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Communiqué

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Alberta welfare reforms a model for other provinces, says C.D. Howe Institute study

The welfare reform program that Alberta embarked on in 1993 has reduced the province's welfare caseload, as a percentage of its population, to levels not seen since before the early 1980s' recession, a success that has important lessons for other provinces, concludes a *C.D. Howe Institute Commentary* released today.

The study, *Back to Work: Learning from the Alberta Welfare Experiment*, was written by Kenneth J. Boessenkool, a Policy Analyst at the C.D. Howe Institute.

Boessenkool points out that, until 1993, shifts in welfare use in Alberta followed national trends: during recessions, the number of recipients shot skyward, but in subsequent periods of economic growth, the number failed to fall to prerecession levels. Then, beginning in 1993, Alberta decided to make welfare a program of last resort by implementing a two-stage reform process.

The first stage involved a change in the administrative culture of Alberta Family and Social Services, as a result of which welfare applicants are now routinely turned away unless they have exhausted all other sources of support. In the second stage, the province brought benefit levels in line with wages earned by Albertans with low incomes. Together, these reforms appear to have contributed to a nearly 50 percent decline in the number of Albertans on welfare, Boessenkool says.

The decline was accomplished mainly by reducing the number of new welfare cases, rather than by pushing off the rolls individuals who were already receiving welfare. "In late 1992, over 14,000 individuals with no previous history of welfare use came onto the caseload each quarter," Boessenkool reports. "By late 1995, that number had dropped to 4,000." Most of those who were denied access to welfare, he says, were young, single, employable individuals.

As to what happened to Albertans who were turned away from welfare, Boessenkool finds little evidence to support the assertion that failed applicants migrated to British Columbia to take advantage of more generous provisions in that province. Data on the province of origin of welfare recipients in British Columbia, he says, fail to reveal a change in the proportion from Alberta, despite the massive swings in Alberta's welfare rolls. Boessenkool also finds no

evidence that failed applicants may have turned to crime, and little evidence of increased use of federal unemployment insurance (UI) benefits.

There is evidence, however, that a portion of those clients who were refused benefits found alternative sources of support in the form of provincial education and training programs as well as federal training programs under UI — programs that cost far more than regular benefits. The annualized cost of the voluntary workfare program, for example, was more than three times the single, employable benefit level.

Most of these programs were of relatively short duration, however, and therefore cannot account for the continued drop in Alberta caseloads over the 1993–96 period he surveyed, Boessenkool says. Nonetheless, he argues, these programs, including grants to allow individuals to pursue postsecondary education, did play a role in reducing the number of new welfare cases and in increasing the human capital of those who, under the former system, might have ended up on passive welfare assistance.

Boessenkool examines evidence that individuals who were turned away from welfare returned to work. He points out that the Alberta economy grew more slowly during the 1993–96 period than it did during the 1980s, when welfare caseloads in Alberta and other provinces fell very little, if at all, and he argues: “Those who point to economic growth as the reason why Alberta welfare use was cut in half must also explain why previous stronger and longer periods of growth both in Alberta and in other provinces failed to have anywhere near that effect.”

Boessenkool notes that total employment growth in Alberta in 1994 and 1995 was the strongest in more than ten years and that, for the first time in a decade, employment growth for those most affected by the welfare reforms kept pace with economic growth: “During the 1980s and early 1990s, a barrier prevented Albertans under age 25 from enjoying the rewards of economic growth in the form of new jobs. The administrative and benefit changes made to the Alberta welfare program appear to have played a role in lowering that barrier,” Boessenkool concludes. “Alberta may have discovered a key link to the youth employment mystery.”

Boessenkool cautions that his analysis is suggestive rather than conclusive: “Had Alberta kept track of those who were turned away from welfare, one could make a more confident appraisal. Unfortunately, these data appear not to exist, and merely tracking where former recipients went would not provide an accurate sense of what happened to the many individuals who were turned away from welfare and therefore never became ‘former’ recipients.”

“Policy experimentation is a great asset of Canadian federalism,” Boessenkool concludes. “The 1993 Alberta welfare reform is one experiment from which all Canadians and their governments can benefit.”

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Communiqué

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Les réformes de l'assistance sociale en Alberta sont un modèle pour les autres provinces, affirme une étude de l'Institut C.D. Howe

Le programme de réforme de l'assistance sociale qu'a entrepris l'Alberta en 1993 a diminué le nombre d'assistés sociaux dans cette province, exprimé en pourcentage de la population, à un niveau qui n'avait pas été observé depuis la période précédant la récession du début des années 80; il s'agit là d'une réussite qui comporte d'importantes leçons pour d'autres provinces, conclut un *Commentaire de l'Institut C.D. Howe* publié aujourd'hui.

L'étude, intitulée *Back to Work: Learning from the Alberta Welfare Experiment (Retour au travail : les leçons de l'expérience albertaine en matière de bien-être social)*, est rédigée par Kenneth J. Boessenkool, un analyste de politique à l'Institut C.D. Howe.

Boessenkool souligne que jusqu'en 1993, les changements dans l'utilisation du bien-être social en Alberta suivaient les tendances nationales : durant les récessions, le nombre d'assistés sociaux grimpait en flèche, mais durant les périodes de croissance économique qui ont suivi, ces nombres diminuaient sans retomber aux niveaux de prérécession. Puis, à partir de 1993, l'Alberta a décidé de faire du bien-être social un programme de dernier recours par la mise en œuvre d'un processus de réforme en deux étapes.

La première étape portait sur un changement dans la culture administrative des services sociaux et à la famille Alberta, qui a fait que les requérants sont maintenant automatiquement refoulés à moins d'avoir déjà épuisé toutes les autres sources d'aide. Dans une deuxième étape, la province a aligné les niveaux de prestations sur les salaires des Albertains à faible revenu. Ces réformes semblent avoir réussi à diminuer de près de 50 p. 100 le nombre d'Albertains qui reçoivent de l'assistance sociale, explique Boessenkool.

Cette diminution découle principalement d'une réduction du nombre de nouveaux prestataires, plutôt que d'une élimination des individus qui l'étaient déjà. « Vers la fin de 1992, plus de 14 000 personnes n'ayant encore jamais eu recours au bien-être social s'ajoutaient au nombre de prestataires chaque trimestre, indique Boessenkool. À la fin de 1995, ce chiffre était tombé à 4 000 ». La plupart de ceux qui se sont vus refuser l'aide sociale, ajoute-t-il, étaient des individus jeunes, célibataires et aptes au travail.

Pour ce qui est du sort des Albertains à qui l'on a refusé l'aide sociale, Boessenkool indique qu'il ne semble guère établi que les requérants rejetés ont émigré vers la Colombie-Britannique

pour profiter des dispositions plus généreuses de cette province. Les données fournies par les assistés sociaux de la Colombie-Britannique sur leur province d'origine n'indiquent pas de changements dans le pourcentage d'individus provenant de l'Alberta, et ce en dépit des énormes fluctuations dans le nombre de prestataires en Alberta. Boessenkool ne trouve aucune preuve que les requérants rejetés se sont tournés vers des activités criminelles, et peu de preuves d'une utilisation accrue des prestations fédérales d'assurance-chômage (a.-c.).

Par contre, il existe des preuves qu'un pourcentage des clients à qui l'on a refusé des prestations ont eu recours à d'autres formes de soutien, sous la forme de programmes provinciaux d'éducation et de formation, ainsi que des programmes fédéraux de formation sous les auspices de l'a.-c. — des programmes qui sont bien plus coûteux que les prestations ordinaires. Le coût annualisé du programme de travail volontaire, par exemple, était trois fois plus élevé que la prestation à une personne célibataire et apte au travail.

Toutefois, la plupart de ces programmes sont relativement de courte durée et ne peuvent donc expliquer la diminution constante du nombre de prestataires en Alberta durant la période qu'il a étudiée, soit de 1993 à 1996. Boessenkool soutient néanmoins que ces programmes, y compris les bourses permettant aux individus de poursuivre des études postsecondaires, ont contribué à la réduction de nouveaux cas d'assistés sociaux et à accroître le capital humain de ceux qui, sous l'ancien système, auraient pu se retrouver à l'assistance sociale passive.

Boessenkool recherche l'hypothèse selon laquelle les individus à qui l'on a refusé l'aide sociale sont retournés au travail. Il souligne que l'économie albertaine a connu un essor plus lent durant les années 1993 à 1996 que durant les années 80, lorsque le nombre d'assistés sociaux tant en Alberta que dans les autres provinces n'a baissé que sensiblement, et il émet le commentaire suivant : « Ceux qui invoquent la croissance économique pour justifier la diminution de moitié des dépenses d'assistance sociale en Alberta, doivent alors expliquer pourquoi durant des périodes d'essor plus fort et plus soutenu en Alberta et dans d'autres provinces, on n'a pas observé le même phénomène ».

Boessenkool indique qu'en 1994 et en 1995, la croissance de la population employée en Alberta fut la plus importante depuis plus de 10 ans et que pour la première fois en une décennie, la croissance de l'emploi pour ceux qui ont été le plus touchés par la réforme de l'assistance sociale a suivi le rythme de la croissance économique. « Au cours des années 80 et au début des années 90, des obstacles empêchaient les Albertains de moins de 25 ans de profiter des avantages de la croissance économique sous la forme de nouveaux emplois. Or, les modifications administratives et de prestations que l'on a apportées au programme de bien-être social semblent avoir contribué à réduire ces obstacles, conclut Boessenkool. L'Alberta a peut-être découvert la clé du mystère du chômage chez les jeunes ».

Boessenkool prévient qu'il s'agit là d'une analyse suggestive et non concluante : « Si l'Alberta avait suivi ceux à qui elle a refusé l'assistance sociale, on serait en mesure d'établir une évaluation plus solide. Malheureusement, ces données ne semblent pas exister; en ne suivant que les anciens assistés sociaux, on ne peut véritablement avoir une idée de ce qui est advenu des nombreux individus à qui l'on a refusé l'aide sociale et qui ne sont donc jamais devenus "d'anciens" prestataires ».

« Les essais de politique constituent un important avantage du fédéralisme canadien, conclut Boessenkool. La réforme de l'assistance sociale de 1993 en Alberta en est un exemple dont tous les Canadiens et leurs gouvernements peuvent tirer profit ».

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Back to Work:
*Learning from the
Alberta Welfare Experiment*

by

Kenneth J. Boessenkool

The two-stage welfare reforms in Alberta, instituted in 1993, have been an important policy experiment. The evidence presented here suggests that the province turned a large number of potential welfare recipients — in particular, young, single, and employable individuals — from welfare toward the labor force. Many were directed to training or education programs; many more appeared to have returned to work.

Making welfare a program of last resort, providing active assistance before a stint on welfare (the first stage), and bringing benefit levels in line with existing low-income wages (the second stage), appear to have contributed to a nearly 50 percent decline in Alberta's

welfare caseload in the subsequent three years.

Important aspects of this reform are transferable to other Canadian jurisdictions. In particular, the focus on preventing access to welfare is a subtle, but important reform. Setting reasonable welfare benefit levels is fraught with both ideological and methodological difficulties. Quantifiable measures, such as earned income for the lower deciles and a needs index, are, however, available to provide reasonable upper and lower bounds to these disagreements.

Policy experimentation is a great asset of Canadian federalism. The 1993 Alberta welfare reform is one experiment from which all Canadians and their governments can benefit.

