



*Canadian International  
Labour Network*

## **Labour Market Outcomes:**

**A Cross-National Study**

CILN is a collaborative research venture between the Social Sciences and Humanities Research Council (SSHRC) and McMaster University. Additional funding is provided by the University of British Columbia, the University of Toronto, Queen's University, York University and Human Resources Development Canada (HRDC).

McMaster University

DEPARTMENT OF ECONOMICS

**Friedman's Revenge:  
The Reform of "Liberal" Welfare States  
In Canada and the United States**

John Myles  
Florida State University

Paul Pierson  
Harvard University

March 25, 1997

Forthcoming in *Politics and Society*. For helpful comments on earlier drafts, we would like to thank Ken Battle, Fred Block, Jennifer Hochschild, Francis Fox Piven, Jill Quadagno, and Kent Weaver.

For the past two decades, the combination of growing economic strain and maturing social programs has created a harsh climate for the welfare state. While the durability of most social programs through the advanced industrial world remains striking, it was apparent by the mid-eighties that the "modern" welfare state created during the Golden Age of postwar expansion had reached an impasse in a double sense.

First, the model of choice of the postwar decades -- social insurance cum citizenship rights -- has rarely been used to respond to the new social risks generated by recent economic restructuring.<sup>1</sup> The confidence of an earlier generation that universal social programs were not only compatible with, but also helped to drive, economic growth has been seriously eroded. The result has been "paradigm breakdown" and a search for new designs that might reproduce the virtuous circle between consumption and production that prevailed from World War II to the early seventies.<sup>2</sup>

Second, analysis of the welfare politics of the 1980s give striking evidence that the old politics of welfare state expansion have been transformed.<sup>3</sup> The political constituencies, coalitions, and bargaining strategies that drove the period of expansion -- and on which our theoretical models of *the* welfare state were built -- appear to be no longer operative or, at least, operate in new and unfamiliar ways. Old metaphors, such as the "citizen's wage" intended to identify a process in which labor negotiated its pay packet through the welfare state, as well as on the shop floor, no longer appear to capture the central dynamics of contemporary welfare state politics.<sup>4</sup>

These two *changes* in welfare state politics raise two corresponding *questions*. First, if

---

<sup>1</sup>Modern welfare states were largely created in the period from the 1950s through the mid-seventies. Few significant pieces of social insurance legislation have been enacted since then. Countries like the United States that did not complete the process of welfare state building in this period have gone without key programs such as national health insurance and sickness benefits.

<sup>2</sup>John Myles, "Decline or Impasse? The Current State of the Welfare State," *Studies in Political Economy* 26 (1988): 73-107.

<sup>3</sup>See Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994); Paul Pierson, "The New Politics of the Welfare State," *World Politics*, Vol. 48, No. 2, January, 1996, pp. 143-79; and John Stephens, Evelyne Huber, and Leonard Ray, "The Welfare State in Hard Times," in Herbert Kitschelt, Peter Lange, Gary Marks, and John Stephens, eds., *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press), forthcoming.

<sup>4</sup>Sam Bowles and Herb Gintis, "The Crisis of Liberal Democratic Capitalism: The Case of the United States," *Politics and Society* 11, no. 1 (1982): 59-93.

"old" welfare state models are losing force, what sorts of emergent models will replace or supplement the social insurance *cum* citizenship design of the postwar decades? The answer to this first question hinges critically on the answer to the second: If the political dynamic that drove the old welfare state is now exhausted, what social forces are shaping contemporary welfare state politics?

Without claiming to provide anything remotely like a full answer to these questions, we address them by focusing on important but little-discussed reforms of the Canadian and American welfare states -- recent efforts to refashion income transfers by adopting Negative Income Tax-style policies, producing greater integration with tax systems, increased "targeting" and improved work incentives. The shift in policy appeared in bold relief in the United States in 1996, when the Earned Income Tax Credit, which fits the new framework, survived the Republican onslaught against federal poverty programs intact, while the traditional means-tested program of AFDC did not.<sup>5</sup> Yet this dramatic episode simply accelerated a shift that has been underway for some time. Since the late 1970s, both countries have quietly developed extensive programs modeled on the Negative Income Tax (NIT)/ Guaranteed Income (GI) proposals that were first considered (and rejected) in the 1960s and early 1970s. Thus our first concern: why did these previously rejected efforts come to be embraced after 1975? What political circumstances encouraged this broadly-similar reorientation of policy especially at a time of growing disaffection with, and retrenchment of, traditional means-tested programs for the poor in both countries?

Although NIT/GI designs have a clear affinity with traditional means-testing, they represent, we argue, an historically novel form of state redistribution about which conventional welfare state theory has precious little to say in regard to either origins or outcomes. Unlike traditional means-tested programs, NIT/GI programs are not for the poor alone. They can and do reach well up the income distribution to cover electoral pluralities and even majorities. Consequently, conventional accounts of the politics of "poor relief" in "liberal" welfare states may

---

<sup>5</sup>We should note that just as it has led the way towards the NIT/GI alternative, Canada led the way in "ending welfare as we know it." The 1995 Canadian federal budget which replaced the Canada Assistance Plan (CAP) with the Canada Health and Social Transfer (CHST) anticipated many of the features of the 1996 Personal Responsibility Act passed in the United States with respect to block grants and weaker national standards for provincial social assistance programs.

provide a poor guide to the political dynamics and distributional consequences of this new form of welfare provision.<sup>6</sup>

NIT/GI programs, we will argue, have proven ideally-suited to the new politics of austerity. Imposing austerity is a politically difficult enterprise, because of the popularity of most social programs. NIT/GI programs are flexible instruments for confronting these political constraints. Administered through tax codes, such reforms are often opaque to the general public, because of the tax system's intrinsic complexity, the possibility of burying changes in large packages of policy reform, and because of the possibilities for very incremental implementation.

The fact that these programs are comparatively cheap and targeted on needy groups also facilitates the formation of novel, and unexpected, coalitions between those seeking retrenchment, on the one hand, and those concerned about the poor, on the other. New political coalitions have arisen as the strength of organized labor -- traditionally skeptical of NIT-style reforms -- has weakened. Business actors are often supportive, because such programs can be designed in ways which improve work incentives, and because of the possibilities of reducing overall social spending. Indeed, targeted tax/transfer programs are usually expanded in a context where other welfare state programs experience cuts -- often as part of the same package of legislation. The inclusion of more generous benefits for some low-income groups has made it possible to find support, or at least acquiescence, among moderates and liberals who would otherwise be expected to oppose austerity. Thus budgetary pressures, concern about labor market flexibility, and the greater adaptability of systems of taxation have encouraged reform initiatives along these lines. The combined promise of poverty reduction, stronger work incentives, and relatively low cost has made NIT-style reforms attractive to broad audiences in both countries.

This essay, however, examines divergence as well as commonality. While both countries moved towards targeted tax/transfer plans, they diverged considerably in both the extent and content of policy change. Efforts in the United States have been limited to the expansion of the Earned Income Tax Credit (EITC), which provides benefits for low-income working families with children. Reform has thus been tightly-linked to a strategy of encouraging "flexibility" at the

---

<sup>6</sup>For the classic statement on welfare for the poor see Frances Fox Piven and Richard A. Cloward, *Regulating the Poor* (New York: Vintage, 1972).

bottom of the labor market. In effect, this program expands incentives to accept low-wage employment, and we refer to it as a *wage subsidy system*. Canada's reform has been more radical. Canada has introduced a major shift from universal programs to targeted ones, redesigning traditional social programs and implementing new benefits based on NIT/GI principles. Unlike the United States, Canadian reforms have included benefits for the non-working poor, and have involved efforts to strengthen programs for all poor households.<sup>7</sup> These distinctive policy designs have led to quite divergent results. While inequality has grown sharply in the United States, redesigned social programs have played an important role in mitigating many of these trends in Canada.

Thus our second question: what explains the divergence in policy outcomes in the two countries? The answer is complex, but we emphasize three factors. First, existing Canadian policy structures -- the *policy legacies* of previous decisions -- provided an effective "bridge" to a NIT-style design, while such legacies were either small or non-existent in the United States. Second, opposition to a basic guarantee has been much more intense in the United States. This opposition stems partly from the role of racial antagonisms in undermining the appeal of a guaranteed income, and partly from the peculiar regional character of the American political economy, which has made powerful sectional interests, especially in the South, hostile to any reforms that might undercut the low-wage labor market. These same regional interests are sympathetic to a wage subsidy system but fiercely resist extension of the model to non-wage earners. The third factor has been the fragmentation of national political institutions in the United States. This fragmentation has presented an additional obstacle to reform, giving those opposed to a more extensive NIT/GI system an effective veto.

Exploring the political roots of these reforms and the sources of cross-national divergence is helpful for evaluating the possibilities of moving towards a basic income scheme that goes beyond the EITC in the United States. Based on our comparative analysis of recent history, we

---

<sup>7</sup>It is important to stress that in Canada, this shift has occurred in policies for the elderly as well as for working-age families with children. To keep an already complex discussion within manageable limits, we have briefly noted the major trends in Canada but have not tried to systematically contrast the Canadian and American treatment of transfer programs for the elderly. Such a discussion would provide a very useful complement to the analysis offered here.

find the prospects for such a development in the United States to be bleak. Conditions in the United States create relatively favorable politics for a wage subsidy, but not for a more extensive NIT/GI as proposed, for example, by Block and Manza (this issue). Those seeking to improve assistance to poor, non-working families need to keep these political realities firmly in mind.

In Canada, the NIT/GI model has been firmly imprinted as the policy paradigm of choice among legislators and officials and one can anticipate further reforms in this direction. In the intermediate term, the poor have benefitted from this development. Our conclusion, however, adds a note of caution about whether a NIT/GI design can stabilize at a level that maintains these gains.

## **I. The New “Liberal” Welfare States**

In the comparative literature on welfare states, the term “liberal” has become almost synonymous with a tradition of means-testing inherited from the past with the United States and Canada as leading exemplars.<sup>8</sup> Traditional means-testing is based on a test of assets as well as income, requiring families to “spend down” their resources to qualify. Benefits are subject to high marginal tax rates of 100% (or more), imposing “welfare traps” that create little possibility or incentive for recipients to work their way out of poverty. Beneficiaries are typically subjected to intrusive surveillance by public officials and moral codes of behavior. And there is often considerable administrative discretion in determining eligibility and benefit levels. Socially, programs designed in this “poor law” tradition tend to create a sharp divide between the majority of citizens and the minority “poor”, constituting the latter as a distinct, usually stigmatized, social category (e.g. “welfare mothers”).<sup>9</sup> The result, as has often been noted, is that the political coalitions supporting such programs tend to be extremely weak.

