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**Paved with Good Intentions:
The Failure of Passive Disability
Policy in Canada**

by

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Introduction

It is common in the disability community to speak of unfulfilled aspirations for full citizenship and participation in the mainstream of Canadian society. In Canada, as in much of the developed world, many adults with disabilities remain outside the mainstream, especially in regard to economic opportunities. Unfortunately, many of the disability policies currently pursued by Canadian governments are unlikely to improve this situation, and may in fact make it worse.

This paper offers a critical analysis of a common instrument of current disability policy, the passive cash benefit.¹ I will focus, in particular, on the effects of passive transfers on prospects for adults with disabilities to reach their full income potential through employment. I will attempt to establish that passive income support strategies – for adults with disabilities and for low-income people in general – force their intended beneficiaries to sacrifice employment prospects for help with short-term income needs, a trade-off that reinforces poverty and dependency over the longer term.

As an alternative, I will argue for a shift in disability policy away from unconditional cash benefits, and toward individualized, income-tested supports and services intended to minimize disability impacts on work and daily living. I will argue for an end to segregated disability income support programs, and for reforms to adult income support, replacing the current welfare model with simpler, more efficient conditional benefits. The intent of these reforms would be to improve social protection, reduce unnecessary poverty and dependency, and increase opportunities for low-income adults – particularly those with disabilities – to participate in the mainstream economy.

The active social policy orientation that is the basis of this argument is gaining currency world-wide, but up to now has had limited impact on Canadian disability policy and practice. This paper will not necessarily change that fact, but it may increase awareness of shortcomings in Canadian disability policy and provide some basis for formulating alternatives. I hope as well to contribute to thoughtful analysis and debate on what form of public policy might help low-income Canadians achieve greater economic equity with their fellow citizens.

Trade-offs in income security design

Many social advocates believe that deep-seated social problems like poverty can be solved simply by increasing income transfers from non-poor to low-income citizens. The reality is not so simple. Governments' attempts to increase economic security in jurisdictions with market economic systems are limited, in fact, by frictions between economic security and incentive or, in economists' terms, equity and efficiency.

Developed countries have become so because of sustained conditions favouring an actively productive population. These conditions create the basis for a high general living

standard, and surplus public resources for wealth transfers within the population. If public policy undermined the fundamental basis of wealth creation – individual effort and creativity – it would threaten not only our capacity for social transfers, but our overall economic well-being.

Such has been the problem with welfare policies that have evolved over the last half-century in Canada. Welfare was created with the intent of establishing a social minimum living standard below which no citizen might fall, regardless of individual circumstances or degree of effort on their own behalf.

The level of the social guarantee provided by welfare has remained low, relative to the rest of the population, because it has been established in practice that, as the guarantee rises, work effort declines at the margins of the guarantee. This migration of citizens from producing to consuming status increases the economic burden on producing citizens and in the long run – as welfare’s history has established – fails to benefit the dependent population, enticed as it has been away from the economic opportunity that could produce more mainstream income levels.

Using the tools of passive income transfers, this policy contradiction is very difficult, if not impossible, to resolve. The higher the benefit level for an individual or household at zero earnings, the greater the benefit’s attraction relative to work, and the greater the need for high benefit reduction or taxback rates as earnings rise. These negative incentive effects can be managed, in relative terms, by lower benefit levels at zero income, at the expense of the presumed goal of benefit adequacy.

Disability income support policy in Canada has, by and large, been developed as if these frictions between work and benefits did not apply to the target population. This is not problematic if we are to regard adults with disabilities as inherently dependent, as “pensioners” who can never work and who are not expected to do, even if they can. If our social goals expand to include equity of opportunity for adults with disabilities, however, the exceptionalism of passive or non-market disability policy becomes a barrier to real economic inclusion, as will be explored below.

Disability and citizenship

The citizenship concept is important to disability policy because it speaks to the nature of the relationship between the individual and society, and how that relationship is affected by a particular public policy intervention. The citizenship concept also helps us understand funding and subsidy issues in disability policy, and how an effective but sustainable approach can be achieved.

Societies are not abstractions. They are made up of individual members, aligned with a complex web of communities, who benefit in tangible and intangible ways from their membership in the collective. The state acts as a mediator among the interests of the individual, interest groups and the collective. In particular, the state acts as financial mediator in the simplest terms,

reaching into the pockets of citizens for resources that are used either for the common benefit or for the specific benefit of other individuals or classes of individuals in society.

Governments can redistribute resources only with the consent of the public at large to do so, and creating informed public consent is critical to good social policy. Government resources are essentially finite at a given point in time, and the substantive entitlement of one citizen is the substantive disentanglement of another. If an effective disability policy involves subsidy, in some form, of citizens with disabilities, the question must therefore be asked and answered: Why should one's neighbours assume all or part of the cost of coping with an individual's disability?

In fact, the business case for public subsidy should not be hard to make. A strategy that increases economic independence of adults with disabilities would create both private and public good if it reduced poverty, dependency and under-utilization of human resources. However, the Canadian public already carries significant disability costs, without generating the positive outcomes that should be expected. In my view the problem is not lack of resources, but misguided disability policy.

Current Canadian disability policy is based, explicitly or implicitly, on a compensation strategy to provide financial and other resources to adults who are presumed to suffer competitive disadvantages that prevent them from using the market economy to their advantage. While it is true enough that many adults with disabilities are disadvantaged when it comes to economic activity, current disability policy does not aim to change that reality; it merely tries to moderate its impact in the short term.

It is not unique to disability policy to provide public subsidies to substitute for private earnings: This is a key element of social protection in developed countries. The terms on which governments provide such subsidies, however, are critically important to their success or failure – and failures can be large, costly and difficult to correct. Welfare, for example, rather than eliminating poverty, has helped create a permanent workless underclass in an otherwise prosperous society. Social policy in general, and disability policy in particular, can and should do better.

Social policies like welfare fail because they neglect to recognize the human element in the financial relationship between the individual and the state. Passive disability policy, like passive welfare policy, simply aims to backfill a presumed deficiency in some citizens' lives – in this case, with money to replace presumed shortages in earnings capacity. In mainstream life, however, the individual is intimately (and often passionately) involved in generating his or her personal income, and derives both personal satisfaction and standing in the community from the effort.

Where government simply replaces personal earnings, it therefore tends to displace critical aspects of a fulfilling life for the individuals it sets out to help, and sets in motion a process that undermines the individual capacities and motivations that help most citizens achieve the basic elements of a good life – personal security, family and community relationships, and so

on. An alternative to passive disability policies would be to invest, not in displacing human capacity, but in restoring or developing it. To do otherwise is to accept, in effect, the continued exclusion of adults with disabilities from the mainstream of society, and maintain the current pattern of segregation and isolation.

Passive disability policy wastes human potential, and this is a tragedy in itself for those directly affected. But the quality of disability policy has broader societal effects. Even in parts of the country that have labour shortages, relatively few adults with disabilities are benefiting from mainstream economic opportunity. Over the longer term, Canada faces human resource development and utilization problems that threaten our capacity to remain a prosperous society. Our current passive disability policy is part of the problem, not the solution.

Understanding the disability concept

One of the greatest challenges in disability policy has been to define the issue correctly, and to accurately identify the target population. Up to now, disability policy has tended to borrow policy tools from the medical world, probably because they seemed the best or most practical at the time programs were designed.

Medical diagnosis and treatment are obviously important services for individuals with disabling conditions. When applied to social and economic aspects of disability policy, however, the medical model has had some quite negative impacts. Medical diagnosis is usually not an accurate way to describe and measure unmet social and economic needs that may be associated with the disabling condition.

The result has been inequities, both horizontal and vertical. My home province of Saskatchewan has a mildly infamous example, a program for individuals with a medical diagnosis of paraplegia, who receive substantial additional health benefits that are not available to the general public or to individuals in similar circumstances with a different disability diagnosis.

