Friedman's Revenge: The Reform of "Liberal" Welfare States in Canada and the United States

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For the past two decades, the combination of growing economic strain and maturing social programs has created a harsh climate for the welfare state. While the durability of most social programs through the advanced industrial world remains striking, it was apparent by the mid-eighties that the "modern" welfare state created during the Golden Age of postwar expansion had reached an impasse in a double sense.

First, the model of choice of the postwar decades—social insurance cum citizenship rights—has rarely been used to respond to the new social risks generated by recent economic restructuring.[1] The confidence of an earlier generation that universal social programs were not only compatible with, but also helped to drive, economic growth has been seriously eroded. The result has been "paradigm breakdown" and a search for new designs that might reproduce the virtuous circle between consumption and production that prevailed from World War II to the early seventies.[2]

Second, analysis of recent conflicts over social welfare gives striking evidence that the old politics of welfare state expansion have been transformed.[3] The political constituencies, coalitions, and bargaining strategies that drove the period of expansion—and on which our theoretical models of *the* welfare state were built—appear to be no longer operative or, at least, operate in new and unfamiliar

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ways. Old metaphors, such as the "citizen's wage" intended to identify a process in which labor negotiated its pay packet through the welfare state as well as on the shop floor, no longer appear to capture the central dynamics of contemporary welfare state politics.[4]

These two *changes* in welfare state politics raise two corresponding *questions*. First, if "old" welfare state models are losing force, what sorts of emergent models will replace or supplement the social insurance cum citizenship design of the postwar decades? The answer to this first question hinges critically on the answer to the second: if the political dynamics that drove the old welfare state are now exhausted, what social forces are shaping contemporary welfare state politics?

Without claiming to provide anything remotely like a full answer to these questions, we address them by focusing on important but little-discussed reforms of the Canadian and American welfare states—recent efforts to refashion income transfers by adopting negative income tax–style policies, producing greater integration with tax systems, increased "targeting," and improved work incentives. The shift in policy appeared in bold relief in the United States in 1996, when the Earned Income Tax Credit, which fits the new framework, survived the Republican onslaught against federal poverty programs intact, while the traditional means-tested program of AFDC did not.[5] Yet this dramatic episode simply accelerated a shift that has been underway for some time. Since the late 1970s, both countries have quietly developed extensive programs modeled on the negative income tax (NIT)/guaranteed income (GI) proposals that were first considered (and rejected) in the 1960s and early 1970s. Thus our first concern: why did these previously rejected efforts come to be embraced after 1975? What political circumstances encouraged this broadly similar reorientation of policy especially at a time of growing disaffection with, and retrenchment of, traditional means-tested programs for the poor in both countries?

Although NIT/GI designs have a clear affinity with traditional means-testing, they represent, we argue, a historically novel form of state redistribution about which conventional welfare state theory has little to say in regard to either origins or outcomes. Unlike traditional means-tested programs, NIT/GI programs are not necessarily for the poor alone. They can and do reach well up the income distribution to cover electoral pluralities and, in some cases, even majorities. Consequently, conventional accounts of the politics of "poor relief" in "liberal" welfare states may provide a poor guide to the political dynamics and distributional consequences of this new form of welfare provision.[6]

NIT/GI programs, we will argue, have proven ideally suited to the new politics of austerity. Imposing austerity is a politically difficult enterprise, because of the popularity of most social programs. NIT/GI programs are flexible instruments for confronting these political constraints. Administered through tax codes, such reforms are often opaque to the general public, because of the tax system's intrinsic complexity, the possibility of burying changes in large packages of policy reform, and the possibilities for very incremental implementation.

The fact that these programs are comparatively cheap and targeted on needy groups also facilitates the formation of novel, and unexpected, coalitions between those seeking retrenchment, on the one hand, and those concerned about the poor, on the other. New political coalitions have arisen as the strength of organized labor—traditionally skeptical of NIT-style reforms—has weakened. Business actors are often supportive, because such programs can be designed in ways which improve work incentives, and because of the possibilities of reducing overall social spending. Indeed, targeted tax/transfer programs are usually expanded in a context where other welfare state programs experience cuts—often as part of the same package of legislation. The inclusion of more generous benefits for some low-income groups has made it possible to find support, or at least acquiescence, among moderates and liberals who would otherwise be expected to oppose austerity. Thus budgetary pressures, concern about labor market flexibility, and the greater adaptability of systems of taxation have encouraged reform initiatives along these lines. The combined promise of poverty reduction, stronger work incentives, and relatively low cost has made NIT-style reforms attractive to broad audiences in both countries.

This essay, however, examines divergence as well as commonality. While both countries moved toward targeted tax/transfer plans, they diverged considerably in both the extent and content of policy change. Efforts in the United States have been limited to the expansion of the Earned Income Tax Credit (EITC), which provides benefits for low-income working families with children. Reform has thus been tightly linked to a strategy of encouraging "flexibility" at the bottom of the labor market. In effect, this program expands incentives to accept low-wage employment, and we refer to it as a *wage subsidy system.* Canada's reform has been more radical. Canada has introduced a major shift from universal programs to targeted ones, redesigning traditional social programs and implementing new benefits based on NIT/GI principles. Unlike the United States, Canadian reforms have included benefits for the nonworking poor and have involved efforts to strengthen programs for all poor households.[7] These distinctive policy designs have led to quite divergent results. While inequality has grown sharply in the United States, redesigned social programs have played an important role in mitigating many of these trends in Canada.

Thus our second question: what explains the divergence in policy outcomes in the two countries? The answer is complex, but we emphasize three factors. First, existing Canadian policy structures—the *policy legacies* of previous decisions—provided an effective "bridge" to a NIT-style design, while such legacies were either small or nonexistent in the United States. Second, opposition to a basic guarantee has been much more intense in the United States. This opposition stems partly from the role of racial antagonisms in undermining the appeal of a guaranteed income, and partly from the peculiar regional character of the American political economy, which has made powerful sectional interests, especially in the South, hostile to any reforms that might undercut the low-wage labor market. These same regional interests are sympathetic to a wage subsidy system but fiercely resist extension of the model to non–wage earners. The third factor has been the fragmentation of national political institutions in the United States. This fragmentation has presented an additional obstacle to reform, giving those opposed to a more extensive NIT/GI system an effective veto.

Exploring the political roots of these reforms and the sources of cross-national divergence is helpful for evaluating the possibilities of moving toward a basic income scheme that goes beyond the EITC in the United States. Based on our comparative analysis of recent history, we find the prospects for such a development in the United States to be bleak. Conditions in the United States create relatively favorable politics for a wage subsidy, but not for a more extensive NIT/GI as proposed, for example, by Block and Manza (this issue). Those seeking to improve assistance to poor, nonworking families need to keep these political realities firmly in mind.

In Canada, the NIT/GI model has been firmly imprinted as the policy paradigm of choice among legislators and officials, and one can anticipate further reforms in this direction. In the intermediate term, the poor have benefited from this development. Our conclusion, however, adds a note of caution about whether a NIT/GI design can stabilize at a level that maintains these gains.

I. THE NEW "LIBERAL" WELFARE STATES

In the comparative literature on welfare states, the term "liberal" has become almost synonymous with a tradition of means-testing inherited from the past, with the United States and Canada as leading exemplars.[8] Traditional means-testing is based on a test of assets as well as income, requiring families to "spend down" their resources to qualify. Benefits are subject to high marginal tax rates of 100 percent (or more), imposing "welfare traps" that create little possibility or incentive for recipients to work their way out of poverty. Beneficiaries are typically subjected to intrusive surveillance by public officials who enforce codes of behavior consistent with "deservingness." And there is often considerable administrative discretion in determining eligibility and benefit levels. Socially, programs designed in this "poor law" tradition tend to create a sharp divide between the majority of citizens and the minority "poor," constituting the latter as a distinct, usually stigmatized, social category (e.g., "welfare mothers").[9] The result, as has often been noted, is that the political coalitions supporting such programs tend to be extremely weak.

The implicit model underlying liberalism's modern face, the negative income tax (NIT), shares none of these attributes. Under the NIT/GI design, low-income households are entitled to their pretax income as well as a government income supplement. The original idea, proposed by Milton Friedman in 1943, was fairly simple: In good times, workers would pay taxes to governments; in bad times governments would pay taxes to workers. Eligibility is determined exclusively by income reported in a tax return. There is no surveillance of beneficiaries or administrative discretion beyond that normally associated with the auditing of tax returns. Tax-back rates on earnings and other sources of income are always *much* less than 100 percent. One result is that benefits can reach into the ranks of the middle class, albeit at a diminishing rate. One can usefully think of the NIT/GI design as the reverse image of yet another traditional "welfare" program in the United States—the home mortgage interest deduction which provides large benefits to high-income earners with high marginal tax rates, modest benefits to low-income earners, and none at all to those with no taxable income. NIT/GI programs, in contrast, provide the largest benefits to low-income earners, benefits decline as other income rises, and they disappear altogether at higher income levels.

