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Fiscal Retrenchment and Social Assistance in Canada

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Le point de départ de cet article est la convergence d'événements qui, au milieu des années 1990, ont amené certains gouvernements provinciaux du Canada à revoir leurs programmes d'aide sociale. Trois provinces en particulier – l'Alberta, la Colombie-Britannique et l'Ontario –, ont alors décidé de modifier de façon importante les procédures administratives qui permettent aux demandeurs d'avoir accès à des prestations d'aide sociale – et de les conserver. Nous établissons les effets qu'ont eus la conjoncture économique, les réductions de l'aide sociale et ces nouvelles procédures administratives sur les Canadiens bénéficiant de l'aide sociale.

Mots clés : aide sociale, compressions budgétaires, procédures administratives

This paper exploits the fact that a confluence of events in the mid-1990s caused Canadian provincial governments to re-examine the design of their social-assistance programs. Three provinces in particular—Alberta, British Columbia, and Ontario—chose to introduce substantial changes to the administrative procedures by which applicants applied to gain, and maintain, access to social assistance. We identify the relative contributions of economic influences, cuts to social-assistance benefits, and new administrative procedures on the fraction of the population eligible for social assistance.

Keywords: social assistance, fiscal retrenchment, welfare, administrative procedures

INTRODUCTION

This paper uses Canadian data to offer a contribution to the literature which examines the impact of welfare reform on the fraction of the population collecting social assistance. This issue has garnered a good deal of attention in the US

thanks to dramatic swings in caseload numbers,¹ and thanks to changes in the design of state social-assistance programs introduced in the mid-1990s. So-called “waiver reforms”² initiated by US state governments in the early 1990s experimented with work requirements, benefit time limits, and other restrictions designed to make becoming and

remaining eligible for social assistance more difficult. In 1996, the US federal government incorporated many of these reforms in its *Personal Responsibility and Work Opportunities Reconciliation Act* (PRWORA). With the passage of that act, almost all federal government eligibility and payment rules were removed, leaving states with much greater discretion in designing their own social-assistance programs. In his review of key studies examining the effects these reforms had on welfare caseloads, Bell (2001) concludes that the dramatic fall in welfare caseloads following the introduction of welfare reforms seems convincingly related to improvements in economic conditions, and there is little evidence to suggest that work-oriented welfare reforms in the US have played a role in that decline. In her review of the evidence from US studies, Blank (2002) similarly suggests that the evidence in support of the conclusion that policy changes had important effects on caseloads is weak.

Whereas in the US, where it was a change in federal-government legislation that provided state governments with the opportunity to change the design of their welfare programs, in Canada the impetus for change came about as a result of a confluence of events in the mid-1990s. In what follows, we will describe how the impact of previous policy choices, a fiscal crisis, and a change in the design of intergovernmental transfers all contributed to demands on provincial governments that they make difficult choices about which spending programs they would expand and which they would contract.

Our focus in this paper is on how this confluence of events impacted upon the size and design of provincial social-assistance programs. An important part of our analysis, one that allows us to contribute to the literature on the role of program design and delivery in determining the number of people collecting social assistance, relies on the fact that three provincial governments responded to the confluence of events by introducing important changes to the delivery of social assistance. Those governments

significantly tightened eligibility rules, imposed elements of “work-fare,” made more stringent the requirements for remaining in the program, and in general imposed changes to the culture that administered the delivery of government services; changes associated with what Mead (2003) has referred to as “reinventing government” reforms. Our measure of the impact of those changes allows us to contribute to the debate on the effectiveness of such reforms at reducing the number of social-assistance recipients.

Anticipating our conclusions, we find that after controlling for the economic determinants of social-assistance rates—measures of labour-market tightness, social-assistance payments, and competing sources of income—that in those provinces that introduced them, changes in administrative procedures for the delivery of social assistance had an important effect on the number of social-assistance recipients.

CHANGES TO THE FUNDING OF SOCIAL ASSISTANCE

Social assistance is an important part of the Canadian social-safety net. That social-safety net is comprised of various social policies and programs that are designed to help “catch” Canadians when they are economically challenged in ways such as having health problems or trouble finding work. The social-safety net consists of private charities, family and friends, as well as publicly funded programs. The latter include publicly funded health insurance, Employment Insurance (EI), the Canada and Quebec Pension Plans, Old Age Security, Workers Compensation, and provincial social-assistance programs.

Social assistance, while a provincial responsibility, was cost-shared by the federal and provincial governments from 1967 until 1995 under the *Canada Assistance Plan* (CAP). Under the CAP, provincial

governments were reimbursed by the federal government for 50 percent of their social-assistance costs as long as they met certain minimum requirements imposed by the federal government (Armitage 2003). These requirements included: the provision of social assistance to all who were in demonstrable need, implementation of residency requirements, the institutionalization of appeal procedures, an accounting by provincial governments for their use of CAP funds and, finally, the prohibition of work requirements for the receipt of welfare. In 1990, the federal government introduced the “cap on CAP,” which limited the size of CAP transfers to the three richest provinces, Ontario, Alberta, and British Columbia. Specifically, after 1990, the federal government limited its contribution to social-assistance costs in those provinces to a growth of 5 percent per year rather than covering 50 percent of costs. In 1991, the “cap on CAP” was extended to the end of 1995.

Federal budget cutbacks introduced in the mid-1990s ended the federal government’s cost commitment to social assistance in Canada, eventually replacing the CAP with the *Canada Health and Social Transfer* (CHST) in 1996. The CHST was a block-funding arrangement that included transfers for health, another skyrocketing expenditure, as well as social assistance and other social expenditures. As Boychuk (2006) notes, the introduction of the CHST ended the pretence of the federal government ensuring uniform standards of social-assistance provisions. The only requirement for receiving the new block funding was a prohibition on provincial residency requirements.

The shift to block funding essentially de-linked many federal-provincial cost-sharing programs from the actual cost of the program to a set dollar figure increasing at the federally set rate. This meant that provinces were no longer spending “50-cent dollars” on social assistance. The replacement of the CAP with the CHST increased the incentive for provincial governments to reduce the cost of social-

assistance programs, as they would now capture the whole of any savings they could produce. Thus, the federal government brought stability to its own expenditures at the price of possibly introducing instability in the programs for which the CHST money was intended.

