UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

DP 68

WHEN MARKETS FAIL: SOCIAL WELFARE IN CANADA AND THE UNITED STATES

by John Myles

June 1995

The United Nations Research Institute for Social Development (UNRISD) is an autonomous agency that engages in multi-disciplinary research on the social dimensions of contemporary problems affecting development. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies and processes of economic, social and environmental change affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Current research themes include: Crisis, Adjustment and Social Change; Socio-Economic and Political Consequences of the International Trade in Illicit Drugs; Environment, Sustainable Development and Social Change; Integrating Gender into Development Policy; Participation and Changes in Property Relations in Communist and Post-Communist Societies; and Political Violence and Social Movements. UNRISD research projects focused on the 1995 World Summit for Social Development included Rethinking Social Development in the 1990s; Economic Restructuring and Social Policy; Ethnic Diversity and Public Policies; Social Integration at the Grassroots: The Urban Dimension; and The Challenge of Rebuilding War-torn Societies.

A list of the Institute's free and priced publications can be obtained from the Reference Centre.

United Nations Research Institute
for Social Development
Palais des Nations
1211 Geneva 10
Switzerland

☎ (41.22) 798.84.00/798.58.50
Fax (41.22) 740.07.91
Telex 41.29.62 UNO CH

ISSN 1012-6511

◆ Preface

As part of its programme of work for the Social Summit, UNRISD sponsored an international dialogue on **The Future of the Welfare State**. Under the direction of Gøsta Esping-Andersen, experts on social policy in seven regions of the world were asked to trace the response of different welfare régimes to the challenge of global economic restructuring. Their conclusions were presented in Copenhagen on 8 March 1995, at a conference hosted by the Danish Ministry of Foreign Affairs, and co-sponsored by UNRISD and the Danish National Institute of Social Research.

This is one of the conference papers, dealing specifically with the North American experience. As the author notes at the outset, the model of social policy adopted in Canada and the United States stands at the "liberal" extreme on the continuum of welfare régimes in industrialized market economies. The Scandinavian countries can be considered to lie at the opposite, "social democratic" extreme.

To deal with the challenges of slow growth and increasing international competition during the 1980s and 1990s, Canada and the United States have relied on a low-wage strategy which has been remarkably successful in creating new jobs. At the same time, in the field of social welfare, both countries have followed a policy which John Myles characterizes as "retrenchment": the level of support for disadvantaged groups has declined in real terms, and a number of programmes have been either cut back or phased out over the past few decades.

There are, however, significant differences in the impact of these strategies on the livelihood of low-income families in the two countries. As the author of this study points out, the process of retrenchment began at very different levels of social provision in Canada and the United States. Although labour market inequality increased markedly in both cases (as low wages created larger numbers of the "working poor"), Canadian households were able to offset low earned income through access to a generous system of support, including National Health Insurance. Americans, in contrast, could fall back on only a very modest, largely means-tested, social safety net.

The significant differences in welfare policy which characterize the two countries have grown out of distinct political experiences. In Canada, nation building has required both a centralization of responsibility for income security and development of a common set of national standards in key areas of social provision. There have been important interregional transfers from richer to poorer regions. In the United States, however, the federal system has left decision-making power over eligibility and benefit levels in crucial areas of social policy in the hands of the states. The result has been what Myles calls "fiscal competition among jurisdictions", as each state attempts to spend less than the others on social programmes.

The dynamics of North American economic integration, as well as the strengthening of regional rivalries and concern over the rising public debt, are moving Canadian welfare politics in the direction of US-style fiscal competition. The governments of both Canada and the United States also face enormous revenue constraints. While electoral competition in earlier periods typically took the form of bidding for votes through offering

expanded social programmes, in the 1990s parties vie with one another by promising tax cuts.

Myles discusses proposals to "adjust" social programmes to the current low-wage strategy of development, and to reduce welfare expenditures. These include "workfare" (the requirement to work in return for public support); active labour market programmes, providing job training and improvement in the quality of human capital; and "negative income tax" schemes through which subsidies are provided to individuals and households whose income falls below the established minimum.

The latter — which in effect subsidizes low earnings of "working poor" families — is favoured by many employers but has perverse effects. It subsidizes enterprises that pay low wages, thus biasing investment decisions toward technologies and production processes which take advantage of this premium. While employment gains are won in the short term, productivity growth and the expansion of a skilled work force are thus sacrificed in the longer run.

Myles finds it unlikely that North America will be at the forefront of progressive social policy experiments in the near future. In his view, both Canada and the United States suffer not only from a fiscal deficit, but also from a "democratic deficit". He concludes that "the comparative weakness of political institutions able to represent competing social and economic interests [now] makes the search for non-zero sum solutions difficult".

John Myles is Professor of Sociology and Director of the Pepper Institute on Aging and Public Policy, College of Social Sciences, Florida State University. Work on **The Future of the Welfare State** has been co-ordinated at UNRISD by Cynthia Hewitt de Alcántara.

June 1995

Dharam Ghai
Director

◆ Contents

◆ Abbreviations and Acronyms

AFDC	Aid to Families with Dependent Children
C/QPP	Canada and Quebec Pension Plans
CTB	Child Tax Benefit
EITC	Earned Income Tax Credit
FAP	Family Assistance Plan
GI	Guaranteed Income
GIS	Guaranteed Income Supplement
LIS	Luxembourg Income Survey
NIT	Negative Income Tax
NLRB	National Labor Relations Board
OAI	Old Age Insurance
OASI	Old Age Security Income
SSI	Supplemental Security Income
UI	Unemployment Insurance

INTRODUCTION

Like Scandinavia, North America occupies a special place among modern welfare states. Compared with their European counterparts, Canada and, especially, the United States are typically portrayed as welfare state "laggards" (Kudrle and Marmor, 1981). Modern social legislation came later than elsewhere and, when it did, often retained an adherence to traditional "liberal" principles of means-testing and modest social benefits (Esping-Andersen, 1990). North American levels of income inequality are high by international standards (Smeeding, 1991), and until the 1980s unemployment ranged well above European levels (McBride, 1992; Therborn, 1986).

To a much greater degree than elsewhere, twentieth century North Americans have looked to the market as their primary source of "welfare". And for most of this century, they have had good reasons for this view. The resistance by early American labour leaders to European-style social insurance programmes had a real material base. As the American labour leader Samuel Gompers (1910) observed at the turn of the century, the average American city-dweller could hardly imagine the poverty then prevailing among European workers.

For most of this century, Americans have believed in the market because, for many, the market worked. Despite modest social programmes, North American workers enjoyed enviable levels of "welfare" during the "Golden Age" of post-war expansion. With wage levels well above European levels and an expanding economy, North America was still the "land of opportunity". The "great wage compression" of the 1940s and 1950s reduced inequality in the labour market (Goldin and Margo, 1992) and rapid productivity growth brought "middle class" living standards to North American workers and their families (Levy, 1988). An active veteran's administration provided housing programmes, educational allowances and a plethora of other social benefits for a generation returning from war (Amenta and Skocpol, 1988:108). Despite a weak welfare state, unionized and public sector workers won increasingly generous pension, health care and other income security provisions at the bargaining table (Stevens, 1988).

Since the 1970s, all this has changed. By the end of the 1980s North America, and especially the United States, had consolidated its reputation as the "land of inequality". Wage and earnings levels have been stagnant since the 1970s. Workers in the lowest earnings decile in Canada and the United States earn about 40 per cent of median earnings compared to 70 per cent or more in Germany and Scandinavia (see table 1). Labour market incomes have polarized, expanding the ranks of the "working poor".[1]

[1] For the United States, see Levy and Murnane, 1992; for Canada, see Morissette, Myles and Picot, 1994.

Table 1
Earnings inequality (c. 1990), selected countries
(Ratio of lower and upper earnings deciles to the median)

	Canada	United States	Germany	France	Sweden	Norway
D1/D5	.42	.40	.71	.65	.74	.76
D9/D5	1.85	2.22	1.64	1.96	1.54	1.50
Average 5-year change in the 1980s						
D1/D5	-.01	-.03	.03	.01	-.02	.02
D9/D5	.03	.03	.01	.02	.00	.02

Source: OECD, 1993 (table 5.2)

In the United States, "market failure" has resulted in real declines in aggregate social welfare. Family incomes have become more unequal and child poverty has returned to 1965 levels, the year Lyndon Johnson declared America's "War on Poverty". Between 1973 and 1987, the income of the poorest 20 per cent of families fell by 22 per cent while that of the richest 20 per cent increased by 25 per cent (Gottschalk and Danziger, 1993:167).

To date, rising labour market inequality in Canada has been offset by social transfers (Economic Council of Canada, 1991). The final distribution of family incomes and child poverty has scarcely changed since the 1970s (Love and Poulin, 1991; Myles and Picot, 1995). Nevertheless "market failure" has meant a sharp rise in demand for transfers and added to the growth of a public sector debt that is now well above the OECD average (OECD, 1994a:43).

