

## CHAPTER 4

# ***Budget 1995 and Welfare Reform***

*By Ron Kneebone and Jake Fuss\**

From 1977 until the 1995 budget and subsequent reforms, federal government funding to assist provincial governments in providing income support and health care came via two programs: Established Programs Financing (EPF) and the Canada Assistance Plan (CAP). EPF was a block transfer meant to help finance post-secondary education and health care. CAP was a cost-sharing arrangement in which the federal government reimbursed provinces for half their social assistance costs so long as they met certain federally-imposed conditions, including a prohibition on work requirements for the receipt of benefits (Eisen et al., 2016). The CAP transfer meant provincial governments could design income support programs safe in the knowledge that they were only spending “50-cent dollars.” Open-ended cost-sharing through CAP meant the federal government would pay the other 50 cents.

The 1990-91 recession contributed to a dramatic increase in the number of people relying on social assistance benefits. Between 1990 and 1994 the number of social assistance beneficiaries in Canada increased by nearly 1.2 million. Sixty percent of this increase occurred in Ontario, which at the time had only 37 percent of Canada’s population. By 1994, nearly 11 percent of Canadians depended on social assistance, double the 5.5 percent that had in 1975 (Clemens, 2011).

At the same time as the number of people on social assistance was rising, the federal government came to realize it was in a fiscal crisis that would require large cuts in spending. In the end, much of the heavy lifting to resolve the crisis came via cuts in federal transfers to the provinces and a reform of how the transfers worked.

---

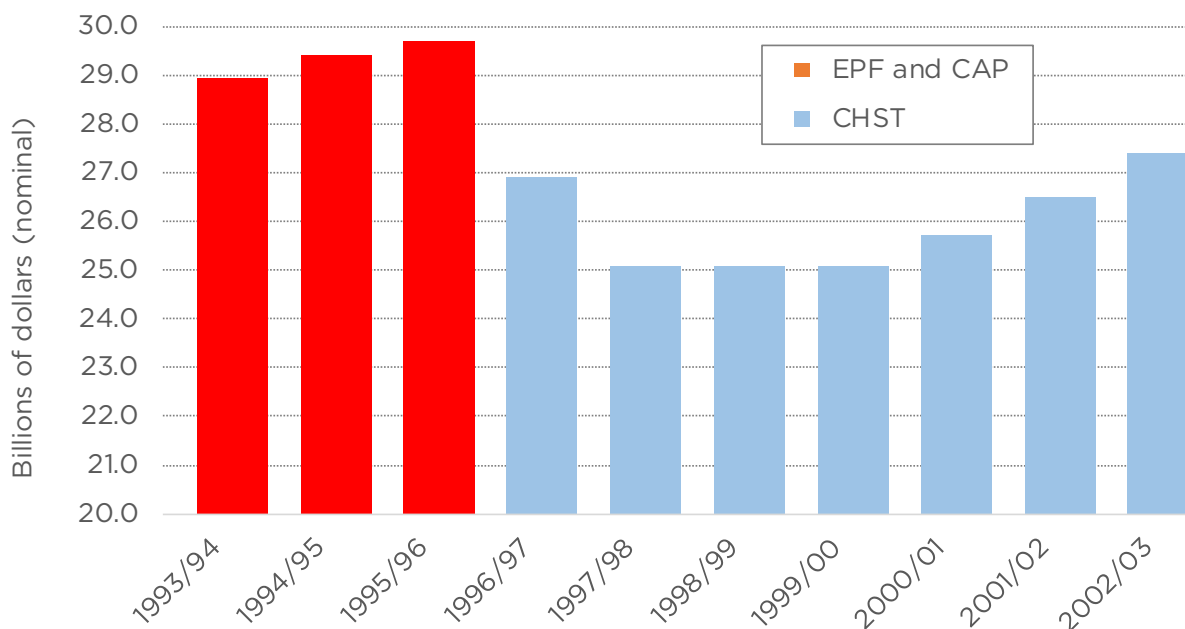
\* Endnotes, references, and the authors' biographies can be found at the end of this document.

## Changes to federal transfers

In 1996 Ottawa ended cost-sharing by replacing ETF and CAP with the block-funded Canada Health and Social Transfer (CHST) (Clemens, 2011). As Boychuk (2006) notes, the introduction of the CHST ended any pretense that the federal government ensured uniform standards of social assistance across the country. The only funding requirement that remained was the prohibition on provincial residency requirements. The lack of cost-sharing meant provinces would no longer be spending 50-cent dollars. On the other hand, with the withdrawal of federal conditions a range of policy options opened up for them.

