

***Living Standards and Income Inequality in Selected Regions:
Development of Targeted Social Assistance Programs***

Moscow

2001

Важным элементом повышения результативности социальной защиты населения является реформирование системы социальных льгот, сложившейся в рамках социалистических распределительных отношений и не отвечающей современной социально-экономической ситуации. В

этих условиях возникает объективная необходимость в выработке новых механизмов реализации системы государственных социальных льгот. Исследованию этих вопросов и посвящена настоящая работа. Сформулированы принципиальные ориентиры общей направленности реформирования системы льгот.

Авторский коллектив:

С российской стороны: I. Kolosnitsyn, E. Kitova, A. Surinov, T. Chijelikova, S. Shashnov

С канадской стороны: Ken Battle and Sherri Torjman

Исследование и публикация осуществлены в рамках проекта CEPRA (Российско-Канадский консорциум по вопросам прикладных экономических исследований), финансируемого Канадским Агентством Международного Развития (CIDA)

Редактор: Н.Главацкая

Верстка: А. Астахов

ISBN 5-93255-037-6

Лицензия на издательскую деятельность **ИД № 02079 от 19 июня 2000 г.**

103918, Москва, Газетный пер., 5

Тел. (095) 229–6413, FAX (095) 203–8816

E-MAIL – root @iet.ru, **WEB Site** – <http://www.iet.ru>

CONTENTS

1. Funding of federal mandates regulating the expenditure on the fulfillment of social obligations of the government at the regional level

2. Methodological Aspects of Social Assistance Targeting (separate note)

3. Analysis of Household Income and Consumption Differentiation

4. The Post-Welfare State in Canada: Income-Testing and Inclusion

Introduction

Core Concepts in Canadian Social Policy

Income Security Reform in Canada

Roots of Reform: Canadian Context

Overhaul of Social Assistance and Child Benefits

Elderly Benefits: Uneasy Compromise

between Universalist and Post-Welfare Models

Conclusi

5. Lessons for the Russian Federation from the Reform of Income Security Programs in Canada

6. Post-Welfare State: Canadian Experience of Designing Social Policies

1. Funding of federal mandates regulating the expenditure on the fulfillment of social obligations of the government at the regional level

According to the Russian Constitution, implementation of the social policy (including social protection and social assistance to the population) is the concurrent responsibility of federal and regional (subnational authorities). One of the key current issues of social reform is the existence of a considerable amount of social obligations established by the effective federal legislation, which are not funded by the federal budget. In other words, the numerous legal acts of the federal level (laws or regulations introduced by federal agencies) assigning to the subnational authorities additional expenditure powers that are not back-upped (or are partly back-upped) with financing sources, are still in effect. Such powers (or “federal mandates”) to a significant extent are embodied in social payments, subsidies, benefits and other payments. Numerous groups of the population (alias “categories”) are entitled to these benefits. By some minimal estimates, the overall amount of these payments is equivalent to a. 8% of Russia’s GDP. In practice subnational budgets are able to finance roughly 30-40% of all the outstanding federal mandates

The current national system of social benefits, subsidies and compensations is rather mixed and comprises separate and poorly arranged fragments. At present, the social protection of population forms rather a complex and sometimes confusing system that comprises various benefits and social payments. Subsidies and compensations to different categories of residents, social support to the needy, subsidies to enterprises and institutions producing goods and delivering services to the population.

. Just for 9 types of social subsidies and compensations (including the monthly child benefit) the number of recipients amounts to RUR M45.5. The federal law sets roughly 156 kinds of social payments, benefits, subsidies extended to 236 different categories of the population (for example to such broadly defined categories, as veterans, children, handicapped, students etc.)

The current mis-match between the obligations and appropriations can be illustrated, as follows: in 1999, the expenditure of consolidated budget on the outlays under the section “Social policy” made up RUR 74.5 bln, i.e. 1.7% of GDP, while to fund the benefits and subsidies set at the federal level at the full rate, one would have needed, according to different estimates, at least 5 to10 times more funds.

The bulk of local authorities’ expenditures in terms of social protection of the population induced by the federal mandates is related to an implementation of the following federal laws:

- “On veterans” of January 12, 1995 # 5-FZ;
- “On state subsidies to citizens having children” of May 19, 1995, # 81-FZ;
- “On social protection of handicapped in RF” of November 24, 1995, # 181-FZ;
- “On social services to the elderly citizens and handicapped” of August 2, 1995, # 12-FZ.

In Russian Federation, the system of social benefits and subsidies comprises nationwide, regional, and sectoral components. The sources for their funding are: the federal budget, the budget system of the Subject (Region) of RF, and extra-budgetary funds. The latter include the Pension Fund, the Fund for Social Insurance, the Employment Fund, The Fund for Compulsory Medical Insurance, and the Fund for Social Support of Population .

Table 1.1

**SPENDING ON MAINTENANCE OF THE SOCIAL PROTECTION SYSTEM
IN RUSSIAN FEDERATION FROM PUBLIC FUNDS BETWEEN 1995 TO 1999
(RUR. Trln.)**

	Total		Including								
	as % of GDP	%	Pension Fund			Pension Fund	Fund for Social Insurance	Employment Fund	The Federal Fund for compulsory medical insurance	Territorial Funds for compulsory medical insurance	Republican Fund for social support of the population
			Total	Including							
				Federal budget	Budgets of the Subjects of the Federation						
1995.	256,5	5,7	129,1	19,6	109,5	88,7	17,5	6,4	0,5	14,2	0,13
1996	374,3	16,6	188,4	27,5	160,9	129,6	26,8	7,3	0,8	21,3	0,06
1997	515,2	20,4	270,5	61,5	209,0	176,6	30,4	8,8	1,1	27,8	0,03
1998. (RUR Bln.)	484,2	18,0	245,7	61,7	184,0	167,0	31,1	8,6	1,3	30,4	0,08
1999. (RUR bln.)	740,9	16,2	365,4	85,0	280,4	271,4	43,9	12,0	2,0	46,0	0,2

The formation of social programs is always related to the need in solving the problem of identification of an optimal correlation between the income levels, social transfers and paid

and free, and privileged services to different groups of population. The introduction of market mechanism implies the establishment of a social protection system based upon principles of the government ensuring some minimum of consumption of social goods at its expense and with its help (through a compulsory minimal insurance available at the expense of both of the employer and the concrete individual) and on the opportunity to raise the “level” of individual’s own protection on the basis of his (her) voluntary current expenses for the noted purposes, for the sake of the future consumption.

Whilst evaluating the role of public social programs in forming the consumption and the population’s income in terms of a concrete household, one should not proceed just from the nationwide criteria (group of recipients, frequency of the receipt of services, the extent to which the concrete producer or consumer is subsidized, etc). One needs to take into an account specific conditions for the concrete region and settlement, for the implementation of concrete social programs (exclusive of the federal guarantees) falls under municipal authorities’ competence.

In this respect, to optimize the procedures of estimating indigence, the development of targeted programs of social support suggests taking into account cross- and intra-regional differences income and population’s consumption.

All the receipts oriented to the formation of final consumption from the social protection system may be distinguished into three groups.

- monetary payments (pensions, allowances, etc.);
- benefits in a form of the right for lowered taxes, receipt of transfers in natural form, etc.;
- social services consumed free or at a price with no economic significance.

The Russian law lacks a strict definition of benefits as a legal category. Sometimes benefits are closer to social guarantee, while a certain part of benefits bears the characteristics of privilege. In contrast to guarantees that are provided to all the population, regardless of their age, gender, social position, residence (for example, all the residents a guaranteed with the right for the health protection or with the right for sanctity of the home) or main socio-demographic strata of the population (all the pensioners are guaranteed with pensions), special preferences (benefits) are provided to narrower population groups (pregnant women, children from families with three or more children or form incomplete families, small peoples, etc.)

within the frame of the noted big socio-demographic groups, according with a professional or status feature..

It should be noted that the difference between benefits and privileges is rather vague, because they both bear such characteristics as exception from the general rule, raising subjects' life standards; they also have a social (group) or a professional-group nature. Should there be an excessive improvement in position of single individuals who are, anyway, wealthy enough and find themselves on higher levels of the social stairs, which intensifies the socio-economic differentiation of the population, it is privileges that should be considered. The existence of privileges contradicts the concept of formation of legal state and undermines both the principle of general equity and the principle of social equality. The privilege, in turn, is understood as the improvement of the subject's position that allows him (her) to satisfy his (her) own interests to a greater extent and manifests itself both in a provision of additional, special rights (advantages) and in dismissing from his (her obligations).

The following features are characteristic of social benefits:

First, those are exceptions from general rules, a way of social differentiation.

Secondly, those are lawful exceptions set by subjects of legal initiative in legislative acts (the benefits should be fixed at the level of legislative acts rather than legal practical acts).

Thirdly, they serve as a complementary mechanism for the government redistribution of revenues and welfare according to criteria of the bureaucratic state socialit society stratified according to social and professional characteristics.

In the fourth place, they are accompanied with a facilitation of their recipients' life, though they are not based on the poverty level criterion adequate to a market society. These advantages change (decrease or, in some cases, raise) the differentiation between living standards of single population groups, but they are not estimated according to the level of efficiency of their performance of the noted function – they are likely to have a spontaneous nature rather than the targeted one

The system of government benefits is designated to partly compensate for the population's low wages, unfavorable working conditions, and in some cases the benefits must serve as an additional incentive to attract a certain group of population to various kinds of activities and as a recognition of some population groups' special merits. With the beginning of reforms, the *habitat* of benefits (natural transfers) began to expand, and they began to be used to alleviate defects of the state compensation system for the harm caused to the citizens' health by technogenous catastrophes.

Because of their insufficient flexibility, broad coverage (orientation towards broad socio-demographic categories of population) and lack of differentiation, the benefits often lose their compensatory functions; a substantial part of the transfers is allocated to support the population groups whose incomes are higher than subsistence minimum level.

The current social protection system based on categories is inefficient both in terms of implementation of social policy and economically, and that can be proved with a whole range of facts:

- in terms of the current income level, the proportion of the recipients of social aid in the total number of those who cannot be attributed to the poor is even higher than the proportion of the respective recipients among the poor. The amounts of subsidies allocated to the poor and to “non-poor” is practically the same;
- the proportion of social subsidies relative to the overall volume of the needy families’ expenses is negligible, and, according to RLMS (Russian Longitudinal Monitoring Survey), it does not exceed 2-2.5%;
 - almost 90% of all the deprived families do not receive any social assistance.

According to some experts estimates, throughout the country on the whole 44% of benefits related to resort and rehabilitation services falls on the wealthiest families, while only 10% - on the most needy ones. A similar picture is noted across other kinds of social benefits: 92% of public transport benefits for students is allocated to the students from wealthier families, while 62% of this particular benefit for pensioners is also concentrated in families with the highest incomes. Hence, 2/3 of the total amount of benefits and subsidies falls on the households whose average incomes are higher than the subsistence minimum level. Payments and benefits for social purposes are redistributed in favor of the wealthier and wealthiest population strata, which testifies to the inefficient distribution of social benefits and payments, from the viewpoint of the struggle against poverty.

The analysis of results of the budget surveys conducted by Goskomstat allows possibility of an indirect estimation of significance of government benefits in the population’s budgets and budgets of its single groups (by the number of children, income level, and across Subjects of the Federation). It should be noted that the amount and the proportion of benefits granted in compliance with the federal law will form an amount less than the one resulting from the budget surveys, due to inclusion in the former the benefits provide enterprises and institutions, and single regions. At the same time, the noted amount may be bigger, because

the budget surveys' data takes into account only actually provided benefits (it is known that in practice a part of legislatively fixed benefits is not allocated in the majority of regions, for instance, food subsidies for pupils in schools and student of secondary vocational colleges). Goskomstat includes in households' incomes the subsidies for food, payments for public transport rides, housing, use of resort facilities, medical services, and gifts from enterprises.

Both cash payments for food and the provision of food coupons are attributed by Goskomstat to food subsidies, as well as the provision of a possibility to buy food stuffs at a lower price (in this case, an approximate price difference between the subsidized purchases and the ones made in regular stores is estimated).

The subsidies for paying for transport expenses include the use of a free ride by all kinds of public transport (or provision of a travel card with a substantial discount), including the use of official cars (calculated as equivalent of the public transport ride to the office and back home), as well as the use of means of transportation provided by enterprises and institutions for the households' personal needs (free or with a partial payment for the rent from the households' personal funds).

Subsidies for housing payments comprise the privileges set in the legislative order and payments for housing (and its refurbishment and maintenance) at the expense of enterprises and organizations' funds.

The subsidies for resort and rehabilitation comprise discounted and subsidized vouchers provided by social insurance agencies, enterprises and institutions for rehabilitation and medical treatment at spas and resorts, summer camps for children, and tourist excursions and travels.

Subsidies for medical services comprise subsidies and benefits in terms of medical and dental services provided by enterprises and organizations to their personnel, and privileges for pensioners in terms of payments for medicines, exclusive of the costs of free medical services provided to the population as per the compulsory medical insurance procedures.

The gifts from enterprises and charity foundations comprise all foodstuffs and goods, including fuel, received gratis, without any costs incurred by the household, as well as purchases of housing at the expense of enterprises and institutions' funds.

As of early 1999, the average costs for subsidies and benefits provided in natural equivalent accounted for RUR11 a month per household member, which made up 1.1% of disposable resources and 1.3% of expenses on final consumption, while as long as the families with children are concerned, the respective share accounted for: for families with 1 child-

RUR 10.9 (1.1% of disposable resources and 1.3% of spending on final consumption); for families with 2 children- RUR 10.8 (1.5% and 1.7%), with 3 children- 11.6 (2.3% and 2.5%), with 4 and more children- RUR 7 (1.6% and 1.9%), respectively, while for the households with their disposable resources being below subsistence level- RUR 5.1 (1.6 and 1.8%).

In all subsidies and benefits hold an insignificant proportion in the population's budgets. It should also be noted that they are poorly differentiated with regard to the number of children in a family (it is the families with 3 children who have the biggest proportion of subsidies and benefits in their disposable resources and spending on final consumption). The subsidies and benefits form the smallest amount in case of the families with 4 and more children – RUR 7 a month per household member (which is even lower than for the families with 1 child), while they account for 1.6 and 1.9% in terms of their proportion in resources and expenses.

At the same time the amount of subsidies and benefits raise along with the growth in the disposable income per capita from 4.6 RUR a month up to 18.5 RUR, i.e. the benefits are received by the wealthiest households, while given that 1 household member spends as much as 41 RUR a month to pay for housing and communal services on average, the respective subsidies and benefits per 1 person eligible to them are worth a total of 41 RUR The average costs of medical services for a household member amount to 4.4 RUR while the respective subsidies and benefits worth a total of 262.2 RUR. The monthly payments for public transport services per 1 person amount to 26.3 RUR, while the respective subsidies and benefits total 63.3 RUR per person eligible to those. In the area of resort and rehabilitation services, the average monthly costs per person are RUR 4/5, while the respective subsidies and benefits account for 671.7 Rb. per a recipient (therefore, only 0.1% of the total population enjoy these privileges).

Hence, subsidies and benefits play an important part in contracting the respective expenses in the budgets of those eligible to them and their households, and even raise their incomes.

Depending on their objects, the existing benefits can be classified into the following groups:

- In the area of monetary income- beneficial taxation.

- In the area of monetary expenses – exemption (or discounts) from the payment for housing and communal services, payment for private telephone, “extra-departmental” security, free use of public transportation, free (discounted) use of suburban transport, free (discounted) travel cards for inter-city transport, discounted use during autumn - winter season of inter-city transport without limitation of the number of rides, monetary compensation for the housing rent (sub-rent), exemption from the payment for pre-school institutions.

- In the area of the property provision – capital refurbishment of housing under the terms determined by local self-governance bodies, an early free installation of private telephone, free provision of transport due to medical indications.

- In the employment and labor area – four additional paid vacation days per month for the parents of disabled children, an additional paid vacation and an additional compensation for the record of work in a zone with a special socio-economic status.

- In the area of healthcare – a free provision (rebates) with medicines, free manufacturing and repair (rebates) of dental prostheses, provision of a free stay at a resort and rehabilitation facility, monetary compensation for medical treatment during vacations, compensation for the harm to those suffered from the nuclear weapons tests, operations of nuclear units and liquidation of nuclear disasters.

- In the consumption area – a free provision of children with special dairy baby food, compensation payments for pupils in schools and secondary vocational colleges, free food at educational institutions, free provision of pupils in schools (for the families with at least three children) with a uniform or its substitutes.

- In the educational area – a privileged enrollment to the higher and secondary special educational institutions for some categories of the population (“Chernobyl” people, children of persons killed in military conflicts, from families with at least three children, orphans, etc.)

- It is the complex of benefits in the area of regulation of regional conditions of life (climate, environmental pollution, regional conflicts) that should be singled out: that is, benefits to “Chernobyl” persons and other categories equaled to them, victims of social conflicts – refugees, compulsory migrants working in the far North and areas equaled to that, etc.

As concerns their recipients, the benefits can be divided into social ones and those granted on the basis of profession. It should be noted that the correlation between them is unequal: according to some experts, of the overall number of recipients, the “social” ones account for 94%, while only 6% falls on the citizens who have a right for benefits due to their professional activities.

In compliance with the federal law, the benefits must be granted to the following categories of residents: disabled, participants in the Great Patriotic war and members of their families, disabled children aged under 16, persons suffered from radiation, families with at least three children, pregnant women, refugees, unemployed, veterans of labor, former young prisoners of nazism, veterans of military operations in territories of other countries, Heroes of the Soviet Union and heroes of the Socialist Labor, persons decorated with the full set of the Order of Glory, persons decorated with medals “For the Defense of Leningrad”, “For the Victory Over Germany”, “For the Victory over Japan”, with the sign “To the Resident of the Blocked Leningrad”, and persons recognized as victims of political repression and rehabilitated ones.

In addition, there is a considerable category of recipients of benefits that enjoy them due to their profession: military personnel, police, fire brigades, judges, prosecutors, customs officers, etc., as well as those who work at noxious and dangerous production facilities and in the areas of the Far North and location equaled to them.

Along with the traditional groups of residents eligible to benefits, there appeared new numerous strata of the population that are in need of a single or a short-term material support due to the circumstances that caused their poverty or sharply deteriorated their well-being. Those are unemployed, refugees from the areas experiencing social conflicts and natural calamities, and those who need a costly medical treatment (surgery, diagnostic treatment, etc.), and others.

Of the aforementioned groups of the population, the largest ones are:

- Pupils at public and municipal secondary institutions and primary vocational educational institutions (27.9%)
 - Veterans of labor (22,2 %);
 - Employees of the Home Front during the Great Patriotic War (12,9 %);
 - Disabled adults and children (8,6 %);
 - Children under 3 (4,6 %);

- Military personnel and those dismissed from the military service on the beneficial grounds and members of their families (including the staff of the Interior Ministry) (4,5 %);
- Pupils in public school from the families with at least three children (2,4 %);
- Residents (employed) in the territory of a zone with a special, beneficial socio-economic status (1,89 %);
- Children under 6 from the families with at least three children (1,69 %);
- Participants in the GPW (1,51 %);
- Members of the families of perished (defunct) invalids and participants of the GPW and veterans of military operations in the territories of other countries (1,19);
- Invalids of GPW and veterans of military operations in the territories of other countries (1,1 %)

These categories of the population enjoy permanent social benefits – as long as the factors that determined their status are in place. Most likely, they will remain main groups enjoying the general state social support system in the future.

The data on various benefits and subsidies extended to different categories of the population in compliance with the current federal law is represented in Table 1. It should be noted that the direct count of the total amount of financing from regional or local budgets required to provide for the established benefits is quite complicated.

First of all, the very access to certain social benefits and services per se (to those provided in-kind) to a significant extent is determined by the recipient's residence: the choice is consistently reduces as long as the transition from a large industrial center towards the level of a small city- Oblast center and further to the municipal establishment of a lower level.

In addition, for example, the existence of numerous categories of passengers who enjoy the respective benefits leads to the growth in municipal organizations' indebtedness towards transportation companies. As a result, the overall volume of transportation, i.e. sufficiency in terms of provision of the respective services to all the categories of consumers, falls. In the housing sector, the non-payments on the part of municipal organizations (covering 70% of their expenditures at the expense of budgetary funds) entail the fall in the volume and quality of their services (cutting off hot water supply, reduction in electricity supplies to the housing sector)-in other words, the bigger is the volume of obligations in

terms of declared subsidized or free benefits, the less the actual volume of services received by all the consumers (including those not included in any “subsidized” category in the respective sector). It also appears complicated to estimate financial obligations that proceed from the priority provision of benefits (housing) or services (e.g., installation of the individual telephone set). The dispersion in terms of expenditure on the provision of medicines and medical services for the “subsidized” categories is also considerable- especially in terms of estimating expenses on purchasing medicines.

The evaluation of the data of regional budgets under the “Social policy” item shows that the expenditure structure is unstable, fluctuates sharply annually, and that is determined by the political situation and even has a seasonal nature. For example, the proportion of execution of the financial mandate in terms of paying children subsidies can fluctuate (annually and quarterly) within the range between 20 to 60 per cent). In springtime, the proportion of subsidies allocated to railway companies to maintain low tariffs for suburb commuters increases, while payments to pensioners usually grow sharply in the course of election campaigns.

The general lack of funds to fulfill obligations meeting the federal standards leads to the general imbalance in the structure of resources allocated for the social protection of the population in favor of bigger expenditures on transfers of funds in favor of providers of socially significant services. Thus, the evaluation of social expenditures in the budget of the city of St. Petersburg in 1999 shows that the total volume of budgetary funds allocated to pay compensations for discounts on the cost of suburb railway commuter services and telephone networks services provided to selected categories of residents makes up RUR2.58 bln. (a. USD 100 mln.). The money is transferred in favor of the Oktyabrskaya railway and Petersburg telephone network. At the same time, the needy population (with the income below subsistence level) received only RUR. M410 (or 6 times less) through subsidies and housing subsidies. Hence, the bulk of the funds evaporates in the budgets of service providers. In addition, the services that are provided to all categories of residents with no exception are also subsidized. The households, which do not fall into the category of those “in dire need”, are more active in using both the suburban transport and telephone services.

In compliance with the current law, the same household at the same time may become a recipient of a great number of various kinds of social aid and benefits. The overall volume of such a support provided through various channels can hardly be controlled, let alone sensibly limited. Many categories-based benefits are extended automatically, and they

are not related to the amount of other social benefits and payments.

In practice while carrying out financial evaluation of the “federal mandate”, one has to assess both minimal and maximal values, though both of them are, to a significant extent, quite conditional.

Table 1.2

The list of main categories of residents eligible for benefits and types of the respective benefits

Types of benefits	The list of categories of the population eligible for benefits													
	Invalids of WW II	Families of Defunct military personnel	Participants in the WW II	Refugees, Computational migrants	Children-orphans	Former troops-“internationalists”	Heroes of the USSR, RF, heroes of the Socialist Labor	Victims of Political repressions	Handicapped persons			Families with Children	Persons suffered from Radiation, “liquidators” of nuclear disasters and residents of “contaminated” zones	Handicapped children
	1	2	3	4	5	6	7	8	Ist group	IIInd group	IIIrd group	12	13	14

I. Housing and related benefits													
1. House rental payments	1) 50% of house rental payments together with their family members	1) 50% of house rental payments to those who receive pension for the lost	-	-	-) 50% of house rental payment together with their family members	1) 50% of house rental payment	1) 50% of house rental payment	1) 50% of house rental payment		1) 50% of house rental payment together with their family members	-
	2) Excessive living area (up to 15	2) Excessive living area (up to 15					2) Excessive living						

	m ²) – a regular payment	m ²) – a regular payment 3) maintenance of benefits to the widow of the former invalid of WW II					area (up to 15 m ²) – a regular payment							
2. Payment for heating, water, gas and electricity supply	1) 50% of house rental	1) maintenance of benefits	-	-	-	-		1) 50% of the costs	1) 50% of the costs	1) 50% of the costs	1) 50% of the costs	1) The discount not lower	1) 50% of the costs	-

	payments together with their family members	to the widow of the former invalid of WW II										than 30% to the families with at least three children		
3. Fuel costs (for the housing without central heating)	1) 50% together with their family members	1) maintenance of benefits to the widow of the former invalid of WW II	-	-	-	-		1) 50% of the costs	1) 50% of the costs	1) 50% of the costs	1) 50% of the costs	1) The discount not lower than 30% to the families with at least three		-

												children		
4. Loans for individual house construction	1) Paying off during 10 years (starting from the 5 th year upon the completion of	-	-	-	-	1) No interest		No interest				1) No interest (families with at least three children)	1) No-interest loans (50% of those paid by the federal budget)	

	constru ction)													
5. Charging interest for the use of loans for individual house construction and capital refurbishment	1) No interest paid)	-	1) No interest paid)	-	-	-								-
6. Credits for the purpose of settlement and construction materials	-	-	-	-	Long term credits under beneficial terms							1) Privileged (for families with at least three children)		-
7. Communication	-	-	-	-	-	-	1) Free (1) 50% discount	-

services							for the Heroe s of the USSR)							
8. Fuel supply (for the houses without central heating)	1)priori ty	1)priori ty												
9. Installment of individual phone	1)priori ty	-	1)prio rity	-	-	1)priori ty	1) Free (the Heroe s of the Social ist	1)priori ty	1)prio rity	1)prio rity	1)prio rity		1)priority	

							Labor)							
10. Provision of housing	-	1) To the families of died "afgans"	-	1) Registration without regard to the length of residence in the respective territory	-	1) priority (the additional area up to 20 sq.m.)		1) priority					1)Regular housing within 3 months 2)additional room	
11. provision of construction	1)priority	1)priority	-	-	-	Yes		yes						

materials															
12. Registration with relatives or acquaintances				1)yes											
13. Construction of complex settlements				1)yes											
II Transport subsidies															
1. City transport (except taxi) and vehicles of general use	1) Free 2) Free for the person accompanying the invalid		1)free					1)free	1)free	1)free	1)free		1)free for school pupils from the families with at least		free

	of the Ist group											three children		
2. Railroad, water, bus, suburb commuting	1) Free		1) Free					1) Free	1) Free 2) 50% for the acco mpan ying perso n	1) Free o		1) Free for school pupils from families with at least three children		

<p>3. Railroad or on transport vessels (including voyages for rehabilitation and getting a prosthetic treatment</p>	<p>1) Free for handicapped of the Ist and IInd categ. Once a year 2) 50% of the cost for handicapped of the IIIrd categ. (once a year)</p>		<p>1) 50% of the cost (once a year) or free once in 2 years</p>				<p>1) Free once a year</p>	<p>1) 50% of the cost once a year</p>	<p>1) Free for handicapped persons and accompanying person once a year</p>	<p>1) Free for handicapped person once a year</p>		<p>1) 50% of the cost once a year</p>	<p>1) Free for handicapped person once a year</p>
---	--	--	---	--	--	--	----------------------------	---------------------------------------	--	---	--	---------------------------------------	---

4. Air, water, auto motor intercity (including trips for rehabilitation and prosthetic treatment)	1) 50% once a year		1) 50% of the cost (once a year) or free once in 2 years					1) 50% once a year	1) Free for handicapped persons and accompanying person once a year	1) Free for handicapped persons and accompanying person once a year	1) Free for handicapped persons and accompanying person once a year			1) Free for handicapped persons and accompanying person once a year
---	--------------------	--	--	--	--	--	--	--------------------	---	---	---	--	--	---

III. Subsidies on the provision of means of transportation (on the doctor's recommendation)

1. "Oka" and "Tauria" passenger cars	1) Free for 7 years							1) Free	1) Purchase	<i>1)Purchase minus</i>	<i>1)Purchase minus the</i>			
--------------------------------------	---------------------	--	--	--	--	--	--	---------	-------------	-------------------------	-----------------------------	--	--	--

	for handica pped of the Ist and IInd categori es								min us the cost of mot ortro lley 2) D ecre ase to 0.5 % of the exci se for Oka	<i>s the cost of moto rtroll ey 2)Dec rease to 0.5% of the excise for Oka</i>	<i>cost of motor trolley 2)Decr ease to 0.5% of the excise for Oka</i>			
--	---	--	--	--	--	--	--	--	---	---	--	--	--	--

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2. The annual monetary compensation for transportation services of Oka and Tauria	1) Handicapped of the Ist and IInd group													
3. Motor trolleys, provision and repair	1) once in 5 years								1) once in 5 years	1) once in 5 years	1) once in 5 years			
4. Compensation for gasoline,, repair, technical maintenance	Yes						1) Annually, 100 liters (Heroe							

							s of the USSR)							
5. The off- set of the cost of Oka/ Tauria in the event of the purchase of a car of another breed	1) Disabled of I and II groups.													
IV Rehabilitation and resort services														
1. Provision of the rehabilitation treatment card	Yes	1) Families of dead "Afghans"						Yes					1) Free once a year	
- healthcare agencies	1) Free for	1) For 25% of	1) For 25%				1) Free						1) Free once a	1) Free for the

	non-working persons once a year	the cost for families of the Heroes of the USSR	of the cost				once a year						year (or an annual compensation)	child or accompanying person
- monetary compensation instead of the rehabilitation treatment card	1) once in 2 years													
- priority in respect to provision of rehabilitation treatment cards	1) priority							1) priority					1) free	
2. Transportation to the treatment		1) free					1) free						1) free	1) 50% for the

facility and back							once a year							child and accompanying person
V. medical treatment subsidies														
1. Preparation and repair of denture	1) free						1) free	1) free						
2. Sophisticated and less sophisticated orthopaedic footwear	1) free						1) free		1) free	1) free				
3. Treating truss, sticks, crutches, prosthetic appliances	1) free													
4. Temporary disablement	1) 100%								1) 4 month					

benefit	of wages 2) 4 months running or 5 months a year 3) For the Ist and Ind group- for treatment from social insurance								s runni ng or 5 month s a year					
---------	---	--	--	--	--	--	--	--	--	--	--	--	--	--

5. Provision of medicines as prescribed by the doctor			1) free					1) free	1) 50% of the cost	1) free	1) free for non working	1) free for non working	1) Free for children under 6 years from families with at least 3 children		
6. Services of medical facilities, clinical examination	1) have a preference													1) Free	
7. Hospitalization	1) Priority													1) Free	
8. The use of "fixed" clinics upon retirement	1) Yes	1) yes													

VI. Taxes														
1. Agrarian tax on buildings and land rent	Exemption						Exemption (Heroes of the USSR) 50% (Heroes of labor)					Lower rates or exemption (for the families with at least three children)		
2. The decrease of the gross income at the amount of income not exceeding the	5-fold amount of the minimal salaries		5-fold amount of the minimal			5-fold amount of the minimal salaries	5-fold amount of the minimal							

income for each full month	and wages		salaries and wages			and wages	salaries and wages							
3. Discount on personal income tax on salaries and wages			50%				Exemption							
4. Development of the personal												Non-interest loan or financial aid to families with at least three children		
5. Entrepreneurship												Exemption from		

													registrati on fee for private individu als from families with at least three children		
--	--	--	--	--	--	--	--	--	--	--	--	--	---	--	--

VII. Monetary payments

1. For food, clothes, footwear					For wards								1) Free breakfast s and lunches at school, secondar	1) 203 minimal salaries and wages monthly for each	
-----------------------------------	--	--	--	--	--------------	--	--	--	--	--	--	--	---	--	--

												y vocation al training for children from families with at least three children	family member 2) The average cost for food at schools and kindergar tens (if not attend those) per each child	
2. Monetary allowance (not less than the maximal rate of a					For persons taking									

tutor)					care of at least 5 childr en									
3. Additional payments to parents-tutors of every child under 3 years					1) 50% of mini mal salarie s and wages									
4. Additional days off 4 days a month														1) Accordin g to the average daily salary