Paradoxically, however, the very weakness of North American labour market institutions and welfare states is now regarded as the reason for the comparative success of both national economies at generating jobs and restraining the growth of long-term unemployment (OECD, 1994b). The low levels of North American labour market regulation, payroll taxes and social benefits are now held out as models of labour market "flexibility" to be emulated by the high-unemployment European economies. As the OECD (1994b:35) remarks, allowing wage differentials to widen could be expected to increase employment growth and North America appears to provide evidence that it does.[2]

But widening wage differentials create a new set of dilemmas for welfare states, not unlike those created by high unemployment. As Keynes and Beveridge recognized, the foundations of "social welfare" in capitalist economies lie in the labour market. For them, full employment, not generous welfare states, provided the key to economic well-being. Full employment meant low demand for social transfers and a large tax base to finance generous social programmes for the aged, the sick and the minority of persons without jobs. Generous welfare states were possible only so long as most people found their "welfare" in the market most of the time.

[2] Although Canadian unemployment levels approach European levels, this is due to high levels of labour force participation, not to stagnant job growth.

Widening wage differentials create a similar problem. The ranks of the "working poor" expand, demand for social transfers rises and government revenues decline, since low wage earners pay few taxes.

In the post-Cold War era, Western nations appear to be caught in the dilemma of choosing between "two ways" again, with no "third way" in sight. The "high wage-low employment" model of Continental Europe limits the growth of an American-style "underclass" but at the price of creating an "insider-outsider" problem between those with and without jobs. The "low wage-high employment" strategy of the United States has sustained employment growth but at the price of levels of inequality and poverty considered widely unacceptable by post-war standards.

Canada provides a counterpoint to the American model in much the same way that Scandinavian countries provide a counterpoint to Continental Europe. During the 1980s, Scandinavia, and especially Sweden, avoided the European disease of low employment levels by a massive programme of public employment that now appears to have reached its limits. Thus far Canada has avoided the American disease of rising poverty and inequality largely via social transfers. By the 1990s, however, a large public debt, among the highest in the OECD area, was forcing cutbacks and a massive restructuring of social programmes along American lines (Battle and Torjman, 1995).[3]

Post-war social programmes were designed around three basic models: (i) a "residual" **social assistance** model of means-tested benefits for the "poor" inherited from the pre-war era; (ii) the "industrial achievement" model of **social insurance** based on labour market performance; and (iii) a "citizenship" model of **universal social benefits**. The United States relied almost exclusively on the first two models, providing social insurance for those not expected to work (the elderly and the disabled) and residual means-tested programmes for the working age population. Canada adopted a mixture of all three, including universal health care, family allowances and old age security as citizenship entitlements.

In the social policy debates of the 1990s, all three designs have been challenged. Traditional social assistance programmes are seen as "welfare traps" that discourage labour market entry and higher incomes for the poor. Social insurance programmes, intended to provide security to middle income workers, are attacked for "wasting" scarce transfer dollars or as "out of control" because of the demographic pressures of population ageing. Canada has abandoned the citizenship design entirely as a model for income transfers. Only in the field of health care is the citizenship strategy unquestioned, for reasons of both political popularity and the cost advantages of national health insurance over the American private insurance model.

[3] The 1994 Canadian federal budget made substantial cuts in unemployment insurance benefits. The 1995 budget brought sharp reductions in federal transfers to the provinces for health, education and social assistance. Further reforms in old age security and unemployment insurance are anticipated in 1996.

Two broad social policy responses have been proposed to adapt to the negative effects of the low wage-high employment strategy. **Social investments** in education, job training and other active labour market initiatives are proposed to hasten labour market re-entry and mobility up wage ladders. **Selective wage and income subsidies** modelled on the lines of a negative income tax (NIT) are seen as way of "modernizing" traditional social assistance that will maintain work incentives and avoid "welfare traps".

The aim of this paper is to describe the origins and possible outcomes of the dilemma in North America. Part I describes the existing structure of North American welfare institutions. In part II, the political dynamics that shape social politics in Canada and the United States are described. In part III, I consider alternative strategies now under discussion to accommodate to the "market failures" of the past two decades. The paper concludes on a pessimistic note for two reasons. The first is the "fiscal deficit" facing Canada and the United States and the limits this imposes on state capacities to invest in significant social experimentation. More important, however, both societies confront a "democratic deficit" that limits the representation of those most affected by economic restructuring in the political process. In the present context, the "third way" implies the capacity to identify and implement positive-sum solutions to new forms of economic security. The democratic deficit makes this unlikely.

PART I: NORTH AMERICAN WELFARE STATES

The United States emerged from the Second World War with the basic building blocks of its current welfare state already in place, a product of Roosevelt's New Deal. It included social insurance for the elderly, unemployment insurance, and a social assistance programme (AFDC) aimed at widowed and divorced mothers with children. The disabled were added to the Social Security system in 1955. Canada passed unemployment insurance legislation in 1940, introduced universal Family Allowances in 1944, and in 1951 passed the Old Age Security Act that provided $40[4] a month to all citizens age 70 and over.

During the long post-war boom from the 1940s to the 1970s, however, the market was the main source of welfare and security for North American workers. And the market succeeded in at least three ways. First, the quarter-century that followed the Second World War brought constantly **rising real living standards**, stemming from rapidly increasing productivity. Structurally generated "upward mobility" — between generations and over the life course — took place at unprecedented levels. As Levy (1988:78-82)

[4] All amounts refer to the relevant national currency.

shows for the United States,[5] a young man who left home at age 18 in the 1950s would, by age 30, be earning about 15 per cent more than his father had earned when the young man was living at home. In the 1950s a man who made the transition from age 40 to 50 would, on average, have realized a 34 per cent increase in real income.

Second, unlike the 1980s, the labour market brought more, not less, equality. The "Great Compression", as it has been called (Goldin and Margo, 1992), brought a marked decline in wage inequality during the 1940s and 1950s, the result of war-time wage controls, an increased demand for unskilled labour and a comparatively strong labour movement.

Third, the market became a source of **income security**. Following the Second World War, American unions, frustrated by the refusal of Congress to establish national health insurance and to extend Social Security, began pressing — successfully — for private sector social benefits (Stevens, 1988).[6] The federal government encouraged these efforts. In 1948 the National Labor Relations Board (NLRB) ruled that employers were required to bargain over pensions. The effects spilled across the border to Canada where large numbers of industrial workers were employed by American firms, were organized by affiliates of American unions, and were therefore eligible for the same benefits.[7]

By the 1960s, some of the flaws in this market-driven model were already apparent. Some groups (the elderly) and regions (Appalachia, the Maritime provinces) had missed the rising tide of post-war prosperity. Private social benefits won at the bargaining table had divided the labour market into a "core" of high wage workers with generous social benefits and a "secondary" labour market with low wages and limited security. The result was a flurry of social policy reform in both nations. In 1965 President Johnson proclaimed his "Great Society" and a "War on Poverty". Not to be out-visioned, Canada's Pierre Trudeau announced his agenda for the "Just Society".

The War on Poverty, however, did not depart from the basic market-driven model of social welfare of post-war America. As Rebecca Blank (1994) points out, **The Economic Report of the President** (1964) which laid out the intellectual foundations for the War on Poverty placed its emphasis on economic self-sufficiency. James Tobin, a co-author of the **Report** observes that the War on Poverty relied mainly on the "market magic of general prosperity and growth" to solve the poverty problem (1994:147). Employment, not transfers, would provide the solution. Government

[5] For Canadian evidence, see Myles, Picot and Wannell, 1993.

[6] As Stevens (1988:141) notes, 55 per cent of the strikes in 1949 in United States industry and 70 per cent of the strikes in 1950 were over health and welfare issues in labour contracts.

[7] Ironically, during this period at least, economic integration spurred the development of the public sector as well. American industrialists pressed Ottawa to pass the Old Age Security Act of 1951 (Murphy, 1982). In the absence of this "first tier" in the Canadian pension system, firms would have been required to pay the full cost of the pensions then being negotiated at the bargaining table.

initiatives took the form of programmes to improve the earnings opportunities for individuals — Head Start, education grants, job training, public health, community action programmes — not more income transfers or public services. Improved schooling and job opportunities augmented by civil rights legislation to remove barriers to employment and housing would create what Jill Quadagno (1994) has called the "equal opportunity welfare state".

The exception to the rule was social provision for the elderly. The Medicare Act of 1965 made public health insurance available to those 65 and over. Between 1969 and 1972, Social Security benefits for the elderly were raised three times resulting in a net increase of 23 per cent and benefits were indexed against inflation.

Canada, in contrast, pursued a "transfer-intensive" model of social reform. The brief period between 1965 and 1971 (Guest, 1985) brought universal health insurance, and major reforms to social assistance and unemployment insurance. Sickness insurance was added to the UI programme. Two new programmes for the elderly were created: the earnings-related Canada and Quebec Pension Plans (C/QPP) and the Guaranteed Income Supplement (GIS). As the following two decades were to show, the transfer model proved the more successful of the two strategies. Poverty among the elderly declined significantly in both countries. And in the 1980s, Canadian transfer programmes offset rising inequality in the labour market. Universal health coverage in Canada not only provided more equal access to health care but also proved more effective at containing exploding health care costs (Evans, Barer and Hertzman, 1991).

