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## Research Paper

# Life After Welfare: The Economic Well Being of Welfare Leavers in Canada during the 1990s

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## **Abstract**

The 1990s were characterized by substantial declines in the number of welfare recipients in most Canadian provinces. These declines occurred in a period of declining welfare benefits, tightening eligibility rules, and sustained economic recovery. One question that has been asked by many, but not thoroughly investigated is: “What happened to the economic well being of those who left welfare in the 1990s?” We use longitudinal tax data to investigate the change in family income of people who stopped receiving welfare benefits in the 1990s. On average, welfare leavers saw their family income rise substantially and were less likely to be in low-income families. However, family income declined (sometimes substantially) for about one third of welfare leavers. This phenomenon occurred in every province to slightly varying degrees. Marriage played a strong role in helping single men and (especially) single women exit welfare and in improving their economic well being once off welfare. Men who divorced were more likely to exit welfare than men who stayed married. Married women, on the other hand, were less likely to exit welfare if they divorced. Once off welfare, men who divorced enjoyed the same economic well being as men who remained married, whereas women who divorced enjoyed a lower level of economic well being than women who remained married. The long-term prospects of welfare leavers were quite favourable. Although repeat use of the welfare system was common, few returned to welfare for long periods of time. Furthermore, earnings grew at a steady pace, especially among those who were in the most unfavourable circumstances shortly after leaving welfare.

**Keywords:** Welfare, social assistance, post-welfare outcomes, welfare reforms

## **I. Introduction**

North Americans have witnessed significant welfare<sup>1</sup> reforms during the 1990s. The major 1996 reform in the U.S. significantly reduced benefit levels and eligibility. The same phenomenon occurred in Canada throughout much of the 1990s, as most provincial governments lowered benefits and tightened eligibility rules (National Council of Welfare, 1997). The objective of these reforms was to minimize the work-disincentive effects of welfare.

As provincial governments were restructuring their welfare systems, the economy was rebounding from a prolonged recession. These two factors—welfare reforms and an improving economy—were associated with large declines in the proportion of Canadians receiving welfare benefits. As a result, policy analysts were repeatedly asking what happened to the people who stopped receiving assistance. In particular, did they find jobs that paid significant salaries, and did these salaries increase with time and experience?

Due largely to a lack of data, no Canadian study has looked at the economic outcomes of welfare leavers in great detail or at the national level. Furthermore, many studies that do exist focus on the economic outcomes of the individuals, and not the family. This is an important distinction since an individual may stop receiving benefits as a result of the good fortunes of another family member.

Two provinces at the forefront of the reforms were Ontario and Alberta. In Ontario, the Ministry of Community and Social Services hired a private firm to interview 2,100 people who left welfare in May 1996. Almost 62% of these people either found jobs or improved their job situation, but the survey did not include those who had been cut off welfare. The Toronto Community Services Department conducted an exit survey of 3,500 people who left welfare between 1995 and 1996. Roughly 43% of these found jobs, but only 16% of employed individuals reported earnings above \$500 per week. (National Council of Welfare, 1997)

In Alberta, Elton, Siepert, Azmier, and Roach (1997) conducted a study for the Canada West Foundation consisting of 768 interviews of welfare leavers. The study found that only 11% of welfare leavers were in households with total income greater than \$30,000, and 43% were in households with total income below \$10,000.

Human Resources Development Canada (HRDC) sponsored the Self-Sufficiency Project (SSP)<sup>2</sup>. The SSP is a social experiment with the aim of measuring the role of financial incentives in getting people off welfare, and into the labour force. Although the SSP provides a wealth of information on post-welfare outcomes, there are a few caveats to keep in mind. The study focused on about 6,000 single parents from New Brunswick and British Columbia who had received social assistance for at least one year. Individuals were recruited into the program between November 1992 and March 1995, and were followed up 18, 36, and 54 months later. About 85% of program participants completed the final follow-up survey. One half of the study participants were randomly assigned to the program group, whereby they received an earnings supplement if they left social assistance and

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<sup>1</sup> Throughout this paper, we use the term “welfare” to describe the receipt of social assistance benefits. This is done to coincide both with the academic literature as well as with popular references in the media and in everyday language.

<sup>2</sup> The following information on the Self-Sufficiency Project was taken from Michalopoulos et al. (2002).



worked at least 30 hours per week. The other half (the control group) received no such work incentives.

The difference between the outcomes of program and control group members of the SSP was interpreted as the program “impact”. The short-run impact of the program was actually quite large. Program group individuals had much higher employment rates, full-time employment rates, and earnings as control group members. In addition, social assistance was much lower among program group members. After 54 months, however, the short-run impacts had almost completely been eliminated. For the purposes of our study, the control group provides better evidence on life after welfare for Canadians who left the system in the 1990s since the vast majority did not receive an earnings supplement. Among control group members who had a paid job near the end of the study (month #52), 11% had an hourly wage below the minimum wage, 40% had a wage between the minimum and \$2 above the minimum, and the balance (about one half) had a wage of \$2 or more above the minimum. Note that 58% were not working at this time, and 36% of those working were part-time workers (fewer than 30 hours per week). One important caveat to note is the fact that the control group is limited to single parents, and thus ignores the potentially important role of marriage in the economic health of single people who left welfare.

There is some evidence on the conditions of welfare leavers in the United States, but much of the work focused on repeat use (or recidivism). Although the U.S. system is less universal, as it is essentially available to lone-mothers, the studies do provide us with a useful benchmark. Born, Caudill, Spera, and Kunz (1998) look at welfare leavers in Maryland during the major reforms, and find that fewer than 20% of leavers returned to the system within nine months of leaving. Harris (1996) uses national level data, but focuses on the pre-reform period (1983 to 1988), and finds that more than 25% returned to welfare within one year of leaving. Meyer and Cancian (1996) look at national level results from the pre-reform period (1979 to 1992) and find that about 60% returned to welfare within five years of leaving. They also find that education and marriage were inversely related to permanent poverty in the post-welfare period.

The primary objective of this paper is to document changes in the economic well being of people who left the welfare system in Canada during the 1990s. To this end, we use longitudinal tax data to follow the economic outcomes of welfare recipients after they stop receiving benefits. This allows us to answer several important questions: Did welfare recipients see a substantial rise in income upon leaving the system? Did the financial situation decline for many welfare leavers? Were outcomes dependent on the province of residence, given that welfare reforms varied by province? What was the role, if any, of marriage and divorce in these outcomes? And finally, did welfare leavers become increasingly self-sufficient over the years following the exit?

Briefly, our results indicate that on average, incomes rose substantially for people who left the welfare system during the 1990s. This aggregate results masks the fact that income declined (sometimes substantially) for about one third of people who left the system. This phenomenon occurred in every province to varying degrees. Marriage played a strong role in helping single men and (especially) single women exit welfare and in improving their economic well being once off welfare. Divorce seemed to play different roles in helping men and women exit welfare. Men who divorced were more likely to exit welfare than men who stayed married, but the opposite is true for women who divorced. Once off welfare, men who divorced enjoyed the same level of economic well being as men who remained married, whereas women who divorced enjoyed a lower level of economic well being than women who remained married. Following individuals for five years after leaving welfare, we notice a general improvement in their economic self-sufficiency, especially

among those whose incomes were the lowest shortly after leaving the system. It is important to note that these results do not take into account important factors linked to labour market outcomes such as education and work experience, given the lack of appropriate data. The results are simply indicative of what happened to welfare leavers in the 1990s, a time of considerable policy reform.

In the paper, we focus on the substantial minority of the welfare leavers, one-third, who experienced a decline in income. This outcome is somewhat counter-intuitive if one believes that jobs or other improvements in economic conditions are the motivating factor behind most exits. There are several possible hypotheses that may shed some light into this issue.

First, pursuing job opportunities may not be as common a reason for leaving welfare as is generally believed. As outlined in the next section, several provinces tightened their eligibility rules, which may have contributed to individuals leaving the welfare system. On a related note, some of the changes in eligibility rules consisted of lowering the maximum allowable liquid assets. It is conceivable that some people may live off these assets for some time after leaving welfare. But even if jobs are the main motivating factor behind welfare exits, some may leave the system without a well-paying job already lined-up, with the hopes of someday enjoying a more favourable financial situation as a result of experience they may acquire following welfare exit (i.e. short-term pain for long-term gain). And finally, since tax data are based on census (or nuclear) families, it is possible that our findings ignore the possibility that welfare leavers may benefit from someone in their economic (and not census) family (a non-family member living in the same household and sharing economic resources).

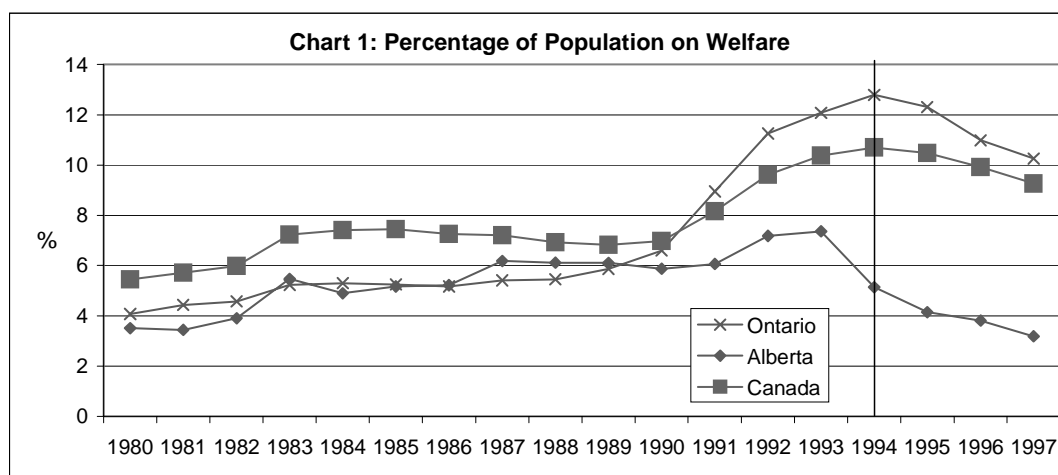
Of these four hypotheses, only the last one can be discarded as a candidate. Using an alternate data source containing an economic family identifier, we find strikingly similar results; one-third saw their earnings decline following welfare exit. The three other hypotheses could not be categorically discarded, although living off assets can at best provide only a partial explanation.