The same disabling condition, on the other hand, can have vastly different impacts on different people, impacts that will change with time and circumstances. Individuals, moreover, may have very different personal resources to deploy to address disability impacts, independent of potential public subsidy. None of these factors are captured by medical diagnosis.

A further unfortunate side-effect of the medical definition of disability has been the tendency to treat disability as a discrete concept, which it is not. Every individual is born with physical and intellectual advantages and disadvantages, and these assets and liabilities change with developmental conditions, adaptive experience and events in the course of life. Every adult accumulates disabilities over time, through accident, illness or the normal wear-and-tear of aging. The impact of the same disabling condition, moreover, will vary widely among individuals according to circumstances, personal qualities and characteristics.

Everyone is therefore disabled to some degree, and is becoming more so as they grow older. Because of this reality, any attempt to target programs to adults with disabilities as a group is likely to produce poor results. Problems will inevitably occur near the margins of eligibility, where the difference in need or circumstance between those who qualify and those who do not may be small, and the cutoff point essentially arbitrary. Distortions of individual and institutional behaviour are almost inevitable, since discrete programs create strong incentives to demonstrate incapacity rather than ability or potential. In fact, whole industries have sprung up, in both the private and non-profit sectors, to help individuals prove incapacity for purpose of obtaining benefits.

Such negative incentives would be easier to accept if the results were better. In fact, discrete disability programs tend to be permanent interventions for those who qualify, and magnets for those who do not yet do so. Public finance authorities across the country also know from hard experience that discrete disability programs only increase in cost, at rates well in excess of any conceivable change in incidence or severity of disability in the population, with costs concentrated more and more at the margins of disability impact.

Such program failures derive from a basic error – treating disability as a characteristic that can be assigned to a definable and discrete minority population group. In fact, disability is a normal part of the human condition, and public policy needs to treat it as such.

Our current disability policies were intended to help adults with disabilities, and policy makers of previous decades can be forgiven for drawing on a limited policy tool set to determine eligibility for disability programs. However, discrete definitions of disability are no longer the only practical approach available to program designers.

Disability is an individual phenomenon that all citizens share to some degree. The presence of a disability that has substantial negative impacts on one's life should not place an individual into a real or virtual category apart from other citizens, and separate from the economic opportunities most citizens enjoy. A disability policy that assesses and acts on impacts of disability on a person's life and aligns incentives towards inclusive outcomes would improve the lives of many adults with disabilities.

Productivity and purpose

Passive disability policy assumes that adults with disabilities, both as individuals and as a group, lack productive capacity or potential, and therefore deserve compensation from their fellow citizens. Social protection for vulnerable citizens is obviously not a bad thing. Institutionalizing negative assumptions about groups of people into programs, however, tends to be self-fulfilling. Building programs around an assumption of dysfunction rather than a goal of functionality is an unfortunately common, and generally very harmful, error in social policy.

Negative assumptions have contributed to the failure of passive disability policy to improve economic inclusion of adults with disabilities. Many are, in fact, capable of work at varying intensity levels, and almost all have some degree of productive potential. Programs that discourage the use of human potential close off the most likely path to a better standard of living for many adults with disabilities. Just as important, they deny citizens with disabilities the opportunity to arm themselves with the dignity of a job that provides income, social connections, self-respect and standing in their community.

Most people understand the role of expectations in shaping human behaviour. While every individual responds differently to circumstances, we know that people as a rule rise to higher expectations, and sink to lower ones. This is no different for the person with a disability. Designing positive assumptions into social programs is much more than a philosophical issue; it affects whether policy goals will be achieved.

Had positive expectations not been raised, for example, around the employment potential of people with intellectual disabilities, the progress that has been made in this area would certainly not have occurred. Any given individual's potential is impossible to predict in advance. Where programs are based on negative presumptions, it may be possible for individuals to defeat these assumptions, but outcomes, broadly measured, will inevitably be worse than they need to be.

Nourishing human potential is a matter of economic concern, obviously, but economic participation should be thought of as more than just the avoidance of dependency costs, or increasing labour productivity. Human beings in general need a purpose in life to feel fulfilled. Purpose and fulfillment take many forms in life, not all of them economic. We know, however, that in mainstream society an important aspect of responsible citizenship and self-fulfillment comes from work.

Many adults with disabilities want to work, and could do so, with supports and a welcoming labour market. Flexibility in work intensity may be required to accommodate individuals' productive capacity and potential. In fact, such flexibility exists in the current labour market. Productivity subsidies to employers have proven unwise, but there is nothing wrong with public subsidy to workers who do their best, but still cannot earn a decent living – this is in fact the principle behind the National Child Benefit.

The potential benefits for adults with disabilities of more equitable access to the labour market should be obvious enough. Despite this, governments still pursue policies that assume adults with disabilities cannot work. Focused efforts to increase employment are rare, and frequently not sustained over time.

It is quite reasonable to assume, however, that well-designed public policy measures can help employers do more for adults with disabilities, and that a great deal more can be done to help individual adults to be ready for employment, and supported enough to sustain it. This

obviously does not mean every individual with a disability will have substantial market work, or be completely economically independent.

Not every adult with a disability will be employed, and not all employed adults will earn enough to sustain themselves. Every individual should have the opportunity, however, to make the most of the life they have. The challenge to public policy, for adults with disabilities and for all low-income citizens, is to create intervention strategies that provide social protection without limiting human potential.

The disability “welfare wall”

Over the last decade or so, governments have made structural changes to income support to begin to address family welfare dependency and child poverty. The dynamics of the child poverty problem, and how governments have tried to reduce child poverty, may have some lessons for disability policy.

Market wages reward individual productivity, and thus do not respond to variations in household need. In a competitive labour market, earnings potential might not meet family needs. Canadian welfare programs, on the other hand, varied their benefits based on family size, such that welfare often paid more than work for low-income parents.

This program feature was one of the factors leading to a sharp increase in family welfare dependency in Canada through the early 1990s. Since welfare was financially attractive relative to work, and other benefits were at risk for parents who left the welfare system, many parents stayed on income support, even though work was their best chance for a better standard of living. The Caledon Institute coined the term “welfare wall” to describe the poverty trap created by the structure of the welfare system at that time [Torjman and Battle 1993].

Through the National Child Benefit initiative, the Canadian federal government and some provincial and territorial governments responded with a structural shift, moving most of the children’s proportion of welfare to an income-tested program structured to encourage lower-wage employment.

Importantly, removing the child portion of benefits from welfare lowered the earnings threshold for parents to leave the welfare system. This restructuring was a factor, along with welfare administration changes and a more robust labour market in many parts of the country, in reducing welfare dependency among low-income parents.² In essence, a structural shift of the same level of benefits at zero income helped alter the dynamic of low-income parents’ labour force behaviour. Whereas public subsidies for children in the welfare system were more or less a pure dependency cost, the new subsidy system acted more as leverage to encourage parental employment. This reform was an example of a shift from passive to active social policy.

Low-income families thus benefited from an income support system that separated basic adult benefits from non-universal needs related to children. Children’s needs are not, however, the only non-universal needs currently rolled together into most income support programs in Canada. After children, the most common reason for benefit systems to pay higher benefits is related to the presence of a disability. The manner in which most programs approach disability needs creates a parallel problem for adults with disabilities as pre-reform systems did for parents with childrearing needs – in effect, a *disability welfare wall*.

To understand why this might be so, it is necessary to look beyond the obvious issue of benefit levels in the design of programs, and consider how given benefit structures affect the economic feasibility of work for beneficiaries. This is a critical design factor, since employment will always be the mainstream path to a good life for most citizens, and is almost always the most likely path to a better life for those who now depend substantially on public benefits for their income.

In assessing employment potential for income support beneficiaries, the most relevant comparison is between benefit status and lower-wage employment of the type most accessible to adults with limited work experience. The minimum wage, which acts as a regulated productivity floor for an economically-sustainable job in the market economy, is a useful proxy for potential market wages as an alternative to public benefits.