In addition to ending cost-sharing, the 1995 budget reduced the amount transferred to provinces. As figure 1 shows, combined spending on the EPF and CAP was projected to be \$29.7 billion in 1995-96. The budget aimed to cut nearly \$3 billion from the total grant by 1996-97 (see Canada, 1995: 51-54). The 1996 budget reduced CHST spending to \$25.1 billion in 1997-98 and froze funding for three years until 2000-01. The CHST would then begin to increase in line with GDP growth (see Canada, 1996: 56-60).

**Figure 1: Planned Spending through Established Programs Financing (EPF) and Canada Assistance Plan (CAP) vs. Spending through Canada Health and Social Transfer (CHST), 1993/94 to 2002/03**



Sources: Canada, 1995; 1996.

## Provincial social assistance reforms

The large cut in the federal transfer and the elimination of cost-sharing provided provincial governments with a strong incentive to innovate in the design and delivery of social assistance. As noted by Kneebone and White (2009), with cost-sharing gone provincial governments would now capture the whole of any savings they could produce. Two types of policy reform followed: one involved changing how eligibility for social assistance was determined while the other altered the manner in which benefits were provided.

Eligibility rules were tightened in many provinces and there was a renewed focus both on trying to integrate welfare recipients back into the workforce and in preventing them from accessing benefits in the first place. In Alberta, for example, benefit payments were reduced for people deemed employable who had quit their job. Some supplemental benefits were completely eliminated and timelines for social assistance eligibility were also reduced. Significant changes in British Columbia included limiting individuals to receiving social assistance for no more than 24 months within any 60-month period, while in Ontario recipients who failed to participate in employment programs were refused social assistance for three months (Clemens, 2011).<sup>1</sup>

Provincial governments' other main response to the new funding arrangements was to reconsider how and in what amounts benefits were provided. In 1997, for instance, approximately 85 percent of the social assistance benefit paid to a lone parent with one child was in the form of a cash payment. By 2018 this would fall to approximately 60 percent.<sup>2</sup> The decline was the result of two things. First, Ottawa's decision, made shortly after its cut to provincial transfers, to play a larger and more direct role in social assistance via the provision of federal child benefits. This allowed provincial governments to reduce their own contributions in virtual lockstep with the growth in federal child benefits and so see total benefits remain more or less constant in real terms even as provincial payments declined. The second reason for the fall in the relative importance of the provincial cash payment was the provinces introducing new ways of providing benefits.

In BC, provincial child benefits have come (in 1996) and gone (in 2005) and then reappeared (in 2015). A small provincial tax credit was significantly increased in 2008 but then was cut in half in 2014. Alberta discontinued certain additional benefits in 2004 and did not introduce a child benefit until 2016. Child benefits in Saskatchewan were introduced in 1998 but were discontinued in 2006, while a provincial tax credit introduced in 2000 has continued to this day. Manitoba has never offered a provincial child benefit. In 2014 it cut the cash benefit and replaced it with

what is now a very large housing benefit. In addition to its cash benefit, Ontario provided additional benefits from 1997 to 2007 but these were replaced in 2007 by a provincial child benefit. The government of Quebec has always provided a large child benefit and starting in 2005 traded a reduced cash benefit for additional non-cash benefits. The governments of New Brunswick and Nova Scotia have, like Quebec, always offered a provincial child benefit, though a much smaller one. Beginning in 2010 in Nova Scotia and 2011 in New Brunswick these governments introduced a new provincial tax credit as a way of providing additional support. Newfoundland & Labrador is unique among the provinces for having provided benefits in the form of child benefits, tax credits, and additional non-cash benefits every year since 1997. PEI is also unique but in the opposite direction: it relied solely on a cash benefit until very recently (2013) when it also began offering a modest tax credit.