The implicit model underlying liberalism’s modern face, the Negative Income Tax (NIT), shares none of these attributes. Under the NIT/GI design, low-income households are entitled to

---

<sup>8</sup>We use the term “liberal” in the classical sense to refer to policy regimes with minimal state provision and extensive means-testing. See Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).

<sup>9</sup>See for instance Michael B. Katz, *In the Shadow of the Poorhouse: A Social History of Welfare in America* (New York: Basic Books), 1986.

their pre-tax income as well as a government income supplement. The original idea, proposed by Milton Friedman in 1943, was fairly simple: In good times, workers would pay taxes to governments; in bad times governments would pay taxes to workers. Eligibility is determined exclusively by income reported in a tax return. There is no surveillance of beneficiaries or administrative discretion beyond that normally associated with the auditing of tax returns. Tax back rates on earnings and other sources of income are always *much* less than 100%. One result is that benefits can reach into the ranks of the middle class, albeit at a diminishing rate. One can usefully think of the NIT/GI design as the reverse image of yet another traditional “welfare” program in the United States — the home mortgage interest deduction which provides large benefits to high income earners with high marginal tax rates, modest benefits to low income earners, and none at all to those with no taxable income. NIT/GI programs, in contrast, provide the largest benefits to low income earners, benefits decline as other income rises, and they disappear altogether at higher income levels.

NIT-like designs for the welfare state have typically been proposed as a universal guaranteed income for all citizens, either as an alternative to traditional social insurance programs (e.g. Friedman), as an addition to them (see below), or in some mix of the two (see Block and Manza, this volume). In practice, however, almost all NIT programs are selective in the populations they target -- the elderly and families with children in Canada, the working poor in the United States.<sup>10</sup> New Zealand is arguably the most striking contemporary example of a welfare state redesigned along NIT lines. Programs based on NIT principles now include unemployment insurance, sickness benefits, old age benefits, child benefits and student loans.

Every NIT model is defined by three parameters: the *guarantee level* (the level of benefit provided to people with no other income); the *tax-back rate* (the rate at which benefits are reduced as the recipient gains income); and the *break-even point* (the income level at which benefits disappear). A high guarantee level is desirable to provide people with adequate

---

<sup>10</sup>In the countries of Southern Europe, including France, where traditionally almost all social benefits were employment-based, modest ‘basic incomes’ have been implemented (France, Spain, Portugal) or are under discussion (Italy) for those with no connection to the labor market. Britain has developed a program for working poor families, Family Credit, which resembles the EITC.



incomes and a low tax back rate is desirable to encourage people to work.<sup>11</sup> But such a combination means that the break-even point is very high and so are the costs. In practice, virtually all NIT proposals are broken into two tiers in order to contain costs and to maintain work incentives. One tier is intended for people who are not expected to work (such as the elderly) with a high guarantee level, a high tax-back rate, and a low break-even level. The second tier, for those expected to work, typically has a lower tax-back rate, and a higher relative break-even point but a lower guarantee level.

Both the United States and Canada have begun to incorporate such features into their systems of social transfers, although the shift has been far more extensive in Canada. The result has been the remarkable finding reported by Banting (see Table 1): While the share of targeted cash benefits as a percentage of total income transfers in the US held steady at around 20% between 1960 and 1992, in Canada, selective (targeted) benefits rose from 21% to 52% of income transfers, rising most rapidly after 1975.<sup>12</sup> Canada now spends more on selective income transfers than it does on universal social insurance programs. Overwhelmingly, these Canadian trends reflect the expansion of income-tested supplements, rather than traditional social assistance programs.

Table 1. Selective Expenditures as a Proportion of Total Income Security, 1960-1992 (in %)

	1960	1965	1970	1975	1980	1985	1990	1992
Canada	20.8	27.6	30.8	29.3	37.4	35.5	47.5	52.0
United States	20.4	18.8	22.8	24.3	20.9	16.7	16.3	17.8

Source: Keith Banting, "The Social Policy Divide," 1997

---

<sup>11</sup>National Council of Welfare, "A Guide to the Guaranteed Income," (Ottawa: National Council of Welfare, 1988).

<sup>12</sup>Keith Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," in Keith Banting, George Hoberg and Richard Simeon, eds., *Degrees of Freedom: Canada and the United States in a Changing World* (Montreal: McGill-Queen's University Press), 1997, pp. 267-309.

Canada introduced the income-tested Guaranteed Income Supplement (GIS) for the elderly in 1966, supplementing the universal flat benefit Old Age Security (OAS) and earnings related Canada and Quebec Pension Plans (C/QPP). GIS was expanded in stages during the late 1970s and throughout the 1980s. Partial income-testing of the universal OAS benefit began in 1989 with the imposition of a tax “clawback” of benefits from high income seniors. The 1996 federal budget essentially completed the transition, announcing a new family income-tested Seniors Benefit (SB) to replace OAS, GIS and the age and pension income tax credits, effective 2001.

The same “liberal” trajectory has been followed for programs for the non-elderly as well. Following a complex series of changes beginning in 1978, Canada finally abandoned universal family allowances (launched in 1945) and child tax exemptions, replacing them by 1993 with a single income-tested Child Tax Benefit (CTB), a refundable tax credit that goes to both working and non-working poor families. The 1997 federal budget raised the CTB budget dramatically and announced a much more ambitious restructuring of child benefits aimed at building a new national child benefit system made up of an enriched and redesigned federal Canada Child Tax Benefit and varying provincial child benefits.<sup>13</sup> The objective is to take “children off welfare” by replacing child welfare payments with an income-tested child benefit paid to all low-income families with children, regardless of the family’s major source of income (e.g., welfare, employment, unemployment insurance or some combination thereof).<sup>14</sup> Unemployment Insurance benefits were income-tested on the basis of family income for high income families in 1979. The Employment Insurance (EI) Act which took effect in 1996 (replacing the Unemployment Insurance Act), lowered the family income threshold for testing from \$63,570 to

---

<sup>13</sup>Effective July 1998, low-income families will be eligible for a maximum Canada Child Tax Benefit of \$1,625 for the first child (a 59% increase) and \$1,425 for the second and each additional child. The existing supplement of \$213 for each child under age 7 for families without child care expenses will be maintained, bringing the maximum Canada Child Tax Benefit for children under age 7 to \$1,838 for the first child and \$1,638 for the second and each additional child. Maximum benefits will go to families with net incomes up to \$20,921.

<sup>14</sup>The legislation would also end the Working Income Supplement (WIS) a small income supplement for the “working poor” similar to the EITC.

\$48,750 and conditioned replacement rates for low income earners on the presence of children.<sup>15</sup> Indeed, apart from health care, the earnings-related C/QPP, workers compensation and some social services it is difficult to identify a single significant social program that is not now subject to some form of targeting.

The United States has taken much more modest steps in modernizing its liberal welfare state. After the failure of Richard Nixon's Family Assistance Plan (FAP) that aimed to provide a guaranteed annual income for all American families, the United States succeeded in implementing a very limited Earned Income Tax Credit for the working poor. Nevertheless, the American system of income transfers for the poor shows some indication of following something like the Canadian trajectory. The annual cost of the once-modest EITC grew from \$2 billion to \$12 billion between 1986 and 1992. And the 1993 budget added \$20 billion over five years, at the same time that it legislated significant savings in middle class programs such as Medicare. By 1996, annual outlays reached \$25 billion -- almost double the level of federal expenditures on AFDC. In 1986, some 7 million families were covered by the EITC. By 1996, the figure will be approaching 19 million.<sup>16</sup> The maximum value of the EITC is currently around \$3500, and some benefits are available to families earning up to \$28,500 a year. While part of the EITC's growth was due to rising demand, the main reason for expansion has been sizable real benefit increases introduced in 1986, 1990, and 1993. The shifting character of the American income transfer system reflects both the expansion of the EITC and the retrenchment of traditional means-tested programs (most dramatically in the welfare "reform" legislation of 1996) and social insurance programs like unemployment insurance (see Table 2). It is crucial to emphasize that unlike food stamps, AFDC, or unemployment insurance -- and in contrast to the NIT-style programs introduced in Canada -- the EITC provides no benefits to those without earned income.

---

<sup>15</sup>Earnings replacement rates were lowered from 57 to 55 percent but raised to 60 percent for low income earners. The addition of a Family Income Supplement for unemployed parents with family income under \$25,291 raises this figure to 80%.

<sup>16</sup>United States House of Representatives, Committee on Ways and Means, *Where Your Money goes: The 1994-1995 Green Book* (Washington: Brassey's), 1994, p. 704.

Table 2. Federal Spending on EITC and AFDC, 1980-1996 (\$ in billions)

	EITC	AFDC
1980	2.0	6.4
1981	1.9	6.9
1982	1.8	6.9
1983	1.8	7.3
1984	1.6	7.7
1985	2.1	7.8
1986	2.0	8.2
1987	3.9	8.9
1988	5.9	9.1
1989	6.6	9.4
1990	6.9	10.1
1991	10.6	11.2
1992	12.4	12.3
1993*	13.2	12.3
1994*	19.6	12.4
1995*	22.8	12.8
1996*	25.1	13.2

## \*Projections

AFDC expenditures exclude state level spending and administrative costs.

Source: United States House of Representatives, Committee on Ways and Means, *Where Your Money Goes: The 1994-95 Green Book* (Washington, D.C.: Brassey's), 1994, pp. 389, 700.