The factors involved in an individual’s decision, given the opportunity and circumstances to work or not, or to work more or less, are the stuff of continued debate in the social sciences. One simplified indicator of a work incentive/disincentive threshold, however, is the earnings level at which an adult no longer qualifies for income support benefits, which I will refer to as the welfare escape threshold of earnings.

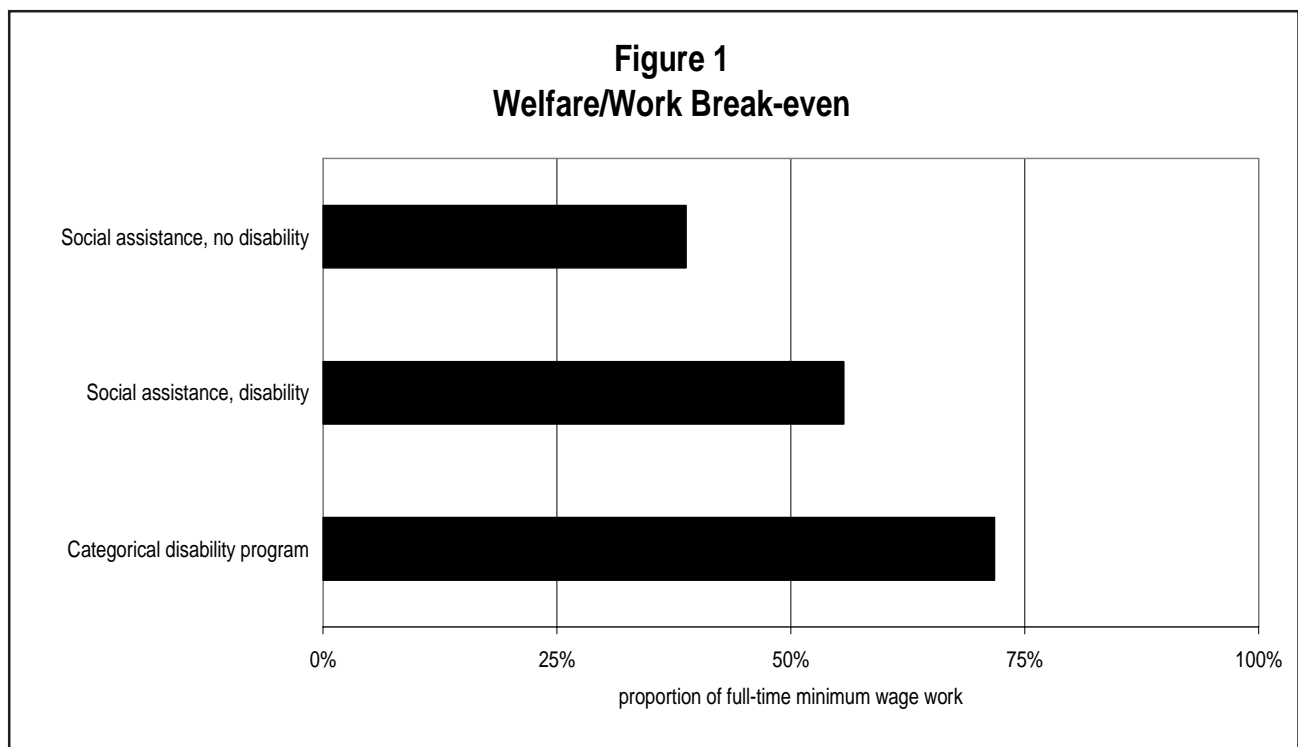
The escape threshold is important in a practical sense, since beneficiaries are subject to benefit taxbacks up to the point where benefits cease. The escape point therefore almost always signals a fairly drastic increase in the proportion of earnings that stay in one’s pocket – presumably an important element of an individual’s decision to work, or to work more. For purposes of this admittedly simplified analysis, I will treat the escape threshold as the point where employment makes economic sense relative to benefits.

Figure 1 represents an escape threshold analysis for notional individuals in three common income support circumstances. The first is a single unemployed individual without assessed disabilities who receives generic welfare. The second is an individual who has been assessed as “disabled” and is therefore granted additional welfare benefits in recognition of a disability status. The third example is a single person who is assessed as disabled and receives a benefit from a stand-alone, categorical disability benefit program.³

In Figure 1, the y-axis is displayed horizontally. The unit of measurement on the y-axis is the net program benefit an individual in each circumstance would receive in a given week, month or year, expressed as a proportion of net earnings from a full-time minimum wage job. Benefit

levels at zero earnings are thus compared to a form of minimum wage full-time equivalent employment. The purpose of the analysis is to estimate the minimum degree of incremental employment success needed to match the income levels offered by the prevailing benefit structure.

In the first case, an individual on social assistance without an assessed disability, the analysis shows that this person would be better off working if he or she could achieve about 40 percent of the hours necessary to make up a full normal work week of 40 hours. The elements of a strategy for such a person to leave welfare and improve their economic circumstances through work are fairly clear – a job opportunity, and whatever measures might be needed to ensure that individual employability meets at least minimum labour market expectations.



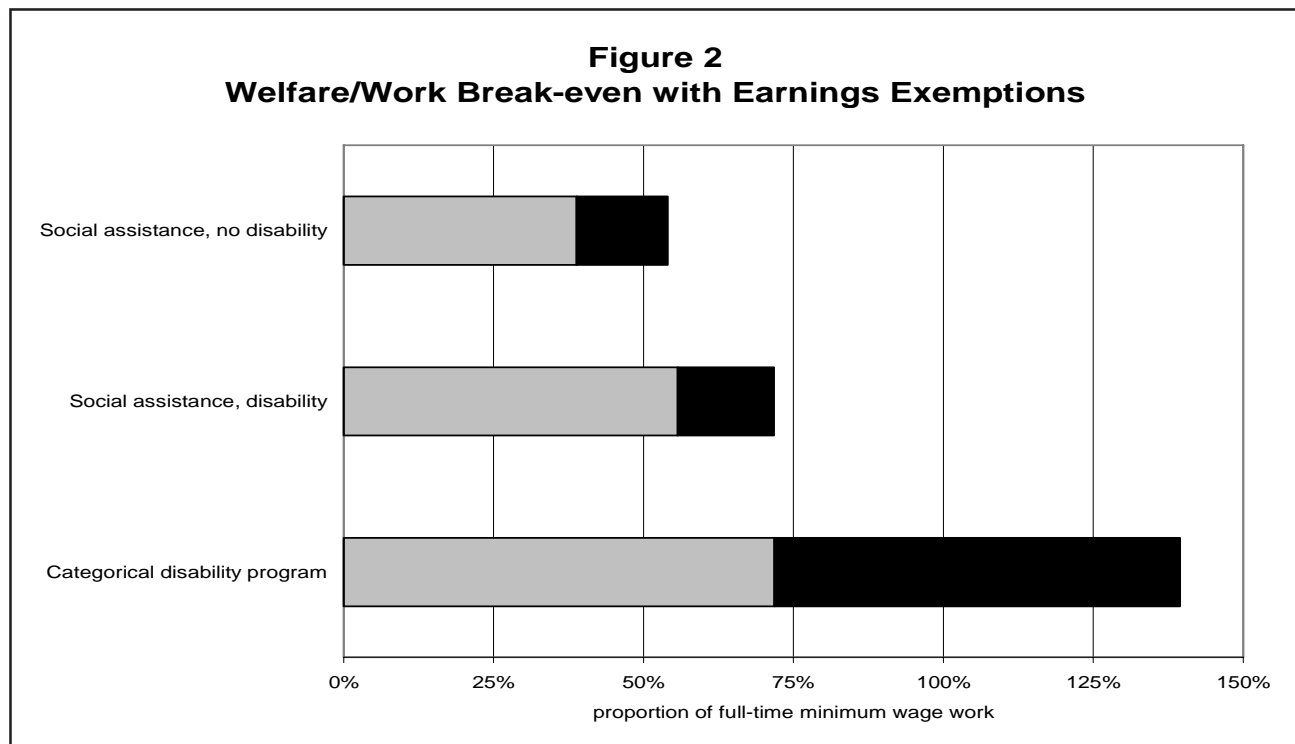
In the second circumstance, where the individual receives both basic welfare benefits and disability benefits, the employment “break-even” point is higher than the person receiving only generic welfare, with nearly 60 percent of full-time employment hours needed to be better off. This illustrates an aspect of the trade-off imposed by passive benefit systems – that even a modest increase in comfort through benefit levels imposes an offsetting cost in terms of reduced prospects for independence through employment.