FISCAL PRESSURES

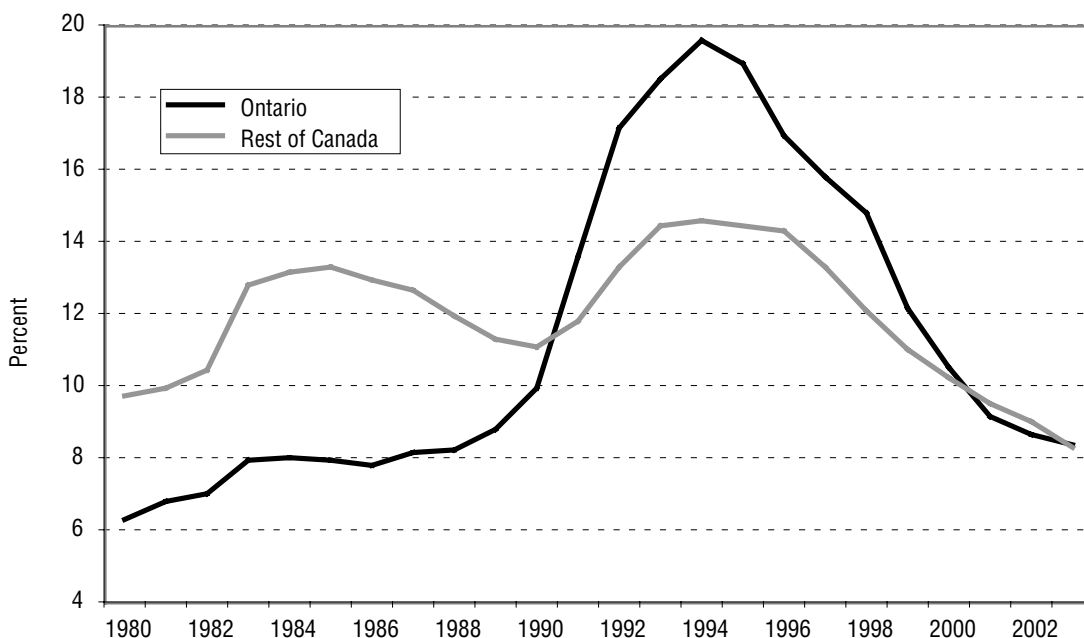
Richards (2005) notes that the 1980s can be characterized as a period during which provincial governments relaxed welfare-eligibility requirements. This was particularly so in Ontario where roughly 40 percent of social-assistance recipients resided. The economic expansion that followed the 1981–82 recession had only a minor impact on the percentage of the population collecting social-assistance benefits.³ By the mid-1990s, provincial governments were provided with financial incentives to seek cost-saving reforms to their social-assistance programs. The impetus for seeking these cost savings came from a number of sources, all of which impacted upon provincial budgets in quick succession.

Increased Program Costs

The most direct source of pressure to seeking cost savings emanated from the social-assistance programs themselves. The cost of providing social assistance was driven upward by the 1991 recession which contributed to a significant increase in the number of individuals receiving social assistance.

Figure 1 presents measures of the number of recipients of social assistance as a percentage of population aged 17–64 years in Ontario and in the rest of Canada.⁴ The rise and fall in the social-assistance rate during and following recessions (in 1982–83 and in 1991–92) is particularly apparent in the rest of Canada series. In Ontario, the social-assistance rate was significantly less sensitive than in the rest of the country to the economic expansion following the 1982–83 recession. It is also

FIGURE 1
Social-Assistance Rates, Ontario and the Rest of Canada, 1980–2003



Source: Authors' calculations. The social-assistance rate is the number of social-assistance recipients as a percent of the population aged 17–64 years. Population aged 17–64 years from CANSIM II Table 510001. Number of social-assistance recipients from "Social Security Statistics, Canada and the Provinces, 1978–79 to 2002–03," Tables 361 and 435, Human Resources and Social Development Canada.

noteworthy that the social-assistance rate was on an upward trajectory in Ontario prior to the 1991–92 recession. These patterns suggest that the increase in Ontario's social-assistance rate during the early 1990s had to do with more than just the 1991–92 recession.

The rapid rise in the social-assistance rate in Ontario also corresponds with reforms instituted in the late 1980s. In 1987, for example, the so-called "spouse in the house" regulation was relaxed to allow a man and woman to live together for three years before being required to show their relationship was non-spousal and therefore eligible to continue to collect benefits as two individuals. In 1989, further reforms were introduced based on recommendations

made in a report prepared by the Social Assistance Review Committee (known as the *Transitions* report).⁵ These reforms resulted in increased allowances and incomes, extending drug benefits to those leaving welfare, and the Supports to Employment Program (STEP)—a program that allowed recipients of social assistance to collect reduced benefits while earning employment income.

While designed to encourage current social-assistance recipients to seek employment and eventually transition off social-assistance rolls, the STEP program was also used to determine eligibility of social-assistance applicants. As a consequence, many of the so-called working poor now became eligible for social assistance and the cost of the

program increased dramatically (Klassen and Buchanan 1997). In 1991, further reforms made some aspects of special assistance mandatory, increased STEP funding, and eliminated compulsory home visits—changes which contributed to further increases in the social-assistance rate. Between 1989 and 1994, provincial government spending on social assistance in real per capita terms grew by an astounding 93 percent in Ontario.⁶

The province of Quebec also introduced an expansion of benefits in the late 1980s and early 1990s. As reported in Table 1, in real dollar terms, between 1989 and 1994 social-assistance benefits in Quebec increased by 52 percent to a single employable person, by 20 percent for a single parent with one child, by 7 percent for a couple with one child, and by 14 percent for a disabled person. Most noteworthy is the dramatic increase in benefits paid to those identified as “single-employable” because this group is easily the largest category of those receiving social assistance (this is discussed further below). In Quebec, between 1989 and 1994, provincial-government spending on social assistance in real per capita terms grew by 43 percent.

British Columbia was, along with Ontario and Quebec, the other province which introduced across-the-board increases in the real value of social-assistance benefits during the late 1980s and early 1990s. Between 1989 and 1994, provincial-government spending on social assistance in real per capita terms grew by 7 percent.

Rising Deficits, Debt, and Debt-Servicing Costs

A second impetus for seeking cost savings emanated from the fact that provincial governments were feeling the effects of having previously accumulated substantial amounts of public debt. In Canada, as in most western economies, economic slowdowns and rising interest rates placed strains on government finances during much of the 1990s. A vicious circle of slowly growing tax bases, rapidly increasing debt-servicing costs, accumulating debt, and further

increases in debt-servicing costs had taken hold of government finances. Breaking the vicious cycle demanded that governments implement fiscal retrenchments in the form of increased tax rates, lower levels of government spending, or some combination of these choices.

By the mid-1990s, the debt-to-gross-domestic-product (GDP) ratio at the federal level and in all provinces had continued to grow despite efforts by many governments to rein in their debts by adjusting spending and tax rates in ways that moved their budgets into a primary surplus position. Voter resistance to tax increases made clear to politicians of all stripes that cutbacks to government programs were to be the main avenue by which they would be able to gain control of growing public debt.⁷ Public support for fiscal restraint was also evident by the election wins of those who promised to avoid deficits “come hell or high water” (federal Minister of Finance Paul Martin) and to decrease spending as the major vehicle by which deficits would be tackled (Premiers Ralph Klein in Alberta and Mike Harris in Ontario).