Thus while there are similarities in the policy shifts undertaken in Canada and the United States, there are major differences in both the extent and character of policy change. These differences have clearly had an impact on economic outcomes. Both countries have been buffeted by major changes in the labor market over the past decades. As in the United States, the earnings of low income workers in Canada declined in the eighties while those of high income earners rose.<sup>17</sup> However, unlike the United States experience, rising inequality in *labor market incomes* in Canada was offset by *social transfers*, so that the final distribution of total family income and the

---

<sup>17</sup>Rene Morissette, John Myles, and Garnett Picot, "Earnings Polarization in Canada, 1969-1991," in *Labour Market Polarization and Social Policy*, ed. Keith Banting (Kingston: Queen's University Press, 1995), 23-50.

incidence of poverty in Canada remained stable.<sup>18</sup> In the United States, changes in social programs exacerbated rather than offset market trends, with the result that between 1970 and 1986 the Canadian poverty rate (measured by U.S. standards) moved from 6.9 points *above* the U.S. level to 4.5 points *below* it. The story for the elderly is even more dramatic. In the mid-seventies, old-age poverty rates in Canada were well above American levels.<sup>19</sup> By the mid-eighties, only 7% of Canadian seniors were living below internationally standardized poverty lines compared to 22% in the United States.<sup>20</sup>

Thus, the recent liberal restructuring of North America raises two interesting questions about the politics of social policy. First, why have both the United States and Canada moved towards an increased reliance on integrated, targeted tax/transfer programs? Second, why has this move been more extensive -- and more effectively geared towards reducing poverty -- in Canada than it has been in the United States? Section II reviews the evolution of political struggles over these programs in the two countries.

## II. The Politics of Income-Testing

Nothing in traditional welfare state theory tells us very much about the conditions likely to favor the *expansion* of income-tested programs of the sort that has occurred in both Canada and the United States in the past two decades. We use the term "expansion" in a double sense: to refer to the growth of NIT-style testing as the model of choice for social transfers as compared to social insurance or demogrant programs; and, second, to refer to the real growth in benefits for "targets" of such programs. Indeed, there is precious little welfare state theory of any sort that

---

<sup>18</sup>Rebecca Blank and Maria Hanratty, "Responding to Need: A Comparison of Social Safety Nets in Canada and the United States," in *Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States*, ed. David Card and Richard Freeman (Chicago: University of Chicago Press, 1993), 191-231; Roger Love and Susan Poulin, "Family Income Inequality in the 1980s," *Canadian Economic Observer*, September 1991, 4.1-4.13.

<sup>19</sup>John Myles and Jill Quadagno, "The Politics of Income Security for the Elderly in Canada and the United States: Explaining the Difference," in Ted Marmor and Tim Smeeding, eds., *Economic Security for the Elderly: North American Perspectives* (Washington, D.C.: The Urban Institute), 1994.

<sup>20</sup>Timothy Smeeding, Barbara Torrey, and Lee Rainwater, "Going to Extremes: An International Perspective on the Economic Status of the U.S. Aged," (Luxembourg Income Study, Working Paper #87, 1993). For international comparisons, "poverty" is defined as less than 50% of adjusted median household income.

leads us to expect this result. The reason, we think, is simple: Virtually all welfare state theory is theory *about* the long historical trajectory of welfare state growth from the 19th century through the "golden age" (*les trentes glorieuses*) that ended symbolically with the first great oil shock of 1973.<sup>21</sup> The NIT/GI model comes into its own after this age has passed, when the welfare state enters a period of containment and retrenchment.

Although NIT-style blueprints had been discussed since the 1940s, serious consideration of Milton Friedman's proposal for a Guaranteed Annual Income (or negative income tax) emerged in both Canada and the United States during the late 1960s, a period of major social policy innovation in both countries. These initial attempts, however, were soundly defeated. It would be another decade -- around the late 1970s -- before Friedman-style programs began to expand in both countries.

The reversal of fortune of these programs, from failure in the late 1960s to success from the late 1970s on, is telling. *NIT programs are the progeny of austerity.* At a time of budgetary stress, NIT-style reforms possess a number of attractive features which allow them to compete effectively both with traditional means-tested programs and, at times, with more universal ones. There are two broad reasons why this is so. The first is that these programs provide potential common ground for a powerful political coalition. This coalition includes public and private actors interested in controlling public expenditure, those with an interest in increasing labor market flexibility, and those seeking to increase the incomes of poor and near-poor households. Because these programs are much more targeted than universal programs, they offer hard-pressed public officials (and sympathetic private sector actors such as those in the financial community) the promise of expenditure restraint. At the same time, the structure of gradually phased-out benefits is widely considered to be more effective than traditional means-tested programs in sustaining work incentives -- a matter of considerable importance to many employers.

Political actors on the left are likely to be more ambivalent. Labor unions have generally been opposed. Crucially, however, this opposition has become less important as the political

---

<sup>21</sup>Esping-Andersen's important welfare state typology is a case in point. His is an *historical* typology derived from actual welfare states as they developed in the postwar decades. It does not exhaust the possible range of welfare states forms, and hence is less useful for identifying new and emergent models of welfare state provision.

influence of organized labor has declined. Moderates and liberals, including advocacy groups for the poor, may have mixed feelings when the *quid pro quo* for expanding these targeted programs is cutbacks in universal transfers. Yet they may see such cutbacks as probable in any event, and the possibility of increasing real benefits to those with low incomes will often lead them to support such initiatives, or at least serve to mute their opposition. One might question the clout of such groups in comparison with the influence of employers and finance ministries. In a context where austerity threatens to generate a popular outcry, however, such groups can provide essential political cover. In contexts where it is difficult to assemble legislative majorities (such as the United States), these groups may also have some influence with moderate politicians who control crucial swing votes.

This points to the second major advantage of NIT-style programs, which is their capacity to limit the popular reactions against welfare state reform which make other kinds of programmatic initiatives difficult. The contemporary politics of the welfare state has become the politics of blame avoidance.<sup>22</sup> Austerity means that reforms almost always require painful cutbacks in existing programs, which are not only backed by entrenched interests but generally command widespread public support. Voters have often reacted strongly to visible cuts in social policies. In this context, operating through the tax system greatly increases policy makers' flexibility. Shifting to this arena partly circumvents the traditional interest group networks that support existing social programs. The rules governing reform of taxes are often looser than those governing changes in social programs. Perhaps most important, the intricacy of the tax system makes it easier for governments to present changes as relatively technical, or as part of large and complex package deals, or to phase in changes incrementally to minimize public outcry. Complexity and opacity facilitate a "politics of stealth" which make it harder for opponents to mobilize support among mass publics.<sup>23</sup> Indeed, a striking aspect of the move towards GI/NIT programs in both countries has been the limited public discussion and conflict over policy change.

---

<sup>22</sup>R. Kent Weaver, "The Politics of Blame Avoidance," *Journal of Public Policy*, 1986; Pierson, "New Politics of the Welfare State."

<sup>23</sup>On the politics of stealth see Grattan Gray (pseudonym for Ken Battle), "Social policy by Stealth," *Policy Options* (1990): 17-29, and Douglas Arnold, *The Logic of Congressional Action* (New Haven: Yale University Press), 1990.

While “welfare reform” has generated headlines and protests, major modifications of tax-based income transfers have not.

Thus NIT/GI programs are well-adapted to the new politics of the welfare state. They rely on new political coalitions, which employ new, low-profile strategies suitable for an environment of austerity. These new political dynamics are evident in the histories of NIT/GI policies in both countries since the mid-1960s. Although the origins of these new policies can be traced back to the earlier era of welfare state expansion, they have flourished in the harsher environment ushered in by the oil crisis of 1973.

## **Canada**

At least since the sixties, when Canadian nationalism took on strong anti-American overtones and Canadian social provision began to expand beyond U.S. levels, the contrast between a mean-spirited (“means-tested”) American welfare state and Canada’s more generous *universalistic* welfare state has formed a core element of Canadian political identities and of Canadian political rhetoric. Ask a Canadian what distinguishes Canada from the United States and likely as not she will take out her health insurance card. In Canada, national health insurance covers hospital and medical services on a universal basis without copayments, deductibles or other user fees. *Universality* — the provision of services and income support conditioned only by citizenship and residency — have been distinguishing features of the Canadian welfare state since the introduction of universal family allowances in 1944 and universal Old Age Security (OAS) benefits in 1951. The rhetoric, however, has masked a long ineluctable shift from universality as traditionally understood — citizenship cum residency as qualifying conditions -- to selectivity in Canadian social spending.

The result of these reforms, however, was not a leap into the past and a return to the “poor law” tradition of American style “means-testing.” Rather, it represents a new model for the design of social programs, a novel form which departs from the three traditional models for welfare state spending: earnings-related social insurance, universal flat benefits, and means-tested social assistance targeted on the “poor”. The distinctive feature of the Canadian welfare state in the 1990s is that the NIT model has become virtually hegemonic while in the United States it



remains (and may continue to remain) in its infancy.

Three factors played especially critical roles in accounting for Canadian adoption of the NIT design. The first was an early and somewhat accidental adoption of a Guaranteed Income for seniors, which provided the opportunity for extensive “policy learning” concerning both the administrative and political advantages of this design. The second, more critical, element was the existing programmatic structure of a system of universal flat benefits financed from general revenue, which had been created during the forties (for children) and fifties (for the elderly). Unlike contributory programs that establish pseudo-proprietary claims on benefits (benefits have been “earned” and expenditures are linked to earmarked contributions), claims based on citizenship alone are especially vulnerable to income-testing. As we shall see, this vulnerability is a generic feature of flat rate citizenship entitlements, not a distinctively Canadian phenomenon. Thirdly, under conditions of retrenchment, proposals to shift from “universality” to greater selectivity (income-testing) were able to generate rather novel political coalitions of supporters — from business elites and conservative critics who correctly saw these changes as a way of cutting welfare expenditures *and* from progressive policy reformers who saw the potential for greater redistribution to the poor under conditions when the need for redistribution was rising.

Our claim that widespread adoption of a NIT-like design in social programs was a child of retrenchment first has to deal with the obvious anomaly that the first implementation of such a design, the Guaranteed Income Supplement for seniors introduced in 1966, came at the height of welfare state expansion. In conjunction with OAS, the GIS provided a modest but real guaranteed annual income for all those age 65 or over. Benefits were income-tested but not means-tested (assets were excluded from the test) and rather than the 100% tax-back rate common to social assistance programs, benefits were reduced by only 50 cents for each dollar of additional income. Although implemented during expansion, the politics of the GIS legislation prefigured later reforms in significant ways, a politics that could be characterized as one of *containment* if not retrenchment.