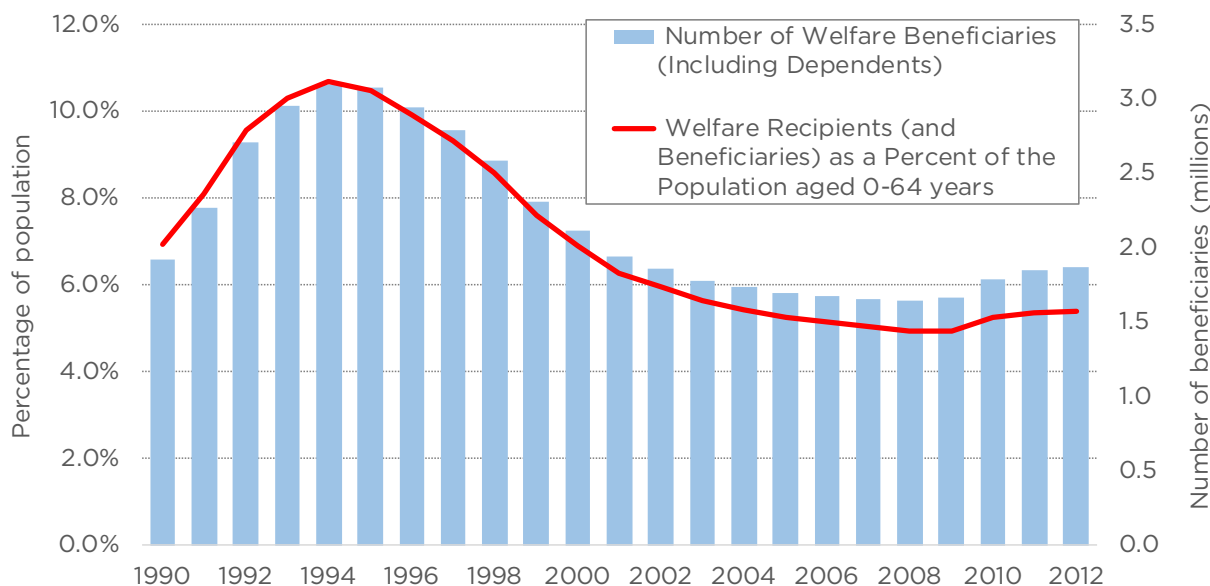
As this brief description suggests, how provinces provide social assistance has changed a great deal since 1995. Over time provinces have become more similar in their reliance on tax credits but less similar in terms of the amount of the basic benefit they provide. Child benefits have waxed and waned in both size and frequency of use by provincial governments.

## **Implications for social assistance programs**

The changes to intergovernmental transfers introduced in 1995 allowed provinces the autonomy over program design that would enable them to tailor social assistance to local needs and preferences. The impact that autonomy had on social assistance programs can be measured in at least two ways. The first is in how the changes have influenced the number of people reliant on social assistance (see figure 2). This is challenging to determine in part because immediately following the 1995 federal budget the economy experienced a prolonged period of strong economic growth. Any estimate of the influence of policy changes on the fall in the percentage of the population relying on social assistance—from 10.7 percent in 1994 to 4.9 percent in 2008—has to control for that influence. In a careful attempt to do so, Berg and Gabel (2015) found that in provinces where they were introduced, changes in eligibility requirements had very large effects on the number of people using social assistance. They also reported a significant influence from changes in the dollar amount of social assistance benefits.

A second influence of the 1995 adjustments to intergovernmental transfers might be found in describing changes to who is reliant on social assistance. Key developments include a decline in child poverty rates and

**Figure 2: Number of Welfare Beneficiaries, Including Dependents, and as a Percentage of the Population, 1990 to 2012**



Note: The red line measures welfare recipients (and beneficiaries) as a percent of the population aged 0 to 64 years.

Sources: Kneebone and White (2014); Statistics Canada (2019); calculations by authors.

singles replacing lone parents as the largest demographic of social assistance recipients (see, for example, Pulkingham (2015)). These adjustments might be related to changes in *how* benefits are provided, whether via a cash benefit, a child benefit, a tax credit, subsidized childcare, or some other form of benefit delivery. Milligan (2016) has recently described the transformation in the way children are treated in the Canadian tax system, a transformation reflected in a myriad of changes to how transfers and benefits are delivered. He notes these changes likely have their roots in politics and changing preferences for income redistribution. As we have noted, there has been a great deal of variation since 1995, both across provinces and over time, in how provincial governments deliver social assistance benefits. These changes, like some of those Milligan described, have their origins in a political decision made in 1995 that provided provincial governments greater autonomy over the design of their social assistance programs and so enabled them to better align their programs with local preferences for redistribution.