Cuts to Intergovernmental Transfers

Finally, in addition to the stresses brought about by high debt, high debt-servicing costs, and steadily growing health-care financing costs, provincial budgets were squeezed still further by the decision of the federal government to respond to its own fiscal crisis by reducing the size of its transfers to the provinces. Coincident with replacement of the CAP with the CHST in 1996, the federal government introduced large cuts to the size of its cash transfers to the provinces and territories.⁸ Over the period 1995–97, federal cash transfers to the provinces were reduced by 34 percent in real per capita terms.⁹

In sum, hemmed in by economic conditions that slowed revenue growth and increased debt-servicing costs, cuts to intergovernmental transfers, taxpayer resistance to further tax rate increases, changes in the size and design of federal transfers intended to defray the cost of social-assistance

TABLE 1
Social-Assistance Benefits (in 2005 dollars)

	1989	1994	1996	2000	2003	Percentage Change	
						1989–1994	1994–2003
Newfoundland and Labrador							
Single employable	5,361	5,545	3,213	2,045	8,499	3.4	53.3
Single parent, one child	15,078	15,922	15,814	16,698	16,494	5.6	3.6
Couple, two children	18,487	18,178	18,009	19,498	19,739	-1.7	8.6
Disabled person	10,698	10,472	10,530	10,652	10,107	-2.1	-3.5
Prince Edward Island							
Single employable	10,263	9,335	6,659	6,672	6,488	-9.0	-30.5
Single parent, one child	15,750	15,903	14,606	14,085	14,052	1.0	-11.6
Couple, two children	23,961	23,794	21,402	21,770	21,666	-0.7	-8.9
Disabled person	11,927	11,626	10,368	10,038	8,484	-2.5	-27.0
Nova Scotia							
Single employable	8,655	7,732	7,512	5,193	5,434	-10.7	-29.7
Single parent, one child	15,419	15,515	15,062	14,410	13,091	0.6	-15.6
Couple, two children	20,489	19,155	19,943	19,645	19,125	-6.5	-0.2
Disabled person	11,360	11,125	10,811	10,000	9,227	-2.1	-17.1
New Brunswick							
Single employable	4,116	4,108	4,045	3,806	3,515	-0.2	-14.4
Single parent, one child	12,592	13,163	13,673	14,201	13,750	4.5	4.5
Couple, two children	14,805	15,673	16,225	17,650	17,511	5.9	11.7
Disabled person	10,623	8,166	8,135	8,077	8,228	-23.1	0.8
Quebec							
Single employable	5,049	7,656	7,404	7,015	7,050	51.6	-7.9
Single parent, one child	13,505	16,174	15,478	14,461	14,677	19.8	-9.3
Couple, two children	18,598	19,889	19,091	18,184	18,842	6.9	-5.3
Disabled person	8,997	10,266	10,156	10,149	10,132	14.1	-1.3
Ontario							
Single employable	9,048	10,788	8,256	7,674	7,120	19.2	-34.0
Single parent, one child	17,756	21,233	16,582	15,468	14,493	19.6	-31.7
Couple, two children	23,280	28,013	21,917	20,478	19,236	20.3	-31.3
Disabled person	13,019	14,830	14,257	13,223	12,252	13.9	-17.4
Manitoba							
Single employable	8,906	8,379	7,532	6,170	5,829	-5.9	-30.4
Single parent, one child	14,591	14,287	13,614	12,904	13,555	-2.1	-5.1
Couple, two children	25,002	24,491	21,531	19,047	19,797	-2.0	-19.2
Disabled person	9,676	10,368	9,884	9,276	8,748	7.2	-15.6
Saskatchewan							
Single employable	7,234	7,510	7,234	6,676	6,492	3.8	-13.6
Single parent, one child	16,315	15,242	14,678	13,837	13,155	-6.6	-13.7
Couple, two children	23,318	21,989	21,184	20,346	19,600	-5.7	-10.9
Disabled person	11,723	10,731	10,628	9,683	9,312	-8.5	-13.2
Alberta							
Single employable	7,428	6,449	6,167	5,749	5,217	-13.2	-19.1
Single parent, one child	15,419	14,152	13,509	13,186	12,319	-8.2	-13.0
Couple, two children	23,584	22,534	21,737	20,898	19,444	-4.5	-13.7
Disabled person	9,161	8,863	8,497	8,680	8,017	-3.3	-9.5
British Columbia							
Single employable	7,838	8,093	7,286	7,059	6,707	3.2	-17.1
Single parent, one child	15,681	16,225	15,763	15,287	14,229	3.5	-12.3
Couple, two children	20,485	21,207	20,602	19,963	18,823	3.5	-11.2
Disabled person	10,778	11,347	11,036	10,696	10,211	5.3	-10.0

Notes: The National Council of Welfare provides real values deflated by the national Consumer Price Index (CPI). The data reported in the table have been deflated using provincial values of the CPI.

Source: National Council of Welfare (2006).

programs, and rapidly increasing health-care financing costs, provincial governments were forced to make hard choices. These tight and tightening constraints exposed all government programs to close scrutiny and political challenge. Difficult economic choices would need to be balanced against what was politically feasible. Into this cauldron was added a number of elected provincial governments whose stated preferences and positions placed them on the right of the political spectrum. These governments, like any government dealing with tight and tightening budget constraints, were required to prioritize program spending by identifying those programs of lower priority to their supporting political constituency.

POLICY RESPONSES TO FISCAL PRESSURES

As reported in Table 1, one response of provincial governments was to allow the real value of social-assistance benefits to fall. Ontario led the way but it is important to recognize that over this period *all* provinces, with the exception of Newfoundland and Labrador, introduced very large cuts to the real value of benefits. In terms of budget shares, spending on social assistance fell from 13.3 percent of program spending in Ontario in 1994 to 6.6 percent in 2003. In Quebec, the share fell from 10.2 percent to 7 percent; in British Columbia, from 8.9 percent to 5.2 percent; and the average for the remaining provinces was a fall from 7.3 percent to 5.1 percent of program spending. The period of 1994–2003, then, was witness to a substantial retrenchment vis-à-vis spending on social assistance.

Cuts to social-assistance benefits were not the only response of policy-makers to the need to reduce expenditures. A number of important changes were also introduced affecting the administrative process by which applicants could be judged eligible for obtaining and continuing to receive social assistance. The most important of these changes were introduced in Ontario, Alberta, and British Columbia.

Ontario

By 1991, the costs of providing social assistance were skyrocketing in Ontario, in part due to the earlier reforms and in part due to the aftermath of the recession. In response, some of the policies suggested by the *Transitions* report were partially reversed; by 1992, the STEP program was reduced and in 1993, some mild reforms aimed at increasing monitoring and reducing special assessments were introduced. In 1994, when the social-assistance rate had peaked, the employment program *Joblink* was established, and STEP further reduced.¹⁰

In 1996, following the election of Mike Harris as premier, Ontario introduced a number of changes to the process by which social assistance was provided, including the introduction of “snitch lines,” and crackdowns on common-law relationships. In 1997, the provincial government contracted with Anderson Consulting to change the way in which applications for social assistance were processed. Applications would soon be processed via telephone pre-screening and an “interactive voice-response” system, changes which undoubtedly proved more challenging to those with poor language skills and/or low educational attainments than the old process by which applicants were guided through the process by staff. The administrative culture by which social assistance was provided in Ontario changed following the election of Harris and social assistance became a high-profile partisan issue.

In mid-1998, the *Ontario Works* program was introduced. The program was aimed at moving those currently on social assistance into paid employment via the shortest possible route through its Employment Assistance program.¹¹ While caseload numbers had fallen considerably by 2000, pressure was applied to keep them low. Thus, in 2000, a new funding model was introduced to *Ontario Works* that provided financial incentives to local agents to move their social-assistance clients to employment, and in 2001, mandatory drug and literacy testing was introduced.