The study begins by describing how several factors may have contributed to the large decline in the welfare population during the 1990s. These factors include lower benefit rates, tighter eligibility rules, and an improving economy. The next section describes the data and methodology used in this study. The results are then presented in two parts. The primary results pertain to the changes in economic outcomes of those who left the welfare system, differences in these outcomes by province, and the possible role played by changing marital status. A second part of the analysis focuses on exploring several hypotheses that may explain why so many welfare leavers saw their incomes decline substantially upon leaving the system. Finally, the study is summarized and the findings are discussed in the conclusion.

## ***2. Declining Welfare Population in Context: Benefit Rates, Eligibility Rules, and Economic Conditions***

First, we begin with the observation that the proportion of the Canadian population collecting welfare declined substantially between 1994 and 1997 (Chart 1—the full set of numbers for each province appears in Table A1 in Appendix A, and was taken from National Council of Welfare (1998a)). The percentage of the Canadian population on welfare was 5.5% in 1980. This number rose to about 7.2% by 1983, but remained remarkably steady until the early 1990s, despite the economic expansion of the late 1980s, when declines might have been expected. Between 1990 and 1994, the percentage collecting welfare benefits rose from 7% to about 10.7%, as one would expect

during an economic recession. Between 1994 and 1997, the percentage of the population collecting welfare benefits fell from 10.7% to 9.3%. No substantial decline had ever been registered at the national level in the data at hand (i.e. since 1980). Both Ontario and Alberta saw particularly large declines after 1994, but the decline actually began after 1993 in Alberta. Between 1993 and 1997, the period of this study, the proportion of the Alberta population collecting benefits fell from 7.4% to 3.2%. By the end of the 90s, this placed Alberta well below all other provinces (the national average was 9.3%), with the lowest rate recorded in any provinces over the two decades for which we have data.



When focusing on individuals who left welfare, it is necessary to understand the context in which these exits occurred. Previous research has found that welfare participation is sensitive to benefit levels and economic conditions<sup>3</sup>. Welfare participation is also sensitive to eligibility rules, either through a reduction in new entrants or an increase in exits.

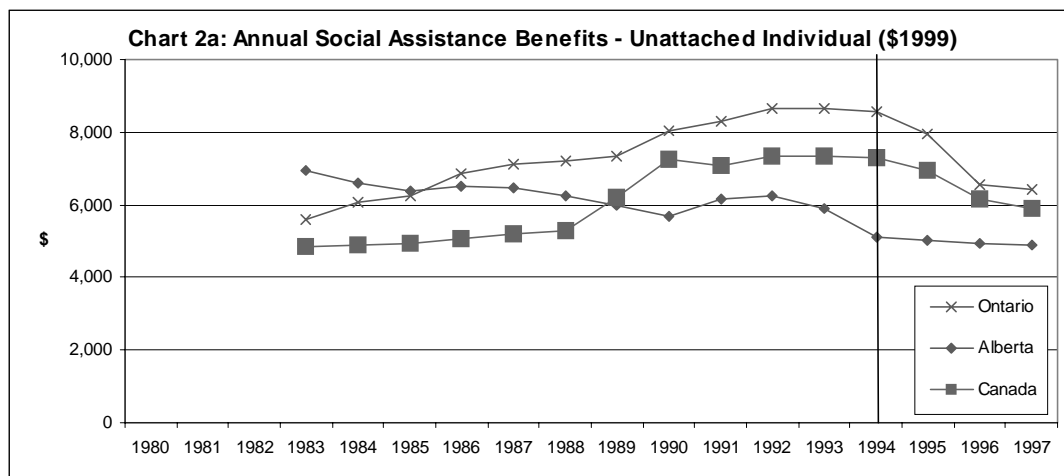
Chart 2a shows the annual social assistance benefits in 1999 constant dollars for unattached individuals (had they remained on welfare the entire year) from 1983 to 1997—the full set of numbers for all provinces appears in Table A2a in Appendix A<sup>4</sup>. The numbers for Canada<sup>5</sup> are shown, as are those for Ontario and Alberta (the two provinces that saw the largest welfare reforms). For Canada as a whole, benefit levels were steady for much of the 1980s, increased sharply between 1988 and 1990 (largely because of Quebec and Ontario), remained steady until 1994, then declined by about \$1,300 between 1994 and 1997. Ontario had seen steady increases from 1983 to the early 1990s, but then witnessed sharp declines after 1994. Nonetheless, benefit levels in Ontario by 1997 remained above most other provinces. Benefit rates in Alberta were

<sup>3</sup> For example, see Barrett (2000) and Charette and Meng (1994).

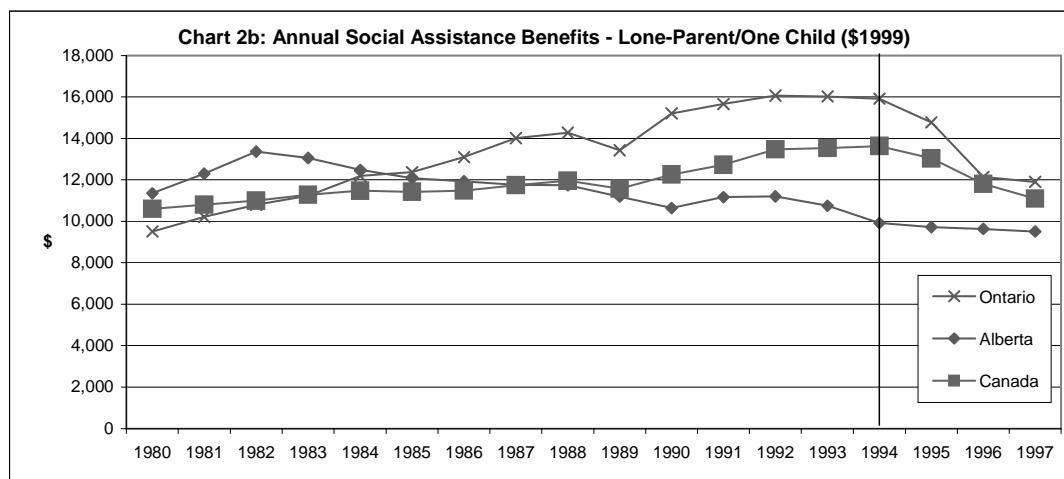
<sup>4</sup> We thank Pierre Lefebvre and Martin Dooley for permission to use the data on social assistance benefits. Lefebvre and Dooley collected this data over time through various sources. The values represent the amount of Basic Social Assistance that a given family type would receive in a given year and province if they were on welfare for the entire year. Excluded are medical benefits, as well as any other source of income welfare recipients may expect to receive (e.g. the Child Tax Benefit). See Dooley, Gascon, Lefebvre, and Merrigan (1999) for more details. Note that the values may differ from the welfare income levels published by the National Council of Welfare (see National Council of Welfare (2000)) because of differences in income components and assumptions underlying the calculations, but the provincial trends over time follow the same patterns.

<sup>5</sup> The numbers for Canada are weighted averages of all provincial numbers, where the weights represent the share of each province's welfare population to the Canada-wide welfare population.

actually much higher than in Ontario and the rest of Canada in 1983. While Ontario and Quebec were raising benefit rates in the late 1980s, real benefit rates declined in Alberta (due largely to a lack of increase in the nominal—or current dollar—benefit rate). The major benefit reform in Alberta took place between 1993 and 1994, when the rate for unattached individuals declined by about \$800. The benefit rate for unattached individuals in Alberta in 1997 was below the Ontario and Canadian average rates.



The benefit rates for lone-parents with one child followed roughly the same pattern: increasing prior to 1994 for Canada as a whole and in Ontario, followed by substantial declines after 1994, whereas Alberta saw steady declines throughout much of the 1980s, with a substantial decline between 1993 and 1994 (Chart 2b—the full set of numbers appear in Table A2b in Appendix A).