5. Additional payment to reach the amount of the previous salary in the event of the transfer to the lower paid job														During 4 months	
6. For taking care for....									yes						yes
7. Compensation for every month in jail									1) 3/4 of the MSW(but not more than 100 MSW)						
8. Single subsidy				1) 1 MSW	1)MS W-upon										

				in the city and 2 MSW in the country side	<i>finis hing h scho ol 2)mo ntly stipe ndiu m- annu ally 2) Mont hly stipen d anuall y</i>									
9. The set of clothes (foot wear) or				Yes	yes									

monetary compensation)														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
10. Rehabilitation financial aid													Annually : 1) Handicap ped of the Ist and IInd category . – 5 MSW;. – 2)5 MSW- handicap ped of the IIIrd category;	

													MOT 3) Others- 1-3 MSW	
11. The loss of the bread-winner													1) families- 100 MSW=s 2) parents- 50 MSW=s-	
12. Compensation for the damage to the health													1) Single to handicap ped: I - 100 MSW=s	

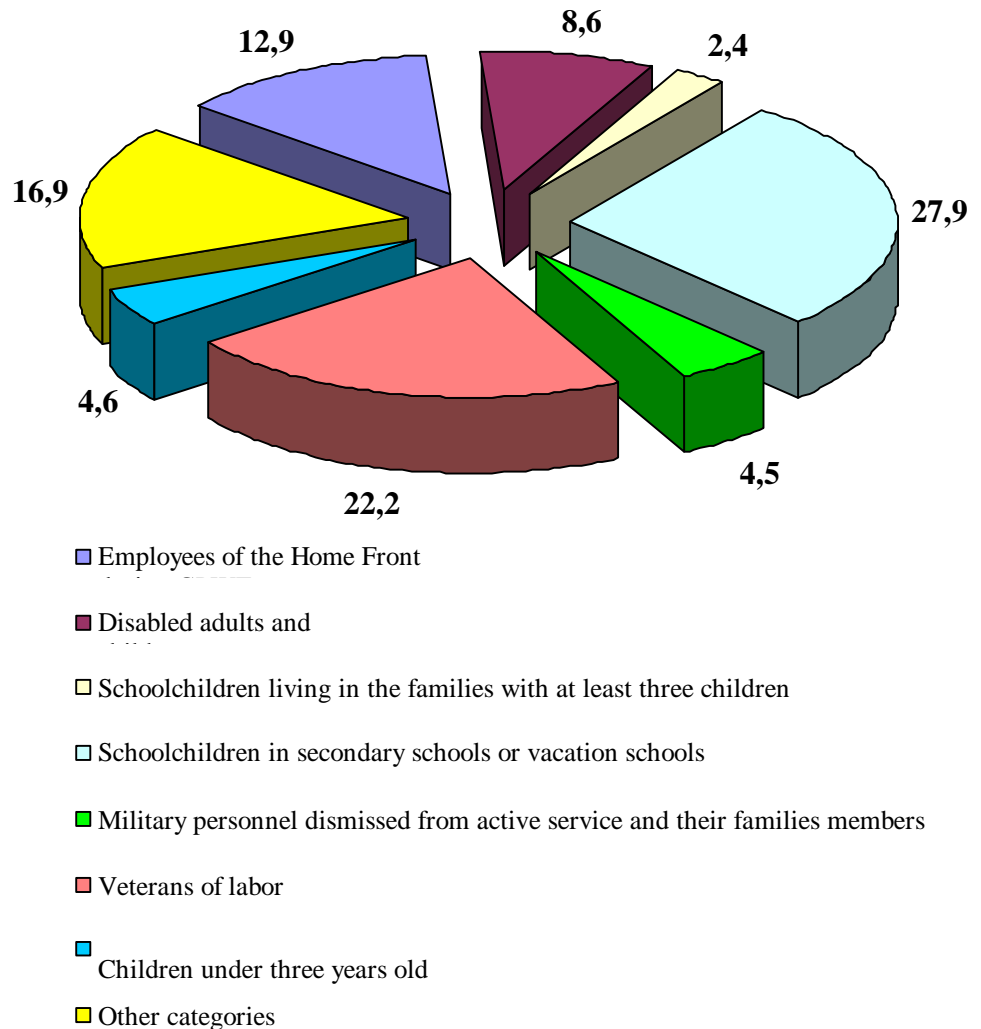
														II - 70 MSW=s III - 50 MSW=s	
13. Pensions for disabled														1) Not less than 7 MSW=s	
14. Stipends						Additional payment to students of high schools, secondary								1) Raised by 100%	

						vocational training schools								
15. Monetary compensation													1) Monthly: 20-60% of MSW to non-working; 2) 0.8 to 4.0 MSW=s- at enterprises of all forms of ownership	

														2. 0.8 – 4 MSW at the enterprises of all property forms	
16. Children subsidies for children from needy families														1) Raised by 100%	
17. Subsidy for a child under 3 years														1) Raised by 100%	
18. Maintenance of the average salary						1) In the event of retraini									

						ng								
--	--	--	--	--	--	----	--	--	--	--	--	--	--	--

The proportion of some groups of persons eligible for benefits in the Overall number of



The main deficiencies of the current categories-based system of benefits are:

1. The eligibility for a significant number of various benefits was set in compliance with a non-homogenous legal base (with Resolutions of the Council of Ministers of the USSR and RSFSR, federal laws, Decrees of the President, Resolutions of the RF Government, legislative acts of the Subjects of the Federation, and other legislative acts both on kinds of benefits and categories of their recipients. Over 232 laws of RF, presidential Decrees and the RF Government's Resolutions enacted since 1991 that required additional funding of social needs. There was no systemic practice of adoption of legislative acts, and in the majority of cases they do not

contain mechanisms of realization of citizens' rights, nor they specify sources for their funding, and they are inconsistent with the current interbudgetary relations. The current legislation requires an additional elaboration of Government's acts and the respective acts of executive bodies of the Subjects that concern regulation of benefits allocation.

2. There are no criteria of the provision of social benefits. The social benefits are provided according to the principle of a formal attribution to a certain social group or even profession. In addition, some benefits are also designated for members of families of individuals eligible for benefits. Even within a social and group stratum one can note social inequality in terms of the provision of benefits. Thus, in compliance with the laws "On social protection of citizens suffered from radiation due to the Chernobyl catastrophe" and "On veterans", all the disabled persons, regardless of the reasons for their disability are entitled for certain benefits, however, the analysis shows that on the basis of different laws different groups of disabled receive incomparable amounts of benefits and compensations.
3. The public funds are dispersed due to the excessive availability and simplicity of receipt of benefits. Single categories of citizens receive benefits on many grounds during a long time period without any evaluation of their respective needs, thus decreasing the efficiency of such benefits for their recipients.
4. The benefits system is characterized with a lack of funds for their provision, as well as with a lack of "transparency" of their channeling. Many legislative and legal documents do not strictly stipulate the sources for financing of expenditure on the provision of certain kinds of benefits to the population. As a result, the relationship between the actual recipients of benefits and enterprises (institutions) that provide certain kinds of goods and services, as well as between economic agents and budgets of different tiers remain unregulated.
5. There is no single statistical data base on the number of recipients of social benefits and payments. A personified register of the recipients of social benefits and payments would allow to avoid an unjustified duplication of the social advantages provided, as well as to prevent possible unjustified increases in the number of the users of the respective beneficial services by organizations that deliver those in their settlements with the budgets.

It was just a few years ago that the federal authorities officially began to employ a mechanism of the suspension of the effect of some provisions of social laws that were unfunded in the federal budget for the respective year. The funding of social obligations as per the federal law is carried out within the limits of funds provided in the federal budget for the respective year. In the event a federal law or any other legislative acts is adopted that provides an introduction of new kinds of the federal budget expenditure, such a document must contain the provisions stipulating sources and procedures of funding such a new expenditure of the federal budget. One of the major challenges facing the current Russian social benefits and payments system is its low socio-economic efficiency. To a significant extent the latter is related to the “categorical” principle of allocation of the support and a poor coordination of operation of different agencies providing single kinds of support.

As a rule, the grounds for granting of benefits and subsidies considered in Table 1 are laws and various legal and normative acts adopted between 1994 through 1996 (the most important of those are listed above). It should be noted that those acts adopted within this period bear the imprint of that time (electoral campaigns) and most often they have a clearly populist nature. Despite the fact that the acts undoubtedly have a number of merits, they have a declarative nature. The stipulation of the principle of targeted nature of services, i.e. the provision of social assistance and various kinds of social services, is not sufficiently clearly defined in the said normative and legal acts, i.e. as a rule eligibility is not related to the household’s economic state. The said acts contain a great number of provisions for benefits, subsidies, compensation payments, granting of free or discounted social services, the eligibility for which is established for entire categories of the population (the major part of them is listed in the table) rather than individual households in dire need.

Some federal mandates are orientated towards the social protection of selected categories: migrants and refugees; military personnel participating/participated in armed conflicts in Russia and CIS; donors; those who suffered from disasters at “Mayak” and Chernobyl; those who live in the Far North or equivalent regions; those who suffer AIDS and medical personnel working with this group of patients; Heroes of the USSR, RF; those who suffered from repressions, etc.).

There is also a number of normative and legal acts that introduce benefits or grounds for payments in terms of professional (production) activity. The acts read that social protection is extended to those who work in certain industry branches or services, or civil

servants (such as, for example, rescue workers, personnel of railway companies, judges, bailiffs, residents of the closed administrative and territorial establishments, personnel of interior agencies, etc.)

It should be noted that the evaluation of the aforementioned acts witnesses that in addition to the traditional categories of those in need of social aid, subsidies, benefits and payments (disabled, children- orphans, families with many children, single mothers, aged people, unemployed), some new categories appear, such as military personnel and members of their families; employees of certain industry branches and services, civil servants, residents of certain territories.

Naturally, the mere existence and effect of the said normative and legal acts does not at all imply that individuals entitled to benefits, pensions, subsidies or payments on different grounds may receive all of them at once. Many of such acts provide the possibility of receiving social support and/or services on one of the grounds, however, such norms do not improve the situation.

The chaos in the adoption and implementation of legal and normative acts in the sphere of social protection and social services, the existence and effect of largely overlapping (and therefore contradicting one another) norms covering the same categories of recipients (though under different names) lead to the growth and division of the categories of those who need social support, confusion in mechanisms of realization of the rights set by the social and branch law, complications in terms of provision of social support, and indebtedness in terms of paying pensions, subsidies and compensations.

The impossibility of implementation of all the social rights fixed by the law has caused the revision of eligibility criteria both at the federal and regional levels.

The social legislation adopted between 1997 to 1999 substantially differs from that of the previous period. First, the new social laws regulate the former chaos in providing the state social support. Secondly, one notes a gradual transition towards the targeted approach in this respect. Thirdly, there are attempts to regulate the implementation of entitlements, benefits and guarantees that are listed in the acts of the earlier period.

The social laws adopted in 1997-1999 regulate the eligibility of the state social in a comprehensive way. The evaluation of the contents of the said laws indicates that the transition to the targeted principle in allocating all kinds of benefits and payments becomes predominant. Thus in compliance with the law “On Amending Article 16 of the Law ‘On State Family Benefits’, the entitlement for the monthly children benefit is granted to one of

the parents (step-parents, guardians, trustees) in the families “with the average per capita income, the amount of which does not exceed the amount of subsistence level set in the RF Subject” (Art.1). Needless to say, the law “On State Family Benefits” has been often criticized on the ground that the eligibility provision had been equal for all the families with children. In other words, the benefit was granted to all the parents (step- parents, guardians, trustees), regardless of their income.

The federal law “On State Social Assistance” is of a substantial importance for the further development and improvement of the social legislation and provision of the state social support. The objectives and purposes of the provision of the state social assistance are stipulated clearly and strictly as :”maintenance of living standards of needy families and deprived single persons whose average per capita income is below the subsistence minimum value,... targeted nature and rational use of budgetary funds” (Art.3).An emphasis is made on the provision that only those needy residents whose average per capita income is below the subsistence level due to *the reasons independent of them* may receive the state social support (Part2, Art.6), while Art. 5 also identifies sources for the provision of the state social support. At the same time it is stipulated that “in the event when the resources of the RF Subjects and local budgets prove to be insufficient to extend the state social support, such funds are earmarked to the RF Subjects and local self- governance bodies from the budget of the superior level of the budgetary system...” (Part 2, Art.5).

The Law provides the possibility of carrying out an additional examination (inspection by a commission) to be conducted by the respective social protection agency in order to check the information provided in the application for provision of state social support (p.2 Art.8). The same provision also regulates the term and procedures of making decisions on the application (p.3 Art.8). The said procedure traditionally is used to examine the need in state support in the situation in which the majority of families have income not exceeding subsistence level (in some regions, the share of such families is as high as 70-80%). The subsistence level criterion by itself, of course, does not allow a strict identification of the families, to which the support should be allocated as a priority.

In 1999, further steps were undertaken towards the transition to the targeted principle of extending social support. According to the legislature’s concept, the basis for the provision of the support to the needy and most deprived residents should be formed using such laws as “On the Basic Cost for the Necessary Social Set”, “On Consumer Basket for the Russian Federation”, and RF Government Resolution of 17 February 1999 # 192 “On Approval of

Methodological Recommendations on Identification of the Consumer Basket for the Social and Demographic Groups for the Russian Federation and the Subjects of the Russian Federation”, Resolution of 29 September 1999 # 1096 “On approval of the Procedures of Accounting and Calculation of the Average Per Capita Income Value Threshold as an Entitlement Criteria for the Receipt of the Monthly Children Benefit”. Notably, the Law “On the Basic Costs for the Necessary Social Set” was passed by the State Duma on December 3, 1997, approved by the Federation Council on the same day, while it was signed and published by President only in February 1999, and it became effective as of the date of its official publication. In compliance with the Law, the basic costs for the necessary social set became Rur. 464 (Art.1).

Hence, the normative and legal acts of the recent period clearly show the emerging trend to a strict regulation of the provision of social support to those who actually need that (i.e. the provision of targeted social support) and, to some extent, the restriction of eligibility rules for certain types of social assistance.

The normative and legal acts adopted between 1997 to 1999 form the basis for identifying persons (not categories) in need of various kinds of social support. In compliance with the acts, the RF Subjects develop and adopt their own acts in the sphere of social protection and social services. The federal acts make it possible to calculate normative indicators (standards) of extending social support, procedures of their provision, contents and volume of social services package, volume and amount of different social payments.

In this context, the Law “On the Fundamentals of Social Servicing of the Population in the Russian Federation” (passed by the State Duma on 15 November 1995) is especially important. The law provides the definition of “hardships”, under which it is understood that the person undergoes the situation that objectively breaks his life (disability, disability to self-service due to the age, illness, orphanage, deprivation, unemployment, absence of relatives, conflicts and violence in the family, loneliness, etc.), which the person cannot cope with himself (Art.3, para 4). With all the defects of the said definition, in combination with other provisions (for example, regarding the computation of the average per capita income), it allows a strict identification of concrete individuals in need of social support.

Nonetheless, there are serious reasons that reduce the significance of the legislation adopted between 1997 and 1999 and its effectiveness:

First, the “innate”, “inherited” vices of the social law that is still of a clearly paternalist nature. The majority of the legislation adopted prior to 1997 is “ the socialist legacy” and does

not meet the requirements raised by the current situation and the society's development. Those are oriented to regulation of a radically different public relationships inherent of the state with the planned, administrative economy rather than of the state with market economy. Those acts chiefly have a declarative nature, while the majority of their provisions are mere references to other legislation- very often- to laws and acts that have not been adopted yet and, therefore, have no direct effect. All that raises mood of dependency in the society.

Secondly, the principle of the targeted provision of social support fixed in this legislation cannot be fully implemented, since the realization of an entitlement for social support does not depend upon the material state of the client of social service.

Third, the aforementioned chaos and internal contradiction of the social legislation as a whole: the simultaneous effect of all the provisions would have introduce chaos in their implementation.

Fourth, the transition to the targeted support, the identification of individuals whose income is below subsistence level is complicated with huge blanks in legislative process on various levels, for there are no actual mechanisms of identification of such individuals, nor there is any accurate system of identification of, and control over the material state of the most deprived persons. As a rule, those individuals who apply for benefits and subsidies have to submit various documents and references, while the social protection agency remains unaware of their actual situation. In the meantime, mechanisms of targeted support and examination of actual needs are under probation period. The social support pilot projects program focused on introduction of modern, adequate to the level of the country's socio-economic development methods carried out in 1997 to 1998 within the framework of the World Bank's project in three Russian regions, will be described in more details in next section.

To carry out the federal mandates at the regional level, the regional authorities adopt a huge number of laws and acts that regulate the matters related to social protection and servicing in the regions. The majority of the regional acts on veterans, disabled, children were adopted for the purpose of fulfilling the federal legislation and the Federal Government Resolutions, while, as per the federal law, the respective benefits and subsidies are funded from the federal budget. The acts regulating the matters of social protection in the regions, as a rule, have the common title "On additional measures..." and are subject to funding from regional budgets.

As long as the average per capita income is concerned, the regional acts have proved

to be more consistent than federal in pursuing the policy of differentiated approach to the provision of social support. It should be also noted that because of the regional budgets' arrears in payment of children benefits, the regions accomplished their transition to the targeted payment of this benefit earlier than the federal budget. The principle of targeted nature of subsidies appears the key one in the course of elaboration of programs on social support to deprived population (they are in place in every region and are adopted annually) and in the lists of the guaranteed public social services.

The regional normative and legal acts, as a rule, usually follow the federal ones. Regions do not aspire to fill in the gaps in their law until the decision is made at the federal level; however, in some matters they are more advanced than the center: thus it has been already noted above, many regions introduced laws or their Administrations' resolutions concerning the provision of targeted social support. Moreover, with those acts (to a certain extent, compulsory though, because of the deficit of sufficient budgetary funds) the administrations establish the principles that the federal law lacks.

For example, with Law of the Khabarovsk Krai "On targeted social support of residents of the Khabarovsk Krai" (of March 1, 1996, # 58), the Administration has introduced the following principles: differentiation of forms and amount of the provision of targeted social support due to the material, housing and family situation, age, ability to work, subsistence minimum level set in the Krai; the combination of the applicative approach in the course of the provision of targeted social support with its granting initiated by the social protection agencies (Art.3). The both legislatively set principles are extremely important, moreover they receive the further development and implementation both in the law and other normative acts (and not solely in the Krai, in which they were formulated fairly distinctively and consistently). The first principle clearly shows the targeted nature of the support provided, while the other is also a key one for the entire social legislation.

The legal relationship in the social protection sphere emerge from the moment of submission of the application for providing a certain kind of support. However, the submission of such an application implies the awareness of rights and benefits, which is most likely to be an exclusion rather than a typical case. In addition, some individuals needing the support are incapable to submit the application due to objective reasons: primarily, it is the children suffering from family violence or cruel treatment, orphans, homeless children, as well as handicapped persons, elderly, etc, who remain without protection.

In Chelyabinsk Oblast, the regional Administration enacted the law "On the

coordinated regulation of the living standards of the residents of the Chelyabinsk Oblast” (of 23 April, 1999, # 73-ZO). The purpose of the law is stipulated in its preamble: the regulation of a special type of social and legal relationships arising in the course of elaboration, adoption and fulfillment of multilateral agreements determining the movement of all the Oblast’s social structures. The Law sets the composition of participants in the process of negotiations, the procedure of coordination of commitments, functions of public control over fulfillment of obligations and the parties’ responsibilities. The parties and participants in the process of negotiations are: the Oblast’s government agencies, associations of producers and bankers, local self- governance bodies, representatives of the population (Art.5, p.2). Art. 8 of the Law provides for the execution of public control over the population’s living standards. Despite its somewhat declarative and populist nature, its fundamental concept is unquestionably interesting.

To evaluate the level of an actual implementation of the federal mandates at the level of RF Subjects, we conducted the analysis of the data provided by the RF Ministry of Finance compiled on the basis of the data collected in 63 regions. Table 2 contains the data for 8 normative acts, in compliance with which the expenditure mandate related to the funding of social protection of the population is assigned to the level of the Federation’s Subjects.

Table 1.3

The data on the proportion of funding of the federal mandates related to the reassignment of the expenditure powers in the social protection sphere in 1999

Title of the Law	Need in funding (M RUR)	Actual funding, M RUR	The proportion of execution of expenditure as per the law, as %
The law “On veterans” of 12 January 1995	37830	11067	29

“On social protection of handicapped” of 24 November 1995	14141	2492	21
The law “On Children Benefits” of 19 May 1995	23829	9292	39
The law “On the status of military personnel” of 25 May 1998	1882	1300	69
The Decree of President of RF “On measures on the support of families having many children” of 5 May 1992	1896	477	25
The law “On education” of 13 January 1996	1395	434	31
The law “On compensation payments for pupils’ meals” of 1 August 1996	2215	352	16
The law “On social services of aged and handicapped persons of 2 August 1995	2413	202	8
Total (average)	85.601	25616	30

Source: authors’ calculations on the basis of the data of the RF Ministry of Finance

Hence, given roughly the average 30% funding by the said circle of “social mandates”, it is only “professional” benefits- particularly fixed with the law on the status of military personnel that are funded substantially better than the others, while the mandates related to the provision of “privileged” goods or services- meals for pupils and the social services of handicapped and aged persons that are funded the worst compared with the others. In the situation in which benefits are extended directly to the socially vulnerable groups of the population, the priority of the respective budgetary expenditure proves to be the lowest in terms of regional budgets.

The conclusion is also proved by calculations with respect to funding the most socially significant mandates in the Russian regions. Thus, for example, in the Chuvash Republic the overall volume of funding allocated to fulfill the law “On veterans”(within the framework of the law, 40 kinds of benefits for 20 categories of residents are envisaged, and in

1999 the total amount of the respective allocations made up a. RUR M 720). Almost 40% of the said expenditure was spent on compensation payments to transportation companies and organizations, while housing and communal subsidies made up yet 20% of the aforementioned amount. In other words, even the actual funding of the federal mandates is arranged in such a way that the major part of the funds allocated for social support are received by the transportation and housing and communal organizations rather than the recipient.

Data processing on funding the federal social mandates at the regional level demonstrates an extremely high interregional range of indices that reflect the share of “real” funding.

In particular, in the framework of a program of the regional finance reform funded by the IBRD, specialists of Leontief Center (St. Petersburg) have made calculations on mandated and real expenditure of regional budgets on a veteran/disabled social assistance mandates in 1999(Table 3).

Table 1.4

Resources on social mandates for veterans and disabled in 1999 (according to law and actual expenditure, RUR per person)

	Belgorod Oblast	Khabarovsk Krai	Samara Oblast	Chuvash Republic
Veterans:				
According to law	535	7692	1696	2876
In reality	297	1148	344	254
Reality/Law (%)	55,5	15,0	20,3	8,8
Disabled:				
According to law	777	19662	197	7079
In reality	517	2103	114	294
Reality/Law (%)	66,5	10,7	57,9	4,2

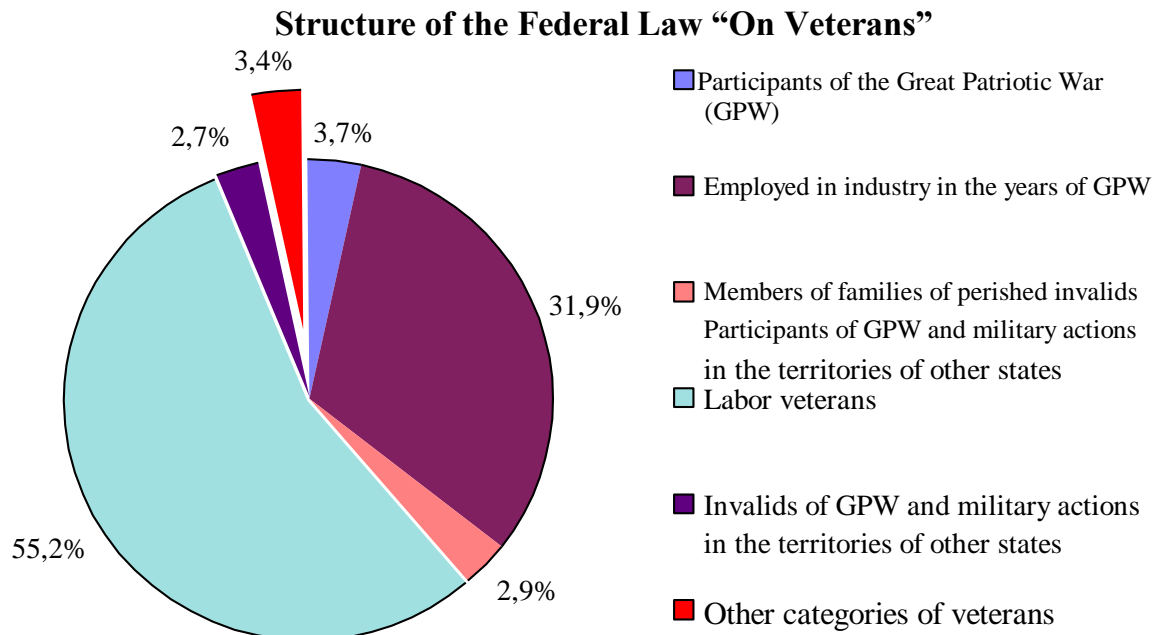
Source: data supplied by the financial departments of regional administrations, calculations of Leontief Center.

The spread in funded mandates in the given sample of regions amounts to six-fold in

case of law on veterans, and to fifteen-fold in case of the law on social protection of invalids. At the same time, it is feasible that such considerable range is partly explained by an incomplete comparability of methodology for calculations selected by certain financial departments.

The role of subsidies and privileges in households' budgets will be considered in section 3.

At the same time, the consideration and adoption of new legislation is under way, and such new laws do not take into account the current legislation and the government financial capacity; there are unjustified proposals introduced with respect to expansion of the categories of citizens eligible for benefits or those that duplicate already existing benefits. As concerns practically all the bills, they are drafted by members of different levels of legislature. Thus, on January 2, 2000, revised Federal Law # 40-FZ "On veterans" was passed that introduced new categories of veterans, for example those of the civil and municipal service, while the list of veterans of military operations was extended. The purpose of the adoption of the law undoubtedly is generous- that is, to strengthen the support to veterans in the course of implementation of reforms, and it is considered the most substantial bill in terms of the population to be covered by that and budget costs. Originally, the Law "On veterans" should have been embraced 6.5 mln. participants in the War, however, its effect has been spread over another 20.5 mln veterans of labor and other categories of the population (in the last variant: veterans of the civil and municipal service, and the extended list of veterans of military operations) which apriori made it unrealistic in terms of its implementation..



The above diagram was made without regard to “new” categories of veterans, however, their existence would not have any effect on the general picture, providing that it is the veterans of labor (55.2%) and employees of the Home Front during the GPW (31.9%) that constitute the major groups, while the persons survived through the Leningrad Blockage during the GPW (1.2%), veterans of military service, Interior, prosecutors, justice and courts (0.9%), military personnel with their service in the rear during the GPW (0.6), veterans of military operations in other countries’ territories (0.6%), and those who worked within the rear fronts borders during the GPW (0.2%) in total account for 3.4%.

As a follow-up to the noted revised law, there was a reactivation of the process of submission of proposals on its amending aimed at the expansion of the list of recipients of social benefits. For instance, it was proposed to include in the group of the GPW veterans the citizens who started their labor career being teenagers during the GPW and worked at the Home Front for not less than 6 months between June 22 1941 through May 9, 1945, exclusive of the period of work in the temporarily occupied territories of the USSR, or those who worked up to 6 months and awarded with the USSR orders or medals for their selfless labor during the GPW, and children fighting in partisan brigades.

Such laws (and drafts) don’t take into account actual capacity of budgets of different levels as well as the fact that, by their nature, benefits are inconsistent with market economy. In fact, the declarative nature of such laws affects both the executive power that seems

incapable of ensuring the realization of the citizens' right for the declared advantages. And the legislature seeming incapable to pass the workable laws. The federal agencies of executive branch also often lack the understanding of the need in implementation of the reform policy in the social sphere. It is law enforcement authorities and organizations pretending for benefits according to their profile of whom the attempts to improve the socio-economic positions of their employees by using mechanisms of the state socialism society are mostly characteristic.

In such a situation, the objective need arises in elaboration of new mechanisms of introduction and implementation of the state social benefits system. This problem is both socio-economic and political one, and it requires an in-depth analysis and the respective legislative arrangements.

2. Reforming of the system of social benefits

The reform of the system of social benefits that emerged in the frame of social distribution relations and not meeting the modern socio-economic situation is an important element of enhancement of the effectiveness of the social protection of the population.

The refusal from such an instrument of social support without shaping the respective compensatory mechanism for the deprived strata will entail a significant decrease in their living standards.

In such conditions, the objective need in development of new mechanisms of implementation of the public social benefits system arises. The purposes of the reforming of the social payments and benefits system appear raising the efficiency of the social protection of the needy strata through introducing the targeted social support, decrease of poverty level, maintenance of the balance between social expenditure and the government's financial capacity.

The general vector of the benefits system reform should imply the following crucial landmarks:

1. The reform of mechanisms of allocation and provision of the system of public social benefits set by the federal law and funded from the budget resources. The Subjects of the Federation as well as municipal entities and economic agents enjoy the right to set benefits at the expense their own resources (profits) not pretending for transfers from the federal budget to cover expenditure in the provision of social benefits to single categories of residents.

2. While classifying social benefits subject to reforming, one should follow the following criteria:
 - The income level of the recipient of the benefit;
 - Recipient's disability;
 - The urgency of the satisfaction of the need;
 - Social status of the recipient of the benefit
3. As far the financing of the expenditure on payment for social benefits is concerned, the shift of the focus should be made from the federal to the regional level and from the budget financing to social insurance and other sources.
4. An implementation of the transition from the benefits received by the whole household due to their common residence, to the allocation of the benefit to its recipient only.

The reform of the social benefits system should be based upon the transition of a number of benefits to a form of the targeted provision of social support to the needy households and the program of measures on contracting budget subsidies to producers of goods and services, and the discontinuation of the cross- subsidizing of different groups of the population, along with a gradual substitution of benefits with targeted payments to those in need of them.

It is necessary to carry out a gradual refusal from the traditionally emerged equalizing provision of benefits to their individual allocation on the basis of uniform indigence criteria with account of the average income per capita and the data on the composition and structure of a household. The practice of the provision of benefits to the persons who are found incapable of self-servicing due to their physical, age and family conditions as well as to complete their income through participating in production activities (disabled, children) should become a regulation.

Hence, considering the targeted nature of the benefits to individuals who are deprived of the possibility of self- sufficiency (disabled, elderly persons, and children from the families with at least 3 children) the principle of the "categorical" allocation of benefits may be maintained. A low level of well-being of may not form the grounds for the allocation for a longer-term benefits, i.e. the benefit should be temporary or, in an exceptional case, permanent, and it should imply the right to be eligible for that only under a single and the most favorable for the recipient reason.

The enhancement of the socio-economic efficiency of social benefits may be ensured in several ways: 1) raising an absolute amount of the benefits provided (in value equivalent); 2) increasing the number of benefits; 3) the provision of only those benefits which may not be redistributed within the household (so that it would be only the recipient who would use them). The former two ways are impossible due to budget constraints and the nature of the benefits themselves, for they are provided to relatively narrow social and professional groups of the population. A growth in the number of their recipients practically means the provision of guarantees or support to the needy rather than the provision of benefits. The focus on the benefits available for their recipient only would help maintain their high value for him. It is very difficult to implement that, since even the recipient's economizing on payments for the bills for the housing and communal services is redistributed over the other members of his household, which in reality means the reduction in the absolute amount of the given benefit for the recipient himself. The provision of benefits in monetary form would automatically mean that they also would be spread over the other members of the household.