Main Findings of the Commentary

- Over the past 15 years, welfare use has increased dramatically in Canada — ratcheting up during recessions but not falling to prerecession levels during subsequent periods of growth.
- Welfare use in Alberta had a similar history up to 1993, when the province introduced important changes to its welfare program.
- The first change was in the administrative culture at the Alberta Department of Family and Social Services. First-time welfare applicants were routinely turned away (unless they could prove exceptional circumstances, such as family abuse) until they had exhausted all other sources of support.
- The second change was a reduction in welfare benefits to bring them into line with the wages earned by lower-income Albertans.
- Following these reforms, Alberta welfare caseload levels began to decline, eventually falling by nearly 50 percent.
- Closer inspection reveals that Alberta accomplished its reductions primarily by lessening new inflows into welfare, rather than pushing individuals off the rolls.
- Young, single, employable individuals were the people most affected by the changes.
- What happened to the individuals who were turned away from welfare? Although the evidence is tentative,
 - there is little support for the proposition that they went to British Columbia, went on federal unemployment insurance benefits, or turned to a life of crime;
 - there is some support for the proposition that individuals turned to federal and provincial training programs, including postsecondary education, financed by grants from the Alberta Students Finance Board.
- There is also support for the proposition that many went back to work. Adjusted for economic growth, job growth was particularly strong in the year following the reforms. In particular, the long-standing failure of youth employment to keep up with the economy appears to have been reversed.
- The Alberta experiment holds lessons for other Canadian provinces: administrative culture matters, as do benefit levels, particularly those levels in relation to the earnings of low-income individuals.
- Data problems are pervasive in looking at Canada's welfare system. An improved system of recordkeeping, perhaps run by the provinces, would do much to increase understanding of this important part of Canada's safety net.

During the 1980s and early 1990s, the number of Canadians on provincial welfare increased nearly every year. In bad times, welfare enrollments shot skyward. In good times, they fell slightly in some jurisdictions and rose in others, but across Canada after each recession, welfare caseloads stayed well above the level that preceded the downturn.

In 1993, Alberta began a determined effort to reduce its welfare caseload. The objectives included integrating income support and employment-related services, providing new employment and training opportunities, improving access to mainstream student assistance, and removing disincentives to work and train.¹

Fiscal savings also motivated the changes. The Alberta government began a period of substantial fiscal retrenchment in 1993, and the welfare package was expected to — and eventually did — contribute to the overall reduction in spending.

In the three years following the changes, Alberta's welfare caseload fell by nearly half (from just under 95,000 to just under 50,000). The consequent reduction in costs exceeded the fiscal targets set in 1993. Although the shift affected individuals across the entire demographic spectrum, much of the decline was the result of preventing young, single, employable individuals from gaining access to welfare.

Alberta's own review of the changes² focuses on the caseload and fiscal impacts, largely ignoring the question of what happened to individuals who might formerly have been on welfare. Did they relocate to jurisdictions with more generous welfare provisions? Did they go into the underground economy, or, worse, were they forced into a life of crime? Were they redirected to other government programs? Or did they return to work? The lack of clear answers to these questions has prompted headlines such as "After all the cut-backs, many welfare cases have gone, but where?"³

The analysis here, based on a macro evaluation of the changes, suggests that a large

number of former and potential welfare recipients were directed toward training programs. There is also tentative evidence that many found their way back to the workforce.

Other provinces are now remodeling their welfare programs, or thinking about doing so. British Columbia and Ontario recently began changes, while Quebec, which has shelved the changes it initiated in the late 1980s, is in the early stages of its own efforts. It is important, therefore, to learn from the Alberta experience. What is known about the effects of the changes? How might other provinces adjust their welfare systems in that light? What sort of monitoring systems would be desirable?

This Commentary is a preliminary attempt to answer these questions. In the opening section, I provide some background, including an explanation of the way social assistance is organized in Alberta. The second section describes the changes instituted in 1993, and the third evaluates their impact. In the subsequent two sections, I examine several explanations of where individuals and families went once they were off or refused welfare; some scenarios seem much more likely than others. Implications for welfare reform in other Canadian jurisdictions conclude the study. (For a comment on the data used, see Box 1.)

The Context

During the past 15 years, the total number of welfare cases in Canada has ratcheted upward. They have increased during recessions but have never declined to prerecession levels during subsequent periods of economic growth (see Figure 1). The early 1980s' recession increased caseloads and, despite strong employment and economic growth, the cross-Canada total did not fall over the 1985–90 period (a modest decline was erased by a rise in 1989). With the recession in the early 1990s, caseloads rose sharply, and did not fall in 1993 and 1994 despite modest economic growth and fairly strong employment growth.

Individual provinces, of course, had varied experiences. Of the four largest, Ontario and

Box 1: *The Data Problem*

One of the important reasons for analysts' relative inattention to provincial welfare programs — especially compared to the attention lavished on the federal unemployment insurance program — is the difficulty in finding consistent data across provinces.

Each March, the federal government collects data on total caseloads and the number of individuals on welfare (a family of four is counted as one case, but obviously represents four individuals). These data are available and fairly easy to use for interprovincial comparisons, but the information they provide is limited. More specific data, by demographic or employment characteristics, can often be found only at the provincial level. This information is based primarily on caseloads, and the provinces differ considerably in records they keep, as well as in the way they

categorize cases. Each may also alter its procedures over time, making the construction of time series difficult, if not impossible.

For the interprovincial comparisons in this Commentary, I report the federal data, using individuals (as a percentage of population), rather than caseloads, to make the likenesses and contrasts meaningful. All the monthly or quarterly figures come from data provided by Alberta's Department of Family and Social Services. Alberta substantially changed its classification and data collection system midway through 1993. Portions of the data for December 1992 and March 1993 were recalculated by the department to provide a continuous data series. Because the latter recalculation was much more extensive than the former, I use March 1993 as the initial data point for my analysis.

Alberta more or less tracked the cross-Canada record throughout the 1980s, but British Columbia and Quebec managed to translate the strong employment and economic growth rates of the late decade into a reduction in welfare caseloads. The recession at the beginning of the 1990s sent recipient levels upward in all four provinces, with the increase most pronounced in Ontario.

Following that recession, the number of recipients in British Columbia, Ontario, and Quebec declined modestly but stayed well above prerecession levels. Alberta's welfare program, however, took a distinctly new path in 1993. Its recipient levels began falling quickly and decisively. By 1996, Alberta recipients as a percent of population had fallen to levels not experienced since 1982.

Benefit levels also diverged provincially. In 1986, benefits for single, employable individuals in Alberta were 53 percent higher than the average in British Columbia, Ontario, and Quebec, and the rate for married couples with children was 22 percent higher. But by the early 1990s, Ontario had become the high-paying large province, with benefit levels about 40 percent higher than those of the other three.⁴

The Alberta Welfare Program

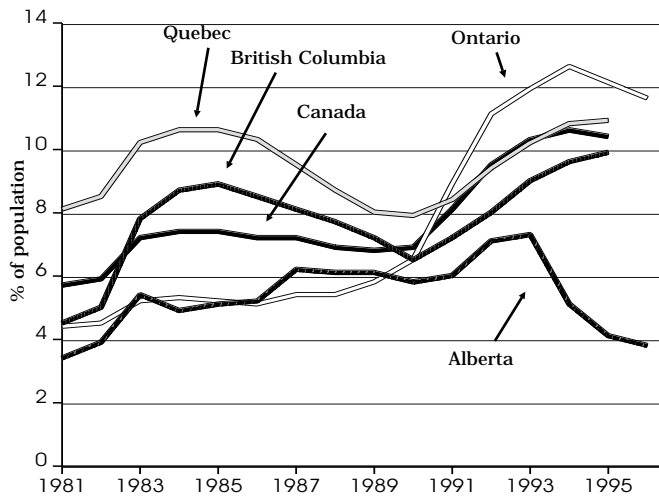
Before I review the 1995 changes in Alberta welfare policy, a quick synopsis is in order.

Alberta's Department of Family and Social Services (AFSS) delivers two programs: a welfare program called Supports for Independence (SFI), and Assured Income for the Severely Handicapped (AISH).

AISH provides support for many individuals with severe physical and mental disabilities. But individuals whose need exceeds AISH benefit levels (because they have dependents, for example) are transferred to SFI, from which they receive benefits from a subprogram, Assured Support, that is designed for people who are assessed as permanently unemployable ("unable to work") or who face multiple severe employment barriers, such as age, low education, and/or inadequate skills ("unavailable for work").

From 1993 through 1996, the period under study, the number of cases in AISH and the related SFI subcategory of Assured Support grew at a rate similar to that of previous experience. Aside from a slight increase in benefits, the changes during and following 1993 were not directed at those with severe

Figure 1: Canadians on Welfare, Canada and Selected Provinces, 1981–96



Sources: Canada, Department of Human Resources Development; and various provincial departments.

disabilities. Therefore, the remainder of this Commentary focuses on the SFI program, and all the Alberta statistics given below are based only on SFI clients (including those on Assured Support).

The Changes

In 1993, Alberta made two kinds of changes to its welfare program. Early in the year came administrative changes, such as tightened eligibility and a renewed focus on misuse. Later the same year, it adjusted its welfare benefit levels.

A New Administrative Culture

Alberta began its welfare reform with changes in the administrative approach of AFSS, making admission to the welfare rolls more difficult to achieve and emphasizing subsequent checks to reduce misuse of the system.

A Shift in Emphasis

The Alberta minister who implemented the reforms was Mike Cardinal, whose experiences,

both as an aboriginal and a former social worker on native reserves in northern Alberta, had led him to believe in the damaging effect of long-term welfare dependency. As he says in a representative statement:

[t]he system was a corrupting influence, and was devastating to the native population in particular. Prior to 1950, communities in northern Alberta were independent from government and completely self-sufficient. Everybody worked, there was no welfare system, we had our own health care system, alcoholism was very limited, family breakdowns were very limited, people practiced their culture, and lived off the land in a traditional way.

We changed that with good intentions, but within 15 or 20 years (by 1970) 80 to 90 percent of the members in those communities had moved onto the welfare system completely....I know, and we all know in Canada, that welfare is not the best way of dealing with poverty and unemployment.⁵

Cardinal concluded that the emphasis in welfare programs should shift from providing financial assistance to providing assistance in returning to the workforce. During the late 1980s and early 1990s, under the auspices of the previous minister, he piloted many of his ideas in poor, mostly native, welfare-dependent northern Alberta communities. These pilot projects formed the backbone of the reforms implemented when he became minister in late 1992 and presided over a major reorientation of the culture of AFSS.

Departmental statements insisted that SFI was a program of “last resort.”⁶ (Official documents frequently say as much, but in Alberta the reality seems to have corresponded to the rhetoric.) After 1993, applying for welfare became a two-step process for individuals deemed employable. Officials routinely denied the first application (making exceptions in cases of hardship, such as family abuse⁷). The second stage would commence only if the applicant could show the welfare office that he or she had taken steps to exhaust other avenues, such as training programs and employment searches.

Cardinal's views were reinforced by growing evidence that the propensity to receive income support increases with an initial stint on that support. Program participants "learn" how to use the system and alter their economic behavior to take advantage of it.

How important is this effect? A recent study of unemployment insurance (UI) finds that one episode of collecting it permanently increases, by 4.2 to 12.3 percent, the probability of an individual's returning to the program.⁸ The authors explain:

As workers became exposed to UI for the first time for a variety of reasons, they learned about the functioning of the system and adjusted their behavior accordingly....[f]or lower skilled workers, being employed on a part-year basis may be an attractive long run option. For these workers, a first experience may have a significant effect, therefore, on the future probability of receiving UI benefits.⁹

This effect is likely to be more pronounced for welfare than for UI because welfare recipients are likely to come from the bottom of the income distribution and often have low skills.¹⁰ By making an initial stint on welfare more difficult, Alberta could permanently reduce its levels of welfare over the longer run.