From 1996 onward there was in Ontario what Herd, Mitchell, and Lightman (2005, 65) have identified as “the reinvention of administration towards the micro-regulation of job search and personal behaviour and the deterrence of welfare receipt as applicants and recipients [were] bureaucratically disentitled.” In the judgement of these and other analysts, as well as those tasked with implementing the program at the local level, the process was criticized for restricting entry and denying benefits through excessive requests for information and a complicated application process.¹² However, as the Human Resources Development Canada (HRDC 2000) suggests, this was the intent; processes like these are intended to “scare” people away from applying for social assistance.

British Columbia

Changes to social-assistance programs in British Columbia began in 1996 following a narrow election victory of the NDP over the avowedly conservative Liberal party led by Gordon Campbell; a victory in which the NDP won the majority of seats while losing on the popular vote. Under pressure to respond to this political challenge, the NDP-led government introduced changes that included lower benefits, a reduction in asset exemption levels, and a stricter set of eligibility requirements. New requirements also included demands for recipients to provide proof-of-job-search under threat of losing benefits, cheque line-ups (as opposed to mail) to collect benefits, and the creation of new administrative positions designated to search for fraud in the system. In August 1997, the government experimented with a stricter assessment regime that moved borderline ‘unemployable’ cases into either the ‘employable’ or the ‘disabled’ categories (Green and Warburton 2004). Attempts at reform even included a short-lived attempt in 1996 to impose residency requirements on those seeking social assistance; a policy that violated the provisions of the Canada Assistance Plan. In 2001, the Liberals under Campbell won a majority government. While it would not be until 2003 that this government would reduce benefits further and impose still more pen-

alties on those failing to show proof of looking for employment, it would appear safe to say that the reforms introduced in 1996 under the NDP were not lessened under the Liberals.

Alberta

In Alberta, rule changes came sooner than in Ontario and British Columbia. Boessenkool (1997) notes that policy changes were first introduced in 1993. He suggests that they consisted of two key changes. One was a change in the administrative culture at the Department of Family and Social Services.¹³ First-time applicants were routinely turned away until they had exhausted all other sources of support and so the reduction in the social-assistance rate was mainly due to a reduction in the number of new recipients.¹⁴ The second change was a reduction in benefits, particularly for those categorized as single employables, to bring them in line with the wages earned by lower-income Albertans. Allen (1997) emphasizes that increasing the discretion of caseworkers was also an important change in Alberta. He argues that the move from a rules-based system to one where caseworkers have the discretion to interview, investigate and check information given them by applicants is important for avoiding fraud and discouraging reliance on social assistance.

EVALUATING THE DETERMINANTS OF SOCIAL-ASSISTANCE RATES

Our goal in this section is to identify the separate influences of three broad determinants of social-assistance rates; the state of the economy, the relative generosity of social-assistance benefits, and the rules, regulations, and processes of the program. Our data set defines a time series of annual data for the period 1989–2003 for a cross-section of Canada’s ten provinces.

A significant constraint on the empirical analysis of the determinants of social-assistance rates by province and over time is data on the number of

social-assistance recipients. There are two key sources for annual data; the first is administrative data provided by provincial governments regarding the number of social-assistance recipients. Provision of these data was a requirement for funding under CAP and is available from HRDC (2005). The number of social-assistance recipients is also available from Statistics Canada's CANSIM database; these data are obtained through the Survey of Labour and Income Dynamics (SLID).

Theoretically, there should be only minor differences between these two data sources. In reality, however, there are major conflicts between them. While different time periods might explain some dissimilarities—the SLID reports the number of people collecting social assistance on a calendar-year basis whereas the CAP data does so over a fiscal year ending 31 March—the differences appear due to much more fundamental reasons. Kapsalis (2001) identifies a systematic under-reporting of social-assistance cases in the SLID when compared to the CAP data; he also reports the existence of spikes in the SLID data, spikes which are difficult to reconcile with what one might presume would be a good deal of persistence in the number of persons collecting social assistance over time. In their work on welfare and education statistics from British Columbia, Warburton and Warburton (2004) confirm the apparent under-reporting in the SLID data and note the need for an integrated system of reporting among administrative, SLID, and tax data for all of the provinces.

White (2006) compares the CAP and SLID data sets on a province-by-province basis and concludes—given the absence of large spikes in the administrative CAP data, the fact these data exhibit a pattern of persistence which one might expect of a time series measuring social-assistance use, and that broad movements in the data are more similar across provinces than is portrayed by SLID data—that the administrative CAP data may be more reliable. White also notes that adding credibility to the CAP data is their use by the National Council of

Welfare, the source of our data on social-assistance benefits. For all these reasons, we employ the administrative data collected under the CAP.

We note, however, that our use of the CAP data comes at a cost. While we believe the CAP data is preferred for estimating the aggregate response to changes in policy and labour market conditions, it is not able to provide estimates of how different categories of social-assistance recipients respond to these changes. This is because the CAP dataset does not identify for each province and over time the number of persons collecting social assistance as a “single employable,” “single parent, one child,” “couple, two children,” and “disabled.” This is unfortunate as Barrett and Cragg (1998) and Green and Warburton (2004) both note different responses to the determinants of social-assistance use by persons in these various categories.¹⁵ Researchers, then, are left with having to choose between using CAP data and deriving what we argue is likely to be a better measure of the aggregate response to changes in policy and labour market conditions, or using the SLID data to obtain measures of what may be substantial differences in response by the different categories of social-assistance recipients.¹⁶

The dependent variable in our analysis, $SA_{i,t}$, measures the number of social-assistance cases as a percentage of the population aged 17 to 64 years in province i in year t .¹⁷ This social-assistance rate therefore measures the prevalence of social-assistance use amongst the eligible provincial population.

Explanatory variables measure four influences on the social-assistance rate: labour market conditions, alternative income possibilities, persistence, and the effects of changes to the design and delivery of social-assistance programs (changes in administrative culture). Given our relatively short time series and use of annual data, the model is intentionally sparse.

$UR_{i,t}$ measures the unemployment rate of males aged 25–54 years in province i in year t . This variable is meant to measure the influence on the

social-assistance rate of labour market conditions. As the unemployment rate increases, we would expect the social-assistance rate to increase both because of an increase in the flow of the previously employed into unemployment and because of a reduction in the flow of the previously unemployed into employment.¹⁸ Our use of the unemployment rate for males aged 25–54 years is intended to minimize concerns about an endogeneity problem whereby changes in the social-assistance rate influence the aggregate unemployment rate.

$LQ_{i,t}$ measures the natural logarithm of the real value of the market income earned by those in the second quintile of the earned income distribution in province i in year t .¹⁹ This variable is meant to measure the influence on the social-assistance rate of the level of income earned by those most likely, *ceteris paribus*, to move between employment and social assistance. $LQ_{i,t}$ also measures the income which is potentially available to those currently collecting social assistance. We should expect a negative influence of this variable on the social-assistance rate since as the reward for employment increases we would expect those currently collecting social assistance to realize an increased incentive to move into employment. Together, $UR_{i,t}$ and $LQ_{i,t}$ measure the influence on the social-assistance rate of changes in economic conditions.