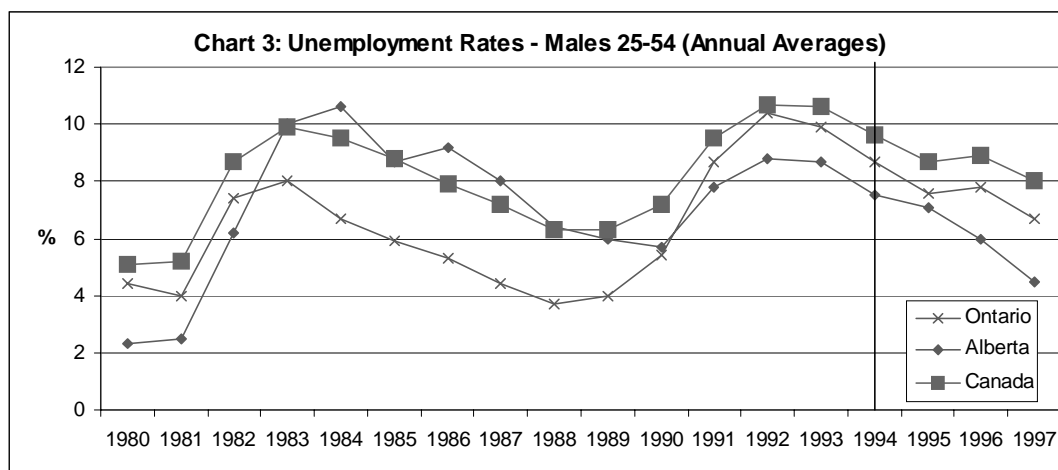


For Canada as a whole, benefit rates for both family types increased rapidly in the late 1980s, then declined rapidly in the mid to late 1990s. The fact that the rates after the reforms were similar to the levels registered prior to the increases of the late 1980s bears little consequence on the incentives for welfare recipients to leave the system. Some may have entered the system as a result of increasing benefit rates in the late 1980s, but may have been encouraged to leave the system once benefit rates dropped.

Several provinces also tightened their eligibility rules. Although it is difficult to quantify the changes to eligibility rules, Ontario and Alberta arguably introduced the most substantial changes. In Ontario, authorities stepped up case reviews and fraud investigations (sometimes through home visits), including cases when immigrant sponsorship agreements broke down. A province wide telephone “snitch line” was set up to help in these efforts. Previously exempted assets such as life insurance policies, interest earned on liquid assets, and the increase in the value of a home while the owner is on welfare now entered the calculations for benefit entitlements. People in common-law relationships could no longer collect welfare as single people or lone parents. (National Council of Welfare, 1997).

In Alberta, efforts focused on extensive case reviews and fraud investigations that led to thousands of case closures. There was an increase in the enforcement of the common-law relationship policy. Eligibility also became more closely tied to labour market participation. For example, benefits were stopped for employable recipients if they refused or abandoned a job without a good reason. Lone-parents had to actively seek work when their youngest child was six months old. The previous threshold had been two years of age. (National Council of Welfare, 1997).

Such increased enforcement and eligibility rate changes likely affected both welfare entry and exit rates. But so too did changes in economic conditions. To gauge such change, Chart 3 shows the unemployment rates for males 25-54 from 1980 to 1997, once again for Ontario, Alberta, and Canada—the full set of numbers for all provinces appears in Table A3 in Appendix A, and was taken from CANSIM II table 282-0002. The Canadian unemployment rate followed the well-known cyclical pattern, peaking in the early 90s, and likely declining to 1997 and beyond. The same general movements were observed in Ontario and Alberta throughout the period, but the recession did not affect Alberta as strongly as it affected Ontario. At the peak (1992), the unemployment rate in Ontario was almost a full two percentage points above the rate in Alberta. This gap persisted throughout most of the 1990s. In other words, economic opportunities for welfare recipients may have been more favourable in Alberta than in Ontario.



These three factors—reduced benefits, tighter eligibility rules, and improving economic conditions—were associated with a fall in the number of welfare recipients during the 1990s. The decline would certainly have been influenced by the economic expansion of the 1990s as job opportunities for welfare recipients became more plentiful. However, no similar decline occurred during the expansion of the 1980s business cycle—a time when benefits either increased or held steady.

We have shown that the *stock* of welfare recipients fell rapidly in the 1990s. This may have been due to a reduction in the flow into the system and/or an increase in the flow out of the system. In this study, we are particularly interested in the flow out of the system. Although it is impossible to quantify this flow with the cross-sectional statistics shown above, we will use longitudinal data to show that the exit rate was substantial in the 1990s. Our focus is on the economic outcomes for these exiters.

### **3. Data and Methodology**

To the best of our knowledge, no other Canadian study looks at the economic well being of those leaving welfare in great detail. This is partly due to data limitations. Many welfare studies have exploited provincial caseload records, which are invaluable to researchers interested in measuring the duration of welfare spells. Unfortunately, when a spell ends, no follow-up information is collected unless there is re-entry into the system. An alternative is to use survey data, such as the Survey of Labour and Income Dynamics (SLID). In SLID, individuals are asked which months they collected social assistance benefits in the previous year. There are some data problems associated with studying welfare in SLID (Kapsalis, 2001), and sample sizes are smaller.<sup>6</sup>

An alternative is to exploit tax data. In this study, we primarily use the Longitudinal Administrative Databank (LAD), which is a 20% sub-sample of income tax files built from the T1 Family File (T1FF). The records are linked longitudinally, and each year there is a cross-sectional top-up to make up for attrition. The definition of a family in the LAD is the census (or nuclear) family, which includes the immediate family (parents and children).<sup>7</sup> The advantages of the LAD are threefold. First, individuals are less likely to under-report their social assistance income when they file their income tax return than when they respond to a survey. Second, the sample is obviously quite large. And lastly, the LAD allows us to follow people after the end of a welfare spell. Whenever necessary, we turn to SLID to address some very particular issues.

By design, welfare is a family concept. One individual generally cannot collect social assistance benefits while living with his or her family unless the entire family is on welfare. It is difficult to follow families through time since they may split. A solution to this problem is to follow the individual and observe his or her family level economic outcomes. If a person leaves welfare because their spouse found a job or because they married an employed individual, it is still employment earnings that allowed the family to leave welfare, even though someone else is earning the money. Hence, employment earnings are measured at the family level in this study. We believe

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<sup>6</sup> Typically, social assistance income is under-reported in surveys. Also, recall errors are possible. Individuals may not remember precisely which months they collected social assistance benefits; therefore, they may be more likely to answer “yes” to all twelve months. Connecting these twelve-month “spells” together will give the impression that there was one long and continuous spell, giving rise to the “seam” problem (i.e. welfare collection appears to stop at year end). Furthermore, the proportion of welfare recipients in Canada is approximately one in ten. By selecting those who left welfare in a given time period, the sample size becomes quite small in SLID. The advantage of SLID is that it contains human capital and labour market experience information, which may be critical in a study of the determinants of labour market success among welfare leavers.

<sup>7</sup> It may include never married kids of any age. Since we can not always determine who has never been married in the LAD, currently single individuals are classified as never married.

this is a more appropriate way of assessing the employment outcomes of exiters than simply asking the question that is often posed, “Did they find a job?”

Basic Social Assistance (BSA) only began to be reported separately in the 1992 income tax returns. The timeframe of our study thus spans from 1992 to 1999 (the most current year available in the LAD). We classify individuals as full-year welfare recipients in year “t” if their total family social assistance benefits is at least 80% of their total family income (for families without kids) or 70% of their total family income (for families with kids)<sup>8</sup>. One benefit of applying such a strict set of criteria is to exclude short-term (less than a year), possibly sporadic users of the welfare system. Another benefit is to allow for a comparison with the post-welfare period. In essence, we want to compare outcomes of people while on welfare full-year in year “t” to when they were off welfare completely (no BSA). Selecting year “t+1” is obviously too early to define as the post-welfare period since we would limit our analyses to people who left the system at the end of year “t”. Year “t+2” is chosen instead, which means that people might have left the system at any point during year “t+1”. We further limit the sample to all tax filers between 25 and 54 years old in the post-welfare year<sup>9</sup>.

Our primary measure of economic well being is the adult equivalent adjusted disposable family income. This is essentially the disposable income of all family members after an adjustment has been made to account for family size. The adjustment is meant to create a per capita income measure, as well as to reflect the increasing returns to scale in the household production function. In essence, less additional income is required with every additional family member since some goods can be shared. The specific adjustment consists of dividing the income measure by the square root of the number of people in the family. This technique is used in publications by the Organisation of Economic Co-operation and Development (OECD).

Disposable income is total income minus income taxes paid. Total income is the sum of earnings, other market income, Basic Social Assistance, other transfers, and other income. All components of disposable income are described below:

*Earnings:* This includes T4 Employment Income, Net Self-Employment Income, and Other Employment Income.

*Other Market Income:* This includes Dividends, Interest and Investment Income, Net Rental Income, Net Limited Partnership Income, Pension and Superannuation Income, and Registered Retirement Savings Plan Income.

*Basic Social Assistance:* This is the income derived from welfare cheques collected by recipients.

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<sup>8</sup> Setting the criteria too high would eliminate several full-year recipients since other sources of income are possible. In particular, families with kids are more likely to receive other forms of transfers, which is why the criteria is set lower for them. In addition, some earnings are generally exempt from clawbacks. The criteria were based on observed sources of incomes of welfare recipients (see National Council of Welfare (2000) for more details).

<sup>9</sup> Setting a lower bound of 25 years excludes many students, who may have collected welfare and then were referred to the student loan system. The upper bound of 54 years is to ensure that welfare recipients are not transferred over to any form of age related transfers.

*Other Transfers:* This is all transfers other than Basic Social Assistance (Employment Insurance Benefits, Workers Compensation Benefits, Canada/Quebec Pension Plan Benefits, Old Age Security Benefits, Net Federal Supplements, Child Tax Benefits, Child Tax Credits, Family Allowance Benefits, Provincial Tax Credits, and Goods and Services Tax Credits).

*Other Income:* This includes any other taxable income not mentioned above<sup>10</sup>.