◆ The Design of Liberal Welfare States

It is by now almost academic convention to classify the welfare state régimes of Australia, Canada, the United States and the United Kingdom among the so-called "liberal" welfare states (Esping-Andersen, 1990).

Table 2
Means-testing, private welfare and social spending

	Canada	United States	18 OECD countries (average)
1. Means-tested benefits as % of social expenditure[a]	16	18	6
2. Private insurance[a]			
Private pensions as % of total pensions	38	21	13
Private health spending as % of total	26	57	22
3. Social expenditure as % of GDP			
OECD estimate (1986)	22	18	25
ILO estimate (1985)	16	12	19

[a]Source: Esping-Andersen, 1990 (table 3.1)

Richard Titmuss's classical distinction between "residual" and "institutional" welfare comes close to what is conventionally understood by liberal social policy: public intervention occurs only after the two traditional sources of support — family and market — break down. Assistance tends to be minimal — intended to be short term — and is often punitive and stigmatizing in nature. The empirical basis for the North American countries' reputation as liberal welfare states is highlighted in table 2. Compared with European countries, both nations have continued to rely on more intensive use of means-tested (residual) forms of welfare, on the one hand, and private, market-based, insurance, on the other. Greater reliance on means-testing and private insurance means a smaller share of national income flows through the public purse and aggregate social spending is smaller as a result.

In the United States, means-tested assistance for the non-elderly is provided in the form of cash payments — Aid to Families with Dependent Children (AFDC) — Food Stamps, and medical insurance (Medicaid). Traditionally, AFDC was restricted to single-parent families. In the 1960s, states were allowed to add a programme for unemployed fathers to AFDC and about half did so. Since 1990 states have been required to provide coverage to two-parent households when the principal wage-earner is unemployed, but only for six months in any year (Banting, 1992a).

Table 3
Social assistance for the non-elderly
(Figures expressed in national currencies)

	Canada	United States
1. Maximum monthly social assistance benefit (1987)[a]		
Single individual	$266	NA
Single parent + 2 children	$627	$384
2. Weighted annual average total public assistance for a family of 4 (1990)[b]	$14,932	$8,684
3. Poverty rate and poverty gap, single parent family with 2 children (1986-87)[a]		
Poverty rate (US definition)	26	41
Poverty gap	$2,519	$4,172

[a]Source: Blank and Hanratty, 1993
[b]Source: Banting, 1992a

The primary means-tested assistance programme in Canada is Social Assistance. Unlike the American system, single persons and childless couples are included and benefit levels are considerably higher than in the United States (see table 3). As a result, poverty rates among welfare-dependent households are lower than in the United States and the "poverty gap" — the difference between current income and the poverty line — is smaller.

The United States has experimented modestly and Canada extensively with a modern variant of means-testing (Banting, 1992a). Traditional means-

testing is based on a test of assets as well as income requiring families to "spend down" their resources to qualify. Beneficiaries are often subject to intrusive surveillance by public officials and moral codes of behaviour. And there is often considerable administrative discretion in deciding eligibility and benefit levels. In the modern variant, criteria other than income are not considered. Eligibility is determined solely by an income test based on income reported in an annual tax return. There is no surveillance of beneficiaries and administrative discretion is limited to that normally associated with auditing of tax returns.

The implicit model underlying liberalism's modern face is the Negative Income Tax (NIT) or Guaranteed Income (GI) initially proposed in 1943 by Milton Friedman, who was then United States Treasury Department economist (Moynihan, 1973:50). Under an NIT model, low-income people are entitled to their pre-tax income as well as a government income supplement.

The most significant exemplar of this design is Canada's Guaranteed Income Supplement (GIS) for the elderly, introduced in 1966. GIS provides single persons with a guaranteed income equal to 54 per cent of the median for single households and couples with 59 per cent (see table 4). The United States relies on a traditional means-test for the elderly (Supplemental Security Income). With Food Stamps, SSI provides a couple with 37 per cent and single persons with 34 per cent of median household income. The result is an elderly poverty rate of less than 7 per cent in Canada compared to 22 per cent in the United States, according to data provided in the Luxembourg Income Survey.

Table 4
Old age minimum benefits and poverty levels among the elderly

	Canada (1987)	United States (1986)	12 OECD countries (average, 1984-1987)
1. Minimum benefit as % of median income			
Single person	54	34	52
Couple	59	37	59
2. % 65+ with less than 50% of median income	6.8	22.4	6.4

Source: Smeeding, Torrey and Rainwater, 1993

In 1979, Canada began reforming its family programmes along NIT lines with the introduction of a refundable Child Tax Credit. By 1993 the Family Allowance and child tax exemptions had been rolled into a single Child Tax Benefit (CTB) that provides a refundable tax credit to all low-income families with children. Benefits go to both the working and non-working poor and rise proportionately with the number of children. In 1993, the CTB provided $1020 per child with additional supplements for children under seven and for large families. A small "earned income" supplement (up to $500 per family) is provided to "working poor" families.

The United States has taken much more modest steps in modernizing its means-tested programmes. After the failure of Richard Nixon's Family Assistance Plan (FAP), which aimed to provide a guaranteed annual income for all American families, the United States implemented the more modest Earned Income Tax Credit (EITC) for the "working poor" in the early 1970s. EITC excludes the "non-working poor" (such as welfare mothers) and makes only small adjustments beyond the first child. In 1991, the maximum credit was $1192 for the first child and only $1235 for families with more children. Nevertheless social policy in the United States gives some indication of following the Canadian trajectory. The annual cost of the once modest EITC grew from $2 billion to $12 billion between 1980 and 1992. And President Clinton's 1993 budget introduced increases to EITC that will gradually raise total EITC expenditures by $20 billion over five years while cutting billions from "middle class" programmes such as Medicare.

NIT-like programmes draw broad support from the business community as an alternative to both social benefits for middle income workers and minimum wage laws (Haddow, 1993; Quadagno, 1994). Because the marginal tax-back rate on such programmes is low, policy analysts view them as an alternative to the "welfare traps" created by traditional social assistance programmes. Since they are administered through the tax system, they are less visible and easier to legislate than traditional social programmes. For beneficiaries, they carry none of the stigma or social control associated with traditional means-testing.

Organized labour is more ambivalent, since NIT programmes also subsidize and encourage low-wage employers and threaten to become substitutes for minimum wage laws and traditional social insurance programmes (Haddow, 1993; Myles 1988). Under an NIT design, the role of the welfare state changes: instead of providing income security (social insurance) for average workers, its task is to provide wage subsidies to a growing pool of low-wage and underemployed workers.

Nevertheless, because of the unusual political coalitions they create and the potential "solutions" they offer to high social insurance costs (as well as the growth of low-wage employment, and concern about the "welfare traps" of traditional social assistance), NIT-like designs have a strong possibility of becoming the model of choice for future welfare reforms. In Canada, income-tested supplements have replaced universal citizenship entitlements in the field of income security (Banting, 1992a). And advocates of income-testing are proposing that social insurance programmes be revised along NIT lines in both Canada (Courchene, 1994) and the United States (Peterson, 1993).

◆ Social Insurance

Canada and the United States have followed the **social insurance** model — earnings-related income security — in two main areas: old age security and unemployment. The elderly in both Canada and the United States rely on public pensions — the Canada and Quebec Pension Plans and Old Age

Security in Canada, and Old Age Security Income (OASI) in the United States — for most of their income. Until the 1970s, income replacement rates for "average" workers (see table 5, panel I) were quite low in both countries. The exception was the traditional single-earner couple in the United States that benefits from a 50 per cent supplement for a dependent spouse. Both systems were "modernized" as a result of legislative changes in the mid-1960s in Canada and the early 1970s in the United States. Replacement rates rose through the 1970s and for average workers were quite similar in the two countries by the end of the 1980s (see table 5, panel II). As noted above, however, the two countries diverge sharply in their treatment of low-income seniors.

Table 5
Old age security

I. Pension replacement rates for workers with average wages in manufacturing 1969-80[a]			
	Canada	United States	12 OECD countries (average)
1. Single Worker			
1969	24	30	40
1980	34	44	49
2. Aged Couple			
1969	41	49	50
1980	49	66	61
II. Pension replacement rate for low, average and high earners, 1989[b]			
	Low earnings	Average earnings	High earnings
United States	58	42	24
Canada			
Without GIS	61	45	22
With GIS	87	51	NA

[a]Source: Aldrich, 1982
[b]Source: Banting, 1992a

Despite the importance of social insurance in the income packages of the elderly, the "liberal" character of North American welfare states remains evident in more extensive reliance on private pensions and property income. In Canada and the United States, public transfers account for about 60 per cent of the income of the population over 65 compared to 70 to 85 per cent in the European and Nordic countries (Smeeding, Torrey and Rainwater, 1993:8). As Smeeding, Torrey and Rainwater show, the result is greater income inequality among the elderly (see also Korpi and Palme, 1994).