$SAB_{i,t}$ measures the natural logarithm of the real value of the social-assistance benefit in province i in year t and is meant to measure the influence on the social-assistance rate of the level of income support available to those on social assistance.²⁰ We should expect a positive influence of this variable on the social-assistance rate. An increase in the level of income received while on social assistance may, *ceteris paribus*, attract onto social assistance those who might otherwise choose employment and may encourage those on social assistance to remain rather than take employment.

$SA_{i,t-1}$ measures the lagged value of the social-assistance rate. It is included as an explanatory

variable in consideration of influences that manifest themselves in the social-assistance rate by showing a good deal of persistence. There are a number of reasons why we might expect independent variables $UR_{i,t}$, $SAB_{i,t}$, and $LQ_{i,t}$ to influence the social-assistance rate only with a lag. Those who lose employment typically first apply for federally funded EI benefits and only when those benefits are exhausted will they move to provincially funded social assistance. This lag can be upwards of a year. Further, applications for, and the processing of, social-assistance claims impose an additional lag.²¹

Finally, ON , AB , and BC define dummy variables which identify years during which provincial governments in Ontario, Alberta, and British Columbia introduced changes to the processes, rules, and regulations guiding the provision of social assistance in those provinces. Based on our discussion in the previous section, these variables take on the value of zero for all years but 1996–2003 in Ontario and British Columbia, and 1993–2003 in Alberta. These dummy variables each define two periods: a period of relatively relaxed administration of the rules governing the social-assistance regime in that province, and a period of relatively strict administration.²² The estimated coefficient on these dummies, then, will measure the impact on social-assistance rates of the *change* in this administrative milieu and so reflect the influence not only of strict administration but also the impact of the previous relatively lax administration.

Our use of dummy variables to identify changes in administrative procedures suggests that it is appropriate to try to identify only substantial changes in such procedures, changes that might legitimately be argued to have had an influence on the social-assistance rate that dominated other changes that might have also occurred during the period defined by the dummy variable. We have identified such substantial changes as having occurred in Ontario, Alberta, and British Columbia. This is not to say that other provincial governments did not institute changes to their administrative procedures. On the

contrary, we know that other provincial governments introduced such changes to varying degrees. Our review of these changes, however, suggests that only the governments of Ontario, Alberta, and British Columbia introduced very substantial and sweeping changes to the administration of their social-assistance programs.²³

Our estimating equation is given by;

$$SA_{i,t} = \alpha_0 + \beta_i + \gamma_t + \alpha_1 UR_{i,t} + \alpha_2 SAB_{i,t} + \alpha_3 LQ_{i,t} + \alpha_4 ON + \alpha_5 AB + \alpha_6 BC + \alpha_7 SA_{i,t-1} + \varepsilon_{i,t}$$

We recognize the possibility that there exist unmeasured influences on the social-assistance rate.²⁴ To the extent these factors are province-specific and time-invariant, we capture their influence with the use of a provincial fixed effects term, β_i . To the extent that these factors are time-specific and province-invariant, we capture their influence with the use of year fixed effects terms, γ_t . Note that with provincial and year fixed effects the only way in which a variable can influence the dependent variable is through its effect on changes to the social-assistance rate within a province over time. Variables that are largely constant over time within provinces will have little effect since their influence will be subsumed within the provincial fixed effect term.

Table 2 presents estimated coefficients. Coefficients presented in column (1) are based on an ordinary least squares (OLS) estimation assuming no fixed effects and no year effects. This regression also omits the three dummy variables intended to capture the influence of major changes to administrative procedures introduced by governments in British Columbia, Alberta, and Ontario. Coefficients presented in columns (2) and (3) include the influence of provincial and period effects. Comparing the results reported in column (1) to those reported in column (2), we see that the impact of provincial and period effects on estimated coefficients is relatively minor, though the coefficient measuring the

influence of the level of income earned by those in the second quintile of the earned income distribution loses statistical significance. The results reported in column (3) show that including the three provincial dummy variables reduces the size of the coefficient measuring the influence of the real value of social-assistance benefits.

The econometric results are generally encouraging. Coefficients on independent variables are of the expected sign and most are statistically significant. Coefficients are also relatively robust to alternative specifications and adjustments. Finally, estimated coefficients are also of reasonable magnitude. We discuss each of these in turn, making use of the estimates in column (3) for this purpose.

The coefficient on the lagged dependent variable suggests there is a good deal of persistence in the social-assistance rate. As a consequence, the full impact of a change in any independent variable will differ from the impact felt after just one year, an impact measured by the estimated coefficients. The long-run impact of independent variables is measured by dividing the estimated coefficients by $(1 - \alpha_7)$.

The estimated coefficient on our measure of labour market tightness (the unemployment rate of males aged 25–54 years) is similar in size to that reported in US studies. We estimate that a 1 percentage point increase in the unemployment rate increases the social-assistance rate by 0.12 percentage points after one year, and by about 0.46 percentage points over the long term. Averaging across all provinces, this is roughly equivalent to a 6 percent increase in the number of social-assistance recipients over the long term. US studies typically report that a 1 percentage point increase in the overall unemployment rate results in a 5 to 6 percent increase in the number of social-assistance recipients after two to four years (Bell 2001).²⁵

The natural logarithm of social-assistance benefit (*SAB*) is positive, as expected, and has a value that indicates a 1 percent increase in the real value

TABLE 2
Regression Results for the Social-Assistance Rate

	(1)	(2)	(3)
<i>UR</i>	0.083 (0.030)*	0.144 (0.065)*	0.120 (0.060)*
<i>log(SAB)x100</i>	0.036 (0.005)*	0.035 (0.009)*	0.028 (0.008)*
<i>log(LQ)x100</i>	-0.014 (0.004)*	-0.003 (0.007)	-0.011 (0.007)
<i>SA_{t-1}</i>	0.847 (0.030)*	0.788 (0.048)*	0.738 (0.044)*
<i>ON</i>			-1.393 (0.347)*
<i>AB</i>			-1.260 (0.524)*
<i>BC</i>			-0.897 (0.352)*
\bar{R}^2	0.944	0.967	0.973

Notes: In each regression the dependent variable is the number of recipients of social assistance expressed as a percentage of the population of the province aged 17–64 years. There are 15 annual observations for each of ten provinces. Standard errors are in brackets. Asterisks denote coefficients that are statistically different from zero at the 5 percent (*) and 10 percent (**) levels or better. The estimated constant and the year and provincial fixed effects coefficients included in the regressions whose results are reported in columns (2) and (3) have been omitted from the table. The use of panel-corrected standard errors has been employed.

Source: Authors' compilation.

of social-assistance benefits results in a 0.02 percentage point increase in the social-assistance rate after one year and a 0.09 percentage point increase over the long term.²⁶ Averaging across all provinces, the long-run response is roughly equivalent to a 1.1 percent increase in the number of social-assistance recipients resulting from a 1 percent increase in the real value of the social-assistance benefit.

The sign of the coefficient on the natural logarithm of the low quintile of earners was always

negative, as expected, but its estimated coefficient was not always statistically significant.²⁷ Its value indicates that a 1 percent increase in earned income of the second quintile of earners reduced the social-assistance rate by 0.01 percentage points after one year and 0.04 percentage points in the long run. Averaging across all provinces, the long-run response is roughly equivalent to a 0.5 percent increase in the number of social-assistance recipients resulting from a 1 percent decrease in the real value of low incomes.