NIT-like designs for the welfare state have typically been proposed as a universal guaranteed income for all citizens, either as an alternative to traditional social insurance programs (e.g., Friedman), as an addition to them (see below), or in some mix of the two (see Block and Manza, this volume). In practice, however, almost all NIT programs are selective in the populations they target—the elderly and families with children in Canada, the working poor in the United States.[10] New Zealand is arguably the most striking contemporary example of a welfare state redesigned along NIT lines. Programs based on NIT principles now include unemployment insurance, sickness benefits, old age benefits, child benefits, and student loans.

Every NIT model is defined by three parameters: the *guarantee level* (the level of benefit provided to people with no other income), the *tax-back rate* (the rate at which benefits are reduced as the recipient gains income), and the *break-even point* (the income level at which benefits disappear). A high guarantee level is desirable to provide people with adequate incomes, and a low tax-back rate is desirable to encourage people to work.[11] But such a combination means that the break-even point is very high and so are the costs. In practice, virtually all NIT proposals are broken into two tiers in order to contain costs and to maintain work incentives. One tier is intended for people who are not expected to work (such as the elderly) with a high guarantee level, a high tax-back rate, and a low break-even level. The second tier, for those expected to work, typically has a lower tax-back rate and a higher relative break-even point but a lower guarantee level.

Both the United States and Canada have begun to incorporate such features into their systems of social transfers, but the shift has been far more extensive in Canada. The result has been the remarkable finding reported by Keith Banting (see Table 1): While the share of targeted cash benefits as a percentage of total income transfers in the United States held steady at around 20 percent between

Table 1
Selective Expenditures as a Proportion of Total Income Security, 1960-1992 (percentages)

	1960	1965	1970	1975	1980	1985	1990	1992
Canada	20.8	27.6	30.8	29.3	37.4	35.5	47.5	52.0
United States	20.4	18.8	22.8	24.3	20.9	16.7	16.3	17.8

Source: Keith Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," in *Degrees of Freedom: Canada and the United States in a Changing World*, ed. Keith Banting, George Hoberg, and Richard Simeon (Montreal: McGill-Queen's University Press, 1997), 267-309.

1960 and 1992, in Canada, selective (targeted) benefits rose from 21 percent to 52 percent of income transfers, rising most rapidly after 1975.[12] Canada now spends more on selective income transfers than it does on universal social insurance programs. Overwhelmingly, these Canadian trends reflect the expansion of NIT-style income-tested supplements, rather than traditional social assistance programs.

Canada introduced the income-tested Guaranteed Income Supplement (GIS) for the elderly in 1966, supplementing the universal flat benefit Old Age Security (OAS) and earnings-related Canada and Quebec Pension Plans (C/QPP). GIS was expanded in stages during the late 1970s and throughout the 1980s. Partial income-testing of the universal OAS benefit began in 1989 with the imposition of a tax "clawback" of benefits from high-income seniors. The 1996 federal budget essentially completed the transition, announcing a new family income-tested Seniors Benefit (SB) to replace OAS, GIS, and the age and pension income tax credits, effective 2001.

The same "liberal" trajectory has been followed for programs for the nonelderly as well. Following a complex series of changes beginning in 1978, Canada finally abandoned universal family allowances (launched in 1945) and child tax exemptions, replacing them by 1993 with a single income-tested Child Tax Benefit (CTB), a refundable tax credit that goes to both working and nonworking poor families. The 1997 federal budget raised the CTB budget dramatically and announced a much more ambitious restructuring of child benefits aimed at building a new national child benefit system made up of an enriched and redesigned federal Canada Child Tax Benefit and varying provincial child benefits.[13] The objective is to "take children off welfare" by replacing child welfare payments with an income-tested child benefit paid to all low-income families with children, regardless of the family's major source of income (e.g., welfare, employment, unemployment insurance, or some combination thereof).[14] Unemployment Insurance benefits were income-tested on the basis of family income for high-income families in 1979. The Employment Insurance (EI) Act which took effect in 1996 (replacing the Unemployment Insurance Act) lowered the family income threshold for testing from $63,570 to $48,750 and conditioned replacement rates for low-income earners on the presence of children.[15] Indeed, apart from health care, the earnings-related C/QPP, workers' compensation, and some social services, it is difficult to identify a single significant social program that is not now subject to some form of targeting.

The United States has taken much more modest steps in modernizing its liberal welfare state. After the failure of Richard Nixon's Family Assistance Plan (FAP), which aimed to provide a guaranteed annual income for all American families, the United States succeeded in introducing a very limited Earned Income Tax Credit for the working poor. Nevertheless, the American system of income transfers for the poor shows some indication of following something like the Canadian trajectory. The annual cost of the once-modest EITC grew from $2 billion to $12 billion between 1986 and 1992. And the 1993 budget added $20 billion over five years, at the same time that it legislated significant savings in middle-class programs such as Medicare. By 1996, annual outlays reached $25 billion—almost double the level of federal expenditures on AFDC (see Table 2). In 1986, some 7 million families were covered by the EITC. By 1996, the figure will be approaching 19 million.[16] The maximum value of the EITC is currently around $3,500, and some benefits are available to families earning up to $28,500 a year. While part of the EITC's growth was due to rising demand, the main reasons for expansion have been sizable real benefit increases and extensions of eligibility introduced in 1986, 1990, and 1993. The shifting character of the American income transfer system reflects both the expansion of the EITC and the retrenchment of traditional means-tested programs (most dramatically in the welfare "reform" legislation of 1996) and social insurance programs like unemployment insurance. It is crucial to emphasize that unlike food stamps, AFDC, or unemployment insurance—and in contrast to the NIT-style programs introduced in Canada—the EITC provides no benefits to those without earned income.

Thus while there are similarities in the policy shifts undertaken in Canada and the United States, there are major differences in both the extent and character of policy change. These differences have had a clear impact on distributional outcomes. Both countries have been buffeted by major changes in the labor market over the past decades. As in the United States, the earnings of low-income workers in Canada declined in the eighties while those of high-income earners rose.[17] However, unlike the United States experience, rising inequality in *labor market incomes* in Canada was offset by *social transfers*, so that the final distribution of total family income and the incidence of poverty in Canada remained stable.[18] In the United States, changes in social programs exacerbated rather than offset market trends, with the result that between 1970 and 1986 the Canadian poverty rate (measured by U.S. standards) moved from 6.9 points *above* the U.S. level to 4.5 points *below* it. The story for the elderly is even more dramatic. In the mid-seventies, old age poverty rates in Canada were well above American levels.[19] By the mid-eighties, only 7 percent of Canadian seniors were living below

Table 2
Federal Spending on EITC and AFDC, 1980-1996 ($ in billions)

	EITC	AFDC
1980	2.0	6.4
1981	1.9	6.9
1982	1.8	6.9
1983	1.8	7.3
1984	1.6	7.7
1985	2.1	7.8
1986	2.0	8.2
1987	3.9	8.9
1988	5.9	9.1
1989	6.6	9.4
1990	6.9	10.1
1991	10.6	11.2
1992	12.4	12.3
1993*	13.2	12.3
1994*	19.6	12.4
1995*	22.8	12.8
1996*	25.1	13.2

Source: United States House of Representatives, Committee on Ways and Means, *Where Your Money Goes: The 1994-95 Green Book* (Washington, DC: Brassey's, 1994), 389, 700.
Note: AFDC expenditures exclude state-level spending and administrative costs.
*Projections.

internationally standardized poverty lines, compared to 22 percent in the United States.[20]

Thus, the recent liberal restructuring of North America raises two interesting questions about the politics of social policy. First, why have both the United States and Canada moved toward an increased reliance on integrated, targeted tax/transfer programs? Second, why has this move been more extensive—and more effectively geared toward reducing poverty—in Canada than it has been in the United States? Section II reviews the evolution of political struggles over these programs in the two countries.

II. THE POLITICS OF INCOME-TESTING

Traditional welfare state theory does not tell us much about the conditions likely to favor the *expansion* of income-tested programs of the sort that has occurred in both Canada and the United States in the past two decades. We use the term "expansion" in a double sense: to refer to the growth of NIT-style testing as the model of choice for social transfers as compared to social insurance or demogrant programs; and, second, to refer to the real growth in benefits for "targets" of such programs. Indeed, there is precious little welfare state theory of any sort that leads us to expect this result. The reason, we think, is simple: virtually all welfare state theory is theory about the long historical trajectory of welfare state growth from the nineteenth century through the "golden age" (*les trentes glorieuses*) that ended symbolically with the first great oil shock of 1973.[21] The NIT/GI model comes into its own after this age has passed, when the welfare state enters a period of containment and retrenchment.

Although NIT-style blueprints had been discussed since the 1940s, serious consideration of Milton Friedman's proposal for a guaranteed annual income (or negative income tax) emerged in both Canada and the United States during the late 1960s, a period of major social policy innovation in both countries. These initial attempts, however, were soundly defeated. It would be another decade—around the late 1970s—before Friedman-style programs began to expand in both countries.

The reversal of fortune of these programs, from failure in the late 1960s to success from the late 1970s on, is telling. *NIT programs are the progeny of austerity.* At a time of budgetary stress, NIT-style reforms possess a number of attractive features which allow them to compete effectively both with traditional means-tested programs and, at times, with more universal ones. There are two broad reasons why this is so. The first is that these programs provide potential common ground for a powerful political coalition. This coalition includes public and private actors interested in controlling public expenditure, those with an interest in increasing labor market flexibility, and those seeking to increase the incomes of poor and near-poor households. Because these programs are much more targeted than universal programs, they offer hard-pressed public officials (and sympathetic private sector actors such as those in the financial community) the promise of expenditure restraint. At the same time, the structure of gradually phased-out benefits is widely considered to be more effective than traditional means-tested programs in sustaining work incentives—a matter of considerable importance to many employers.