*Taxes:* This includes Net Federal Calculated Tax, Net Provincial Calculated Tax, Quebec Abatement (a deduction for residents operating a business in Quebec), Canada or Quebec Pension Plan Contributions (through employment or from self-employment), Employment Insurance Premiums, and Social Benefits Repayment.

We also look at two measures of low-income in this paper. The first is the low-income rate. This is the percentage of individuals below the low-income threshold. The specific measure we use is the after-tax/post-transfer low-income cut-off (LICO), 1992 base. The LICO cut-offs are adjusted for family size and area size of residence. Since we use the 1992 base throughout, any changes in low-income rates are not due to a change in the *relative* well being of individuals, but rather to a change in the *absolute* well being of individuals. In other words, incomes are being compared to a fixed threshold. To acquire a sense of the magnitude of this threshold, the after-tax LICO for a family of four living in a region of 30,000 to 99,999 people is \$23,546 (1999 dollars). Although highly informative, the low-income rate does not address the *depth* of low-income. For this purpose, we use a second measure of low-income—the average low-income gap ratio. The gap ratio is defined as the percentage difference between the after-tax LICO and the actual family income for those below the low-income threshold (the gap is not measured for those above the threshold).

#### *A Note on the National Child Benefit Supplement*

Over the period of study, total child tax benefits were increasing rapidly. The main increases took place in 1998 and 1999, when a supplement for low-income families was introduced and subsequently increased. In most provinces, the supplement was clawed-back from welfare cheques, and the province was free to re-invest the proceeds as they saw fit. With respect to this study, one concern is that some people we classify as welfare “leavers” are actually parents who simply moved from the welfare system to another form of public assistance. However, it is quite clear that the potential for the occurrence of such cases is very limited. The yearly supplement that was introduced in 1998 consisted of \$605 for one child, \$1,010 for two children, \$1,340 for three children, and \$1,670 for four children. The supplement was further increased by \$180 per child in 1999. Clawing back these amounts from welfare cheques is not sufficient to take people completely off welfare (see the National Council of Welfare (1998b) for more information on the supplement).

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<sup>10</sup> We considered including Net Alimony in this category (alimony received minus alimony paid), but changes to the tax laws render the variable unreliable after 1996 (payments resulting from new agreements made after April 30<sup>th</sup>, 1997 are not taxable nor tax deductible). In separate tabulations, we included Net Alimony, but the results were quite similar.



## 4. Results

### 4.1 The Economic Impact of Leaving Welfare

#### The Change in Earnings and Income Following the Exit

This section focuses on the economic consequences of leaving welfare at the individual level<sup>11</sup>. To this end, we begin with tax filers in the LAD who were full-year welfare users in year "t". There were over 300,000 individuals in our sample who met this criterion. Of those, about 9% did not collect welfare at all two years later, giving us a working sample of 28,840. Table 1 summarizes this information.

# On Welfare "Full-Year" in Year "t"	332,610
# On Welfare at Some Point in Year "t+2"	303,770
# Off Welfare Completely in Year "t+2"	28,840
Exit Rate (%)	8.7
* Individuals on welfare "full-year" are those in census families with Basic Social Assistance greater than 80% (70% if kids are present) of family income. Year "t" refers to 1992 to 1997. All sample sizes are rounded to the nearest 5.	

Table 2 shows our first set of results. Note that all dollar values based on LAD are rounded to the nearest \$100 (in 1999 constant dollars) and are calculated at the census family level. Two columns of results are shown: results while on welfare and results while off welfare. Overall, mean disposable income rises considerably (from \$13,400 to \$18,900). Essentially, the rise in earnings more than offsets the decline in social assistance. Other forms of transfers also generally increase. Although not shown, these include child-related transfers (i.e. the Child Tax Benefit) and work related transfers (i.e. Employment Insurance Benefits and Workers Compensations Benefits).

	On Welfare (t)	Off Welfare (t+2)	Change
Family Earnings (Mean \$1999)	200	17,300	17,100
Family Other Market Income (Mean \$1999)	0	400	400
Family Social Assistance (Mean \$1999)	11,000	0	-11,000
Family Other Transfers (Mean \$1999)	2,200	4,000	1,800
Family Other Income (Mean \$1999)	100	600	500
Family Taxes (Mean \$1999)	0	3,400	3,400
Family Disposable Income (Mean \$1999)	13,400	18,900	5,500
Family Adjusted Disposable Income (Mean \$1999)	8,500	11,700	3,200
LICO Rate (%)	91	58	-33
LICO Gap (%) - All Welfare Exiters	38	52	14
LICO Gap (%) - Welfare Exiters in Low-Income both Periods	39	51	12
Year 't' refers to 1992 to 1997 inclusive.			
* All dollar values from LAD are rounded to the nearest \$100 and are calculated at the census family level.			

<sup>11</sup> The economic impact of leaving welfare on society as a whole is a topic beyond the scope of this paper.

In order to account for differences in family size and associated economies of scale, we mainly work with an adult-equivalent adjusted disposable income. The details of this adjustment are described in the previous section. Table 2 shows that adjusted disposable income also rose considerably on average (from 8,500 to 11,700 adjusted dollars, which in unadjusted dollars is equivalent to a family of four seeing their disposable income rise from \$17,000 to \$23,400). All further dollar values will be adjusted in this way.

Table 2 also indicates that welfare leavers were far less likely to be in low-income families once they left the system. Almost all welfare leavers were in low-income families while on welfare (91%), but only 58% were in that state once off welfare. Among those in low-income families, however, the situation appeared to worsen substantially. The average gap between their income and the low-income threshold was 38% while on welfare, but rose to 52% while off welfare. Of course, this increase may be inflated by the fact that those nearest the threshold left the low-income state, leaving behind those who were furthest from the low-income line. To test this hypothesis, we recalculated the change in the average gap to reflect incomes of those who were in the low-income state in both years, and find a very similar outcome (an increase from 39% to 51%).

The rising low-income gap points to the fact that although the situation among welfare leavers improved on average, it actually deteriorated for some. Table 3 explores this notion more directly. Individuals are ranked according to their change in adjusted disposable income. We notice that the top decile saw an increase in mean adjusted disposable income of about \$20,000. For a family of four, this is equivalent to about \$40,000 (in unadjusted dollars). Increases in disposable income were registered for the top six deciles, as one would expect if welfare recipients leave the system to pursue job opportunities. The situation was far different for the bottom two deciles, where substantial declines were registered. The bottom decile reports virtually no income whatsoever. Even the third decile saw their incomes decline to some extent. In a later section, we explore several possible explanations behind the large declines registered for so many welfare leavers.

Table 3: Mean Change in Outcomes by Decile

Decile of Change in Outcome	Family Adjusted Disposable Income (Mean \$1999)			Family Disposable Income (Mean \$1999)		
	On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change
Top	7,300	27,600	20,300	10,100	43,800	33,700
9th	7,700	18,900	11,200	11,300	30,200	18,900
8th	7,900	16,000	8,100	12,000	25,600	13,600
7th	8,200	14,100	5,900	12,700	22,600	9,900
6th	8,400	12,300	3,900	13,400	20,200	6,800
5th	8,700	10,600	1,900	14,100	17,300	3,200
4th	8,800	8,500	-300	14,200	13,900	-300
3rd	8,200	5,400	-2,800	13,500	9,000	-4,500
2nd	8,700	2,700	-6,000	14,400	4,600	-9,800
Bottom	11,000	1,100	-9,900	18,300	2,000	-16,300

## Provincial Differences

Since welfare falls under provincial jurisdiction, there is considerable interest in provincial level results. As various provinces lowered benefits and tightened eligibility rules (especially in Ontario and Alberta), many policy analysts were asking what happened to those who left welfare in their province. Table 4 shows the change in adjusted disposable income by province. Essentially, all provinces saw improvements on average. The largest improvement was registered in Quebec, but this is partially explained by the fact that welfare receipts were below average in year “t”. All in all, post-welfare incomes were not drastically different across the country, especially after one considers

differences in economic conditions among provinces. The welfare population shrank the fastest in Alberta during the 1990s, so one might have expected the many welfare leavers in Alberta to fare less well than in other provinces. However, Alberta welfare leavers stood in the middle of the pack in post-welfare incomes. Table 4 also indicates that among welfare leavers, the low-income rate among leavers fell in all provinces by roughly the same amount. The average low-income gap among welfare leavers rose in all provinces, but to varying degrees. The low-income gap only rose slightly in Quebec (3 percentage points), but substantially in Nova Scotia (23 percentage points) and Ontario, Saskatchewan, and British Columbia (21 percentage points each).