The dummy variables are large and statistically significant. They suggest that changes to the approach to administering social-assistance programs in Alberta, Ontario, and British Columbia reduced social-assistance rates in those provinces by an average of 1.2 percentage points after one year and 4.5 percentage points in the long run. The size of these estimates suggest that changes in administrative procedures introduced in Alberta, Ontario, and British Columbia played a key role in determining social-assistance rates in those provinces. It is important to note, again, that this response measures the impact of the change in administrative procedures from the earlier period. Thus, we are measuring more than the effects of imposing new procedures: We are also measuring the effects of replacing previous, possibly quite generous, procedures with new and more demanding administrative requirements. We cannot measure which had the greater impact on the social-assistance rate; the removal of the old procedures or the introduction of the new.

Table 3 presents calculations showing what percentage of the change in the social-assistance rate explained by our regression, from its peak value to its value in 2003, was due to changes in each of our

right-hand side variables. Thus, in British Columbia, the social-assistance rate fell by 9.4 percentage points from its peak in 1994 (when it equalled 15.5 percent) to 2003. Of the amount explained by our regression, 10.6 percent of the fall was due to a fall in the unemployment rate, 17.3 percent was due to a fall in the real value of the social-assistance benefit, 7.5 percent was due to an increase in the real value of earned incomes, and 64.6 percent was due to the change captured by the dummy variable which is the best available measure of the influence of changes in administrative procedures introduced in British Columbia after 1996. Figure 2 shows the cumulative change in the social-assistance rate in British Columbia by year. The figure highlights that in British Columbia a significant portion of the observed decline in the social-assistance rate is due to unexplained time effects, particularly after 2001.²⁸

By 2003, the social-assistance rate in Alberta had fallen by 8.6 percentage points from its high of 11.4 percent in 1992. Of this fall explained by our regression, 20.8 percent was due to the fall in the unemployment rate, 20.3 percent was due to the fall in the real value of the social-assistance benefit, 9.5 percent was due to an increase in the real value of earned incomes, and 49.4 percent was due to the

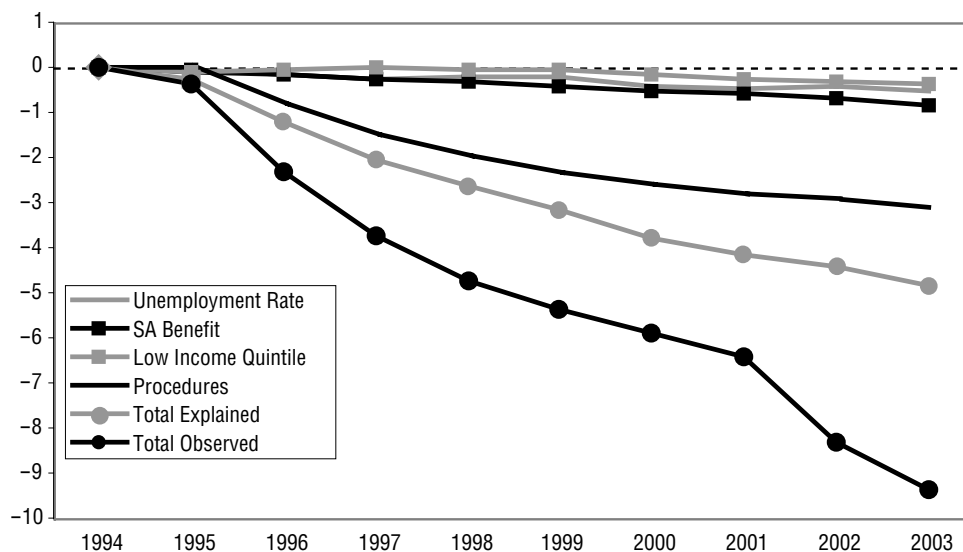
TABLE 3
Percentage of Change in Social-Assistance Rate Explained by Explanatory Variables

Province	Time Period	Change in Social Assistance-Rate (% points)	Percentage Explained Change in Social-Assistance Rate Due to a Change in:			
			Unemployment Rate (%)	Social-Assistance Benefit (%)	Earned Income (%)	Administrative Procedures (%)
British Columbia	1994–2003	–9.4	10.6	17.3	7.5	64.6
Alberta	1992–2003	–8.6	20.8	20.3	9.5	49.4
Ontario	1993–2003	–11.1	18.2	25.3	9.4	47.1
Rest of Canada	1995–2003	–6.0	40.9	20.3	38.8	

Source: Authors' compilation.

FIGURE 2

Cumulative Sources of Change in the Social Assistance Rate, British Columbia, 1994–2003



Source: Authors' calculations.

change captured by the dummy variable which is the best available measure of the influence of changes in administrative procedures introduced in Alberta after 1993. Figure 3 shows the cumulative change in the social-assistance rate in Alberta by year and shows that the observed decline in the social-assistance rate due to unexplained time effects is considerably smaller than is the case in British Columbia.

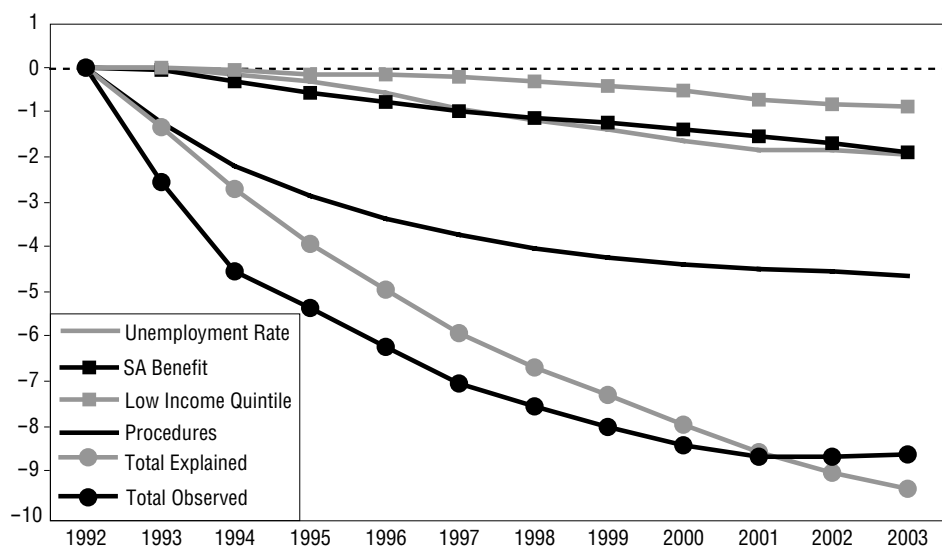
Ontario was witness to the largest decline in a social-assistance rate. By 2003, the rate had fallen by 11.1 percentage points from its high of 19.5 percent in 1993. Of this fall explained by our regression, 18.2 percent was due to a fall in the unemployment rate, 25.3 percent was due to a fall in the real value of the social-assistance benefit, 9.4 percent was due to an increase in the real value of earned incomes, and 47.1 percent was due to the change captured by the dummy variable which is the best available measure of the influence of changes in administra-

tive procedures introduced in Ontario after 1996. Figure 4 shows the cumulative change in the social-assistance rate in Ontario by year and, similar to the results for Alberta, shows that the observed decline in the social-assistance rate due to unexplained time effects is considerably smaller than is the case in British Columbia.