Political actors on the left are likely to be more ambivalent. Labor unions have generally been opposed to NIT proposals. Crucially, however, this opposition has become less important as the political influence of organized labor has declined. Moderates and liberals, including advocacy groups for the poor, may have mixed feelings when the quid pro quo for expanding these targeted programs is cutbacks in universal transfers. Yet they may see such cutbacks as probable in any event, and the possibility of increasing real benefits to those with low incomes will often lead them to support such initiatives, or at least serve to mute their opposition. One might question the clout of such groups in comparison with the influence of employers and finance ministries. In a context where austerity threatens to generate a popular outcry, however, such groups can provide essential political cover. In contexts where it is difficult to assemble legislative majorities (such as the United States), these groups may also have some influence with moderate politicians who control crucial swing votes.

This points to the second major advantage of NIT-style programs, which is their capacity to limit the popular reactions against welfare state reform which make other kinds of programmatic initiatives difficult. The contemporary politics of the welfare state has become the politics of blame avoidance.[22] Austerity means that reforms almost always require painful cutbacks in existing programs, which are not only backed by entrenched interests but generally command widespread public support. Voters have often reacted strongly to visible cuts in social policies. In this context, operating through the tax system greatly increases policy makers' flexibility. Shifting to this arena partly circumvents the traditional interest group networks that support existing social programs. The rules governing reform of taxes are often more flexible than those governing changes in social programs. Perhaps most important, the intricacy of the tax system makes it easier for governments to present changes as relatively technical, or as part of large and complex package deals, or to phase in changes incrementally to minimize public outcry. Complexity and opacity facilitate a "politics of stealth" which makes it harder for opponents to mobilize support among mass publics.[23] Indeed, a striking aspect of the move toward GI/NIT programs in both countries has been the limited public discussion and conflict over policy change. While "welfare reform" has generated headlines and protests, major modifications of tax-based income transfers have not.

Thus NIT/GI programs are well adapted to the new politics of the welfare state. They rely on new political coalitions, which employ new, low-profile strategies suitable for an environment of austerity. These new political dynamics are evident in the histories of NIT/GI policies in both countries since the mid-1960s. Although the origins of these new policies can be traced back to the earlier era of welfare state expansion, they have flourished in the harsher environment ushered in by the oil crisis of 1973.

Canada

At least since the 1960s, when Canadian nationalism took on strong anti-American overtones and Canadian social provision began to expand beyond U.S. levels, the contrast between a mean-spirited ("means-tested") American welfare state and Canada's more generous *universalistic* welfare state has formed a core element of Canadian political identities and of Canadian political rhetoric. Ask a Canadian what distinguishes Canada from the United States and likely as not she will take out her health insurance card. In Canada, national health insurance covers hospital and medical services on a universal basis without copayments, deductibles, or other user fees. *Universality*—the provision of services and income support conditioned only by citizenship and residency—has been the distinguishing feature of the Canadian welfare state since the introduction of universal family allowances in 1944 and universal Old Age Security (OAS) benefits in 1951. The rhetoric, however, has masked a long ineluctable shift from universality as traditionally understood—citizenship cum residency as qualifying conditions—to selectivity in Canadian social spending.

The result of these reforms, however, was not a leap into the past and a return to the "poor law" tradition of American style "means-testing." Rather, it represents a new model for the design of social programs, a novel form which departs from the three traditional models for welfare state spending: earnings-related social insurance, universal flat-rate benefits, and means-tested social assistance targeted on the "poor." The distinctive feature of the Canadian welfare state in the 1990s is that the NIT model has become virtually hegemonic while in the United States it remains (and may continue to remain) in its infancy.

Three factors played especially critical roles in accounting for Canadian adoption of the NIT design. The first was an early and somewhat accidental introduction of a guaranteed income for seniors, which provided the opportunity for extensive "policy learning" concerning both the administrative and political advantages of this design. The second, more critical, element was the existing programmatic structure of a system of universal flat-rate benefits financed from general revenue, which had been created during the 1940s (for children) and 1950s (for the elderly). Unlike contributory programs that establish pseudo-proprietary claims on benefits (benefits have been "earned" and expenditures are linked to earmarked contributions), claims based on citizenship alone are especially vulnerable to income-testing. As we shall see, this vulnerability is a generic feature of flat-rate citizenship entitlements, not a distinctively Canadian phenomenon. Third, under conditions of retrenchment, proposals to shift from "universality" to greater selectivity (income-testing) were able to generate rather novel political coalitions of supporters—from business elites and conservative critics who correctly saw these changes as a way of cutting social expenditures *and* from progressive policy reformers who saw the potential for greater redistribution to the poor under conditions when the need for redistribution was rising.

Our claim that widespread adoption of a NIT-like design in social programs was a child of retrenchment has to deal with the obvious anomaly that the first implementation of such a design, the Guaranteed Income Supplement for seniors introduced in 1966, came at the height of welfare state expansion. In conjunction with OAS, the GIS provided a modest but real guaranteed annual income for all those aged sixty-five or over. Benefits were income-tested but not means-tested (assets were excluded from the test) and rather than the 100 percent tax-back rate common to social assistance programs, benefits were reduced by only 50 cents for each dollar of additional income. Although implemented during a period of social policy expansion, the politics of the GIS legislation prefigured later reforms in significant ways, a politics that could be characterized as one of *containment* if not retrenchment.

As Haddow recounts, throughout the long discussions of "poverty" policy during the 1960s, political parties, business interests, and organized labor remained largely indifferent or on the sidelines.[24] "Universal" social programs promised to deliver votes; antipoverty policy focused on the bottom of the income distribution did not. Describing the position of the parties during the review leading to the Canada Assistance Plan (CAP) reform in 1966, he notes: "None of the political parties played a significant role in shaping social assistance reform. They were far more interested in broader components of the welfare state, which had greater electoral appeal."[25]

The GIS was first proposed in February 1966 by the Special Senate Committee on Aging directed by Senator David Croll, chair of the Special Senate Committee on Aging.[26] The proposal, however, was initially resisted by both Cabinet and by federal officials.[27] It was finally adopted as a "temporary measure" in the face of enormous pressure from opposition parties, the New Democratic Party (NDP) in particular, to bring down old age poverty by dramatically raising the universal old age demogrant (OAS) to $100 per month. Adoption of the GIS proposal was a far cheaper solution. The subsequent expansion of the GIS was driven by similar considerations—first as a strategy to resist broader expansions in earnings-related public pensions (the C/QPP) at the beginning of the 1980s, and later as a way of offsetting some of the pain associated with curtailment of universal OAS benefits. While the relative value of OAS and CPP benefits has stagnated since the 1970s, GIS benefits moved up sharply in relation to average wages.[28]

Politicians and officials learned several important lessons from their experience with the GIS. First, small marginal changes could produce large political payoffs. For example, when pressed to dramatically expand the earnings-related CPP in the early 1980s as a way of reducing old age poverty, the government responded with a modest increase in GIS benefits for single (mainly female) seniors, demonstrating that the problem could be addressed through less costly solutions. Second, by careful targeting, large numbers of voters would be included even though, for many, benefits would be quite small.[29] A simplified tax form generated very high take-up rates (over 90 percent) even among low-income seniors who would not normally file a tax return. Unlike traditional means-tests which have high overhead costs, administering an income-based test proved to be relatively inexpensive for both the assessment and delivery of benefits.[30] Finally, within the context of Canadian federalism, adjusting GIS benefits proved to be far more politically feasible than adjusting traditional direct transfer programs. While social programs of all sorts have always represented contested terrain between federal and provincial governments, and have often created "joint-decision traps" which make reform extremely difficult, GIS is under the undisputed jurisdiction of the federal government.[31]

These broader implications were not immediately obvious, however, nor were they initially of much interest despite the fact that through the early 1970s, discussions of Canadian social policy reform became firmly fixed on the concept of a universal guaranteed annual income (GAI). The topic originated within the welfare bureaucracy in 1968 and 1969. The first proposal (the "family income security plan" or FISP) was brought to Cabinet in April 1970 by the Minister of Health and Welfare, John Munro, where it was rejected as too costly.[32]

That the topic emerged to dominate policy debate in the 1970s is largely due to the basic cleavage which has driven federal politics since the 1960s, namely, the future of Quebec in the Canadian federation. In 1971, Quebec's Commission of Inquiry on Social Affairs produced the Castonguay-Nepveu Report which recommended adoption of a GAI as part of an expansionary program of reform that included better social insurance and family allowances. That summer, Premier Bourassa of Quebec rejected the Victoria Charter—a new constitution for Canada—because of its ambiguity in dealing with income security. To appease Quebec, the federal government launched the Federal Provincial Social Security Review, the centerpiece of which was a form of GAI similar to that proposed in the Castonguay-Nepveu Report.[33] In April 1973, the Liberal government issued an Orange Paper outlining a two-tier GI, income support for unemployable persons and income supplementation for the employed. Support for and interest in the proposals, however, were negligible. Haddow concludes that among the political parties, only the right-wing Social Credit Party, under Réal Caouette, expressed enthusiasm for the GI model. Significantly, they saw it as a replacement for, not as an addition to, existing social insurance schemes.[34] Business groups expressed caution and labor groups indifference toward the strategy.