Fraud and Eligibility Reviews

The other administrative change has been a renewed focus on clients' eligibility for the benefits they receive, thus reinforcing the goal of preventing individuals from getting on the welfare rolls.¹¹ Although the department committed no additional funds to these activities, the declining caseload meant an increase in emphasis on them.

Three programs in particular stand out. First, department review officers perform follow-up checks of new clients to verify eligibility for benefits. Such reviews resulted in closure of 22 percent of the cases checked from April to November 1995.

Second, 30 investigators and 12 administrative support staff review complaints of fraud

and misuse. From April to December 1995, for example, the department received 6,204 complaints, of which it investigated 1,468. The results were 288 charges and 188 convictions, which netted \$1.3 million in court-ordered restitution and \$3.5 million in out-of-court settlements.

Third, department staff also randomly check files and conduct home visits to confirm both eligibility and the appropriate level of benefits. From November 1994 to November 1995, officers reviewed 21,000 files and conducted 7,000 home visits. This work resulted in the closure of nearly 1,500 files and the revision of many others for overpayment of benefits; total savings amounted to nearly \$1 million.

Unfortunately, the sparse nature of the data available makes it difficult to determine whether the success of these initiatives increased after 1993. Nevertheless, the department's own reviews suggest that its administrative focus on tighter eligibility requirements applied not only to potential clients but to existing ones as well.

Benefit Changes

Following the administrative changes that took hold in early 1993, AFSS moved to the second stage of its reform — a reduction in some benefits to ensure that "those on social assistance received a level of support not exceeding that earned by working Albertans."¹²

Alberta did not cut its benefits uniformly for all recipients. Rather, it focused its most severe reductions on single, employable individuals. They faced a 19 percent decline in benefits, which brought the amount just below the minimum wage. A single parent with a small child faced a 13 percent decline, and a two-parent family with two children a 12 percent decline.

Did the Alberta government cut benefits too far? Had its benefits before the cuts been too high? Answering these questions requires a foray into the economics of designing welfare programs.

The design of any social assistance program faces a fundamental tradeoff. The benefits floor level must be high enough to provide an acceptable level of income to a household with no outside earnings. To target only those households, the marginal tax rate on earned income must be high enough to exclude most people who work at low wages. But — and here is the tradeoff — this high marginal tax rate is a disincentive to earn income. If the ultimate aim of welfare policy is to return employable individuals to work, program designers must address this tradeoff.

Factors Difficult to Quantify

The raw level of welfare benefits and the tax-back rate clearly affect this tradeoff. So do a number of other factors. Some of them are quantifiable, and I discuss them below. Others are more difficult to quantify but are important to keep in mind when evaluating the level of welfare benefits in any jurisdiction.

One of these factors is the relative cost of working versus being on welfare. In setting a welfare benchmark, outlays for items such as transportation, appropriate clothing, and tools or equipment play an important role in determining whether a particular recipient is better off working than on welfare. These costs are difficult to quantify because they differ according to the skill-set, location, and many other personal characteristics of recipients. For example, unattached singles do not have to worry about childcare, but its cost may provide single parents with a strong incentive to accept welfare benefits rather than a slightly higher wage.¹³

A second difficult-to-quantify factor is the in-kind benefits available to welfare recipients, such as low-cost housing, free prescription drugs, and dental care for themselves or their children. The employment income at which these benefits cease, coupled with the availability of comparable employment benefits, may strongly influence the work-welfare decision. Thus, any comparison of benefit levels across jurisdictions or over time must consider

how individuals' incentives are affected by in-kind benefits and the cutoff levels for their receipt (which may differ from the cutoffs for cash benefits).

The Welfare Wall

A common image in thinking about benefit design is the welfare wall, which is created by the interaction between levels of benefits and taxes, including taxbacks. The wall appears when the interaction results in a prohibitive tax rate, sometimes more than 100 percent, which can affect the economic incentives of welfare recipients who are contemplating earning some income.¹⁴

Before the 1993 benefit reductions, the Alberta welfare taxback rate for single individuals was 90 percent (after a small earnings exemption of about \$200). On top of that, Canada Pension Plan premiums had to be paid on earnings of more than \$3,500, and UI premiums and provincial income tax kicked in for earnings of more than \$7,000.

Thus, a single recipient who earned \$5,000 in a year ended up only \$308 better off than a similar recipient who earned \$1,000 (see Table 1). And welfare benefits ceased entirely if earned income reached \$5,571.

When Alberta lowered benefits in 1993, it also modestly decreased the welfare taxback rate to 75 percent. The nature of the fundamental tradeoff changed a bit, but the total marginal rate facing individuals who earned between \$4,000 and \$6,000 is still a prohibitive 80 percent.

Under this new regime, the difference between the two welfare recipients has increased approximately threefold. But the absolute difference is only \$908, total takehome is less than it was for the same effort before the reform, and welfare payments will cease when earned income reaches \$5,793 (a slightly higher cutoff than before the changes).

In brief, people on welfare still have little incentive to find low-paying or part-time work, especially if doing so means an increase in work-related costs or the loss of in-kind benefits.

Table 1: Annual Takehome Income of a Single Welfare Recipient with Low-Level Earnings, Alberta

	Employment Earnings of	
	\$1,000	\$5,000
<i>(nominal dollars)</i>		
<i>Before 1993 Benefit Reduction</i>		
Gross income (welfare benefit + earnings)	6,315	10,315
Taxback (CPP + welfare taxback)	702	4,394
Total takehome	5,613	5,921
<i>After 1993 Benefit Reduction</i>		
Gross income (welfare benefit + earnings)	5,634	9,634
Taxback (CPP + welfare taxback)	664	3,756
Total takehome	4,970	5,878

Source: Author's calculations.

Primarily because the taxback rate remains high, the changes have done little to dismantle the welfare wall for those who remain on welfare. The lower benefit levels, however, should have increased incentives to forgo welfare for work. The new wall is not much lower, but its new placement means fewer people are forced to scale it.

Relative Benefit Levels

The welfare wall is an important consideration in setting taxback rates. However, it offers little guidance for setting the appropriate absolute level of benefits, a task for which some sort of benchmark is well suited. One such guide is the level of wages actually earned by workers near the bottom of the wage scale (see Boxes 2 and 3 for a discussion of alternate benchmarks).

The relationship between actual wages and welfare benefits is important because having the latter exceed the earnings of a sizable portion of the workforce creates incentives for low-paid workers to turn to welfare. The like-

lihood of this disincentive's having an effect is probably partially related to individuals' previous experience with income support programs. Recall the previous discussion of the learning curve that seems to affect individuals' propensity to use such programs. Low-income workers, who are vulnerable to economic fluctuations, may find themselves looking for help during an economic shock. If they go on a welfare program whose benefits are relatively high, they quickly learn that their economic position has improved. Once the economic shock has passed, this improvement may tempt them to continue to receive higher welfare benefits rather than take an income cut by returning to the workforce.¹⁵

Welfare benefits above actual earnings levels may also undercut the effectiveness of training and placement programs. Suppose an individual completes such a program and finds that the jobs immediately available provide remuneration near the bottom of the wage scale while returning to welfare would provide larger benefits. He will clearly be tempted to forgo the job and its long-term advantages for the higher income level on welfare.

Overall, if welfare benefits appear too high relative to the lower portion of the wage scale, reducing them should mitigate the temptation to turn to welfare. Many employables will end up with lower takehome incomes, but that pay will come from the workplace, rather than welfare, a situation society has two reasons to prefer. First, employment maintains or increases human capital, which erodes for people on welfare. Indeed, human capital depreciation is a severe problem, especially for young and likely low-skilled employables. A reduction in human capital at a young age can bring about a dramatic reduction in lifetime earnings. The downside of lower benefits should, therefore, be offset over time by the gains to the stock of human capital.

Second, welfare use can have long-term intergenerational effects. Longitudinal studies

Box 2: *Alternative Benchmarks for Setting Welfare Benefits*

Finding an appropriate benchmark for welfare benefits is fraught with methodological as well as ideological minefields. Not surprisingly, there are as many possibilities as there are commentators who use them.

Roughly speaking, benchmarks are either relative or absolute. Those who prefer relative measures prefer a benchmark designed to highlight disparities in income, while those who prefer absolute measures prefer a benchmark designed to highlight deprivation.

The National Council on Welfare, for example, compares welfare income to the low-income cut-off (LICO) and to the average income in each province. Both measures are, more or less, relative ones* and may be important to show the relative gap between various levels of income. Yet various conceptual difficulties suggest that these indicators are insufficient by themselves. The LICO, for example, is extremely income sensitive. The 1995 LICO for single people living in large cities was a little less than \$17,000. Welfare benefits set at 50 percent of LICO may sound unappealingly low — yet Canada's per capita disposable income (adjusted for inflation) was at this level only 30 years ago.** Comparing welfare rates with the average wage also gives little more than an idea of the relative position of welfare benefits to earned income and thus is of little help in setting absolute levels of benefits.

The relative nature of these measures has led some to prefer a more absolute benchmark. One such possibility is a needs-based benchmark — for example, the cost of a basket of goods deemed

essential.† It seems inarguable that benefit levels should not fall below what is required for basic survival, and a needs-based measure can provide a useful floor.

Yet needs-based measures also have their difficulties. What is a necessity in the eyes of one person may well be a luxury in the eyes of another. Furthermore, a wealthy society such as Canada may wish to provide welfare recipients with more than the bare necessities. Thus, a defensible value for a ceiling is needed. One candidate is income levels at the bottom end of the income distribution. The economic rationale is that welfare benefits should not exceed what an individual could reasonably earn outside the program. This measure is a relative one, but it fits well with the goal of ensuring that incentives for those on welfare are biased toward working, rather than staying on welfare.

* Technically, the LICO is needs based in that the calculation involves individuals' or families' spending 20 percent more than the average on food, shelter, and clothing. The current LICOs, however, still use a base calculated in 1978, which is updated using the consumer price index but has not been adjusted for changes in income levels or in the relative costs of food, shelter, and clothing. The LICO has thus become, for all intents and purposes, a relative measure.

**These numbers appear in William M. Scarth and William B.P. Robson, *Equality and Prosperity*, Policy Study (Toronto: C.D. Howe Institute, forthcoming).

† For an example, see Christopher Sarlo, *Poverty in Canada*, 2d ed. (Vancouver: Fraser Institute, 1995).

in the United States suggest that the children of parents who work have much better educational and labor market attainments than children whose parents have had previous stints on welfare.¹⁶

Movement over Time

What has been the historical relationship between earnings levels and welfare benefits in Alberta? Between 1982 and 1993, the ratio of welfare benefits to after-tax income for single individuals stayed remarkably constant. Welfare benefits as a percentage of after-tax second-decile earnings straddled 40 percent (Table 2).

The same ratio for couples with two children stayed closer to 100 percent. In terms of the less-reliable first decile (see Box 2), the ratio bounced around a bit more, but showed a downward trend over this period.

The October 1993 benefit changes (reflected in the 1994 figures in Table 2) moved the ratio of benefits to after-tax income at the second decile for single employables to 34 percent, a 17 percent decline from its previous ten-year average. For couples with children, the ratio fell to 91 percent, a more modest 10 percent decline. In terms of first-decile earnings, the magnitude and direction of the changes were similar.

Box 3: Using Actual Wage Levels as a Benchmark for Welfare Benefits

In considering the level of welfare benefits over time, every program designer and analyst faces the problem of what to measure them against. As the text suggests, a good theoretical benchmark is an amount slightly less than a low market wage. The target should be based on wages for individuals who are employed full time and for a full year. A suitable target would be within the first decile of such earnings.* But obtaining such information on market wages presents some practical difficulties.