Hence, first, the benefit should not be provided to the recipients family members as well, and, secondly, such benefits should have a strictly functional nature and provide for their recipients' crucial needs (such as, for instance, the need in medicines, baby food for the needy, clothes for children from the deprived families, medical and resort and rehabilitation treatment for disabled, education, payment for the children pre-school institutions' services, etc.)

In addition, the benefit may not be provided in a form of the government compensation to residents for the material and/or moral harm caused to them, as well as due to their exercising a certain civil, official or public assignment (at this point, social security and other social payments should be employed). The social transfers set for single categories of civil servants, military and interior personnel need to be transformed in a form of wages and monetary allowance.

In the course of the reform one will have to refuse from a number of benefits as well as to identify economically efficient forms of provision to citizens of certain kinds of social benefits (in natural, monetary form or in a form of a service alike). On the one hand, that would allow to a maximal extent satisfy the recipients' needs and, considering the targeted nature of the benefits, to provide the recipients with resources that they will be able to use freely, while on the other hand, that will enable the government to create conditions for competition in different sectors of the national economy as well as to encourage the

consumption of goods and services whose delivery by the market is unsatisfactory or non-existent.

To do that, one needs to carry out a revision of the current system of social benefits, using such criteria as the urgency of the need satisfied with the given benefit and the social status of the respective recipient. That would allow to revise or cancel poorly efficient benefits that are insignificant to their recipients and to exclude the benefits that duplicate each other.

In this case the social benefit appears in a form of the public social support valued in its price equivalent and constituting a natural transfer, subsidy, and other forms of the provision of support. A thoroughly targeted form of natural transfer can combine a broad coverage of its recipients with a high socio-economic efficiency of its provision, and with attractiveness to its recipients.

The direct natural transfers appear both targeted and non-transferable, should they embrace a targeted group, the example of which may serve the provision of food for pupils in public secondary schools and students in secondary special educational institutions, and the medical monitoring of pregnant women. Even in the developed economies the public support to the needy is not limited with just monetary form, though it clearly prevails.

The social benefits provided to the population should be effective within the limits of the federal social standards. Such an approach implies that any beneficial tariffs are effective only within the limits of a social consumption standard, while any consumption of goods and services beyond that shall be paid for at an actual price. That would allow equalization the positions of households that have a different level of their provision with property and a different access to the consumption of public goods. At present, both the housing norms and standards of the consumption of communal services have already been introduced to the calculation of the amount of housing subsidies to the needy citizens. Such an approach is not applicable to all kinds of benefits, that is why one will need to demonstrate flexibility while considering each kind of benefit.

The provision of a benefit as one of the kinds of public social support will be out independence on the pre capita income of its recipient as well as on the per capita income of the household of the said recipient, whose members, due to their sharing the housing and spending, may also become indirectly eligible for the said benefit.

At the first stage of the social benefits system reform, it will be the categories of citizens having special merits (veterans of the GPW and other categories equaled to them, heroes of the USSR and Russia, holders of the full set of the Order of Glory, Heroes of the

Socialist Labor) and some other categories (disabled of the 1st Group, “liquidators” of the Chernobyl disaster) for whom the benefits will be kept without any additional examination of their indigence. That would require the respective conduct of specification of the procedures of the benefits provision and the sources of their funding.

For other categories eligible for benefits the provision of those will be put in dependence on their per capita incomes. Thus, should the recipient have his per capita income level (exclusive of the value of all the benefits due) lower than the subsistence level value set in the respective Subject of the Federation, he will be eligible for unchanged benefits (providing that the overall volume of the disposable funds will not exceed the subsistence minimum value). At the same time the recipient whose per capita income level is higher than, or equal to the subsistence minimum set in the respective Subject of the Federation, should be deprived of the right for benefits.

The consideration of social benefits as a kind of social support requires the conduct of the value evaluation of the current benefits. It is necessary to identify the economic nature of social benefits for the sake of the transfer of some of them to the social insurance mechanism. The abolition of benefits should be carried out only under the condition of the provision of the *eligible for benefits* categories of residents with the monetary income (pensions, compensatory payments) at the level not being lower than the subsistence minimum one. In conjunction with that, it is necessary to develop procedures for the provision of monetary compensation or the application of a mechanism of subsidies to reimburse for spending on some kinds of social benefits to the citizens eligible for those. As concerns the benefits extended to the staff of various agencies according to their professions, their payment of beneficial services should be made in full, while the costs incurred by them should become subject to reimbursement at the respective office, at the expense of the respective budget's funds.

At the same time the powers of the Subjects of the Federation and local self-governance authorities will be substantially extended in terms of identification of priorities in their provision of benefits and social support. Along with the fixing of expenditure powers with respect to the provision of social support (in various forms), the government should consider the problem of the transfer of resources necessary for ensuring consistency with certain standards of the service provision, compliance with the federal law in the part of its regulation of interbudgetary relations. The local authorities and NGO=s find themselves being closer to the problems arising in the social sphere, thus they can employ more flexible approaches to their solution compared with the federal center.

However, as long as the provision of social support is concerned, at the first stage of the interbudgetary relations reform it will be a strict legal division of competence across the tiers of executive power, ensuring of the consistency between the function exercised and resources needed, identification of responsibility of all the said government tiers in the course of implementation of social policy will have a fundamental importance. Some functions of executive power in the area of provision of social support are, by their nature, are purely federal, regional or local, however, there are functions whose efficient exercising is possible only in the event of the use of all the power tiers' combined competence.

The legislative regulation implies developing and setting some quality standards of the exercised function and service delivered that requires the involvement of two tiers of government. The responsibility for funding can be split between administrative costs and the funding of the social preference itself and, accordingly distributed across the Russian budget system tiers. In connection with this, the methodological role of the federal social protection agencies should be strengthened. Their mission should comprise the elaboration of a broad range of methodologies for the targeted provision of social protection and rendering technical assistance to regional social protection agencies in terms of practical application of such methodologies, including their adjustment to local conditions. With such an approach, the regions will have a chance to concentrate the funds primarily on the protection of the most socially vulnerable groups of the population based upon the most efficient kinds of methodology of provision of social support and social services developed and tested both in the given region and in other ones.

It would be expedient to assign to the local self-governance bodies the organization of the provision of social support as a kind of service (collection of applications for social support, their consideration, registration, etc.) provided to the population, for by their nature the said bodies are maximally close to the population. Sometimes, should flexible regulation methods be practiced in terms of division of powers, the principles of maximal efficiency and territorial matching can interlace: that especially concerns the division of competence between the regional and local authorities. However the federal authorities should grant the Subjects of the Federation with a right to set a concrete division of competence between the regional and local authorities in the frame of a general scheme for the division of the expenditure mandate.

For each kind of social benefits the respective sources of funding should be fixed in the legislative documents, including the budgets of different levels, social insurance, and

alternative sources. One should identify mechanisms for the transfer of a number of benefits from the budget funding to the area of social insurance. The advantage provided by the compulsory collective insurance is that the insurance contributions accumulated in a form of common funds become then redistributed in favor of those for whom the insurance event arises. That secures the safety and support to the insured individual facing hardships, along with a simultaneous decrease of the need in budget funds. That is why the role and significance of social insurance (public and non-governmental alike) with the expansion of the participation of insured individuals should be increased.

Because of the above, as well as due to the fact that the current law does not stipulate the concept of “benefits”, and because of different interpretations of the provision of benefits in different legislative acts (state support, social protection, etc.) and the existence of confusing notions – subsidy, social payment, benefit, compensation,- it would be expedient to develop a bill that would deal with defining the conceptual apparatus and regulating legal relations that relate to the provision of benefits (natural transfers) to the citizens as per the law. Such a bill would constitute a conceptual basis, and t would determine a policy and main conditions for cancellation or provision of certain social benefits.

All the aforementioned suggestions would allow a future refusal from the social benefit as category in its current form and to proceed to the targeted support of the needy. That would create saved funds that partly might be spent on funding the social support. At this point, the sequence of actions becomes especially important, for any hasty cancellation of benefits without introducing an adequate mechanism for the provision of social support would be most painful for the least protected social groups and may entail substantial problems that might be avoided otherwise.

In addition, one should pay attention to the fact that the problem in question is mostly political rather than socio-economic one. It is necessary to note that an implementation of measures on reforming the system of social benefits and privileges would require a great deal of preliminary work, an adoption of a whole range of legal acts on amending the current law, as well as new laws that would deal with the regulation of the changed situation in the social support area, and, above all, the application of political will and the work with the population to promote the idea of the inefficiency of the current system of social benefits and payments.

Lacking financial resources, the government has to take into account its actual capacity in terms of implementation of its social policy and, primarily, to seek the prevention of any declarative and unfunded promises to the population. At present we reap the fruits of the

absence of a sound policy in the area of setting and delivering benefits. Whilst the government is incapable of delivering the social obligations promised to the population, it tends to shift all the expenditure on the delivery of social benefits provided to residents on the basis of the federal law to organizations that produce certain kinds of goods and services and to local budgets.

Thus, until 2000 the expenditure on implementation of benefits stipulated in the federal law “On veterans” would be taken into account in the calculations base in the course of identification of the amount of financial support of the Subjects of the Federation allocated from the Federal Fund for Financial Support of the Subjects of the Russian Federation. However, in 1998 enterprises and entities operating in the sector for housing and communal services were reimbursed with as much as 60% of the costs the budgets of different levels incurred to implement some provisions of the said federal law, while the communication companies on average were compensated with a. 10% of their non-received income for the provision of benefits. There was no reimbursement of the costs incurred national air-companies in 1997 and 1998 to ensure the veterans’ right for a beneficial air transportation fares, because the government had failed to set the respective procedures of reimbursement for such costs. That entailed the decision made by some air-companies to stop providing their services to beneficial categories of air passengers and, accordingly their illegal actions.

2.2 The ongoing and suggested measures

Active efforts to reform the current system of social benefits are undertaken by both the federal authorities, whose functions comprise the pursuance of a policy aimed at the development of public consumption sectors, and by a number of the Russian Subjects that experience a significant pressure on their budgets that is related to carrying out unfunded federal mandates.

In order to reform the current system of benefits, Deputy Chairman of the RF Government V.I. Matvienko on September 16, 1999 approved the Action Plan on the stage-by stage transformation of the social benefits (subsidies) set by the RF Government. The execution of the Plan was scheduled for 2 years. The Plan provided measures on reforming benefits in terms of payments for housing and communal services, transportation fares by all kinds of transport, communication services, and the reforming of the ‘beneficial’ provision of residents with medicines and related goods.

In the course of implementation of the Plan, the list of social benefits and subsidies to various categories of residents was prepared; a bill was drafted that provided the cancellation of benefits in terms of payments for housing and communal services for all the beneficial categories of residents, except veterans of the war and the groups of the population equaled to them in terms of benefits they are entitled for. It was intended to restructure the provision of the said benefits to veterans of the war with account of the provision of benefits exclusively within the limits of the 'social living area' and communal services consumption standards, as well as considering the provision of benefits to an individual person leaving alone or with the family and having a per capita income not exceeding the subsistence minimum level set in the respective Subject of the Federation.

The social protection of the population in terms of payments for housing and communal services would be carried out in compliance with the RF law, in a form of providing compensations (subsidies) for paying for housing and communal services, as well as in a form of the public social support. At the same time the RF Ministry of Labor and the RF Ministry of Construction suggested that the basic documents should be amended with provisions designated for regulation of legal relations in the housing and communal area (to amend the Housing Code of RSFSR and the Federal Law "On fundamentals of the federal housing policy").

The essence of the proposals was that the benefits in terms of payments for housing and communal services set by the legislative and other legal acts should be practiced within the limits of a social standard of living area and communal services consumption standards. The right for a subsidy (or a benefit) in terms of payments for housing and communal services should be correspondent to its recipient's income per capita and to the value of the subsistence minimum set in the respective Subject of the Federation.

Having considered the opinions expressed by the federal executive power agencies, in 2000 the RF Government developed and adopted its Resolution "On procedures of funding at the expense of the federal budget funds of expenditure related to the implementation of single provisions of the federal laws " On veterans" and "On social protection of disabled". The Resolution stipulates the procedures of funding of the expenditures related to the provision of benefits in terms of resort and sanatorium treatment of single categories of disabled persons – veterans, manufacturing and repair of prosthetic and orthopedic articles for disabled, providing invalids of the war with transportation means and compensations for transportation services instead of their receipt of a vehicle. The Resolution regulates relationships between

the social protection agencies and the RF Ministry of Finance and introduces the responsibility of every link in the chain.

The work in this direction was conducted proceeding from the Plan of the RF Government in the area of social policy and economic modernization for 2000-2001. The contents of the declared measures comprises plans of cancellation of socially unjustified benefits; to transform natural benefits and payments set for single categories of civil servants, military and interior personnel into the form of wages and monetary allowance. It is also intended to gradually transform the remaining benefits for veterans of the war, disabled of the GPW, Heroes of the Soviet Union and Russia into their monetary equivalent.

The reforming of the social benefits system requires revision of a great number of federal legislative acts that form the basis for the provision of benefits to the population. That is why it was decided in 2001, proceeding from the RF Subjects' needs, to form the Fund for Compensations within the federal budget expenditure, to implement the federal laws "On veterans", "On social protection of disabled in RF", "On the government subsidies to citizens with children". It is proposed to use as a source for the formation of the Fund the projected revenues, as follows: 15% of VAT on goods (works, services) produced in the RF territory that previously were due to be collected to the consolidated budgets of the RF Subjects. The allocation of the Fund's resources across the regions would be conducted regardless of the level of the regions' budget sufficiency in proportion to the quantity of the respective groups of the population, with the account of regional factors that increase the budget expenditure.

The items below form the most "costly" benefits for the budgets of different levels of the budgetary system:

- benefits in terms of payments for public transport services;
- payments for the services of the housing and communal sector;
- benefits in terms of payments for communication services;
- beneficial provision of medicines.

Let us consider possible ways of their reforming

2.2.1 Reforming the benefits in terms of payments for housing and housing and communal services.

The benefits in terms of payments for housing and housing and communal services should be reformed in conjunction with the housing reform in the part related to housing subsidies. At present, the provision of the housing and communal benefits is carried out according to the 'categorical' principle, regardless of the material position of their recipients. In all there are 43

categories of residents (accounting for over 60% of the total population) that enjoy the noted benefits. Notably enough, it often happens that the source of the respective compensation for the benefits has not been identified, and, because of that, the housing entities suffer losses. In 1999, the respective compensations accounted for only 41% of the total amount costs incurred by housing and communal companies in conjunction with the services they provided to the ‘beneficial’ residents, while the main burden of funding such costs fell on the local budgets. The compensation for the provision of benefits in terms of payments for housing and communal services to the biggest group of their recipients as per the federal law “On veterans” is made at the expense of the RF Subjects’ budget funds. However, despite the fact that the social protection of the Heroes of the Soviet Union and Russian Federation, Heroes of the Socialist Labor, full holders of the orders of Glory and Labor Glory and members of their families should be ensured the expense of the federal budget funds, de-facto the costs for the housing and communal benefits are compensated at the expense of the RF Subjects’ budget resources and those of local authorities.

Table 1.5

The number of residents of the RF enjoying the housing and communal benefits (January to December 1999)

	Proportion of costs of the housing and communal enterprises related to the provision of services	The proportion of costs reimbursed	Proportion of the source of funding in terms of the reimbursement for the costs (as%)			
			From the budgets			Entities' funds
			Federal	Regional	Local	
	Different beneficial categories of residents, as %	Expenditure in overall Costs				
Residents receiving benefits in terms of payments for housing and communal services, total	100	41,1	6,0	32,0	54,7	7,3
Disabled of GPW and of military operations in other countries' territories	5,1	43,7	4,2	38,6	3,7	3,5
The former teenage prisoners of concentration camps of the WW II – currently disabled	0,3	40,0	4,4	40,8	51,7	3,1
Disabled persons and families with disabled children	14,1	44,0	2,9	38,4	42,3	16,4
Members of families of (killed) died disabled of and participants in GPW and of military operations in other countries' territories	3,6	42,2	7,9	33,0	56,1	3,0

Participants in GPW	3,3	44,3	4,9	45,5	45,7	3,9
Veterans of military operations in other countries' territories	0,4	42,6	4,8	16,7	73,7	4,7
Persons employed at the enterprises, organizations and institutions in Leningrad during the blockage period between September 8, 941 to January 27, 1944 and awarded with "For the defense of Leningrad" medal and "Resident of the blockage Leningrad" sign	0,8	79,7	0,4	93,3	4,7	1,5
Veterans of labor	35,3	45,9	5,9	27,3	63,0	3,8
Veterans of military service, interior, prosecutors, justice and courts	1,9	41,4	4,5	30,1	58,9	6,5
Families of killed military personnel	0,6	31,4	2,4	29,5	59,8	8,3
Heroes of the Soviet Union and Russian Federation, heroes of the Social Labor, full holders of the orders of Glory and Labor Glory, members of their families residing with them	0,2	15,7	4,6	45,7	45,5	4,2

Officers, warrant-officers and other military staff, commanding and privates interior staff, dismissed staff with the record of 20 years and more and members of their families residing with them	15,8	34,3	7,0	36,8	51,4	4,8
Persons suffered from political repression	2,7	33,7	43,1	19,8	33,4	3,6
Families with at least 3 children	3,8	22,8	2,6	31,2	54,8	11,4
Persons and their members of families suffered from radiation disasters or radioactivity at the civic and military facilities	1,3	41,0	17,3	27,2	46,0	9,5
Persons awarded with the signs “The Distinguished Donor of Russia” and “Distinguished Donor of the USSR	0,8	34,1	2,1	36,9	55,1	5,9
The RF customs authorities	0,2	25,7	7,3	50,3	35,7	6,7
The tax police staff	0,2	25,6	8,8	27,9	47,8	15,5
The Judges of the RF Constitutional Court and the staff of the RF courts that received the respective grades and members of their families residing with them	0,1	38,1	20,7	22,5	43,5	13,2

Prosecutors and investigators, pedagogical staff with grades and members of their families residing with them	0,2	38,1	7,1	17,9	64,2	10,7
Specialists working and residing in the rural locations, working settlements and members of their families residing with them	2,9	42,1	1,6	10,3	71,8	16,3
Other categories of residents, besides the aforementioned that are provided with benefits in terms of payments for housing and communal services	6,4	34,1	3,0	22,7	54,9	19,5

In order to eliminate contradictions between the commercial stability of communal enterprises delivering services to the population and the possibility of ensuring payments for the communal services by the population, it is necessary to elaborate amendments to the laws providing the cancellation of all the benefits (to interior staff, prosecutors, tax police staff, customs officers, judges and court staff, military personnel, teachers and medical doctors working in the rural areas, donors, and victims of political repression), except the benefits earlier provided to veterans of the GPW and the groups of the population equaled to them. The adoption of such a law would allow to decrease subsidies from the budgets of different levels to enterprises and organizations of the housing and communal sector.

Another option could be a payment in a form of compensation for the expenses incurred on the said purposes from the funds allocated for the maintenance of the respective ministries, agencies and organizations with account of the federal law and internal procedural acts of the said agencies and offices. It is intended that the compensation would become payable on the basis of the documents proving the costs incurred for the said purposes and within the limits of the social standards of housing and communal services.

As concerns the needy households, there will be a complex of social support measures applied through allocation of subsidies for paying for housing and communal services depending on

the overall income of the household. The amounts of such subsidies is to be calculated as a difference between the amount of the payment for housing and communal services, proceeding from the “social standard” for living area and standards of the communal services consumption standards, and from the “affordable amount” of residents’ own expenses determined on the basis of the ultimately affordable proportion of their incomes. The procedures and conditions for the provision of the subsidies should be subject to the setting by the RF Government.

2.2.2. Reforming the benefits related to the use of public transport services.

It is the benefits related to the use of the city public and inter-city transport that account for a significant proportion of the whole social support expenditure. The problem of regulating the transportation of passengers enjoying the right for a free ride and compensating for the revenue missed due to the transportation of “beneficial” categories is one of the most crucial challenges facing the passenger transportation companies, because an insufficient compensation for such expenditures sharply deteriorates the transport companies’ economic, financial and socio-economic position.

It was since the early ‘90s that the problem of compensating for the missing revenues related to the transportation of beneficial passengers arose: at that time, the adoption of legislative acts on the provision of free ride for single categories of passengers both due to their profession and social characteristics became a mass practice.

In 1990 there were only 19 categories of passengers had a right for a beneficial ride, in the meantime this number has exceeded 50. As concerns the structure of passengers entitled to free ride, 75% of them received the benefit at the decisions of the federal authorities.

According to the RF Ministry of Transportation, between 1990 through 1999 the proportional weight of passengers enjoying the right for a free ride at the city and suburban passenger transport grew from 21 up to 62%.

In 1999 (according to the Ministry):

- the city and suburban automobile transport, domestic water transport, city electric transport, and subway transport delivered their services to the population worth a total of Rb. 33.2 bln.;
- to cover the expenditure related to the provision of benefits, the budgets of different levels spent as much as Rb. 15.1 bln.

At the same time it must be noted that since 1977 the profitability rate (the average tariff) per 1 “paid” passenger of the automobile, city electric transport, and subways has exceeded the costs for the transportation of 1 passenger, i.e. by buying a ticket, the passenger both reimburses the costs for his ride and, partly, the costs for the ride of the passengers using the transport for free.

There are four main types of benefits at the passenger transport set by the law:

1. Permanent benefits in terms of the payment for the ride at inter-city kinds of transport (inter-regional between the cities; interregional-intra-regional;
2. Benefits in terms of paying for single inter-city rides;
3. Free ride by the city, suburban, local transport and in the rural area.
4. Benefits in terms of a priority purchase of tickets.

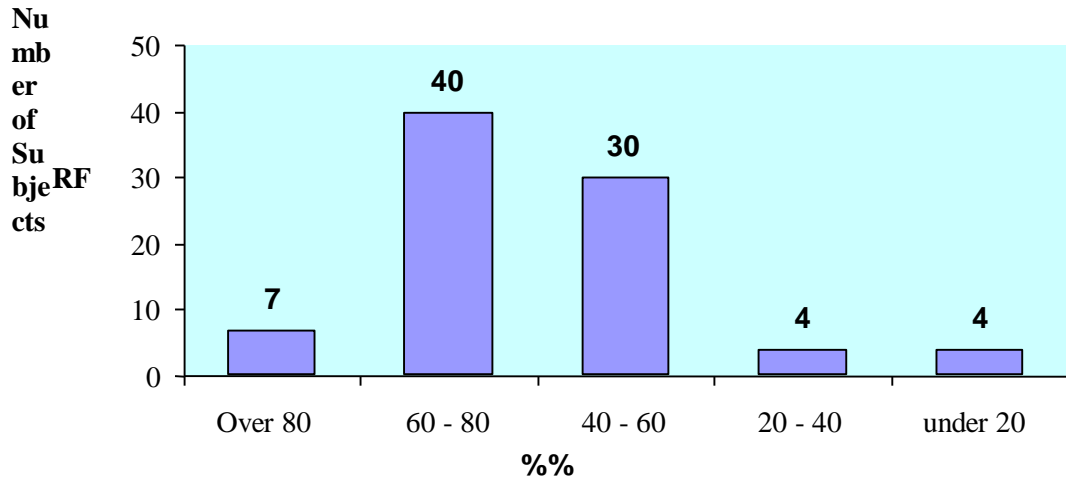
The characteristic features of these benefits are:

- Quantitative uncertainty of the first and the third kinds of benefits (the law does not stipulate the amount of the beneficial services provided;
- price uncertainty of the first, second and third kinds of benefits (the current law does not stipulate any absolute or relative costs of the beneficial services);
- technical difficulties and high costs of accounting of the quantity and costs of the services delivered under the third group of benefits;
- a great variety of different documents that provide the right for a beneficial ride. At present the right for the beneficial ride is proved by a general document under the status of a certain group (pension certificates, military certificate, etc.) totaled a. 60 that can hardly be controlled and easily falsified.

The practice of implementation of social benefits shows that the current system of benefits bears substantial defects. The latter manifest themselves in the absence of effective mechanisms of their funding which leads to the situation in which the citizens that have benefits in terms of the use of transport cannot realize their rights in a full volume, while the entities delivering the respective services cannot have their costs compensated.

Across the regions, one can note a great difference in the proportions of beneficial passengers in the total volume of passenger transportation, though the correlation between the citizens eligible for benefits and the whole population is approximately equal. That partly can be attributed to the fact that in remote rural areas the beneficiary does not have any chance to exercise his right for the benefit, while the beneficiaries in the urban area use this right constantly (Fig.3)

The proportion of beneficiaries in the total number of trips across the RF Subjects
(city and suburban transport)



Because of the absence of financing sources, the provision of benefits has been discontinued in some Subjects, and the violations of the citizens' rights for a beneficial ride became a mass phenomenon. The agencies of executive power receive numerous claims on transportation companies. The latter, in turn, seek any options not to deliver the benefits to the citizens, and, doing this, they are often supported by the executive power agencies in the Subjects and local self-governance bodies who impose restrictions on the citizens' rights in a form of "privileged days", "privileged hours", and "privileged routes". The provision of benefits by small-size private passenger enterprises is an exception rather than a regular phenomenon.

Because of the imperfect system of provision of benefits, it is the residents that do not have benefits that suffer, for one of the most outspread ways to cover the costs related to the delivery of services to the beneficial categories of passengers is to raise tariffs for the "paid" passengers.

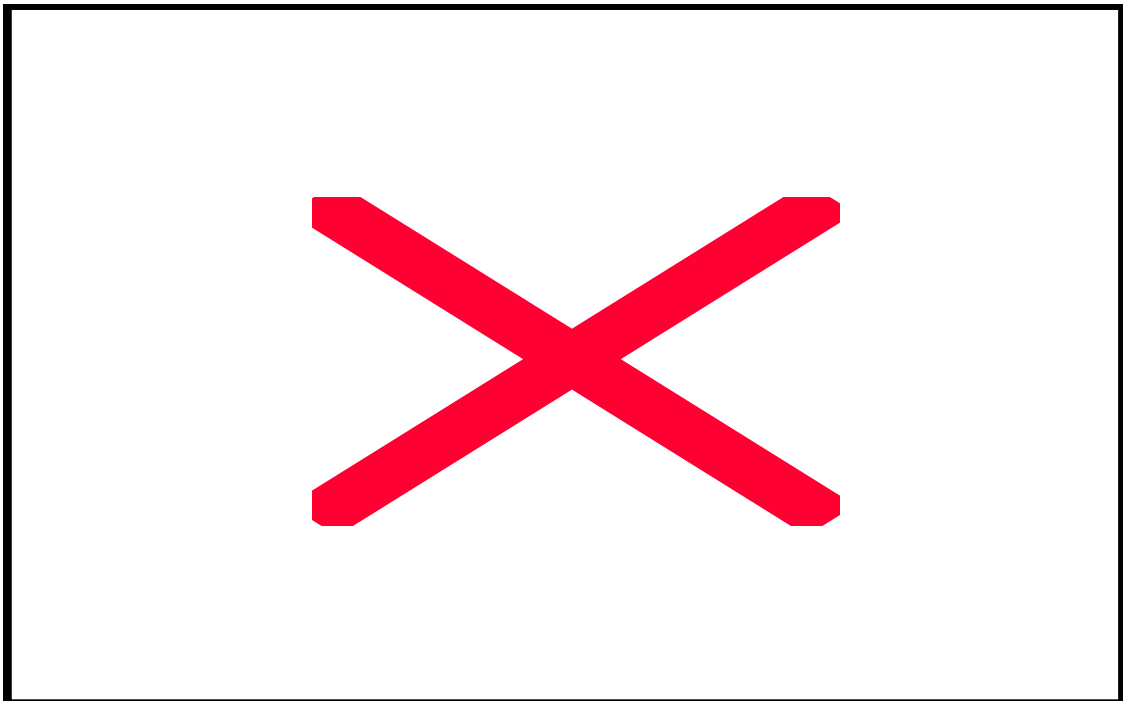
In 1999, 63 RF Subjects used this source of financing, while at the same time the costs of the transportation of beneficial passengers were covered:

- at 61.5%- from budget subsidies;
- at 23%- at the expense of the increased tariffs for "paid" passengers;
- at 6.5% at the expense of revenues from other sources;
- while 7% of expenditure remained uncovered.

Insufficient funding has caused an outflow of transportation companies from a number of sectors of the market for passenger transportation

Since 1991 the number of rural locations having a regular passenger commutation with the local and regional centers fell by 31%, while the length of the bus routes networks shrank by 447 Th. km. The passenger transportation in the countryside initially was less attractive from commercial point of view, and due to a great number of individuals eligible for benefits this sector becomes even less attractive.

The differences in the amount of budget subsidies for the transportation of beneficial passengers have a substantial impact on the assortment and quality of the offer of transportation services which is especially painful for the poorest Russian regions.



The defects of the benefits system create grounds for corruption, for with budget resources being limited, bureaucrats may consider different options as to in what amount, to whom, in what priority order the subsidy should be transferred. Thanks to subsidies, some cities artificially support inefficient enterprises, while other transportation companies lose economic incentives for improving the quality of their work and lowering their costs.

The unprofitable performance of passenger companies, one of the reasons for which is the insufficient compensation for the provision of beneficial services, seriously affects budgets of all the levels. The tax payments by this sector are negligible, while the companies arrears to the Pension Fund are over RUR 10 bln.

The unfortunate situation in the area of passenger transportation has affected the economics of the related sectors: for instance, the production capacities of the Russian bus producers are loaded at 10-12%

The problem of the compensations for beneficial rides by the inter-city railway transport has not been resolved as well. In compliance with the Russian law, it is a. 40 categories that enjoy the right for a free or beneficial ride by railway inter-city transport. With its Resolution of May 15, 1998 # 448, the RF Government approved the Concept for structural reform of the federal railway transport which stipulated that the provision of benefits to the population is ensured at the expense of budget appropriations, with a stage-by-stage transition towards targeted subsidies to single categories of residents allocated from the respective budgets.

The RF Ministry of Railway Transportation developed a draft federal law, a draft presidential Decree and a draft Resolution of the RF Government on the regulation of benefits in terms of payments for the travels by railway transport. The noted drafts provide amending the current federal law with respect to benefits to the population and contraction in single categories of residents that currently are eligible for the free or beneficial travel by railway transport (30 mln. individuals in total). That would allow to decrease the sector's costs (according to the RF Ministry of Railway Transportation) by Rb 4.2 bln. annually.

The measures in question would concern aides to the deputies of the State Duma and the Federation Council; police and tax police staff, customs officers, prosecutors, judges (including the judges of the Constitutional Court); military personnel; subways staff, transport inspection staff; employees of the airspace sector; pupils and students of the public and municipal primary vocational educational institutions (to pay annually for as much as 75% of the travel costs between October 1 to May 15).

Such radical measures, however, faced objections from the parties concerned, and the noted drafts have failed to be agreed upon by the respective federal authorities.

Due to its magnitude and complexity, the problem of transport benefits cannot be resolved at once – it requires a gradual solution, and it appears most expedient to regulate the system of so-called “professional” benefits.

The final objective for the reforming of the provision of benefits on rides by the public passenger transport should become a complete substitution for services in-kind with the respective monetary compensations that should be included in wages of the public employees eligible for that as per the Russian law.

At the same time, due to a number of reasons, both objective and subjective ones, the implementation of this principle in the short run appears impossible. An alternative solution may become the purchase by the entity, whose employees have a right for a beneficial ride by the city and suburban transport, of tickets for ride provided for maintenance of the said budgetary entity.

However, considering that the legislative acts that set benefits in terms of riding the city and suburban transport are legislative acts of direct effect, they should be amended, particularly, as follows:

- to exclude the right for a beneficial ride on the grounds of official passes and certificates;
- to assign to the RF Government the right to determine the procedures and conditions for implementation of a benefit.

This necessitates the respective amendments to the current legislative acts related to the provision of benefits on riding the transport of general use.