The long debate over a GI design that lasted until 1976 was part of a politics of expansion, and it failed. The Orange Paper presented the GAI as an addition to, not a substitute for, existing social programs. Implementation would produce large increases in social expenditures, not cost savings. As deficits began to rise after 1973, the expansionary version of the GAI proposal went nowhere.

All this began to change in 1978. After returning from an economic summit in Bonn, Prime Minister Trudeau called his cabinet ministers to Ottawa to discuss how $2 billion in spending cuts would be distributed.[35] Canada's universal program of Family Allowances was singled out for attention, and the $28 a month benefit per child projected for 1979 was reduced to $20. To soften the blow of this and other cuts, a refundable tax credit designed on NIT principles was targeted at families with children. A family with two children would receive a full credit of $400 at net incomes less than $18,000 per year, a credit of $300 if net income was $20,000, and the credit would disappear above net incomes of $26,000. As Guest points out, however, since median family income of families with children was $19,500, a substantial majority (69 percent) received the full credit and many others a partial credit.[36] Those qualifying for the full credit received a substantial increase to $440 per child per year versus the $336 they would have received under the old system. In the same year, the principle of income-testing "at the top" was introduced to the unemployment insurance program. High-income claimants would now have to pay back up to 30 percent of all UI benefits paid in a taxation year.[37]

The 1980s brought an explosion of support for GI-like reform of Canada's tax-transfer programs, but now as an *alternative* to the social insurance-demogrant models of the 1960s. Major reviews included the report of the McDonald Commission (1985) which examined the entire social safety net and the Forget Commission's study of unemployment insurance (1986). Both recommended reforming the system along GI principles at the expense of universal programs and the nonactuarial elements of contributory plans.

Throughout the 1970s, a guaranteed annual income had been the "holy grail" of Canada's antipoverty lobbies. During the 1980s, they found themselves joined by new and unexpected allies from among business elites and other traditional critics of social spending. Only organized labor remained ambivalent. As Haddow recounts, from the first discussions of a GI strategy in 1966 until the late 1980s, the attitude of organized labor and the social democratic NDP was at best indecisive.[38] Labor's main agenda was expansion of social insurance—UI and pensions in particular. The Canadian Labor Congress (CLC) supported a negative income tax in 1975 largely because it saw no need to oppose it. But the support was tepid. In 1988, the CLC embraced the principle of a GI but with considerable qualification. Labor's concern was that the GI model would become a substitute for full employment and a subsidy for low-wage employers.

While organized labor remained ambivalent, the crusade for a GI/NIT design was joined in the 1980s by business leaders, neoconservative critics of the welfare state, and, for the first time, a national governing party, the Progressive Conservatives, who came to power in 1984. Their aim, however, was not to supplement existing social programs but to eliminate them, replacing the existing structure of universal flat benefits and earnings-related programs with a universal guaranteed income. For neoconservatives, more targeting would rid the nation of the "costly and unnecessary" practice of providing benefits to middle- and upper-income families. Employers saw a national system of GI benefits financed from general revenues as an alternative to minimum wage laws and expensive social insurance programs financed from payroll taxes. A GI design also had the advantage of eliminating welfare traps and work disincentives created by the 100 percent tax-back rates in traditional social assistance programs. In 1984, the Canadian Manufacturer's Association (CMA) proposed to the McDonald Commission that Canada's existing welfare state—including pensions, UI, family allowances, and social assistance—be replaced by a comprehensive GAI. The CMA suggested that this alternative structure could save as much as $30 billion per year.[39] In their final proposals, the Commissioners heeded this advice.

CEOs can make such proposals because, unlike politicians, they have no need to please the median voter. In an effort to implement the first part of the CMA strategy, elimination of universal benefits, Finance Minister Michael Wilson proposed to deindex Old Age Security in his first budget introduced in May 1985. The program would slowly disappear as inflation eroded the real value of benefits. The result was a political debacle for the Conservatives and, by August, Wilson was forced to retreat.[40]

The second time out, Wilson was more successful. In 1989, the government introduced legislation that was scarcely noticed by the electorate. Rather than eliminate universal programs, cash benefits would be subject to an income test—"clawed back" from high-income recipients. OAS benefits for individuals with more than $51,765 were reduced by 15 percent for every dollar of income above the threshold, with all benefits disappearing at approximately $89,000 per year. Shrewdly, the new proposal used the structure of a GI/NIT system to pursue a politics of stealth. Since the vast majority of the elderly were not immediately affected, and few legislators or media representatives understood the legislation, it was barely noticed. Even less visible was the fact that changes to the indexation formula would produce a gradual decline in the income threshold for taxing back benefits.

A similar strategy was adopted with respect to the universal Family Allowance. Wilson successfully deindexed Family Allowances in 1985, and in 1989 benefits were "clawed back" from high-income families. In 1993, the Tories introduced the income-tested Child Tax Benefit, formally ending universal family allowances. Low-income families, however, were clearly winners, as they were in the long series of reforms since 1978 that led up to the new system.[41] While the majority of families saw their benefits reduced, most retained some claims in the program. Above $25,921 benefits are taxed back at a rate of 2.5 cents for every dollar in additional family income for one child and 5 cents for two or more children. For families with two children under seven, the benefit only disappears entirely when family income exceeds $75, 241.

Emulating their predecessors, the Liberals proposed in their 1996 budget to apply a similar formula to the old age security system. The new Seniors Benefit, slated to come into effect in 2002, will eliminate OAS, integrating it with the income-tested Guaranteed Income Supplement. Benefits will be increased slightly ($120 per year) for low-income seniors and progressively reduced for higher income elderly families, reducing or eliminating benefits for about one-quarter of elderly households.[42]

From the age of expansion to the age of retrenchment, then, the politics of the guaranteed income changed dramatically in Canada. The NIT design, largely spurned by elected officials in the age of expansion, became the model of choice after 1978, not as a supplement to traditional programs but as a replacement for them. With a single instrument, expenditures could be contained by reducing or eliminating benefits for higher-income families while part of the savings could be applied to enrich benefits for the most disadvantaged. This dual impact generated new and unanticipated political coalitions around a program of retrenchment. While reluctant to see the demise of "universality," many potential critics of retrenchment were silent or even actively supported reforms that promised to benefit low-income families.[43] Though the social policy lobbies were often vocal in their opposition to the end of "universality," the redesign of programs in a way that raises benefits for low-income families and imposes significant losses on a minority of households made mobilization of serious opposition to the cuts a daunting task.

One key to explaining the success of such a strategy lies, paradoxically, in the possibilities opened up by the policy legacies of Canada's traditional cash benefit system of *universal* flat benefits financed from general revenue and with only citizenship and residency as qualifying conditions.[44] Since benefits are in no way linked to contributions, beneficiaries do not have the pseudo-proprietary claims to benefits associated with contributory programs such as Social Security. Indeed, citizenship entitlements have proven vulnerable to income-testing not just in Canada but also in virtually every other nation with a tradition of citizenship entitlements. Since the 1980s, partial or total "clawbacks" of universal flat-rate pensions from middle- and upper-income earners have been implemented in Australia, Denmark, Finland, Holland, Iceland, Sweden, and, especially, New Zealand.[45] In contrast, proposals to income-test contributory schemes along the lines suggested by Peter Petersen and the Concord Coalition in the United States have been unsuccessful thus far and have hardly reached the political agenda in other Bismarckian systems.[46]

Based on an understanding of traditional means-tests, it has long been social science lore that the shift from universal to selective benefits will, in the long term, make the poor worse off. Have, as the conventional view suggests, the "poor" in Canada suffered as a result of these changes? In the intermediate term, at least, the answer is no. Income-testing of social benefits for families with children has reduced social transfers directed at middle-income groups while raising benefits for those at the bottom of the income distribution. This proved to be especially important in light of a sharp rise in earnings inequality during the 1980s. Until now, the Canadian system of social transfers has been successful in stabilizing the final distribution of family incomes and containing child poverty.[47] More open to question is the long-term viability of Canada's GI welfare state, a question to which we return in the conclusion.

The United States

Although much more modest in scope and containing very important distinctions in design, the expansion of NIT-type spending in the United States has also been a child of retrenchment. The Earned Income Tax Credit has been one of the few social programs, along with prison construction, that has expanded since the 1970s. At least before the arrival of a huge class of vigorously antigovernment Republicans in the midterm elections of 1994, it received widespread support on both the Left and the Right. Again, we are interested in two questions. First, why, as in Canada, has the single exemplar of a NIT-type program been so successful in an era of retrenchment? Second, why has this programmatic shift been comparatively modest in the United States, and, crucially, limited to the working poor?