Statistics Canada publishes long historical series of quintiles of all market earnings, but special runs are necessary to generate deciles for employment earnings. The data used in most of this Commentary are average earnings in each decile based on full-year, full-time wage and self-employment earnings for males. Since these data include self-employment income (which can be negative),

the average amounts tend to fluctuate sharply over time, and the average first decile earnings tend to be unrepresentative of actual earnings at this level. The second decile is more stable and, therefore, more convenient for analysis across time.

The data in Table 4 use a more recent set of unpublished data that include the top earnings in each decile, so the first decile is less prone to fluctuations. (The cost of getting the entire historical series of data on this basis would have been prohibitive.)

* Although few Canadian families earn this level of income (unattached individuals made up 78 percent of the lowest quintile), those that include children still face a labor market in which potential earnings begin at this level. Statistics Canada, *Income after Tax: Distributions by Size in Canada, 1994*, cat. 13-210.

These changed ratios should have changed the incentives for individuals facing the labor market. For single employables, welfare income fell well below average first-decile earnings, which would have improved their incentives for taking these low-paying jobs. Similarly, the incentives should have improved for individuals in households with children, although the effect would have been smaller, given the smaller decline in the benefits-to-earnings ratio.

The Impact

How did the reforms affect welfare in Alberta? The short answer is that, between early 1993 and mid-1996, the number of welfare beneficiaries in the province declined by nearly half, from about 95,000 to just under 50,000, and the cost of benefits fell by nearly 40 percent. (The reduction in benefit levels and recipients was somewhat offset by increases in benefits to some categories of people, primarily the severely disabled.)

Because the administrative and benefit changes took place at separate times (the former early in 1993, and the latter near the end

of that year), it is possible to determine the impact of the two independently. Fortunately, sufficient data also exist to determine the kinds of people who were most affected by these changes.

New and Reopened Cases

Alberta, like other provinces, has a sizable turnover of welfare cases each month. In 1993, for example, both the number of opened cases (112,497) and closed cases (128,032) exceeded the highest caseload level in that year. This turnover suggests the possibility of two quite different approaches to reducing welfare roles: increasing the number of cases closed, and decreasing the number opened.

The result of Alberta's administrative focus on reducing entrants to welfare shows up in a reduction in the number of "opened" (new and repeat) caseloads between 1993 and 1996. During the second half of 1992, that number had been about 37,000 per quarter. As early as mid-1993, it had fallen to 25,000, and by early 1996 to about 20,000.

Opened cases can be divided into new cases (clients with no previous contact with

Table 2: Ratio of Welfare Benefits to Average After-Tax Male Earnings, Alberta

	1982	1986	1989-90	1991-93	1994
	(percent)				
<i>Decile Two</i>					
Single employable	44	37	42	41	34
Single parent, one child	n.a.	n.a.	n.a.	n.a.	62
Couple, two children	n.a.	103	97	102	91
<i>Decile One</i>					
Single employable	118	108	115	96	82
Single parent, one child	n.a.	n.a.	n.a.	n.a.	141
Couple, two children	n.a.	223	246	208	188

Note: I included social assistance benefits and various refundable tax credits (child, GST, and so on) in welfare benefits and excluded family allowances from both welfare and after-tax incomes. Earnings are full time, full year.

Sources: Income statistics are from unpublished data provided by Statistics Canada, Survey of Consumer Finances. Welfare rates are based on values provided by Alberta, Department of Family and Social Services.

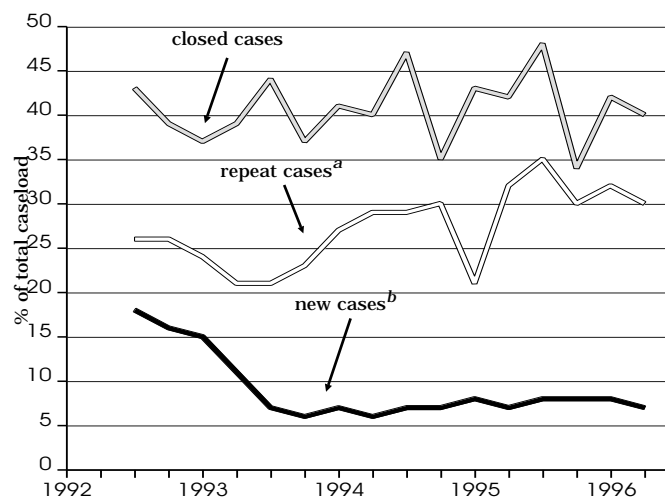
the welfare system over a specified period) and repeat cases (Figure 2). In Alberta, the reduction in the number of new cases was the most important cause of the falloff. In late 1992, they had been about 18 percent of the caseload; by 1996, they had stabilized at 7 percent. The number of repeat cases, however, increased as a percentage of the total caseload.

Indeed, the shifting numbers reveal an interest phenomenon. Effective July 1993, Alberta redefined "reopened" cases from persons who had received SFI benefits in the previous six years to those who had received benefits in the previous two years. This change should have decreased the proportion of repeat cases and increased the proportion of new ones. Yet repeat cases failed to fall (suggesting that most had access to welfare within the previous two years), and new cases continued to decrease.

Also interesting is the fact that the proportion of closed cases decreased very little during the period reflected in Figure 2.

In brief, only a small portion of the decrease in the Alberta welfare caseload can be credited to moving existing cases off the rolls. The significant reduction came from a sharp

Figure 2: Welfare Caseloads, Alberta, mid-1992 to mid-1996



^a Opened cases in which the clients had received benefits sometime in the previous two years, had subsequently left the welfare system, and then returned.

^b Opened cases in which the clients had no record of benefits in the previous two years.

Source: Alberta, Department of Family and Social Services.

decrease in individuals who were applying for welfare for the first time.

The most important falloff in new clients occurred early 1993, and thus much of the credit must go to administrative, rather than to benefit, changes (although there was certainly some acceleration of moving people off welfare once the benefit changes took place). This conclusion could be made firmer had Alberta tracked application and acceptance/rejection rates. Unfortunately, the province does not publish this data.

Demographics

What were the demographic characteristics of the Albertans who were kept from the welfare rolls? Since much of the impact of welfare reform was in reducing inflows, it would have been extremely helpful if the Alberta government had kept more detailed track of the characteristics of its applicants and closures. No such records exist, however, so a demographic profile must rely on changes to the net number of welfare clients, rather than to changes in flows.

Comparing the demographics of the welfare caseload in early 1993 with that of early 1996 suggests that young, single people made up a large portion of the total reduction. In March 1993, single individuals made up 47 percent of the welfare caseload. Over the following three years, singles made up almost half of the total caseload decline (Table 3). Yet despite their massive falloff, single individuals still made up 47 percent of the welfare caseload in March 1996. In other words, although singles made up a substantial portion of the decline, they continue to be a significant part of the total caseload.

Single parents made up 24 percent of the total decline. As a proportion of the total caseload, however, they increased from 30 percent in March 1993 to 36 percent in March 1996.

In terms of age, welfare rolls were heavily weighted toward the young, with 26 percent of the total in March 1993 consisting of people under age 25 (and 60 percent under 35). While

the total caseload fell by 48 percent from March 1993 to March 1996, clients under age 25 fell by 64 percent; teenaged clients alone fell by 75 percent. And clients under age 35 made up 70 percent of the total caseload reduction.

The unambiguous conclusion is that the changes in Alberta prevented the young from gaining access to welfare.

Client Categories

The classification of welfare recipients provides another piece of the puzzle. Alberta divides recipients into five categories. Panel C of Table 3 reveals that changes across the categories varied considerably. Some had increases from 1993 to 1996; in particular, the number of clients in training programs nearly doubled. But overwhelming the rises were decreases, especially in the "available for work" category.

These numbers suggest two things. First, Alberta tightened eligibility requirements for "available" and "unavailable for work" clients. Second, following the changes, a number of individuals received training rather than welfare benefits — that is, they moved from passive to active assistance.

Another notable observation is that the caseload for the Assured Support program grew by 22 percent over the three years. This increase was in line with the increases in the AISH program described previously.

Profile

The kind of generalizations I have just provided inevitably exclude important segments of individuals who were affected by the Alberta welfare reforms. Nevertheless, it is possible to conclude that, from early 1993 to early 1996, Alberta managed to keep from its welfare rolls a substantial number of employable, young, single individuals who were applying for welfare for the first time.

Table 3: Case Composition by Client Characteristics, Alberta, March 1993 and March 1996

	March 1993	March 1996	Change	% Change	% Decrease
<i>A. Family Status</i>					
Single	44,066	22,777	-21,289	-48	47
Single parent	28,426	17,363	-11,063	-39	24
Childless couple	7,071	2,439	-4,632	-66	10
Couple with children	14,524	6,194	-8,330	-57	18
<i>Total</i>	<i>94,087</i>	<i>48,773</i>	<i>-45,314</i>	<i>-48</i>	<i>100</i>
<i>B. Age</i>					
Under 20	7,608	1,940	-5,668	-74	13
20 to 24	16,949	6,867	-10,082	-59	22
25 to 34	31,594	15,279	-16,315	-52	36
35 to 44	20,104	12,691	-7,413	-37	16
45 and over	17,835	11,996	-5,839	-33	13
<i>Total</i>	<i>94,087</i>	<i>48,773</i>	<i>-45,314</i>	<i>-48</i>	<i>100</i>
<i>C. Client Category</i>					
Employed	13,630	9,974	-3,656	-27	8
Training	8,009	15,493	7,484	93	-17
Available for work	39,637	4,649	-34,988	-88	77
Unavailable for work	23,649	7,497	-16,152	-68	36
Assured support	9,162	11,160	1,998	22	-4
<i>Total</i>	<i>94,087</i>	<i>48,773</i>	<i>-45,314</i>	<i>-48</i>	<i>100</i>

Note: Apparent discrepancies in the under-20 and total columns in panel B are the result of rounding in the Alberta Department of Family and Social Services' recalculation of March 1993.

Sources: Alberta, Department of Family and Social Services; author's calculations.

Where Potential Clients Did Not Go

The sizable falloff in Alberta's welfare recipients, especially single, young employables, leads to a natural and potentially important question: What happened to them?

Unfortunately, no specific information exists (see Box 4). I believe it possible, however, to use the profiles developed above and some other macro information to rule out some possibilities and suggest the likelihood of others.

Such an exercise seems worthwhile in the face of the plethora of theories that have been developed, often backed up with little evidence. Sorting through this speculation is important. If 50,000 potential and former welfare recipients merely migrated from Alberta to British

Columbia, turned to crime, or transferred to federal income support programs (possibilities considered in this section), the Alberta model is not necessarily one that should be copied. A more favorable view would result from evidence that the changes prompted individuals to return to work or to use training programs to enhance human capital and eventually their job potential (possibilities considered in the next section).

British Columbia

One much-repeated theory is that the reduction in Alberta welfare clients was a result of migration to British Columbia. But evidence of a massive shift of cases is difficult to find.

Box 4: Looking for Potential Recipients

Short of conducting extensive follow-up interviews, there is no way of being certain where former, or more important, potential recipients of welfare in Alberta have gone. Furthermore, since Alberta primarily reduced its welfare caseload by preventing potential recipients from gaining access to welfare, it is unlikely that interviews tracking former welfare recipients would shed much light on what happened. Only if Alberta had kept track of and interviewed applicants who

were turned away or referred elsewhere would such an exercise be fruitful.