The concept of the draft federal law “On introduction to the legislative acts of the Russian Federation on amendments related to the provision of benefits on using the public transport.”

a) To amend the legislative acts that provide the right for a beneficial ride based on the official pass (ID) by excluding the said legal provision from the body of the law and leaving the setting of procedures and conditions of the implementation of the benefit in the hands of the RF Government, at its discretion;

b) To amend the legislative acts that grant the right for transport benefits, but not regulate the procedures of providing such benefits and to commission the RF Government to set procedures and conditions of the implementation of the benefit:

The procedures of the implementation of the benefit on the payment for riding the city and urban public transport set according to the residents’ professions may include the following provisions:

The concept of the draft Resolution of the RF Government “On procedures of the implementation of the benefit on the payment for riding the city and urban public transport set according to the residents’ professions”

1. The residents that have benefits on payments for riding all kinds of the city and suburban transport due to their profession carry out their rides on the basis of their transport documents (tickets) issued in their respective offices. Such transport documents may be both for a long-term use (monthly, quarterly), or coupons for a single ride.

In the event the resident eligible for the benefits uses the public transport with high consumer characteristics (for instance, shuttle mini-buses), the respective difference in fares is payable by him.

2. The expenditure related to the procurement of transport tickets is carried out by federal agencies that employ the residents eligible for the respective benefits from the funds allocated from the federal budget of RF to maintain the said agencies' operations.

In the event the benefits to the residents due to their profession are set by the normative acts of the RF Subjects' authorities or local self-governance authorities, or the funding of which as per the federal law falls under the competence of the RF Subjects or local self-governance bodies, such benefits are funded from the respective budgets.

3. The heads of the respective offices and agencies, whose employees have a right for benefits on paying for transport fares as per the RF law, are bound to form the lists of such employees with a breakdown of them into categories, due to the frequency of their use of a single or several kinds of public transport. That should help identify a rational and justified need in the transport documents of different kinds: for instance, a single ticket for all kinds of public transport, a ticket for one or several kinds of public transport, single-ride coupons, etc.)

4. Considering their needs, the agencies procure transport tickets on the basis of contracts with transportation companies or from any authorized agency. In the event of the travel related to the exercising of their immediate duties outside the territory of the respective administrative entity, the employees purchase their tickets at the expense of the funds they were provided to be fully accountable for them upon the completion of their mission. Another option would be the purchase of such a ticket by employee himself and at his own expense with the following compensation for the incurred costs on the basis of the used travel documents.

5. The procedures in question should also provide legal relations between the respective offices, ministries and entities with the RF Ministry of Finance along with their heads' responsibility for the targeted use of funds from the budgets of different tiers of the national budget system.

The reforming of transport benefits for so-called "social beneficiaries" is a far greater

challenge, due to their big number and different grounds for the provision of such benefits. At the same time, the general principle of implementation of the beneficial ride should become uniform for all the categories - the respective travel document. The travel tickets (according to certain standards) may be issued by the social protection agencies, or they may become subject to further compensation. Another mechanism of ensuring the residents' beneficial ride could be the provision of them with a targeted monetary allowance whose amount should ensure, according to the standard, a purchase of travel tickets according to general procedures/

According to some experts, the normalization of the situation with beneficial rides at the public transport would raise the compensation for the sector's costs up to 40 and even 60% that matches the modern international experience in funding the city passenger transportation.

2.2.3 Reforming the benefits in the field of communication services

Currently the benefits related to communication services are regulated by 42 legislative acts, in compliance with which 33 categories of consumers are eligible for them. The benefits comprise an early and free installment of telephone and a 50% discount on the use of telephone for some categories of residents and delivery of free mailing services.

The procedures of financing the said benefits are fixed in a number of legislative documents: thus, the federal laws "On Veterans", "On Social Support of Disabled in RF", "On the Status of Military Staff" read that the expenditure related to the implementation of benefits related to the payments for communication services are compensated from the federal budget funds, however, the communication companies not always receive compensation for the services delivered.

Table 1. 6. Benefits in the field of communication services (data of the Russian Ministry for Telecommunications)

Categories of residents for whom benefits in terms of payment for communication services are provided	The number of residents eligible for the benefits	The value of the benefits provided, as RUR Th.	Actually compensated, as RUR Th.

	On payment for the access provided	On payment for the provision of the line for the permanent use	On payment for the access provided	On payment for the provision of the line for the permanent use	On payment for the access provided	On payment for the provision of the line for the permanent use
Disabled of GPW	23742	322755	47570,2	58809,1	12156,3	7001,9
Participants in GPW	21023	282891	18551,7	72739,71	457,0	13254,3

Currently disabled employees at the Leningrad enterprises during the blockage period	153	15867	69,19	2751,6	2,0	490,8
Non-able bodied members of the family of the killed disabled or participant in GPW	9282	204356	6994,3	86048,6	17,51	16896,3
Veterans of labor, upon their retirement	37031	3558050	1046,4	614930,8	200,689	68029,8
Veterans of the military service	93950	140331	20787,7	15457,83	41,65	539,24
Judges and clerks in the court	838	9163	107,6	3054,7	47,3	213,22
Disabled	64872	859988	34383,3	187378,6	8603,2	43086,9
Tax police staff	44	102	30,4	23,2	-	5,12
Currently disabled prisoners of concentration camps and ghetto	433	4974	520,5	962,8	11,4	100,8

The former young prisoners of nazism	353	12114	270,71	1920,8	60,6	298,27
Heroes of Socialist Labor, and full holders of the Order of Labor Glory	32	2087	272,6	453,3	20,1	205,676
Heroes of the Soviet Union, Heroes of RF, full holders of the Order of Glory	59	2936	40,5	939,046	2,0	146,176
Survived spouses and parents of Heroes or full holders of the Order of Glory	1	1405	3,0	297,609	-	66,04
Military personnel	8557	35509	3542,33	4799,4	62,0	110,5
Members of families of military personnel	69	3656	23,25	592,25	2,5	244,11
Members of families of military personnel died in the course execution their missions in the conditions of the State of Emergency in the territories of the Trans-Caucasian, Baltic states and Republic of Tajikistan	3	3494	5,54	675,0	5,54	157,444
Military personnel becoming disabled in the conditions of the armed conflict in the Chechen Republic	841	903	387,0	162,46	17,8	13,01
Dismissed Interior staff	586	1989	75,2	855,7	-	163,307

Prosecutors	112	1672	42,1	327,8	16,5	46,86
Persons suffered from repression	9037	3255	14976,06	3750,1	7893,9	1111,6
Residents, including disabled, suffered from the Chernobyl disaster , “liquidators” and members of the families of the died participants in the liquidation of the Chernobyl nuclear power plant disaster	8238	96973	4215,973	17843,94	1558,102	3443,44
Total	279256	5564470	153915,5	1074773,35	31176,09	155624,8

In all, during 1999 the benefits provided amounted to over RUR. 1228688.9 Th., while compensations amounted to – RUR 186800.9 Thos., i.e. 15%.

Recently, the situations have arisen when a considerable number of regional communication companies, lacking of the compensation of costs from the federal budget, decline the requests of the respective categories of residents for the provision of benefits on the payments for communication services, which generates a great number of lawsuits. Regardless of the availability of compensation from the respective budgets, the courts usually render their verdicts in favor of beneficiaries, arguing that the laws that set the benefits are the legal documents of direct effect.

At the same time, in compliance with Art. 50 of the Civil Code of the Russian Federation (CC RF) and their Charters, the communication companies are commercial entities whose major objective is generating profits. In compliance with Art. 213 of CC RF, p.2 Art. 2 of the federal law “On joint- stock companies”, the communication companies are owners of their assets. P.3 of Art. 35 of the Constitution reads that none may be deprived of his property otherwise than following the court’s verdict. A compulsory alienation of the property for the state needs may be made only under the condition of a preliminary and equal compensation.

In compliance with Art. 30 of the federal law “On communication”, the benefits in terms of payments for communication services re granted in the event the compensation for

the non-received incomes is made from the respective budgets' funds or by the legal entities introducing such benefits. However, so far the said entities have failed to ensure the duly compensation for the benefits.

In compliance with p.4 Art.3 of the federal law "On joint- stock companies", the government and its agencies do not hold any responsibility for a joint- stock company's obligations, as well as the latter is not liable for the government's and its agencies' obligations. None of the legislative acts provides the communication companies' responsibility for the provision of benefits at the expense of their own funds, as it often happens in practice.

Hence, the current Russian system of legislative acts that set the procedures for the provision of benefits to the respective categories of residents leads to the violation of the rights of both the recipients of social benefits and the commercial organizations that deliver such beneficial services.

In such a situation, a way to sort this problem out would be the new procedures for the provision of benefits on the payments for communications services. Such procedures would maintain the benefits: specifically, natural benefits for the respective categories of residents set in a form of discounts, should be transformed into monetary form.

The right of the respective categories of residents for benefits related to payments for communication services might be implemented by providing a compensation for communication services both directly to the beneficiary and to the organization that delivers the respective beneficial services. The monetary compensation to the beneficial categories of residents for the costs they incurred to pay for the communication services should be ensured in a volume set by legislative acts, entities that carry out the respective payments (pensions, wages, allowances, etc.). Should the resident have a right for the benefit based on a few grounds for the same kind of benefit, he (she) may use just one of them, at his (her) own choice, to enjoy the benefit.

The implementation of the proposed procedures would require amending a number of the current federal laws and adoption of a number of related acts that should regulate the mechanism of the provision of the respective benefits.

The concept for the draft federal law "On amending legislative acts of RF on the provision of social benefits related to payments for communication services"

The bill should provide the introduction of new procedures for the provision of social benefits related to payments for communication services: the natural benefits set in a form of rebates for the respective categories of residents should be transformed into monetary form. Such benefits should be delivered by providing the residents with the right for compensation for their costs for communication services.

That necessitates the following amendments: the beneficial categories of residents should be granted with a right for the compensation for 50% (or 100%) of the costs for the access to the telephone network and payments for the use of the telephone according to the procedures and under the terms set by the RF Government. The said amendments should be introduced to the following legislative acts:

1. Federal law of November 24, 1995, § 181 FZ “On Social Protection of Disabled of RF”;
2. Law of the RF of May 15, 1991 # 1244-1 “On Social Protection of the Citizens Suffered from the Radiation Effect Due to the Chernobyl Power Plant Disaster”;
3. Federal law of May 25, 1998, # 76-FZ “On the Status of Military Staff”
4. Federal law of January 10, 1996 # 6-FZ “On Additional Guarantees of Social Protection of Judges and Court Clerks in the Russian Federation”;
5. Law of the RF of June 24, 1993 # 5328-1 “On Federal Bodies of Tax Police”
6. Federal law of January 17, 1992, # 2202-1 “On Prosecutor’s Offices in RF”
7. Law of the RF of October 18, 1991 # 17621-1 “On Rehabilitation of Victims of Political Repression”;
8. Law of the RF of April 18, 1991 # 1206-1 “On Militia”

The concept the draft Resolution of the RF Government “On procedures for the reimbursement of expenditure related to the provision of benefits related to the payments for communication services”.

1. To carry out the provision of benefits related to the payments for communication services, it is necessary to provide in the federal budget and budgets of the RF Subjects for next fiscal year the respective funds for the reimbursement of expenditures of the executive power agencies and other entities (social support agencies, military registration and enlistment offices, etc.) (according to their applications), in which the beneficial categories of residents carry on (carried on) their service, are employed, enlisted, etc..
2. The categories of residents that in compliance with the current law are eligible for benefits

related to the installment of private telephones in their places (provision of the access to the telephone network) and to the charge for the use of the telephone are provided with compensations (the respective monetary amounts) payable via the offices (entities) where they are employed (carry on their service), social support agencies and other entities against the documents (subscription and payment books, receipts) proving the payment for the said services.

2. Methodological aspects of social assistance targeting (separate note)

As has been stated above solution of the problem of unfunded mandates pre-supposes optimization and systematization of different payments, benefits, compensations and privileges. On the basis of such analysis and the practice for financing of various social assistance measures, the procedure of payment of a comprehensive (extreme) poverty benefit can be defined. Such benefit must include a number of payments done from the budgets of the subjects of the Russian Federation. All subjects of the Russian Federation must adopt the same general principles for granting social assistance and the same sources of the assistance financing must be established. The main condition for the success of the reform of the social safety net must be a definition of the circle of people eligible for the assistance and transition to a targeted social benefit.

While adopting the targeted approach the social assistance is being granted to a household based on two main conditions. First, average per capita aggregate household income must be below the subsistence minimum specified by a corresponding subject of the Russian Federation in accordance with the Federal Law “On the Subsistence Minimum in the Russian Federation” (Article 6). Second, targeted assistance is allocated only in situations (temporary or permanent) of difficult life conditions which can not be surpassed independently: disability, inability of single citizens to self-service due to old age, illness; orphans; loss of a bread-winner. It is envisaged that the able-bodied members of the family have used all means to overcome a difficult life situation independently.

In case there are sufficient financial resources in the regional program budget for targeted social assistance each family that have a status of “needy” a poverty benefit is assigned and paid in the size which amounts to a difference between the subsistence minimum of that family and its total household income.

In case there are insufficient financial resources the poverty benefit is assigned and paid to the families which have the largest deficit between the household income and the subsistence minimum. The number of families covered by the targeted social assistance will be defined by real financial resources of each regional program of social assistance.

In that situation the size of the assigned household benefit can be assessed as a difference between a share of household income and the subsistence minimum. The share of the

subsistence minimum used in those calculations becomes an administrative benchmark of poverty for a given region for a given period of time. In practice in order to select the most needy households an index equivalent to a half of the subsistence minimum is being adopted. It is obvious, that the benchmark can not be below that amount because the use of the subsistence minimum loses all sense.

The size of administrative poverty benchmark established for each period of granting targeted social assistance must be specified by a normative act of a subject of the Russian Federation.

Between 1997-1998 in three regions of Russia – Komi Republic, Volgogradskaya and Voronezh Oblasts – a broad test program for granting targeted social assistance to the population was implemented. The program was implemented in the framework of IBRD SPAL (project for restructuring of social protection system). An original methodology for poverty assessment was tested in each of the given regions.

None of the methodologies used in the pilot projects has addressed the methods of identifying subsistence minimum and has used its size as specified by regulatory documents of those particular subjects of the Russian Federation where the pilot projects were implemented.

For the pilot project implemented in Komi Republic a specific subsistence minimum was set for each district by a Resolution of its Government, due to the fact that the territory of the Republic is divided into three nature and climate zones which are characterized by sharp differences in living conditions of the population and development of economic framework. As a result, territorial differentiation of the subsistence minimum was also considerable: in the northern and southern districts the difference exceeded a factor of 1.5.

It is worth noting that sometimes, due to budgetary constraints, in order to identify the category of the poor, or to allocate targeted assistance, per capita incomes were correlated not with the subsistence amount, but with a relative value established by legislation of the particular subject of the Russian Federation and tied up to the subsistence level.

In Komi Republic this value was the guaranteed per capita income (GPI), which was established quarterly by a Resolution of the Head of Komi Republic and was similar to the subsistence level differentiated by a district, depending on nature and climate conditions and cost of living in various districts of the Republic. The GPI dynamics depended on budgetary capacity of the Republic and the number of the needy. Thus, in April 1997 the average GPI amount in Komi Republic came to 170 Rubles/month. From January to August 1998, averaged GPI remained at 230 Rubles, varying from 218.14 Rubles in the South of the

Republic to 296.39 Rubles in the North.¹ The average (among nature and climate zones and social demographic groups of the population) subsistence minimum in the region increased from 439.9 up to 461 Rubles. In compliance with the Law of Komi Republic on subsistence minimum, the status of the poor was granted in the region to families with per capita income below the subsistence minimum. As for the poverty benefit, it was assigned to families with per capita incomes below the GPI.

In Volgograd Oblast two methods for benefit allocation were applied: a) the proxy means test in the territory of the Central district of the city of Volgograd, in the town of Volzhsky and in Ilovlin district and b) the Unified Procedure for providing targeted social assistance to the poorest categories of the population (hereinafter – the “Unified Procedure”) in the other districts of the Oblast. In the regions where proxy means test was used, the value similar to the GPI of Komi Republic was identified as administrative poverty line equal to half the subsistence minimum for the Oblast population which was averaged for different social demographic groups. During the period of pilot implementation it increased from 330 Rubles in September 1997 up to 371 Rubles in August 1998. The poor, according to the proxy means test conditions, were the families with per capita money income below the administrative poverty line (APL).

In compliance with the Unified Procedure enacted by administration of Volgograd Oblast, eligibility was granted not to households, but to individuals with per capita money income below the subsistence level and falling under one of the following categories of the population:

- disabled children under 16, disabled from childhood, disabled of groups I and II due to an industrial accident and a general disease;
- children under 16 (schoolchildren and students – under 18) of single mothers, widows, widowers, and children from large families;
- child orphans under tutorship and children whose parents were deprived of parent rights or are wanted by the police;
- single pensioners, childless married couples over 65;
- unemployed pregnant women;
- able-bodied individuals taking care of group I invalids, disabled children under 16, elderly individuals over 80;

¹ By September 1999, the average subsistence minimum in Komi Republic exceeded 900 Rubles, however, the budgetary capacity of the region did not allow to raise the level of GPI, and it remained at 230 Rubles.

- children from problem families;
- parents of children perished when performing state duties.

During pilot project implementation in Voronezh Oblast targeted social assistance was rendered to certain categories of the population falling under the vulnerable categories:

- disabled children under 16;
- non-employed disabled of groups I and II;
- disabled suffering from diabetes mellitus;
- children of single parents;
- children from large families;
- children under 16 suffering from leukosis and oncologic diseases;
- child orphans under tutorship and children of parents deprived of their parent rights;
- children from students' families, where both parents study at day-time;
- pregnant women;
- women caring after children under 18 months;
- able to work individuals taking care of invalids of group I, disabled children under 16, elderly individuals over 80;
- lonely pensioners, lonely married couples of pension age;
- families with 2 or more minor children, provided both employed parents have not received salaries for the last three months prior to the date of application;
- unemployed disabled of group III.

The amount of per capita income of the household of an individual categorized as socially vulnerable was compared with the subsistence minimum established by the regional administration. In Voronezh Oblast, subsistence minimum increased from 313.4 Rubles in September 1997 up to 332.3 Rubles in August 1998, or by 6 per cent.

During pilot project implementation in Voronezh Oblast, in order to facilitate the income calculation procedure, the ad-hoc commissions established under the local social assistance agencies had the right to deny eligibility to households having in their ownership an additional housing facility (a house, a flat, a country house); a car (in operating condition and not owned by a disabled person); a heated garage; bank monetary deposits exceeding minimum wage ten-fold.).

So, eligibility conditions under the rules established in Voronezh Oblast and three

districts of Volgograd Oblast covered by the Unified Procedure were similar in many respects. However, conditions set up by the Unified Procedure were much stricter. This relates both to the categories of citizens eligible for the targeted assistance and to conditions relating to the income of citizens belonging to that category.

The size of poverty benefits was also determined by regulatory documents of regions at sub-federal level where the pilots were implemented. Understandably, it depended on budgetary capacity of the regions.

In Komi Republic, the size of poverty benefit was determined as the difference between the amount of GPI and the family per capita income calculated by methodology developed by experts of the Company for Social Technologies and Expertise (SOTEKO). The size of family benefit was calculated as the product of the benefit per one member of the family by the number of family members. Information on the families granted the status of poor but not eligible for the benefit was kept in the electronic database. These families were a reserve to join the beneficiaries as the level of GPI increased, or in case their per capita incomes fell below the level of GPI. Minimal size of poverty benefit is limited in Komi Republic by an amount which can be a basis for opening an account at Sberbank subsidiaries, i.e., 10 Rubles. Maximum family poverty benefit calculated during the pilot project was 1532 Rubles.

Under the proxy-means test used to calculate poverty benefits in three districts of Volgograd Oblast, eligibility was granted to all the families having a status of the poor and per capita income, calculated by proxy-means test, below the regional subsistence level. The amounts of poverty benefits were calculated using a special scale (Table 4) and depended on the relation of potential consumer per capita expenses calculated with a proxy-means test, and the subsistence minimum.

Table 2.1

Poverty benefits calculated under the proxy-means test in Volgograd Oblast

Potential Consumer Expenses of the Family (as per cent of subsistence minimum)	Size of Benefit per Family Member (Rubles per month)
Below 40	110
40 –60	80
60 –80	50
Above 80	20

The amounts of benefits calculated for certain categories of the population in the other

districts of Volgograd Oblast where the Unified Procedure applied could not exceed the 50 per cent difference between the beneficiary subsistence budget established for this period and the family per capita income of the beneficiary. The maximum monthly payment for the family with one beneficiary was 25 Rubles, with two to three beneficiaries - 45 Rubles, with four to six beneficiaries – 55 Rubles, and with over six beneficiaries - 60 Rubles.

In Voronezh Oblast the total amount of the benefit paid to a family was the sum of differences between the actual average per capita income of the family and the subsistence minimum of each member of the family eligible for social benefits. Due to the lack of sufficient budgetary resources required to provide support under the pilot, regional administration established that the amount of cash benefit for one beneficiary in the family was equal to 15 per cent of regional subsistence level, for two beneficiaries – 25 per cent, for three to four – 35 per cent, for five and more beneficiaries in the family – 50 per cent of the regional subsistence minimum. Regardless of the size of the difference between per capita income and subsistence level, the family was eligible for a benefit of at least 10 per cent of the subsistence minimum. As a result, the minimum social benefit in Voronezh Oblast under the pilot project amounted to 33.2 Rubles, and the maximum benefit – to 166.5 Rubles.

Different methods to calculate family income for eligibility determination purposes were tested under the pilot projects.

In Komi Republic, the method of regional regulation of minimum per capita income (RRMPI) was used as proposed by SOTEKO and pilot project tested; in Voronezh Oblast the method used was the combined categorical and income-test methodology applied by TsUZh on the basis of available methodological findings. In three districts of Volgograd Oblast the proxy means test tested by ISEPN was used. And, finally, in the other districts of Volgograd Oblast the methodology used was one based on the Unified Procedure for providing targeted social assistance.

Despite the fact that some of these methodologies (in the first place, the one used in Komi Republic) are multi-functional, the main purpose of using them in this case was to calculate income of families claiming eligibility.

In Komi Republic the “full per capita income” was assessed taking into account, besides monetary and in-kind forms of family income traditionally used in such methodologies, also the economic potential of the family (EPF) – additional sustainable income which the family does not receive, but could have received if it reasonably used the labor capacity of the family members, real estate and transport facilities in existing social and economic environment.

So, EPF, in addition to income from private plot, includes also other household assets which can be used to generate income. The range of assessed potential sources of additional family income includes:

- labor capacity of the family;
- potential income of the family from private plot;
- potential income from excessive housing facilities;
- potential income from sale of excessive housing facilities by pensioners to the state with deferred enforcement;
- potential income from vehicles and some other sources of income.

In the main part of Volgograd Oblast covered by the Unified Procedure, the formal per capita monetary income was taken into account for eligibility assessment.

The methodology used in three pilot regions of Volgograd Oblast was essentially different from all the preceding ones, since it allowed additional assessment of family income by analyzing the level of actual consumption. Calculation of recurrent available material resources of the family was made with the specified rate of potential consumer expenses of households. The value of this particular indicator was used to identify the poorest households.

Implementation of procedures for additional assessment of income of the population of Volgograd Oblast (based on sample budgetary survey of households) and factor redistribution of an average value of this additional assessment by different household types resulted in a multiple regression model using easily recorded and verified household parameters as factors, including :

- formally recorded per capita income;
- gender and age characteristics of the family members;
- urban or country residence;
- housing conditions;
- the fact of getting child allowances, etc.

In Voronezh Oblast the income of certain categories of the population considered to be eligible included all recurrent and lump-sum monetary incomes of the family taxable under RF Law “On Income Tax on Physical Persons ” (wages/salaries, entrepreneur income,), as well as income not subject to taxation (maternity benefits, child care allowance (in case of children under a year and half); all kinds of pensions plus increases, supplements and compensations to them; severance payments and associated monetary compensations; unemployment benefits and stipends paid during vocational training and retraining from the

State Employment Fund; grants paid to students and pupils of higher professional education, secondary education and primary vocational training institutions other educational establishments, research grants to post graduate students, alimony, etc.

On the other hand, the aggregate income did not include lump-sum state benefits paid at child's birth; death grants; alimony paid by family members.

Consequently, methodology for assessing per capita income adopted in Voronezh Oblast was an official one adopted by Goskomstat of Russia.

As a result of testing, all above mentioned methodologies in one way or another are being used in different regions of the Russian Federation while setting up new programs of targeted social assistance.

3. Analysis of household income and consumption differentiation

Registration of the inter- and intra-regional income inequality and the difference in the level of consumption of households required for proper specification of procedures for poverty assessment remains one of the main prerequisites for targeted social assistance programs. Among key questions are the following: inter-regional income inequality, intra-regional income inequality, relation between household income inequality and the volumes of benefits and privileges received by households.

Each type of social safety net benefit is targeted for different sort of recipients. At the same time, social guarantees perform the following functions: compensatory (consumption support at the standard level), protective (maintaining labor and household conditions), stimulating (promoting recipient's labor and business activity, resources saving).

The system of social protection (providing free or subsidized consumption for a limited group of population, to be more precise—subgroups) and the system of free and subsidized services (providing social complex services at the minimum standards for certain layers of population without limitations), catering for unprovided groups of population. Although the right for consumption belongs to all households and their members, in reality poor households more frequently request benefits than the well-provided ones due to the fact that the latter get them for money. Nevertheless, the main factor, which defines the volume of final consumption of free and subsidized services, is the household structure in terms of gender, age, and status of employment. Single parent families with many children, pensioners objectively tend to receive free services and privileges because precisely these categories of population are potentially more eligible for privileges and have inadequate resources for getting these services for money.

In spite of the fact that money income represents the main source for consumption, evaluation of real final consumption and the extent of its correspondence to the needs must include consumption of free and subsidized services, transfers in kind for the member of a given household.

In social and economic life of society, financial position of each member of society is defined not only by his/her individual income, but also by an income of his/her household. Total income of the members of a household constitutes a single source that covers needs of all its members, including those who lack individual income.

The size of a household has a two-way influence on the level of income and consumption: increase in the number of household members can result in a growing number

of income recipients or in a growing number of consumers. In the first case, per capita income grows, in the second case it falls. At that, one should bear in mind a more rational housekeeping in cases of large families due to a more effective use of resources. It relates to a satisfaction of collective needs of household members at the expense of goods and services whose cost remains constant independently of a number of consumers (lodging, durable goods, etc.).

The difference in household size and structure requires a need to carry out special computations designed to evaluation the well being of a household with the help of the so called “equivalence scales”. The latter allows measuring correctly the difference in purchasing power of households with similar incomes due to saving from housekeeping in a large family.

Application of an equivalence index equal to 0,73 as recommended by OECD is not at all adequate in case of the Russian Federation because it does not reflect specificity of the household expenditure structure. Taking into account consumption norms for able-bodied citizens, children and pensioners and the structure of subsistence minimum, which takes into consideration expenditure on goods and services for all-family consumption, computations testify that it is more adequate to apply equivalence index equal to of 0,85. A higher index is explained by the fact that in the household expenditure structure in Russia, the share of spending on goods and services for individual consumption is higher than in the OECD member countries.

The rate of money income of each household is determined by a number of active members, i.e. that have an independent source of income. The income rate in terms of social assistance (including in kind) is mainly determined by a number of household members their age and some other characteristics.

Total household income should reflect public social programs targeted at supporting low-income groups by way of providing free or partly free and subsidized social services, tax privileges.

Domination of this or that source of income in household budget determines its social status or place in the social hierarchy (a family of businessmen, farmers, wage earners, pensioners, etc.). Findings demonstrate that the income level is linked with the family size through the structure of population depending on the number of children, the number of adult dependents per family, pensioners living with the family and living alone.

The level of material well being of the households depends to a considerable extent on the ratio between the number of working and non-working household members, i.e. on the

indices of employment and “demographic burden” which includes the number of dependents per one working person. The low-income households demonstrate the lowest level of employment and the highest level of demographic burden.

For example, findings obtained in 1996 from surveying 30 thousand urban households demonstrated that for the highest 20 percent income group of the total number of households the dependency rate was 0.86 – i.e. there was 86 dependents per 100 households. This ratio was 1.96 for the poorest quintile of households (196 dependents per 100 households). The number of children and their share in the household size influences the volume of per capita income. The share of children per one household (relevant to 20 percent of households with the lowest income) amounted to 37.3 percent, and for “richest” households – 19.9 percent. Findings of household budget survey demonstrate that the number of non-working pensioners in the families with different income level fluctuates: there are 31 such persons per 100 households in low-income families, and in highest income – 19 such persons. Thus, a relatively low-income level in many cases is connected with the need to support children, aged members of the family, single parent families (single mother family), as well as families where the main breadwinner is a pensioner, student or unemployed.

Large size income households have at their disposal bigger in kind earnings than high-income households do. This is especially true in case of children benefits. On the whole, households with low per capita income have considerably larger in kind additional earnings than households with high per capita income do.

Results of household budget survey carried out in 1997-1999 using a single methodology demonstrate conservation, despite a drop in purchasing power of the population resulting from 1998 financial crisis, of relatively stable numeric parameters of social differentiation between households.

Table 3.1

INDICES OF SOCIAL INEQUALITY IN RUSSIA IN 1997-1999

	“Funds” Index (ratio of disposable per capita resources of the least and most prosperous groups of population, times)			Gini Index (Index of concentration of resources)			Ratio between median per capita value of resources and their average value (in %)		
	1997	1998	1999	1997	1998.	1999	1997	1998	1999

Disposable resources	10,7	9,9	9,9	0,366	0,353	0,352	72,7	72,8	73,2
Gross earnings	10,8	9,6	9,8	0,362	0,347	0,348	74,5	73,8	74,3

Data provided in the table proves that by 1997 main income groups have already been established in Russia, and the 1998 crisis did not seriously influence this process. During 1997-1999 income inequality was slightly reduced. However, differences in expenditure on foodstuffs have increased.

Table 3.2

RATIO OF EXPENDITURE ON FOODSTUFFS OF 10 PERCENT MOST AND 10 PERCENT LEAST PROSPEROUS GROUPS OF POPULATION IN RUSSIA

IN 1997-1999, Fold

	1997	1998	1999
Vegetables, melons and gourds	5,2	6,8	7,0
Fruit and berries	7,7	10,4	13,1
Meat	5,1	7,6	9,0
Fish	6,1	7,6	8,3
Meals outside home	19,5	26,7	34,9

Increased differentiation in consumption between the richest and poorest groups of society demonstrates that as a result of drastic changes in economic situation which occurred in August 1998, society has become much more differentiated from the consumption point of view, although there was no increase in income stratification.

Poverty factors in Russia are the following:

- Location of households (spread of poverty is higher in rural areas);
- High rate of children (birth of another child sharply increases chances for a household to slide into a poverty group);
- Reaching pension age;
- Unemployment, including hidden unemployment (wage arrears, wage backpay, forced holidays on employers' initiative without paying wages, etc.)
- Level of education.

Wage and salary distribution in the economy is one of the main factors of per capita

money income differentiation of the population, which is explained by their high share in the volume of earnings. Wages fund and distribution of its resources among different categories of personnel as well as distribution of profit are main factors, which influence personnel inequality.

This trend is strengthened by a reduction in the volume of state social programs. Transfer of costs on health care, education and housing into wage and salary scheme means not only an increase in household consumption independence, but a restriction in satisfaction of needs due to a reduction in possibilities of proper budgets.