In the United States, serious discussions of a reformed system of transfers for low-income households began in the last days of Lyndon Johnson's War on Poverty. The context was the racial turmoil in American cities, growing frustration among liberals and conservatives alike with mounting welfare rolls under AFDC, on the one hand, and the work disincentives of traditional means-tested welfare, on the other. As Jill Quadagno recounts, the first major recommendation for a NIT-type program came from Johnson's Heineman Commission in 1968. The Commission initially considered and then rejected a jobs strategy as too expensive and worth little to millions of workers earning little more than the minimum wage. Instead it recommended a universal income supplement for the working poor. As Quadagno observes:

> Although a wage supplement represented a radical departure from existing measures, it rested on premises compatible with business interests. It accepted the spread of low wage labor as inevitable and it provided an alternative to a minimum wage . . . And unlike the inefficient social insurance programs, which paid regardless of need, income supplements only paid benefits to the poor or near-poor.[48]

The Heineman Commission's proposals went nowhere, but a few years later the prospect of a national guaranteed income for families, the Family Assistance Plan, almost became reality.

Ironically, the Family Assistance Plan (FAP) was proposed by a Republican president, Richard Nixon.[49] Nixon's position in the development of American social policy remains something of a puzzle. Concerned about racial unrest and operating in a climate that was more liberal on social policy issues than the one faced by other Republican presidents, Nixon sought to reform rather than repudiate the War on Poverty. The political goal appears to have been that of capturing White working-class voters alienated by the civil rights (and antitransfer) thrust of the Johnson era.

Spurred on by moderate advisors, including Johnson administration carryover Daniel Moynihan, Nixon saw a national welfare system, organized as a negative income tax with strong work incentives, as a rational piece of social engineering. Support from a Republican president significantly undercut Republican resistance. Many Republicans in Congress, however, were shocked to see their president backing a guaranteed income proposal and continued to oppose the legislation.

Business, too, was fragmented.[50] Large, capital-intensive firms (represented by the National Association of Manufacturers) were generally supportive of FAP, but it was not a legislative priority. They become more hostile, however, after unions successfully demanded that Nixon incorporate a separate tier of public sector job creation and protection for the minimum wage. Smaller, more labor-intensive firms, were strongly opposed to the plan. Here it is critical that FAP, while strengthening work incentives in the North where relatively generous welfare benefits would not be increased, might have had the opposite effect in areas, like the South, where it would have greatly increased the availability of income support to those out of work. Through organizations such as the Chamber of Commerce, small businesses lobbied vigorously against reform. As Quadagno observes, "with 3,800 trade associations and local chambers and a direct membership of more than 35,000 business firms, the Chamber wielded a mighty club."[51] Thus, despite disagreement within the business community, those groups that mobilized were generally eager to stop FAP.

The antipathy of labor-intensive, low-wage firms to a plan which would have provided income to the able-bodied but nonworking poor was more than matched by the hostility of southern politicians. Indeed, the role of southern political interests, a crucial factor in shaping the American welfare state, is clearly evident in the debates over income transfers during the last quarter-century. This topic is a complex one, but a key factor has been the long-standing southern strategy of blocking policies which threatened the low-wage, nonunion environment that made the region attractive to potentially mobile businesses.[52] Southern interests have consistently opposed policies that would have established a national floor on benefits for the nonworking poor, and in the process raised the "reservation wage" of southern workers. Proposals for a more national system of welfare, such as FAP, would have produced considerable net public transfers to the South, where poverty rates were highest and federal taxes were lowest. But these proposals also would have jeopardized the South's major competitive advantage within the American economy: the availability of a cheap, nonunionized workforce. This economic impact explains a paradox: southern politicians have consistently opposed, while northern interests have often supported, proposals that would have paid disproportionate benefits in the South from taxes on the rest of the country.

FAP's high minimum benefits and requirement that families with unemployed heads be made eligible for assistance would have had a revolutionary impact in the South. According to HEW estimates, the number of welfare recipients in the low-benefit states of the South would have increased by 250 to 400 percent.[53] Even as FAP reached its high-water mark, passing the House in 1970 by a vote of 243-155, southern Democrats voted 85-17 against the bill. This strong opposition appeared despite the fact that the South's low-benefit, low-tax, high-poverty status meant that FAP promised the region dramatic fiscal relief.

Yet FAP's passage in the House indicated that southern opposition alone, given the ambivalence of business and the Republican party, was not enough to stop the bill. Southern opponents in the Senate, led by Finance Committee Chairman Russell Long, proved more successful, but they relied heavily on support from liberal Democrats who found FAP insufficiently generous. In the crucial Finance Committee vote on FAP, three liberal Democrats joined their conservative colleagues to produce a 10-7 vote against reporting the bill to the Senate floor.[54]

The core of opposition, however, was centered in the South and in wide segments of the business community.[55] By providing a standardized and more generous benefit package for the nonworking but able-bodied poor, these proposals would have made it more difficult for employers to keep wages down. National standards would also have made it impossible to sustain the lower social benefits that allowed southern officials to advertise the South as a low-wage haven for business.

Despite occasional attempts at resurrection, FAP-type proposals have faded from the American political agenda. In retrospect, the fact that something like a NIT-style program for all families came close to passage seems extraordinary. The strong tendency of many Whites to identify income payments for the nonworking poor as programs for Blacks has greatly weakened the possibilities for sustaining political alliances in favor of such policies. By the early 1980s, attention shifted to new proposals which would limit themselves to providing a wage subsidy for poor workers. Like FAP, these new proposals involved a "NIT"-style integration of taxes and benefits. Yet they differed in respects that would prove to be politically crucial and would allow the Earned Income Tax Credit to emerge as the great political success among American social programs for the poor during the past decade.[56]

Although not enacted until 1974, minuscule until 1986, and relatively unknown even today, this program has become a central component of national income maintenance policy. By 1992, the program was estimated to benefit over 11 million families at a cost of $9.4 billion.[57] The further massive expansion introduced in the 1993 OBRA legislation—$20 billion over five years—represented the largest funding increase in any program for low-income people in the past two decades.[58] By 1996, spending on the EITC reached $25 billion—more than double the federal government's outlays on AFDC. Moreover, the EITC's expansion through successive enlargements in 1986, 1990, and 1993 was surprisingly uncontroversial. Backed by Republican and Democratic presidents alike, the EITC failed to generate anything like the virulent opposition which efforts to expand other income transfer programs provoked. Although the Republican Congress did try to scale back the EITC after 1994, even this effort was essentially limited to a (failed) attempt to repeal the EITC expansion enacted in 1993. Compared with their (much more successful) assaults on other antipoverty programs, this was a very muted response.

The EITC's design—a refundable tax credit, available only to low-income *working* families with children—made it attractive to many of the political actors who have opposed the expansion of other income transfers for the poor. Because the program operates as a wage subsidy, benefiting only those who work, it poses no threat to businesses or regions dependent on low-wage jobs. On the contrary, by making low-wage jobs more attractive to potential workers, the EITC was particularly helpful to industries, and regions like the South, which rely heavily on low-wage labor. Thus the program had much to offer for those who have traditionally sought to block national social policies for the working-aged population. Republicans and moderate Democrats have been enthusiastic about the program's strong work incentives and have helped assure broad, if intermittent, support for programmatic expansion.[59]

Piecing together an explanation for the EITC's enactment and growth is difficult, because at every stage the program's fate has been joined to broader pieces of budget or tax legislation.[60] With no votes on the EITC itself, the "paper trail" that would allow a clear identification of political cleavages over the program is sorely lacking. However, it is clear that the tax credit design of the program was tremendously helpful. It made the program a compelling response to concern about rapidly rising payroll taxes on the working poor. It meant that higher program spending was less visible to a deficit-conscious Congress and electorate. Finally, it meant that the EITC could be used flexibly to create a distributional "balance" in the periodic broad tax/budget deals that became a staple of American politics following Reagan's election in 1981. Program cutbacks and tax increases in the broader legislative package could be offset for the working poor by a rise in the EITC. All three of the EITC's expansions came in the context of major package deals: the Tax Reform Act of 1986 and the budget agreements of 1990 and 1993.[61] All of these packages contained significant cuts in other spending programs or tax subsidies, including those benefiting the middle class. Two of the three (1990 and 1993) were designed to produce net reductions in real public expenditure.

Yet the EITC's long rise also reflects an innovative policy design that transformed traditional opponents into allies. The support of Russell Long—a strong opponent of poverty programs that might have adversely affected the willingness of workers to take low-wage jobs—was crucial to the program's initial enactment.[62] Since then, Southern Democrats have often been supporters of an income support program that provides transfers in a manner highly favorable to their regional political economy (Table 3).

Two striking differences between these two attempts to modernize income transfers for low-income households in the United States reveal a lot about the new politics of the welfare state. First, the EITC succeeded even though the overall environment for social spending was far less favorable than it had been during the consideration of FAP in the early 1970s. Social spending grew more under Nixon than at any other time in postwar American history and yet FAP failed to pass. The EITC, on the other hand, grew massively during a decade (1985-1995) when most programs were trying desperately (and often failing) to simply preserve existing funding levels.

Table 3
EITC Benefits By Region, 1992

	Percentage of Tax Filers Receiving Benefits	Mean Benefit
Northeast	8.13	$864.83
Midwest	9.74	$890.24
South	16.62	$954.43
West	11.36	$895.10

Source: Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1994-95, pp. 178-204.

