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Redesigning the "Welfare Mix" for Families: Policy Challenges

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Executive Summary

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Executive Summary

In the last two decades a number of countries have adopted new policies and programs in response to the challenges of restructured labour markets, deepening poverty, an ageing society, and the knowledge-based economy. These have all meant major reforms of social policy.

The move toward reform occurred in several stages. In the 1980s, there was simply an effort to control costs, often based on a belief that government spending was "excessive" and could be easily controlled, and that doing so would release market forces to create jobs (thereby absorbing unemployment), to modernize the economy (thereby making it competitive), and rebuild a solid economic structure (thereby generating well-being for everyone). By the late 1990s, however, it was clear that cutbacks and freed-up markets were not sufficient. Poverty rates were rising, especially for families with children. The working poor were frequently closed out of the housing market. The move into work was sometimes an "irresponsible" act for parents who would lose health coverage, housing subsidies and other benefits that they received while on social assistance and that would not be replaced in a low-paying job.

As governments at all levels begin to redesign their policies and actions, they are sometimes – indeed frequently – changing the *welfare mix*. This paper examines these changes, and searches for lessons that can be of help to policy communities and especially policy-makers across Canada. It provides description and analysis, including detailed tables and figures comparing countries and Canadian provinces.

Rethinking the Welfare Mix – Ingredients and Challenges

Many governments have begun to rethink the "welfare mix," that is the ways in which the well-being of citizens is achieved. It is important to understand that welfare, as used here, is a much broader term than a synonym for social assistance, as it is sometimes employed. In this paper, we adopt the notion of *welfare*, as defined by economists and social policy experts. For them, welfare depends on income and services provided from a *variety of sources*.

We can identify four sources of welfare. For the majority of people, by far their major source of welfare is *market* income, earned themselves or by someone in their family, such as a spouse or a parent. But we also gain part of our welfare from the non-marketized benefits and services provided within the *family*, such as parental child care, housework and care for elderly relatives. Access to welfare also comes from *governments*, via child care, health care or other services for which we are not required to pay full market prices. The fourth source is the *community*, whose volunteers and non-market exchanges generate welfare by providing a range of services and supports, such as child care, food banks, recreation and leisure, and so on.

Societies confront many challenges in ensuring an adequate welfare mix for families. These include: an ageing society, economic marginalization and social exclusion, changing family patterns, and child poverty.

Redesigning the Welfare Mix – What is Being Done Elsewhere

These four challenges have generated two responses that dominate policy thinking across jurisdictions. In the case of both responses, while never the exclusive focus, lone-parent families and their needs receive particular attention.

One response is to focus on ensuring active participation in the labour force, and to avoid social exclusion. Managing the *margins of the labour force*, both at-risk populations and those people transitioning across the border from income security programs to work, is the particular task here.

A second response is to seek to avoid or reduce poverty, especially child poverty. The goal is to ensure a welfare mix that will allow most families to combine paid work, child maintenance, benefits and services in order to meet the needs of their children and themselves.

The European Union (EU) has adopted an employment-centred strategy for achieving a better welfare mix. Much of its analysis follows from an understanding of *social policy as a productive factor* rather than as a drain on the economy. The Union observes that social expenditures are positively correlated with levels of productivity everywhere in the developed world. The EU also recognizes that poverty rates are not automatically reduced by people being in work; poverty rates and employment rates are not strongly correlated, if job growth occurs in low-paying service sectors, for example. The Europeans have begun, therefore, to focus on "quality" and "quality jobs."

Reductions in poverty is one goal of such policies. Recent data reveal that if markets and family were the *only* source of income, poverty rates would be substantially higher everywhere for families with children. Where countries have made commitments to using taxes and transfers to protect families from poverty, however, the rates of child poverty fall significantly when after tax and transfer incomes are considered. Moreover, while the *risk* of poverty is always higher for lone-parent families, the *rate* can vary significantly from country to country.

There are three major policy instruments that allow for poverty reduction to occur. The first is payment of child benefits of various kinds. Housing allowances and other housing programs are also an important part of the benefits package. The distinction between having a low income and being at risk of poverty or social exclusion often turns on the factor of housing costs. Early childhood education is a third key component of the package of services. The trend in all countries is toward full coverage of the three- to six-year old age group, aiming to give all children at least two years of free publicly-funded provision before beginning compulsory schooling.