Unemployment insurance in the United States is entirely state run, and benefits and eligibility criteria differ widely among states. Summary statistics for the United States in table 6 are state weighted averages. Before the Canadian reforms of 1971, Canadian benefits were below the levels in the United States. Because of the reforms, Canadian benefit levels, benefit duration and average replacement ratios are now well above those of the United States (see table 6). Unlike the United States, Canada's unemployment insurance system also provides sickness, parental and maternity benefits. Because of high unemployment, a high rate of labour

force participation and more generous benefit and eligibility conditions, Canada spends a larger share of GDP on unemployment compensation than the OECD average (see table 7). The United States, in contrast, spends decidedly less.

Table 6
Unemployment insurance

	Canada	United States
1. Ratio of average weekly UI benefit to average weekly earnings		
1968	.24	.34
1989	.44	.35
2. Maximum weekly benefit (1991)	$396	$186
3. Maximum benefit duration (weeks)	50	26
4. Average duration of UI claims (weeks) (1989)	18.1	13.2
5. Ratio of average weekly UI recipients to average weekly unemployment rate (1989)	.99	.27

Source: Card and Riddell, 1993

Table 7
Public expenditures on labour market programmes as a percentage of GDP, 1990-1991

	Canada	United States	18 OECD countries (average)
Total	2.46	0.76	2.37
"Active measures"	0.54	0.27	0.81
Income maintenance	1.92	0.50	1.52

Source: OECD, 1993 (table 2.B.1)

◆ Citizenship Entitlements

The model of citizenship entitlements — benefits that accrue to individuals independently of need or labour force participation — is quite foreign to the American social policy tradition. The closest approximation is Medicare which, despite being insurance-based, provides health insurance coverage for 99 per cent of the population over 65. In contrast, Canada established a universal programme of Family Allowances in 1944 and universal Old Age Security benefits in 1951. Both provided a monthly flat benefit payment (or "demogrant") to all citizens irrespective of need or contributions. Universal insurance to cover hospital fees was established in 1957 and was extended to include physician fees and related services in 1966.

Canada abandoned the tradition of "demogrants" in 1988 with the creation of an income-tested "clawback" of Family Allowances and Old Age Security from high income earners.[8] In 1993, Family Allowances were folded into the income tested Child Tax Benefit. Because the income level at which the "clawback" of Old Age Security takes effect is only indexed to

[8] With the clawback, individuals continue to receive a monthly benefit, but a rising share of this benefit is recaptured through the income tax system, as income rises.

inflation above 3 per cent, it will gradually work its way down the income scale eliminating all but low-income seniors. National Health Insurance, however, has thus far remained politically inviolable for reasons of both its political popularity and the obvious advantage it provides in containing health care costs compared with the United States.

◆ Welfare State Effectiveness

The consequences of Canada's more comprehensive and transfer-intensive welfare state became apparent in the 1980s. During the 1980s, the United States became the paradigmatic case of the "new inequality". Wages and earnings distributions polarized and the American "middle class" declined as a share of the population. High divorce rates and out-of-wedlock births exposed more children and adults to the threat of poverty, as dual-earner households became the standard for maintaining a middle class life style. In theory, an "effective" welfare state would offset these developments. In practice, AFDC and UI programmes have eroded in value since the 1970s, exacerbating the trend toward greater inequality. The most notable result has been a sharp rise in child poverty from approximately 15 to over 21 per cent between 1979 and 1990 (Hanratty and Blank, 1992).

Despite similar labour market trends, Canadian households experienced little change in the distribution of economic well-being during the 1980s (Love and Poulin, 1991; Blackburn and Bloom, 1993) for two reasons. First, hourly wage inequality grew much less than in the United States, largely because of labour market institutions — stronger unions and minimum wage levels (DiNardo and Lemieux, 1994). However, inequality in annual earnings did rise sharply in Canada because of growing inequality in the distribution of working time (Morissette, Myles and Picot, 1994). For example, real annual earnings of men in the bottom quintile fell by 16 per cent between 1973 and 1989, while men in the upper quintile saw their earnings rise by 8 per cent.

Changes in the distribution of annual earnings were nevertheless largely offset by the tax-transfer system. Growing divergence between Canada and the United States in patterns of family support was especially strong. Hanratty and Blank (1992) estimate that in 1979 Canadian social assistance and child benefits provided an average combined benefit that was 14 per cent more generous than the comparable combination in the United States. By 1986, the gap had grown to 42 per cent. Between 1970 and 1986 the Canadian poverty rate (measured by United States standards) moved from 6.9 points above the United States level to 4.5 points below it.

OECD (1994c) data on public expenditures for social protection also show that Canadian transfers were more responsive to the new circumstances of the 1980s. Between 1980 and 1990, Canada moved sharply upward in social protection expenditures, converging on the OECD average (see table 8). More significantly, income transfers to the non-aged rose to the OECD average. In the United States the share of transfers to the non-aged actually **declined** as a percentage of GDP, a result of the declining relative value of two of the major programmes available to non-elderly Americans — AFDC

and unemployment insurance. Between 1972 and 1990, median adjusted AFDC benefits for a family of four declined from $761 per month to $435 per month (Blank, 1994:179). UI recipients as a percentage of the unemployed peaked at 52 per cent in 1975 and then declined to 29 per cent in 1990 (Card and Riddell, 1993:180).

Table 8
Public expenditures on social protection as a percentage of GDP

	Canada	United States	European Community	Other OECD
1. Total				
1980	14.37	14.10	21.60	18.20
1990	18.79	14.58	21.69	21.15
2. Non-Aged				
1980	5.73	4.47	7.23	6.04
1990	7.58	3.54	7.46	7.60

Source: OECD, 1994c (tables 1b and 1c)

PART II: EXPLAINING THE DIFFERENCE: SOCIAL CLEAVAGES IN FEDERAL STATES

Canada and the United States represent two alternative responses to the economic restructuring and new macro-economic environment of the 1980s. In the United States, modest programmes of social protection for the non-elderly followed the downward drift in wages and earnings at the low end of the labour market. The exception has been some growth in wage subsidies for the working poor provided by the Earned Income Tax Credit. Overall, however, transfers to the non-elderly have declined as a share of GDP and family income inequality has risen. The result is a general decline in aggregate social welfare despite strong employment growth.

This outcome is more a by-product of the welfare state design of the 1960s than of a neo-conservative revolution in American social policy in the 1980s. The 1960s and early 1970s consolidated a design rooted in the New Deal: national social insurance for the elderly and a decentralized, largely means-tested, system of social protection for the working age population. The United States Social Security Act of 1935 and subsequent legislation left powers over eligibility and benefit levels in crucial areas such as unemployment insurance and AFDC in the hands of the states. The result has been **fiscal competition** among jurisdictions that puts downward pressure on social spending (Marmor, Mashaw and Harvey, 1990; Pierson, 1994:35), a pattern evident in the decline in AFDC and unemployment benefits since the 1970s.

Fiscal federalism, rather than fiscal competition, became the foundation for welfare state construction in post-war Canada. During the 1930s, the inability of poorer provinces and municipalities to meet the relief burden of

the Great Depression set in motion a process of "massive centralization" of responsibility for income security in Canada (Banting, 1987:63). The result was a common set of national standards in key areas of social policy — such as unemployment insurance, child benefits and old age security — that produced large interregional transfers from richer to poorer regions. In the 1960s, the redistributive impact of national standards in social spending was complemented by a complex mix of direct federal-provincial equalization payments.

The decentralized character and anti-transfer bias of American social programmes are tied to the fundamental cleavage that continues to shape the politics of social policy in the United States, namely race (Piven and Cloward, 1994; Skocpol, 1988; Quadagno, 1988; 1994). The New Deal politics of the 1930s was driven and constrained by an unusual coalition inside the Democratic Party that included both northern labour and a southern planter-merchant oligarchy struggling to preserve a pre-industrial plantation economy based on indentured black labour. As Jill Quadagno (1988) has shown, control over key Congressional committees allowed the Southern wing of the Democratic Party to exclude southern blacks from the New Deal in the name of "state rights". Eligibility criteria and benefit levels for Old Age Assistance, Unemployment Insurance, and Aid to Families with Dependent Children were left to the discretion of the states since programmes that created national standards would have undermined the southern economy. Agricultural workers were excluded from Old Age Insurance since even the meagre sum of $15 a month would provide more cash than a cropper family might see in a year.

During the 1960s, both labour market policy (Weir, 1992) and the development of new social programmes (Quadagno, 1994) collided with and were deflected by the struggle for civil rights by African Americans. The mass migration of southern blacks to urban America because of the mechanization of southern agriculture brought them into direct competition with white urban workers for jobs and housing. The urban riots of the 1960s and subsequent racialization of President Johnson's War on Poverty created a white backlash and the defection of the white working class from the New Deal coalition. Labour market programmes focused on the fringes of the labour market (the urban and especially the black "poor"), had little impact on the private economy, and did little to win enduring political support as a strategy to achieve broad economic goals (Weir, 1992:62). As Quadagno (1994:197) concludes: "Rather than responding to the need for jobs, housing and social services that the black migration brought to the urban centres, the nation turned its back on the cities".