The trade-off is even more evident for the person in the third circumstance, who is receiving cash benefits roughly equivalent to Canada’s social guarantee for seniors from Old Age

Security and the Guaranteed Income Supplement. For this individual, the escape threshold to leave the benefit system rises still further, such that nearly three-quarter time employment at minimum wage is required to match benefit income levels.

Can this problem be addressed in program design? Passive benefit systems commonly incorporate a partial disregard or exemption for earned income, a policy that is intended to act as a work incentive. Earnings exemptions, however, are very much a two-edged sword. While they increase disposable income from relatively small amounts of wages earned while on benefit, when considered as a factor in achieving substantive employment they can act more as a work barrier than a work incentive.

The problem with earnings exemptions is illustrated in Figure 2, which provides a similar analysis to Figure 1, and for the same three notional circumstances, but this time with the effect of earnings exemption policies on benefit escape thresholds considered.⁴



As can be seen, after taking into account earnings exemption policies, the individual receiving only basic welfare must actually work more than half time at minimum wage to escape welfare. His or her benefit escape threshold has actually increased by about 38 percent as a result of the earnings exemption. The second individual, with basic social assistance plus disability benefits, must earn about 29 percent more as a result of the earnings exemption. The person receiving categorical disability benefits must earn about 95 percent more to leave the benefit system, solely as a result of earnings exemption policies.

The trade-off imposed by earnings exemptions is therefore more than a minor issue. By incorporating earnings exemptions into programs, designers are presumably increasing the likelihood of minor earnings by individuals while on benefit – although there is little, if any, hard evidence that such policies are effective in this regard. The exemptions are also making it much more unlikely that in the second circumstance, where the individual receives both basic welfare benefits and disability benefits, the employment “break-even” point is higher than the person receiving only generic welfare, with nearly 60 percent of full-time employment hours needed to be better off. This illustrates an aspect of the trade-off imposed by passive benefit systems – that even a modest increase in comfort through benefit levels imposes an offsetting cost in terms of reduced prospects for independence through employment.

Earnings exemptions are frequently promoted as a cure for work disincentives for those on benefit programs. They could be better described as an element of the welfare trap that deters low-income people from pursuing a better life through employment. This is true for all benefit recipients, but doubly so for adults with disabilities who are, in almost all jurisdictions, provided with earnings exemptions that are intended to be more generous than those afforded generic welfare recipients. These additional exemptions are a favour to beneficiaries with disabilities only if it is assumed that they will never have substantial paid employment, since they add to the economic barriers an individual must overcome to become more self-sufficient through work.

Figure 3 employs an additional, somewhat more sophisticated, analytical tool to look at employment prospects for individuals receiving passive benefits – the effective marginal tax rate.

Most people have encountered the marginal tax rate concept in the context of income tax, where it refers to the rate of tax on one’s “last dollar” of income. One’s rate of income tax is not, however, the only non-voluntary factor determining the level of disposable income available from a given level of gross earnings. Payroll taxes like Employment Insurance premiums and Canada/Quebec Pension contributions also serve to reduce gross income.

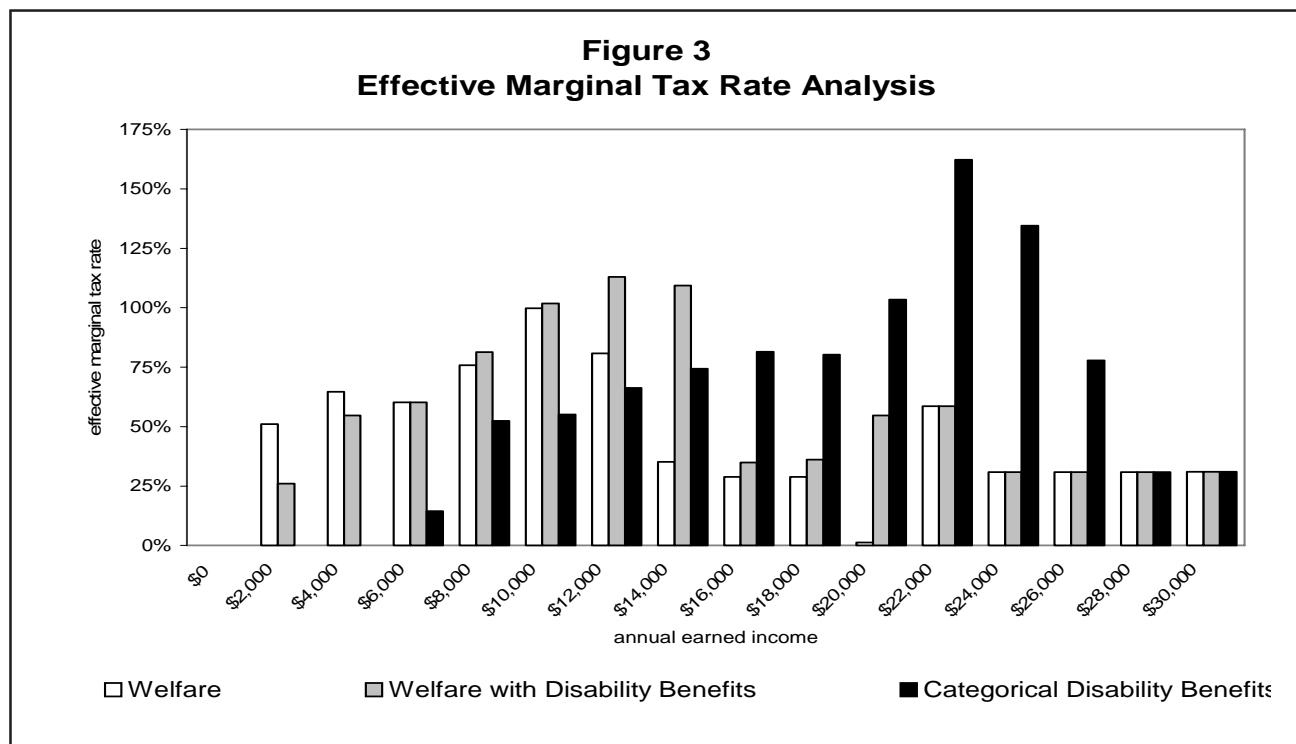
In addition to what we traditionally view as taxes, income-tested social benefits create implicit tax rates. Say, for example, that at a given earnings level, an individual is allowed to keep 50 percent of any additional earnings. This 50 percent taxback rate is the functional equivalent to a 50 percent tax rate on those additional earnings. Benefit taxbacks are additive to income and payroll taxes. The effective tax rate is a tool to analyze the combined net effect of all tax and tax-like impacts on disposable income across an income range.

Measuring the combined effects of taxes and benefit reductions at the upper margin of earned income (i.e., on the notional last dollar earned) is a useful way to assess, for an individual at a given earnings level, the cash incentive (or disincentive) to earn more money. The effective marginal tax rate can be a useful tool both in the design of social benefits and tax systems, and in the assessment of interactions among taxes and benefits.

Figure 3 shows the effective marginal tax rate pattern of the three circumstances that were analyzed in Figures 1 and 2 – a single adult with no disability who receives generic welfare, an individual receiving generic welfare plus disability-based benefits, and an individual receiving benefits from a categorical disability program.⁵ The generic welfare circumstance is represented by the white bars, the disability welfare circumstance by the grey bars and the categorical disability program circumstance by the black bars.