A number of observations emerge from this examination of the European experience. First, increasing market-based income is a key objective of social policy, identified as the major factor limiting the risk of being poor and fostering social inclusion. Nowhere, however, do governments assume that market incomes will be sufficient to assure everyone adequate incomes to prevent poverty. Analysis reveals that many categories of labour force participants require government transfers (such as child benefits) and services (such as child care). Therefore, transfers designed to supplement incomes as well as services remain crucial parts of the welfare mix. Specific programs such as housing and child care are of particular importance.

The United States federal and state governments spend substantial amounts on social assistance programs for their citizens. Indeed, the United States has one of the highest rates of expenditure on social assistance, that is the "safety net" portion of social policy, in the world. At 3.7 percent of GDP, social assistance spending in the United States was well above Canada's 2.5 percent.

In the early 1990s, fully nine percent of the whole social assistance budget was spent on Food Stamps, and a further 50 percent on Medicaid, which provides health care coverage to low-income Americans. While at first eligibility for Medicaid was almost completely coterminous with eligibility for social assistance, in recent years it has been redesigned to cover more low-income families who depend on market incomes. The move is towards more families retaining Medicaid benefits as they move off social assistance, if they find work in low-wage jobs without private health insurance.

The Earned Income Tax Credit (EITC) is designed to increase the rewards of work for low-income families with children (and those without children with *very* low incomes); it is intended to "make work pay." It costs American taxpayers about $30 billion (US) a year. There is also a Child Tax Credit that pays up to $600 (US) to families with earned income above $10,000.

In 1996, the United States federal government undertook a comprehensive reform of the social assistance portion of its social assistance programs, those popularly called "welfare." Its objectives were *both* to increase employment and to encourage certain types of family behaviour, so as to increase the "family responsibility" portion of the welfare mix. With respect to the second objective of "family formation," the immediate goals were to raise marriage rates, reduce births outside marriage, and establish paternity. This objective distinguishes efforts to redesign the welfare mix in the United States from those undertaken in Europe or Canada. Another distinguishing element of the American reform is that this welfare reform reduced the training or human capital focus present in previous social assistance programs, primarily by setting strict time limits on receiving social assistance.

While changes varied from state to state, within a framework set out in federal legislation, states made four major changes in their social assistance systems. First, they shifted to "work-first" principles, that is emphasizing rapid labour force entry rather than skills development or long-term education. Second, most states modified rules so as to "make work pay," by allowing social assistance recipients to keep some cash benefits even when they begin having income from employment or by creating their own supplements to the federal EITC. Third, they instituted rules about workforce participation by everyone; in most states, the work exemption for lone parents with young children was reduced from three years to 12 months, while many states chose even shorter periods, and a few have no exemption at all. Finally, states developed programs for communicating these reforms; most require some form of orientation session for applicants, with the sessions stressing the temporary nature of cash assistance and the requirement that almost all applicants pursue and obtain employment.

Redesigning the Welfare Mix for Canadian Families

In Canada, as elsewhere, there are gaps between social assistance benefit levels and family needs, leading to concerns about "adequacy" of benefits. There is new activity in the area of income supplements for low wages and, in particular in Canada, there is growing attention to "investing in children" so as to limit child poverty and promote their healthy development.

One primary goal has been to smooth the transition into work and reduce reliance on social assistance. Since the mid-1990s, all provinces have changed some laws and regulations to tighten eligibility, reduce costs and foster labour force participation by recipients of social assistance.

Increasingly, there has also been a clear understanding that increasing labour force participation will not *solve* the problem of low incomes. Cash and other transfers are needed if large number of individuals and families are not to live in poverty. Therefore, along with incentives to work, the federal government and several provinces have been providing additional supports. A second move is toward better integration of social assistance and employability programs.

With respect to timing, there seems to be a pattern. Those provinces that have made their reforms more recently (Quebec, Nova Scotia, Alberta and Prince Edward Island, for example) seem to recognize that low-wage work and jobs without benefits are likely to characterize the new labour market structures, rather than being a "transitory" or "transition" phenomenon.

The second goal that has emerged from discussions of the welfare mix is how to generate sufficient family income and control poverty rates, especially those for child poverty. In Canada, the federal-provincial-territorial governments made a clear commitment to engaging with this issue in the late 1990s, especially via the National Child Benefit (NCB) agreement signed in 1998.

The federal government's contribution to the NCB (the Canada Child Tax Benefit (CCTB) and the National Child Benefit Supplement) allow the federal government to provide its share of a new welfare mix, and to release provincial funds for reinvestment according to provincial priorities, particularly in services. In adopting these policies, Canadian policy-makers have been following – and sometimes leading – international thinking about the need to provide both cash benefits and services to families in order to allow them to maximize their welfare.