Efforts to expand the transfer side of the welfare state stumbled on similar grounds. As Quadagno shows, in the 1970s major opposition to the Family Assistance Plan (FAP) came from Southern Democrats where FAP would have revolutionized the local economy. According to estimates of the United States Department of Health, Education and Welfare, beneficiaries under FAP would increase the "welfare rolls" in New York by 30-50 per cent, but in the low-wage South by 250 to 400 per cent. More importantly, as Quadagno points out (1994:184), FAP would triple the median wage of

Southern farm workers, totally undermining local labour markets. In the final vote in the House, 79 of the 155 negative votes came from the 11 Deep South states.

The Reagan administration built on this fault line in American politics to achieve electoral victory and to pursue its politics of retrenchment. During the Reagan era the very word "welfare" became virtually synonymous with single black American mothers and their children.

The politics of region and ethnic division created a different dynamic in Canadian federalism. Regional cleavages in Canada have been formed along three main divisions: (i) an industrialized core in central Canada overlapped by the French (Quebec)-English (Ontario) cleavage; (ii) a Western economy based in agriculture and resource extraction where primary producers were compelled by a protectionist economic policy to purchase expensive inputs and consumer goods from the core; and (iii) an economically underdeveloped region in the East.

Creating a nation out of a country of "regions" and "two founding peoples" has always been the major challenge for Canadian political élites. And since the 1920s,[9] the welfare state has been the "pot of glue" to which these élites have turned to hold the country together, even when party ideology has dictated otherwise.[10] As Banting observes (1992b):

> The welfare state is a central component of the politics of national integration on a territorial — as distinct from a class — basis....Federal welfare programmes, whether delivered directly to individuals or through provincial governments, are powerful tools of inter-regional redistribution. They represent one of the few ways in which the federal government can fashion appeals that cut across linguistic and regional divisions. As a result social policy reinforces the political legitimacy of a federal state that is under constant pressure from powerful centrifugal forces.

Universal programmes produced inter-regional transfers that created demand for goods produced in central Canada, reflecting the protectionist strategy that was Canada's main response to the Great Depression (Turegun,

[9] Until the 1920s, as Smith (1989) observes, patronage rather than the welfare state was the main instrument used by prime ministers "to create and hold constituency loyalties". For the role of patronage in shaping the American welfare state, see Orloff, 1988.

[10] This paradox was most evident during the Conservative régime of John Diefenbaker during the late 1950s and early 1960s. Diefenbaker's pan-Canadianism led to the national development policy, the extension of hospital insurance and the Royal Commission on Health Services which resulted in the adoption of National Health Insurance when the Liberals returned to power Smith, 1989:138-141). The paradox became more apparent during the free trade election of 1988 when the Mulroney Conservatives were compelled to articulate a most un-conservative commitment to Canada's welfare state institutions to show they were not selling out Canadian identity.

1994). As a result, Jenson (1990) observes, Canada emerged from the war with a centralized system for income security — but one constructed around a "politics of place" rather than a "politics of class". Whereas the Beveridge reforms in the United Kingdom were presented as a strategy to break down traditional divisions of class, Canadian reforms were "justified as a means of eliminating inter-regional disparities in benefits..." (Jenson, 1990:664). Post-war social reconstruction meant reconstructing the **nation**, providing all **Canadians** with common social rights irrespective of their geographical, not social, place in the Canadian mosaic.

Until the 1960s, Quebec played a role in Canada similar to that of the American South in the United States, blocking social legislation that threatened to impinge on provincial sovereignty and the dominant place of the Catholic Church in the provision of social services. Quebec's "quiet revolution" in the 1960s, however, brought to power a secularizing élite with a strong *étatiste* orientation (Banting, 1992a). During the critical period of the 1960s, French-Canadian élites played a major role in expanding both the quantity and quality of public programmes.

During the 1960s, fiscal federalism acquired an institutional form in which economic and social strategies were worked out through federal-provincial negotiations. As a political régime, this represented a departure from a pure liberal model of politics in which only individuals are represented. Like the corporatist models in which collectivities are represented on a functional basis (labour, capital), the federal-provincial model gave collective representation to collectivities (e.g. French Canada, poorer provinces) on a territorial basis. Throughout the 1980s, "fiscal federalism" put a hard upper limit on the extent to which conservative-minded "reformers" in Ottawa could cut back on social commitments. As Banting (1992b) points out, the most important and effective opponents of retrenchment in Unemployment Insurance are provincial premiers, not organized labour.

The disadvantaged in the United States have no comparable institutional mechanism by which their interests are represented in the political process. As individuals, the "poor" do not vote in American elections (Piven and Cloward, 1988) and gain attention only through periodic outbursts of violence and social unrest (Piven and Cloward, 1994).

PART III: WELFARE STATE POLITICS IN THE 1990s

We can summarize our survey of recent trends in North American welfare states in terms of the three alternative models of distribution noted earlier.

Citizenship entitlements have always been weak in the United States and, except for health care, have been abandoned in Canada.

Social insurance programmes, notably old age security and unemployment insurance, have been modified both as a cost-saving measure (old age security) and to maintain work incentives in a low-wage economy (unemployment insurance). Canadian UI transfers remain high by international standards but are now targeted for reduction (Government of Canada, 1994).

Traditional **social assistance** models based on means-testing for the poor are also under attack. In the United States, the rejection of traditional social assistance such as AFDC has moralistic and racial origins (see below). But both liberals and conservatives agree that traditional social assistance with strict means-testing creates "welfare traps" that discourage work effort and do little to help the poor.

The main challenge to contemporary welfare states is to address the new life-cycle distribution of economic risk that has resulted from economic restructuring and new family forms. Concretely, this means addressing the new economic insecurities and risks faced by working age families — because of a rapidly changing labour market, high divorce rates and single parenthood — while simultaneously sustaining post-war social insurance programmes that now support a rapidly expanding elderly population.

The North American variant of this challenge is shaped by an economic régime in which employment is maximized by allowing wages to be set at market-clearing levels. In practice, this has been achieved by allowing wages and earnings at the bottom of the market to decline in both real and relative terms. The upshot is that the US strategy of relying on economic expansion and employment growth to provide "welfare" no longer suffices. Job growth constrains the expansion of the "welfare poor" but only by expanding the ranks of the "working poor". Low-wage jobs also reinforce "welfare traps" and work disincentives unless benefit levels follow the downward drift in wage levels, as they have in the United States

Proposals to "adjust" social programmes to accommodate a low-wage economy are of several types.

"Workfare": One approach to increasing work effort among the poor is to increase the share of total income from earnings even if this results in a dollar for dollar replacement of transfer income with work income (Blank, 1994:169). Hence, except for those obviously unable to work (the disabled), all those unable to support themselves should be **required** to provide labour in return for public support. "Welfare traps" are eliminated through coercion. The purpose is not to enhance "welfare" but to enforce moral and cultural standards of behaviour on the poor.[11]

[11] There has been a clear shift in the normative order since the 1960s when "good" mothers were expected to be in the home and "working mothers" were thought to be a source of youth delinquency. The dramatic rise in women's labour force participation has altered expectations, so that now even single mothers are expected to be employed.

Wage Subsidies: If high employment now depends on accepting a large number of low-wage jobs, one response is to redesign social transfers along the lines of a Negative Income Tax for the "working poor". The exemplar is EITC, an income-tested programme that subsidizes low earnings of "working poor" families with children. The implicit model is a negative income tax for families that satisfy two conditions: **employment** and the **care of children.**[12]

Income Subsidies: Canada's Child Tax Benefit removes the employment condition and provides income subsidies for all low-income households with children present. Child-based income subsidies designed along NIT lines address not only the spread of low-wage employment but also the growth of single-parent families.

Social Investment: Proposals to shift social expenditures from "passive", social insurance, models to "active" labour market programmes that provide job training and job search assistance to those affected by structural unemployment are now commonplace. Unlike social transfers that can leak out of the economy to purchase imports, social investment in human capital remains at home, and can raise labour productivity and the earnings potential of workers. Social investments in active labour market policies are proposed to ensure early exit from non-employment (social assistance), unemployment and low-wage employment.

For the working age population, the wage and income **subsidy** route to stabilizing income quickly reaches its upper limits for both cost and work incentive reasons. All NIT models (including EITC in the United States and Canada's CTB) are defined by three parameters: the guarantee level (the maximum benefit), the tax-back rate (the rate at which benefits are reduced as earnings rise); and the break-even-point (the income level at which benefits disappear). A high guarantee level is desirable to ensure adequate incomes and a low tax-back rate is desirable to encourage people to work. But a high guarantee level combined with a low tax-back rate means the break-even point is very high and so are the costs. Consequently, most NIT-type proposals for the working-age population provide a low tax-back rate (to maintain work incentives) but also a low guarantee level (to contain costs).

Employers favour NIT models as an alternative to minimum wages. However, wage subsidies can also become a perverse industrial strategy to the extent that they subsidize the labour costs of low-wage employers, hence encouraging the expansion of low-wage employment.