Table 4: Outcomes On and Off Welfare by Province

Province (t)	Exit Rate (%)	Sample Size (Exiters)	Family Adjusted Disposable Income (Mean \$1999)			Family Disposable Income (Mean \$1999)			Family Earnings (Mean \$1999)		
			On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change
Newfoundland and Labrador	7.3	300	7,300	9,400	2,100	11,300	15,400	4,100	100	12,000	11,900
Prince Edward Island	8.5	50	--	--	--	--	--	--	--	--	--
Nova Scotia	7.4	670	7,600	10,200	2,600	11,600	16,600	5,000	200	14,200	14,000
New Brunswick	7.7	435	6,800	9,600	2,800	9,900	14,700	4,800	100	11,800	11,700
Quebec	7.8	8,535	7,400	11,600	4,200	10,900	17,700	6,800	100	15,400	15,300
Ontario	9.2	13,200	9,500	12,400	2,900	15,300	20,500	5,200	200	19,600	19,400
Manitoba	7.5	860	7,800	10,600	2,800	12,200	16,600	4,400	200	15,400	15,200
Saskatchewan	7.1	470	7,600	10,100	2,500	12,600	16,500	3,900	200	15,200	15,000
Alberta	13.5	1,610	8,000	10,000	2,000	13,500	17,200	3,700	200	15,500	15,300
British Columbia	8.7	2,685	8,500	11,600	3,100	13,600	19,100	5,500	100	17,100	17,000

The fact that Alberta welfare leavers stood in the middle of the pack in terms of income among all welfare leavers is perhaps misleading. Economic conditions were very strong in Alberta in the 1990s, and this may have affected earnings (the largest component of income). Furthermore, other factors such as educational attainment, work experience, and the gender composition should ideally be taken into account when comparing outcomes of welfare leavers among various provinces. In an attempt to account for such factors, we turn to the Survey of Labour and Income Dynamics (SLID). Appendix B shows the results of an ordinary least squares (OLS) log annual earnings equation. Only individuals with positive earnings are included, and the data covers the period 1993 to 2000 (1995 to 2000 for the post-welfare year—“t+2”). To increase the sample size, we focus on the post-welfare outcomes of individuals who had significant use of the welfare system (but not necessarily full-year use). These are people with Basic Social Assistance greater than 30% of total family income.

The dependent variable is the log of annual earnings in year t+2. Model 1 only contains controls for the province, so the coefficients can be viewed as the “raw” average percentage earnings differences among provinces, with Ontario on the reference group. We see that welfare leavers from the Atlantic provinces, Quebec, and Alberta stood at the bottom of the pack in terms of post-welfare earnings. For example, welfare leavers in Alberta earned 38% less than those in Ontario. Differences between these results and those shown in Table 4 may be explained by the fact that the latter focus on disposable income, which may be heavily determined by transfers and tax rates. Model 2 includes controls for education, work experience, and sex (a female dummy variable), and the male prime-age unemployment rate (within a given year-province combination). More educated and more experienced welfare leavers earn more, as do male welfare leavers, and welfare leavers facing lower unemployment rates.

At this point, it would be tempting to simply add the provincial controls to Model 2 to assess the impact of education, work experience, sex, and economic conditions on the provincial differences shown in Model 1. However, the variation in the unemployment rate variable is almost fully

explained by the provincial dummy variables. The only other factor explaining the variation in the unemployment rate variable is the year. In Model 3, the provincial dummies are included, and we notice that the unemployment rate coefficient is no longer statistically significant. Model 3 thus does not provide any useful insight into the impact of controlling for economic conditions on the provincial level differences. At best, we can account for differences in individual-specific variables such as education, work experience, and gender. This is done in Model 4, and we see that it has very little impact on the provincial coefficients (when compared to Model 1). The provinces with significantly lower post-welfare earnings than Ontario include Newfoundland and Labrador, Prince Edward Island, New Brunswick, Quebec, and Alberta. Given that the unemployment rate was considerably lower in Alberta than in all other provinces, we can only speculate (but not test the notion) that welfare leavers in Alberta benefited from these favourable economic conditions to some extent, and thus would have earned relatively less had they faced average economic conditions.

Returning to tax data and family income, Table 5 explores the changes in income by province in more detail. Welfare leavers in each province are ranked according to their change in adjusted disposable income. First, the bottom one-third in each province registered considerable declines in incomes. The decline was highest in Ontario (\$6,700), but several provinces were not far behind (British Columbia, Saskatchewan, and Alberta). The decline was least pronounced in Quebec (\$3,800), followed by Manitoba (\$4,700). Various factors such as the depth of the cuts to each provinces welfare systems, as well as provincial economic conditions may have combined to explain these differences. It is interesting to note that despite favourable economic conditions in Ontario and Alberta, the bottom third in each province registered above average declines in income.

Province (t)	Tier of Change in Outcome	Family Adjusted Disposable Income (Mean \$1999)			Family Disposable Income (Mean \$1999)			Family Earnings (Mean \$1999)		
		On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change
Newfoundland and Labrador	Top	6,700	16,900	10,200	10,300	27,900	17,600	100	27,000	26,900
	Middle	7,100	9,000	1,900	11,400	14,500	3,100	100	8,100	8,000
	Bottom	8,100	2,500	-5,600	12,200	4,000	-8,200	0	1,100	1,100
Prince Edward Island	Top	--	--	--	--	--	--	--	--	--
	Middle	--	--	--	--	--	--	--	--	--
	Bottom	--	--	--	--	--	--	--	--	--
Nova Scotia	Top	7,300	18,800	11,500	10,800	30,900	20,100	200	31,000	30,800
	Middle	7,600	9,300	1,700	11,700	15,100	3,400	200	10,300	10,100
	Bottom	7,800	2,500	-5,300	12,400	3,900	-8,500	200	1,400	1,200
New Brunswick	Top	6,200	17,500	11,300	8,900	27,700	18,800	200	26,200	26,000
	Middle	6,600	8,700	2,100	9,700	12,700	3,000	100	8,000	7,900
	Bottom	7,500	2,500	-5,000	11,200	3,600	-7,600	100	1,300	1,200
Quebec	Top	6,700	19,000	12,300	9,300	29,100	19,800	100	30,000	29,900
	Middle	7,600	11,600	4,000	11,400	17,600	6,200	200	13,600	13,400
	Bottom	7,900	4,100	-3,800	12,000	6,400	-5,600	100	2,600	2,500
Ontario	Top	8,600	21,600	13,000	12,800	35,000	22,200	200	38,200	38,000
	Middle	9,500	12,000	2,500	15,600	20,200	4,600	200	17,500	17,300
	Bottom	10,300	3,600	-6,700	17,400	6,200	-11,200	300	3,000	2,700
Manitoba	Top	7,200	17,700	10,500	10,600	27,700	17,100	200	289,000	288,800
	Middle	7,900	10,600	2,700	12,500	16,800	4,300	300	14,500	14,200
	Bottom	8,100	3,400	-4,700	13,400	5,300	-8,100	100	2,700	2,600
Saskatchewan	Top	6,800	18,500	11,700	10,300	29,500	19,200	100	31,000	30,900
	Middle	7,700	9,500	1,800	13,000	16,200	3,200	300	13,400	13,100
	Bottom	8,500	2,200	-6,300	14,700	3,800	-10,900	100	1,300	1,200
Alberta	Top	7,000	17,700	10,700	11,200	30,100	18,900	100	31,700	31,600
	Middle	8,100	9,400	1,300	13,800	16,400	2,600	200	12,600	12,400
	Bottom	8,800	2,800	-6,000	15,600	5,000	-10,600	200	2,200	2,000
British Columbia	Top	7,700	21,200	13,500	11,300	34,000	22,700	100	35,900	35,800
	Middle	8,700	11,100	2,400	14,200	18,700	4,500	100	14,300	14,200
	Bottom	9,200	2,700	-6,500	15,100	4,600	-10,500	100	1,200	1,100

## Marriage/Divorce and Welfare Exit

One factor that may have a considerable influence in the economic success of welfare leavers is changing marital status. Table 6 shows the consequences of marriage and divorce on the probability of leaving welfare, and the subsequent success among those who left the system. Individuals who married (or entered common-law arrangement) between year “t” and year “t+2” are denoted as “Single-Married”. Likewise, individuals who divorced are denoted as “Married-Single”. The benchmark groups are individuals who were single both periods (“Single-Single”) and married both periods (“Married-Married”), respectively. Note that “Single” indicates a person who is not currently married, and may include previously married individuals (divorced or widowed).

Table 6: Outcomes by Change in Marital Status							
Marital Status ("t"- "t+2")	% of Welfare Users in "t"	Exit Rate (%)	Sample Size (of Welfare Exiters)	Family Adjusted Disposable Income (Mean \$1999)			% Contribution of Individual Earnings to Family Earnings (t+2)
				On Welfare (t)	Off Welfare (t+2)	Change	
Men							
Single-Married	10.7	14.7	1,210	7,500	15,600	8,100	49
Single-Single	89.3	6.6	4,525	7,000	11,700	4,700	90
<i>Difference</i>						<i>3,400</i>	
Married-Single	14.7	15.1	795	9,900	12,500	2,600	83
Married-Married	85.3	11.3	3,430	9,100	11,200	2,100	70
<i>Difference</i>						<i>500</i>	
Women							
Single-Married	15.4	20.4	5,580	8,800	17,500	8,700	18
Single-Single	84.6	6.0	9,045	8,400	8,400	0	94
<i>Difference</i>						<i>8,700</i>	
Married-Single	21.3	7.0	635	9,400	7,400	-2,000	93
Married-Married	78.7	10.7	3,620	9,200	11,100	1,900	27
<i>Difference</i>						<i>-3,900</i>	

The second column in Table 6 shows the proportion in each marital category. Eleven percent of single men and 15% of single women married within the two year period. Conversely, 15% of married men and 21% of married women became single. Hence, there was substantial change in marital status over the two years. Married welfare recipients are more likely to divorce than single recipients are to marry. Compared to women, single men are less likely to marry and married men are less likely to divorce. These findings are consistent with published statistics<sup>12</sup>. In essence, males are more likely to delay marriage, but conditional on having married at least once, they are more likely to still be married in the future—whether they remained married throughout or divorced and remarried. In other words, the state of marriage is concentrated over time among fewer men than among women.