A caveat is, therefore, in order. Because most of the evidence I use is not based on tracking individuals who were turned away or left welfare, it is suggestive, rather than conclusive. Yet the sheer magnitude of the reduction in caseloads in Alberta suggests that the macro methods used here should be able to shed some light on the plight of potential and former recipients.

British Columbia caseloads did increase steadily in the early 1990s. However, the trend started in 1991 and continued through 1996, despite changes in that province's level of economic growth.

An independent and confidential survey of social assistance clients written for the British Columbia Ministry of Social Services for the period August 1993 to May 1994 concluded that former Alberta welfare cases made up only a very small portion of the surging BC load.¹⁷ This study may be a less-than-adequate guide as to what happened, however, since much of the reduction in Alberta came from individuals who may not have been on assistance in that province. Fortunately, the BC government began tracking new welfare clients from Alberta soon after the latter revised its benefit levels in late 1993. These data show that Albertans made up a fairly stable 28 to 31 percent of British Columbia's out-of-province recipients from late 1993 to mid-1996 (Figure 3). During periods of large reductions in Alberta's caseload, British Columbia experienced only small changes in flow from that province (in particular, a spike in early 1994).

In fact, the most noticeable changes in BC cases from Alberta was after November 1995, when British Columbia imposed a residency requirement. And although that impact decreased the overall flow, it did not affect the proportion of clients coming from Alberta. Indeed, the proportion of BC welfare clients from Alberta seems to have been remarkably resilient against both changes in Alberta welfare

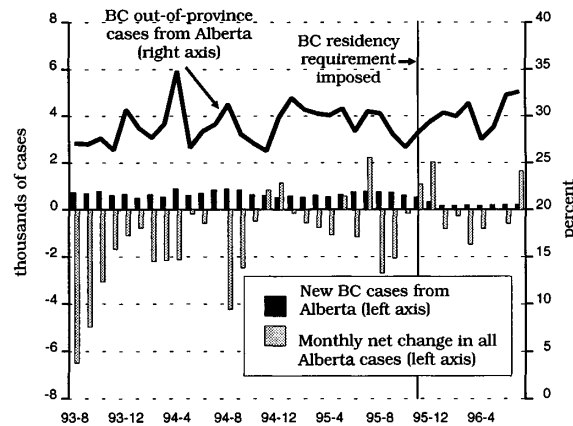
policy and the imposition of British Columbia's residency requirement. (For an alternative explanation of the trends in British Columbia, see the Appendix.)

A Life of Crime

Some people have suggested that Alberta's former welfare clients may have been forced to "sleep in the streets."¹⁸ In the extreme, a large shift of individuals onto the streets might result in their turning to criminal activity as a way of providing for their basic needs and thus in an increase in property-related crime. No evidence supports the idea that this hypothetical scenario was played out in Alberta, however. Indeed, the province's property crime rate reached a high in 1991 and has been dropping steadily ever since — by 24 percent between 1992 and 1994, the years in which the drop in welfare caseloads was greatest. (Although a logical connection to other types of crimes is ever more difficult to make, Alberta has also seen a steady decline in its violent crime rate since peaking in 1991.)

Without a long list of additional variables, this evidence does not conclusively suggest that former or potential welfare recipients are not "sleeping in the streets." It does, however, rule out a massive movement of welfare recipients toward a life of crime. (Whether individuals turned to the underground economy is the focus of a subsequent subsection.)

Figure 3: BC Welfare Caseloads from Alberta, August 1993 to July 1996



Sources: Alberta, Department of Family and Social Services; and British Columbia, Ministry of Social Services.

Onto UI Benefits

Yet another theory is that many former and potential Alberta welfare recipients turned to federal unemployment insurance. The logic here is that the system gives provinces incentives to provide temporary jobs in order to qualify individuals on provincial welfare programs for UI benefits. In the first half of the 1990s, as few as 20 weeks of work entitled an individual to unemployment benefits for the remainder of a year. Thus, a provincial government could provide make-work employment for the short period, while the federal government picked up the tab for the long one. This approach could be a profitable venture for provincial governments if the cost of providing jobs for 20 weeks was less than the cost of paying benefits for 52.

There is little evidence, however, that Alberta employed this make-work strategy (although it did provide some jobs that welfare clients had the option of accepting — see the following section). The number of initial and renewal UI claims in Alberta reached 282,000 in 1992, fell over the next two years, and rose

again in 1995 in line with the national reduction in job growth.

The number of claims did increase by more than the national average in 1995 (by 8 percent in Alberta versus 3 percent nationally), suggesting that some individuals coming off provincial work programs may have applied for UI. However, the time spent by Albertans on UI fell throughout the 1993–95 period. The average number of weeks paid in regular benefits per month in Alberta peaked in 1992 at 347,000 weeks. That number dropped in 1993 and fell quickly in the following years to reach 223,000 weeks by 1995.¹⁹ All of these trends were, moreover, exactly mirrored in British Columbia, a province that had similar job and economic prospects through this period.

Again, this evidence is not conclusive, but if a significant portion of the former welfare caseload shifted to UI benefits, Alberta's experience should not have followed British Columbia's as closely as it did.

Where Potential Clients Might Have Gone

As part of its shift from passive to active assistance, Alberta worked to divert potential welfare clients to various training, job-hunting, and educational programs with the ultimate goal of returning these individuals to work. This section reviews enrollment in these programs and examines evidence that suggests that some potential clients did return to work.

Provincial Work and Training Programs

Alberta's shift to a focus on active assistance entailed programs that provided temporary employment, job placement, search assistance, and training. Some of the programs were new but many were existing ones expanded to include the new flow of recipients.

To pay for these programs, Alberta diverted to them some of the savings from its lowered welfare costs. Between fiscal years 1992/93

and 1995/96, the number of welfare cases was reduced by more than 50 percent, but the total AFSS budget fell by only 20 percent (from \$1.72 billion to \$1.37 billion). Clearly, the cost per recipient rose over this period — in part because of increased benefits for disabled individuals and in part because of costs for training and education programs.

The reduction in expenditure came primarily from grants to individuals and delivery costs, which fell by 46 percent over this period for a savings of \$404 million. “Other” departmental expenditures declined by \$32.4 million. Of the remaining departmental spending, employment and training expenditures rose from \$10 to \$32 million, AISH and spending for the disabled increased by \$26 million, and Widows Pension and Child Welfare combined went up \$18 million. Thus, the savings in welfare benefits were partially shifted to other departmental priorities, with the largest increase for the disabled and smaller increases for employment and training expenditures.

The bulk of new spending came from programs administered through or jointly with Alberta Education and Career Development (AECD). In particular, AFSS transferred funds to the Students Finance Board to finance education grants for potential and existing welfare clients.

Overall, what role did work and training programs play in reducing welfare caseloads in Alberta? The short answer is: a big, although often temporary, role. Between March 1993 and March 1996, more than 35,000 former and potential welfare clients went through the various work, training, and education programs made available by AFSS and/or AECD.²⁰

Work Projects

Although workfare was not formally part of the Alberta changes, AFSS did initiate several work projects aimed at long-term welfare recipients. There were three voluntarily programs, which differed primarily by the type of employer.

The Alberta Job Corps (AJC) included work projects sponsored by local communities, non-

profit groups, and businesses in northern Alberta, Edmonton, and Calgary. The Alberta Community Employment Program (ACE) included work projects created by nonprofit societies, municipalities, hospitals, health units, and schools. Individuals in these two programs received \$5 per hour plus benefits. The third program, the Employment Skills Program (ESP), provided \$6 per hour for jobs in various provincial government departments. Participants’ maximum stay in these programs was six months, with the average in 1994 ranging from 2.9 months for the AJC to 3.4 months for the ESP.

What impact did these programs have on the welfare caseload while individuals were involved in them? Singles who participated were removed from the caseload since their earnings now exceeded welfare rates, making them ineligible for supplementary welfare benefits. However, families whose primary earner’s total wages under the program were less than welfare received a top-up. On balance, just fewer than one-half of individuals who participated in these programs continued to receive supplementary welfare benefits and were thus recorded on the welfare caseload.²¹

These job creation programs did not come cheap. From mid-1993 to mid-1996, 12,071 individuals took part in them. The total expenditure for the three over this period was \$55.7 million, which works out to an average cost of \$4,614 per participant for three months (the average employment duration) for an annualized cost of \$18,456 per participant. That amount is more than triple the benefit rate for single employables. It is also more than the rate for married couples — but recall that many of them receive a welfare top-up in addition to program involvement.

During this period, provinces received federal assistance for welfare under the Canada Assistance Plan (CAP), whose rules prevented them from giving recipients payments conditional on accepting work or training. Alberta was able to skirt this restriction, however, since Ottawa’s cuts to the CAP released a portion of provincial spending from the federal

requirements.²² (With the CAP's demise in 1996, the restriction disappeared for all provinces.)

A number of factors muted the role these programs played in reducing caseloads from 1993 to 1996. First, half the participants received supplementary welfare benefits and therefore remained on the welfare caseload. Second, the number of individuals taking part was quite modest during 1993 and 1994, the period of largest decline in welfare recipients. Finally, these programs were aimed at longer-term users of welfare, who collectively made up a relatively small portion of the total decline.

It is difficult to determine long-term success rates for the job creation programs. The evaluations that are public (and that report very high success rates) are non-arm's-length ones made by the department itself and involve little long-term tracking of recipients. A longer-term, more accurate arm's-length accounting for these individuals would provide a better sense of their success.

Training and Education

The primary success of the Alberta experiment came, as already explained, from diverting potential clients away from welfare. Many of them were directed to alternate programs, in particular, those run in partnership between AFSS and AECD.

To forward these referrals, welfare offices and provincial employment centers in many communities merged to offer all services under one roof. (Selected pilot projects are under way to offer all related services — UI benefits, federal training programs, provincial training and work programs, and provincial welfare programs — in one place.) In addition, the Students Finance Board took on many clients referred by welfare administrators.

Most of these programs were not new, but the demand for them increased as administrators referred clients following a first application for welfare. To facilitate this shift, AFSS transferred money to AECD to expand existing programs to handle the additional demand.

Some of this money went into job-training and placement programs, which enrolled 3,371

individuals in 1993/94 and 4,807 in fiscal year 1994/95.²³ Many programs, such as career workshops and employment-planning sessions by AFSS and/or AECD staff, were of short duration. Increased funding also went to career hotlines, job referral services, and labor market information centers. The administrative changes of early 1993 required all new welfare applicants to exhaust these services.

A significant number of individuals went into education or skills-training programs. In 1993/94, AFSS transferred 11,000 clients to the Students Finance Board. These individuals moved into the mainstream student system: those with low education levels received training in foundation skills, such as academic upgrading, literacy training, and English as a second language training; others were directed to skills-training programs at technical institutes, colleges, and universities.²⁴ The Students Finance Board provided grants to individuals who were upgrading their education, while further funding was available through Alberta's system of student loans.

This training was much more expensive than passive welfare costs. The provincial government used grants and loans to cover the cost of tuition and living expenses, paying for the remainder through its regular funding of educational institutions. (The average annual institutional cost per learner in universities and technical Institutes was more than \$10,000. Vocational colleges were the cheapest at \$4,541, and other colleges were about \$8,620 in 1995.²⁵)

Many of these programs take two years or more to complete, so it is still difficult to tell whether the additional education will prevent former clients from returning to welfare. But the early signs give reason for optimism. Although more than three years have passed since the reforms began, there is little evidence that individuals directed to education are now turning to welfare. Indeed, the welfare rolls have continued to fall (though at a much reduced pace).