Social investment in education, job training and other active labour market policies is now widely hailed as a major cure for non-employment, unemployment, and low wages. Rather than insist that the welfare state redistribute income to achieve "point-in-time" equality, the aim of the social investment strategy is to maximize opportunities to achieve life-time

[12] Single persons with low earnings are also eligible for EITC, but the benefit is extremely modest.

equality. Enthusiasm for this strategy is reinforced by the growing wage gap between well educated and poorly educated workers in the United States and the growing unemployment gap between the well educated and poorly educated in both countries. Enthusiasm is muted, however, by the potentially high cost of such investments in countries that have invested little in active labour market programmes in the past (see table 7) and by the ambiguous results of previous experiments (Blank, 1994). The assumption behind the social investment strategy is that supply will create its own demand: putting more highly skilled workers on the market will produce more highly skilled jobs. Those who consider the problems of wages and employment to be largely determined by the demand side (Nakamura and Lawrence, 1993) are skeptical about the possibility that supply side strategies **by themselves** will provide a solution. Juhn and Murphy (1995), for example, find that there has been no change in the overall rate of growth in demand for skill in the United States since the 1940s. What has changed is the concentration of demand at the very highest skill levels, a demand that is unlikely to be met through upgrading of the large mass occupations.

The enthusiasms of policy analysts, however, do not by themselves create policies. The main obstacles to moving toward a more active version of liberal interventionism — to shift toward a system of social investments and wage subsidies — are political. Decentralized and fragmented power in the United States makes significant policy changes difficult. Low-wage workers and minorities are not effectively represented in the political process. As a result, anti-poverty policies "are less a matter of demands poor people make in the political process and more a function of what other people decide to do to and for them" (Heclo, 1994:397). The politics of race continues to divide the natural constituencies for a more activist role by government.

In Canada, increasing economic integration with the United States is shifting the East-West axis of economic activity that sustained the politics of "fiscal federalism" in the past. As north-south trade flows expand, the enthusiasm for interregional equity among the richer provinces declines (Courchene, 1994). High government debt has led to off-loading of social expenditures by the central government to the provinces. And the revival of the Quebec sovereignty movement in the 1990s encourages fiscal decentralization and impedes the search for **national** as opposed to regional solutions. As a result, Canadian social policy stands on the verge of following the American path, which will involve fiscal competition between regions and provinces.

In the intermediate future, the single most important constraint on policy innovation in both countries is limited state capacity to raise revenues to finance new initiatives. Corporate tax concessions, the deindexing of tax brackets, reductions in marginal tax rates and reliance on debt financing have created enormous pressure to check expenditures, rather than to raise revenues in order to embark on new and untested social strategies. Whereas electoral competition in the post-war years typically took the form of bidding for votes with expanded social programmes, in the 1990s parties vie with one another by promising "middle class" tax cuts and "less government".

Because of these political, systemic obstacles to pursuing an activist version of the liberal model, it is unlikely that North America will provide the testing ground for new social experiments in the provision of social welfare in post-industrial capitalism. Canadian experiments in the use of NIT-type programmes to provide income-tested income subsidies (such as the Child Tax Benefit) are likely to expand at the expense of traditional social insurance programmes (such as Unemployment Insurance). In the United States, locally-based (i.e., state level) "social investment" strategies will bear watching (Osborne, 1988). North American states, however, suffer not only from a fiscal deficit but also from a democratic deficit. The comparative weakness of political institutions able to represent competing social and economic interests makes the search for non-zero sum solutions difficult. In the United States, the decline of organized labour has left both the industrial and post-industrial working classes without a political voice. Inner-city mayors have no institutional power in either state or national politics. In Canada, fiscal federalism is in decline. As a result, "market magic" rather than democratic politics will shape the future welfare of the liberal economies.

POSTSCRIPT: NORTH AMERICAN WELFARE POLITICS IN 1995

It is always dangerous to project future developments on the basis of the immediate political and economic climate of the day. Hence, my emphasis in this paper has been on long-term patterns of change in both the labour market and welfare state policy in North America. Simply to ignore recent developments in welfare state politics in the two countries, however, would leave a large gap in the story.

For a brief moment following President Clinton's election in 1992, liberal Democrats in the United States hoped to reverse more than a decade of anti-welfare state rhetoric and policy-making. Hopes were high that the United States would soon implement some form of national health care. The failure of the Clinton health care agenda, a Republican victory in both the House and Senate in 1994, and the possibility of a Republican Presidential victory in 1996 have changed all this.

The main target of the Republican agenda to date has been "welfare" — social assistance programmes for the "welfare poor". Apart from Medicaid, however, there are few savings to be had by reducing or even eliminating these programmes. AFDC, for example, accounts for less than one per cent of the federal budget. To realize the larger goals of the Republican "Contract with America" — debt reduction and a smaller role for the federal government — attention must turn to the large and virtually universal programmes for the elderly, Social Security and Medicare.

During most of the 1980s, programmes for the elderly were considered sacrosanct by both liberals and conservatives in the United States for electoral reasons. The elderly were seen as a large and cohesive voting block able to punish any politician who threatened their "entitlements". To date, Republicans have tread softly on these issues.

More instructive, perhaps, was the direction taken by the Entitlements Commission, chaired by Senators Kerrey and Danforth, in the summer and fall of 1994. Heavily influenced by the Concord Coalition, headed by former investment banker Peter Peterson, the aim of the commission's co-chairpersons was to sharply reduce spending by income-testing all social benefits, including Medicare and Social Security. The basic design as outlined by Peterson (1993) is very close to the Negative Income Tax model — reducing social transfers to middle and upper income groups combined with some strengthening of programmes for low-income groups.

Although the Commissioners failed to reach a consensus, there is a strong sense in Washington circles that the agenda remains very much alive. While Republicans are generally hesitant to cut welfare for the rich, elements of the Concord strategy could well become the grounds for a successful coalition between Republicans and conservative Democrats. Here the Canadian experience of the past decade is also instructive.

When the Conservative government of Brian Mulroney came to power in 1984, one its first forays into social policy was an effort to eliminate the universal Old Age Security programme, the first tier of Canada's public pension system. Such a proposal was actually introduced in early 1985 but was subsequently withdrawn after several months of public uproar and great embarrassment for the Conservative finance minister, Michael Wilson.

In 1988, the Conservatives took another tack and this time succeeded. Under the rubric of cutting "welfare for the rich", an income test was introduced for all seniors with incomes of more than $54,000 per year. Few tears were shed for these high-income seniors and the measure passed without resistance. The key to the legislation, however, was long-term in nature. The cut-off point at which the income test becomes effective was only indexed to inflation that exceeds 3 per cent per year. Consequently, the income test will slowly work its way down the income hierarchy until only low-income seniors are beneficiaries. In his February 1995 budget, Finance Minister Paul Martin gave notice of his intent to accelerate the process. This strategy of "social policy by stealth", as it has become known, has been widely used in other programme areas as well.

Canadian and American social policies began to diverge sharply during the 1960s. Whether they will now reconverge remains to be determined. The 1995 Canadian budget also included a reduction in federal transfers to the provinces and moved to a system of "block funding" for expenditures on social assistance, health care, and postsecondary education. There is now considerable speculation that as federal transfers decline, the provinces will engage in the sort of "fiscal competition" characteristic of the United States, with an ensuing downward spiral in social spending.

In both countries, "market failure" has created a new trajectory for social policy. The social insurance model of the post-war decades is being sharply questioned and a new model based on providing wage and income subsidies for workers in a low-wage economy has come to the fore. How vigorously this emergent strategy will be pursued remains to be seen.

◆ References

Aldrich, Jonathan (1982)
"Earnings replacement rates of old-age benefits in 12 countries, 1969-80", **Social Security Bulletin**, 45(11), pp. 3-11.

Amenta, Edwin A. and Theda Skocpol (1988)
"Redefining the New Deal: World War II and public social provision in the United States", in Margaret Weir, Ann Shola Orloff and Theda Skocpol (eds.), **The Politics of Social Policy in the United States**, Princeton: Princeton University Press.

Banting, Keith G. (1987)
The Welfare State and Canadian Federalism, Kingston and Montreal: McGill-Queen's University Press.

_______ (1992a)
"Economic integration and social policy: Canada and the United States", in Terrance Hunsley (ed.), **Social Policy in the Global Economy**, Kingston: Queen's University Press.

_______ (1992b)
"Neoconservatism in an open economy: The social role of the Canadian state", **International Political Science Review**, 13(2), pp. 149-170.

Battle, Ken and Sherri Torjman (1995)
How Finance Reformed Social Policy, Ottawa: Caledon Institute of Social Policy.

Blackburn, McKinley and David Bloom (1993)
"The distribution of family income: Measuring and explaining changes in the 1980s for Canada and the United States", in David Card and Richard Freeman (eds.), **Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States**, Chicago: University of Chicago Press.

Blank, Rebecca (1994)
"The employment strategy: Public policies to increase work and earnings", in Sheldon Danziger, Gary Sandefur and Daniel Weinberg, **Confronting Poverty: Prescriptions for Change**, Cambridge: Harvard University Press.