As Haddow recounts, throughout the long discussions of “poverty” policy during the sixties, political parties, business interests and organized labor remained largely indifferent or on

the sidelines.<sup>24</sup> "Universal" social programs promised to deliver votes; anti-poverty policy focused on the bottom of the income distribution did not. Describing the position of the parties during the review leading to the Canada Assistance Plan (CAP) reform in 1966, he notes: "... none of the political parties played a significant role in shaping social assistance reform. They were far more interested in broader components of the welfare state, which had greater electoral appeal."<sup>25</sup>

The GIS was first proposed in February 1966 by the Special Senate Committee on Aging directed by Senator David Croll, chair of the Special Senate Committee on Aging.<sup>26</sup> The proposal, however, was initially resisted by both Cabinet and by federal officials.<sup>27</sup> It was finally adopted as a "temporary measure" in the face of enormous pressure from opposition parties, the New Democratic Party (NDP) in particular, to bring down old age poverty by dramatically raising the universal old age demogrant (OAS) to \$100 per month. Adoption of the GIS proposal was a far cheaper solution. The subsequent expansion of the GIS was driven by similar considerations - first as a strategy to resist broader expansions in earnings-related public pensions (the C/QPP) at the beginning of the eighties, and later as a way of off-setting some of the pain associated with curtailment of universal OAS benefits. While the relative value of OAS and CPP benefits has stagnated since the 1970s, GIS benefits moved up sharply in relation to average wages.<sup>28</sup>

Politicians and officials learned several important lessons from their experience with the GIS. First, small marginal changes could produce large political pay-offs. For example, when pressed to dramatically expand the earnings-related CPP in the early eighties as a way of reducing

---

<sup>24</sup>Our discussion in this section relies heavily on Rodney Haddow's superb *Poverty Reform in Canada, 1958-78: State and Class Influences on Policy-Making* (Montreal: McGill Queen's University Press), 1993

<sup>25</sup>Haddow, *Poverty Reform*, p. 82

<sup>26</sup>Croll's role in Canadian politics is similar to that of American New Deal Democrats such as Claude Pepper who cut their political teeth in the 1930s. Like Pepper, Croll headed numerous commissions and committees related to old age and poverty well into his 80s. In an interview with one of the authors, he reported that his key motive for advancing the GIS design in 1966 was his hatred of the "dole" of the 1930s — traditional means-tested welfare. Croll wished to establish a guaranteed income as a political right.

<sup>27</sup>Haddow, *Poverty Reform*, p. 70

<sup>28</sup>Myles and Quadagno, "Politics of Income Security."

old age poverty, the government responded with a modest increase in GIS benefits for single (mainly female) seniors demonstrating that the problem could be addressed through other, less costly, solutions. Second, by careful targeting, large numbers of voters would be included even though, for many, benefits would be quite small.<sup>29</sup> A simplified tax form generated very high take-up rates (over 90%) even among low income seniors who would not normally file a tax return. Unlike traditional means-tests which have high overhead costs, administering an income-based test through the tax system proved to be relatively inexpensive for both the assessment and delivery of benefits.<sup>30</sup> Finally, within the context of Canadian federalism, adjusting benefits through the tax system proved to be far more politically feasible than adjusting traditional direct transfer programs. While social programs of all sorts have always represented contested terrain between federal and provincial governments, and have often created “joint-decision traps” which make reform extremely difficult, the tax system is under the undisputed jurisdiction of the federal government.<sup>31</sup>

These broader implications were not immediately obvious, however, nor were they initially of much interest despite the fact that through the early 1970s, discussions of Canadian social policy reform became firmly fixed on the concept of a universal Guaranteed Annual Income (GAI). The topic originated within the welfare bureaucracy in 1968 and 1969. The first proposal (the “family income security plan” or FISP) was brought to Cabinet in April 1970 by the Minister of Health and Welfare, John Munro, where it was rejected as too costly.<sup>32</sup>

That the topic emerged to dominate policy debate in the 1970s is largely due to the basic

---

<sup>29</sup>In the early eighties, over 50% of seniors received some GIS benefit. The figure has subsequently declined to about 38% as a result of the maturation of the earnings-related Canada Pension Plan.

<sup>30</sup>Administrative costs are mainly those associated with processing tax returns, calculating benefits and mailing out benefit checks so that the entire process is easily computerized. With the dramatic decline in costs of computing time and data storage, administrative costs have declined further.

<sup>31</sup>See for example Keith Banting, “Institutional Conservatism: Federalism and Pension Reform,” in Jacqueline S. Ismael, ed., *Canadian Social Welfare Policy: Federal and Provincial Dimensions* (Montreal: McGill-Queen’s University Press), 1985.

<sup>32</sup>FISP would have been partially financed by cutting universal family allowances for middle and upper income families. Protests from the women who would have been adversely affected also played a role in defeating the proposal.

cleavage which has driven federal politics since the 1960s, namely the future of Quebec in the Canadian federation. In 1971, Quebec's Commission of Inquiry on Social Affairs produced the Castonguay-Nepveu Report which recommended adoption of a GAI as part of an expansionary program of reform that included better social insurance and family allowances. That summer, Premier Bourassa rejected the Victoria Charter -- a new constitution for Canada -- because of its ambiguity in dealing with income security. To appease Quebec, the federal government launched the Federal Provincial Social Security Review, the centerpiece of which was a form of GAI similar to that proposed in the Castonguay-Nepveu Report.<sup>33</sup> In April 1973, the Liberal government issued an Orange Paper outlining a two-tier GI, income support for unemployable persons and income supplementation for the employed. Support for and interest in the proposals, however, were negligible. Haddow concludes that among the political parties, only the right-wing *Créditistes* under Réal Caouette, expressed enthusiasm for the GI model. Significantly, they saw it as a replacement for, not as an addition to, existing social insurance schemes.<sup>34</sup> Business groups expressed caution and labor groups indifference toward the strategy.

The long debate over a GI design that lasted until 1976 was part of a politics of expansion and it failed. The Orange Paper presented the GAI as an addition to, not a substitute for, existing social programs. Implementation would produce large increases in social expenditures, not cost savings. As deficits began to rise after 1973, the expansionary version of the GAI proposal went nowhere.

All this began to change in 1978. After returning from an economic summit in Bonn, Prime Minister Trudeau called his cabinet ministers to Ottawa to discuss how \$2 billion in spending cuts would be distributed.<sup>35</sup> Canada's universal program of Family Allowances was singled out for attention and the \$28 a month benefit per child projected for 1979 reduced to \$20. To soften the blow of this and other cuts, a refundable tax credit designed on NIT principles was targeted at families with children. A family with two children would receive a full credit of \$400

---

<sup>33</sup>See Michael Mendelson, "Social Policy After the Referendum," Ottawa: Caledon Institute of Social Policy, October, 1995

<sup>34</sup>Haddow, *Poverty Reform*, p. 185

<sup>35</sup>*Ibid*, p. 151

at net incomes less than \$18,000 per year, a credit of \$300 if net income was \$20,000, and the credit would disappear above net incomes of \$26,000. As Guest points out, however, since median family income of families with children was \$19,500, a substantial majority (69 percent) received the full credit and many others a partial credit.<sup>36</sup> Those qualifying for the full credit received a substantial increase to \$440 per child per year versus the \$336 they would have received under the old system. In the same year, the principle of income-testing "at the top" was introduced to the unemployment insurance program. High income claimants would now have to pay back up to 30 percent of all UI benefits paid in a taxation year.<sup>37</sup>

The 1980s brought an explosion of support for GI-like reform of Canada's tax-transfer programs, but now as an *alternative* to the social insurance-demogrant models of the 1960s. Major reviews included the report of the McDonald Commission (1985) which examined the entire social safety net and the Forget Commission's study of unemployment insurance (1986). Both recommended reforming the system along GI principles at the expense of universal programs and the non-actuarial elements of contributory plans.

Throughout the 70s, a guaranteed annual income had been the "holy grail" of Canada's anti-poverty lobbies. During the eighties, they found themselves joined by new and unexpected allies from among business elites and other traditional critics of social spending. Only organized labor remained ambivalent. As Haddow recounts, from the first discussions of a GI strategy in 1966 until the late eighties, the attitude of organized labor and the social democratic NDP was at best indecisive.<sup>38</sup> Labor's main agenda was expansion of social insurance -- UI and pensions in particular. The Canadian Labor Congress supported a negative income tax in 1975 largely because it saw no need to oppose it. But the support was tepid at best. In 1988, the CLC embraced the principle of a GI but with considerable qualification. Labor's concern was that the

---

<sup>36</sup>Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia Press), 1985, p. 200.

<sup>37</sup>Stephen McBride, *Not Working: State Unemployment and Neo-Conservatism in Canada* (Toronto: University of Toronto Press), 1992, p. 175

<sup>38</sup>See Rodney Haddow, "Canadian Organized Labour and the Guaranteed Annual Income," in Andrew Johnson, Stephen McBride and Patrick Smith, *Continuities and Discontinuities: The Political Economy of Social Welfare and Labour Market Policy in Canada* (Toronto: University of Toronto Press), 1994, pp. 350-366.

GI model would become a substitute for full employment and a subsidy for low wage employers.

While organized labor remained ambivalent, the crusade for a GI/NIT design was joined in the 1980s by business leaders, neo-conservative critics of the welfare state, and, for the first time, a national governing party, the Progressive Conservatives who came to power in 1984. Their aim, however, was not to supplement existing social programs but to eliminate them, replacing the existing structure of universal flat benefits and earnings-related programs with a universal guaranteed income. For neo-conservatives, more targeting would rid the nation of the “costly and unnecessary” practice of providing benefits to middle and upper income families. Employers saw a national system of GI benefits financed from general revenues as an alternative to minimum wage laws and expensive social insurance programs financed from payroll taxes. A GI design also had the advantage of eliminating welfare traps and work disincentives created by the 100% tax back rates in traditional social assistance programs. In 1984, the Canadian Manufacturer's Association (CMA) proposed to the McDonald Commission that Canada's existing welfare state -- including pensions, UI, family allowances and social assistance -- be replaced by a comprehensive GAI. The result they suggested could save as much as \$30 billion per year.<sup>39</sup> In their final proposals, the Commissioners heeded this advice.