Marriage is associated with a higher probability of exit from welfare compared to single people who remain single. This is especially true for women, who are three times as likely to exit welfare if they marry. Men are about twice as likely to exit welfare if they marry. Conditional on having left welfare, both men and women who marry see their family disposable income rise more than those who remain single. However, single men who remain single and leave welfare also see their family disposable income rise, such that the added benefit of marriage (compared to remaining single) is smaller for men than for women (\$3,400 for men versus \$8,700 for women, all in adjusted dollars). Furthermore, men who did marry contributed 49% of total family earnings, whereas women who married only contributed 18% of total family earnings.

Turning our focus to married individuals on welfare, we note that the exit rate is higher for men who divorced compared to men who remained married (15% versus 11%). For women, the situation is reversed: divorce is associated with lower odds of exiting welfare compared to remaining married (7% versus 11%). This is likely because men, on average, do better financially coming out of a divorce than do women, since their earnings potential levels are on average higher. Conditional on

<sup>12</sup> See CANSIM II table 051-0010 for more details. In 1997, 46% of all males had never married, compared to 39% for females. Among those who had previously married, only 10% of males were divorced or widowed, whereas 21% of females fell into the same category.

having left welfare, men who divorced saw about the same rise in income as men who remained married. Women who divorced saw a decline in income, whereas women who remained married saw a rise in income.

To summarize, marriage appears to help single women exit welfare more so than single men. Conditional on having left welfare, marriage has a greater net economic impact on previously single women who left welfare than on previously single men who left welfare. Men who divorce are more likely to leave welfare than men who remain married, but the converse is true for women. Conditional on having left welfare, divorce has virtually no impact on the incomes of men (compared to remaining married), but has a negative impact on the incomes of women. Of course, some gender differences are expected given that men earn more than women. The usefulness of the findings in Table 6 is that they highlight an important implication of the gender earnings gap: men and women on welfare have a different incentive structure vis-à-vis marriage and divorce.

### Recidivism Rates Among Exiters

Exiting welfare is one thing, remaining off it another. There is obvious interest in the extent to which welfare leavers return to the system. Table 7 sheds some light into this issue by showing the recidivism rate of welfare leavers; that is, the probability of returning to the system by a given year. The first row shows the recidivism rate for any type of re-entry into the system for one cohort of welfare leavers: those who were on welfare in 1992, but off completely by 1994. Within one year (1995), 35% had returned to the system. Over the five years following exit, 52% had returned to the system at some point. This is close to the American evidence provided by Meyer and Cancian (1996), who found that 60% returned to welfare within five years.

	Initial Sample (On in 1992, Off in 1994)	Repeat Use by 1995	Repeat Use by 1996	Repeat Use by 1997	Repeat Use by 1998	Repeat Use by 1999
Recidivism Rate - Any Repeat Welfare Use (%)	0	35	43	47	50	52
Recidivism Rate - Full-Year Repeat Welfare Use (%)	0	13	18	21	26	29

\* The sample consists of 2,920 individuals who were full-time users of welfare in 1992, but were off welfare completely in 1994.

Of course, the re-entry into the system may have been sporadic. The second row displays recidivism rates based on full-year repeat use. Only 13% had returned to the system within one year (1995). Five years after leaving welfare, only 29% had returned for at least one “full-year”<sup>13</sup>.

### Longer-term Outcomes for Welfare Leavers

Another question on the minds of many was, “Did welfare leavers become more self-sufficient over time?” Table 8 looks at the long-term economic outcomes of people who were on welfare in 1992, but were off completely in 1994. This sample is divided into tiers of adjusted disposable income in 1994 (shortly after leaving welfare). In terms of overall economic well being (measured by adjusted disposable income), we see very little change at the top over the following five years. We see moderate growth at the middle, and substantial growth at the bottom. Relating this back to our

<sup>13</sup> Given that we do not have monthly data, it is impossible to identify cases where, say, the person returned to welfare for the last six months of a year, plus the first six months of the following year. So the actual proportion who returned for about one full consecutive year lies somewhere between the two recidivism rates shown in Table 7.

earlier finding that about one-third of welfare leavers saw a decline in economic well being shortly after leaving welfare (Table 3), we now see that this was a transient situation for most. By 1999, adjustable disposable family income had returned to roughly the level observed while on welfare full-time. This is achieved mainly through increased employment earnings. Family earnings among both the middle and bottom tiers rose over the five years from 1994 to 1999, improving significantly among the bottom tier in particular. However, these families experienced low disposable incomes over the period.

Table 8: Long-Term Outcomes of those who Left Welfare between 1992 and 1994  
by Income Tier in 1994\*

Family Adjusted Disposable Income Tier (1994 or "t+2")	Outcomes	1992	1994	1995	1996	1997	1998	1999	Change (1999-1994)
Top	Family Adjusted Disposable Income (Mean \$1999)	9,300	21,100	20,100	19,600	19,300	20,400	20,900	-200
	Family Disposable Income (Mean \$1999)	13,900	33,600	32,400	32,200	31,900	33,800	34,500	900
	Family Earnings (Mean \$1999)	600	35,700	33,400	33,500	34,000	35,500	37,000	1,300
	Family Social Assistance (Mean \$1999)	11,400	0	900	1,000	1,100	1,000	1,000	1,000
Middle	Family Adjusted Disposable Income (Mean \$1999)	8,700	11,700	12,400	12,600	13,200	14,300	14,900	3,200
	Family Disposable Income (Mean \$1999)	13,000	17,300	19,100	19,700	20,900	22,900	24,000	6,700
	Family Earnings (Mean \$1999)	100	12,900	13,800	14,900	17,000	19,100	21,000	8,100
	Family Social Assistance (Mean \$1999)	10,700	0	2,100	2,400	2,400	2,200	1,900	1,900
Bottom	Family Adjusted Disposable Income (Mean \$1999)	9,000	2,700	8,400	9,000	9,900	11,000	11,300	8,600
	Family Disposable Income (Mean \$1999)	14,200	4,100	13,700	14,700	16,400	18,100	18,800	30,400
	Family Earnings (Mean \$1999)	0	1,500	6,800	8,000	10,000	12,000	12,700	11,200
	Family Social Assistance (Mean \$1999)	11,600	0	4,900	4,200	4,200	3,800	3,500	3,500

\* Individuals were off welfare completely by 1994, but may have returned to welfare later. Social assistance benefits are calculated only for those who returned to the welfare system.

## 4.2 Why Did Incomes Decline Substantially For Many Welfare Leavers?

Table 3 indicated that about one-third of welfare leavers saw declines in income when they left the system. The bottom two deciles saw particularly steep declines. In an era of declining benefits, many welfare recipients may leave the system and enter the workforce in order to fully or partially make up for any losses. In this sense, the benefit reforms of the 1990s may explain why some people left welfare and experienced small to moderate declines in income. But why did so many people experience substantial declines in income after leaving welfare?

In this section, we discuss four possible reasons<sup>14</sup>. These include (1) the tightening of eligibility rules that may have resulted in the exit of some people who weren't prepared to enter the labour market, (2) living off one's financial assets, and hence registering low income flows, (3) accepting short-term labour market difficulties in the hope of longer-term prosperity, and (4) the fact that tax data forms *census* (not *economic*) families.

The tightening of eligibility rules has been well documented. In Section 2, we outlined the major changes in Ontario and Alberta, but significant changes occurred throughout most of the country. Amidst these changes, it is conceivable that some people may have been ill prepared to succeed in the labour market upon leaving the system. Tax data provides no evidence in this regard, but in the study of welfare leavers in Alberta by Elton, Siepert, Azmier, and Roach (1997), 7.3% reported

<sup>14</sup> A fifth possibility, that the very low income levels were the result of negative net self-employment income (due to large costs deductions), was also tested, but quickly dismissed as a candidate.



leaving the system because they were “cut off”. If we exclude cases where respondents refused to answer, did not know, went to school, were transferred to the student loan system, participated in a job training program, became eligible for some other form of assistance, or stated “other” reasons, 9.9% could be categorized as having been “cut off”. However, not all of these leavers would have necessarily registered large drops in disposable income. If one assumes one-half did, then this process may have accounted for 5% out of the roughly 30% who experienced substantial declines in income. So for the case of Alberta, being cut off the system may explain why some people’s income declined substantially, but it probably can not account for a majority of these cases.

A second possibility is that some people who had sufficient assets to support themselves left welfare and liquidated these assets before finding a job. This may include selling stocks, cashing in bonds, drawing on bank accounts, etc. In the tax data, some of these actions would fall under capital gains. Unfortunately, the tax incentives for claiming capital gains have changed considerably over the 1990s, which means that this variable is not a reliable measure of true capital gains. To circumvent this problem, we went to the 1999 Survey of Financial Security (SFS) in order to gauge the distribution of financial assets of economic families that were full-year welfare recipients. It is difficult to determine what constitutes sufficient assets to support a family for a year, but it is clear from the data that very few families could support themselves from financial assets alone. The 70<sup>th</sup> percentile of full-time welfare participant had financial assets of \$300 (1999 dollars, *not* adjusted for family size). At the 80<sup>th</sup> percentile, assets were still only \$705. The assets of the 90<sup>th</sup> percentile were \$3,300, which could go some way in helping families. Once again, this hypothesis can at most only explain why some people’s income declined substantially after leaving welfare not the majority. If it is part of the explanation, however, it may actually overlap with the first explanation: assets were considered too high, and thus recipients were “cut off”.