In those three provinces which introduced the most significant changes in administrative procedures, the state of the economy, as measured by the responses to changes in labour market tightness and changes in earned income, accounted for between 18 percent and 30 percent of the reduction in the social-assistance rate. Thus, the state of economy deserves “credit” for a sizable amount of the fall in the social-assistance rate in Ontario, Alberta, and British Columbia.²⁹ Reductions in the real value of the social-assistance benefit accounted for another 17 percent to 25 percent of the fall in the social-assistance rate.³⁰ The influence captured by our

FIGURE 3

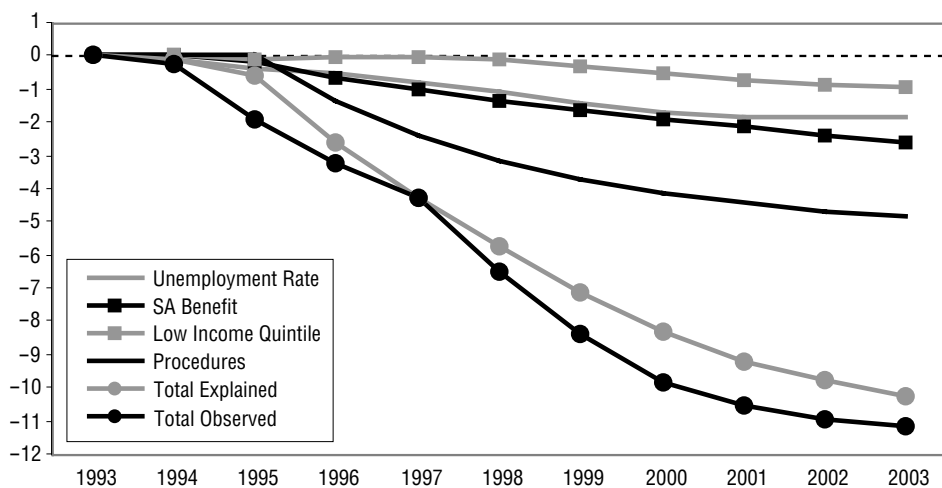
Cumulative Sources of Change in the Social Assistance Rate, Alberta, 1992–2003



Source: Authors' calculations.

FIGURE 4

Cumulative Sources of Change in the Social Assistance Rate, Ontario, 1993–2003



Source: Authors' calculations.

dummy variables suggests that changes in administrative procedures accounted for between one-half and two-thirds of the fall in the social-assistance rate explained by our regression.

In the rest of Canada, the fall in the social-assistance rate—from a high of 16.2 percent in 1995 to 10.2 percent in 2003—was less dramatic than in the three provinces which introduced the most significant changes to administrative procedures. In the rest of Canada, changes in the state of the economy, as measured by changes in labour market tightness and changes in earned income, accounted for 80 percent of the change in the social-assistance rate. Cuts to the social-assistance benefit also played an important role explaining 20 percent of the decline in the social-assistance rate.³¹

Our results with respect to the influence of administrative changes on social-assistance rates are similar to those reported in other Canadian studies. Focussing on Alberta, Boessenkool (1997) estimates that between 1993 and 1996 roughly 50 percent of the decline in the social-assistance rate was due to a change in administrative procedures and cuts to social-assistance benefits; a booming economy explained the rest. Our estimate of the combined impact of cuts to benefits and changes in administrative procedures is somewhat larger at 70 percent and we assign less credit for the fall in Alberta's social-assistance rate to a strong economy (as measured by the change in the unemployment rate). In a more recent study, Richards (2007) uses a difference-in-difference model to identify the effects on provincial social-assistance rates of administrative reforms and cuts to social-assistance rates introduced in Ontario, Alberta, and British Columbia. He reports that these changes explain 80 percent of the fall in welfare utilization in Alberta and about 50 percent of the decline in Ontario. His measure of these influences for British Columbia suggests a somewhat smaller influence and one with a much wider confidence interval. Taking advantage of a change in procedures introduced by the government

of British Columbia in 1995–96, Green and Warburton (2004) present evidence from a longitudinal study to suggest that a tighter screen imposed on applications for social assistance had a substantial impact on future receipt of assistance over the medium term but had no long-term impact on social-assistance use by those individuals.

CONCLUSION

The goal of this paper was to offer a contribution to the literature which examines the impact of welfare reform on the fraction of the population on social assistance. We use Canadian data to examine this issue and rely on a confluence of events which in the 1990s demanded that Canadian provincial governments reconsider the design of their social-assistance programs. Three of those provinces in particular introduced significantly tighter eligibility rules and administrative procedures. Our results suggest that those changes in eligibility rules and administrative procedures played a significant role in reducing social-assistance rates in those provinces. We caution, however, that these estimated influences measure not just the implication of the new rules and procedures but also the fact that they replaced rules and procedures that were relatively relaxed. Thus, it would not necessarily be the case that similarly strong responses might be realized in other jurisdictions. It is also worth emphasizing that our reliance on dummy variables requires that these coefficients be treated with caution. We have tried to maximize the likelihood that our estimated coefficients measure the influence of changes to administrative procedures by focussing on only very significant changes—those introduced by governments in Ontario, British Columbia, and Alberta in the mid-1990s. It is also worth emphasizing that our choice of dataset prevents us from identifying how these changes in administrative procedures may have differentially impacted the various categories of social-assistance users. While our suspicion is that those classified as “single employable” were the most

strongly affected by the changes in administrative procedures, this remains a question for further research.

We think it is also worth emphasizing that the state of the economy had a significant role to play in the reduction in the social-assistance rate within our sample period. In the three provinces we considered most closely, improvements in the economy (as measured by falls in the unemployment rate and increases in the real income of those in low-income quintiles) explained 18 percent (British Columbia), 27 percent (Ontario), and 30 percent (Alberta) of the explained fall in the provincial social-assistance rate. Those results remind us that social assistance remains quite sensitive to the state of the economy and that the fall in the social-assistance rate enjoyed during the boom years of the late 1990s and early 2000s will have their counterpart in rising rates come the next economic downturn.

NOTES

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¹ On a national basis, the total number of caseloads increased 34 percent between 1988 and 1994, and then fell 57 percent from the peak in April 1994 to June 2000. Calculated by the authors from data reported by the Administration for Children and Families (2009).

² "So-called" because prior to 1996, state governments required a waiver from federal regulations that allowed them to experiment with changes in their provision of Aid to Families with Dependent Children (AFDC) and its successor, the Temporary Assistance for Needy Families (TANF) program.

³ Klassen and Buchanan (1997) argue that changes in government programs in Ontario were responsible for sustaining a high caseload rate in the 1980s, when the provincial labour market was relatively strong.

⁴ Source of data sources are identified later in the paper.

⁵ The Social Assistance Review Committee was appointed by the Liberal government of David Peterson in 1988.