For the basic welfare recipient (shown in the white bars), it can be seen that effective marginal tax rates are in the range of 50 to 75 percent for low earnings levels while still on benefit, rising to about 100 percent at the threshold of eligibility, then levelling off in the range of around 30 percent. From the point of view of reasonable economic incentive, it would be fair to say that this individual has to reach a gross earnings level of about \$14,000 per year to make additional earnings attractive.

This amount is roughly equivalent to 31 hours of work per week at minimum wage, which is achievable in principle for many welfare recipients, particularly in the higher-demand labour markets of the western provinces. Subject to other constraints, an employment-based anti-poverty strategy for single persons on welfare who do not have a disability would seem to have a reasonable chance of succeeding.



The income and incentive situation is somewhat different for the individual on welfare with a disability designation (grey bars). The disability designation triggers additional benefits as well as higher levels of earnings exemptions, which have the effect of widening the income range at the threshold of welfare eligibility where effective marginal tax rates are essentially confiscatory, before leveling off at more reasonable proportions of gross income.

The income level at which the single individual with a disability on welfare has an incentive to earn more is about \$16,000 on an annual basis, which is the rough equivalent of 36 hours of work per week at minimum wage. While this earnings level is not enormously larger than the incentive threshold for the generic welfare recipient, it is an unfortunate fact that an adult with a disability needs to reach a higher earnings level than a recipient of generic welfare to benefit significantly from his or her work effort.

The third scenario (black bars) shows the impact on effective marginal tax rates of the benefit structure of a categorical disability income support program, which in this case incorporates both higher basic benefits and larger earnings exemptions while on benefit. The combined effect of the higher benefits and exemptions changes the individual's incentive structure quite significantly, for the most part in a way that prejudices his or her prospects for substantive employment.

For an individual in this circumstance, effective marginal tax rates are zero at annual earnings below \$6,000, but rise to around 75 percent as earnings increase to about \$20,000. Effective marginal tax rates are in excess of 100 percent for earnings in the mid-\$20,000 range. Rates in excess of 100 percent mean that an individual in this circumstance who earns more actually suffers a reduction, rather than an increase, in disposable income as a result of the additional earnings. At worst, this individual could lose about \$1.60 by earning an additional \$1.00.

Setting aside minor earnings while on benefit, a reasonable incentive level in this scenario is not achieved until gross earnings reach about \$28,000 per year, equivalent to full-time work at about \$14.00 per hour. The higher level of passive disability benefit and earnings exemption associated with the categorical disability program model confronts the individual with a disability with an employment challenge that would seem impossible to overcome, except in very exceptional cases.

It can be seen from this analysis that intended generosity in passive benefit systems can have quite negative consequences for employment prospects. Those consequences can become more dire, the more the apparent generosity of the benefit system – both in terms of benefit levels and earnings exemptions. The system that most clearly traps adults with a disability into benefit systems is the categorical disability benefit, which many would call a “disability pension.”

Obviously, these incentive and disincentive factors will not necessarily affect the choices of an individual considering employment, who might have unusually fortunate opportunities, or exhibit exceptional will to press on through barriers and challenges. However, human beings are

in general a rational lot, at least over the longer term, and if programs are structured to make work an economically irrational choice, the result will certainly be less employment.

A benefit system that provides modest economic security at the expense of prospects for better should not be considered an adequate response to the aspirations of adults with disabilities. To a great extent, current Canadian disability policies impose a social minimum guarantee that is also, in effect, a social maximum. This is not inclusive disability policy.

International perspectives

Developed countries have embraced social policy enthusiastically in the past century or so, to the extent that social programs, broadly defined, often account for more than half of overall government expenditures. For all our vigour in its application, however, social policy is still an infant science, an exercise in applied human behaviour management that depends at present on a very inadequate understanding of the human dynamics it attempts to shape. Given the limitations of our real knowledge relative to assumptions and biases, we cannot afford to ignore the practical social policy experience of governments across the world to guide choices in Canada, which strongly suggest the failure of passive disability policy.

A recent study by the Organization for Economic Co-operation and Development (OECD) clearly illustrates this failure. In 2003 the OECD, a think-tank for most of the world's economically developed countries, published its initial conclusions from a high-level analysis of disability policy in 20 member countries [OECD 2003]. The study found that, although disability policy consumes high levels of government expenditures, in no country has it resulted in substantial economic and social integration of citizens with disabilities. The OECD study concluded that, while there are specific measures with positive potential, no country among the 20 in the study could be considered to have an effective disability policy.

In fact, the OECD concluded that many disability policies appear to produce perverse outcomes, particularly insofar as they would appear to have drawn adult citizens away from the labour market. In some countries this effect has been extreme, as Cowan [2002], DeJong [2003] and others have pointed out with respect to the Netherlands.

One of the most significant observations from the OECD study was that the relative generosity of a country's disability benefits is a major predictor of apparent rates of disability in that country, which suggests that generous unconditional cash benefits distort incentives. Once drawn into disability benefits, the study noted, very few citizens ever re-enter the economic mainstream:

In most countries, people who enter disability-related programs remain there until retirement. This is expensive, inefficient and encourages segregation.

Persons with disabilities often wish to participate actively in society and are capable of doing so, given the opportunity, the necessary training and support.

The OECD's policy recommendations suggest an approach that could help Canadian jurisdictions establish alternatives to passive disability strategies. The recommendations include benefit reform, providing more resources to cope with disability impacts, and making such support independent of labour force status to ensure the support itself is not a welfare trap. The OECD also advocates much greater emphasis on work and work expectations, and policies that create an expectation that employers do more to help adults with disabilities succeed in the work force.

Since the initial report was released, an in-depth review has begun on a subset of member countries. A status report from 2008 found that there is some tendency internationally towards convergence on an active disability policy orientation. Benefit reform progress has been limited, however, and disability support systems remain under-developed.

The generally negative conclusions of the OECD's work are quite relevant to current Canadian disability policy. Although quality empirical evidence is scant, apparent disability rates seem to be rising faster than actual incidence, suggesting that barriers and perverse incentives continue to discourage labour market attachment. Successes with specific groups aside, employment prospects for adults with disabilities are not improving significantly, and most Canadian governments still rely heavily on compensation rather than inclusion strategies. In short, Canadian disability policy needs a fundamental change of direction.

Moving towards solutions

Canadian governments devote significant and increasing resources to their current disability policy. I would argue that they need not necessarily devote substantially more resources than at present, but that current investments are ineffective and that alternative strategies need to be deployed.

The alternative should place significantly less emphasis on passive compensation for adults with disabilities, particularly in early stages of reform, and much more emphasis on practical measures to reduce disability impacts, using subsidy strategies that encourage employment and active involvement in the economy, at whatever level or intensity is possible for each individual. Like successful welfare reform, this approach will significantly reduce the unnecessary poverty and dependency that is generated by current disability programs, and allow policy makers a clearer perspective on how to address remaining economic needs in the adult disability population, without limiting these citizens' life potential. At a practical level, reform can begin using a set of operational principles, as follows:

1. Disability programs should reduce disability impacts on employment and daily living, rather than compensate for the presence of a disability.

Unlike passive benefits, disability supports can be structured to be, in effect, a benefit in kind, helping individuals acquire goods and services that reduce disability barriers. An in-kind benefit strategy can be used to improve the incentive structure of disability programs. Rather than providing unconditional funds, fungible in individuals' personal budgets, government support can be targeted to specific disability supports. While individuals have every incentive to appear less capable to achieve a higher benefit status, it is hard to imagine an adult seeking subsidy for a disability support they do not need.

Good technical design work would be needed to manage interactions with payroll and income taxes and with other social programs. The federal government could certainly cooperate by ensuring that disability supports are neutral to the individual's tax status – an entirely reasonable policy, as it would increase horizontal equity in work and daily life between citizens with and without a substantive disability.