Furthermore, it is no secret that increased employment and earnings follow increased edu-

cation.²⁶ Indeed, the role of the additional training was to prepare former or potential welfare recipients for entry or reentry into the labor force.

Federal Training Programs

An important part of the welfare changes in Alberta was the shift in emphasis from passive to active benefits, partly by diverting welfare applicants to active programs that were already available. Not surprisingly, therefore, there is some evidence of an increase in Albertans' use of federal training programs during the period being examined.²⁷

Specifically, the number of people receiving Developmental Uses benefits offered under UI grew during the early 1990s.²⁸ The largest rise occurred during 1991 — the wrong year to provide any proof that the province's welfare beneficiaries were shifted, en masse to the federal program. The increase in Alberta was also proportionately smaller than the national average increase, and use declined during 1993 and 1994.

Yet comparison of Alberta's post-1993 data with those of British Columbia, a province with similar economic prospects over this period, suggests that Alberta did benefit from Developmental Uses programs somewhat more heavily than did British Columbia through 1994 and 1995. While the number of developmental clients per thousand population in British Columbia fell by 15 percent in 1994 and a smaller amount in 1995, use in Alberta declined only 8 percent in 1994 and increased in 1995. When the data are adjusted for population size, the difference is about 1,500 additional individuals in Alberta by 1995, most of them receiving training benefits.

Despite the difference in trends, both Alberta and British Columbia had about 2.5 developmental clients per thousand population in 1995. So, while use in Alberta may have grown slightly faster during 1994 and 1995, by the end of these two years the two provinces had equal proportions of residents on federal UI training programs.

Back to Work

In the end, the most important question surrounding the Alberta welfare reforms is whether former welfare clients found their way back into the workforce. Since many former and potential clients undertook training programs of various lengths, it may yet be too early for a conclusive answer to this question. There are promising indications, however, that individuals are choosing work over welfare.

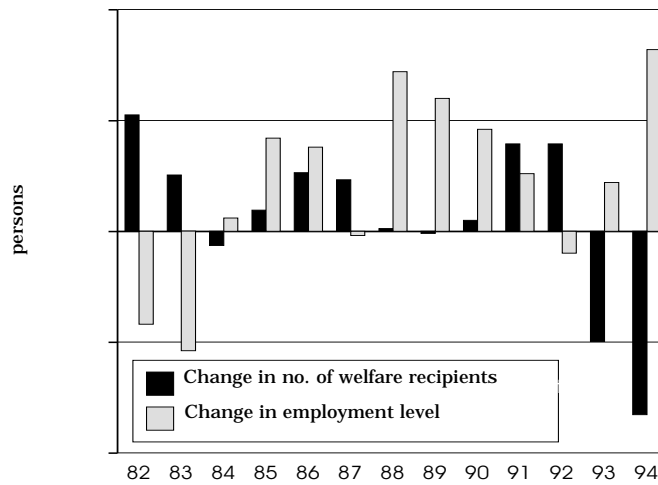
Economic Growth in Alberta

Alberta's growing economy doubtless contributed to the reduction in the welfare caseload. The early 1990s' recession was much less severe in Alberta than elsewhere in Canada and the recovery was much more notable. In this environment, the welfare caseload should be declining.

Canada's and Alberta's experience through the 1980s and 1990s shows, however, that strong growth is not necessarily enough to reduce welfare rolls. During the booming mid- and late 1980s, for example, total Canadian caseloads failed to fall to prerecession levels. That this phenomenon was heavily influenced by the experience in Ontario, where benefits rose consistently through the late 1980s, reinforces the point that growth alone is not enough to account for changes in recipient levels (see the Appendix). Indeed, during the past 15 years, no province has experienced a decline in its welfare caseload of anywhere near the magnitude of Alberta's, although many have had higher growth rates for longer periods of time than Alberta experienced from 1993 to 1996.

In Alberta, too, robust growth rates between 1984 and 1988 (excluding 1986) failed to have anywhere near the effect on welfare caseloads that the much more modest growth rates of the early 1990s had. Those who point to the recovery as the prime reason for reducing welfare caseloads in Alberta must also explain why earlier, stronger periods of growth failed to have such an effect.

Figure 4: Changes in Welfare Recipients and Employment, Alberta, 1981–95



Sources: Alberta, Department of Family and Social Services; and Statistics Canada, CANSIM database on CD-ROM.

Job Growth

Job growth in Alberta was very robust from 1993 to 1995 (see Figure 4). There was more job growth in 1994 and 1995 than in any of the previous ten years. In fact, the number of new jobs created in Alberta in 1993 through 1995 exceeded the total reduction in welfare recipients. That is not to say that there was a direct transfer of individuals from welfare to work, but it does suggest that job growth in Alberta was strong enough to take up a substantial number of former or potential welfare recipients.

Was the job growth in these years primarily demand driven — that is, did economic growth provide the stimulus for the strong job creation — or did supply-side factors played a role as well — that is, were barriers to hiring, such as incentives to stay on welfare as opposed to work, reduced? A comprehensive answer is beyond the scope of this Commentary, but job growth values can easily be adjusted to take account of the changes in gross domestic product (GDP). Multiplying last year's employment by the current

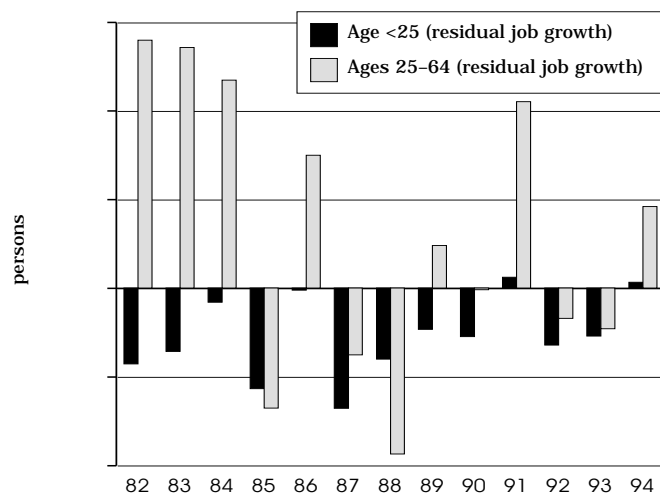
year's growth in GDP gives an estimate of job change due to changes in GDP. Subtracting that value from actual job growth gives a residual — that is, job growth that was due to factors other than economic growth.

I did these calculations for two age cohorts — under-25-year-olds and 25- to 65-year-olds, hoping that the breakdown would give some idea of whether many young Albertans affected by the changes found their way into the workforce.

Figure 5 shows the results. The data up to 1993 reflect what has become a disturbing trend in recent decades — namely, that youth employment has not kept pace with economic growth. In years when the economy grew (1985, 1987–90, and 1992–95), job growth for those below age 25 was below the level of real GDP growth. (That job growth kept pace with the economy in 1986 and 1991 is small consolation since the economy contracted in both of those years.) Something was preventing those under age 25 from enjoying Alberta's economic prosperity during those years.

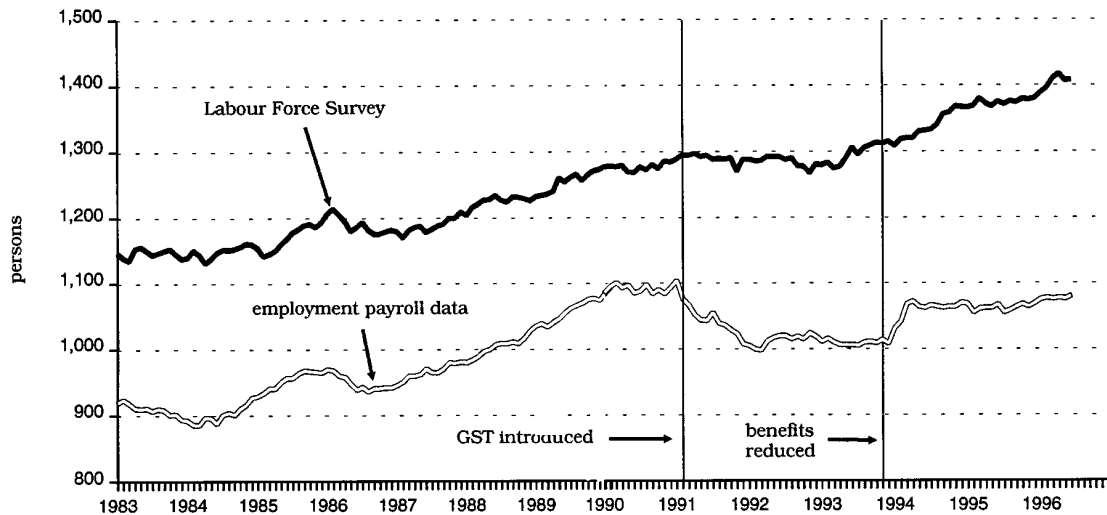
In 1994 and 1995, however, job growth for those young people kept closer pace with positive growth in the economy. For the first time

Figure 5: Job Growth Adjusted for GDP Growth, Alberta, 1982–95



Sources: Statistics Canada, CANSIM database on CD-ROM; and author's calculations.

Figure 6: *Underground Economic Activity, Circumstantial Evidence, Alberta, 1983–96*



Source: Statistics Canada, CANSIM database on CD-ROM.

in over ten years, job growth for those under age 25 kept pace with (positive) growth in the economy. A barrier to employment appears to have been removed, and the welfare changes are among the most obvious candidates.

A look at the types of jobs that increased in those two years does not illuminate the analysis much. The only notable shifts were an increase in employment in construction and in primary industries that appears stronger than in the previous decade.

Underground Activity

Another set of data are suggestive of changes in underground economic activity. The data reported above come from the federal Labour Force Survey (LFS), a phone survey in which individuals are asked about their employment situation. Another source of information about employment is payroll data, which report employment according to social insurance premium records.

The two data sets are not completely comparable (for example, self-employment is less likely to be reflected in the payroll data), but when noticeable numbers of individuals report

to the LFS that they have work but this employment does not turn up in the payroll data, this is at least circumstantial evidence of changes in underground activity. Figure 6 shows that, twice in the past few years, the payroll data moved in a different direction from the LFS. The first was 1991, the year in which the goods and services tax, the first sales tax in Alberta, was introduced. This shift suggests that individuals said they were working in response to a telephone survey (LFS), but their income was not reported as payroll. Although this difference may indicate a move to self-employment, it may also suggest an increase in underground activity.

Another shift in the payroll employment data that did not appear in the LFS data occurred shortly after the benefit reductions in Alberta. One explanation is that individuals were moving out of the underground economy back into the “counted” economy.

This evidence is highly circumstantial and, in the absence of a full accounting of other relevant variables (such as changes in self-employment), it is indicative only of a possible move out of the underground economy. However, if a substantial number of welfare clients were able to work in the underground econ-

omy, a reduction in welfare benefits would lower individuals' incentive to keep their activities underground.

Summary

Clearly, job growth in Alberta was particularly strong during the years immediately following welfare reform. It also appears that demand factors alone cannot explain this growth, particularly when compared with experience over the previous decade or so. Further, the changes may have occasioned a movement out of the underground economy as fewer individuals had incentives to hide their sources of income in the absence of the receipt of welfare benefits.

The figures suggest, therefore, that job growth during this period had more than a strictly demand-side explanation and that a significant portion of individuals who might have formerly ended up on welfare did find employment.²⁹ And the fact that employment growth for those under age 25 was stronger than in the previous decade suggests that welfare reforms may have played a role in improving the supply side of the labor market. Changes in incentives for young employables may have been a key factor drawing these individuals back into the workforce, a possibility that reinforces the importance of benefit changes in the Alberta welfare experiment.