Another possibility is that recipients (or some other member of the family) decided to leave welfare for a very low paying job, with the hopes of finding a better job in the future. The numbers in Table 8 are certainly consistent with this notion. Among those initially in the bottom one-third of the income distribution, family earnings eventually rose substantially. Once again, these findings are not inconsistent with the previous two hypotheses: many recipients may have been cut off the system (perhaps due to non-exempt financial assets in some cases), either lived off assets or had very little income for some time, and then either returned to welfare or improved their labour market position over time.

A fourth possibility relates to the fact that the tax data (LAD) forms census (or nuclear) families, as opposed to economic families. It is possible that former recipients may live with someone else who has a good paying job, but is not part of their census family. To assess this impact, we turn to the Survey of Labour and Income Dynamics (SLID). Although the sample size in SLID is considerably lower than in tax data (only 223), it does have an economic family identifier. The welfare exit rates and post-welfare outcomes in SLID look strikingly similar to the LAD results. In LAD, 8.7% of full-year welfare recipients left welfare by year “t+2”, compared to 8.6% in SLID (Table C1 in Appendix C). The mean levels and change in adjusted disposable income are about the same in both data sources (Table C2). More importantly, the distribution of the change in adjusted disposable income is strikingly similar (Table C3). The bottom decile sees an average decline of \$9,900 in LAD, compared to a decline of \$10,098 in SLID. The numbers are even closer in the second decile. We also calculated adjusted disposable income in LAD and SLID based on a less stringent rule for being on welfare: at least 30% of total income is derived from Basic Social Assistance. This led to a tripling of the sample size in SLID. The distribution of post-welfare adjusted disposable income

(year “t+2”) was similar in both data sources. In particular, incomes were very low in the bottom one-third of the distributions. Thus, the fact that we can only observe census families in the tax data does not appear to affect the outcomes. The SLID analysis indicates that the substantial decline in disposable income among roughly one third of welfare leavers is real, as it is observed in two very different data sets, and that even if one uses economic families (including other possible income earners besides the immediate family), the results remain the same.

So why did incomes decline substantially for so many people who left welfare? The three remaining possibilities cannot be thought of in complete isolation since the facts supporting any of them do not rule out any other possibility. Two scenarios that combine the hypotheses seem to stand out. First, some recipients may have exited the system due to eligibility rule changes, or stricter enforcement of rules (e.g. possibly due to non-exempt financial assets in some cases or for other reasons). Alternatively, many recipients may have left welfare while holding a very low paying job, but with the hopes of someday landing a better paying job. Some may have been successful in this endeavour, while others eventually had to return to welfare. Another possible reason for leaving welfare is simply to avoid the negative stereotypes that may be associated with being on welfare. In the end this paper cannot determine precisely why people who had substantial declines in disposable income exited from the system.

Exactly how people survived with so little income is also unclear. It is possible that family or friends provided financial assistance or a place to stay. It may also be the case that they received some form of non-taxable income, which we obviously can not detect in the data.

## **5. Conclusion**

During the 1990s, the population of welfare recipients declined substantially in Canada. Various factors may account for this decline, such as declining welfare benefits, tighter eligibility rules, and the economic rebound witnessed in most provinces. Due largely to a lack of data, very little is known about the economic situation of those who left welfare at this time. By using longitudinal tax data, this study provides a first detailed picture of the economic conditions of people who left welfare during the 1990s.

The average outcomes of welfare leavers appear to be favourable. Average family incomes rose substantially among those who left welfare, and this was mainly prompted by a rise in earnings. The low-income rate also declined among this population. Among those who remained in low-income, however, their economic position deteriorated. In fact, incomes declined (sometimes substantially) for about one-third of welfare leavers. This phenomenon occurred in every province to varying degrees (low sample sizes precluded an analysis of Prince Edward Island).

Marriage and divorce played large roles in determining the odds of leaving welfare, as well as in economic well being once off welfare. Marriage increased significantly the likelihood of exiting welfare, particularly for women, and in their economic success once off welfare. Married men who divorced were more likely to exit welfare than those who remained married, but the exact opposite was true for married women. This is likely related to the fact that men generally have superior financial outcomes to women following divorce. Furthermore, men who divorced and left welfare enjoyed about the same increase in income as men who remained married while exiting welfare. Women who divorced and left welfare saw their incomes decline, whereas women who remained married saw their incomes increase as they left welfare.

Many people who left welfare eventually returned to the system. Within one year of being completely off the welfare system, 35% returned. Within five years, one half returned at some point. A substantial portion of these re-entries were sporadic, however, as only 13% returned for a full year within one year of leaving, and 29% returned for at least one full year within five years of leaving. On average, the long-term outlook of welfare leavers is positive, as their economic self-sufficiency grew substantially over the five years following exit. This is especially the case among those who were initially in the most difficult economic circumstances shortly after leaving welfare. The gains in employment earnings were substantial among this group, but very low disposable incomes persisted in spite of this improvement, as their income returned only to the level experienced on welfare five years after the exit.

The fact that incomes declined for so many people following exit from welfare is perhaps counter-intuitive if one believes that people leave welfare to pursue better paying jobs. The decline appears to be real however, as it is observed in two very different data sets. In a second part of the paper, we investigate several hypotheses regarding why incomes declined substantially for so many people, and conclude that we have insufficient evidence to determine the precise cause. Some recipients may have been cut off the system (possibly due to non-exempt financial assets in some cases or for other reasons), and then either lived off these assets or with very little income for some time, and then either returned to welfare or improved their labour market position over time. Alternatively, many recipients may have left welfare while holding a very low paying job, but with the hopes of improving labour market skills and someday landing a better paying job. Some leavers appear to have been successful in this endeavour, while others eventually had to return to welfare.

Exactly how some welfare leavers managed to make ends meet with so little income (at least for a short while) is also unclear. It is conceivable that friends or family provided financial assistance, or even rent-free accommodations for some time. Unfortunately, the data provide no information to either confirm or disconfirm this possibility. It is also possible that they received some non-taxable income, which is also impossible to detect in the data.

## Appendix A

Table A1: Proportion of the Population on Welfare in March (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Newfoundland and Labrador	8.5	8.8	9.5	9.0	9.2	8.5	8.1	8.8	8.3	7.8	8.3	9.0	10.3	11.7	11.7	12.5	12.8	12.9
Prince Edward Island	7.6	8.2	9.2	9.1	7.8	7.5	7.2	7.2	6.9	6.4	6.6	7.9	9.0	9.5	9.8	9.2	8.6	8.1
Nova Scotia	6.0	7.3	7.5	8.0	7.7	8.3	8.1	8.2	8.2	8.4	8.6	9.4	10.1	10.7	11.2	11.2	11.1	10.0
New Brunswick	9.4	9.6	8.9	9.8	9.5	9.6	9.5	10.1	9.7	9.2	9.1	9.7	10.5	10.4	9.8	9.0	8.9	9.4
Quebec	7.9	8.2	8.6	10.2	10.7	10.7	10.4	9.6	8.7	8.1	8.0	8.4	9.5	10.4	10.9	11.1	11.2	10.9
Ontario	4.1	4.4	4.6	5.2	5.3	5.2	5.2	5.4	5.5	5.9	6.6	8.9	11.3	12.1	12.8	12.3	11.0	10.3
Manitoba	4.4	4.5	4.6	5.3	5.5	5.8	5.7	5.5	5.7	5.7	6.1	6.5	7.3	7.9	8.0	7.6	7.6	7.0
Saskatchewan	4.3	4.5	4.9	6.0	6.3	6.3	6.1	6.0	5.9	5.6	5.4	5.3	6.0	6.8	8.0	8.1	7.9	7.8
Alberta	3.5	3.4	3.9	5.5	4.9	5.2	5.2	6.2	6.1	6.1	5.9	6.1	7.2	7.4	5.1	4.1	3.8	3.2
British Columbia	4.5	4.6	5.1	7.9	8.8	9.0	8.5	8.2	7.8	7.2	6.6	7.3	8.1	9.1	9.7	10.0	9.6	8.2
Canada	5.5	5.7	6.0	7.2	7.4	7.4	7.3	7.2	6.9	6.8	7.0	8.2	9.6	10.4	10.7	10.5	9.9	9.3

Table A2a: Annual Social Assistance Benefits - Unattached Individual (\$1999)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Newfoundland and Labrador				4,322	4,625	4,843	4,803	4,661	4,694	4,629	4,587	4,518	4,770	4,710	4,664	4,576	2,621	1,097
Prince Edward Island				8,062	8,307	8,603	8,920	8,671	8,727	8,626	8,557	8,557	8,731	8,660	7,721	5,960	5,494	5,459
Nova Scotia				6,692	6,682	6,703	6,556	6,736	6,960	7,307	6,946	6,608	6,548	6,427	6,366	6,245	6,203	4,547
New Brunswick				3,341	3,348	3,315	3,231	3,335	3,280	3,495	3,430	3,358	3,381	3,331	3,325	3,275	3,281	3,253
Quebec				2,900	2,911	2,887	2,908	2,825	2,845	5,076	7,823	6,421	6,482	6,492	6,470	6,347	6,285	6,069
Ontario				5,601	6,074	6,237	6,843	7,130	7,223	7,321	8,036	8,301	8,664	8,638	8,579	7,962	6,537	6,408
Manitoba				6,166	6,227	6,321	6,449	6,397	6,383	6,626	6,721	6,645	6,866	6,886	6,392	6,271	5,802	5,496
Saskatchewan				5,845	5,902	5,916	6,037	6,143	6,073	6,040	5,881	5,709	5,961	6,271	6,211	6,093	6,033	5,414
Alberta				6,924	6,614	6,391	6,513	6,476	6,264	5,969	5,672	6,172	6,255	5,892	5,098	5,001	4,953	4,884
British Columbia				7,073	6,755	6,483	6,136	6,282	6,117	6,730	6,855	6,750	6,997	7,014	7,079	6,931	6,370	6,245