The second difference concerns the much lower profile of the EITC. The struggle over FAP—the first in a series of efforts to "end welfare as we know it"—was front-page news. The program's demise was widely noted and generated a flurry of scholarly postmortems. By contrast, most Americans still do not know what the EITC is, much less that the federal government spent far more on the program last year than it did on AFDC. This silent expansion is reflected in the almost total absence of scholarly attention to the program.

Both these differences signal the quite different politics surrounding the two initiatives. FAP was presented as welfare reform and became the target of an open dispute in which partisan differences and the activities of well-mobilized groups were prominent. The EITC has always expanded as a piece of complex tax and budget deals. Its expansion on three separate occasions indicates the greater room for flexibility in these large, multifaceted packages, as well as the advantage of framing reforms as adjustments to tax codes rather than as new spending programs.

At the same time, the EITC was able to achieve a much broader coalitional base. This is critical in a political system where institutional fragmentation makes major policy initiatives dependent on widespread support. The EITC has served as an important balancing mechanism for legislation requiring compromises among moderate liberals and moderate conservatives. It has been able to play this role because it benefits low-income groups, but unlike almost all other social policy initiatives it does so while re-enforcing the low-wage labor market. Thus, the EITC has been backed by a suprising coalition that includes the Congressional Black Caucus, Southern Democrats, and (except in 1993) many Republicans. It is hard to think of any other significant piece of social legislation that has been able to generate a similar pattern of support. Indeed, it runs directly counter to what has traditionally been the strongest cleavage in the politics of American social policy—northern liberals versus southern conservatives—and indicates the distinct departure of this reform of the liberal welfare state.

In 1995, the EITC's remarkable momentum was finally challenged in the aftermath of the stunning realignment of power in Congress.[63] Emboldened Republicans introduced a sweeping agenda of cutbacks in social spending, and for the first time the EITC appeared vulnerable. The shift in Republican posture partly reflected the very marginal position of the working poor in the party's electoral calculations but was largely driven by the need to meet the party's ambitious goals for tax cuts and deficit reduction.[64] Yet proposed cutbacks quickly ran into difficulty. Significantly, the Clinton administration—which showed little reluctance to sacrifice those poverty programs which commanded limited public support—quickly indicated that retrenchment in this program for the working poor was one place it was prepared to make a stand. Enthusiasm for cuts in the Republican ranks was also limited. The proposed EITC cuts would have a big effect on the southern states where Republicans are trying to consolidate gains. The EITC might have been cut as part of a larger package deal, but the collapse of the Republican budget initiative in January 1996 derailed these efforts, at least for now. Notably, while political support for the curtailment of AFDC (along with the drastic reduction of food stamp and supplemental security income benefits for legal aliens) was sufficiently widespread to allow passage of a free-standing bill, there was never any suggestion that a similar open assault on the EITC would be politically feasible.

The shift in climate, however, signaled that while the EITC might be more popular than other antipoverty programs, its expansion required an environment where politicians felt driven to respond in some way to the needs of low-income households. Given the balance of political forces in American politics, the EITC's phase of rapid growth has probably ended. Yet the fact remains that its political trajectory over the past decade has been unique among American income transfer programs. The program's flexibility, opacity, relatively low cost, and compatibility with the interests of key groups traditionally opposed to generous policies for the poor have allowed the EITC to carve out a successful niche in a very harsh policy environment.

III. THE POLITICS OF IMPLEMENTING A GUARANTEED INCOME

That both Canada and the United States have moved toward targeted tax/transfer systems reflects the political appeal of such programs in an era of austerity. This shift represents a striking aspect of contemporary welfare state politics and suggests how the current period must be understood as not just one of welfare state retrenchment but also one of welfare state restructuring.

We have stressed, however, that this restructuring has differed dramatically in both form and degree in the two countries. There is a big difference between implementing a narrowly focused wage subsidy system and introducing a more generalized redesign of the welfare state based on NIT principles. Why such different outcomes? Our account stresses three factors: (1) distinct policy legacies, (2) the strength of opponents to a GI in the United States, and (3) institutional arrangements which were more conducive to reform in Canada. It is worth briefly reviewing each point, because they provide a basis for evaluating the likelihood of implementing GI-style programs in the United States.

This investigation confirms a common finding in studies of social policy: existing welfare state structures exert considerable influence over the patterns and types of reform which are possible. Canadian development of a NIT design for social transfers rests on the so-called Beveridge base of postwar welfare state development, which includes extensive universal, flat-rate benefits and citizenship as the principle qualifying condition.[65] In an age of retrenchment, a shift toward a NIT-like welfare state represents a "natural" transition for nations with a Beveridge base. In Canada, cost savings could be achieved by redesigning traditional Beveridge programs (pensions, family allowances) along NIT lines. Change can be introduced incrementally through the tax system. Equally important, the powerful argument that voters are being deprived of earned entitlements based on their own contributions need not be confronted.

The relative underdevelopment of NIT-like programs in the United States in part reflects the absence of any Beveridge-type programs to reform. The natural bridge to a NIT does not exist, and reform instead requires a radical redesign in earnings-related, contributory systems. The experience of recent reform proposals is instructive. In the case of pensions, the Concord Coalition has suggested such a transformation, advocating that all social transfer programs be subjected to an income test for families with incomes above $40,000 per year, with some of the savings used to enrich benefits for low-income households. The main target of the proposals is Social Security but includes programs such as the home mortgage interest deduction. The Coalition proposals helped shape the agenda of the 1994 Bipartisan Commission on Entitlements and Taxation headed by Senators Danforth and Kerrey.[66] Requiring radical reductions in entitlements for the middle class, however, these proposals went nowhere, and comparative evidence confirms that such a strategy faces enormous obstacles. Unlike flat-rate benefits funded from general revenue and for which the sole qualifying condition is citizenship, contributory schemes like Social Security have, with few exceptions, been resistant to NIT-style retrenchment, a result of the quasi-property rights created by such programs. Rather than weakening the link between contributions and benefits which would result from a NIT-style reform, the trend in contributory schemes across Europe has been to tighten the link, a goal also advocated by a majority of members on the U.S. Advisory Committee on Social Security.[67]

The absence of a suitable "bridge" is even more evident if one turns from pensions to examine the possibilities for providing transfers to working-aged families. In Canada, increases in income-tested family benefits have been funded by lowering or eliminating family benefits to the well-to-do and by lowering insurance-based unemployment benefits.[68] Here, one of the truly exceptional aspects of American social policy—the virtual absence of traditional transfers for working families—becomes critical. In the United States, the lack of a system of family allowances, along with very low UI benefits and coverage, create little room for significant cost savings that might help fund NIT-style programs.[69]

The second factor we emphasize has been the strong opposition to anything like a guaranteed income in the United States. Any strategy that proposed to extend the NIT model beyond the working poor would ignite the traditional flash point of American social politics, namely, race. As the recent history of AFDC bears out, racial antipathies have greatly weakened the political appeal of programs designed to provide cash transfers to the nonworking poor.

The other source of opposition has been those actors, particularly in the South, who have sought to block policies which threatened the viability of low-wage labor markets. Extensive elements of the business community, the Republican Party, and the southern wing of the Democratic Party have consistently opposed transfer programs that would increase workers' "reservation wages." The distinctive character of regional labor markets has played a critical role in shaping American social policy.[70] Crucially, these concerns about maintaining a low-wage sector make the EITC a very attractive alternative: the EITC lowers reservation wages rather than raising them.

Finally, we emphasize the impact of national political institutions. It is conceivable that significant political opposition might not matter as much in a parliamentary system, where a majority party has considerable hope of enacting policies that important interests find objectionable. This is much more difficult in the United States, where multiple veto points mean that quite broad coalitions are usually required for reform. The EITC has been advantaged by the fact that it has appealed precisely to those elements of a reform coalition who were most likely to defect, and who therefore had the greatest leverage over the final form of social policy legislation.

There is, in short, little reason to anticipate a move toward a true GI program in the United States. But let us assume that these obstacles are overcome and that a NIT-style retrenchment strategy takes hold in the United States. What would be the distributional outcome of such a shift? While the question is purely hypothetical for the United States, it is highly relevant for those industrialized countries, such as New Zealand and Canada, which are clearly embarked on such a trajectory. The question has no single answer, since the result depends on the size and nature of the trade-off between old and new programs, on the one hand, and unknown behavioral responses by beneficiaries and future policy makers, on the other.

Over the medium term, the evolution of Canadian policy suggests that such reforms may offer an impressive formula for combining fiscal restraint with improved social protection for those most in need. GIS benefits for the elderly have risen in real and relative terms, while the universal OAS and the C/QPP have stagnated. Rising GIS benefits have brought old age poverty down much more sharply in Canada than in the United States.[71] Real child benefits for poor families have risen substantially since Canada began moving away from universal family allowances in 1978.[72] During a period when the wages of young adults—the parents of young children—have been falling, the Canadian tax transfer has managed to stabilize child poverty rates (and reduce the "poverty gap"), at least until the 1990s.[73]

So far, Canadian developments have confounded critics who have maintained that targeted programs will never sustain the political support needed to be effective. In part because they reach well into the middle class, the new income-tested programs in Canada have remained popular. There is no question that as a purely technical exercise, a NIT/GI array of social expenditures can be designed that is more progressive and does more for the poor than those currently available in either country. The problem is a political not a technical one.