⁶ Data on provincial spending on social assistance, provincial CPI and provincial population from CANSIM II Tables 3850001, 3260002 and 2820087, respectively.

⁷ Resistance to further increases to tax bases is consistent with the argument of analysts such as Lipset (1968) who suggest that public support for redistributive policies wanes with downturns in the economy as such downturns heighten class conflict. Since economic downturns reduce tax bases, they demand the spending of political capital required to change tax rates. Given the preponderance of progressive tax systems, such changes tend to pit income classes against one another more severely than during economic expansions that generate tax revenue without the need to increase tax rates. Thus, political support for social assistance may fall during economic contractions. See Blekesaune (2006) for empirical measures of this influence.

⁸ The introduction of the CHST saw the elimination not only of CAP but also of federal transfers to the provinces in the form of post-secondary grants, contributions under the hospital insurance act, and a health-resource fund.

⁹ Calculated using total federal transfers to provinces and territories (CANSIM II series v691266) less federal transfers via taxation agreements (v691272) divided by the all-items CPI and population for Canada.

¹⁰ See National Council of Welfare (1997) for detailed discussion of these reforms and changes.

¹¹ Participation in the Employment Assistance program was compulsory for the vast majority. The goal of finding employment was via three routes; Employment Support, the purpose of which was to aid the search for jobs; Employment Placement, which matched people with job vacancies; and Community Placement, a work-fare program in which social-assistance recipients were placed with non-profit agencies and community groups

¹² See Lightman, Herd, and Mitchell (2006) and Herd, Mitchell and Lightman (2005) for useful descriptions of the details of the *Ontario Works* program and for inter-

views with those at the local level who applied the program.

¹³ HRDC (2000) reports administrators as suggesting this change in culture was facilitated by the explicit commitment of the premier and the minister of social services to reforming the manner in which social assistance was awarded.

¹⁴ Thus Boessenkool emphasizes that the reduction in the percentage of Alberta's population collecting social assistance was not the result of pushing people out but of making it tougher to get in. Boychuk and McIntosh (2000) come to a similar conclusion.

¹⁵ US studies suffer less from this problem because welfare in the US is targeted mainly toward a single category of recipient: lone-parent families.

¹⁶ Canadian studies that have studied welfare participation by category of claimant include Allen (1993), Charette and Meng (1994), Christofides, Stengos, and Swidinsky (1997), and Dooley (1999).

¹⁷ Data on provincial population aged 17–64 years is from Statistics Canada, CANSIM II Table 510001.

¹⁸ Data on provincial unemployment rate, males aged 25–54 years, from Statistics Canada CANSIM II Table 2820002. We experimented with using a variable measuring the duration of unemployment in place of the unemployment rate. The measure of duration proved to have a similar impact as the unemployment rate.

¹⁹ Data is from Statistics Canada CANSIM II Table 2020701. These data are measured in real 2005 dollars.

²⁰ Data on social-assistance benefits are based on those reported in Table 3.1 in National Council of Welfare (2006). These data are reported in 2005 dollars deflated using the Canadian Consumer Price Index (CPI). We adjust these data to deflate by provincial CPI. Our measure of the social-assistance benefit is a weighted average of the benefit paid to the four categories of recipient. On the basis of Table 1 provided by the National Council of Welfare (1998), this average is calculated by using the following weights: the benefit paid to someone categorized as "single employable" (50 percent), a "person with disability" (10 percent), a "lone parent, one child" (25 percent), and as part of a "couple, two children" (15 percent). Barrett and Cragg (1998) similarly report that in

British Columbia the majority of welfare spells are experienced by single men and women without children.

²¹ How to best model the dynamics of the evolution of social-assistance rates is a matter of debate in this literature. Blank (2002) favours parsimony with respect to dynamics, arguing that extensive lag structures leave little scope for measuring policy effects based on dummy variables.

²² As an example, Boessenkool (1997) emphasizes that the post-1995 reforms in British Columbia followed a period from 1991–1995 when social assistance in BC was under the guidance of a minister who emphasized an administrative culture designed to serve "clients" rather than police welfare use.

²³ For a review of changes to administrative procedures in all provinces see National Council of Welfare (1997, 1998, 2006).

²⁴ A potential influence is the difference in how the federal Employment Insurance (EI) program operates across provinces. Tighter eligibility rules in relatively low-unemployment provinces force those who lose their job onto social assistance more quickly than in provinces with relatively high unemployment rates. Those who are laid off from work qualify first for federally financed EI benefits. Those who do not qualify for EI either through lack of employment in the previous year, or those who have exhausted their EI benefits, may eventually qualify for provincially financed social assistance. The two sets of programs are therefore interdependent. We experimented with a variable measuring the generosity of EI benefits but it proved to be statistically insignificant and exerted no influence on other coefficients in the regressions.

²⁵ In comparing these estimates it is useful to recognize that in Canada, provincial social-assistance programs provide benefits to single individuals, single parents, and couples with children while US state welfare programs are typically restricted to single parents. As noted in endnote 20, in Canada only about 25 percent of social-assistance recipients are single parents. Canadian and US studies, then, measure the responses of two different populations.

²⁶ The size of this response is similar to that reported by Lemieux and Milligan (2005) who measure the employment response of less-educated men without dependent children to changes in social-assistance ben-

efits. They report that a one percentage point increase in benefits reduced employment by about 0.025 percentage points after one year.

²⁷ The prob-value for the low-income coefficient in column (3) is 0.11. Hence the coefficient of that variable in that regression just misses the ten percent critical value.

²⁸ The calculations presented in Figures 2, 3 and 4 are produced using the estimated values of coefficients α_1 , α_2 , α_3 and the observed changes in variables UR , SAB and LQ . The presence of a lagged dependent variable in our estimating equation means that each change in these variables has a persistent effect that influences the SA rate not only in the year in which the change takes place but also in subsequent years. For this reason, for example, the influence of the change to administrative procedures persists, with declining influence, beyond the initial year of implementation. The estimated coefficients on time effects, which are intended to capture the influence of unmeasured influences on the social-assistance rate, are not used in these calculations. The impacts of these unmeasured influences appear in Figures 2, 3 and 4 as the difference between the observed change in the social-assistance rate and the change explained by our measures of UR , SAB and LQ .

²⁹ In his survey of US studies, Bell (2001) reports a wider range of estimates for the influence of the state of the economy; from ten percent to 80 percent. Klerman and Danielson (2004) attribute about one-quarter of the decline in US caseloads to the economy.

³⁰ Changes in the real value of benefits (SAB) are driven by a combination of inflation and policy decisions with respect to nominal values of benefits. One might therefore argue that changes in social-assistance usage rates due to our SAB variable are in part attributable to the business cycle. Our view is that the choice to index social-assistance benefits is a policy choice and so changes in social-assistance usage rates due to our SAB variable is best classified as a change due to policy, not the economy.

³¹ The contribution of the unemployment rate, the social-assistance benefit, and the change in earned income in explaining changes in the social-assistance rate in the rest of Canada was determined by applying a weighted average of those variables in the seven other provinces to the estimated regression coefficients. The weights reflect

the average number of social-assistance recipients in each province over the sample period relative to that average number in the seven provinces over the same period.

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