasting human resources. Fixing this problem would be a step toward a more sustainable Canada over the long term.

One other important subject has been only obliquely touched upon. Were my advice followed and welfare deconstructed with vigour, what would basic income support look like at the end of the process?

Good policy intentions in welfare are always confounded by the moral hazard inherent in the model. The tangled rules and ponderous administration systems of welfare were developed in a vain attempt to control abuse by those with other resources and options. What if voluntary dependency essentially disappeared from the Canadian social policy landscape?

We can presume from experience that the number and proportion of people depending on these programs would be much less than today. My best guess, without a great deal of empirical foundation, is 2 per cent to 3 per cent of the

population. They would be citizens who are fully engaged by active programs aimed at maximizing their potential in life but whose incremental progress still leaves them with an unmet financial need.

If such were the case, what would be the rationale for retaining the complex and intrusive structure of welfare eligibility? We would still have social protection, but people could not access it through voluntary choice. Adult income support in such circumstances would not be particularly controversial, nor would there exist a great societal risk of backsliding into welfarism.

I consider a real, unconditional income guarantee to be damaging to the poor in the long run, but it might be possible, once voluntary dependency is tamed, to make a program look internally as if it was based on a simple guarantee. Such a program could look more like a rules-based, income-tested program with greatly simplified benefit structures and income-reporting rules. In the sense of the cliché of 1990s U.S. welfare reform, basic income support would no longer be “welfare as we know it.”

My basic contention is this: It is by policy choice that we live in a society divided between producers and consumers, participants in and observers of the economy, credible main-stream citizens and marginalized poor. If these are products of policy, policy can change them, and our country will be stronger if we do so.



Such a program could look more like a rules-based, income-tested program with greatly simplified benefit structures...

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Endnotes

1. I use the term “welfare” (also called “social assistance” in many jurisdictions) to refer to programs that use a budget-deficit or needs test to determine eligibility. This includes basic last-resort financial assistance that is available in all provinces and territories and categorical needs-tested programs for groups such as people with disabilities. ←
2. See, for example, August 2006 for an elaboration of this point. ←
3. The Atlantic Charter is reproduced at <http://usinfo.org/docs/democracy/53.htm>. ←
4. Beveridge, 1942; Marsh, 1943. ←
5. Who of my age could forget the infamous “UI Ski Team” T-shirts that appeared in news footage from Banff? ←
6. While CAP-era welfare nominally relied on employment testing as a check on entitlement, this was never effectively enforced. In fact, the federal government used CAP on many occasions to prevent provinces from imposing effective work requirements. ←
7. Statistics Canada Analyses Series: Census Families 1921-2006. Catalogue 97-553. For those who think single parenthood a wholly modern phenomenon, the proportion in 1931, at the first measurement, was 11.3 per cent. ←
8. My research indicates that the level of overall dependency in Canada was about the same in 1991 and 1937, if contemporary welfare caseloads are matched up with Depression relief. This is striking, since Canadian citizens in 1937 lacked the protection of more-recent social programs such as public pensions and healthcare that would have helped them avoid dependency. In effect, social dependency was worse in the early 1990s than in the Great Depression. ←
9. Child poverty is, of course, essentially a rhetorical construct, as children are not economic units in their own right. The real problem was, of course, parents’ lack of earnings. ←
10. The first Canadian reference I found for child benefits as an employment strategy is in the 1933 program for a socialist Canada written by the Research Committee of the League for Social Reconstruction, of which Leonard Marsh was a member. Even at this point in Canada’s history, the document notes that the idea “is not new or untried. France and Belgium have long experience with it, and Australia and New Zealand have tried it out.” (page 374). ←
11. This important aspect of child benefit reform was undermined in many provinces when governments succumbed to pressure from welfare advocates and retained their old welfare child benefits. As will be elaborated below, this was no favour to low-income parents in the long run. ←
12. John Richards (2010) and John Stapleton (2010) have both observed the decline of poverty and welfare dependency among single-parent families in particular and thus the greater prominence in the current welfare caseload of single males. ←
13. The famous 1971 federal Orange Paper on social security referred to single parents as among those who “are not able or not expected to work.” (Lalonde, page 32.) ←
14. This figure excludes subsidies for child care, disability or other special needs, social housing, etc. ←
15. See August 2005. ←
16. For a solid review of evidence on this point, see Waddell & Burton, 2006. ←
17. This sets aside, for the time being, ancillary policies such as earnings exemptions, which will be addressed below. ←
18. Source: Statistics Canada – 2006 Census, Catalogue no. 97-563-XCB2006054. This is the market income distribution for individuals 15 and over in 2005. Note the prominent cluster of people at zero earned income, which is only possible in the presence of an income-support system. ←
19. All these calculations point to the low actual take-up of welfare, which some find surprising. ←
20. A recent New Brunswick Liberal government committed to welfare increases lasted only a single term, although from the outside, this would appear to be mainly for other reasons. ←
21. Stephen Hawking, who has a significant physical disability, is one of the world’s prominent theoretical physicists. His book *A Brief History of Time* has sold more than 10 million copies. ←

22. For potential alternatives in disability policy, see August 2009. ←
 23. The attachment of disability benefits to welfare is a strategic error that is particularly important to reverse. For more on this, see August 2009. ←
 24. By reality therapy, I mean processes that force people to face up to what they need to change in themselves and what they need to accept in their environment in order to have better lives. ←
 25. Sussman & Tabi, 2004. ←
 26. The empirical evidence for this claim will be explored in a future paper. ←
 27. For an incisive international critique of social housing policy, see Angel, 2005. ←
 28. See, for example, Greenberg et al., 2001; Hamilton, 2002; and Greenberg et al., 2004. ←
 29. For a short primer on good and bad disability policies, see OECD 2003. ←
 30. Statistics Canada, Table 384-0009 – Government transfer payments to persons, CANSIM database. ←
 31. *The Economist* 2009. ←
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Further Reading

November 2010

Why Food Bank Use is Increasing, Despite a Reduction in Poverty

By Rick August

<http://www.fcpp.org/publication.php/3878>

August 2011

Rent Control Does Not Meet Expectations

By Daniel Huang

<http://www.fcpp.org/publication.php/3878>

For more see
www.fcpp.org