Table 3.3

*PER CAPITA INCOME INEQUALITY AND WAGE LEVEL DIFFERENTIATION OF HOUSEHOLDS
IN 1996
(in percent)*

	All households	Quintile (20 percent) groups of households				
		First with low income (wage)	second	third	fourth	Fifth with high income (wage)
Counting on a member of a household:						
Income	100	6,6	11,7	16,2	22,7	42,9
Wage, including business income	100	3,4	9,3	16,0	24,0	47,7
Gini Index for income	0,360	0,177	0,060	0,052	0,062	0,199
Gini Index for wages	0,463	0,668	0,124	0,070	0,070	0,204

In order to assess labor remuneration of a wage earner, one can use the cost and structure of inputs allocated on labor force on average per one worker monthly, which represents a total amount of inputs of an enterprise (employer) allocated on workforce and its structure.

Table 3.4

STRUCTURE OF LABOR COSTS INCURRED BY AN ENTERPRISE IN RUSSIA IN 1998

(results obtained from surveying 25 thousand organizations)

	Labor costs Rubles on average per month	Of which, in %						
		Wages	Costs on housing for employee s	Expense s on social protectio n	Expense s on skills training	Expenses on cultural and welfare facilities	Other costs	Taxes
Industry	2114,	59,8	3,1	30,4	0,3	2,4	2,9	1,1
Transportation	2297,0	64,8	1,2	28,8	0,4	0,9	3,1	0,8
Communication	2164,1	67,0	0,5	58,3	0,3	0,7	1,6	1,6
Construction	2260,0	63,1	0,8	30,8	0,1	0,4	3,2	1,6
Wholesale and retail commerce	1583,1	67,6	0,4	28,6	0,2	0,3	1,9	1,0
Catering	1072,3	69,1	0,1	27,8	-	0,1	1,8	1,1
Housing and utility services, consumer services	1737,2	66,5	0,5	29,7	0,1	0,2	1,1	1,1
Finance, credit, insurance and provision of pensions	2923,5	66,4	0,3	29,3	0,7	0,3	1,8	1,2
Total across pilot branches of economy	2094,4	62,5	2,0	29,8	0,3	1,5	2,7	1,2

These inputs include wages (in monetary and in kind forms), housing costs, social security, costs on skills training and retraining, costs on holding cultural and educational events, taxes and payments which refer to labor costs, and other.

In the Russian Federation remuneration of labor is characterized by an increased inequality in the level of wages existing between branches of industry, regions and enterprises. The level of wages in the fuel and energy complex, non-ferrous metallurgy, transport, and finance and credit organizations is considerably higher than the all-Russia wage level. At the same time, in agriculture, light industry, machine building, and budget sphere the level of wages is considerably lower than the all-Russia average level. In conditions of a sharp financial and economic differentiation existing between branches of industry and enterprises and, consequently, existing between possibilities of fixing wage level, a certain part of enterprises, to a considerable extent, use non-monetary forms of labor remuneration: providing medical assistance, payment for children's education, purchase of apartments, transportation, payment for meals, etc.

Present situation predetermines inequality in the level of wages between regions. Regional differentiations in the level of wages are explained, to a considerable extent, by a given structure of regional economy. For instance, a higher wage level is registered in the regions where dominate extracting industries, first of all, fuel resources (Western Siberia, Eastern Siberia, and Far East regions) that are oriented for exports. Low level of wages exists in Central black earth, Volgo-Viatsky and North Caucasian regions with predominantly agrarian sector of economy and manufacturing industry.

There is a rather considerable difference in the levels of labor costs existing on enterprises of different size, which is unequally spread in different sectors of economy (Table 3.5).

In economic analysis of labor costs in contemporary Russia, it is important to distinguish accrued wages, paid wages, and back wages. In this connection one should make reservation about the principle of labor remuneration, which presupposes such relations between the employer and employee where the latter credits the former. At the same time, crediting is limited by time. That is why, the gap between paid and accrued wages becomes an objective phenomenon. However, cases of violating the pay schedule that stipulates crediting on part of employers in the form of arbitrary transfer of dates for payment of wages can not be viewed as a normal thing. This phenomenon has become extremely widespread in Russia. Its intensity fluctuates across regions and branches of economy. That is why back wages, pensions and certain benefits arrears become a serious factor, which promotes income inequality.

Table 3.5

LABOR COSTS IN ORGANIZATIONS OF DIFFERENT SIZE IN RUSSIA IN 1998

(results of surveying 25 thousand organizations; Rubles per month per worker)

	Organizations with number of workers, individuals					
	Less than 50	50-99	100-199	200-499	500-999	1000 and more
Industry	1308,6	1345,2	1625,7	1793,3	1788,8	2381,1
Transport	2253,1	1825,6	1932,1	2047,6	2207,4	2488,1
Communication	2262,3	2702,5	2387,9	3216,6	2411,9	1950,8
Construction	1510,2	1566,5	1925,8	2439,1	2674,3	2811,2
Wholesale and retail commerce	1430,9	1326,9	1330,9	2062,8	1750,0	1919,7
Catering	816,1	955,5	979,3	1216,9	1266,6	1595,8
Housing and utility services and consumer services	1281,3	1395,0	1423,2	1589,1	1981,7	1943,9
Finance, credit, insurance and provision of pensions	2318,8	2739,4	2406,8	2896,9	2954,7	3225,8
Total in pilot branches	1524,7	1534,9	1691,7	1983,9	2030,8	2379,2

In the countries with high rate of employment the factor of labor remuneration becomes a decisive one for differentiating households across different social groups, and the share of labor remuneration for well-to-do groups of population is the highest one.

Table 3.6

DISTRIBUTION OF HOUSEHOLDS ACROSS AVERAGE PER CAPITA INCOME AND HOUSEHOLD STRUCTURE IN 1996

Quintile groups of households across average per capita income rate	Labor remuneration		Share of household members at the age of		
	% share in all earnings	Index for per capita wage (lowest 20% =1)	Below able-bodied	Able-bodied	Above able-bodied
Lowest 20% (with lowest rate of income)	54,4	1	36,2	55,2	8,6

Second 20%	61,7	1,7	28,4	56,1	15,5
Third 20%	68,4	2,3	25,7	59,1	15,2
Fourth 20%	74,9	3,0	23,1	63,5	13,4
Highest 20% (with maximum rate of income)	81,9	5,1	19,3	69,1	11,6

In the circumstances when a considerable part of population gets a relatively low money income, it is important in the evaluation of consumer budget to include the value of produce of private plots of land (full value, not restricted to actual proceeds from the sale of produce). For the evaluation of gross revenues, it is necessary to bear in mind the fact that consumption of produce grown on private plots of land equalizes gross income of urban households where such proceeds in total income are relatively small. In this connection, development of private plots of land in the regions can be viewed as a factor, which to a considerable extent determines the level of regional consumption.

“Shadow” economy, which represents an illegal industrial activity, is a factor, which unquestionably influences inter-regional and inner-regional income inequality. Households receive income and work in sectors connected with “shadow economy”. In other words, they receive income resulting from shadow employment and use of shadow assets.

Informal sector is an important component of “shadow” economy. In the informal sector individuals are forced to be self-employed in order to earn their living because other sectors of economy do not provide enough work places with appropriate qualification requirements and adequate income. In Russia a noticeable part of qualified workforce in formal sector have second employment in the informal sector in order to increase their earnings and compensate low wage rate at the main place of work. Informal sector consists of different types of activities and permeates all economy.

In pre-reform Russia some industries were developed to hypertrophied proportions and other industries remained underdeveloped. Spontaneous economic changes, on the one hand, have led to a reduction in demand for workforce in the overdeveloped sectors of the economy and a sharp fall in employees’ earnings and, on the other hand, accelerated development of the sectors, which must be represented in a market economy (commerce, consumer services, passenger transport, advertising, mediation, etc.) These branches of the economy are singled out by the fact that they work with cash and small businesses are the optimal forms of

production organization. In this connection, “shadow” earnings have a certain branch tinge (when speaking about inner-regional income differences). Regional branch orientation predetermines income difference between regions because of “shadow” economy.

Russia--a country with large territory and multinational population--always had diversity in the level of economic and social development. Transition to market relations in the 90's has considerably influenced the extent of regional differentiation and disproportions in economic development. Regions with powerful fuel and mineral basis, export oriented industry, sufficiently developed infrastructure and financial system have turned out to be in a privileged position. In a much worse situation turned out to be regions with historically low starting conditions. As a rule, national formations belong to that category, as well as regions with strongly pronounced monoproduction, and regions with considerable amount of agricultural sector.

Regional income differentiation of the population is objectively linked with the different macro-economic conditions of their development was lately aggravated as a result of different pace of social and economic reforms in the regions as well.

The ratio between the maximum and minimum sizes of money income in the regions amounted to 12.1-fold between 1997-1998. In 1999 that ratio went up. For example, the level of differentiation in Moscow had surpassed the income level in the poorest region (Republic of Ingushetiya) by more than 18-fold.

In 1998 the population of 61 regions had average per capita money incomes below the average all-Russia level. At the same time only in 13 regions average per capita money incomes were above the all-Russia level. That demonstrates a strong shift in distribution in favor of poor regions. The same ratio was registered in 1997, which signifies that there were no shifts in the distribution of money income between regions.

Regions of North Caucasus are constantly among the regions with low incomes. Considerable number of regions with low average per capita incomes is registered in Volgo-Viatsky, Central (except Moscow), Central-black soil and Volga regions, on the territory of Siberia and Ural and North-West regions.

Moscow, Tyumen Oblast, Kamchatskaya and Murmanskaya Oblasts are among regions with highest incomes.

Territorial disproportion also consists in a different purchasing power of single national currency in different regions. Inter-territorial price differentiation represents the main instrument for achieving conformity between earnings of Russia's population living in

different regions and supply of consumer goods on regional markets. This inter-regional price differentiation is determined not only by a need to compensate differences in the circumstances of reproduction of workforce but also by a level of well being of regional population.

In conducting territorial price comparisons an approach based on the use of regional consumer baskets without making them comparable does not permit to take into account peculiarity of each territory and a corresponding regional structure of people's needs. In view of this, it must be supplemented with the assessment of the territorial consumer norms. Inter-regional consumer indices can become quantitative expression of such sort of comparison. Such inter-regional consumer indices represent a ratio between the size of a consumer basket of a pilot region and model-region in uniform prices.

Subsistence minimum (as the cost of a set of goods and services) discriminated across regions can serve as an example of a consumer basket differentiated across regions. Due to variation in structure and price level the size of a subsistence minimum allows to assess the level of differences in purchasing power of the population expressed in a number of minimum sets of goods and services corresponding to the amount of per capita income.

Cost of life of the population of different territories can be evaluated through fixed sets of goods and services and through their comparison with household earnings and expenditure. A fixed (unified for all territories) set of goods and services was used as a basket for comparison. It is due to the fact that at present in Russia there are no reliable regional estimates of real final household consumption. Data on consumer expenditure was obtained from surveys of unrepresentative sampling of households and insufficient number of examples of expenditure on goods and services in a separate region.

Obtained results of the assessment of the ruble purchasing power across regions have allowed evaluating the national price level in model-region's prices. Average all-Russia prices have turned out to be below the model-region prices (Moscow by 10 percent). If we use subsistence level as a consumer basket then the difference amounts to 25 percent.

Along with nominal incomes the difference in the level of purchasing power is also high in the regions. If in the whole of the Russian Federation in 1998 the ratio between the average per capita income and the size of the subsistence level amounted to 197 per cent, then the highest purchasing power of the average per capita income was characteristic for Moscow - it amounted to 592 per cent, and the lowest level was registered in the Republic of Ingushetiya—78 per cent. The gap between average level of incomes in these two regions has

reached 7.6. In 1997 the gap between the purchasing power of the money incomes between regions amounted correspondingly to more than 8.5.

Interregional differences remain considerable in the sizes of the subsistence level and in poverty incidence. In 1998 in Russia as a whole the number of people with money income below the subsistence level amounted to 24 per cent. At the same time, it differs considerably across regions. The lowest share of poor people in 1998 lived in Tyumen Oblast (15 per cent), Moscow (18 per cent) and Samara Oblast (18 per cent). The highest incidence of poverty was recorded in the Republics of Tuva, Mariy-El, Daghestan, Kalmykia and Chitinskaya Oblast. Poverty incidence in those regions amounted to 58-75 per cent. As can be seen from that data the interregional difference in poverty incidence reaches a factor of five.

There are more considerable and dramatic gaps that exist in assistance to the most vulnerable groups of population in different regions. According to existing practice, households receive assistance from the local governments, enterprises and organizations in the form of various benefits and privileges enacted by law or rendered by enterprises and organizations in money or in-kind.

In 1998 34 per cent of households received various benefits and privileges nationally. At the same time, in some regions the respective share has reached 60 per cent and went even higher than that (Murmansk Oblast, Republic of Udmurtiya, Kirov Oblast, etc.) and in 5 Russian regions that share does not exceed 10 per cent. The largest number of households receiving benefits and privileges are in Murmansk Oblast (65 per cent) and the smallest number is in the Republics of Daghestan and Tuva (1-4 per cent). At the same time, these republics are characterized by the lowest poverty incidence.

In 1998 the correlation ratio between the poverty incidence and the share of households receiving benefits amounted to 0.35. In 1997 it reached 0.38. In other words, these two indices demonstrate obvious inverse correlation, i.e. the higher the poverty level in the region the lower the number of households receiving benefits and privileges and vice versa. Because the vast number of those types of assistance is rendered by enterprises and organizations, they are widespread in the regions with the highest financial potential. That is why the existing practice of rendering assistance does not lead to cutting the existing social and economic differentiation. On the contrary, it leads to a growth in differentiation in the standard of living and increases the gap between the inhabitants of different regions. That is why, it is difficult to accept the existing practice of distribution of different benefits and privileges across regions as justified and fair.

Together with interregional differentiation in distribution of income and social types of assistance their inner-regional differentiation is highly pronounced. We will analyze this problem in more details based on the data for the regions where the pilot projects were implemented. At the same time the problem of fairness of various types of assistance and privileges received by households with different material incomes will be also tackled.

The principal indicators of income differentiation for the regions where the pilot projects were implemented are provided in the following table.

Table 3.5

INCOME DIFFERENTIATION OF THE POPULATION IN THE “PILOT REGIONS”

	Funds Index			Gini Index		
	1997	1998	1999	1997	1998	1999
Komi Republic	12.2	13.6	13.1	0.379	0.394	0.388
Voronezh Oblast	8.4	10.1	6.7	0.325	0.351	0.292
Volgograd Oblast	9.6	7.2	5.1	0.344	0.303	0.251

As can be seen from the data, intra-regional income inequality of the population is being characterized by high dynamics and differences in the value of indices across regions. The highest differentiation is characteristic of Komi Republic. In Voronezh and Volgograd Oblasts the level of differentiation is considerably lower. At the same time, in Komi Republic the differentiation indices remain rather stable and in Voronezh and Volgograd Oblasts they dropped sharply following the 1998 financial crisis.

The following table comprises information on disposable income, money income and the value of benefits and privileges rendered in-kind to the population with different material well-being.

TABLE 3.6

Data on the aggregate amount of privileges in different regions
(RUR)

	Komi Republic			Voronezh Oblast			Volgograd Oblast		
	Dispo sable incom e	Mon etary inco me	Value of benefit s and privile ges*	Dispo sable inco me	Mone tary inco me	Value of benefit s and privile ges*	Dispo sable inco me	Monet ary incom e	Value of benefits and privileg es*
1997									
All households	897	779	18	592	446	5	542	453	5
Of which									
For decile groups									
First	211	177	4	150	101	1	135	106	2
Second	302	259	6	225	154	1	211	171	2
Ninth	1478	1333	29	909	750	5	870	752	7
Tenth	2635	2251	60	1860	1377	23	1407	1145	6
With disposable income below the subsistence level	245	200	5	175	110	1	175	133	2
1998									
All households	985	858	29	595	445	4	571	453	5
Of which									
For decile groups									
First	219	166	8	152	103	1	135	106	2
Second	318	259	10	232	160	2	211	171	2
Ninth	1581	1398	22	979	772	16	870	752	7
Tenth	3060	2711	86	1626	1176	2	1407	1145	6

With disposable income below the subsistence level 1999	277	218	9	195	131	1	175	133	2
All households	1579	1337	42	1039	761	4	571	472	6
Of which									
On decile groups									
First	283	226	16	242	177	1	137	110	2
Second	483	386	25	365	258	2	213	171	2
Ninth	2556	2265	51	1641	1308	10	899	795	8
Tenth	5549	4549	104	3215	2131	2	1594	1225	9
With disposable income below the subsistence level	458	368	21	357	256	2	217	170	3

Pilot regions differ considerably across standard of living. It is explained, for example, in particular by the fact that Komi Republic belongs to the so called northern territories. In Komi Republic income is higher due to the use of regional wage coefficients, level of prices is higher, the share of monetary income in disposable income is higher, the share of industries with high level of wages is more pronounced in economy. Voronezh and Volgograd Oblasts belong to the territories with high level of employment in agriculture and processing industry.

Differences in material well-being of the most and least prosperous groups of population are also strong inside the regions. For example, in Komi Republic in 1998 monetary income of the most prosperous 10 per cent households amounted to more than 2700 Rub. and surpassed money income of the least prosperous 10 per cent of households (166 Rub.) by more than sixteen times. In Voronezh and Volgograd Oblasts this gap has reached eleven times. In 1999 that gap has increased.

Analysis of the ratio between the household consume resources and monetary income

demonstrates that the population of Voronezh and Volgograd Oblasts to a greater extent depends on getting food from private plots of land than the population of Komi Republic (it is assumed in the analysis that work on private plots of land is activity that contributes to the increased consumption). At the same time, the level of benefits and privileges received by the population in Komi Republic is notably higher.

Such ratios are characteristic for the whole period. Changes taking place in the nominal parameters of income and disposable income across time can be attributed to the reaction to one-time price shock of August-September 1998.

Comparison of the amount of benefits and subsidies received by the richest and poorest groups of households demonstrates that the size of the subsidy grows as household income increases. That fact is being observed during three years in Komi Republic and Volgograd Oblast. It can be explained by the fact that a considerable part of privileges and subsidies are being rendered by employers to employees and the number of employed are higher among better-off than among the impoverished ones. In Voronezh Oblast the same observation held true in 1997. In later years the highest share of subsidies was recorded in the ninth decile group, while in the tenth decile it was minimal. At the same time, the share of resources received by the households in-kind from the private plots of land is the highest in tenth decile. It can be explained by the fact that considerable part of tenth decile in that region comprise households that get most of their resources from the private plots of land. The share of employees is higher in ninth decile and precisely that part of the population has received maximum subsidies in per capita terms.

Comparison of indicators of estimated social transfers in-kind and gross income across decile groups of households allows to conclude that there is higher differentiation of subsidies and privileges received in-kind relative to the income differentiation. The reason is that subsidies and privileges are linked with employer or enterprise and those households that have more employed members receive higher subsidies.

The influence of subsidies and privileges on household budgets is insignificant across income groups. Absolute sizes of privileges are especially low in households with disposable income below the poverty line and their influence on their purchasing power is small.

As it was noted above, analysis of the statistical data across the Russian Federation demonstrates inverse dependence between the poverty incidence and the share of subsidies and benefits recipients

That dependence demonstrates in pilot regions and can be seen in Table 3.7

Table 3.7

Money income, the poverty incidence and the share of recipients of social assistance (subsidies and benefits):

Regions	1997			1998		
	Income level, RUR/month	Poverty incidence,%	Share of those receiving assistance,%	Income level, RUR/month	Poverty incidence. %	Share of those receiving assistance, %
The Russian Federation	930	21	31	970	24	32
Komi Republic	1260	17	40	1156	21	52
Voronezh Oblast	603	24	23	632	25	29
Volgograd Oblast	672	24	20	639	32	27

According to the data obtained from a random survey of household budgets thirty four per cent of the households across the Russian Federation included recipients of certain social subsidies or privileges in 1998.

At the same time, in Komi Republic that share surpassed 50 per cent and in Voronezh and Volgograd Oblasts amounted to 45 per cent. Moreover, nominal money incomes in Komi Republic were higher and the poverty line correspondingly lower than in the other two regions. In other words, the existing practice is directly determined by the financial capacity of the region. The better the budgetary situation in the region and financial situation of enterprises and organizations the more they can support their employees and dependent family members. That in its turn does not liquidate income inequality of the households and the population but, on the contrary, increases it.

On the whole, distribution of various subsidies and privileges is demonstrated in table 3.

8.

TABLE 3.8

The share of households whose members receive social subsidies in per cent

	Households							
	With benefit recipients	Food	Transportation	Rent	Vacations	Medical assistance	Kindergarten	Gifts from enterprises
1997								
RF								
Komi Republic	40	8	18	23	1	3	2	6
Voronezh Oblast	23	2	18	4	1	1	1	2
Volgograd Oblast	20	1	13	9	1	1	2	2
1998								
RF								
Komi Republic	52	9	24	29	1	10	2	6
Voronezh Oblast	19	1	14	4	1	1	1	1
Volgograd Oblast	27	1	19	15	1	1	2	1

Subsidies on transportation are the most widespread. Each fifth or sixth household reported that in 1997-1998 its transportation costs had been subsidized. In Komi Republic rent costs are also highly subsidized. The same practice exists but to lesser extent in Volgograd Oblast. Subsidies to cover other costs are notably rare. With high financial capacity of enterprise of Komi Republic there grows the number of subsidies recipients on food and medical care. Approximately each tenth household has reported on that. Voronezh Oblast is

characteristic of the lowest number of recipients of all types of assistance.

Together with the assistance coverage the sizes of subsidies received characterize the policy in that sphere. The following table demonstrates the sizes of subsidies and privileges across all types of social aid.

Vacation subsidies have been reported on very few occasions however, the benefits received for these purposes were more substantial. Families with kids going to kindergartens have received sizeable subsidies. Reported subsidies on food, transportation and housing are very low.

TABLE 3.9

Subsidies and benefits, amount paid per recipient, rubles/month

	Food	Transp ortation	Rent	Vacati ons	Medical care	Kindergart ens	Gifts from enterpri ses
1997							
RF	75	44	34	387	69	157	40
Komi Republic	69	121	61	908	49	41	31
Voronezh Oblast	60	15	37	2061	20	116	14
Volgograd Oblast	71	22	25	258	29	259	51
1998							
RF	77	42	37	431	67	209	35
Komi Republic	108	105	64	1254	28	75	44
Voronezh Oblast	74	17	38	338	31	157	17
Volgograd Oblast	75	22	28	236	55	220	16

Together with interregional differentiation in rendering benefits exceptionally high are their differences between the groups falling into different material well-being categories.

The following table demonstrates data on the share of households whose members received subsidies and privileges, in per cent to all surveyed households in the third quarter of the corresponding year.

Table 3.10

Data on households recipients of benefits

	Komi Republic			Voronezh Oblast			Volgograd Oblast		
	On food	On trans portation	On rent	On food	On transp ortation	On rent	On food	On transpo rtation	On rent
1997									
All households	3.1	9.9	8.5	0.0	7.8	1.7	0.2	7.8	3.4
Of which on decile groups									
First	5.6	9.1	6.1	0.0	4.6	2.9	0.0	5.3	3.4
Second	0.6	2.9	5.5	0.0	5.9	2.7	0.0	2.5	1.9
Ninth	5.8	14.0	15.9	0.0	19.1	2.0	0.0	2.2	1.6
Tenth	8.6	12.1	10.6	0.0	5.7	2.0	0.0	9.5	3.0
With disposable income below the subsistence minimum	3.3	5.4	5.5	0.0	3.9	2.5	0.0	3.4	2.1
1998									
All households	3.1	9.8	9.5	0.0	7.6	1.8	0.4	10.9	5.0

Of which									
On decile									
groups									
First	1.7	2.3	8.7	0.0	3.2	0.3	0.0	4.9	3.2
Second	1.2	4.8	6.8	0.0	4.3	0.5	0.0	5.9	2.1
Ninth	0.7	11.8	5.4	0.0	14.2	1.8	0.0	18.5	4.1
Tenth	10.5	17.5	10.1	0.0	5.9	0.7	0.0	13.9	9.2
With	1.4	3.9	9.5	0.0	3.3	0.6	0.1	4.9	2.6
disposable									
income									
below the									
subsistence									
minimum									
1999									
All	1.9	11.4	12.1	0.0	5.4	2.3	0.3	9.6	11.7
households									
Of which									
On decile									
groups									
First	2.4	7.4	11.8	0.0	3.4	0.5	0.4	1.5	3.4
Second	1.6	9.6	17.7	0.0	6.6	1.3	0.7	6.1	9.8
Ninth	0.4	16.0	4.4	0.0	7.7	5.6	0.0	14.3	12.7
Tenth	4.6	7.3	8.6	0.0	12.1	5.6	0.0	15.0	27.2
With	2.0	7.9	14.4	0.0	3.7	0.9	0.4	6.5	7.2
disposable									
income									
below the									
subsistence									
minimum									

The share of households whose members received subsidies and privileges rather sharply differs across regions and categories. At the same time, in 1998 there was a fall in the number of recipients among vulnerable households. In 1999 the situation returned to the one

reported in 1997. Due to the fact that the surveys of households budgets were implemented on comparable samples with high degree of probability one can speak about an absolute reduction in the number of the social programs participants in 1998. Meanwhile, it should be noted that in Komi Republic the share of aid recipients increased among households belonging to tenth decile in 1998 against 1997 and in 1999 that proportion decreased. In Voronezh Oblast respondents did not report receipt of food subsidies and in Volgograd Oblast there were insignificant number of recipients of food subsidies. In Komi Republic that type of aid is widespread among the poorest groups and the most well-to-do ones, and that can be explained by the measures taken by the social protection agency (first decile) and by the employers (tenth decile).

The most widespread type of benefits constitute transportation subsidies. Data from all the pilot regions testify to that. The largest number of recipients of that type of aid is among the most well-to-do households (ninth and tenth deciles) due to the highest number of employees there.

The number of recipients of housing subsidies and privileges are less, however, they are reported in all the pilot regions. Since considerable part of that type of subsidy is paid by employers the distribution of recipients across the income groups depends on the number of employees among the household members.

Among the recipients of vacations subsidies are mostly well-to-do households. Subsidies on health care tend to be rendered to groups of population with higher income. Recipients of subsidies on kids going to kindergartens are evenly distributed among categories of population irrespective of their well-being.

The size of subsidies and privileges is bigger for the high income groups of population, first of all it relates to subsidy on vacations.

More evidently unevenness of distribution of privileges is demonstrated in analysis of distribution of privileges received across income groups. For example, in Komi Republic in the third quarter of 1998 among all food subsidy recipients two highest deciles got 36 per cent and two lowest deciles got only 10 per cent, in the third quarter of 1999—correspondingly 26 per cent and 22 per cent; on vacations—correspondingly 57 per cent and 0 per cent, 42 per cent and 0 per cent.

As follows from the analyses the existing practice of rendering subsidies and privileges is far from perfect and does not correspond to the criteria of social justice. Moreover, their influence of the material situation of the poorest households is insignificant.

4. The Post-Welfare State in Canada: Income-Testing and Inclusion

Introduction

It has become accepted wisdom amongst both advocates and opponents of globalization that nation states are struggling to cope with powerful economic forces which challenge their power and do not respect political boundaries. Governments everywhere are trying to rethink their roles and reinvent their ways of operating.

Citizens are questioning what they get for their taxes. This is especially true in countries like Canada which have experienced the twin pains of substantial tax increases and cuts in spending — notably on social programs — in the effort to eliminate government deficits and reduce the growing debt burden.

There is no question that advanced industrialized nations face common challenges arising from profound economic, social and political changes. But the notion that globalization necessarily creates convergence in social policy as well as in economies is wrong. Differences in history, culture and political systems, to name a few of the more obvious factors, continue to shape both ends and means in social policy.

The Canadian social security system¹ shares some similarities with other countries, especially Anglo-American nations such as the UK and the US. But we do have a unique system of social programs with its own particular mix of objectives and instruments. These programs reflect such distinctly Canadian characteristics as our decentralized federal system of government, our two founding languages (French and English) and our long tradition of a free market economy tempered by collective provision through limited government intervention. In Canada, social programs seek to civilize, not replace, capitalism.

This paper is intended to offer our Russian colleagues insight into how Canada is transforming its social security system. The paper focusses upon the growing use of the methodology of income-tested targeting to replace both universal income benefits and needs-tested social assistance.

CORE CONCEPTS IN CANADIAN SOCIAL POLICY

Before examining major changes in Canada's social security system in its transition to a post-welfare state, we first explore some core concepts that underlie social policy in the industrialized world and their application in Canada.

THE ‘WHY’ OF INCOME SECURITY

All nations struggle with the concept of economic security and how to ensure that citizens have sufficient income to meet their basic and special needs. There are several key policy issues which countries must face in determining how best to meet these needs.

The first challenge is to identify the causes or contingencies against which financial assistance is deemed to be required. Most nations have some form of public income support to provide financial security for seniors and retired persons □ generally defined for the purposes of income security programs as age 65 and over. The United States, however, counts 67 as the retirement age for its Social Security system. Canada makes provision for reduced earnings-related public pensions as early as age 60, though the income security programs that form the foundation of the retirement income system become available at age 65.

RETIREMENT INCOME BENEFITS (DESCRIBED BELOW) CAN BE DELIVERED AND PAID FOR IN A NUMBER OF WAYS. INDEED, CANADA’S RETIREMENT INCOME SYSTEM CONSISTS OF SEVERAL TIERS SUPPORTED THROUGH A COMBINATION OF TAX REVENUES, EMPLOYER AND EMPLOYEE CONTRIBUTIONS, AND PRIVATE CONTRIBUTIONS BY INDIVIDUALS.

There is typically not much debate in industrialized countries as to whether nations should provide income protection for seniors. It is generally agreed that citizens considered no longer able to work are entitled to some form of income support.

But while there may be general agreement on the need for such provision, there is no end of debate as to how best to provide these benefits. Indeed, Canada has seen heated discussions over recent proposed changes to its system of public pensions. And the debate is only expected to get more intense over the years as cost pressures mount in response to growing demands from an aging population.

The second area around which there tends to be general agreement in industrialized countries has to do with income security protection in the event of disability. It is not highly contentious to have in place some form of income security program for persons

who were born with or acquired a disabling condition that prevents them from earning full or partial wages.

But like pensions, the issue is not clear-cut. Controversy in the disability area arises around two major issues. First, if there is some capacity for paid work, then what are reasonable labour market expectations? How much labour market attachment should workers have before they are considered employable?

The second issue arises around the best way to provide such financial assistance. Should it be through some type of income guarantee? Should it be through a form of public or private insurance toward which the individual has contributed to a certain extent? Should it be through a combination of insurance and public guarantee that together comprise a reasonable income?

Nations first must come to grips with the question of what they are trying to achieve through the provision of disability benefits. Do they want to compensate for an accident or injury? Do they seek to offset the costs of the disabling condition? Do they wish to provide income security in recognition of current and/or future incapacity to work?

It appears that Canada has said 'yes' to all these questions. The disability 'system,' such as it is, is composed of a patchwork of programs, each of which is financed and delivered in a different way.

Income support to replace earnings lost due to unemployment is another common element in modern income security systems. But here too, controversy reigns and many countries have changed their programs to lower costs, reduce dependency and encourage return to the labour force. What proportion of earnings should be replaced? For how long? What about people who become chronic recipients of unemployment assistance? How long should individuals be required to work before they become eligible for unemployment benefits? How should these programs be financed?

Another issue with which industrialized nations grapple is the extent to which they should ensure the financial security of certain households because it is good not only for

those households but also for the well-being of the nation. This type of payment is made not so much for the purposes of compensation for a predictable eventuality, such as retirement, or an unpredicted risk, such as disability. Rather, it is seen more as an investment in the citizens of the country.

Most of the industrialized world makes payments to households with children for this very reason – as an investment in the next generation whose well-being is essential to the economic prosperity and social health of the nation. Even here, not surprisingly, debates arise around delivery.