The expansion of the NIT/GI design is a product of an era of transition and retrenchment. The unanswered question is: what happens when the transition is over? The Achilles heel of the entire system lies in the fact that the process can only happen once. Now that the benefits of higher-income Canadian families have been reduced or eliminated, they are no longer available to finance future expenditure growth for low-income families. Should the number of such families rise, say, as a result of continued growth in earnings inequality, the additional costs could only be met through a process of welfare state expansion, not retrenchment. Similarly, now that the benefits that used to go to higher earners are gone, they are no longer available to absorb further cuts in the social budget. Instead, by necessity, future cost-cutters will have to look to the very NIT programs produced during previous retrenchment exercises and to other programs for the "poor" to reduce expenditures.[74] Whether a NIT/GI design can stabilize at a level that achieves the income security and redistributional aims of the old system while also being politically sustainable is an open question.

NOTES

1. Modern welfare states were largely created in the period from the 1950s through the mid-1970s. Few significant extensions of social insurance have been enacted since then. Countries like the United States that did not complete the process of welfare state building in this period continue to lack typical programs such as national health insurance and sickness benefits.

2. John Myles, "Decline or Impasse? The Current State of the Welfare State," *Studies in Political Economy* 26 (1988): 73-107.

3. See Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994); Paul Pierson, "The New Politics of the Welfare State," *World Politics* 48, no. 2 (1996): 143-79; John Stephens, Evelyne Huber, and Leonard Ray, "The Welfare State in Hard Times," in *Continuity and Change in Contemporary Capitalism*, ed. Herbert Kitschelt, Peter Lange, Gary Marks, and John Stephens (Cambridge: Cambridge University Press, forthcoming).

4. Sam Bowles and Herb Gintis, "The Crisis of Liberal Democratic Capitalism: The Case of the United States," *Politics and Society* 11, no. 1 (1982): 59-93.

5. We should note that just as it has led the way toward the NIT/GI alternative, Canada led the way in "ending welfare as we know it." The 1995 Canadian federal budget which replaced the Canada Assistance Plan (CAP) with the Canada Health and Social Transfer (CHST) anticipated many of the features of the 1996 Personal Responsibility Act passed

in the United States with respect to block grants and weaker national standards for provincial social assistance programs.

6. For the classic statement on welfare for the poor, see Frances Fox Piven and Richard A. Cloward, *Regulating the Poor* (New York: Vintage, 1972).

7. It is important to stress that in Canada, this shift has occurred in policies for the elderly as well as for working-age families with children. To keep an already complex discussion within manageable limits, we have briefly noted the major trends in Canada but have not tried to systematically contrast the Canadian and American treatment of transfer programs for the elderly. Such an investigation would provide a very useful complement to the analysis offered here.

8. We use the term "liberal" in the classical sense to refer to policy regimes with minimal state provision and extensive means-testing. See Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).

9. See, for instance, Michael B. Katz, *In the Shadow of the Poorhouse: A Social History of Welfare in America* (New York: Basic Books, 1986).

10. In the countries of Southern Europe, including France, where traditionally almost all social benefits were employment-based, modest "basic incomes" have been implemented (France, Spain, Portugal) or are under discussion (Italy) for those with no connection to the labor market. Britain has developed a program for working poor families, Family Credit, which resembles the EITC.

11. National Council of Welfare, "A Guide to the Guaranteed Income," Pamphlet (Ottawa: National Council of Welfare, 1988).

12. Keith Banting, "The Social Policy Divide: The Welfare State in Canada and the United States," in *Degrees of Freedom: Canada and the United States in a Changing World*, ed. Keith Banting, George Hoberg, and Richard Simeon (Montreal: McGill-Queen's University Press, 1997), 267-309.

13. Effective July 1998, low-income families will be eligible for a maximum Canada Child Tax Benefit of $1,625 for the first child (a 59 percent increase) and $1,425 for the second and each additional child. The existing supplement of $213 for each child under age seven for families without child care expenses will be maintained, bringing the maximum Canada Child Tax Benefit for children under age seven to $1,838 for the first child and $1,638 for the second and each additional child. Maximum benefits will go to families with net incomes up to $20,921.

14. The legislation would also end the Working Income Supplement (WIS), a small income supplement for the "working poor" similar to the EITC.

15. Earnings replacement rates were lowered from 57 to 55 percent but raised to 60 percent for low-income earners. The addition of a Family Income Supplement for unemployed parents with family income under $25,291 raises this figure to 80 percent.

16. United States House of Representatives, Committee on Ways and Means, *Where Your Money Goes: The 1994-1995 Green Book* (Washington: Brasseys, 1994), 704.

17. Rene Morissette, John Myles, and Garnett Picot, "Earnings Polarization in Canada, 1969-1991," in *Labour Market Polarization and Social Policy*, ed. Keith Banting (Kingston: Queen's University Press, 1995), 23-50.

18. Rebecca Blank and Maria Hanratty, "Responding to Need: A Comparison of Social Safety Nets in Canada and the United States," in *Small Differences that Matter: Labor Markets and Income Maintenance in Canada and the United States*, ed. David Card and Richard Freeman (Chicago: University of Chicago Press, 1993), 191-231; Roger Love and Susan Poulin, "Family Income Inequality in the 1980s," *Canadian Economic Observer*, September 1991, 4.1-4.13.

19. John Myles and Jill Quadagno, "The Politics of Income Security for the Elderly in Canada and the United States: Explaining the Difference," in *Economic Security for the Elderly: North American Perspectives*, ed. Theodore Marmor and Timothy Smeeding (Washington, DC: The Urban Institute, 1994).

20. Timothy Smeeding, Barbara Torrey, and Lee Rainwater, "Going to Extremes: An International Perspective on the Economic Status of the U.S. Aged." Luxembourg Income Study, Working Paper #87, 1993. For international comparisons, "poverty" is defined as less than 50 percent of adjusted median household income.

21. Esping-Andersen's important welfare state typology is a case in point. His is a *historical* typology derived from actual welfare states as they developed in the postwar decades. It does not exhaust the possible range of welfare states forms and hence may be less useful for identifying new and emergent models of welfare state provision.

22. R. Kent Weaver, "The Politics of Blame Avoidance," *Journal of Public Policy*, 1986; Pierson, "New Politics of the Welfare State."

23. On the politics of stealth, see Grattan Gray [Ken Battle], "Social Policy by Stealth," *Policy Options* (1990): 17-29, and Douglas Arnold, *The Logic of Congressional Action* (New Haven, CT: Yale University Press, 1990).

24. Our discussion in this section relies heavily on Rodney Haddow's superb *Poverty Reform in Canada, 1958-78: State and Class Influences on Policy-Making* (Montreal: McGill Queen's University Press, 1993).

25. Ibid, 82.

26. Croll's role in Canadian politics is similar to that of American New Deal Democrats such as Claude Pepper who cut their political teeth in the 1930s. Like Pepper, Croll headed numerous commissions and committees related to old age and poverty well into his 80s. In an interview with one of the authors, he reported that his key motive for advancing the GIS design in 1966 was his hatred of the "dole" of the 1930s—traditional means-tested welfare. Croll wished to establish a guaranteed income as a political right.

27. Haddow, *Poverty Reform*, 70.

28. Myles and Quadagno, "Politics of Income Security."

29. In the early 1980s, over 50 percent of seniors received some GIS benefit. The figure has subsequently declined to about 38 percent as a result of the maturation of the earnings-related Canada Pension Plan.

30. Administrative costs are mainly those associated with processing tax returns. calculating benefits, and mailing out benefit checks so that the entire process is easily computerized. With the dramatic decline in costs of computing time and data storage, administrative costs have declined further.

31. See, for example, Keith Banting, "Institutional Conservatism: Federalism and Pension Reform," in *Canadian Social Welfare Policy: Federal and Provincial Dimensions*, ed. Jacqueline S. Ismael (Montreal: McGill-Queen's University Press, 1985).

32. FISP would have been partially financed by cutting universal family allowances for middle- and upper-income families. Protests from the women who would have been adversely affected also played a role in defeating the proposal.

33. See Michael Mendelson, "Social Policy after the Referendum," Pamphlet (Ottawa: Caledon Institute of Social Policy, October, 1995).

34. Haddow, *Poverty Reform*, 185.

35. Ibid, 151.

36. Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia Press, 1985), 200.

37. Stephen McBride, *Not Working: State Unemployment and Neo-Conservatism in Canada* (Toronto: University of Toronto Press, 1992), 175.

38. See Rodney Haddow, "Canadian Organized Labour and the Guaranteed Annual Income," in *Continuities and Discontinuities: The Political Economy of Social Welfare and Labour Market Policy in Canada*, ed. Andrew Johnson, Stephen McBride, and Patrick Smith (Toronto: University of Toronto Press, 1994), 350-66.

39. Ibid., 356.

40. The defeat was only partial, however. Wilson prevailed with respect to Family Allowances but backed down on Old Age Security in the face of large national protests from seniors and other groups. For details of this and the government's more successful initiative in 1989, see Paul Pierson and R. Kent Weaver, "Imposing Losses in Pensions Policy," in *Do Institutions Matter? Government Capabilities in the United States and Abroad*, ed. R. Kent Weaver and Bert A. Rockman (Washington, DC: The Brookings Institution, 1993), 110-50.