Table A2b: Annual Social Assistance Benefits - Lone-Parent/One Child (\$1999)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Newfoundland and Labrador	11,722	11,186	10,341	11,131	12,376	12,142	12,040	11,671	11,222	11,787	11,725	11,861	12,420	12,260	12,144	11,913	11,797	11,566
Prince Edward Island	10,552	10,725	10,964	11,411	11,891	12,314	12,228	12,070	12,002	11,892	11,943	11,854	12,112	12,031	11,710	11,174	10,729	10,241
Nova Scotia	10,989	11,466	11,533	11,663	11,680	11,643	11,353	11,731	11,829	11,691	11,565	11,431	11,499	11,286	11,387	11,170	11,061	10,845
New Brunswick	10,566	10,329	10,440	10,173	9,731	9,956	9,912	10,020	9,844	9,474	9,292	9,090	9,210	9,231	9,536	10,023	10,027	9,933
Quebec	10,501	10,304	10,357	10,562	10,618	10,528	10,356	10,277	10,392	10,316	9,981	10,054	11,300	11,770	12,163	11,931	11,816	10,441
Ontario	9,512	10,214	10,797	11,227	12,179	12,368	13,086	14,013	14,276	13,427	15,205	15,656	16,059	16,021	15,913	14,772	12,140	11,901
Manitoba	11,011	10,716	10,070	9,819	9,762	10,004	10,077	9,977	9,935	9,800	9,684	9,565	10,782	10,556	10,391	10,192	10,094	9,896
Saskatchewan	11,284	11,366	11,021	11,775	12,258	12,837	12,388	12,470	12,857	12,336	11,940	11,500	11,436	11,301	11,194	10,980	10,874	10,661
Alberta	11,348	12,295	13,368	13,060	12,473	12,069	11,930	11,751	11,746	11,191	10,636	11,168	11,206	10,751	9,912	9,723	9,629	9,508
British Columbia	12,737	13,366	13,021	12,977	12,394	11,895	11,751	11,573	11,889	10,915	12,240	12,001	12,614	12,648	12,752	12,549	12,427	10,914
Canada	10,601	10,801	10,990	11,280	11,466	11,418	11,486	11,739	11,953	11,567	12,263	12,724	13,471	13,528	13,637	13,029	11,800	11,094

Table A3: Annual Unemployment Rate - Males 25-54 (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Newfoundland and Labrador	10.3	9.9	12.7	14.4	15.6	17.3	15.3	14.0	12.2	12.7	14.5	15.7	18.1	18.5	18.8	17.6	19.3	19.0
Prince Edward Island	7.9	7.8	10.8	10.0	9.8	11.3	11.1	10.3	10.4	12.0	12.7	15.7	16.9	17.0	16.7	14.9	12.8	16.0
Nova Scotia	6.9	7.0	10.0	10.7	10.6	11.2	10.8	9.8	8.7	8.1	9.2	10.5	12.2	13.7	12.0	11.1	12.1	11.5
New Brunswick	8.2	8.9	11.4	12.6	13.2	13.8	12.9	11.6	10.0	10.1	10.4	11.5	11.7	11.1	12.1	10.7	11.0	12.1
Quebec	7.3	7.8	11.4	11.8	11.1	10.3	9.0	8.9	8.0	8.5	9.3	11.0	12.3	12.8	11.9	10.9	11.5	10.8
Ontario	4.4	4.0	7.4	8.0	6.7	5.9	5.3	4.4	3.7	4.0	5.4	8.7	10.4	9.9	8.7	7.6	7.8	6.7
Manitoba	3.5	4.2	6.9	7.8	6.4	6.4	6.5	6.3	6.7	5.9	6.0	8.0	8.4	9.0	7.5	6.2	6.3	5.1
Saskatchewan	2.3	2.4	4.7	5.6	6.3	6.7	6.6	6.0	5.9	6.4	6.6	6.6	7.6	8.1	5.9	6.4	6.2	5.3
Alberta	2.3	2.5	6.2	10.0	10.6	8.7	9.2	8.0	6.4	6.0	5.7	7.8	8.8	8.7	7.5	7.1	6.0	4.5
British Columbia	3.7	4.5	9.3	11.8	13.2	12.6	10.7	9.7	8.2	6.9	7.6	9.5	9.3	8.7	8.4	7.6	7.8	7.5
Canada	5.1	5.2	8.7	9.9	9.5	8.8	7.9	7.2	6.3	6.3	7.2	9.5	10.7	10.6	9.6	8.7	8.9	8.0

## Appendix B

OLS Individual Log Annual Earnings Regressions*								
	Model 1		Model 2		Model 3		Model 4	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Newfoundland and Labrador	-0.55	-2.62			-1.12	-1.36	-0.55	-2.34
Prince Edward Island	-0.42	-2.12			-0.80	-1.26	-0.43	-1.88
Nova Scotia	-0.42	-1.38			-0.56	-1.34	-0.38	-1.28
New Brunswick	-0.45	-2.33			-0.68	-1.67	-0.43	-2.37
Quebec	-0.34	-1.48			-0.56	-1.37	-0.39	-1.73
Manitoba	0.14	0.76			0.11	0.62	0.07	0.39
Saskatchewan	-0.14	-0.51			0.12	0.42	0.09	0.32
Alberta	-0.38	-1.92			-0.42	-2.17	-0.44	-2.31
British Columbia	-0.23	-0.78			-0.29	-0.89	-0.20	-0.66
High School			-0.07	-0.32	-0.08	-0.35	-0.09	-0.36
Non-University Post-Secondary Certificate			0.26	1.75	0.25	1.55	0.25	1.56
University Degree			0.37	1.42	0.35	1.28	0.37	1.36
Don't Know Education			-0.33	-0.69	-0.34	-0.70	-0.36	-0.75
Work Experience Below Two Years			0.75	1.74	0.78	1.81	0.79	1.78
Work Experience Between Two and Five Years			0.73	1.53	0.69	1.40	0.70	1.42
Work Experience Between Five and Ten Years			0.56	1.09	0.59	1.14	0.59	1.12
Work Experience Above Ten Years			0.92	2.11	0.94	2.13	0.93	2.09
Don't Know Work Experience			0.85	1.90	0.80	1.77	0.82	1.79
Female			-0.38	-2.21	-0.40	-2.60	-0.40	-2.57
Unemployment Rate			-0.04	-1.77	0.05	0.71		
Intercept	9.40	92.89	8.88	16.98	8.53	13.79	8.81	17.59
Sample Size	566		566		566		566	
R <sup>2</sup>	0.0224		0.0747		0.0944		0.0969	

\* SLID data spanning 1993 to 2000 is used throughout. The omitted education category is "Less than High School", while the omitted experience category is "No Experience".

## Appendix C

Table C1: Number of Sampled Adults on Welfare "Full-Year" in Year "t" and their Welfare Status in Year "t+2"		
	LAD**	SLID**
# On Welfare "Full-Year" in Year "t"	332,610	2,633
# On Welfare at Some Point in Year "t+2"	303,770	2,410
# Off Welfare Completely in Year "t+2"	28,840	223
Exit Rate (%)	8.7	8.6***

\* Individuals on welfare "full-year" are those with Basic Social Assistance greater than 80% (70% with kids) of family income.

\*\* Year "t" refers to 1992 to 1997 in LAD, and 1993 to 1998 in SLID. Census families are used in LAD, while economic families are used in SLID. LAD is a 20% random sample of all tax filers, whereas all individuals in the selected families are sampled in SLID. Finally, all sample sizes are rounded to the nearest 5 in LAD.

\*\*\* This number refers to the weighted exit rate, which is not necessarily equal to the unweighted exit rate.

Table C2: Outcomes On and Off Welfare*						
	LAD			SLID		
	On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change
Family Adjusted Disposable Income (Mean \$1999)	8,500	11,700	3,200	9,057	11,489	2,433
LICO Rate (%)	91	58	-33	85	57	-28
LICO Gap (%) - All Welfare Exiters	38	52	14	34	47	13
LICO Gap (%) - Welfare Exiters in Low-Income both Periods	39	51	12	33	47	14

\* All dollar values from LAD are rounded to the nearest \$100.

Table C3: Mean Change in Adjusted Disposable Income by Income Decile						
Decile of Change in Family Adjusted Disposable Income	LAD			SLID		
	Family Adjusted Disposable Income (Mean \$1999)			Family Adjusted Disposable Income (Mean \$1999)		
	On Welfare (t)	Off Welfare (t+2)	Change	On Welfare (t)	Off Welfare (t+2)	Change
Top	7,300	27,600	20,300	8,391	24,751	16,360
9th	7,700	18,900	11,200	7,421	17,617	10,196
8th	7,900	16,000	8,100	8,385	15,789	7,404
7th	8,200	14,100	5,900	8,173	13,409	5,236
6th	8,400	12,300	3,900	8,877	12,032	3,156
5th	8,700	10,600	1,900	7,961	9,078	1,117
4th	8,800	8,500	-300	9,418	8,613	-805
3rd	8,200	5,400	-2,800	9,878	6,534	-3,344
2nd	8,700	2,700	-6,000	9,420	3,519	-5,901
Bottom	11,000	1,100	-9,900	12,697	2,599	-10,098

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