Should payments be made to all families with children or targeted to lower-income groups? Should the amount of benefits vary according to the age or rank of children, and the income of the family? Should benefits be paid only as a supplement to families' earnings from paid work? How much is appropriate and on what basis should benefit levels be determined?

Canada is currently engaged in this debate and is still struggling with these questions as it seeks to develop and expand its system of child benefits. The issues around which major policy decisions must be made are discussed in the description of child benefits that follows.

As in the case of disability, the answers to these questions lie in the policy objectives that a nation seeks to achieve. If it wants to provide some compensation to all families in respect of the costs they incur on behalf of raising children, it likely will pay benefits to all households with children, regardless of family income.

If, by contrast, the nation wishes to tackle the problem of child poverty, then it likely will provide an additional or targeted benefit that delivers financial aid to households whose income falls below a certain level. Additionally, if a nation seeks to encourage paid employment, then it may choose to reward participation in the paid labour market through supplementation of low earnings.

Finally, most industrialized nations have in place some form of 'last resort'

program of income support. This type of program provides limited income benefits when all else fails. Households have insufficient or no work earnings and have no private resources to meet their basic needs.

In Canada, the last resort program is known as social assistance, and is commonly referred to as ‘welfare.’ It is administered by 13 different governments – each province and territory operates its own unique welfare system with distinct rules and benefits.

2

Welfare is easily the most controversial of all income security programs – it is the least popular from the perspective of public support. Being on welfare is often viewed as a personal failure. It certainly is a guarantee of poverty; all jurisdictions pay benefits that fall below generally accepted measures of low income.

THE ‘HOW’ OF INCOME SECURITY

A. ELIGIBILITY CRITERIA

Once nations have identified the policy objectives they seek to achieve, it is somewhat easier to determine how to deliver these benefits. We say ‘somewhat’ easier because decisions as to the provision of income security benefits are never simple or straightforward.

The following factors must be considered. First, will the provision of benefits create a disincentive to work? Does the possibility that the household is entitled to benefits affect in any way its participation in the paid labour force?

For example, one of Canada’s major income security programs, Unemployment Insurance, has been subject to criticism over the years. The program (described below) is intended to provide temporary income support in the event of unemployment.

But Unemployment Insurance has been criticized on the grounds that it fosters dependency and lengthens the duration of unemployment. It has been accused of being a poorly designed income support and regional equalization program.

Unemployment Insurance also has been blamed for undermining the work ethic and feelings of self-worth that come from work, thereby eroding individual and community initiative. The program is deemed to discourage self-employment and small-scale enterprise. Some say it compounds the unemployment problem of certain regions with a high degree of dependence on the program, such as the Atlantic region, due to a weak economic base dependent largely on the fishery.

Programs that comprise the disability income system are subject to the same scrutiny. If individuals are unable to work because of a disabling condition, they typically are considered to be ‘deserving poor.’ Questions rarely are asked as to whether they ‘deserve’ to receive income assistance. Rather, the debate arises over how much to pay and who pays.

But when individuals have some form of disabling condition yet are still able to do some paid work, the policy challenges become immeasurably more complex. A major challenge lies in balancing the provision of income security with support for workforce participation. Unless persons with disabilities can be sure that they can return to an income security program if their employment arrangement falters, they are unlikely to seek paid work.

But the greatest controversies typically arise around social assistance – the program of last resort. Welfare recipients generally are seen as the ‘undeserving poor’ because they have had to turn to this program to meet their basic needs. The receipt of welfare usually is interpreted to mean that they have some personal weakness which prevents them from finding or keeping a job.

The fact that social assistance is viewed in this light is a serious problem. Policy responses often take the form of punitive approaches that seek to move recipients off the system as quickly as possible and get them back to work. Governments may see their role as taking steps to ‘free’ welfare recipients from their ‘dependency.’ Taxpayers want to

prevent ‘undeserving’ welfare recipients from getting money ‘for nothing in return.’

These negative attitudes and stereotypes make it difficult to design intelligent and humane income security policy. But they also highlight the importance of seeking policy responses that are both acceptable from a public (taxpayer) point of view and stable from the perspective of the recipient.

In short, in designing income security programs or reforming any dimensions of a given system, it is essential to be clear about the policy objectives being sought. At the same time, it is important to recognize that certain program designs will be more robust in the long-term □ with respect to public support, political stability and adequate financing.

Another key aspect of income security design has to do with whether a given program is developed as a social insurance or as a tax-supported benefit. Social insurances and tax-supported benefits are discussed below.

b. Income program design

i. Social insurances

Social insurances provide income protection by pooling contributions against designated risks such as unemployment, retirement and accidents on the job. Benefits are paid if contributors or eligible workers fall victim to the risk from which protection has been ‘purchased.’

There are three major social insurance programs in Canada: Employment Insurance (formerly known as Unemployment Insurance); the Canada Pension Plan and its twin operated by the province of Quebec, the Quebec Pension Plan; and workers’ compensation. The federal government is responsible for the administration of Employment Insurance and the Canada Pension Plan. Provincial governments run their own workers’ compensation systems.

In theory, a social insurance program is expected to adhere to insurance principles. Individual contributors seek to protect themselves from the insecurities associated with a given risk.

In the case of Employment Insurance, workers are protecting themselves from the insecurity associated with unemployment. The Canada Pension Plan replaces earnings in the event of retirement or severe disability. Workers' compensation provides protection against the financial insecurities arising from injury on the job.

These programs are insurance-like not only in intent □ i.e., providing protection against risk. They are also insurance-like in design. Prospective beneficiaries make financial contributions to the program in order to build up a pool of funds. The pool then is used to make payments if the risk against which protection has been 'purchased' happens to arise.

Employment Insurance premiums are deducted directly from employee wages. Employers also pay a set percentage of their payroll in respect of Employment Insurance premiums. Self-employed workers are not eligible for benefits.

Under the Canada Pension Plan, workers contribute a percentage of their wages (up to about average earnings) as contributions (i.e., premiums). Employers match the employee contribution. The self-employed make twice the contribution as both employee and employer.

Workers' compensation systems that fall under the auspices of provincial governments function somewhat differently. Only employers are expected to contribute to this form of social insurance. It is basically a collective provision that protects employers from potential financial ruin in the event that an employee experiences a work-related accident and decides to launch a lawsuit for damages.

Because workers and employers make direct contributions to social insurance programs, there is an implicit understanding regarding eligibility for financial assistance.

Workers who have made the necessary payments for the required periods of time expect to be eligible for benefits.

In practice, however, the eligibility criteria are not as simple as the contribution in/payment out process would imply. In addition to the required payments, other sets of rules determine eligibility for benefits.

In the case of Employment Insurance, for example, workers must have made contributions to the plan for a minimum number of hours. They are entitled to receive benefits for a set number of weeks. The duration of benefits varies by the rate of unemployment in the area in which the worker claims the benefits.

II. TAX-SUPPORTED INCOME PROGRAMS

Three types of income benefits are supported through general government revenues. These come from various forms of taxation □ e.g., income tax, sales tax, property tax, and customs and excise tax. Tax-supported programs include universal, income-tested and needs-tested programs.

Universal programs

Universal income security programs provide benefits to all households that meet certain criteria □ such as old age or presence of children □ regardless of level or source of household income. Eligibility is not affected by the receipt of assistance from other income programs.

The Old Age Security program, for example, used to deliver benefits to all citizens aged 65 and over. Beneficiaries qualified on the basis of their age and Canadian citizenship. However, changes starting in 1989 moved the program from universal to income-

tested, though benefits are reduced for or denied to only very well-off seniors.

Canada also used to have in place a universal system of Family Allowances. All families with children qualified for the monthly payment, whatever their income.

Universal programs are costly because they are designed to serve a large pool of the population. However, universal programs do not have to pay everyone the same amount of benefit.

In Canada, benefits from Old Age Security are subject to both federal and provincial income tax, as were (the now dismantled) Family Allowances. The programs sent the same benefits to all seniors and the same benefits to all families with children.

But the real value of the benefits (after paying income tax on them) was progressive. It decreased with seniors' and families' marginal tax rate. The poor got the full amount while the well-off ended up with only about half the benefit.

Governments also can lower the costs of various income programs by adding to the list of eligibility criteria an element of 'need' in the form of income-tested and needs-tested benefits.

Finally, two of Canada's social insurance programs □ Employment Insurance and the Canada/Quebec Pension Plan □ are universal in the sense that level of income does not affect eligibility. Both are progressive because benefits are taxed.

Income-tested programs

All of Canada's tax-supported income security programs, including the new Canada Child Tax Benefit, the trio of federal benefits for seniors (Old Age Security, the Guaranteed Income Supplement and the Spouse's Allowance) and the refundable Goods and Services Tax credit, are delivered on an income-tested basis.

Income-testing narrows the range of recipients that potentially qualify for benefits. It also determines how much they receive.

Households whose net incomes fall below a level or 'threshold' receive the maximum benefit. Above the threshold, benefits are reduced as income increases. The 'reduction rate' is the amount by which benefits are reduced as income rises. Benefits end entirely when net incomes exceed a designated amount, known as the 'cut-off point.'

Needs-tested programs

Needs-tested benefits narrow the range of eligibility even further. Needs tests are used to determine eligibility for a given benefit and also may be used to determine level of payment. Social assistance is the major needs-tested program in the country.

Needs tests are employed to determine the presence and extent of household need. They do this first by determining whether households qualify on the basis of their liquid and fixed assets. 'Liquid assets' include cash and other cash-convertible securities, such as bonds. These liquid assets must fall below designated levels.

An assessment also is made of the household's 'fixed assets' such as house, car or equipment and tools. These assets must fall below certain levels in order for households to qualify for benefits.

If both liquid and fixed assets are in the permissible range, the next step in the needs-tested process is to determine the total income available to the household. Possible sources include earnings, income from self-employment, interest and dividends from investments, rental income and private sources.

Total income is then assessed against household need. The latter includes both basic requirements and special needs.

Basic requirements consist of essentials such as food, clothing, housing and utilities. Family composition is also taken into account (i.e., benefits vary by family size and by number and ages of children). Special needs refer to health- or disability-related requirements such as special eyeglasses, hearing aids, wheelchairs, medications and orthotic appliances.

C. ASSESSMENT OF PROGRAM DESIGN

The advantages of social insurances include the fact that they are intended to provide efficient, effective and fiscally responsible income replacement for the workforce. In theory, there is a sense of fairness and reciprocity. Workers who have made the required payments receive their entitlement if and when the given risk against which insurance was ‘purchased’ happens to arise. The use of collective provision offers economies of scale and efficiency over private, for-profit insurance.

Recent policy changes that substantially have curtailed entitlement to Employment Insurance, the Canada Pension Plan disability benefit and workers’ compensation have been criticized as negative changes. They are negative not just from the perspective of potential beneficiaries who receive lower entitlements or nothing at all. The policy changes are deemed negative in that they decouple contribution from entitlement. They basically destabilize the ‘social contract’ that allows for continued public support of social insurances.

Public confidence in Employment Insurance, for example, has been shaken by the fact that just over one-third of unemployed workers in Canada currently receive benefits under the program. There is a general feeling that workers are not getting what they are paying for. They pay into the program when they are working, but most get nothing in return when they become unemployed.

Income-tested programs have their own unique advantages. They are seen to

be objective, administratively simple and nonstigmatizing. Eligibility can be established easily through the income tax form. There are no decisions made on the basis of a detailed assessment of personal circumstances. There is little or no contact between recipients and government officials. Once eligibility is established, payments can be triggered automatically by computer. Benefits can be delivered on a consistent and equitable basis throughout the country.

The major disadvantage of income-tested programs is that they do not take into account any special needs or circumstances that may give rise to additional expenses. Households with high incomes may receive no benefit (e.g., the Canada Child Tax Benefit) even though they may incur high costs related to the special health or educational needs of a given child. Canada's income-tested programs adjust only after the fact □ as long as 18 months □ to a change in family income.

This very weakness of income-tested programs is the key strength of needs-tested benefits. The latter take into account not only income levels but also special circumstances that may give rise to exceptional costs.

The primary disadvantage is that needs-tested programs are considered 'intrusive.' They require extensive information to determine eligibility for income benefits. They employ administrative discretion in which personal judgment is applied to assess the circumstances of households and their extent of need. Applicants in one region or jurisdiction may qualify for benefits while those in similar circumstances in a different province may not.

Income Security Reform in Canada

The breadth and pace of change to social programs in Canada are quite out of keeping with the country's traditionally modest national character. Its social security system has been undergoing nothing less than a transformation that began in the late 1970s, gathered steam in the 1980s, accelerated in the 1990s and continues in this first decade of the new century.

This paper emphasizes the development of the technology of income-tested targeting and its displacement of traditional universal and needs-tested techniques. But this innovation must be understood in the broader context of major changes in other social programs, including social insurances as well as social, employment and health services.

This paper first describes the 'universalist' model that inspired the development of the post-World War Two system of social programs in Canada. We contrast the universalist model to the 'residualist' model that predated it but has never completely disappeared even to this day.

The reality of Canadian social security provision never fully realized the universalist vision. Yet this model continues to dominate the thinking and rhetoric of trade unions, social advocacy groups, the left of the ruling Liberal Party, Canada's New Democratic Party and academics who teach social work and social policy.

We refer to the new model that is emerging in Canada and countries such as the UK as the 'post-welfare state.' It continues to pursue the same fundamental objectives of social policy set out in the universalist model more than half a century ago. But the post-welfare model seeks more effective mechanisms better suited to the changing economic, social and political realities of the new century.

The emerging post-welfare model recognizes that governments cannot do it all

on their own. The model emphasizes the need to help nongovernmental actors □ e.g., employers, unions, communities and social groups □ play a more active role in the design and delivery of social programs.

The post-welfare model draws upon the residualist philosophy of voluntary action □ or ‘civil society.’ Thus the new social policy in Canada is about better achieving the goal of ‘civilizing capitalism.’ And the purpose of social policy remains as highly relevant in the post-industrial era as in the industrial age that both demanded and enabled the rise of collective social provision.

The Canadian version of the post-welfare state is very much an emerging work in progress. Our system still contains elements of both the universalist and residualist approaches. However, we can identify several key concepts of the post-welfare approach as it is being developed in Canada:

- broad based and progressive income-testing replaces universality in income security policy (but *not* services)
- attention to unintended work disincentive effects (both real and imagined) of social programs □ e.g., marginal tax rate issue regarding income-tested social benefits
- attention to interactions and links between social programs and the tax system
- desire to balance ‘active’ and ‘passive’ social programs; between reactive and preventive approaches
- concern to harmonize federal and provincial social programs, reduce duplication and overlap, work together (as explained below, by means of partnership federalism through the Social Union process)
- concern about the financial sustainability of social programs
- recognition that there are several players (public, private sector and voluntary) in social policy, and the need to better utilize and combine their resources through partnership
- increasing recognition that communities have a major role to play in social policy design as well as delivery
- emphasis on the economic functions of social policy, especially in education and training to ensure a competitive workforce, and in supplying the social infrastructure

(e.g., universal health care; education) that supports economic growth and attracts a talented workforce

- emphasis on the need to measure the outcomes of social policy and on social reporting made available to the public and social advocacy groups.

The emerging post-welfare state in Canada is by no means free of controversy. Despite the renewed emphasis on the role of civil society, nongovernmental social groups generally have opposed the new approach and its thrust to replace the old universal and needs-tested income assistance with the new methodology of income-tested systems.

The Universalist Model of Social Policy

Canada's social safety net was created largely in the second half of the 20th century. But it was inspired by the work of social reformers in the 1920s, 1930s and 1940s. They provided the philosophical and programmatic foundation for the 'universalist' model of social policy. That model strongly influenced the politicians and civil servants who created most of Canada's social programs in the 1950s, 1960s and early 1970s. It still inspires and shapes the thinking of social groups in particular and the 'left' generally in Canada.

The universalist model of social security developed out of opposition to the 'residual' philosophy of social policy that predominated until the Great Depression of the 1930s. The residual approach is based on a *laissez-faire* view of society that sees the private market as dominant. The approach believes that government should play a limited role in altering the production and distribution of income, goods and services. People should obtain their income from work in the paid labour force or from capital.

If, for whatever reason, that normal source of income disappears (e.g., because workers lose their job or retire) or is inadequate (e.g., because of low wages), then they should look for another job or rely on their savings. Failing these options, they must appeal to family, friends or charity. At most, government should serve only as a last resort for temporary and emergency assistance, and only for the poor and destitute.

The universalist welfare state is founded on the conviction that government has a legitimate and major role to play in altering the market economy's unequal distribution of income, wealth and opportunity. Industrialization brings increased prosperity and a better standard of living for most. But the private market cannot on its own eliminate risks to economic security from unemployment, low wages, illness, disability and old age.

Nor can the traditional private institutions of the family, church or charities adequately support families and individuals in need. The risks and insecurities of a modern economy and society cannot be borne solely by individuals on their own, their families or

private institutions. The state has a responsibility to protect and compensate citizens from income loss or inadequacy, and to ensure universal access to essential education and health care. These two items have been judged too important to leave to the private market.

The state discharges these responsibilities mainly through social programs □ income supports, social services, employment programs and health care. However, economic policy and the educational system also play an essential preventive role by reducing unemployment, encouraging economic growth and investing in human capital. Social programs should be the first line of defence against economic insecurity, not the last resort.

The universalist model regards social benefits as rights to be granted to citizens according to objective criteria of need. These benefits are not privileges to be handed out at the discretion of welfare administrators after an exhaustive investigation of applicants' needs. The model envisages a much broader set of social programs than does the residualist approach, pursuing several objectives and directed to large segments of the population, not only to the poor.

The prevention and alleviation of poverty remain fundamental goals of universalist social policy. But social programs are also intended to help maintain living standards for non-poor citizens experiencing income interruptions. They help compensate for the extra expenses incurred by families raising children and by persons with disabilities. Social and employment services ensure that citizens can participate more effectively in modern society and cope with economic disruptions and changes. Social programs provide universal access to essential health care.

As its name suggests, the universalist model is based on a foundation of universal social programs such as public pensions, child benefits and health care. These should be available to Canadians in all income groups. Eligibility should not be affected by the receipt of assistance from other income programs. By delivering benefits to all, universal social programs are said to foster widespread public support for the social security system □ including programs that are not universal but rather are targeted to poor and modest-income Canadians.

Strictly speaking, universality refers to social programs that are available to all recipients regardless of income. However, universal income programs do not have to provide the same level of benefit to all. In Canada, universal income payments (e.g., old age pensions, Family Allowances and contributory public pensions) have been counted as taxable income. This means that the amount of benefit decreases as taxable income increases.

Universal programs can employ qualifying criteria than other income, such as age in the case of public pensions and dependent children in the case of child benefits. Universal programs can be funded either out of general revenues or through payroll taxes levied on employees and/or employers. (General revenues refer to the money governments collect through income, consumption and property taxes, and other levies.)

Though universal social programs naturally loom large in the universalist model of social policy, there also is an important role for programs that do take applicants' level of financial need into account. Social programs that are not universal □ sometimes called 'targeted' programs □ are intended to serve people in specified income ranges. Usually, the programs target low-income or low- and middle-income groups. But there are some benefits (e.g., income tax deductions for contributions to occupational pension plans and individual retirement savings plans) that exclude the poor and deliver their largest payment to upper-income taxpayers.

There are two very different types of targeted social programs: 'Needs-tested' social programs, notably social assistance, impose a detailed and intrusive test of applicants' resources including earnings, assets and needs. 'Income-tested' programs, such as the Canada Child Tax Benefit, require only a simple and non-intrusive test of applicants' income based on their annual income tax return. We will explore this crucial distinction later in the section on social assistance and child benefits.

Growth of the Universalist Welfare State

Building the Welfare State

The universalist model gained ground in the 1930s and 1940s. But it took two cataclysmic events — the Great Depression of the 1930s and the Second World War — to move Canadian social policy from theory to reality.

The first major income security program was introduced in 1914. The province of Ontario brought in a workers' compensation system to deal with problems faced by employees, employers and the legal system in cases of on-the-job injury. This program was established as a social insurance paid for by employers. They could claim compensation in the event that the risk — in this case work-related accident or injury — actually occurred. Other provinces soon followed suit.

The federal government entered the social policy field in 1918 when it introduced the children's tax exemption one year after the wartime creation of the income tax system. (This exemption subsequently was converted in 1988 to a nonrefundable child tax credit.) The original tax exemption allowed modest tax relief in recognition of the additional costs of raising children. Because this tax break was targeted at parents who owed income taxes, most families did not qualify for this assistance. Most families at that time had low or modest incomes and so did not owe income taxes.

The provision of benefits for the elderly was another early and vital building block of Canada's income security system. Various provinces had been paying benefits to poor seniors over age 65. In order to increase these payments and to reduce disparities in rates across the country, the federal government began to share the cost of these pensions under the Old Age Assistance Act of 1927.

In addition to workers' compensation and elderly benefits, some local governments throughout the country provided financial aid for emergency purposes. This was the earliest form of public social assistance provision in that it made available financial aid as a last resort in the absence of other resources. The amount of assistance varied widely because local governments were responsible for determining both the eligibility criteria and level of benefits.

It was only when the country faced devastating economic and social circumstances in the 1930s that a national system of protections began to evolve. Close to one-quarter of Canada's working-age population was unemployed. Local governments were going bankrupt because they could not meet the unprecedented demand for financial aid. Provincial governments were equally hard pressed.

One of the tough lessons of the Depression was that existing income security provisions — rooted as they were in the residualist model — were inadequate to meet the challenges posed by high unemployment. It generally was recognized that a senior level of government had to become involved in order to ensure that benefits were provided at a reasonably adequate level and in an equitable fashion. Only the federal government had the fiscal capacity to ensure basic income security for such a large proportion of the population across the country.

The federal government took steps to tackle the widespread effects of unemployment by introducing the Employment and Social Insurance Act of 1935. Despite the need for a strong national program, provinces challenged the authority of the federal government to introduce this piece of legislation. The challenge resulted in an *ultra vires* (outside the authority) judgment by the Supreme Court.

Ottawa³ persisted in this area, knowing full well it could not allow a repeat of the economic devastation the country had endured during the Depression. A Constitutional amendment adopted in 1940 permitted the federal government to provide benefits for persons temporarily out of work under the newly introduced Unemployment Insurance Act. This program has evolved over the years, expanding until the early 1970s and since contracting. (Its current design is described below under Employment Insurance.)

The onset of World War Two and its mobilization of the nation's resources in the war effort brought another important reason for the federal government to become involved in the income security system: to stimulate the economy and thus prevent a recession when wartime production ceased. Households had to have sufficient purchasing power in order to help rebuild the postwar economy.

In 1945, the federal government introduced Family Allowances which paid an equal monthly benefit to all families with children. Its purpose was to recognize the extra costs related to child rearing and to bolster the postwar economy by regularly putting cash into the hands of consumers □ specifically mothers.

Ottawa added the income-tested refundable child tax credit in 1978 to provide additional financial assistance to low- and middle-income families with children. In 1993, the income-tested Child Tax Benefit replaced Family Allowances, the nonrefundable child tax credit and the refundable child tax credit. In 1997, the Canada Child Tax Benefit simplified and increased payments under the federal-provincial National Child Benefit reform, described below.

In the area of pensions, it was noted earlier that various provinces had paid benefits to persons over the age of 65. In order to raise these payments and reduce the disparity in rates across the country, the federal government began to share their cost under the Old Age Assistance Act of 1927.

Old Age Assistance was a means-tested program that paid benefits according to the income and assets of recipients. ‘Means-tested’ refers to the fact that applicants had to qualify not only on the basis of their age but also their level of income and available liquid assets. (‘Liquid assets’ refer to cash or cash-convertible assets, such as bonds. The value of fixed assets, such as a house, is not included.)

The program was replaced in 1952 by Old Age Security □ a federally financed and operated program that paid monthly benefits to all Canadians age 65 and over, regardless of income or work history. The expanded role of the federal government in this area was not possible without a Constitutional amendment. It allowed Ottawa to use its spending power to pay for pensions □ formerly seen as the primary domain of provincial governments.

A Constitutional amendment was not required for the earlier cost-sharing arrangement under the Old Age Assistance Act of 1927 because the provinces still maintained full control of their respective programs. Two income-tested programs □ the Guaranteed

Income Supplement for poor seniors and the Spouse's Allowance for poor near-aged spouses and widowed persons □ were built on top of universal Old Age Security. About half the provinces added their own income-tested supplementary programs for their aged poor.

In 1966, the federal government created the earnings-related Canada Pension Plan (Quebec built a parallel Quebec Pension Plan). The Canada Pension Plan is financed and administered by Ottawa. But it is a joint federal-provincial effort whose change requires agreement of three-quarters of the provinces with three-quarters of the population. Together, the Canada and Quebec Pension Plan cover virtually the entire workforce including the self-employed, and provide a package of retirement, survivor, disability, children's and death benefits.

That same year, the federal government stepped into another large area of social policy □ provincial welfare and social services □ through the introduction of the Canada Assistance Plan (CAP). CAP was intended to achieve several objectives. It helped consolidate the existing patchwork of provincial programs that provided benefits to various categories of recipients: single-parent mothers, persons with disabilities and blind persons.

The Canada Assistance Plan shifted the provision of financial assistance from *cause* of need to *presence* of need, regardless of cause. The injection of federal funds through CAP helped build an infrastructure of welfare and social services throughout the country. Unlike Unemployment Insurance, Old Age Security and child benefits, which Ottawa operated directly, the Canada Assistance Plan allowed the federal government to share the cost of welfare and social services designed and administered by the provinces.

Reality Versus Theory

The rise of the universalist theory of the welfare state and the remarkable growth of social programming did not, however, produce a fully-fledged universalist welfare state in Canada. The history of our social policy does not indicate a steady shift from the residual to the universalist approach.

Even before the spending cuts of recent years, Canada's social security system fell a good distance short of a fully realized universalist model. The system remains instead an uneasy compromise of elements from both the residual and universalist concepts whose influence has ebbed and flowed over the years. The residual approach's grudging attitude to social spending naturally gains strength during tough economic times, when social programs' alleged high cost makes them vulnerable to attack.

Canada never pursued, let alone realized, the goal of full employment that plays a pivotal role in the universalist model. This limited employment objective was increasingly diluted over time. 'Acceptable' levels of unemployment rose as governments after 1975 saw as their priority fighting inflation over unemployment and pursued restrictive fiscal and, especially, monetary policies.

Granted, much of the universalist vision of social policy *was* put in place between the 1940s and 1970s. Canada's network of social programs grew enormously in content, coverage and cost. In addition to the numerous federal and provincial income programs mentioned above, universal health care ('medicare') was built between the late 1950s and early 1970s, under the jurisdiction of the provinces but with federal financial assistance tied to national conditions.

It was during that period that both the federal and provincial levels of government became involved in social housing. Ottawa cost-shared provincial social services and provided funds to the provinces for health and postsecondary education, as well as establishing the Canada Student Loans Program for postsecondary students. The federal government created the Vocational Rehabilitation of Disabled Persons Act. Both federal and provincial programs for training, counselling, direct job creation and other employment services were developed. The income tax system became a favourite vehicle for dispensing a variety of social and economic benefits, technically known as 'tax expenditures.'

But Canada never achieved the universalists' dream of a comprehensive set of social and employment programs that would protect citizens against the various risks of contemporary life and provide a decent minimal income. With the notable exception of

income security programs for the aged, the objective of ensuring a ‘social minimum’ (i.e., an adequate income floor) was neither attempted nor achieved.

Social assistance, in particular, is a major social program that remains resolutely residualist. It has never been governed by substantive national standards. It embodies meagre and widely varying benefits, poverty traps, punitive administration and social stigma. The wartime proposal for a federal program for unemployed workers who do not qualify for or who exhaust their Unemployment Insurance benefits never came to pass. As a result, many jobless Canadians end up on provincial welfare.

Neither is there is a comprehensive income security system for persons with disabilities, many of whom have to rely on social assistance. Canada’s medicare system never expanded as planned by its creators to cover a wide range of preventive and community-based services. Policy-makers are only now are beginning to address this weakness.

ROOTS OF REFORM:

Canadian Context

Pressures to reform Canada's social programs have arisen out of several profound changes □ economic (fiscal and labour market), social and political.

Economic Changes

The major expansion of Canada's social security system ended in the mid-1970s. A federal proposal to supplement the incomes of the working poor was defeated. Canada's economic growth began to sputter with the world oil price shock and the rise of low growth and high inflation.

Mounting government deficits and accumulating debt pushed Ottawa and the provinces increasingly to reduce public □ especially social □ spending in the 1980s and 1990s. The forces of social policy reform-through-restraint gathered strength as Ottawa managed to convince most Canadians that the deficit had to be cured no matter how bitter the medicine.

Canada's long retreat from any semblance of a full-employment economy has been one of the heaviest pressures on the welfare state. It is the main reason for the divergence between the theory and practice of universalist social security.

Rising unemployment has placed high demands on welfare, Unemployment Insurance, social services and employment services, health care and other social programs. To make matters worse, mass unemployment has robbed federal and provincial treasuries of badly needed tax revenues, and resulted in hikes in income taxes, consumption taxes and payroll taxes.

Canada's official unemployment rate has fallen considerably over the past few years. But the real unemployment rate remains high. (The 'real' rate counts those who have given up an active job search or are working part-time because they cannot find full-time work.) There are still regions and communities afflicted by chronic joblessness.

Like the US, Canada's labour market is characterized by a growing split. There is a core of good jobs requiring advanced education and specialized skills in return for good pay, career advancement, and generous pension and other work-related benefits. At the same time, there is a 'nonstandard' labour market for part-time, seasonal and temporary employees, the self-employed and people who hold down multiple jobs. Its characteristics are the opposite of the core workforce □ low skills, poor pay for many, instability, few if any work-related benefits such as supplementary health care and dim career prospects.

There is evidence of earnings polarization, with growth in both lower-paid and higher-paid jobs, and shrinkage of middle-income employment. The latter includes many well-paid blue-collar jobs in traditional industries, such as manufacturing and transportation, which have been victims of technological change. Middle-management positions have been cut in the downsizing of public and private bureaucracies.

Canada also has seen a growing polarization of working time. Hours of work are increasing for some full-time workers who tend to have high incomes. At the same time, there has been a growth of part-time work, much of it involuntary and most producing low earnings.

Social Changes

Social and demographic changes also are rocking Canada's social security system. The typical family of the 1950s and 1960s □ father in the labour force, mother working at home, three children □ has been transformed by profound changes in the economy, society and culture.

A growing number of Canada's families feel insecure and vulnerable. Many turn to social programs for support at the same time that governments have been cutting back on funding for those very programs.

One of the most significant changes in the family arises from the dramatic increase in women's participation in the paid labour force since the 1960s. In seven out of every ten couples with children, both parents work outside the home. Nearly two-thirds of married women with children under age 6 are in the labour force. The majority of single parents are now in the labour force as well.

Not only are most parents employed, but an increasing number are working longer hours on the job in order to make ends meet. They have less time for housework, shopping and the other domestic labour required to maintain a household — not to mention time to spend with their children. Juggling the dual and sometimes conflicting demands of their responsibilities as workers and parents is a stressful and tiring daily struggle for most parents. The burden is especially hard on mothers, who continue to shoulder most of the responsibility for caring for children and housework

Another major stress on today's families is the high rate of marriage breakdown and remarriage. Canada has one of the highest divorce rates in the world, along with Sweden, Denmark and the United Kingdom. Four in ten marriages end in divorce, though seven in ten divorced Canadians get married again. More and more parents and children have to adjust to life in 'blended' families from two previous marriages.

Divorce and separation also create single-parent families. One out of every five families with children is now headed by a single parent, most of whom (82 percent) are mothers. Single parents not only have to carry most, if not all, of the burden of caring and providing for their children. They also run a high risk of poverty. Six in ten one-parent families led by women live on low incomes. Many (42 percent) end up on welfare, although the majority of single parents work in the labour force, typically in low-wage jobs.