Blank, Rebecca and Maria Hanratty (1993)
"Responding to need: A comparison of social safety nets in Canada and the United States", in David Card and Richard Freeman (eds), **Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States**, Chicago: University of Chicago Press.

Card, David and Craig Riddell (1993)
"A comparative analysis of unemployment in Canada and the United States", in David Card and Richard Freeman (eds), **Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States**, Chicago: University of Chicago Press.

Courchene, Thomas (1994)
Social Canada in the Millenium: Reform Imperatives and Restructuring Principles, Montreal: C.D. Howe Institute.

DiNardo, John and Thomas Lemieux (1994)
Diverging Male Wage Inequality in the United States and Canada, 1981-1988: Do Unions Explain the Difference? Irvine Economic Paper No. 93-94-16, Department of Economics, University of California, Irvine.

Economic Council of Canada (1991)
Employment in the Service Economy, Ottawa.

Economic Report of the President (1964)
Washington, D.C.: U.S. Government Printing Office.

Esping-Andersen, Gøsta (1990)
The Three Worlds of Welfare Capitalism, Princeton: Princeton University Press.

Evans, R.G., M.L. Barer and C. Hertzman (1991)
"The 20-year experiment: Accounting for, explaining and evaluating health care cost containment in Canada and the United States", **Annual Review of Public Health**, 12, pp. 481-518.

Goldin, Claudia and Robert Margo (1992)
"The great compression: The wage structure of the United States at mid-century", **Quarterly Journal of Economics**, CVII(1), pp. 1-34

Gompers, Samuel (1910)
Labor in Europe and America, New York: Harper and Brothers

Gottschalk, Peter and Sheldon Danziger (1993)
"Family structure, family size and family income: Accounting for changes in the economic well-being of children, 1968-1986", in Sheldon Danziger and Peter Gottschalk, **Uneven Tides: Rising Inequality in America**, New York: Russell Sage.

Government of Canada (1994)
Improving Social Security in Canada, Ottawa: Human Resources Development.

Guest, D. (1985)
The Emergence of Social Security in Canada, Vancouver: University of British Columbia Press.

Haddow, Rodney S. (1993)
Poverty Reform in Canada, 1958-1978: State and Class Influences on Policy Making, Montreal: McGill-Queen's University Press.

Hanratty, Maria and Rebbeca Blank (1992)
"Down and out in North America: Recent trends in poverty rates in the United States and Canada", **Quarterly Journal of Economics**, CVII, (February), pp. 233-254.

Heclo, Hugh (1994)
"Poverty politics", in Sheldon Danziger, Gary Sandefur and Daniel Weinberg (eds.), **Confronting Poverty: Prescriptions for Change**, Cambridge: Harvard University Press.

Jenson, Jane (1990)
"Representations in crisis: The roots of Canada's permeable Fordism", **Canadian Journal of Political Science**, XXIII(4), pp. 653-683.

Juhn, Chinui and Kevin Murphy (1995)
"Inequality in labor market outcomes: Contrasting the 1980s and earlier decades", **Economic Policy Review**, 1(1), pp. 26-32.

Korpi, Walter and Joakim Palme (1994)
The Strategy of Equality and the Paradox of Redistribution, Swedish Institute for Social Research (course pack).

Kudrle, Robert T. and Theodore R. Marmor (1984)
"The Development of Welfare States in North America" in Peter Flora and Arnold J. Heidenheimer (eds.), **The Development of Welfare States in North America**, London: Transaction Books.

Levy, Frank (1988)
Dollars and Dreams: The Changing American Income Distribution, New York: W.W. Norton.

Levy, Frank and Richard Murnane (1992)
"U.S. earnings levels and earnings inequality: A review of recent trends and proposed explanations", **Journal of Economic Literature**, 30, pp. 1333-81.

Love, Roger and Susan Poulin (1991)
"Family income inequality in the 1980s", **Canadian Economic Observer**, September, 4.1-4.13.

Marmor, T., J. Mashaw and P. Harvey (1990)
America's Misunderstood Welfare State, New York: Basic Books.

McBride, Stephen (1992)
Not Working: State, Unemployment and Neo-Conservatism in Canada, Toronto: University of Toronto Press.

Morissette, Rene, John Myles and Garnett Picot (1994)
"Earnings inequality and the distribution of working time in Canada", **Canadian Business Economics**, Spring, pp. 3-16.

Moynihan, Daniel P. (1973)
The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan, New York: Vintage.

Murphy, Barbara (1982)
Corporate Capital and the Welfare State: Canadian Business and Public Pension Policy in Canada Since World War II, unpublished Master's thesis, Ottawa: Carleton University.

Myles, John (1988)
"Decline or impasse? The current state of the welfare state", **Studies in Political Economy**, 26 (Summer), pp. 73-107.

Myles, John, Garnett Picot and Ted Wannell (1993)
"Does post-industrialism matter? The Canadian experience", in Gosta Esping-Andersen (ed.), **Changing Classes: Stratification and Mobility in Post-industrial Societies**, London: Sage.

Myles, John and Garnett Picot (1995)
The Changing Economic Position of Young Families and Children: The Impact of Declining Earnings, the Transfer System and Changing Demographics, Ottawa: Business and Labour Market Analysis Division, Statistics Canada.

Nakamura, Alice and Peter Lawrence (1993)
Education, Training and Prosperity, Bell Canada Papers on Economic Growth and Public Policy, October.

OECD (Organization for Economic Cooperation and Development) (1993)
Employment Outlook, Paris, July.

_______ (1994a)
Canada: OECD Economic Surveys, Paris.

_______ (1994b)
The OECD Jobs Study: Facts, Analysis, Strategies, Paris.

_______ (1994c)
New Orientations for Social Policy, Social Policy Studies No. 12, Paris.

Orloff, Ann Shola (1988)
"The political origins of America's belated welfare state", in Margaret Weir, Ann Orloff and Theda Skocpol (eds.), **The Politics of Social Policy in the United States**, Princeton: Princeton University Press.

Osborne, David (1988)
Laboratories of Democracy, Boston: Harvard Business School Press.

Peterson, Peter (1993)
Facing Up: How to Rescue the Economy From Crushing Debt and Restore the American Dream, New York: Simon and Schuster.

Pierson, Paul (1994)
Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment, Cambridge: Cambridge University Press.

Piven, Frances Fox, and Richard A. Cloward (1988)
Why Americans Don't Vote, New York: Pantheon.

Piven, Frances Fox and Richard A. Cloward (1994)
Regulating the Poor, (revised edition), New York: Vintage.

Quadagno, Jill (1988)
The Transformation of Old Age Security, Chicago: University of Chicago Press.

Quadagno, Jill (1994)
The Color of Welfare: How Racism Undermined the War on Poverty, New York: Oxford University Press.

Skocpol, Theda (1988)
"The limites of the New Deal system and the roots of contemporary welfare dilemmas", in Margaret Weir, Ann Shola Orloff and Theda Skocpol (eds.), **The Politics of Social Policy in the United States,** Princeton: Princeton University Press.

Smeeding, Timothy (1991)
"Cross-national comparisons of inequality and poverty", in L. Osberg (ed.), **Economic Inequality and Poverty: International Perspectives,** Armonk: M.E. Sharpe.

Smeeding, Timothy, Barbara Torrey and Lee Rainwater (1993)
Going to Extremes: An International Perspective on the Economic Status of the U.S. Aged, Working Paper No. 87, Luxembourg Income Study.

Smith, David (1989)
"Canadian political parties and national integration", in Alain Gagnon and Brian Tanguay (eds.), **Canadian Parties in Transition: Discourse, Organization and Representation,** Scarborough, Ontario: Nelson.

Stevens, Beth (1988)
"Blurring the boundaries: How the federal government has influenced welfare benefits in the private sector", in Margaret Weir, Ann Shola Orloff and Theda Skocpol (eds.), **The Politics of Social Policy in the United States,** Princeton: Princeton University Press.

Therborn, Goran (1986)
Why Some People are More Unemployed than Others: The Strange Paradox of Growth and Unemployment, London: New Left Books.

Tobin, James (1994)
"Poverty in relation to macroeconomic trends, cycles and policies", in Sheldon Danziger, Gary Sandefur and Daniel Weinberg, **Confronting Poverty: Prescriptions for Change,** Cambridge: Harvard University Press.

Turegun, Adnan (1994)
Small State Responses to the Great Depression, 1929-39: The White Dominions, Scandinavia and the Balkans, unpublished Ph.D. dissertation, Ottawa: Carleton University.

Weir, Margaret (1992)
Politics and Jobs: The Boundaries of Employment Policy in the United States, Princeton: Princeton University Press.