41. Ken Battle and Leon Muszynski, "One Way to Fight Child Poverty" (Ottawa: Caledon Institute of Social Policy, 1995).

42. Unlike the OAS "clawback," the income threshold for benefit reduction will be fully indexed against inflation

43. Indeed the design for the 1996 Seniors Benefit and the 1997 child benefit redesign were largely the work of Ken Battle, long-time director of the National Council of Welfare and, since 1992, president of the Caledon Institute of Social Policy.

44. On the significance of policy legacies, see, for example, Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States," in *Bringing the State Back In*, ed. Peter Evans, Dietrich Rueschemeyer, and Theda Skopol (Cambridge: Cambridge University Press, 1985), 107-63.

45. See John Myles and Jill Quadagno, "Recent Trends in Public Pension Reform: A Comparative View," in *Reform of Retirement Income Policy: International and Canadian Perspectives*, ed. Keith Banting and Robert Boadway (Kingston: Queen's University School of Policy Studies, 1997), 247-71.

46. Peter Peterson, *Facing Up: How to Rescue the Economy From Crushing Debt and Restore the American Dream* (New York: Simon & Schuster, 1993). One notable exception is Canada's contributory Unemployment Insurance program, which has been income-tested since 1979.

47. From the 1970s to the early 1990s, child poverty and income inequality moved up and down with the business cycle but showed none of the secular increase evident in the United States. Preliminary evidence for 1995 does indicate, however, the possible beginning of an upward shift in child poverty. See Garnett Picot and John Myles, "Social Transfers, Changing Family Structure and Low Income Among Children," *Canadian Public Policy* 22 (1996): 244-67.

48. Quadagno, *Color of Welfare*, 171.

49. For good discussions of FAP, see Christopher Leman, *The Collapse of Welfare Reform: Political Institutions, Policy and the Poor in Canada and the United States* (Cambridge, MA: MIT Press, 1980); Timothy Conlan, *New Federalism: Intergovernmental Reform from Nixon to Reagan* (Washington, DC: Brookings, 1988), 19-91; Quadagno, *Color of Welfare*, chap. 5.

50. Jill Quadagno, "Race, Class, and Gender in the U.S. Welfare State: Nixon's Failed Family Assistance Plan," *American Sociological Review* 55 (1990): 19-20.

51. Quadagno, *Color of Welfare*, 131.

52. For a good discussion, see Jill Quadagno, "From Old Age Assistance to Supplementary Security Income: The Political Economy of Relief in the South, 1935-192," in *Politics of Social Policy*, ed. M. Weir, A. Orloff, and T. Skocpol (Princeton, NJ: Princeton

University Press, 1988). For evidence on how these southern interests affected efforts to nationalize various antipoverty programs in the United States, see Paul Pierson, "The Creeping Nationalization of Income Transfers in the United States, 1935-1994," in *European Social Policy: Between Fragmentation and Integration*, ed. Stephan Leibfried and Paul Pierson (Washington, DC: Brookings, 1995), 301-28.

53. Quadagno, *Color of Welfare*, 129-30.

54. Liberal opposition to FAP had complex roots: contempt for Nixon, confidence that time was on their side since a Democrat would soon be in the White House, and fear of alienating critics on their left (including the National Welfare Rights Organization, which termed FAP "an act of oppression"). A desire to preserve state-level programs in more liberal states also played an important role. Northern liberals argued that given their comparatively generous state-level programs, their constituents would gain nothing from FAP. In retrospect, the liberals' arguments look seriously flawed. The anticipated liberal revival never appeared. Northerners badly miscalculated the prospects for maintaining generous benefits in a decentralized welfare system. At the time, however, it must have seemed difficult for liberals to back a radical reform of welfare that appeared to promise so little for the northern poor.

55. As the bill became more liberal in the course of congressional deliberations, Nixon's support also became tepid at best.

56. Very little work has yet been done on the EITC. This discussion draws primarily on C. Eugene Steurle, *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (Washington, DC: Urban Institute Press, 1992); Christopher Howard, "A Truly Exceptional Social Program: The Politics of the Earned Income Tax Credit" (paper presented at the 1992 meeting of the American Political Science Association, Chicago); Pierson, "Creeping Nationalization."

57. Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Ways and Means Committee Print 102-9) (Washington, DC: U.S. Government Printing Office, 1991), 901.

58. Robert Greenstein, Center on Budget and Policy Priorities fund-raising letter, 6 October 1993, Center on Budget and Policy Priorities Archives, Washington, DC, p. 1.

59. Republican support has been revealed on a number of occasions. The White House included EITC expansion in its initial tax reform proposals in the mid-1980s (key advisor Richard Darman reportedly "loved" the tax credit). Representative Thomas Petri (R-Minnesota) spearheaded an effort to substitute EITC expansion for a Democrat-proposed increase in the minimum wage in 1987. Petri and others succeeded in convincing the party to endorse EITC expansion in the 1988 Republican platform. Howard, "Exceptional Program," 28, 30-1.

60. See James Milton Harmon, "Mega-Bills and Ideas in the Growth of the Earned Income Tax Credit" (undergraduate thesis, Harvard University, March 1994).

61. On the causes and consequences of these budget-centered "mega-bills," see Joseph White and Aaron Wildavsky, *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s* (Berkeley and Los Angeles: University of California Press and Russell Sage Foundation); Steuerle, *The Tax Decade*. On the case of the EITC, see Harmon, "Mega-Bills," and Christopher Howard, "Happy Returns: How the Working Poor Got Tax Relief," *The American Prospect* 17 (Spring, 1994): 46-53.

62. Ways and Means Chair Al Ullman (D-Oregon), another harsh critic of guaranteed annual income proposals, was also influential. Howard, "Exceptional Program," 13-14.

63. On the recent politics of the EITC, see R. Kent Weaver, *Ending Welfare as We Know It* (Washington, DC: Brookings, forthcoming), chap. 12.

64. See Paul Pierson, "The Deficit and the Politics of Domestic Reform," in *New Democrats and Anti-Federalists: The Politics of Social Policymaking in the 1990s*, ed. Margaret Weir (Washington, DC: Brookings and Russell Sage Foundation, forthcoming).

65. Though commonplace in the literature, identifying such programs as Beveridge-inspired is somewhat misleading. The flat-rate Beveridge design implemented in Britain was based on the contributory principle not citizenship.

66. See Jill Quadagno, "Social Security Policy and the Entitlement Debate in the First Clinton Administration: The New American Exceptionalism," in *Clinton and the Conservative Agenda*, ed. Michael Schwartz and Clarence Lo (New York: Blackwell, forthcoming).

67. On European trends, see Myles and Quadagno, "Recent Trends." One of the chief concerns of the U.S. Advisory Committee on Social Security is the low "rate of return" on contributions for middle- and upper-income contributors. Thus the aim of many Committee members is to restore "equity" to the system either through privatization or the creation of personal security accounts so that middle- and upper-income earners get their "money's worth" out of the system. For a good nontechnical discussion of the various Committee proposals, see Joseph Quinn, *Entitlements and the Federal Budget: Securing Our Future* (Washington, DC: National Academy on Aging, 1995).

68. In both countries, UI benefits have had a less sacrosanct status, both because fewer citizens expect to receive them and because concerns about work incentives have made the "deservingness" of recipients less unambiguous.

69. In the past, higher EITC benefits for the working poor were won partly as an offset to higher contribution rates (FICA taxes) for Social Security. Again, however, existing contribution/benefit structures create much less room for the United States than Canada to move toward more NIT-type programs. Relative to Canada, U.S. payroll taxes for Social Security (and Medicare) are very high, offering less opportunity for future trade-offs of this sort.

70. Canada's welfare state has also been shaped by the interests of regional economic actors, but the heavy reliance of Canada's poorest regions on seasonal, resource-extraction industries has led these areas to *favor* generous national social benefits, especially unemployment benefits, which support workers during slack periods. Thus the Canadian economy has not developed regional pockets where firms attempt to gain an edge by keeping social wages lower than those of their competitors in other regions.

71. Michael C. Wolfson and Brian B. Murphy, "Kinder and Gentler: A Comparative Analysis of Incomes of the Elderly in Canada and the United States," in *Economic Security and Intergenerational Justice: A Look at North America*, ed. Theodore R. Marmor, Timothy M. Smeeding, and Vernon L. Greene (Washington, DC: Urban Institute Press, 1994), 227-61.

72. Battle and Muszynski, "One Way to Fight Child Poverty."

73. Picot and Myles, "Social Transfers." As indicated earlier, this may now be changing. Child poverty rose as expected following the recession of 1990-1991. The rate fell in 1994 as recovery set in but rose unexpectedly once again in 1995.

74. Indeed, this process is now underway. Traditional means-tested social assistance programs have been cut in many provinces since the early 1990s. Further downward pressure is expected as a result of the 1995 federal budget, which ended the Canada Assistance Plan and replaced it with the Canadian Health and Social Transfer (CHST). Reduced unemployment benefits and sharp reduction in UI coverage will also increase demands on the new programs for children.