Families are smaller today; most have only one or two children. Unlike earlier generations, they cannot rely upon older children to help take care of their younger brothers

and sisters. Families also move more often, so many are isolated from traditional support networks of relatives.

These social changes are placing heavy demands on Canada's social programs □ welfare, child care, child welfare and health care □ which were not built for the world of the 1990s. An added stress is the aging of the population, which will place increasing pressure on the pension system, social services and health care as the baby boom generation reaches old age.

Moreover, these demographic, social and economic forces are additive. Divorce, unemployment and low earnings threaten to condemn a growing group of Canadians to poverty in old age. Child poverty brings an above-average risk of a range of health problems, accidents and below-average school performance. These risks can work against poor children when they reach adulthood, resulting in a greater likelihood of unemployment and low wages, increased demands for social programs and lost tax revenues.

Political Changes

Political changes also have motivated and shaped changes to social policy and challenged the universalist model. The Keynesian-inspired civil servants and politicians who designed and built the postwar welfare state have long retired. They have been replaced by neoconservative bureaucrats, especially those in the federal Finance Department that has dominated social policy over the past two decades. Both financial and political elites in Canada have proved more conservative than the general population, and more supportive of cuts to social spending and taxes.

The major social policy changes made by the Conservative government in the 1980s built a momentum that prepared the way for even more radical changes by the Liberals in the 1990s and into the new century. The Conservatives proved that the universalist welfare state was no longer a 'sacred trust,' if it ever had been. Polls taken for the Social Security Review, which the Liberal government undertook in 1994-95, found that a majority of

Canadians believe that social programs require substantial change.

Central to this readiness for social security reform was the Conservatives' successful campaign in convincing Canadians about the serious problem of the mounting debt and the need to put the nation's finances in order. In addition, federal cuts to Unemployment Insurance and to social transfer payments to the provinces under the Conservatives began to break down traditional resistance to federal social policy change from the provincial governments. So the Liberals have advanced the move towards the post-welfare state that was begun by the Conservatives.

The other political factor that has played an important part throughout the history of Canada and its social programs is federalism. For much of the postwar period, Ottawa played a leadership role in the distribution of power and influence over social programs as between the federal and provincial governments. But the pendulum has been swinging back in the 1990s and first decade of the new century. The two levels of government now play equally important roles. This power shift is so important a force in understanding the current reforms to Canadian social policy that it merits a somewhat longer explanation.

Canada is a federated structure whose governance framework is set out in the British North America Act of 1867. The framework was supplemented by the introduction of the Constitution Act in 1982.

Under the British North America Act, the federal government was designated as responsible for the "peace, order and good government of the country." The Act confers a federal spending power that allows Ottawa to make payments to individuals, institutions or other governments for purposes that the national Parliament does not necessarily have the power to regulate. The federal government claims that this Constitutional interpretation gives it the power to spend money and attach conditions to these funds even if the purposes fall within the clear purview of the provinces.

This constitutional interpretation has resulted in the following division of powers. The federal government is responsible for issues of national and international

concern. Primary federal areas of responsibility include customs, foreign policy, fisheries and oceans, communications and transportation. Provinces, by contrast, are concerned with municipal issues and services to people such as health, education, welfare and social services.

Ottawa generally has jurisdiction over areas that affect the well-being of the entire nation, including the armed forces, international trade and communications. The federal Department of Human Resources Development is responsible for several national income security and employment training programs, although the latter recently have been devolved to the provinces. (The province of Ontario has not yet signed a bilateral labour market agreement with Ottawa.) Both the federal and provincial governments are involved in the areas of justice, finance, revenue and transportation.

In the area of transportation, for example, the distinction in jurisdiction is made along the lines of scale. Transportation concerns that apply to interprovincial or international travel lie in the federal domain. By contrast, provincial and, in some cases, municipal governments are responsible for local or intra-provincial transportation.

Constitutional responsibility for health and welfare-related issues was accorded clearly to the provinces. The jurisdictional split when it comes to income programs is more complex.

In the area of income security, the federal government has responsibility for certain income programs. For example, it takes primary responsibility for the major programs deemed to be social insurances — namely Employment Insurance and the Canada Pension Plan. Even here, the issue is not ‘neat’; the province of Quebec runs a sister program called the Quebec Pension Plan and significant changes to the Canada Pension Plan require the agreement of a majority of the provinces. Provincial governments administer workers’ compensation programs as well as last-resort social assistance programs.

The federal government is responsible as well for the delivery and costs of the three key elderly benefits: Old Age Security, the Guaranteed Income Supplement and the Spouse’s Allowance. Ottawa also pays for and administers the Canada Child Tax Benefit. And the federal government effects a significant redistribution of income through a progressive income

tax system. It both collects revenues and distributes social benefits through refundable credits, nonrefundable credits and deductions.⁴

Social Union Framework Agreement

The division of federal and provincial powers has been influenced in recent years not only by the terms of Canada's Constitution. The division of powers also has been shaped by a new commitment signed in February 1999 entitled the Social Union Framework Agreement.

The Agreement sets out the basic rules for how these two levels of governments should work together in future. It is intended to promote a respectful and collaborative approach to resolving major social issues that are not clearly defined as exclusively federal or provincial. It also seeks to ensure that governments act more responsibly with public funds.

A key feature of the Social Union is that work in any substantive area should be conducted in a collaborative fashion. Ottawa alone no longer should spell out the rules with which provinces must comply to receive federal funds. Rather, the Social Union intent implies that any rules, whether in the areas of funding, program delivery or reporting, should be set jointly by the federal and provincial governments.

But this concept of governmental 'equality' does not negate the fact that one party may be a more appropriate delivery agent than the other in certain areas. The federal government, for example, is best suited to support income programs because it is able to ensure the same benefits for all Canadians.

Ottawa also has the capacity to generate the revenue required to provide adequate and equitable benefits throughout the country. The provinces, by contrast, are better equipped to deliver health care and social services. These can be tailored to individual need and regional differences.

The thinking that shaped the Social Union negotiations viewed federal and provincial relations as a partnership in which both levels of government have an important role. Partnership effectively results in different responses to the same problem. It can give rise to differences across regions in the same policy area. The resulting variability throughout the country is seen not only as inevitable. It is also viewed as desirable as jurisdictions work within their respective fiscal and political priorities.

Another important element of the Social Union Framework Agreement is the concept of public accountability. All governments are seen as accountable both individually and collectively to the public and to groups that have a special interest in certain issues, such as services for children or supports for persons with disabilities.

In short, the Social Union is intended to operate effectively in three spheres. First, it is concerned with the reform of social programs. Second, it is a means of renewing the Canadian federation through new forms of intergovernmental relations. Third, it is intended to encourage public accountability.

ROOTS OF REFORM: INTERNATIONAL CONTEXT

International ‘themes’ and comparative research also have had an important impact upon the shape of income security in Canada. The work of the Organization for Economic Co-operation Development (OECD), in particular, has encouraged investment in active programming. This programming seeks to discourage dependence on income support programs and to encourage links to the paid labour market.

In the mid-1980s, the OECD identified as a problem the heavy provision of so-called ‘passive’ income support for the unemployed. Since then, it has monitored regularly the expenditure of member countries on active and passive labour market programs. The OECD *Jobs Study* included a list of more than 60 policy recommendations for strengthening active labour market policies.

The theme of active programming was embraced by Canada’s Social Security Review in the mid-1990s. The concept certainly influenced the major outcome of the Review: the shift from Unemployment Insurance to Employment Insurance and the associated move toward active labour market measures (described below).

The concept of active programming also has reshaped provincial welfare systems in Canada. All jurisdictions have introduced measures to encourage the transition from ‘dependency’ to ‘self-sufficiency.’ The ‘active’ programs have different titles such as the Supports to Employment Program in Newfoundland, Ontario Works, Employment First in Manitoba, the Saskatchewan Training Strategy, Supports for Independence in Alberta and Productive Choices in the Northwest Territories. Despite the differences in name, the intent is the same: to find ways to help move recipients off welfare and into the paid labour market.

The OECD also has conducted research on the ‘passive’ side of the income equation. A three-volume OECD study on social exclusion and social assistance presents an

in-depth comparison of welfare systems in ten member countries, including Canada.

The study found that all the countries experience a serious common problem: Many households find little financial reward from working. The welfare taxback rates on increased earnings are higher than in any tax regime. Social assistance provides in-kind benefits, a fact that makes it difficult to leave the program. Recipients who leave welfare have work-related expenses such as clothing, transportation and child care. Their wages are reduced by Canada Pension Plan contributions, Employment Insurance premiums and income taxes.

When all factors including income taxes, payroll taxes, work-related costs and loss of in-kind benefits are taken into account, many recipients are better off on social assistance than at work. OECD countries effectively face the same policy challenge with respect to social assistance: how to balance its ‘safety net’ function with its work incentive function.

One way to resolve this tension between the active and passive dimensions of welfare is to reframe the challenge. The real challenge is not how to redirect money away from social programs that create ‘dependency.’ The real challenge is to find ways to help low-income households enter and stay in the labour market. In our view, this central challenge can be resolved through work on two related policy areas *outside of social assistance*: family policy and employment support.

Family policy includes both income support and services. One method of assisting low-income households is by directing more money to lower-income families. The pioneers who constructed Canada’s income security system saw a key role for child benefits in filling the gap between wages and income needs for low- and modest-income families.

Working families also need a wide range of social and health service supports to enhance their parenting capacity, ease the conflicts between work and home, and help deal with problems that income alone cannot solve. Child care, early childhood development and supplementary health care are key items among a range of positive supports for families with children.

Another problem arises from the fact that prospective workers often are blocked from entering the labour market because of the costs associated with return to work. These include transportation for job interviews; work clothing; license to drive a vehicle for work purposes or to operate equipment; professional dues or license fees; and work tools or protective gear. There is a need for financial assistance for the transitional period during which the unemployed establish themselves in the labour market.

In short, the key policy responses with respect to the reform of social assistance lie outside social assistance. Canada's approach in this regard is discussed in the next section.

OVERHAUL OF SOCIAL ASSISTANCE

AND CHILD BENEFITS

Almost all major social programs in Canada have undergone or are in the process of experiencing changes in the transition from the universalist to post-welfare state. Some of these shifts have been incremental, though a series of such seemingly modest changes over time can add up or lead to more significant structural reform. Other changes have been more immediate and radical.

The most dramatic reform in income security in recent years involves an overhaul of the social assistance and child benefits system in Canada. As noted, social assistance has been plagued by numerous problems over the years and is the subject of ongoing attack □ both by governments that support it and by a public that, for the most part, resents the expenditure of tax revenues for this purpose.

The child benefits system required reform for different reasons. It was a patchwork of several programs intended to achieve various purposes.

The reform discussed below has resulted in a reconfigured social assistance and child benefits system. It means that the bulk of income security benefits paid to Canadian families are delivered on an income-tested basis. Income testing has become, in effect, the central organizing principle for a major income security program (the Canada Child Tax Benefit) which provides financial assistance to nearly eight out of ten Canadian households.

SOCIAL ASSISTANCE

Social assistance (commonly known as ‘welfare’) is Canada’s income program of last resort and is delivered by the provincial governments. It provides financial aid to individuals and families whose resources are inadequate to meet their needs and who have exhausted other avenues of support. While welfare generally is directed toward persons who are unemployed, it also can assist working households whose needs exceed their resources.

Each province sets its own rules that govern eligibility and level of assistance. Despite their differences, all jurisdictions have several features in common. Applicants generally qualify for welfare on the basis of three factors: provincial definitions, the value of their liquid assets and a needs test.

Provincial definitions set out the rules for the types of individuals and families that may apply for welfare. For example, most jurisdictions do not allow strikers to receive social assistance except under certain limited conditions. There are also rules regarding the eligibility of full-time students at postsecondary educational institutions and parental dependants.

A second component of eligibility is known as the ‘liquid asset exemption guidelines.’ Liquid asset exemptions refer to the amount of cash or cash-convertible assets that a given household may have and still be eligible for welfare. Allowable limits vary by jurisdiction. There are also rules regarding the maximum value of fixed assets □ e.g., house, furniture, car or equipment.

The central eligibility criterion for welfare in every province is the needs test. A needs test takes into account a household’s basic needs such as food, clothing, shelter and utilities. It also considers the household’s special requirements such as medication, health-related diets or equipment for a disabling condition.

The needs test then identifies the resources available to meet those basic and special needs. Resources include earnings, government benefits, private savings, support payments, insurance claims, pensions and income derived from any other source.

A household may be eligible for social assistance if it qualifies according to the various rules and its needs exceed available resources. Each province employs a unique set of rules to determine the rates of assistance provided in their respective jurisdiction. Rates vary on the basis of family size, age of children, marital status of the family head, employability of the family head and other factors, such as the presence of a disabling condition.

Earnings exemptions guidelines are another key component of social assistance. 'Earnings exemption guidelines' refer to the amount of income that welfare recipients may earn from outside employment without affecting their welfare entitlement. Once their earnings exceed a specified limit, their welfare cheques are reduced by a designated amount.

These guidelines vary throughout the country. In some provinces, such as Quebec, earnings exemptions take the form of a flat-rate amount. Welfare cheques are reduced by one dollar for every dollar of income earned over and above that amount. In other jurisdictions, such as Yukon, exemptions are expressed as a percentage of earnings. Recipients may keep a certain percentage of their employment-related earnings to a designated maximum before their welfare cheques are reduced.

Most jurisdictions employ a combination of flat-rate and variable exemptions. Recipients may earn up to a certain level as well as an additional amount that represents a percentage of their earnings. Welfare payments are reduced beyond that point.

Despite the variability in social assistance benefits, all jurisdictions pay benefits that fall below commonly accepted definitions of poverty.

Welfare benefits for a single parent with one child, for example, ranged from 70 percent of the poverty line in Newfoundland, 60 percent in Prince Edward Island, 63 percent in Nova Scotia, 62 percent in New Brunswick, 57 percent in Quebec, 60 percent in Ontario, 50 percent in Manitoba, 59 percent in Saskatchewan, 50 percent in Alberta and 60 percent in British Columbia (these are the latest available figures for 1999, published by the National Council of Welfare). Poverty line comparisons are not

available for the Territories because the poverty line standard used for these calculations does not apply to the northern regions of the country.

Welfare benefits for single persons considered able to work were even lower. In 1999, rates ranged from nine percent of the poverty line in Newfoundland to a 'high' of 41 percent of the poverty line in Ontario. Benefits for single persons with disabilities went from a low of 42 percent of the poverty line in Alberta to a high of 70 percent in Ontario in 1999. For two-parent families with children, 1999 welfare incomes ranged from a low of 45 percent of the poverty line in Quebec to 62 percent in Prince Edward Island.

Welfare benefits are considered inadequate not only in absolute terms – that is, their actual value. They are also inadequate in relative terms because they are not indexed to increases in the cost of living. Increases tend to be spotty and erratic. While the cost of living has risen over the years, welfare benefits have been frozen or reduced in most jurisdictions.

In addition to providing benefits that are low in both absolute and relative terms, most provinces have introduced new rules which make it more difficult for certain households to get on or remain on welfare. The purpose of these tightened eligibility rules is to reduce the size of the welfare caseload.

Quebec, for example, was the first jurisdiction to bring in a parental contribution. Adults 18 years of age and over who have not yet declared their independence (e.g., they are not married; they have no children of their own to support) are considered dependent. Their parents are required to contribute maintenance and support.

Ontario announced in 1995 that an employable person quitting or losing a job without just cause was disqualified from applying for welfare for three months. Several provinces have reclassified single parents with young children as employable – which means that they can remain on social assistance only for a short period before they are expected to start participating in 'active,' work-related measures.

Some provinces, such as Ontario, have completely revamped their welfare systems. In 1997, the province replaced two existing welfare laws with Ontario Works,

intended for employable welfare recipients, and the Ontario Disability Supports Program for persons with long-term disabilities. Ontario Works has been particularly controversial. It was the first time that any province had introduced a program which made it mandatory for recipients to participate in work-related or community service program.

Other jurisdictions have not undertaken as fundamental a reform as Ontario. But over the past few years, they all have introduced some type of ‘active programming’ □ a concept promoted by the OECD.

While these programs vary, they typically follow the same general pattern. They seek to provide welfare recipients with the supports and skills they need to move off the program as quickly as possible. The assistance may take the form of job search, preparation of résumés, literacy training, skills development, academic upgrading and referral to employment.

In addition to the active measures that focus on work skills and requirements, provinces have introduced various supports □ such as earnings supplements, extended health benefits or child care subsidies □ designed to encourage workforce participation. Jurisdictions have brought in these measures in respect of the National Child Benefit reinvestment strategy, discussed below.

Child Benefits

Canada is undertaking a major restructuring of its principal federal and provincial child benefit programs through a joint federal-provincial initiative called the National Child Benefit. The initiative is at the leading edge of the transition from the universalist to post-welfare state in Canada.

In Canada, child benefits historically have pursued two fundamental objectives. These can be characterized as the ‘anti-poverty’ and ‘horizontal equity’ objectives.

Under the anti-poverty objective, child benefits help fill the gap between the earnings of low- and modest-wage parents and their families' income needs. The need to fill the gap is based on the fact that a market economy does not vary wages and salaries to take into account the number of family members dependant on that income. The horizontal equity objective views child benefits as one way for society to provide some financial recognition for the fact that families at all income levels with children face costs that childless households at the same income level do not.

These twin objectives are linked. Both assume that society has an obligation to help parents with their childrearing costs because children are viewed at least partially as a 'public investment.' Children grow up to become workers, taxpayers and citizens. It is in the interest of everyone □ including those without children □ that parents not face undue financial strain in their childrearing 'work.' Parents do this work, in part, on behalf of everyone.

The anti-poverty objective acknowledges that lower-income families have the least financial capacity. This objective also seeks to reduce the higher personal and societal risks of child poverty in terms of children's immediate and long-term health, learning capacity and educational performance.

For low-income families, the anti-poverty and horizontal equity objectives of child benefits are basically the same. Concern about the horizontal equity objective typically has focussed on non-poor families, which have suffered a substantial decline in their child benefits since the mid-1980s. (For some high-income families, child benefits have disappeared altogether.)

The anti-poverty and horizontal equity objectives of child benefits are fundamental to the universalist conception of social policy. But they remain central to the post-welfare model as well. The key issue is not the validity of the objectives of child benefits □ which are as valid and important today as they were a century ago. The major issue is how best to achieve them. The National Child Benefit seeks to construct a more effective and efficient means of pursuing the anti-poverty and horizontal equity objectives of child benefits.

The rise of income-tested targeting

The long-term trend in Canadian child benefits has been toward greater ‘targeting.’ This means that child benefits are geared to need as measured by family income. Since the late 1970s, the anti-poverty objective has been accorded greater weight at the expense of the horizontal equity objective.

However, while Canada’s child benefits system calculates the amount of payments on the basis of family income, it is not targeted narrowly to the poor in terms of eligibility. Rather, it is a broad based system that covers the large majority of families (eight out of ten households with children).

In recognizing the need to restore the child benefit system’s horizontal equity capacity, payments are now being increased for non-poor families. Coverage will expand to more than 90 percent of all families with children within the next few years.

The history of Canadian child benefits can be divided into five main periods. The first phase, between the two World Wars, can be characterized as ‘regressive targeting.’ The personal income tax system provided a children’s tax exemption that delivered its benefits in the form of tax savings which increased with taxable income and excluded families that did not owe income tax. In fact, most families were excluded in those times of widespread poverty and low average incomes.

The arrival of universal, monthly Family Allowances in 1945 heralded the second phase: ‘untargeted universality.’ Child benefits were extended to include low- and modest-income families. But better-off households still got more because they received both the children’s tax exemption and Family Allowances.

The 1970s ushered in the third phase: ‘progressive universality.’ Family Allowances were tripled, indexed to the cost of living and made taxable. A new income-tested program administered through the personal income tax system □ the refundable child

tax credit □ delivered its maximum payment to low-income families. It paid a declining amount to middle-income families and nothing to the well-off.

The fourth phase, ‘progressive targeting,’ began in the 1980s. It evolved through a series of changes culminating in 1993 with a single, income-tested Child Tax Benefit. It increased payments for working poor families with children, maintained benefits for other low-income families, reduced amounts for middle-income families and excluded high-income families.

Canada recently entered a fifth phase: an ‘integrated child benefit.’ It broadens the scope of reform to include provincial child benefits and promises to strengthen both the anti-poverty and horizontal equity objectives.

Rationale for reform

To understand the rationale behind Canada’s unfolding National Child Benefit reform, it is helpful to explain briefly the major weaknesses of the child benefits system that it is replacing. The old ‘system’ was not really a system in the true sense of the word. Rather, it was an uncoordinated group of programs provided by two levels of government.

Throughout much of its history, the federal child benefits system suffered from an irrational distribution of benefits. The separate components of the system were integrated in 1993 into a single, family income-tested Child Tax Benefit. The latter was renamed the Canada Child Tax Benefit in 1997. The new program is similar to the former one in that provides maximum payments to low-income families and diminishing benefits to middle-income families.

While achieving its anti-poverty objective in its distribution of benefits, the federal child benefit is not narrowly targeted to the poor. This ‘broad based’ characteristic helps advance the goal of social inclusion. The large majority of families are served by the same program and no vulnerable group is excluded.

Among the Canada Child Tax Benefit's other virtues are its anonymous, nonstigmatizing and relatively efficient administration through the same income tax system that covers Canadians in all income groups and throughout the country. Recipients qualify for benefits based only on a simple test of their income. There is almost never any direct contact between recipients and administrators. Benefits are delivered on a frequent (monthly) basis.

Meanwhile, until very recently, all the provinces delivered what amounted to cash child benefits through their social assistance systems, which provided benefits on behalf of children as well as adults. There was little coordination with the federal child benefits system. The two differed in purpose, design and delivery.

Child benefits delivered through provincial social assistance systems pursue only an anti-poverty objective. Along with adult benefits, they are intended to provide funds for a family to meet basic necessities. By contrast, federal child benefits are intended only to *supplement* other sources of income.

Unlike income-tested child benefits' good performance in terms of inclusion, needs-tested social assistance in Canada has always been an exclusionary and social program. The social assistance system is discretionary and involves extensive client-worker interaction.

The scope of federal and provincial child benefits also differs significantly. Federal child benefits have served all or almost all families with children. Social assistance-delivered child benefits, by contrast, are restricted mainly to non-working poor families. Social assistance excludes most other low-income families, such as those on Employment Insurance and the working poor. Social assistance benefits have been politically vulnerable to cuts.

One of the major problems inherent in the uncoordinated patchwork of federal income-tested child benefits and provincial needs-tested child benefits is that the system could never deal effectively with the problem of persistent and extensive child poverty in Canada. Social assistance is narrowly targeted and unpopular. The reality is that social assistance benefits will always be extremely low.

Another significant problem with the two-tiered system has been characterized as the ‘welfare wall.’ Social assistance families with children traditionally received child benefits from two sources: provincial social assistance benefits paid on behalf of children and federal child benefits.

Other low-income families, notably the working poor and Unemployment Insurance poor, typically got federal child benefits only. Social assistance families enjoyed considerably larger – indeed, about double – child benefits than those paid to other low-income families. Neither does this cash advantage count the value of the social assistance system’s ‘in kind’ benefits, such as supplementary health and dental benefits, shelter allowances and winter clothing allowances.

Just before the introduction of the National Child Benefit in July 1997, combined federal-provincial child benefits ranged annually from around \$2,220 to \$2,820 per child for social assistance families in most provinces. Another \$213 per year was paid for each child under age 7 for whom the child care expense deduction is not claimed. By contrast, federal child benefits for children in working poor families were a maximum \$1,520 annually for one child.

For two children, the gap between social assistance and other low-income families was wider. For example, for families with one child under age 7 and one child over 7, total child benefits for a social assistance family from the federal and provincial governments amounted to \$5,253 per year. That amount is close to double the \$2,753 in federal child benefits for other low-income families with children.

The term ‘welfare wall’ was coined to dramatize the features of the tax/transfer system – in this case, child benefits – that can erect barriers to moving from social assistance to the workforce. Parents on social assistance who managed to find paid work risked losing thousands of dollars in social assistance-provided child benefits and ‘in kind’ benefits. Moreover, their typically low wages were reduced by federal and sometimes provincial income taxes as well as federal payroll taxes. They also had to pay employment-related costs, such as child care, clothing and transportation.

Structural reform: The National Child Benefit

The reform of child benefits □ known as the federal-provincial National Child Benefit □ seeks to lower the welfare wall by creating an integrated, nonstigmatizing child benefit. It treats all low-income families equally, whether they are working or not. It also enables provinces to take additional actions to assist low-income families.

The main engine of reform is the new federal child benefit. As the federal government increases payments under the Canada Child Tax Benefit, provinces are allowed to reduce their social assistance-provided child benefits by the amount of the federal child benefit increase. Provinces must reinvest the resulting savings in other programs and services for low-income families with children.

Over time, governments' objective is to raise the Canada Child Tax Benefit to the point where it alone, or in combination with provincial income-tested child benefits, fully displaces social assistance-delivered child benefits. These are estimated at a target of about \$2,600 in today's dollars.

A \$2,600 maximum Canada Child Tax Benefit would come close to achieving the goal of an integrated child benefit. All low-income families, regardless of their major source(s) of income, should receive the same level of child benefit. The distinction between child benefits for the working poor and the non-working poor would be eliminated.

OBJECTIVES OF REFORM

The federal and provincial governments have set three formal objectives for the National Child Benefit. It is intended to help prevent and reduce the depth of child poverty. It seeks to promote attachment to the workforce □ resulting in fewer families having to rely on social assistance □ by ensuring that families will always be better off as a result of finding work. It is intended to reduce overlap and duplication through closer harmonization of program objectives and benefits, and through simplified administration.

The Caledon Institute □ which played a key technical and political role in developing the National Child Benefit □ supported the choice of *depth* of poverty rather than *incidence* or rate of child poverty as an objective. Depth of poverty refers to reducing the average distance of families below the poverty line.

Progress in lowering incidence is a poor indicator of the effective reduction in poverty. If governments were to employ reduction in incidence as a key indicator, a program that reduced the depth of poverty of those who were least well off but failed to bring them above the poverty line would be judged inferior to a program providing a few dollars to those who are best off among the poor, thereby bringing many people above the poverty line. Reduction in the depth of poverty is, on the other hand, a good indicator of the extent of change in the experience of poverty among families.

We argued that it is unrealistic to set the prevention of child poverty as a formal objective of child benefits, though other programs (including some of the provincial reinvestments under the National Child Benefit) can play a preventive role. We also endorsed the work incentive objective, with the caution that the National Child Benefit is no magic solution. Rather, it is one among a range of initiatives required to dismantle the welfare wall. We supported the harmonization objective, which should underlie all intergovernmental relations.

We added some objectives to supplement governments' three: adequacy, fairness, dignity and independence, and economic stabilization.

Once the displace-social assistance target of \$2,600 per child per year is reached, the Canada Child Tax Benefit should be raised further, within the first decade of the 21st century, to reach about \$4,200 maximum per child annually. That amount is a rough estimate of the annual cost of raising a child in a low-income family. We recommended that a study be conducted to come up with more accurate and detailed estimates. The \$4,200 goal is an estimate of the amount needed to achieve the anti-poverty objective.

We urged the federal government to improve child benefits for modest- and middle-income families. These households have seen substantial losses since the 1980s. This improvement would help achieve the horizontal equity goal.

Adequacy also requires full indexation of the benefit to the cost of living. While the federal government did fully index the benefit as of 2000, the provinces have not yet followed suit.

The objectives of dignity and independence will be advanced through the broad based, income-tested Canada Child Tax Benefit. Finally, Caledon recommended that the system be seen as an important part of economic stabilization. The program is an efficient vehicle to put cash into the hands of parents and thereby maintain consumer demand during downturns and help cushion the effect of recessions.

Progress

Over the past few years, the federal government has made a series of substantial increases to the Canada Child Tax Benefit. These have boosted payments to low-income families. The increases have enabled provinces to redirect social assistance savings into a range of income programs and social services for low-income families with children.

Provincial reinvestments to date total \$305.2 million in 1998-99 and \$498.2 million in 1999-2000. Child care took first place □ 39.4 percent in 1998-99 and 34.6 percent

in 1999-2000. This was followed by income-tested child benefits and earnings supplements (31.1 percent in both fiscal years), initiatives by Ontario municipalities and by Aboriginal communities (21.8 and 20.9 percent), early childhood development (4.5 and 9.3 percent) and supplementary health care (3.1 percent the first year and 4.1 percent the next year).

By 2004, Ottawa will spend a forecast \$9 billion on the Canada Child Tax Benefit. This amount represents, in inflation-adjusted 2004 dollars, a \$3.3 billion or 58 percent increase since the reform began. Low-income families will receive about \$6 billion or two-thirds of the \$9 billion total spending in 2004. Non-poor families will get the other \$3 billion or one-third.

The federal government's stated target is to increase the maximum Canada Child Tax Benefit to \$2,400 for one child and \$2,200 for each additional child by 2004. These rates will come close to meeting the Caledon Institute's proposed \$2,600 level (which in 2004 dollars will come to \$2,800).

The other crucial advance is that the federal government, in its 1999 and 2000 Budgets, began restoring child benefits for non-poor (mainly modest- and middle-income) families. In so doing, the federal government has broadened the scope of reform beyond the child benefit system's anti-poverty objective to begin bolstering its horizontal equity performance. Thus the two fundamental objectives of child benefits are being simultaneously strengthened.

Criticisms

The complexity of the National Child Benefit and of Canada's child benefits system more generally have placed the reform beyond the understanding of the Canadian public, most journalists and, indeed, most politicians. So the National Child Benefit debate has been confined largely to social advocacy groups, most of which have opposed the reform.

a. Treatment of social assistance families

The chief criticism of the National Child Benefit is that it discriminates against social assistance families. These families are often referred to as the ‘poorest of the poor.’

Social assistance families will not get an increase in their net child benefits. Rather, they will see only an increase in the proportion coming from the federal Canada Child Tax Benefit and a decline in the share from provincial social assistance. In some provinces, these households will see new income-tested child benefits. By contrast, the working poor and other low-income families not on social assistance will enjoy an increase in their child benefits.

To make matters worse, the supporters of the National Child Benefit had been arguing that it was a key anti-poverty measure. But it arrived after several years of cuts to social assistance benefits that had shrunk drastically most families’ income. It also was introduced amid growing efforts on the part of most provinces to require recipients to enter the workforce. These efforts took the form of ‘workfare’ and tightened eligibility rules in many provinces.

This criticism misses the essential point of the National Child Benefit. Its purpose is to restructure income security by equalizing child benefits for all low-income families. It seeks to raise payments for poor families not on social assistance to the level paid to social assistance families.

Social assistance families are receiving the same increase in their federal child benefits as other poor families, though their social assistance-delivered child benefits typically are reduced accordingly. This process has given rise to a great deal of anxiety on the part of vulnerable social assistance recipients and anger on the part of critics.

A key issue here is strategy. Ottawa should have fully implemented the reform (as proposed in a 1995 Caledon report⁵) rather than phasing it in through an incremental, multi-year approach. The federal government also should have put enough money on the table. It could have displaced social assistance-delivered child benefits immediately. It could

have raised the level of the new Canada Child Tax Benefit high enough to exceed the previous amount of combined federal and provincial child benefits paid to social assistance families.

Social assistance families still would have seen a smaller net increase in child benefits than the working poor. But at least the former would have been a little better off than before. The idea that one type of benefit was simply replacing another would have been apparent and easily explained. The incremental strategy that was adopted instead has contributed to the criticism of the National Child Benefit.