CEOs can make such proposals because, unlike politicians, they have no need to please the median voter. In an effort to implement the first part of the CMA strategy, elimination of universal benefits, Finance Minister Michael Wilson proposed to deindex Old Age Security in his first budget introduced in May 1985. The program would disappear, but slowly, as inflation eroded the real value of benefits. The result was a political debacle for the Conservatives and, by August, Wilson was forced to retreat.<sup>40</sup>

The second time out, Wilson was more successful. In 1989, the government introduced legislation that was scarcely noticed by the electorate. Rather than eliminate universal programs,

---

<sup>39</sup>Haddow, “Canadian Organized Labour,” p. 356.

<sup>40</sup>The defeat was only partial, however. Wilson prevailed with respect to Family Allowances but backed down on Old Age Security in the face of large national protests from seniors and other groups. For details of this and the government's more successful initiative in 1989 see Paul Pierson and R. Kent Weaver, “Imposing Losses in Pensions Policy,” in R. Kent Weaver and Bert A. Rockman, eds., *Do Institutions Matter? Government Capabilities in the United States and Abroad* (Washington, D.C.: The Brookings Institution), 1993, pp. 110-50.

cash benefits would be subject to an income test -- “clawed back” from high income recipients. OAS benefits for individuals with more than \$51,765 were reduced by 15 percent for every dollar of income above the threshold with all benefits disappearing at approximately \$89,000 per year. The new proposal shrewdly utilized the structure of a GI/NIT system to pursue a politics of stealth. Since the vast majority of the elderly were unaffected, and few legislators or media representatives understood the legislation, it was barely noticed.<sup>41</sup>

A similar strategy was adopted with respect to the universal Family Allowance. Wilson successfully deindexed Family Allowances in 1985 and in 1989 benefits were “clawed back” from high income families. In 1993, the Tories introduced the income-tested Child Tax Benefit, formally ending universal family allowances. Low income families, however, were clearly winners, as they were in the long series of reforms since 1978 that led up to the new system.<sup>42</sup> While the majority of families saw their benefits reduced, most retained some claims in the program. Above \$25,921 benefits are taxed back at a rate of 2.5 cents for every dollar in additional family income for one child and 5 cents for two or more children. For families with two children under 7, the benefit only disappears entirely when family income exceeds \$75, 241.

Emulating their predecessors, the Liberals proposed in their 1996 budget to apply a similar formula to the old age security system. The new Seniors Benefit, slated to come into effect in 2002, will eliminate OAS, integrating it with the income tested Guaranteed Income Supplement. Benefits will be increased slightly (\$120 per year) for low income seniors and progressively reduced for higher income elderly families, reducing or eliminating benefits for about one quarter of elderly households.<sup>43</sup>

From the age of expansion to the age of retrenchment, then, the politics of the guaranteed income changed dramatically in Canada. The NIT design, largely spurned by elected officials in

---

<sup>41</sup>Even less visible was the fact that changes to the indexation formula would have produced a gradual decline in the income threshold for taxing back benefits.

<sup>42</sup>Ken Battle and Leon Muszynski, “One Way to Fight Child Poverty,” (Ottawa: Caledon Institute of Social Policy), 1995.

<sup>43</sup>Unlike the OAS “clawback” the income threshold for benefit reduction will be fully indexed against inflation.

the age of expansion, became the model of choice after 1978, not as a supplement to traditional programs but as a replacement for them. With a single instrument, expenditures could be contained by reducing or eliminating benefits for higher income families while part of the savings could be applied to enrich the benefits of the most disadvantaged. Because of this, it was possible to generate new and unanticipated political coalitions around a program of retrenchment. While reluctant to see the demise of “universality,” many potential critics of retrenchment were silent or even actively supported reforms that promised to benefit low income families.<sup>44</sup> Though the social policy lobbies were often vocal in their opposition to the end of “universality,” the redesign of programs in a way that raises benefits for low income families and imposes significant losses on a minority of households made mobilization of serious opposition to the cuts a daunting task.

One key to explaining the success of such a strategy lies, paradoxically, in the possibilities opened up by the policy legacies of Canada’s traditional cash benefit system of *universal* flat benefits financed from general revenue and with only citizenship and residency as qualifying conditions.<sup>45</sup> Since benefits are in no way linked to contributions, beneficiaries do not have the pseudo-proprietary claims to benefits associated with contributory programs such as Social Security. Indeed, citizenship entitlements have proven vulnerable to income-testing not just in Canada but also in virtually every other nation with a tradition of citizenship entitlements. Since the 1980s, partial or total “clawbacks” of universal flat-rate pensions from middle and upper income earners have been implemented in Australia, Denmark, Finland, Holland, Iceland, Sweden and, especially, New Zealand.<sup>46</sup> In contrast, proposals to income-test contributory schemes along

---

<sup>44</sup>Indeed the design for the 1996 Seniors Benefit and the 1997 child benefit redesign were largely the work of Ken Battle, long-time Director of the National Council of Welfare and, since 1992, President of the Caledon Institute of Social Policy.

<sup>45</sup>On the significance of policy legacies see for example Margaret Weir and Theda Skocpol, “State Structures and the Possibilities for ‘Keynesian’ Responses to the Great Depression in Sweden, Britain, and the United States,” in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press), 1985, pp. 107-63.

<sup>46</sup>See John Myles and Jill Quadagno, “Recent Trends in Public Pension Reform: A Comparative View,” in Keith Banting and Robin Boadway, eds., *Reform of Retirement Income Policy: International and Canadian Perspectives* (Kingston: Queen’s University School of Policy Studies), 1997, pp. 247-271.



the lines suggested by Peter Petersen and the Concord Coalition in the United States have been thus far unsuccessful, and have hardly reached the political agenda in other Bismarckian systems.<sup>47</sup>

Based on an understanding of traditional means-tests, it has long been social science lore that the shift from universal to selective benefits will, in the long term, make the poor worse off. Have, as the conventional view suggests, the "poor" in Canada suffered as a result of these changes? In the intermediate term, at least, the answer is no. Income-testing of social benefits for families with children have reduced social transfers directed at middle income groups while raising benefits for those at the bottom of the income distribution. This proved to be especially important in light of a sharp rise in earnings inequality during the 1980s. Until now, the Canadian system of social transfers has been successful in stabilizing the final distribution of family incomes and containing child poverty.<sup>48</sup> More open to question is the long term viability of Canada's GI welfare state, a question to which we return in the conclusion.

### **The United States**

Although much more modest in scope and containing very important distinctions in design, the expansion of NIT-type spending in the U.S. has also been a child of retrenchment. The Earned Income Tax Credit (EITC) has been one of the few social programs, along with prison construction, that has expanded since the seventies. At least before the arrival of a huge class of vigorously anti-government Republicans in the mid-term elections of 1994, it received widespread support on both the left and the right. Again, we are interested in two questions. First, why, as in Canada, has the single exemplar of a NIT-type program been so successful in an era of retrenchment? Second, why has this programmatic shift been comparatively modest in the United States, and, crucially, limited to the working poor?

---

<sup>47</sup>Peter Peterson, *Facing Up: How to Rescue the Economy From Crushing Debt and Restore the American Dream* (New York: Simon and Shuster, 1993). One notable exception is Canada's contributory Unemployment Insurance program, which has been income-tested since 1979.

<sup>48</sup>From the 70s to the early 90s, child poverty and income inequality moved up and down with the business cycle but showed none of the secular increase evident in the United States. Preliminary evidence for 1995 does indicate, however, the possible beginning of an upward shift in child poverty. See Garnett Picot and John Myles, "Social Transfers, Changing Family Structure and Low Income Among Children," *Canadian Public Policy*, (XXII) 1996, pp. 244-267.

In the United States, serious discussions of a reformed system of transfers for low-income households began in the last days of Lyndon Johnson's War on Poverty. The context was the racial turmoil in American cities, growing frustration among liberals and conservatives alike with mounting welfare rolls under AFDC, on the one hand, and the work disincentives of traditional means-tested welfare, on the other. As Jill Quadagno recounts, the first major recommendation for an NIT-type program came from Johnson's Heineman Commission in 1968. The Commission initially considered and then rejected a jobs strategy as too expensive and worth little to millions of workers earning little more than the minimum wage. Instead it recommended a universal income supplement for the working poor. As Quadagno observes:

Although a wage supplement represented a radical departure from existing measures, it rested on premises compatible with business interests. It accepted the spread of low wage labor as inevitable and it provided an alternative to a minimum wage... And unlike the inefficient social insurance programs, which paid regardless of need, income supplements only paid benefits to the poor or near-poor.<sup>49</sup>

The Heineman Commission's proposals went nowhere, but a few years later the prospect of a national Guaranteed Income for families, the Family Assistance Plan, almost became reality.

Ironically, the Family Assistance Plan (FAP) was proposed by a Republican president, Richard Nixon.<sup>50</sup> Nixon's position in the development of American social policy remains something of a puzzle. Concerned about racial unrest and operating in a climate that was more liberal on social policy issues than the one faced by other Republican presidents, Nixon sought to reform rather than repudiate the War on Poverty. The political goal appears to have been that of capturing white working class voters alienated by the civil rights (and anti-transfer) thrust of the Johnson era.

Spurred on by moderate advisors, including Johnson administration-carryover Daniel Moynihan, Nixon saw a national welfare system, organized as a negative income tax with strong work incentives, as a rational piece of social engineering. Support from a Republican President

---

<sup>49</sup>Quadagno, *Color of Welfare*, p. 171

<sup>50</sup>For good discussions of FAP see Christopher Leman, *The Collapse of Welfare Reform: Political Institutions, Policy and the Poor in Canada and the United States* (Cambridge: MIT Press), 1980; Timothy Conlan, *New Federalism: Intergovernmental Reform from Nixon to Reagan* (Washington, D.C.: Brookings), 1988, pp. 19-91; and Quadagno, *Color of Welfare*, Ch. 5.

significantly undercut Republican resistance. Many Republicans in Congress, however, were shocked to see their president backing a guaranteed income proposal, and continued to oppose the legislation.