Among the 10 provinces there have been four basic approaches followed:

- One is to provide families with a supplement to earned income, usually in order to "make work pay";
- A second approach involves making a benefit available to *all* low-income families with children, whether they earn market income or not;
- A third approach is to provide a variety of needs-related benefits (such as health benefits or housing and child care subsidies) for families; and

- Finally, there is the service that almost all analysts identify as key to ensuring that employability initiatives and family supports mesh well. This is child care.

On the last point, however, there is a major difference between Canadian provinces' initiatives and those of European countries and even the United States. With the exception of one province, public support for child care support remains limited and spaces are in inadequate supply. This gap is surprising, given the growing and widely disseminated social knowledge about the importance of early childhood education for preparing children for the new economy.

Conclusions – Finding the Combination

> *A clear overall message emerges from this cross-national analysis of child poverty rates. All of the possible factors examined – lone parenthood, employment and its distribution, wage inequality, and state transfers to the workless and low paid – are important but none is pre-eminent. Children are kept in poverty not by a padlock to which there is a single key but by a combination lock that requires an alignment of factors if it is to be released (UNICEF, 2000).*

Finding the "combination" is the key challenge policy-makers face. They need to find the best policy mix.

Moving into Employment

Because of their responsibility for ensuring that all citizens have access to an adequate level of welfare, governments have been assessing the range of possible policy actions to increase the proportion of welfare that comes from markets and especially market income. This has led to a widespread commitment to the need to move as many people as possible from social assistance into work or a combination of both. The Europeans call this "activation," by which they mean enabling people to take an active part not only in the labour force, but in the broader community. For them "activation" is a way to combat social exclusion. Whatever the label, many governments have developed new programs that are intended to "make work pay" and remove the blockages to labour force participation that had inadvertently come to characterize the existing structure of social assistance.

Access to adequate market income and quality jobs is important for the future as well as the present. While child benefits and tax credits targeted to families with children will address child poverty now, they do not deal with the issue of adults' long-term low income and dependence on wage supplements. The danger with this form of dependence is that when their children are grown – and, therefore, they are no longer eligible for earned income supplements, extended health benefits and so on – these adults will fall into deep poverty themselves, and will face an old age of poverty too. In other words, "work-first" is a siren call dangerous for the present and into the future as well.

Ensuring that Families have Adequate Income

Wage rates do not have any way of taking into account the number of people who will live on that wage. Salaries are not set according to the number of children the employee has, or whether there are two incomes supporting the household. This characteristic of wages has always been a problem, especially at the low end of the scale. People have often not been able to earn a "family wage," that is enough to support their family.

Recognizing the existence of this issue, even in the boom years after 1945, many countries instituted universal family allowances. They were designed to redistribute income horizontally, partially to compensate for the extra costs faced by families with children. The gap between income and needs became more pressing as rates of poverty for families with children rose through the 1990s and as more and more research has shown the negative consequences of living on the margin of society and at risk of exclusion. Hence the increase in child benefits.

The Last Tumbler in the Combination Lock – Child Care

Here we turn to the last piece of the policy puzzle, one that virtually all analysts identify as indispensable to a prosperous future for families and countries. Child care is important not only (albeit certainly) because it allows parents to balance their work and family responsibilities. It is also absolutely key to ensuring positive developmental outcomes. The 2001 OECD report, as the title *Starting Strong* suggests, states: "Research shows that participation in quality, centre-based ECEC [early childhood education and care] *programmes* can have important and immediate short-term impacts on the cognitive and socio-emotional development of disadvantaged children" (OECD, 2001: 37).

Yet, despite this widespread social knowledge, policy-makers in several Canadian provinces are still holding the line on child care spending, although there is still a good deal of unmet demand for affordable care and quality spaces. Moreover, in some jurisdictions there has been a tendency to embrace *informal* forms of child care (neighbours and relatives) as a solution to meeting the needs of low-income parents leaving social assistance or employed in low-wage work, despite the evidence that simply investing in custodial care has significantly fewer payoffs in terms of good child outcomes.

Given its commitment to competing in the knowledge economy and making the most of its work force, Canada cannot afford to ignore the contribution that quality early childhood education and care programs can make to achieving goals for *both* adults and children. Child care needs to a key component of any low-income strategy.