UNRISD DISCUSSION PAPERS

DP 1 Economic Growth, Structural Change and Labour Absorption in Africa: 1960-85, Dharam Ghai, December 1987

DP 2 The Peasant Question and Development Policy in Nicaragua, Peter Utting, February 1988

DP 3 Promoting Youth Employment: Policies and Programmes, Dharam Ghai, May 1988

DP 4 Inside Megalopolis: Exploring Social and Spatial Diversity of Provisioning Structures in Mexico City, Cynthia Hewitt de Alcántara and Gabriel Vera, June 1990

DP 5 Participatory Development: Some Perspectives from Grass-Roots Experiences, Dharam Ghai, June 1988

DP 6 Some Reflections on Human and Social Indicators for Development, Dharam Ghai, Michael Hopkins and Donald McGranahan, October 1988

DP 7 The Crisis of the 1980s in Africa, Latin America and the Caribbean: Economic Impact, Social Change and Political Implications, Dharam Ghai and Cynthia Hewitt de Alcántara, July 1989 (revised version, January 1990)

DP 8 From "Orthodoxy" to "Reform": Experiences of Dependent Transitional Economies, Peter Utting, July 1989

DP 9 Self-Sufficiency and Exile in Mexico: Report on a Field Study among Relocated Guatemalan Refugees in South-East Mexico, August-November 1988, Finn Stepputat, August 1989

DP 10 The New System of Food Marketing in Pakistan, Sartaj Aziz, May 1990

DP 11 Seeking Food and Seeking Money: Changing Productive Relations in a Highland Mexican Community, George A. Collier, May 1990

DP 12 Barabaig Natural Resource Management: Sustainable Land Use under Threat of Destruction, Charles Lane, June 1990

DP 13 Constraints to Environmental Rehabilitation through People's Participation in the Northern Ethiopian Highlands, Michael Ståhl, July 1990

DP 14 Eléments pour l'approche des indicateurs sociaux en Côte d'Ivoire, José Trouvé, July 1990

DP 15 Qualitative Indicators of Development, Donald McGranahan, Wolf Scott and Claude Richard, November 1990

DP 15F Indicateurs qualitatifs du développement, Donald McGranahan, Wolf Scott and Claude Richard, April 1991

DP 16 The Social Dynamics of Deforestation in Developing Countries: Principal Issues and Research Priorities, Solon Barraclough and Krishna Ghimire, November 1990

DP 17 Refugee Self-Settlement versus Settlement on Government Schemes: The Long-Term Consequences for Security, Integration and Economic Development of Angolan Refugees (1966-1989) in Zambia, Art Hansen, November 1990

DP 18 Authoritarian Rule and Democracy in Africa: A Theoretical Discourse, Yusuf Bangura, March 1991

DP 19 Beneficiaries of the Illicit Drug Trade: Political Consequences and International Policy at the Intersection of Supply and Demand, LaMond Tullis, March 1991

DP 20 Organización social y lucha ecológica en una región del norte de México, Julio Moguel and Enrique Velázquez, April 1991

DP 21 Illicit Drug Taking and Prohibition Laws: Public Consequences and the Reform of Public Policy in the United States, LaMond Tullis, April 1991

DP 22 Greening at the Grassroots: People's Participation in Sustainable Development,
Jessica M. Vivian, April 1991

DP 23 Ruining the Commons and Responses of the Commoners: Coastal Overfishing and Fishermen's Actions in Kerala State, India,
John Kurien, May 1991

DP 24 The Social Origins and Impact of Deforestation in Central America,
Peter Utting, May 1991

DP 25 Development Data Constraints and the Human Development Index,
Christopher J.L. Murray, May 1991

DP 26 Structural Adjustment and Multiple Modes of Social Livelihood in Nigeria,
Abdul Raufu Mustapha, June 1991

DP 27 Economic Reform and Citizen Entitlements in Eastern Europe: Some Social Implications of Structural Adjustment in Semi-Industrial Economies,
E.V.K. FitzGerald, June 1991

DP 28 Limits to Labour Absorption: Conceptual and Historical Background to Adjustment in Nigeria's Urban Informal Sector,
Kate Meagher with Mohammed-Bello Yunusa, December 1991

DP 29 Parks and People: Livelihood Issues in National Parks Management in Thailand and Madagascar,
Krishna B.Ghimire, December 1991

DP 30 Ethnic Conflict and Development: The Case of Guyana,
Ralph R. Premdas, January 1992

DP 31 Economic Restructuring and Rural Subsistence in Mexico: Maize and the Crisis of the 1980s,
Cynthia Hewitt de Alcántara, January 1992

DP 32 Fisheries Management in the Pacific: Tradition and the Challenges of Development in Marovo, Solomon Islands,
Edvard Hviding and Graham B.K. Baines, March 1992

DP 33 Conservation, Livelihood and Democracy: Social Dynamics of Environmental Changes in Africa,
Dharam Ghai, March 1992

DP 34 Land Tenure and Deforestation: Interactions and Environmental Implications,
Peter Dorner and William C. Thiesenhusen, April 1992

DP 35 Sustaining the Forests: The Community-Based Approach in South and South-East Asia,
Marcus Colchester, May 1992

DP 36 The Social Dynamics of Deforestation in the Brazilian Amazon: An Overview,
Antonio Carlos Diegues with an appendix by Paul Kageyama and Virgilio Viana, July 1992

DP 37 Structural Adjustment, Global Integration and Social Democracy,
Dharam Ghai, October 1992

DP 38 Consequences of the Forced Mass Repatriation of Migrant Communities: Recent Cases from West Africa and the Middle East,
Nicholas Van Hear, November 1992

DP 39 A Political Economy of Refugee Flows from South-West Sudan, 1986-1988,
David Keen, November 1992

DP 40 E.T.A. et la violence politique au Pays Basque espagnol,
Michel Wieviorka, January 1993

DP 41 Italian Political Violence, 1969-1988: The Making and Unmaking of Meanings,
David Moss, February 1993

DP 42 The Lebanese Shi'a and Political Violence,
Elizabeth Picard, April 1993

DP 43 Understanding South African Political Violence: A New Problematic?,
André du Toit, April 1993

DP 44 Democracy, Violence and Emancipatory Movements: Notes for a Theory of Inversionary Discourse,
David E. Apter, May 1993

DP 45 Pakistan: Ethno-Politics and Contending Elites,
Abbas Rashid and Farida Shaheed, June 1993

DP 46 Ethnicity and Development: The Case of Fiji,
Ralph R. Premdas, October 1993

DP 47	Restructuring and the New Working Classes in Chile: Trends in Waged Employment, Informality and Poverty, 1973-1990, Alvaro Díaz, October 1993
DP 48	Transition to What? Cambodia, UNTAC and the Peace Process, Grant Curtis, November 1993
DP 49	NGOs, Participation and Rural Development: Testing the Assumptions with Evidence from Zimbabwe, Jessica Vivian and Gladys Maseko, January 1994
DP 50	Nationalities and Conflicting Ethnicity in Post-Communist Russia, Valery Tishkov, March 1994
DP 51	Market Reform and Civil Society: A Chinese Case Study, Jude Howell, Sun Bingyao, Wang Ying, Gordon White and Zhe Xiaoye, April 1994
DP 52	Economic Restructuring, Coping Strategies and Social Change: Implications for Institutional Development in Africa, Yusuf Bangura, July 1994
DP 53	Management of Wildlife, Tourism and Local Communities in Zimbabwe, Chris McIvor, August 1994
DP 54	Reality or Rhetoric? Ecotourism and Rural Reconstruction in South Africa, Eddie Koch, August 1994
DP 55	Salvaging Nature: Indigenous Peoples, Protected Areas and Biodiversity Conservation, Marcus Colchester, September 1994
DP 56	Conservation and Social Development: A Study Based on an Assessment of Wolong and Other Panda Reserves in China, Krishna B. Ghimire, December 1994
DP 57	Parks, People and Professionals: Putting "Participation" into Protected Area Management, Michel P. Pimbert and Jules N. Pretty, February 1995
DP 58	Economic Opportunity, Civil Society and Political Liberty, Ralf Dahrendorf, March 1995
DP 59	The Social Impacts of Light Weapons Availability and Proliferation, Christopher Louise, March 1995
DP 60	Reforming Land Rights in Sub-Saharan Africa: Issues of Efficiency and Equity, Jean-Philippe Platteau, March 1995
DP 61	On the Social Costs of Modernization: Social Disintegration, Atomie/Anomie and Social Development, Johan Galtung, March 1995
DP 62	Gender, Environment and Poverty Interlinks in Rural India: Regional Variations and Temporal Shifts, 1971-1991, Bina Agarwal, April 1995
DP 63	Affluence, Poverty and the Idea of a Post-Scarcity Society, Anthony Giddens, May 1995
DP 64	The Debate on Economic and Social Security in the Late Eighteenth Century: Lessons of a Road Not Taken, Emma Rothschild, May 1995
DP 65	Religion, Fundamentalism and Ethnicity: A Global Perspective, Jeff Haynes, May 1995
DP 66	Options for Social Policy in Latin America: Neo-Liberal versus Social Democratic Models, Evelyne Huber, June 1995
DP 67	The Scandinavian Welfare States: Achievements, Crisis and Prospects, John D. Stephens, June 1995
DP 68	When Markets Fail: Social Welfare in Canada and the United States, John Myles, June 1995