Business, too, was fragmented.<sup>51</sup> Large, capital-intensive firms (represented by the National Association of Manufacturers) were generally supportive of FAP, but it was not a legislative priority. They become more hostile, however, after unions successfully demanded that Nixon incorporate a separate tier of public sector job-creation and protection for the minimum wage. Smaller, more labor-intensive firms, were strongly opposed to the plan. Here it is critical that FAP, while strengthening work incentives in the North where relatively generous welfare benefits would not be increased, might have had the opposite effect in areas, like the South, where it would have greatly increased the availability of income support to those out of work. Through organizations such as the Chamber of Commerce, small businesses lobbied vigorously against reform. As Jill Quadagno observes, "with 3,800 trade associations and local chambers and a direct membership of more than 35,000 business firms, the Chamber wielded a mighty club."<sup>52</sup> Thus, despite disagreement within the business community, those groups that mobilized were generally eager to stop FAP.

The antipathy of labor-intensive, low-wage firms to a plan which would have provided income to the able-bodied but non-working poor was more than matched by the hostility of Southern politicians. Indeed, the role of Southern political interests, a crucial factor in shaping the American welfare state, is clearly evident in the debates over income transfers during the last quarter-century. This topic is a complex one, but a key factor for current purposes has been the long-standing southern strategy to block policies which threatened the low-wage, nonunion environment that made the region attractive to potentially mobile businesses.<sup>53</sup> Southern interests

---

<sup>51</sup>Jill Quadagno, "Race, Class, and Gender in the U.S. Welfare State: Nixon's Failed Family Assistance Plan," *American Sociological Review*, vol. 55, 1990, pp. 19-20.

<sup>52</sup>Quadagno, *Color of Welfare*, p. 131.

<sup>53</sup>For a good discussion see Jill Quadagno, "From Old Age Assistance to Supplementary Security Income: The Political Economy of Relief in the South, 1935-1992," in Weir, Orloff, and Skocpol, *Politics of Social Policy*. For evidence on how these Southern interests affected efforts to nationalize various anti-poverty programs in the U.S. see Paul Pierson, "The Creeping Nationalization of Income Transfers in the United States, 1935-1994," in

have consistently opposed policies that would have established a national floor on benefits for the non-working poor, and in the process raised the “reservation wage” of southern workers. Proposals for a more national system of welfare, such as FAP, would have produced considerable net public transfers to the South, where poverty rates were highest and federal taxes were lowest. But these proposals also would have jeopardized the South’s major competitive advantage within the American economy: the availability of a cheap, nonunionized workforce. Southern politicians have therefore consistently opposed, while Northern interests have often supported, proposals that would have paid disproportionate benefits in the South from taxes on the rest of the country.

FAP's high minimum benefits and requirement that families with unemployed heads be made eligible for assistance would have had a revolutionary impact in the South; according to HEW estimates, the number of welfare recipients in the low-benefit states of the South would have increased by 250 to 400%.<sup>54</sup> Even as FAP reached its high-water mark, passing the House in 1970 by a vote of 243-155, southern Democrats voted 85-17 against the bill. This strong opposition appeared despite the fact that the South's low-benefit, low tax, high-poverty status meant that FAP promised the region dramatic fiscal relief.

Yet FAP's passage in the House indicated that Southern opposition alone, given the ambivalence of business and the Republican party, was not enough to stop the bill. Southern opponents in the Senate, led by Finance Committee Chairman Russell Long, proved more successful, but they relied heavily on support from liberal Democrats who found FAP insufficiently generous. In the crucial Finance Committee vote on FAP, three liberal Democrats joined their conservative colleagues to produce a 10-7 vote against reporting the bill to the Senate floor.<sup>55</sup>

---

Leibfried and Pierson, eds., *European Social Policy: Between Fragmentation and Integration* (Washington, D.C.: Brookings), 1995, pp. 301-28.

<sup>54</sup>Quadagno, *Color of Welfare*, pp. 129-30.

<sup>55</sup>Liberal opposition to FAP had complex roots: contempt for Nixon, confidence that time was on their side since a Democrat would soon be in the White House, fear of alienating critics on their left (including the National Welfare Rights Organization, which termed FAP "an act of oppression"). A desire to preserve state-level programs in more liberal states also played an important role. Northern liberals argued that given their comparatively generous state-level programs, their constituents would gain nothing from FAP. In retrospect, the liberals' arguments look seriously flawed. The anticipated liberal revival never appeared. Northerners badly

The core of opposition, however, was centered in the South and in wide segments of the business community.<sup>56</sup> By providing a standardized and more generous benefit package for the non-working but able-bodied poor, these proposals would have made it more difficult for employers to keep wages down. National standards would also have made it impossible to sustain the lower social benefits that allowed southern officials to advertise the South as a low-wage haven for business.

Despite occasional attempts at resurrection, FAP-type proposals have faded from the American political agenda. In retrospect, the fact that something like a NIT-style program for all families came close to passage seems extraordinary. The strong tendency of many whites to identify income payments for the non-working poor as programs for blacks has greatly weakened the possibilities for sustaining political alliances in favor of such policies. By the early 1980s, attention shifted to new proposals which would limit themselves to providing a wage subsidy for poor workers. Like FAP, these new proposals involved an "NIT"-style integration of taxes and benefits. Yet they differed in respects that would prove to be politically crucial, and would allow the Earned Income Tax Credit to emerge as the great political success among American social programs for the poor during the past decade.<sup>57</sup>

Although not enacted until 1974, minuscule until 1986, and relatively unknown even today, this program has become a central component of national income maintenance policy. By 1992, the program was estimated to benefit over 11 million families at a cost of \$9.4 billion.<sup>58</sup>

---

miscalculated the prospects for maintaining generous benefits in a decentralized welfare system. At the time, however, it must have seemed difficult for liberals to back a radical reform of welfare that appeared to promise so little for the northern poor.

<sup>56</sup>As the bill became more liberal in the course of congressional deliberations, Nixon's support also became tepid at best.

<sup>57</sup>Very little work has yet been done on the EITC. This discussion draws primarily on C. Eugene Steurle, *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (Washington, D.C.: Urban Institute Press), 1992, Christopher Howard, "A Truly Exceptional Social Program: The Politics of the Earned Income Tax Credit," paper presented at the 1992 meeting of the American Political Science Association, Chicago: and Pierson, "Creeping Nationalization of Income Transfers."

<sup>58</sup>Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: Government Printing Office), WMCP 102-9, 1991, p. 901.

The further massive expansion introduced in the 1993 OBRA legislation -- \$20 billion over five years -- represented the largest funding increase in any program for low-income people in the past two decades.<sup>59</sup> By 1996, spending on the EITC reached \$25 billion -- more than double the federal government's outlays on AFDC. Moreover, the EITC's expansion through successive enlargements in 1986, 1990, and 1993 was surprisingly uncontroversial. Backed by Republican and Democratic presidents alike, the EITC failed to generate anything like the virulent opposition which efforts to expand other income transfer programs provoked. Although the Republican Congress did try to scale back the EITC after 1994, even this effort was essentially limited to a (failed) attempt to repeal the EITC expansion enacted in 1993. Compared with their assaults on other anti-poverty programs, this was a very muted response.

The EITC's design -- a refundable tax credit, available only to low-income *working* families with children -- made it attractive to many of the political actors who have opposed the expansion of other income transfers for the poor. Because the program operated as a wage subsidy, benefitting only those who work, it posed no threat to businesses or regions dependent on low-wage jobs. On the contrary, by making low-wage jobs more attractive to potential workers, the EITC was particularly helpful to industries, and regions like the South, which rely heavily on low-wage labor. Thus the program had much to offer for those who have traditionally sought to block national social policies for the working-aged population. Republicans and moderate Democrats have been enthusiastic about the program's strong work incentives, and have helped assure broad, if intermittent, support for programmatic expansion.<sup>60</sup>

Piecing together an explanation for the EITC's enactment and growth is difficult, because at every stage the program's fate has been joined to broader pieces of budget or tax legislation.<sup>61</sup>

---

<sup>59</sup>Robert Greenstein, Center on Budget and Policy Priorities fund raising letter, October 6th, 1993, Center on Budget and Policy Priorities Archives, Washington, D.C., p. 1.

<sup>60</sup>Republican support has been revealed on a number of occasions. The White House included EITC expansion in its initial tax reform proposals in the mid-1980s (key advisor Richard Darman reportedly "loved" the tax credit). Representative Thomas Petri (R-Minnesota) spear-headed an effort to substitute EITC expansion for a Democrat-proposed increase in the minimum wage in 1987. Petri and others succeeded in convincing the party to endorse EITC expansion in the 1988 Republican platform. Howard, "Exceptional Program," pp. 28, 30-1.

<sup>61</sup>See James Milton Harmon, *Mega-bills and Ideas in the Growth of the Earned Income Tax Credit*, Undergraduate Thesis, Harvard University, March, 1994.

With no votes on the EITC itself, the "paper trail" that would allow a clear identification of political cleavages over the program is sorely lacking. However, it is clear that the tax credit design of the program was tremendously helpful. It made the program a compelling response to concern about rapidly rising payroll taxes on the working poor. It meant that higher program spending was less visible to a deficit-conscious Congress and electorate. Finally, it meant that the EITC could be used flexibly to create a distributional "balance" in the periodic broad tax/budget deals that became a staple of American politics following Reagan's election in 1981. Program cutbacks and tax increases in the broader legislative package could be offset for the working poor by a rise in the EITC. All three of the EITC's expansions came in the context of major package deals: the Tax Reform Act of 1986, and the budget agreements of 1990 and 1993.<sup>62</sup> Significantly, all of these packages included significant cuts in other spending programs or tax subsidies, including those benefiting the middle class. Two of the three (1990 and 1993) were designed to produce net reductions in real public expenditure.

Yet the EITC's long rise also reflects an innovative policy design that transformed traditional opponents into allies. The support of Russell Long -- a strong opponent of poverty programs that might have adversely affected the willingness of workers to take low-wage jobs -- was crucial to the program's initial enactment.<sup>63</sup> Since then, Southern Democrats have often been supporters of an income support program that provides transfers in a manner highly favorable to their regional political economy (Table 3).