2. Disability supports should be individualized.

One-size-fits-all disability programs are both inefficient and ineffective, over-subsidizing some adults, but not providing enough resources for others to make a real difference in their lives. Governments can achieve a great deal more with taxpayers' resources if they tailor subsidies to the needs of each individual.

Individualized programs are obviously more challenging to design than over-simplified disability grant programs. Successful examples do exist, in Canada and elsewhere, of individualized programs that are not substantially more costly than generic programs. Governments concerned about cost risks associated with a new approach have the option of launching programs on fixed budgets until practice can gauge demand and costs, and determine expected offsets from declines in dependency in the target population group.

3. Disability supports should be delivered from a source that is outside welfare, and will not be perceived as welfare.

The work disincentive effects of passive disability benefits result from the inclusion of disability benefits in personal budgets of last-resort income support programs, undistinguished from basic, universal living costs like food, clothing and shelter. Passive disability benefits represent a two-pronged poverty trap.

On the one hand, the existence of a passive benefit is an obvious attraction to an individual without other immediate income opportunities, and the higher the benefit, the greater and more wide-reaching the attraction. On the other hand, once people are in the benefit system, inherent financial disincentives that are greater for those with disabilities virtually assure that

they will never succeed in substituting substantial earnings for benefits, while adults with disabilities on income support programs are rarely prioritized for employment support measures.

Removing disability benefits from basic income support programs has a number of potential benefits. Such a change will reduce the earnings exit threshold from welfare and welfare-like programs, creating greater equity between those with and without a disability in their prospects for independence through employment. Governments would be wise not to undermine this positive effect, however, with counter-productive earnings exemptions. It is a far better policy to keep the exit threshold low, and to help adults (with a disability or not) achieve enough earnings to reach or exceed it.

Removing children's basic benefits from welfare, as some provinces did through the National Child Benefit initiative, was an important element in allowing low-income parents to work, since they could earn enough, in many cases, to take the family off of welfare, while still receiving full or partial child benefits.

Relocating disability supports outside of welfare (or welfare-like programs like AISH, Alberta's Assured Income for the Severely Handicapped), can create a similar potential for adults with disabilities. It also ensures that adults are not forced or encouraged to seek basic income support in order to get disability supports that are only available to those on welfare or other basic benefit programs. Removal of benefits specifically related to disability from passive income support systems also facilitates the re-engineering of benefit systems from a compensation model to a support model, and creates the opportunity to individualize the support system.

4. Disability support subsidies should be income-tested.

Some believe that disability benefits should be treated as a right, a view I do not share, for a number of reasons. First, as noted above, what people call "rights" are really just sustainable public policy choices based in the end on a defensible business case. If our business case is inherent vulnerability or incapacity, we have argued ourselves back into the logic of the failed passive disability approach. If the policy goal is equity with other citizens, this will be based on the fact, and perception, that adults with disabilities share the same opportunities and expectations as all citizens. I would argue that inherent special status and equity, in the long run, are incompatible concepts.

A logical extension of this view is that disability support benefits or subsidies should not necessarily be offered free of charge to recipients. Personal resources should be assessed and taken into account in determining the proportion of public subsidy that should be provided. If our business case for inclusive disability policy is mutual benefit to the individual and society, then this creates a strong case for sharing costs in some equitable fashion.

For purposes of understanding in the income security world, I would refer to the preferred formula for allocating costs between the individual and the state as income-testing, although my

recommended approach would be a slightly more complex instrument. An income test that does not take account of greater actual disability costs in an adult's personal budget can create a form of horizontal inequity. The solution to this problem is to create a form of two-dimensional personal resource test that recognizes both income and need level in the design. While this may sound complicated, there are several existing Canadian programs operating on this principle, some with reasonably understandable design structures.⁶

Compared to the needs-testing of welfare and welfare-like programs, income-testing can be used to balance the program's ability to provide substantial, even complete, support at low earnings level, with less negative impact on work incentives at higher earnings levels. The income test is a means of preventing benefits going to those who have the personal resources to meet their own needs, where there is no pressing case for public subsidy. Just as importantly, it institutionalizes the expectation of a better economic future for those adults with a disability who are low-income at present.

I would offer another argument in favour of income-testing – perhaps less tangible, but important in principle. Untested entitlements suggest a permanent, protected and paternalized status that is inconsistent with the fundamental goals of an inclusive policy, which is to create equity of opportunity among all citizens, with a disability or not. In the end, protected special status and equity are incompatible, for a full adult citizen with a disability should share the same expectations and obligations that apply to all citizens.

5. Basic income support for adults with disabilities should come from broad-based programs rather than categorical, segregated programs.

Income support jurisdictions in Canada have tended towards segregation of adults with disabilities, either through special status in broader programs or through separate programs. Segregation strategies allow governments to establish differential rates for adults with disabilities compared to generic welfare, either as a proxy compensation for disability support needs or to compensate for presumed lack of earnings capacity.

Segregation is intended as a way to favour adults with disabilities, at least in comparison to other beneficiaries of basic income support from government. But I would argue, once again, that the favour is short-term and fleeting, while the disfavour is deep-seated and persistent.

Presume, for a moment, the existence of a well-developed system of individualized disability supports that addressed employment and daily living needs in an equitable way, that was institutionally positive in its perspective on each individual's human potential, and that actually helped every individual get the most from his or her life. This approach would remove the rationale of resources for disability supports from the justification for segregation, leaving only the issue of inequity in earnings capacity.

This issue can be dealt with, in whole or in part, in other ways. One useful strategy is to substitute programs that support activity and capacity-building for passive benefit support. This

is not to underplay the importance of adequacy in the level of basic income support guarantee. The latter is a complex but not intractable issue in a market economy, as will be explored below. Attempts to address adequacy on a differential basis, for adults with disabilities alone, have imposed a harsh trade-off on intended beneficiaries – very modest short-term comfort, for very significant loss of potential for better.

There is another reason to avoid segregation strategies. Governments are often inclined to segregation as a tool to manage public perceptions of dependency. Categorical programs help governments repackage disability dependency so as to be less salient in the public's eye, and to differentiate disability support costs from negative public perceptions about welfare.

Segregation also, unfortunately, decreases the likelihood of resources being directed to programs that could improve economic and social integration. Shielding adults with disabilities from employment and self-support expectations also shields governments from an expectation to do more than simply provide income support. In the most extreme cases, categorical programs are even characterized as disability pensions, a concept that explicitly and systematically writes off the human potential of adults who become “pensioners.”

The goal of inclusive disability policy should not be economic warehousing, but real opportunity in the economic mainstream. Segregation, in short, is not a step towards inclusion.

6. Reform basic income support.

One rationale for governments to pursue segregation strategies is to protect adults with disabilities from the stigma associated with generic welfare, and from some of the more demeaning and demoralizing aspects of the welfare administrative culture.

Addressing the negative aspects of welfare culture is a legitimate policy pursuit for all governments, but to do so on a differential basis only for individuals with disabilities represents a form of paternalism that is antithetical to inclusive policy.

The real question one might ask is not whether adults with disabilities should be protected from welfare culture, but rather whether the welfare model serves any positive purpose for any adult with income needs. Like passive disability policy, welfare culture is built around negative assumptions that manifest in a paternalistic relationship between government and citizen. Instead of preparing people for the mainstream, welfare displace capacities for self-sufficiency that all adults need to make their way in the world in effect, reinforcing rather than breaking down dependency. The real goal should therefore be to expunge the negative aspects of welfare culture from adult income security writ large.

This is certainly not to promote unrealistic options like the guaranteed income model, which is a policy formula for a society and economy in decay. Welfare culture was developed as a means of enforcing benefit conditionality – an expectation that those who can, work. It has decidedly failed in that role, evolving into an overly complex way to test for immediate short-

term personal resources. Simpler, more effective means are available to test resources within an income support program, while more effective external means are available to test – and build – employment capacity, and to enforce expectations of effort.

