

# Research Notes

## Social Assistance Dynamics Since the Reforms of the mid-1990s

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Major welfare, or social assistance (SA), reforms were implemented over the past ten or fifteen years in a number of countries, including Canada and the United States. A large body of research analyzes the effects of these reforms and related policies on welfare participation rates, duration and other effects. This note briefly reviews some of this interesting literature.

In the United States, the *Personal Responsibility and Work Opportunity Reconciliation Act* of 1996 initiated major welfare reforms. Several papers by Grogger have examined the impact of welfare reforms and declining welfare caseloads in the U.S. Grogger, Karoly, and Klerman (2002) provide a synthesis of the 33 econometric studies on the effect of U.S. welfare reforms on a variety of outcomes, including income and earnings. All but a few studies in their synthesis find that welfare reforms substantially reduced welfare caseloads in the U.S. Furthermore, welfare caseloads in the U.S. have fallen both due to more exit and less entry into welfare, according to Grogger (2003). He found that the effect of declining entry into welfare and accounted for about half the total decline in U.S. welfare participation rates.

In Canada, major Social Assistance (SA) reforms began in the mid-1990s, and since then caseloads have declined substantially. The figure below compares the SA expenditures in fiscal year 1992/93 versus 2002/03. Most provinces experienced large declines in spending on SA over that period. For Canada as a whole, HRSDC

estimates that there was a decline of more than 23 per cent from \$13.4 billion to \$10.3 billion.

Several authors have examined Canadian provincial data on welfare participation. Barrett (2000) examines the effect of education on SA dynamics in New Brunswick. Barrett and Cragg (1998) study welfare dynamics in British Columbia. At least two studies (Lemieux and Milligan, 2004 and Fortin and Lacroix, 2004) examine a natural experiment in Quebec. Prior to 1989, Quebec's SA benefits for recipients under age 30 without children were 60 per cent lower than recipients over 30. In 1989 these recipients' SA benefits were increased by 145 per cent. Both studies find that the increase in SA benefits significantly increased SA participation and suggest that more generous SA significantly lowers employment.

Despite the large declines in caseloads, there remains considerable consistency on the large role that family and marital status play in welfare participation and dynamics. Path-breaking work by Bane and Ellwood (1994) whose original study using data from the U.S. Panel Study on Income Dynamics covered the time period from 1970 to 1982, identified changes in income and job status as an important variable but emphasized that changes in family composition were more important precipitating events. Recent work by Finnie et al (2005) provide a detailed descriptive study of SA dynamics. They find that SA entry has decreased dramatically in Canada since the early 1990s, especially for lone mothers, but that there is considerable differences in the exit



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rates from SA for different family types. In a related econometric study of low income dynamics in Canada, Finnie (2000) estimates hazard and survival rates for low-income status using the LAD. He finds that family status, particularly becoming a lone mother has a large impact on the likelihood of entering or remaining in poverty. Frenette and Picot (2003) specifically examine welfare leavers and find these people had their incomes rise substantially, and that marriage and divorce are important factors associated with leaving welfare.

Another strand of the literature examines the long term risk of entering SA due to intergenerational effects. Beaulieu et al (2004) consider intergeneration participation in SA using data from Quebec. They find that parental participation in SA significantly increases the SA participation rate of their children when they reach young adulthood. Oreopoulos et al (2005) study Canadian data on father-child pairs and find that the children of fathers whose jobs were lost were more likely to receive unemployment or SA benefits than the control group.

Federal policy initiatives have also been found to have significant influence on SA dynamics. Milligan and Stabile (2004) find that the National Child Benefit Program played a large role in lowering SA receipts in their study on the integration of child tax credits and welfare. Comparing provinces which did and did not integrate child tax credits with SA, they find that the integration of benefits accounts for about one third of the total decline in SA between 1997 and 2000.

The policy environment in the wake of the major welfare reforms remains very dynamic as policy-makers try to improve the financial incentives to work while receiving subsidies of various kinds. In this area, a number of studies examine the impacts of welfare-to-work (WTW) programs. Lightman et al (2004) study the outcomes of Torontonians who participated in Ontario Works, with respect to the quality of jobs obtained. They do not find evidence to support the idea that poor initial jobs lead to better quality jobs.