Two striking differences between these two attempts to modernize income transfers for low-income households in the United States reveal a lot about the new politics of the welfare state. First, the EITC succeeded even though the overall environment for social spending was far less favorable than it had been during the consideration of FAP in the early 1970s. Social

---

<sup>62</sup>On the causes and consequences of these budget-centered "mega-bills" see Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s* (Berkeley and Los Angeles: University of California Press and Russell Sage Foundation), 1989; and C. Eugene Steuerle, *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (Washington, D.C.: Urban Institute Press), 1992. On the case of the EITC, see Harmon, *Mega-bills*, and Christopher Howard, "Happy Returns: How the Working Poor Got Tax Relief," *The American Prospect*, 17, Spring, 1994, pp. 46-53.

<sup>63</sup>Ways and Means Chair Al Ullman (D-Oregon), another harsh critic of guaranteed annual income proposals, was also influential. Howard, "Exceptional Program," pp. 13-14.

spending grew more under Nixon than at any other time in post-war American history and yet FAP failed to pass. The EITC, on the other hand, grew massively over a ten-year period when most programs were trying desperately (and often failing) to simply preserve existing funding levels.

Table 3. EITC Benefits By Region, 1992

	% Of Tax Filers Receiving Benefits	Mean Benefit
Northeast	8.13	\$864.83
Midwest	9.74	\$890.24
South	16.62	\$954.43
West	11.36	\$895.10

Source: Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1994-95, pp. 178-204

The second difference concerns the much lower-profile of the EITC. The struggle over FAP -- the first in a series of efforts to "end welfare as we know it" -- was front-page news. The program's demise was widely-noted, and generated a flurry of scholarly post-mortems. By contrast, most Americans still do not know what the EITC is, much less that the federal government spent far more on the program last year than it did on AFDC. This silent expansion is reflected in the almost total absence of scholarly attention to the program.

Both these differences signal the quite different politics surrounding the two initiatives. FAP was presented as welfare reform, and became the target of an open dispute in which partisan differences and the activities of well-mobilized groups were prominent. The EITC has always expanded as a piece of complex tax and budget deals. Its expansion on three separate occasions indicates the greater room for flexibility in these large, multi-faceted packages, as well as the advantage of framing reforms as adjustments to tax codes rather than as new spending programs.

At the same time, the EITC was able to achieve a much broader coalitional base. This is critical in a political system where institutional fragmentation means that major policy initiatives require more than a simple majority. The EITC has served as an important balancing mechanism



for legislation requiring support among liberals and moderates. It has been able to play this role because it benefits low-income groups, but unlike almost all other social policy initiatives it does so while re-enforcing the low-wage labor market. Thus, the EITC has been backed by a remarkable coalition that includes the Congressional Black Caucus, Southern Democrats, and (except in 1993) many Republicans. It is hard to think of any other significant piece of social legislation that has been able to generate a similar pattern of support. Indeed, it runs directly counter to what has traditionally been the strongest cleavage in the politics of American social policy -- northern liberals vs. southern conservatives -- and indicates the dramatic nature of this reform of the liberal welfare state.

In 1995, the EITC's remarkable momentum was finally challenged in the aftermath of the stunning realignment of power in Congress.<sup>64</sup> Emboldened Republicans introduced a sweeping agenda of cutbacks in social spending, and for the first time the EITC appeared vulnerable. The shift in Republican posture partly reflected the very marginal position of the working poor in the party's electoral calculations, but was largely driven by the need to meet the party's ambitious goals for tax cuts and deficit reduction.<sup>65</sup> Yet proposed cutbacks quickly ran into difficulty. Significantly, the Clinton administration -- which showed little reluctance to sacrifice those poverty programs which commanded limited public support -- quickly indicated that cuts in this program for the working poor was one place it was prepared to make a stand. Enthusiasm for cuts in the Republican ranks was also limited. The proposed EITC cuts would have a big effect on the southern states where Republicans are trying to consolidate gains. The EITC might have been cut as part of a larger package deal, but collapse of the Republican budget initiative in January 1996 derailed these efforts, at least for now. Notably, while political support for the curtailment of AFDC (along with the drastic reduction of food stamp and SSI benefits for legal aliens) was sufficiently widespread to allow passage of a free-standing bill, there was never any suggestion that a similar open assault on the EITC would be politically feasible.

---

<sup>64</sup>On the recent politics of the EITC see R. Kent Weaver, *Ending Welfare As We Know It* (Washington, D.C.: Brookings), forthcoming, Ch. 12.

<sup>65</sup>See Paul Pierson, "The Deficit and the Politics of Domestic Reform," in Margaret Weir, ed., *New Democrats and Anti-Federalists: The Politics of Social Policymaking in the 1990s* (Brookings and Russell Sage Foundation), forthcoming.

The shift in climate, however, signaled that while the EITC might be more popular than other anti-poverty programs, its expansion required an environment where politicians feel a need to respond in some way to the needs of low income households. Given the balance of political forces in American politics, the EITC's phase of rapid growth has probably ended. Yet the fact remains that its political trajectory over the past decade has been unique among American income transfer programs. The program's flexibility, opacity, relatively low cost, and compatibility with the interests of key groups traditionally opposed to generous policies for the poor have allowed the EITC to carve out a successful niche in a very harsh policy environment.

### **III. The Politics of Implementing a Guaranteed Income**

That both Canada and the United States have moved toward targeted tax/transfer systems reflects the political appeal of such programs in an era of austerity. This shift represents a striking aspect of contemporary welfare state politics, and suggests how the current period must be understood as not just one of welfare state retrenchment but also one of welfare state restructuring.

We have stressed, however, that this restructuring has differed dramatically in both form and degree in the two countries. There is a big difference between implementing a narrowly focused wage subsidy system and introducing a more generalized redesign of the welfare state based on NIT principles. Why such different outcomes? Our account stresses three factors: (1) distinct policy legacies; (2) the strength of opponents to a GI in the U.S.; and (3) institutional arrangements which were more conducive to reform in Canada. It is worth briefly reviewing each point, because they provide a basis for evaluating the likelihood of implementing GI-style programs in the U.S.

This investigation confirms a common finding in studies of social policy: existing welfare state structures exert considerable influence over the patterns and types of reform which are possible. Canadian development of a NIT design for social transfers rests on the so-called Beveridge base of postwar welfare state development, which includes extensive universal, flat-rate

benefits and citizenship as the principle qualifying condition.<sup>66</sup> In an age of retrenchment, a shift toward a NIT-like welfare state represents a "natural" transition for nations with a Beveridge base. In Canada, cost savings could be achieved by redesigning traditional Beveridge programs (pensions, family allowances) along NIT lines. Change can be introduced incrementally through the tax system. Equally important, the powerful argument that voters are being deprived of earned entitlements based on their own contributions need not be confronted.

The relative underdevelopment of NIT-like programs in the United States in part reflects the absence of any Beveridge-type programs to reform. The natural bridge to an NIT does not exist, and reform instead requires a radical redesign in earnings-related, contributory systems. The experience of recent reform proposals is instructive. In the case of pensions, the Concord Coalition has suggested such a transformation, advocating that all social transfer programs be subjected to an income test for families with incomes above \$40,000 per year, with some of the savings used to enrich benefits for low-income households. The main target of the proposals is Social Security, but includes programs such as the home mortgage interest deduction. The Coalition proposals helped shape the agenda of the 1994 Bipartisan Commission on Entitlements and Taxation headed by Senators Danforth and Kerrey.<sup>67</sup> Requiring radical reductions in entitlements for the middle class, however, these proposals went nowhere, and comparative evidence confirms that such a strategy faces enormous obstacles. Unlike flat-rate benefits funded from general revenue and for which the sole qualifying condition is citizenship, contributory schemes like Social Security have, with few exceptions, been resistant to NIT-style retrenchment, a result of the quasi-property rights created by such programs. Rather than weakening the link between contributions and benefits which would result from a NIT-style reform, the trend in contributory schemes across Europe has been to tighten the link, a goal also advocated by a

---

<sup>66</sup> Though commonplace in the literature, identifying such programs as Beveridge-inspired is somewhat misleading. The flat-rate Beveridge design implemented in Britain was based on the contributory principle not citizenship.

<sup>67</sup> See Jill Quadagno, "Social Security Policy and the Entitlement Debate in the First Clinton Administration: The New American Exceptionalism," in Michael Schwartz and Clarence Lo, eds., *Clinton and the Conservative Agenda* (New York: Blackwell), forthcoming.

majority of members on the U.S. Advisory Committee on Social Security.<sup>68</sup>

The absence of a suitable “bridge” is even more evident if one turns from pensions to examine the possibilities for providing transfers to working-aged families. In Canada, increases in income-tested family benefits have been funded by lowering or eliminating family benefits to the well-to-do and by lowering insurance-based unemployment benefits.<sup>69</sup> Here, one of the truly exceptional aspects of American social policy -- the virtual absence of traditional transfers for working families -- becomes critical. In the United States, the lack of a system of family allowances, along with very low UI benefits and coverage create little room for significant cost savings that might help fund NIT-style programs.<sup>70</sup>

The second factor we emphasize has been the strong opposition to anything like a Guaranteed Income in the United States. Any strategy that proposed to extend the NIT model beyond the working poor would ignite the traditional flash point of American social politics, namely race. As the recent history of AFDC bears out, racial antipathies have greatly weakened the political appeal of programs designed to provide cash transfers to the non-working poor.

The other source of opposition has been those actors, particularly in the South, who have sought to block policies which threatened the viability of low-wage labor markets. Extensive elements of the business community, the Republican Party, and the southern wing of the Democratic Party have consistently opposed transfer programs that would increase workers’

---

<sup>68</sup>On European trends see Myles and Quadagno, “Recent Trends.” One of the chief concerns of the U.S. Advisory Committee on Social Security is the low “rate of return” on contributions for middle and upper income contributors. Thus the aim of many Committee members is to restore “equity” to the system either through privatization or the creation of personal security accounts so that middle and upper income earners get their “money’s worth” out of the system. For a good nontechnical discussion of the various Committee proposals see Joseph Quinn, *Entitlements and the Federal Budget: Securing our Future*. (Washington: National Academy on Aging, 1995)

<sup>69</sup>In both countries, UI benefits have had a less sacrosanct status, both because fewer citizens expect to receive them and because concerns about work incentives have made the “deservingness” of recipients less unambiguous.