A better future for adult income security

My arguments respecting the structural disincentives and barriers to employment that result from passive disability policy apply equally to any attempt to use passive benefit structures to raise benefit incomes. In fact, this argument has been proven in practice. In the relatively few cases where Canadian governments have tried in recent years to respond substantially to poverty through passive benefit strategies – an occupational hazard, it seems, of first-term New Democratic Party administrations in Canada – the result has been rapid rises in the incidence of welfare dependency, a decline in labour supply among the poor and sharp public backlashes, leading to prompt reversals of policy.

That higher benefits lead to more benefit dependency should surprise no one. Welfare is a form of social minimum income guarantee, and this guarantee operates in the context of the actual distribution of earned income in the economy. The guarantee level defines the level of earnings where work is an economically rational choice. Moving the income guarantee up the income distribution – as called for by some social advocates – captures more people, and raises the earnings levels for work to make economic sense. This is far from a trivial problem for those seeking sustainable social policies or, indeed, a sustainable society.

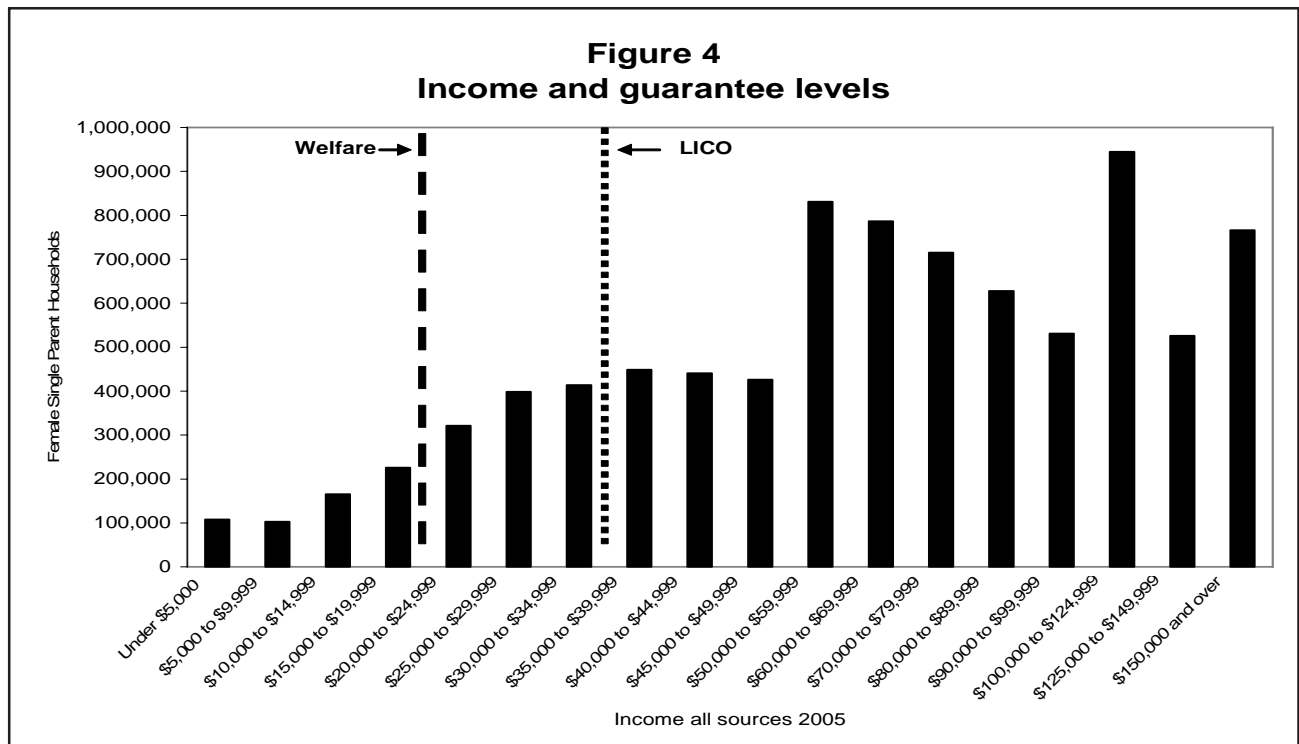
Consider, for rough illustration purposes, the distribution of all-source income of families headed by Canadian female single parents, as illustrated in Figure 4. The vertical line labelled “Welfare” is a broad estimate of minimum social benefit entitlements for this family type across Canada.⁷ The second vertical line, labelled “LICO,” roughly represents the large-city Statistics Canada pre-tax low income cut-off, which is a common proxy in the advocacy and research communities (over Statistics Canada’s continued objections) for a Canadian poverty line.

Using this analysis, the eligible population under the current income guarantee is in the neighbourhood of 7 percent of the population of female lone parent households. The eligible population under the LICO assumption, however, jumps to about 20 percent. The presence of income-tested benefits in this analysis, of course, clouds the eligibility issue somewhat. Nonetheless, it can be seen that a substantial increase in the passive social guarantee would not only be extremely expensive (even without considering likely reduced labour supply), but would be politically explosive.

There is no easy or simple answer to the public policy challenge of balancing income security with incentive in a market economy. To the greater extent that the income security system offers financial comfort relative to normative wages, the greater will be its tendency to draw citizens away from the mainstream economy, which not only finances the income support system, but provides individual citizens with their most likely path to well-being. In short, if the only

public policy tool available to fight poverty is passive benefits, you can't actually get there from here.

Does that mean that the poor shall always be among us, despite overall prosperity in modern industrial societies, and benefit adequacy will always be bounded by the constraints of work incentives? Benefit levels will no doubt always be set, in the long run, with at least some reference to market wages. There may be broad policy approaches available, however, that can be used – with careful design – to moderate the wage constraint, and perhaps to mediate, at least in part, the equity/efficiency trade-off.



For a suggestion as to how this might be achieved, there are threads of insight available from another helpful OECD analysis, this released in 2006. In a follow-up to the OECD's 1996 *Jobs Strategy*, member countries were grouped into general typologies and considered with respect to social and economic variables that were deemed to be indicators of those countries' performance on equity and efficiency criteria [OECD 2006].

Figure 5 displays a reorganization of the OECD's work, to which I have provided my own labels to describe the typologies. I present first the OECD's raw scores, then the same transposed (again, by me) into an ordinal scale, from "Very Low" through "Very High."

The first country group, which I have loosely labelled as "Market Oriented," includes most English-speaking countries, Japan, South Korea and Switzerland. This group is generally

characterized by high employment, low taxes and relatively unregulated markets, but relatively low social benefit levels and lower levels of workplace security.

The second group, consisting of southern European countries, France and Germany, I have labelled “Welfare Oriented.” This group generally has higher unemployment, higher taxes and a more regulated market, but also higher levels of social and workplace protection.

These two groupings would seem to represent the poles of the classic equity/ efficiency tradeoff – the welfare-oriented countries secure but sclerotic, and the market oriented countries more efficient but seemingly less caring.

However, the third group of countries “ Scandinavia, Austria, the Netherlands and Ireland – which I have labelled the “Tough Love” group – displays some interesting distinctions from either of the quasi-polar groupings.⁸ This group of countries has strong economic performance and relatively free markets, but average to high workplace protection and higher levels of social benefits.

This analysis suggests that some countries have achieved a degree of resolution of the equity/efficiency conundrum. The key link may be the last variable shown in the table, level of expenditure on what the OECD calls “active labour market programs” – i.e., measures to help citizens achieve and maintain employment in the open labour market.

In program terms, this might translate into approaches where access to public subsidy remains explicitly conditional, but much more emphasis is placed on public investment in individual social and economic participation. Active investments could take many forms, from the disability supports suggested above, to a variety of work-friendly subsidies that could be implemented incrementally, as active substitutes are developed for passive programs and transition strategies are created to preserve social protections through the transition.

Strategic change is obviously much more challenging than simply increasing public investments in current policies, but current strategies have no realistic potential to achieve both reasonable equitable and sustainable prosperity. The higher the level of passive income guarantee, the greater will be the ratio of dependent to active population, and the stronger incentives will be against active contribution. Since the revenue to support social transfers derives, directly or indirectly, from the productive portion of the population, this approach is quite obviously self-defeating.