An interesting policy experiment that has received considerable attention and study is the Canadian experimental Self Sufficiency Project (SSP). This program provides generous earnings subsidy to welfare participants who find full-time jobs. David Card and several others have produced several studies examining SSP's various impacts at different points in its history since 1995. Card (2000) summarizes his findings related to the SSP in which he concludes that financial incentives lead a large number of welfare recipients to leave SA and find work. Blundell (2002) also notes the success of the SSP in reducing welfare participation. However, the longer run impact of the SSP may be smaller as pointed out by Michalopoulos et al (2002) who find that the control group tends to catch up to the treatment group after several years and wage rates of the SSP treatment group were slightly lower than the controls.

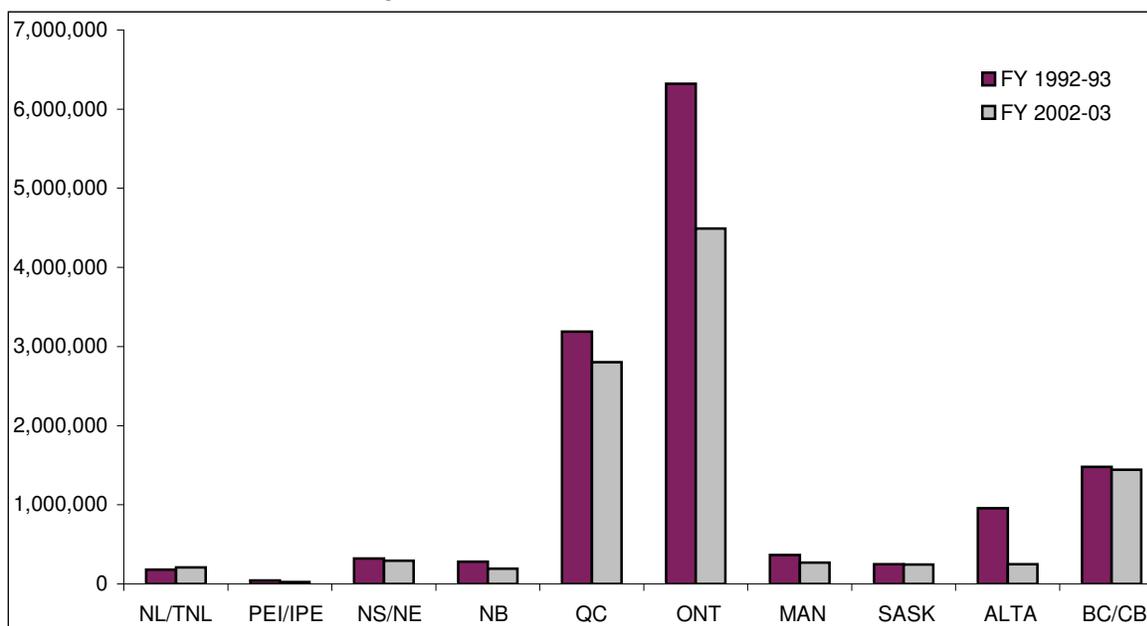
While family and marital status have significant effects on one's likelihood of entering, staying on, or exiting welfare, the available evidence suggests that major reforms that reduced the generosity or ease of qualification for welfare benefits have substantially lowered welfare rolls. The welfare reforms may have also benefited simply from good timing, since the early part of the reforms occurred during strong economic growth, making the transition out of welfare easier than it would have been at other times. More recent policies intended to improve the incentives to work, show a great deal of promise with respect to getting SA participants into jobs, yet may not address quality of jobs obtained.

Social Assistance policy developments over the past decade and half have had a major effect on North American society, and if they have altered the intergenerational patterns associated with SA dependence, we may continue to see effects of these reforms far into the future.

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## Provincial and Municipal Social Assistance Program Expenditures by Canadian Province, C\$000s



Source: HRSDC. Social Security Statistics Canada and Provinces 1978-79 to 2002-03. Table 438.

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