### **CHAPTER 3: How the Chrétien-Martin Budgets Cut Corporate Welfare in the Mid-1990s**

**by Mark Milke**

1. A full review of the literature on business subsidies is available in a past report (Milke, 2007: 27-36).

### **CHAPTER 4: Budget 1995 and Welfare Reform**

**by Ronald Kneebone and Jake Fuss**

1. For more details on these and other policy changes affecting eligibility, see Kneebone and White (2009) and Berg and Gabel (2015).

2. These percentages varied slightly by province. The outlier is Quebec where the cash payment fell from 74 percent of the total benefit in 1997 to just over 42 percent in 2018. Data on social assistance benefits are from Maytree (Tweddle and Aldridge, 2019).

### **CHAPTER 5: Effective, Flexible, and Affordable: Towards a New System of Federal-Provincial Transfers in Budget 1995**

**by Trevor Tombe**

1. The federal government shared the provincial cost of unemployment relief and old age pensions until those became federal programs. This calculation includes support for the blind and youth training.

Note: Displays total federal (cash) transfers to provincial governments as a share of national GDP. The shaded region marks the period from 1942 to 1946 when the Wartime Tax Agreement was in effect. Post-war transfers here include conditional grants.

2. Note: Displays the fraction of health and social transfers that would need to be reallocated to achieve equal per-capita allocations across provinces (known as a Schultz Index).

### **CHAPTER 6: Chrétien's Fiscal Anchor: A Key to His Government's Success**

**by David Henderson**

1. Notes: (i) Actual Revenues come from the Public Accounts rather than Fiscal Reference Tables because of accounting changes made in 2003; (ii) Budgeted numbers in 2002 come from the 2002 Economic and Fiscal Update since there was no budget tabled that year.

**CHAPTER 4: Budget 1995 and Welfare Reform**  
**by Ronald Kneebone and Jake Fuss**

Berg, Nathan, and Todd Gabel (2015). Did Canadian Welfare Reform Work? The Effects of New Reform Strategies on Social Assistance Participation. *Canadian Journal of Economics*, 48, 2: 494-528.

Boychuk, Gerrard (2006). Slouching Toward the Bottom? Provincial Social Assistance Provision in Canada, 1980-2000. In Kathryn Harrison (ed.), *Racing to the Bottom? Provincial Interdependence in the Canadian Federation*. UBC Press.

Canada, Department of Finance (1995). *Budget in Brief*. Government of Canada. <<http://publications.gc.ca/collections/Collection/F1-23-1995-2E.pdf>>, as of January 20, 2020.

Canada, Department of Finance (1996). *Budget in Brief*. Government of Canada. <<http://publications.gc.ca/collections/Collection/F1-23-1996-2E.pdf>>, as of January 20, 2020.

Clemens, Jason (2011). *Reforming the Canada Health Transfer: Applying the Welfare Lessons of the 1990s to Healthcare Today*. MacDonald-Laurier Institute. <<http://www.macdonaldlaurier.ca/files/pdf/Reforming-the-Canada-Health-Transfer-October-2011.pdf>>, as of October 25, 2019.

Kneebone, Ronald, and Katherine White (2009). Fiscal Retrenchment and Social Assistance in Canada. *Canadian Public Policy* 35, 1 (March): 21-40. <<https://www.jstor.org/stable/40213399>>, as of October 25, 2019.

Kneebone, Ronald, and Katherine White (2014). *The Rise and Fall of Social Assistance Use in Canada, 1969-2012*. SPP Research Papers 7, 5. University of Calgary, School of Public Policy. <<https://journalhosting.ucalgary.ca/index.php/sppp/article/view/42457/30349>>, as of January 22, 2020.

Milligan, Kevin (2016). The Tax Recognition of Children in Canada: Exemptions, Credits, and Cash Transfers. *Canadian Tax Journal* 64, 3: 601-18. <<https://faculty.arts.ubc.ca/kmilligan/research/papers/fofn-tax-children.pdf>>, as of January 20, 2020.

Pulkingham, Jane (2015). Social Assistance in British Columbia. In Daniel Beland and Pierre-Marc Daigneault (eds.), *Welfare Reform in Canada: Provincial Social Assistance in Comparative Perspective* (University of Toronto Press): 143-160.



Statistics Canada (2019). *Table 17-10-0005-01: Population Estimates on July 1st, by Age and Sex*. Government of Canada. <<https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1710000501>>, as of January 20, 2020.