<sup>70</sup>In the past, higher EITC benefits for the working poor were won partly as an offset to higher contribution rates (FICA taxes) for Social Security. Again, however, existing contribution/benefit structures create much less room for the US than Canada to move toward more NIT-type programs. Relative to Canada, however, US payroll taxes for Social Security (and Medicare) are very high, offering much less room for future trade-offs of this sort.

“reservation wages.” The distinctive character of regional labor markets has played a critical role in shaping American social policy.<sup>71</sup> Crucially, these concerns about maintaining a low-wage sector make the EITC a very attractive alternative: the EITC lowers reservation wages rather than raising them.

Finally, we emphasize the impact of national political institutions. It is conceivable that the political opposition we mention might not matter as much in a Parliamentary system where a majority party has considerable hope of enacting policies that significant interests find objectionable. This is much more difficult in the United States, where multiple veto points mean that quite broad coalitions are usually required for reform. The EITC has been advantaged by the fact that it has appealed precisely to those elements of a reform coalition who were most likely to defect, and who therefore had the greatest leverage over the final form of social policy legislation.

There is, in short, little reason to anticipate a move towards a true GI program in the United States. But let us assume that these obstacles are overcome and that a NIT style retrenchment strategy takes hold in the United States. What would be the distributional outcome of an NIT/GI strategy? While the question is purely hypothetical for the United States, it is highly relevant for those industrialized countries which are clearly embarked on such a trajectory. The question has no single answer, since the result depends on the size and nature of the trade-off between old and new programs, on the one hand, and unknown behavioral responses by beneficiaries and future policy-makers on the other. Over the medium-term, the evolution of Canadian policy suggests an impressive formula for combining fiscal restraint with improved social protection for those most in need. GIS benefits for the elderly have risen in real and relative terms, while the universal OAS and the C/QPP have stagnated. Rising GIS benefits have brought old age poverty down much more sharply in Canada than in the United States.<sup>72</sup> Real child benefits for poor families have risen substantially since Canada began moving away from

---

<sup>71</sup>Canada’s welfare state has also been shaped by the interests of regional economic actors, but the heavy reliance of Canada’s poorest regions on seasonal, resource-extraction industries has led these areas to *favor* generous national social benefits, especially unemployment benefits, which support workers during slack periods. Thus the Canadian economy has not developed regional pockets where firms attempt to gain an edge by keeping social wages lower than those of their competitors in other regions.

<sup>72</sup>Wolfson, 1994.

universal family allowances in 1978.<sup>73</sup> During a period when the wages of young adults -- the parents of young children -- have been falling, the Canadian tax-transfer have managed to stabilize child poverty rates (and reduce the "poverty gap"), at least until the nineties.<sup>74</sup>

So far, Canadian developments have confounded critics who have maintained that targeted programs will never sustain the political support needed to be effective. In part because they reach well into the middle class, the new income-tested programs in Canada have remained popular. There is no question that as a purely technical exercise, a NIT/GI array of social expenditures can be designed that is more progressive and does more for the poor than those currently available in either country. The problem is a political not a technical one.

The expansion of the NIT/GI design is a product of an era of transition and retrenchment. The unanswered question is: what happens when the transition is over? The Achilles heel of the entire system lies in the fact that the process can only happen once. Now that the benefits of higher income Canadian families have been reduced or eliminated, they are no longer available to finance future expenditure growth for low income families. Should the number of such families rise as a result, say, of continued growth in earnings inequality, the additional costs could only be met through a process of welfare state expansion, not retrenchment. Similarly, now that the benefits that used to go to higher earners are gone, they are no longer available to absorb further cuts in the social budget. Instead, by necessity, future cost-cutters will have to look to the very NIT programs produced during previous retrenchment exercises and to other programs for the "poor" to reduce expenditures.<sup>75</sup>

Indeed, in Canada this process is now underway. Traditional means-tested social assistance programs have been cut in many provinces since the early nineties and further

---

<sup>73</sup>Battle and Muszynski, "One Way to Fight Child Poverty."

<sup>74</sup>Picot and Myles, "Social Transfers." As indicated earlier, this may now be changing. Child poverty rose as expected following the recession of 1990-91. The rate fell in 1994 as recovery set in but rose unexpectedly once again in 1995.

<sup>75</sup>Indeed this process is now underway. Traditional means-tested social assistance programs have been cut in many provinces since the early nineties and further downward pressure is expected as a result the 1995 federal budget which ended the Canada Assistance Plan replacing it with the Canadian Health and Social Transfer (CHST).

downward pressure is expected as a result the 1995 federal budget which ended the Canada Assistance Plan replacing it with the Canada Health and Social Transfer (CHST). Reduced unemployment benefits and sharp reductions in UI coverage (a result of tighter eligibility rules) will also increase demand for the new child programs. Whether a NIT/GI design can stabilize at a level that achieves the income security and redistributive aims of the old system while also being politically sustainable is an open question.

CILN Working Papers (downloadable)

wp43 **John Flemming** **John Micklewright**  
Income Distribution, Economic Systems and Transition

wp42 **John Micklewright** **Kitty Stewart**  
Is Child Welfare Converging in the European Union?

wp41 **W Bentley Macleod**  
A Note on the Optimality of Bonus Pay

wp40 **Xin Meng** **Robert G Gregory**  
Impact of Interrupted Education on Earnings:  
The Educational Cost of the Chinese Cultural Revolution

wp39 **Miles Corak**  
Death and Divorce: The Long Term Consequences of Parental Loss on Adolescents

wp38 **Lori Curtis** **Martin Dooley**  
Child Health and Family Socioeconomic Status in the Canadian National Longitudinal Survey of  
Children and Youth

wp37 **Heather Antecol**  
An Examination of Cross-Country Differences in the Gender Gap in Labor Force Participation Rates

wp36 **W. Craig Riddell**  
Canadian Labour Market Performance in International Perspective: Presidential Address to the  
Canadian Economics Association

wp35 **Shelley Phipps**  
Economics and Well-Being of Canadian Children

wp34 **W. Craig Riddell**  
Measuring Unemployment and Structural Unemployment

wp33 **Susan Johnson**  
Automatic Certification or Mandatory Representation Votes? How the choice of union recognition  
procedure affects union certification success.

wp32 **James Andreoni** **Eleanor Brown** **Isaac C. Rischall**  
Charitable Giving by Married Couples: Who Decides and Why Does it Matter?

wp31 **Herb Schuetze** **Peter Kuhn**



Self-Employment Dynamics and Self-Employment Trends: A Study of Canadian Men and Women, 1982-1995

wp30 **Isaac C. Rischall**

The Effect of High School Effort on Future Earnings

wp29 **Isaac C. Rischall**

The Roles of Education, Skill and Parental Income in Determining Wages

wp28 **Isaac C. Rischall**

The Value of a Fresh Start: Earnings Persistence and the Migration of Single Mothers

wp27 **Martin Browning Tom Crossley**

Shocks, Stocks and Socks: Consumption Smoothing and the Replacement of Durables During an Unemployment Spell

wp26 **Heather Antecol Kelly Bedard**

Against All Odds: The Surprising Labor Market Success of Young Mexican Women

wp25 **Heather Antecol**

Why is there Inter-Ethnic Variation in the Gender Wage Gap? The Role of "Cultural" Factors

wp24 **Martin Browning Tom Crossley**

Unemployment Insurance Benefit Levels and Consumption Changes

wp23 **Heather Antecol Peter Kuhn**

Employment Equity Programs and the Job Search Outcomes of Men and Women: Actual and Perceived Effects

wp22 **Thomas F. Crossley**

Firms and Wages: Evidence from Displaced Workers

wp21 **Jennifer Stewart Martin Dooley**

The Duration of Spells on Welfare and Off-welfare among Lone Mothers in Ontario

wp20 **Peter Kuhn Arthur Sweetman**

Vulnerable Seniors: Unions, Tenure and Wages Following Permanent Job Loss

wp19 **Kelly Bedard**

Human Capital Versus Signaling Models: University Access and High School Drop-outs

wp18 **Peter Kuhn Arthur Sweetman**

Assimilation and Economic Success in an Aboriginal Population: Evidence from Canada

wp17 **Martin D. Dooley**

The Evolution of Welfare Participation Among Canadian Lone Mothers From 1973 - 1991

wp16 **Lori Curtis Martin D. Dooley Ellen L. Lipman David H. Feeny**

The Role of Permanent Income and Family Structure in the Determination of Child Health in the Ontario Child Health Study

wp15 **LaDonna A. Pavetti**

A New Social Contract: Moving to a Work-Based Assistance System

wp14 **Gary Burtless**

## The Job Prospects of U.S. Welfare Recipients: Lousier Pay but Bigger Earnings Supplements

wp13 **J.B. Burbidge L. Magee A.L. Robb**  
Cohort, Year and Age Effects in Canadian Wage Data

wp12 **Martyn Andrews Alan Harrison**  
Testing for Efficient Contracts in Unionized Labour Markets

wp11 **Herb J. Schuetze**  
Taxes, Economic Conditions And Recent Trends in Male Self-Employment: A Canada-U.S. Comparison

wp10 **Peter Kuhn**  
Canada and the "OECD Hypothesis": Does Labour Market Inflexibility Explain Canada's High Level of Unemployment?

wp9 **Stephen R. G. Jones W. Craig Riddell**  
The Measurement Of Unemployment: An Empirical Approach

wp8 **Pierre Lefebvre Philip Merrigan Martin Dooley**  
Lone Female Headship and Welfare Policy in Canada

wp7 **Heather Antecol Peter Kuhn**  
Gender as an Impediment to Labor Market Success: Why do Young Women Report Greater Harm?

wp6 **John Myles Paul Pierson**  
Friedman's Revenge: The Reform of "Liberal" Welfare States In Canada and the United States

wp5 **Jeff Borland**  
Earnings Inequality in Australia: Changes and Causes

wp4 **Jeff Borland**  
Union Effects and Earnings Dispersion in Australia, 1986-1994

wp3 **Robert Gregory Boyd Hunter**  
The Macro Economy and the Growth of Income and Employment Inequality in Australian Cities

wp2 **Peter Kuhn**  
Labour Market Polarization: Canada in International Perspective

wp1 **Peter Kuhn A. Leslie Robb**  
Shifting Skill Demand and the Canada-US Unemployment Gap: Evidence from Prime-Age Men

Last updated March 27, 2000