National Implications

The Alberta welfare experiment holds some important insights into welfare reform that other provinces may wish to emulate. Particularly encouraging is evidence suggesting that potential recipients found work. Before reviewing these insights, however, a few cautionary words are in order.

First, as I have emphasized throughout this Commentary, my study, which is based on macro variables, cannot be entirely conclusive. Some former and potential welfare recipients, especially the very young (under age 19, at a guess), may have turned or returned to family, friends, or community groups for sup-

port. (At least one study³⁰ offers some evidence of individuals' taking this course.³¹)

Welfare reform was bound to put pressure on these other support groups, and it may be important — for government and for society at large — to ensure that individuals have found help there and are not turning or returning to abusive situations. To the extent that these support groups can bear the burden, however, there may be important social benefits in making welfare programs a last, rather than a first, resort.

Second, many individuals are still in training or work programs funded by the Alberta government. But workfare and “learnfare” should not be replacements for long-term dependence on welfare: government cannot provide them forever.³² Eventually, these individuals must use their human capital (which, one hopes, has been increased) and take their place in mainstream society. It will be important to follow these individuals in coming years to learn what works.

Finally, the Alberta experience took place during a period of positive economic growth, an environment in which efforts to reduce welfare dependency are most likely to be successful. The next economic downturn in the province will provide an important test of the experiment. Will the welfare caseload increase during a period in which job losses normally occur? If it does, will Alberta avoid the recent Canadian experience in which welfare fails to fall to prerecession levels following the downturn? Unfortunately, only time can answer these questions.

Lessons to Learn

With these caveats registered, what lessons can be drawn from the Alberta experience? They seem to be threefold: administration matters; so do benefit levels; and program designers and researchers alike need better data.

Administration Matters

Perhaps the strongest implication of the Alberta welfare reform is the crucial role of administrative culture (see the Appendix). The most important administrative changes Alberta made were a shift to focus on new applicants and the integration of welfare with other human capital programs.

The shift in focus was to prevent people from coming onto welfare, rather than to move individuals off the rolls. The province routinely turned down applicants or diverted them to other programs (although caseworkers were allowed exceptions for hardship reasons).

These changes suggest that the Alberta government understood the long-term behavioral shifts that result from time spent on income support programs. Welfare programs, which usually include many lower-skilled workers, are particularly susceptible to this phenomenon. The important lesson is that preventing the first exposure to welfare plays an important role in preventing future dependence on welfare, particularly for the group most affected by the Alberta changes: young, single, and employable individuals.

Some individuals who apply for welfare may, of course, have a legitimate need for some type of assistance. By directing individuals to training and postsecondary education, Alberta's active labor market programs played a role in reducing caseloads. This role was made easier by integrating its human capital programs. Early in the reform process, AFSS took over selected activities from AECD, and the two departments arranged to jointly administer a variety of programs for potential welfare recipients. Many of these services were placed under one roof, which made transferring or referring clients much easier in practice.

In Alberta, this practice is expanding to include federal programs of a similar nature. Other provinces would do well to emulate this process of consolidation (many have or are doing so). Current federal commitments to transfer training to the provinces give them another opportunity to integrate human capi-

tal services more closely with their welfare agencies.³³

The Alberta experience also highlights the importance of allowing provinces to experiment with different policy approaches without federal interference. The removal of most of the federal standards under the CAP is a positive development for provincial autonomy. Provinces can integrate programs in related areas, and all Canadians will benefit from experimentation in this important policy area.

Benefit Levels Matter

In addition to the success of the welfare administrative reforms in their own right, the reduction in benefit levels also played a key role in Alberta. The principle that people on social assistance should receive a level of support not exceeding that earned by working Albertans had important political and economic consequences.

Welfare is a program of last resort. Before entering it, individuals should have exhausted their UI benefits and any available training programs. They should also expect to work at jobs made available to them. Keeping welfare benefits below actual wage levels ensures that the economic incentives point in the direction of taking a job. Furthermore, welfare benefits that remain above the level of a significant portion of the population are not likely to enjoy broad-based public support.

No one can know precisely what level of benefits will tip the marginal benefits of work over welfare. Individuals differ in their personal circumstances and in their preferences. Single parents face larger barriers to returning to work than single, employable individuals (particularly those who are young). Welfare recipients may also feel they cannot afford to forgo the present benefits of welfare programs for work, even given the long-run benefits of doing so.

Setting targets for welfare benefits relative to some existing level of wages makes good sense. The difficulty is in determining the appropriate target — should welfare be set

equal to the earnings of the tenth percentile? the fifth? the twentieth? Clearly, welfare programs must be generous enough to provide necessities, so some basic needs-based index could provide a floor value.³⁴ A reasonable ceiling might be the midpoint of the first decile of wage earnings (although the data limitations pointed out in Box 2 might cause practical difficulties).

Setting a range for welfare benefits would allow jurisdictions to make ample considerations for other, less quantifiable factors, such as the additional costs of working and in-kind benefits.

Better Data

I have referred several times to the unavailability of data and the changing nature of what does exist. Most analytical studies plead for better data. My plea is particularly urgent, given the nature of Canada's welfare programs, with provision by ten provinces, two territories, and municipalities. Moreover, since the federal government is increasingly withdrawing from this field, the divergence of provincial practice reporting and collecting of data has increased.

A number of specific sets of data would have aided my and others' research. First, everyone needs more and better data on benefit levels and/or wage levels at low-income levels. The National Council of Welfare has done a heroic job with information from recent years, but comparable historical data are extremely hard to find. In addition, the use of supplementary and in-kind benefits make this a difficult exercise.

Second, since the flows in and out of welfare are so large, a better account of who is leaving and who is coming would be revealing. Alberta's average caseload during 1992 was about 90,000 but nearly 130,000 (or more) people cycled through the program. It could be important to know who those 130,000 were, the acceptance and rejection rates, and possibly the referral rates. (Alberta's placing these different services at a single access point should aid this kind of data collection.)

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Third, analysts need comparable inter-provincial data. This problem plagues many province-specific programs, and it is difficult to argue that the federal government is necessarily the solution (given its history of movement into provincial areas of jurisdiction). Official interprovincial discussions on social policy³⁵ might, however, cover the possibility of a joint data-collection agency. Indeed, such an agency need not be an arm of government. Citizens faced with different provincial policy packages may find it in their interests to fund their own groups to collect such data, which, in the longer term, might result in a race to the top, as provinces sought to place themselves at the leading edge of such comparisons.³⁶

Postscript: Recent Changes in Other Provinces

Recent changes in British Columbia's and Ontario's welfare programs offer a final point of

discussion. Many of the reforms in these provinces — in particular, the focus on young employables, and adjustments to benefit levels — mirror changes in Alberta. Yet there are also some important differences in approach. Following are some highlights of the reforms (I do not claim they are exhaustive).

British Columbia. The BC government recently embarked, with some success, on changes to its welfare program.³⁷ It followed Alberta in some respects — in particular, by lowering benefits for single, young employables (see Table 4) and tightening eligibility. It requires, however, that welfare recipients wait seven months before becoming eligible for active programs, including career planning, skills plan development, and job-finding clubs.³⁸ The Alberta experience suggests diverting applicants to these programs before admitting them to welfare programs, not seven months later.

Ontario. The much-heralded changes in Ontario's welfare program have been restricted primarily to changes in benefit levels, although selected pilot projects for workfare have been initiated.

Table 4 indicates that Ontario had good reason to reduce its benefit levels. Relative to earnings at the top of the first decile, Ontario benefits for single employables before reform surpassed those of all the larger provinces. Even after the reductions, Ontario was still more generous than most jurisdictions.

Ontario's approach to workfare is more difficult to understand. Clearly, it plans to move a substantial number of those presently

Table 4: Welfare Benefits for Single Employable Men, by Province, 1994

	% of Decile 1 ^a Male Earnings
	<i>(percent)</i>
Newfoundland	39
Prince Edward Island	68
Nova Scotia	54
New Brunswick	25
Quebec	47
Ontario	
1994	59
Post-1995	47 ^b
Manitoba	67
Saskatchewan	70
Alberta	44
British Columbia	
1994	47
Post-1996	44 ^b

^a Full-time, full-year earnings, after tax, at top of first decile for each province.

^b Compared with 1994 earnings level.

Sources: National Council on Welfare, *Welfare Income, 1994* (Ottawa, Autumn 1995); Canadian Tax Foundation, *The National Finances, 1994* (Toronto, 1995); and unpublished data provided by Statistics Canada, Survey of Consumer Finances.

on welfare into work programs; indeed, the emphasis appears to be getting existing, long-term clients off welfare. Although Alberta's reform had a small, voluntary component along these lines, most of its success came from dealing with potential, rather than existing clients. In its development of workfare, Ontario would do well to keep this focus in mind. It might also remember that the Alberta work programs, on an annualized basis, cost more than three times as much as benefits for a single individual; although the aims of workfare may be noble, they should hardly be viewed as a cost-saving mechanism.

Appendix:

A Statistical Evaluation of Administration and Relative Benefits

Changes in the proportion of the population on welfare result partly from macroeconomic circumstances, such as the recessions that kicked off both the 1980s and 1990s (see Figure 1). But macroeconomic factors are not the sole cause. As the previous pages indicated both the level of benefits — or perhaps more exactly, the level of benefits relative to the level of low-wage earnings — and changes in administrative culture played an important role in the Alberta experiment.

The question is: To what extent can one generalize from my conclusions about Alberta? It turns out that a simple statistical analysis of only three or four variables can explain a substantial amount of the change in the proportion of individuals receiving welfare benefits in three of Canada's largest provinces.³⁹ Table A-1 shows the explanatory power of the unemployment rate (a proxy for economic conditions), benefit levels, low-wage earnings levels, and a variable for administrative culture in determining the level of welfare use over the past decade and a half.

All these variables matter, but the relative importance of each has changed over both time and place.

Ontario

Ontario has seen large fluctuations in unemployment in the past ten years. Nineteen eighty-eight, the year in which the unemployment rate reached a trough, is an effective point at which to divide the province's experience.

The simple regression results for Ontario suggest that the unemployment rate and the ratio of benefits to average second-decile earnings combine to explain a significant amount of the changes in welfare use. Administrative changes, proxied by changes in government

from Conservative to Liberal and from Liberal to New Democratic do not appear to have influenced welfare use beyond their effect on benefit changes. Therefore, the table does not report changes in administrative culture.

The Ontario experience highlights the importance of benefit levels in welfare use. In particular, for the 1989–93 period, they account for nearly half of the explained increase in welfare use. Increased unemployment accounts for another two-fifths, and a decline in second-decile earnings for only one-seventh.

Alberta

In the early 1980s, base benefit levels in Alberta were 53 percent higher than in the three largest provinces. Over the following ten years, inflation ate away at these levels, bringing them nearer to the Canadian average levels. But a number of things about Alberta's benefit levels make their use in this simple regression problematic.

First, a large number of supplementary benefits were given out in various proportions over the decade; in some periods, they made up a substantial portion of all benefits, and in others, they were relatively insignificant. Unfortunately, no time series data on average benefits are available from Alberta, and there are no suitable proxies that can account for these shifts.

Second, the province provided very different benefit levels to its various family classes. Although benefit levels for singles fell through the 1980s, those for families remained high relative to the levels of other provinces.

Third, the regressions could not take account of the large benefit changes that occurred before 1982, due to the even greater scarcity of data for that period.

Fourth, the administrative changes and benefit reductions took place in the same year and are therefore impossible to disaggregate from the annual data used here.