Tweddle, Anne, and Hannah Aldridge (2019). *Welfare in Canada, 2018*. Maytree. <<https://maytree.com/welfare-in-canada/>>, as of January 20, 2020.

## **CHAPTER 5: Effective, Flexible, and Affordable: Towards a New System of Federal-Provincial Transfers in Budget 1995**

**by Trevor Tombe**

Canada, Department of Finance (1995). *Budget 1995: Budget Plan*. Government of Canada. <<https://www.budget.gc.ca/pdfarch/budget95/binb/budget1995-eng.pdf>>, as of January 27, 2020.

Canada, Department of Finance (1999). *The Budget Plan 1999*. Government of Canada. <<https://www.budget.gc.ca/pdfarch/budget99/bp/bp99e.pdf>>, as of January 27, 2020.

Expert Panel on Equalization and Territorial Formula Financing (2006). *Achieving a National Purpose: Putting Equalization Back on Track*. Government of Canada, Department of Finance. <<http://publications.gc.ca/collections/Collection/F2-176-2006E.pdf>>, as of December 9, 2019.

Flaherty, James (2007). *Budget Plan 2007: Aspire to a Stronger, Safer, Better Canada*. Government of Canada, Department of Finance. <<https://www.budget.gc.ca/2007/pdf/bp2007e.pdf>>, as of December 9, 2019.

Martin, Paul (1995). *Budget 1995: Budget Speech*. Government of Canada, Department of Finance. <<https://www.budget.gc.ca/pdfarch/budget95/speech/speech.pdf>>, as of December 9, 2019.

Martin, Paul (1996). *Budget 1996: Budget Speech*. Government of Canada, Department of Finance. <<http://publications.gc.ca/collections/Collection/F1-23-1996-3E.pdf>>, as of December 9, 2019.

Tombe, Trevor (2018). Final and Unalterable—But Up for Negotiation. *Canadian Tax Journal* 66, 4: 871-917.



**Jake Fuss** is an Economist at the Fraser Institute. He holds a Bachelor of Commerce and a Master's Degree in Public Policy from the University of Calgary. Mr. Fuss has written commentaries appearing in major Canadian newspapers including the *National Post*, the *Globe and Mail*, and the *Toronto Sun*. His research covers a wide range of policy issues including government spending, debt, taxation, labour policy, and charitable giving.



**David R. Henderson** is an emeritus professor of economics with the Naval Postgraduate School in Monterey, California, a research fellow with the Hoover Institution, and a senior fellow of the Fraser Institute. He is a widely respected public policy expert and educator. He is also the editor of *The Concise Encyclopedia of Economics*, a comprehensive but accessible summary of economics.

Born and raised in Canada, Professor Henderson earned a BSc degree in mathematics from the University of Winnipeg before heading south to complete his PhD in economics at the University of California, Los Angeles.

He is a frequent contributor to *The Wall Street Journal* and was previously a frequent contributor to *Fortune*. He has also written scholarly articles for the *Journal of Policy Analysis and Management*, *Journal of Monetary Economics*, *Cato Journal*, *Regulation*, *Contemporary Policy Issues*, and *Energy Journal*.

Professor Henderson served as a senior economist on President Reagan's Council of Economic Advisers from 1982 to 1984, specializing in energy and health policy.



**Tegan Hill** is an Economist at the Fraser Institute. She holds a Bachelor of Economics and a Master's Degree in Public Policy from the University of Calgary. She specializes in government spending, taxation, and debt.



**Ron Kneebone** is Scientific Director of the Social Policy & Health research division in the School of Public Policy at the University of Calgary. His published research has dealt with issues of government financing, deficits and debt reduction but he has more recently focused on issues of social assistance, poverty reduction, income inequality, and the economics of homelessness.



**Lydia Miljan** is an Associate Professor of Political Science at the University of Windsor and a Fraser Institute Senior Fellow. She was Director of the Fraser Institute's Alberta Policy Research Centre and from 1988 to 2001 was the Chair of the National Media Archive. She holds a PhD in Political Science from the University of Calgary specializing in political communication. Prof. Miljan teaches in the areas of Canadian public policy, research methodology, and politics and the media. Her main research interests include how journalist's personal views are reflected in news content and public opinion formation. In addition to peer-reviewed papers, she is the author of three books: *Public Policy in Canada*, *Hidden Agendas: How Journalists Influence the News*, and *Cross-Media Ownership and Democratic Practice in*