The potential does exist, on the other hand, to develop social policy strategies that are active investments in human resources, in people sharing the costs and benefits of a common society. To realize such an optimistic future state, those involved in social policy formation must be held to a higher standard of analysis and understanding of the dynamics of poverty and exclusion, and the significant vested interests in passive social policy must be recognized and confronted.

This task, of course, will be much easier to say than to do. Nonetheless, we can ill afford to continue unproductive debates around entitlement strategies which cannot succeed. Too many peoples' life opportunities are currently abridged by public policy, too many public resources are currently invested in maintaining an unsatisfactory status quo, and the attention of both governments and the public is deflected from options with real potential to solve some of modern market society's social problems.

Figure 5
Analysis of OECD Jobs Strategy 2006

RAW SCORES			
<i>Variable</i>	<i>Market-Oriented</i>	<i>Welfare-Oriented</i>	<i>Tough Love</i>
Employment rate	70.92	62.54	71.91
Unemployment rate	5.30	8.97	4.79
Benefit levels	18.23	36.17	39.86
Tax wedge	18.54	34.33	27.42
Job protection	1.38	2.71	2.13
Unionization	30.75	82.57	83.33
Product market regulation	1.20	1.55	1.28
Active labour market programs	15.76	25.84	64.14
ORDINAL SCALE			
<i>Variable</i>	<i>Market-Oriented</i>	<i>Welfare-Oriented</i>	<i>Tough Love</i>
Employment rate	HIGH	LOW	HIGH
Unemployment rate	LOW	HIGH	LOW
Benefit levels	LOW	HIGH	HIGH
Tax wedge	LOW	HIGH	AVERAGE
Job protection	LOW	HIGH	AVERAGE
Unionization	LOW	HIGH	HIGH
Product market regulation	LOW	HIGH	LOW
Active labour market programs	LOW	AVERAGE	VERY HIGH

The end of welfare

A first and essential step in clarifying the public policy debate around poverty and inequality is to recognize that welfare will never be an appropriate tool in an effective anti-poverty strategy. Welfare has been successful only as an anti-destitution tool, as a means of preventing extreme economic distress among citizens of an otherwise prosperous society. Despite the aspirations of idealists of the 1960s and 1970s, this type of transfer strategy will never form the basis of policy that actually can reduce poverty and inequality.

Welfare struggles with an internal contradiction. It exists to enforce a social minimum, but it does so out of context of the normal economic relationship between effort and reward – in short, it represents something for nothing. Welfare attempts, unsuccessfully, to control moral hazard with social stigma and an intrusive, adversarial and paternalistic administrative culture. Rather than being a force against poverty, it has been a factor in converting short-term economic need into long-term worklessness and exclusion. It is testament to the destructive power of the welfare model that it has succeeded in shrinking expectations of so many adult citizens to the level of its meager benefits.

For many years, I believed that the welfare culture was an unavoidable price of enforcing a social minimum. I no longer believe this is so. Instead of our current system of state charity, consider the possibilities of an income support system that expects and requires an input of socially constructive self-interest from each individual, and in return offers a form of social wage substitution as part of a form of non-entitlement social contract.

My own experience of managing the perceptions related to income support programs suggests this alternate approach would be perceived quite differently, and more positively, by the public and by those needing income support, than the system we have today. And because income security is behavioural policy, perceptions are more than passing important. If state charity delivers demoralization and disempowerment, could an income support system based on active partnership of individual and society deliver more inclusive results?

I would argue that a relentlessly active – and optimistic – support and service structure, overlaid on a much simplified and dignified income support system, is a reform strategy well worth attempting. It may, in fact, help us break out of the current equity/efficiency stalemate – for adults with disabilities, and all Canadians. This is not to suggest an unconditional substitute for the work effort of working-age adults, which may never be within our reach. It does offer the hope of more effective and positive conditionality, without the demoralizing side effects of welfare as it now stands.

Conditionality should, of course, be a two-way street. Some governments have experimented with schemes to help the economically marginalized join the work force, and these efforts are to be applauded. I am not aware of any Canadian government, however, that considers reduction of benefit dependency as a core goal in its human resource development and productivity strategy, or that concentrates resources on the recovery of underutilized human potential in a sustained and determined way.

There are parts of our national economy where expanding the labour force would be easier at present due to high labour demand, and this opportunity should, I would argue, be pursued with urgency. Good times or bad, however, adults with disabilities and other economically vulnerable groups have every right to an equitable share of the benefits of economic participation that comes with being an adult Canadian citizen.

Conclusion

Under what circumstances could public investment in a vulnerable segment of the population be considered a bad thing? This paper argues that current income support policy, for adults with disabilities and the public in general, does our economy and our society a disservice. Canada has made significant strides towards social protection for its citizens, but the current system of income support for working-age adults remains deeply flawed, being both costly and ineffective.

There are alternatives to be considered, in policy models that are relentlessly positive in expectations and assumptions about human potential. Not every adult with a disability or every low-income person will have a job and significant earnings at any given point in time, at least under social or economic circumstances we might now foresee. But for low-income people, and particularly adults with disabilities, employment and earnings are surely an underutilized resource on which many better lives can be built.

Those who worked to create Canada's disability programs certainly did not set out to replace the largely discredited institutional model with virtual institutions, made up of economic barriers and disincentives rather than bricks and mortar. It must be admitted, however, that to a great extent such has been their objective outcome. Similarly, those who forged the existing welfare system may have thought they were eliminating the charity model, when in fact the result was simply to transfer it to state administration.

It should be no surprise that progress will be incremental, that wrong turns will continue to be taken in the search for effective social policy, and that we will continue to learn how to reconcile social and economic goals in a modern society. I believe the next steps in income support policy should be a concerted effort to help adults with disabilities live and work in the mainstream; structural reform of universal, conditional adult basic income support; and systematic public and private sector efforts to recover – for society's sake and for that of the tens of thousands of individuals affected – the wasted human potential currently warehoused in passive income support programs.

Endnotes

1. In this context I use the term “passive benefit” to describe benefits that are intended to contribute to general living expenses rather than specific needs, and that are paid either without behavioural conditions or expectations, or through delivery models like welfare that do not effectively enforce conditionality.
2. Those who are inclined to characterize the National Child Benefit as “neo-conservative” social policy might consider the social policy prescription outlined by the Research Committee of the League for Social Construction (a group that advocated a *socialist* Canada) in 1935, which proposed a public child benefit precisely to address the wage/needs dynamic.

3. The non-disabled and disabled social assistance examples are based on Saskatchewan rates and practice. The categorical disability program example is modeled on Alberta's Assured Income for the Severely Handicapped (AISH) program.
4. The earnings exemptions are calculated according to actual current policies for Saskatchewan social assistance and Alberta's Assured Income Support for the Severely Handicapped (AISH) program.
5. The tax portion of the analysis is based on the federal and Saskatchewan income tax systems for 2008. Once again, Saskatchewan social assistance rates and rules are used for the first two examples, while Alberta's AISH program (Assured Income for the Severely Handicapped) is the model for the categorical disability benefit example. Saskatchewan's disability rental housing supplement has been excluded as atypical of jurisdictions across Canada. Effective marginal tax rates have been calculated, for the sake of greater simplicity, as averages over earned income increments of two thousand dollars.
6. Saskatchewan's support program for individuals with cognitive disabilities, for example, adjusts both maximum benefit levels and taxback turning points based on assessed disability support need.
7. The unweighted average income for single-parent families with one child from social assistance (i.e., welfare) and income-tested benefits across Canada was \$15,700 in 2005 according to the National Council of Welfare [2006].
8. The OECD work included a fourth typology consisting of countries in southern and eastern Europe that are in early stages of a transition to market economies. I have dropped this group from my analysis for the sake of clarity of exposition.

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