For all these reasons, the regressions reported for Alberta do not include benefit levels (although an accurate account of them would surely have added to the explanatory power).

The remaining variables still manage to capture many of the shifts. Alberta saw no dramatic change in unemployment, but a sharp break in welfare use occurred between 1993 and 1994, following the introduction of reforms by Mike Cardinal. Accordingly, I divided the observations at that point.

In the first period, the most important factor in the increase in welfare use was a decline in reference earnings levels. After 1993, the cultural change in administration accounts for more than nine-tenths of the explained decline in welfare use. The improved employment picture and changes in reference earnings explain only about one-tenth.

British Columbia

British Columbia data extend back far enough to allow me to set up three periods: the early 1980s' recession, the late 1980s' boom, and the years of government by the New Democratic Party. In the first period, welfare use doubled; and most of the explained change came from changes in the unemployment rate. In the second period, welfare use fell, and again, much of the explained change is due to changes in the unemployment rate. Over both of these periods, a decline in reference earnings caused welfare use to increase (1980-85)

or not fall as far as it otherwise might have (1985-91).

In 1991, the New Democrats came to power, and Joan Smallwood took over responsibility for social assistance. Smallwood, the antithesis of Alberta's Cardinal, made clear to her staff that the ministry's task was to serve clients, not to police welfare use. In explaining welfare use in the 1991-95 period, a small increase in unemployment accounts for about one-fifth of the explained change. Changes in benefits and reference earnings combine to roughly offset each other. The overwhelming portion of the increase, nearly five-sixths, is explained by the change in administrative culture under the new minister.

Conclusion

My regressions are based on limited data series for benefit levels that, in reality, leave administrators much latitude. Nevertheless, the results reported here are consistent with the main theme of this Commentary: that administration and benefit levels relative to low wage levels are an important part of explaining changes in welfare use. The Alberta and British Columbia experiences especially highlight the importance of administrative culture. Irrespective of the levels of the unemployment rate, benefits and low wages, the changes in administrative cultures in both provinces appear to explain a significant component of changes in welfare use.

Overall, my simple statistical methods leave little room for the popular position that changes in the economic environment alone are enough to predict welfare use.

Table A-1: Variables Related to Changes in Provincial Welfare Rates, Ontario, Alberta, and British Columbia

				Ontario		
Change in	1983-89	1989-93				
Cases per 1,000 population	3.1	29.7				
Unemployment rate ^a (%)	-4.7	5.9				
Annual benefits ^{a,b} (\$)	1,778	1,335				
Average decile 2 earnings ^{a,c} (\$)	1,268	-1,202				
Estimated impact of change in variables on cases per 1,000 population						
Unemployment rate	-10.9	13.6				
Annual benefits	20.9	15.9				
Average decile 2 earnings	-4.3	5.1				
Total explained change	5.7	34.7				
Actual change	3.1	29.7				
Unexplained change	2.6	-5.0				
				Alberta		
Change in	1982-93	1993-96				
Cases per 1,000 population	20.0	-17.0				
Unemployment rate ^a (%)	2.0	-2.7				
Average decile 2 earnings ^{a,c} (\$)	3,698	1,085				
Estimated impact of change in variables on cases per 1,000 population						
Unemployment rate	3.0	-4.0				
Average decile 2 earnings	11.1	3.3				
Administrative culture	—	-10.6				
Total explained change	14.1	-11.4				
Actual change	20.0	-17.0				
Unexplained change	5.9	-5.6				
				British Columbia		
Change in	1980-85	1985-91	1991-95			
Cases per 1,000 population	21.4	-8.0	11.2			
Unemployment rate ^a (%)	7.1	-6.4	1.0			
Annual benefits ^{a,b} (\$)	248	-1	318			
Average decile 2 earnings ^{a,c} (\$)	-216	-1,982	876			
Estimated impact of change in variables on cases per 1,000 population						
Unemployment rate	16.4	-14.8	2.3			
Annual benefits	0.9	0.0	1.3			
Average decile 2 earnings	2.5	2.5	-1.2			
Administrative culture	—	—	10.8			
Total explained change	19.8	-12.3	13.1			
Actual change	21.4	-8.0	11.2			
Unexplained change	1.7	4.3	-2.0			

Notes: Because of rounding, totals may not add. Full regression results are available from the author. See text for explanation of omission of data on Ontario's administrative changes and Alberta's benefits levels.

^a Lagged one year.

^b Base benefits for single employables.

^c Full-time, full-year male earnings.

Sources: Caseloads and welfare benefits: Alberta, Department of Family and Social Services; British Columbia, Ministry of Social Services; and Ontario, Ministry of Social Services. Decile earnings: unpublished data from Statistics Canada, Survey of Consumer Finances, for the years 1975, 1982, and 1989-94; other data years are based on interpolating the ratio of reference earnings to average annualized industrial wages, from Statistics Canada, CANSIM database on CD-ROM. All data are in constant dollars. Unemployment rate: Statistics Canada, CANSIM database on CD-ROM.

Notes

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- 1 Alberta, "Welfare Reform Strategy," News Release and Backgrounder, Edmonton, April 15, 1993.
 - 2 Alberta, Department of Family and Social Services (hereafter AFSS), Alberta Welfare Reform: Three Year Review (Edmonton, May, 1996).
 - 3 See Jeffrey Simpson, "After all the cutbacks, many welfare cases have gone, but where?" *Globe and Mail* (Toronto), February 9, 1996.
 - 4 National Council of Welfare, *Welfare Incomes*, various issues.
 - 5 Mike Cardinal, "Welfare Reform In Alberta," *Fraser Forum*, June 1995, p. 6.
 - 6 Alberta, "Welfare Reform Strategy," p. 10.
 - 7 *Ibid.*, p. 7. Processes were already in place to deal with hardship cases, either directly by the caseworker, by administrative reviews (casework supervisor or site manager), or by regular appeal to the nondepartmental citizens' appeal committees.
 - 8 Thomas Lemieux and W. Bentley MacLeod, *UI Impacts on Worker Behaviour: State Dependence and Unemployment Insurance* (Ottawa: Department of Human Resources Development, 1995), p. 26.
 - 9 *Ibid.*, p. 30. US evidence of the same phenomenon in the welfare system can be found in T. David Ellwood, *Targeting "Would Be" Long Term Recipients of AFDC*, report prepared for the US Department of Health and Human Services (Washington, DC: Mathematica Policy Research, 1986).
 - 10 See National Council of Welfare, *Poverty Profile, 1994* (Ottawa, 1996).
 - 11 Information in this section comes from AFSS, *Alberta Welfare Reforms: Progress Report, March 1993–December 1995* (Edmonton, 1996), p. 7.
 - 12 *Ibid.*, p. 4.
 - 13 See Robert Howse, "Workfare: Theory, Evidence and Policy Design" (paper presented to a roundtable at the Centre for the Study of State and Market, University of Toronto, May 17, 1996).
 - 14 The methodology of this section is based on Ken Battle and Sherri Torjman, "The Welfare Wall: The Interaction of the Welfare and Tax Systems" (Ottawa: Caledon Institute of Social Policy, Summer 1993). That study examined the situation in Ontario in 1992.
 - 15 Assar Lindbeck, *Hazardous Welfare State Dynamics*, reprint series 538 (Stockholm: Institute for International Economic Studies, 1995).
 - 16 Robert Haveman and Barbara Wolfe, "The Determinants of Children's Attainments: A Review of Methods and Findings," *Journal of Economic Literature* 33 (December 1995): 1829–1878; and *idem*, *Succeeding Generations: On the Effect of Investments in Children* (New York: Russell Sage Foundation: 1994).
 - 17 British Columbia, Ministry of Social Services, *A Profile of New Income Assistance Clients: August 1993 to May 1994*, Research, Evaluation and Statistical Branch, Policy, Planning and Research Division, RES 94-04 (Victoria, August 1994); and a companion report, *idem.*, *A Profile of Income Assistance Clients who Returned to the Caseload*, RES 95-01 (Victoria, March 1995).
 - 18 Simpson, "After all the cutbacks."
 - 19 Statistics Canada, *Annual Unemployment Insurance Statistics*, various years, 73F003XDE on CD-ROM.
 - 20 Summaries of these programs are found in AFSS, *Alberta Welfare Reforms: Progress Report*.
 - 21 The average of the ACE, AJC, and ESP clients still active on SFI in April 1994, 1995, and 1996. Data are from AFSS.
 - 22 The CAP was a 50 percent shared-cost program. The federal "cap on CAP" released from restriction about \$100 million of its 50 percent contribution. Alberta notionally used these funds to initiate its conditional program.
 - 23 AFSS, *1994/95 Annual Report* (Edmonton, 1995).
 - 24 AFSS, *Employment Programs and Services*, information pamphlet (Edmonton, April 1996).
 - 25 Alberta, Department of Education and Career Development, *Annual Report* (Edmonton, 1995).
 - 26 See, for example, Statistics Canada, *Labour Force Annual Averages 1995*, cat. 71-529, table 5 (Ottawa); and *idem*, *Historical Labour Force Statistics*, cat. 71-001, table 5 (Ottawa).
 - 27 This point is also made in a study for the Edmonton Social Planning Council and Edmonton area food banks: *Alberta Facts: Hunger in Edmonton, Understanding the Need for Food Banks* (Edmonton: Edmonton Social Planning Council, 1996).
 - 28 The statistics throughout this subsection are from Statistic Canada, *Annual Unemployment Insurance Statistics*, various years, 73F003XDE on CD-ROM.
 - 29 Despite the obvious selection bias against finding individuals who are working, a recent survey of individuals using Edmonton food banks indicates that, ignoring those waiting for welfare benefits, 40 percent of former recipients of welfare had full- or part-time employment. (The report does not distinguish between those who

were refused welfare and those who formerly received welfare for these statistics.) Ibid.

30 Ibid.

31 Research under way to track former recipients may shed more light on this and other possibilities that this study, due to its methodology, can say little about. See Canada West Foundation, Social Services Project (Calgary, 1996).

32 Deadweight losses (hiring that would have occurred anyway) and substitution effects (hiring that displaces existing market jobs) remain serious concerns for government-created work projects. Calmfors finds "combined deadweight and substitutions effects of the order of magnitude of 70-90 percent of the gross number of jobs created" in a review of studies of these effects. See Lars Calmfors, *Active Labor Market Policy and Unemployment: A Framework for the Analysis of Crucial Design Features*, OECD Economic Studies 22 (Paris: Organisation for Economic Co-operation and Development, 1994).

33 Although it appears that the provinces may have much less than total autonomy under the new transfer. See

Kenneth J. Boessenkool and William B.P. Robson, *Ending the Training Tangle: The Case against Federal-Provincial Programs under EI*, C.D. Howe Institute Commentary 86 (Toronto: C.D. Howe Institute, February 1997).

34 Perhaps along the lines of those suggested in Christopher Sarlo, *Poverty in Canada*, 2d ed. (Vancouver: Fraser Institute, 1995).

35 Such as the one that resulted in Ministerial Council on Social Policy Reform and Renewal, "Report to the Premiers," December 1995, mimeographed.

36 For a proposal along these lines, see William Robson, "Getting Radical: Federalism's Only Hope," *Gravitas*, Spring 1996, pp. 9-12.

37 Ross Howard, "BC welfare rolls slimmer since reform," *Globe and Mail* (Toronto), December 23, 1996, p. A4.

38 British Columbia, <http://www.gov.bc.ca/bcben/initiatives.html>, at June 26, 1996, p. 5.

39 This appendix draws heavily from work done with John Richards, which is also reported in *What's Left to Do* (Toronto: C.D. Howe Institute, forthcoming).

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