However, even without a real increase in child benefits for social assistance families, it can be argued they will be better off under the National Child Benefit than before. Social assistance is a highly stigmatizing program prone to overt cuts or steady erosion on the part of the provinces.

For example, a get-tough-on-social assistance approach was a prominent part of Ontario's Conservative government election platform. It followed through with a 21.6 percent cut in social assistance for most recipients in October 1995. The cuts did not harm the government's political fortunes, and indeed they may have helped. The Ontario Conservatives — residualists in their philosophy of social policy — were easily re-elected, unlike the previous two provincial administrations, which had raised social assistance rates.

Income-tested social programs, in contrast to social assistance, have seen real and substantial increases in benefit rates for lower-income recipients, with broad public support. The Canada Child Tax Benefit, which was fully indexed as of 2000, is in a far better position than social assistance to enjoy further increases in the coming years. If one is truly worried about the adequacy of social assistance recipients' incomes, the best option is to provide a larger proportion of their incomes out of a politically popular and expanding program, such as the Canada Child Tax Benefit.

It is also essential to remember that the social assistance population is a dynamic, ever-changing group. About half of social assistance recipients leave for the workforce every year. Under the old system, these recipients lost all of their social assistance-delivered child benefits. But the Canada Child Tax Benefit is a 'portable' benefit that

accompanies families no matter what their primary income source.

Social assistance families will no longer lose child benefits if they move to the workforce. Working poor families will continue to receive their child benefits from the federal government even if they go on social assistance or Employment Insurance. If they improve their earnings, families will continue to receive the Canada Child Tax Benefit □ though in a smaller amount if their income increases enough □ far up the income scale.

Another important factor is that social assistance families receive the Canada Child Tax Benefit without stigma, just like the large majority of Canadian families. Payment is automatic and painless. It involves little or no contact with government officials. Moreover, some social assistance families will benefit from some of the provincial reinvestments, though more so if they move into the workforce.

The National Child Benefit holds out the promise of more than just a restructuring and enhancement of child benefits. By removing a large group (children) from social assistance caseloads, it marks a major step forward in the essential task of dismantling the social assistance system and replacing it with more effective programs. The aim should be to transform adult social assistance from its current conception as a last-resort family income support program for families. It should be modernized in the form of a wage substitution program for adults, more suitable to an ‘active’ income security system.

b. The welfare wall is more than child benefits

Social advocates complain that the National Child Benefit does not deal with the variety of obstacles that make it difficult for families to move from social assistance to the workforce. A major barrier is the lack of affordable and accessible child care. Another obstacle is the fact that many jobs typically available to low-income parents do not pay a living wage. Many families are worse off financially than if they were on social assistance.

While these are important problems, the National Child Benefit on its own

cannot solve them. It is intended to lower the part of the welfare wall that results from differential child benefits and to reduce the depth of poverty.

Under the National Child Benefit, some provinces are reinvesting social assistance savings in child care. They are also extending supplementary health care to the working poor. But these initiatives cannot substitute for the range of reforms that are needed to combat poverty. Such reforms include a national early childhood development system, supplementary health benefits, employment programs and decent adult income supports replacing traditional social assistance.

c. The incentives issue: Marginal tax rates

Some economists claim that the National Child Benefit reform could be defeating its own purpose by imposing high effective marginal tax rates. These supposedly discourage the work ethic of the very families it is intended to help. (By ‘effective marginal tax rate,’ we mean the percentage of additional income paid in income and payroll taxes or forgone due to income-tested programs’ reduction rates.)

The Canada Child Tax Benefit has resulted in higher marginal tax rates for some working poor families because of the wish to target limited new spending on low-income families. (Families in the \$21,000 - \$30,000 net family income range have been affected.)

For example, an Ontario family with net income of \$27,000 saw its effective marginal tax rate rise from 39.5 percent to 54.2 percent as a result of the high reduction rate imposed on the National Child Benefit Supplement. At the same time, recipients of social assistance who moved into the labour market enjoyed a large reduction in their marginal tax rates.

The impact of this mix of higher and lower effective marginal tax rates on labour market behaviour remains an open question. The factors that can influence families’

decisions regarding paid work are complex. These decisions cannot simply be assumed as given according to the usual interpretations of economic theory. Issues such as social expectations, opportunities, transportation, child care, workplace policies and many other factors fit into the equation. It is not clear, nor does economic theory suggest, that the marginal tax rate is the most important of these variables.

The National Child Benefit has objectives beyond the labour market, unlike ‘pure’ income supplements for the working poor. The new child benefit’s impact on the depth of poverty and disposable income is equally – if not more – important than its effect on labour market behaviour.

d. Lack of responsiveness to changes in income

One of the long-standing concerns about using the income tax system to deliver social benefits is its lack of responsiveness to changes in income. There can be a considerable lag – up to 18 months – between assessment of income and calculation of amount of the Canada Child Tax Benefit. The program can adjust quickly to change in family composition, such as marriage breakdown or death of a spouse. But it is not designed to respond rapidly to changes in income due to getting or losing a job.

Despite the stated concerns, lack of responsiveness has not been a problem in practice. Indeed, the case might be the opposite. In a focus group held by the Caledon Institute in British Columbia, the reaction to the possibility of more regular (e.g., monthly) income testing was negative. This was seen as reintroducing the much-reviled social assistance monthly reporting requirements. Recipients were more than willing to give up any potential benefit of improved responsiveness in return for lack of intrusiveness.

Responsiveness may be a ‘non-issue’ because of the program’s design. There is a significant range of income before there is any reduction in benefits. Many people with low incomes will always receive the maximum benefit, whether in or out of the workforce. So the

issue of responsiveness does not arise for them. Aside from change in family composition (usually due to marriage breakdown to which the system does adjust soon after notification), there could well be relatively few families that drop in one year from a comfortable income to a low income and thus need maximum child benefits as fast as possible. Unfortunately, this question has not yet been investigated.

A work in progress

The National Child Benefit has not reached its goal of fully replacing all social assistance-embedded child benefits throughout Canada. Families on social assistance still receive some child-related benefits in most or all provinces.

If the federal government gradually were to boost the Canada Child Tax Benefit towards the \$4,200 level which Caledon and other social groups have proposed, then getting rid of all remaining social assistance benefits for children would help pay for such a costly program. Other cost-shifting changes, such as the reform of the shelter allowance component of social assistance and the elimination of secondary child benefit programs, also must be considered.

In addition to a sizable increase in the maximum payment, Caledon has advocated returning the Canada Child Tax Benefit to a single-tier structure, as was used in the original refundable child tax credit. There would be a moderate reduction rate on benefits for non-poor families.

This design offers several key advantages. It makes the child benefits system easier to understand. It boosts child benefits for poor and non-poor families alike, thus respecting both the anti-poverty and horizontal equity objectives. Finally, a single tier would resolve concerns about the potential work disincentive effects of high effective marginal tax rates.

FROM UNEMPLOYMENT INSURANCE TO EMPLOYMENT INSURANCE

Employment Insurance used to be known as Unemployment Insurance, one of Canada's first modern social programs based on the universalist model. Introduced in 1940, Unemployment Insurance originally was meant to replace earnings for workers who are temporarily between jobs.

Initial coverage under the program was limited to jobs deemed to have a risk of unemployment – generally, in industry and commerce. This coverage extended to less than half – 42 percent – of the labour force. The majority of jobs were not covered, including those in agriculture and forestry, fishing, transport, teaching, health care and government service, as well as part-time work.

Expansion

Over the next 31 years, the federal government expanded Unemployment Insurance beyond its original purpose of short-term jobless insurance for only part of the workforce. By 1971, almost all workers, including self-employed fishermen, were covered. Qualifying requirements – the number of weeks of work necessary in order to receive benefits – were reduced and benefits were raised.

Benefits also were extended to cover workers who lose wages because of illness, maternity or retirement. 'Regionally extended benefits' were introduced as well. The latter increased the duration of benefits for recipients living in areas in which the unemployment rate exceeded the national jobless rate. A sliding scale was used, adding weeks of benefit according to the severity of unemployment in the region. A portion of Unemployment Insurance funds was set aside for developmental purposes to help unemployed workers participate in approved training or job creation projects.

Employers and employees financed most of the program through premiums. Employers contributed a certain percentage of their payroll while employees contributed a set proportion of their wages up to a designated maximum. The federal government paid for regionally extended benefits, fishermen's benefits and developmental programs.

Retrenchment

But the 1971 Unemployment Insurance Act, which had expanded and enriched the program, collided with mounting inflation, deficits and unemployment throughout the 1970s. As a result, Unemployment Insurance expenditures rose substantially and became one of the federal government's most expensive programs. Moreover, its costs increase at the worst possible time □ during recessions. The time had come to start reining in the program.

The next 25 years saw various changes that chipped away at Unemployment Insurance by making it harder to qualify for assistance and reducing the level and duration of benefits. Eligibility requirements were tightened, the maximum length of benefits was shortened and the benefit rate lowered.

A major turning point in the life of the program came in 1995 when the federal government introduced a new philosophy to underpin Unemployment Insurance. Ottawa announced that, effective July 1996, 'Employment Insurance' would replace the old program. The name change was intended to signal a fundamental philosophical shift – from 'passive' dependence to 'active' employment. The objectives of the overhaul were to keep unemployed workers off the program, move current recipients off as quickly as possible and encourage greater workforce participation through skills training and upgrading.

The new Employment Insurance Act provides for two types of benefits: income benefits and employment benefits. Income benefits pay temporary income support for income claimants while they look for work. The new Act changed the three key levers on the income side of the program: eligibility, benefit levels and duration of benefits. The purpose of these changes was purportedly to 'strengthen incentives to work.'

Eligibility for benefits is now based on number of hours rather than number of weeks worked. The stated purpose of this change was to allow more flexibility in the program

and to enable part-time workers, in particular, to qualify for Employment Insurance.

At the same time, however, the Act tightened up the eligibility criteria by substantially increasing the number of hours required to qualify for benefits. Workers now must put in from 420 to 700 hours (or the equivalent of 12 to 20 weeks), depending on the unemployment rate in the region. This change represents an increase of between 180 and 300 hours over the former entrance requirement.

Claimants applying for sickness, maternity or parental benefits need 700 hours of work. (Changes announced in the February 2000 federal Budget reduced the eligibility requirement to only 600 hours of work.) New entrants to the labour market and those who have been out of paid work for some years must establish a reasonable attachment to the job market before they are considered eligible for Employment Insurance. Newcomers or those re-entering the labour market must work a minimum 910 hours before qualifying for the program.

Benefits are calculated as 55 percent of average insurable earnings. The upper limit in the band of earnings over which benefits are calculated (called the 'maximum insurable earnings level') fell from \$42,380 to \$39,000. Maximum benefits dropped to \$413 a week.

Employment Insurance also imposed an 'intensity rule.' Recipients face a penalty of a one percentage point reduction in their benefit replacement rate after each 20 weeks of benefits, reducing the rate from 55 percent to as low as 50 percent. This rule was intended to reduce the heavy repeat reliance on Employment Insurance by seasonal workers, encouraging them to seek full-time work.

Employment Insurance continues Unemployment Insurance's practice of imposing an income test. Better-off recipients must repay part of their benefits at the rate of 30 percent above \$39,000 for those collecting benefits for 20 weeks or more, and above \$47,750 for those with less than 20 weeks.

A Family Income Supplement (a maximum \$413 a week) was introduced in

order to provide higher benefits to families with annual incomes of less than \$25,921 that are eligible for the Canada Child Tax Benefit. The Family Income Supplement varies by number of children. The Employment Insurance benefits of these households, along with the Family Income Supplement, could represent up to 80 percent of their insured income.

The new Employment Insurance Act reduced the maximum length of claim from 50 to 45 weeks. The savings produced through changes to the income component of the program were directed toward employment benefits. These include a package of measures □ wage subsidies, earnings supplements, self-employment assistance, job creation partnerships, and skills loans and grants □ to help workers prepare for and find a job. A three-year, \$300 million fund also was created and paid for by federal tax revenues to generate economic growth and new jobs.

As a result of these changes, Employment Insurance coverage of unemployed workers has dropped dramatically. The percentage of the unemployed covered by the program in 1997 was less than half of what it was in 1989 □ falling from 74 percent to 36 percent of the unemployed.

In response to concerns about the drastically reduced coverage under the program, Ottawa introduced legislation in September 2000 to amend the Employment Insurance Act. The proposed legislative amendments would eliminate the intensity rule and ease the benefit repayment provision.

Unemployment Insurance was conceived as a critical component of the universalist model of social policy. Like child benefits, it has just as important a role to play in a post-welfare state approach.

But in our view, neither Unemployment Insurance nor Employment Insurance works. They should be replaced by a new system of income support for adults that retains an insurance-oriented program for those only occasionally or short-term unemployed. The new system would replace both social assistance and the regionally extended benefits of Employment Insurance by a more effective income-tested program with strong labour market components.

Elderly Benefits:

Uneasy Compromise between Universalist and Post-Welfare Models

We conclude this description of Canada's transition to a post-welfare model with a discussion of the attempted reform of elderly benefits in Canada. These are not considered 'active' programs in that they are intended for persons who have left the labour market. But the story is an interesting one in the sense that the evolution to the post-welfare state has been far from easy □ or complete.

Canada has a multi-tier retirement income system with public and private elements. The base is made up of an almost-universal, income-tested old age pension program, along with more targeted programs for poor seniors. Both are financed through general government revenues.

The second, also public, tier is the contributory earnings-related Canada Pension Plan (and, in Quebec, parallel Quebec Pension Plan) that covers the entire workforce.

The third private tier is composed of employer-sponsored pension plans, known as occupational pension plans, and individual retirement savings accounts, known as Registered Retirement Savings Plans. Both of these plans are used mainly by some middle-income and most upper-income Canadians.

There is a fourth public tier that consists of income tax breaks. These partially offset the cost of contributions to the Canada and Quebec Pension Plans, occupational pension plans and retirement savings plans.

A Mix of Direct and Tax-Delivered Programs

There are five programs in the base tier, three paid directly and two through the

income tax system.

The core program within the base tier is Old Age Security, created in 1952. It pays a flat-rate, but taxable, monthly payment. While the benefit is income-tested on the basis of individual income, it still goes to almost all (95 percent) of Canadians age 65 and older. It excludes only those with high incomes. Benefits are fully indexed to the cost of living on a quarterly basis.

For the fourth quarter of 2000 (i.e., October-December), the maximum monthly payment is \$429. However, this amount is subject both to taxation and to an income test. The income test applies only to individual net income above \$53,960, which represents only five percent of seniors. Recipients must have lived in Canada for at least 10 years or have immigrated from countries which have international social security agreements with Canada.

The second program, the Guaranteed Income Supplement, was created in 1967 for low-income seniors. The Guaranteed Income Supplement is far more targeted than Old Age Security, though benefits are not taxable.

The maximum Guaranteed Income Supplement payment (\$510 a month for a single person and \$327 for each member of a couple, for the fourth quarter of 2000) goes to seniors with no income other than Old Age Security. Benefits are reduced by 50 cents for every dollar of other income, excluding Old Age Security. In the case of a couple, eligibility for and the amount of the Guaranteed Income Supplement are based on the combined income of the two spouses. Like Old Age Security, the Guaranteed Income Supplement is financed out of federal general revenues.

The Spouse's Allowance was legislated in 1975 to provide benefits equal to the sum of Old Age Security and the Guaranteed Income Supplement to the 60- to 64-year-old spouses of pensioners who receive the Guaranteed Income Supplement. In 1979, the Spouse's Allowance was expanded to maintain benefits to recipients who become widowed. When they reach 65, they move on to Old Age Security and the Guaranteed Income Supplement.

In 1985, the program was extended further to cover all low-income widowed persons aged 60 to 64, even if they had not first qualified for the benefit when their spouses were alive. Like the Guaranteed Income Supplement, the Spouse's Allowance is an income-tested program that pays its maximum amount to the poorest seniors. It includes a partial and declining amount to eligible women and men with some other income. The Spouse's Allowance is not taxable.

In addition to these federal benefits, several provinces and territories □ Ontario, Manitoba, Saskatchewan, Alberta, BC, Yukon and the Northwest Territories □ provide income-tested supplements for seniors. These supplements generally are paid to recipients of the Guaranteed Income Supplement because they already have qualified for the federal program on the basis of low income. These benefits vary widely in value. Nova Scotia provides income assistance through its welfare system for seniors deemed to be 'in need' on the basis of a needs test.

This first layer of the Canadian pension system also includes two tax breaks for seniors and private pensioners who owe income tax. These are the income-tested age credit and the pension income tax credit.

The age credit provides a nonrefundable tax credit to taxpayers age 65 or older. It is worth a maximum \$900 in total federal and average provincial income tax savings. The age credit is income-tested above individual net income of \$26,284.

The pension income credit is also nonrefundable through not income-tested. It provides a tax break of up to \$255 in combined federal and average provincial taxes to taxpayers who have income from occupational pension plans or individual retirement savings plans. Taxpayers with incomes too low to owe income tax do not benefit from these two tax breaks.

REFORMS

a. From universality to broad based income-testing

Old Age Security used to be seen as a centrepiece of the universalist model of Canadian social policy, along with universal Family Allowances. Yet both programs were replaced by income-tested benefits with little political difficulty, even though seniors and children's groups mounted strong public campaigns to fight the changes.

The end of universality began in 1989. The Conservative Finance Minister introduced a special tax on Old Age Security and Family Allowance benefits which became known as the 'clawback.' Old Age Security and Family Allowance recipients with individual net incomes over \$50,000 had to repay their benefits at the rate of 15 cents for every dollar of net income above the \$50,000 threshold.

The clawback of Old Age Security benefits from seniors with net incomes over \$50,000 affected only four percent of seniors when it was introduced in 1989. Relatively few elderly Canadians have incomes that high and the measure was phased in one-third at a time over three years.

But the Conservative government at the time was careful to only partially index (to the amount of inflation over three percent a year) the \$50,000 trigger level for the clawback. Partial deindexation meant that the trigger level for the clawback declined steadily in real terms each year and so hit more and more seniors.

Only in 2000 was the threshold fully indexed, rising from \$53,215 in 1999 to \$53,960 for 2000. But the latter amount is worth only \$42,540 in 1989 dollars. This means that the threshold fell by \$7,460 in constant dollars □ a sizable 14.9 percent decline □ between 1989 and 2000.

While Old Age Security is now an income-tested benefit, it is targeted high up the income range. The 2000 Budget's decision to fully index the income threshold above which the income test is applied means that the gradual erosion in the reach of Old Age Security has ended. It will remain a very broad based social program serving the great majority of seniors.

The seniors' lobby and social advocacy groups fought the clawback just as hard as they had the partial indexation proposal four years earlier. But the Conservatives' campaign to convince the Canadian public of the seriousness of the debt/deficit problem had helped change the political climate. The government did not withdraw the clawback.

The clawback was one of the pivotal events in the history of the Canadian welfare state. It removed the 'sacred' universal foundation of the public pension system. Significantly, there was almost no public opposition to this fundamental change toward a post-welfare social security system.

One explanation is that the clawback was a complex and hard to understand technical measure. It was a technical change that most Canadians could not fully grasp. But another possible explanation is that Canadians no longer were as firmly wedded to the notion of universality as they were in the past.

The 1994 federal Budget took a small but firm step along the difficult road to pension reform. It imposed an income test on the age credit, which used to be available to all seniors who owe income tax. The full age credit is now available only to elderly taxfilers with net incomes under \$26,284. It is reduced by 15 cents for every dollar of net income above that threshold. This means that seniors with net incomes over \$49,824 do not qualify for any age credit.

The 1995 Budget took another step toward a fully income-tested old age pension. Starting in July 1996, the clawback on Old Age Security is applied before cheques are sent out to seniors, on the basis of last year's income, rather than after they fill in their tax return as was previously the case.

B. ONE VICTORY FOR THE UNIVERSALISTS: THE FAILURE OF THE SENIORS BENEFIT

In 1993, the Caledon Institute proposed a radical restructuring of federal elderly benefits. The proposal would replace the five existing programs — Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance, and the pension and age credits — with a single, family income-tested program for low- and middle-income seniors.

Caledon put forward two major arguments for its proposal. These arguments focussed upon sustainability and equity.

Old Age Security costs are the single most important cause of rising social spending in Canada. The country has a rapidly aging population. It is exerting upward pressure on public and private expenditures on pensions, health care and social services. Reform of old age pensions is essential if Canada is to maintain an adequate level of basic income support for the rising number of low-income seniors in the decades to come.

Caledon's other argument was directed at the unfairness of the existing elderly benefits system. The five current programs present an irrational array of income tests.

Old Age Security and the age credit are income-tested on an individual basis. The pension income credit is income-tested on an individual basis. It is not available to people with private pension income who are below the taxpaying threshold, though relatively few would fall in this category. But the Guaranteed Income Supplement and Spouse's Allowance are income-tested on the combined income of both spouses — i.e., family as opposed to individual income.

The result of these mixed income tests is that elderly couples with the same income can receive different amounts of elderly benefits, depending on each spouse's share of family income. Throughout most of the income range, what can be termed 'two-income couples' receive more benefits than do 'one-income couples.'

One-income couples have the advantage over two-income couples at the low and high ends of the income spectrum. In the extreme case, an elderly spouse with little or no income other than Old Age Security, but living with a wealthy spouse, could receive the maximum Old Age Security (paying no income tax and not subject to the income test). By

contrast, elderly single people or couples with even quite modest incomes end up with less after-tax Old Age Security because they are in taxpaying range and must pay tax on their Old Age Security benefits.

The federal government adopted Caledon's idea and called its proposed new program the Seniors Benefit. It was structured as a two-tier structure with two benefit components and two reduction rates (i.e., the Guaranteed Income Supplement component on top of Old Age Security, with reduction rates of 50 and 20 percent, respectively). The two tax benefits were eliminated and their funding incorporated into the new system.

The Seniors Benefit's major reform would have been to create a single, family income-tested program. The proposal was designed to ensure that low- and middle-income seniors not suffer any loss in income. Neither would current seniors lose because the new benefit included phase-in provisions.

The Seniors Benefit would have paid the majority of seniors either more than or the same as they got under the current system. Three in four elderly households would have received more or the same.

Elderly households with incomes under \$40,000 — about the average income for couples and more than double the average income for single seniors at the time — would have been better off or no worse off under the new program. Some couples in the \$40,000-\$50,000 income range would have received somewhat more and some somewhat less, depending on the income mix of the spouses. Couples with income over \$45,000 (above the \$40,000 average income) would have gotten less. Those above \$78,000 (almost double the average income) no longer would have received elderly benefits.

The proposed Seniors Benefit ran into strong criticism from those on both the left and right of the political spectrum. It eventually was withdrawn in the summer when Parliament was in recess and many media and Canadians on holiday. It was attacked for its family income test and its alleged damage to incentives for saving for retirement.

In their fight against the Seniors Benefit, women's groups advanced the 'poor

wives with rich husbands' argument. According to this line of reasoning, even in some wealthy families, elderly women have little or no income of their own other than Old Age Security. They are completely dependent on their husbands. The Seniors Benefit would have removed the only source of income for these poor wives with rich husbands. (The same argument had been used to oppose the abolition of universal Family Allowances, but was dismissed.)

There may be some wives whose wealthy husbands deny them income. There are no estimates as to how large a problem this is. But the question remains as to why social programs should be seen as an answer to the unequal distribution of income between spouses.

The critics also claimed that the Seniors Benefit was yet another attack on universality. Ironically, the reform would have reduced or removed benefits for only well-off seniors. It would have improved benefits for poor and modest-income seniors. So universality won out over fairness in the feminist assault on the Seniors Benefit.

The other major attack on the proposed Seniors Benefit came from those on the right. The private pension industry selling individual retirement savings plans argued that the 20 percent reduction rate on the Old Age Security part of the Seniors Benefit would discourage Canadians from saving for their retirement. (They really meant investing in Registered Retirement Savings Plans, since such private pension income would reduce the amount they would get from the Seniors Benefit.)

The notion that middle- and upper-income Canadians would impoverish themselves in old age by not investing in retirement savings accounts or occupational pension plans so that they could qualify for a Seniors Benefit is hard to believe. But the criticism received considerable media attention and the political pressure on the federal government from the pension industry was strong. Faced with opposition from both left and right, the federal government withdrew its proposed Seniors Benefit.

Conclusion

The reform of Canada's income security system can be characterized as a transition from a universalist to a post-welfare model. This model includes a substantial reliance on income-tested income security programs. While this paper focusses upon income security in particular, social services and education are an equally important part of this evolution.

The many changes described in this paper can be summed up as follows. Income security reform in Canada over the past decade has sought to achieve several major goals. First, Employment Insurance and welfare, in particular, have become more 'active.' They have incorporated measures to help recipients move off programs of income support and enter the paid labour market.

Second, income security reform has sought to find ways to make work an attractive option. The National Child Benefit has made a substantial contribution to this objective by equalizing child benefits between working poor and welfare families and by investing in work-related supports.

Finally, income security reform is intended to reduce poverty in Canada. The introduction of and enhancements to the National Child Benefit are an important step forward for working households. But while progress has been slow and steady, there is still a long way to go on the anti-poverty front.

5. Lessons for the Russian Federation from the Reform of Income Security Programs in Canada

Purpose

The purpose of this follow-up note to our long paper is to reflect upon the findings of the research carried out on income security in Russia and to link these findings to the lessons learned from recent and ongoing income security reform in Canada.

A Note of Caution

Although the Russian Federation and Canada share at least three defining characteristics – federal systems of government, long cold winters and a passion for hockey – they are unlike in many more ways. These differences include not only their traditions of social policy, but also the political and economic systems in which social programs operate. These profound differences must be clearly understood before we can suggest lessons to our Russian colleagues from Canada’s social policy experience.

Canada is a liberal parliamentary democracy, organized into a strongly decentralized federation of one central, ten provincial and three territorial governments, with a market economy. Government’s role *vis-à-vis* the economy is mainly threefold: It makes fiscal and monetary policies; sets various regulatory frameworks for trade and commerce; and operates a comprehensive network of social programs that are closely connected to the economy in several ways.

Canada’s tax/transfer system plays a crucial redistributive role (both among individuals and provinces) by substantially reducing market income inequalities and establishing an income floor below which (in theory) no citizen is allowed to fall. Publicly funded core health and education systems provide services that are deemed too important for the market to operate on its own (the latter suffers from efficiency and equality limitations). However, in the case of health care, Canada actually has a mixed public/private system (with public financing of core services, but delivery by doctors largely in their roles as self-employed professionals, not public servants). At the same time, employers depend increasingly on social programs to furnish the crucial ‘social and intellectual’ infrastructure that nourishes economic growth and innovation and enhances a nation’s international competitiveness.

Yet Canada’s social programs, in turn, are dependent on, linked to and constrained by the market economy. They are financed through income, payroll and other taxes that are paid by employees and employers. The economy clearly affects social expenditures. It sets both fiscal and ideological limits on the generosity and design of social programs. During times of recession, rising expenditures for income

programs (especially Employment Insurance and social assistance) contribute to government deficits and inevitably provoke calls from the corporate sector and the political right to reduce spending. Canada's federal and provincial governments have just emerged from several years of both overt and covert cuts to major social programs, as well as tax increases, that were imposed to vanquish the deficit and curb the mounting debt.

The need to make social programs work hand in hand with the labour market is a currently fashionable but, in fact, enduring theme in Canadian social policy. Throughout our history, there has been concern about some social programs creating disincentives to work and attempts (the most recent being the National Child Benefit) to reform social programs so that they encourage rather than hinder labour force participation.

As noted in our initial paper, the founders of the Canadian welfare state did not envisage income security programs as a primary or permanent source of income for the non-elderly population: That should remain the role of employment earnings obtained from participation in the labour force. A full employment economy was posited as the essential foundation for an effective and sustainable social security system.

In practice, though, Canada never pursued a policy of full employment and experienced rising rates of unemployment in the decades after the Second World War. As a result, income programs became a more important source of income than the nation's social policy pioneers intended – a fact that critics from the right lament at every occasion. Nonetheless, employment remains Canadians' major source of income, and there are strong cultural norms favouring paid work and discouraging reliance on income programs.

All of this is to say that we must be cautious in offering lessons to Russia from Canadian social policy. The Russian Federation is going through one of the most rapid and profound political and economic transformations in world history. A strong social security system cannot be built on a weak or turbulent economic and political base. Income security programs cannot and should not be expected to

make up for the lack of stable employment income for the substantial majority of the population. Reforming social programs to function effectively in and for the emerging political and economic system in the Russian Federation is an enormous challenge.

However, the problems discussed in the Russia paper are by no means unfamiliar to Canada – even if they appear to be much more daunting in Russia’s case than Canada’s – and in this respect at least Canadian experience can offer some instruction. Canada has been making significant structural changes to its income security system in recent years, as detailed in our paper, which in part attempt to deal with the same basic problems that the Russian Federation faces.

The key Canadian income security reform technique is ‘broad based income testing’ of child and elderly benefits that used to be delivered universally to all families and seniors, regardless of need. Although income support for the elderly is primarily a federal government responsibility, until recently income support for children was divided between the federal and provincial levels. The current reform increases the federal financial commitment and seeks to shift the share of provincial spending from income benefits for children into a wide range of services, which are primarily a provincial responsibility.

Russia is attempting to simplify and rationalize its complex, categorical collection of income supports and services. It faces problems financing its social programs, with an imbalance between regions’ responsibilities and their fiscal capacity. Its social benefits rarely take into account criteria of financial need, which exacerbates the financing problem.

Lessons from Canada

i. Integration of benefits

The Russian Federation has an incredibly vast array of income benefits that vary by cause, region and delivery. The Russia paper notes that federal law mandates an astonishing 156 kinds of social benefits delivered to 236 different categories of the population. Few of these benefits systematically take into account

need; most are paid to categories of the population.

Although Canada has a fairly complex income security system, in part because the federal, provincial/territorial and (in some cases) municipal governments each deliver benefits both through direct spending and through the tax system, it is far less unwieldy than Russia's. First, Canada has far fewer programs. The federal government operates only eight major income programs (Old Age Security, the Guaranteed Income Supplement and Spouse's Allowance for seniors; the Canada Pension Plan; Employment Insurance; the Canada Child Tax Benefit; veterans benefits and allowances, and social assistance for aboriginal people on reserves) as well as a variety of tax expenditures that reduce federal and provincial income tax.

The provinces, territories and (in a few provinces) municipal governments operate social assistance. Quebec runs the Quebec Pension Plan, parallel to the Canada Pension Plan. Provinces and territories are responsible for Workers' Compensation programs and offer various income tax breaks, mainly in the form of refundable tax credits.

Some Canadian programs offer a package of income benefits within a single system. The Canada Pension Plan and Quebec Pension Plan provide not only retirement benefits, but also survivor, disability and death benefits. Employment Insurance offers unemployment, parental and sickness benefits. Workers' Compensation and veterans benefits combine income and health care services.

Moreover, Canada has integrated some of its income benefits in an effort to overcome conflicting designs; create simpler, more transparent programs; and reduce administrative overlap and duplication. The most notable example is the area of child benefits, which have seen two forms of integration.

First, three federal programs with different designs and objectives (Family Allowances, the refundable child tax credit and nonrefundable child tax credit) were integrated into a single broad based income-tested Child Tax Benefit. Eligibility and level of benefit are calculated on the basis of family income (maximum benefits to low-income families, diminishing benefits to most non-poor families).

Second, federal and provincial child income benefits are in the process of integration under the National Child Benefit, with federal increases triggering decreasing provincial child benefits delivered through their needs-tested social assistance systems and the development in most jurisdictions of income-tested child benefits and earnings supplements. Most of these benefits and supplements are delivered by the federal income tax system on behalf of the provinces and territories. Thus the integration of federal and provincial income programs for children involves both design and delivery elements.

But integration of social benefits is much easier to espouse than achieve. The federal government recently attempted to combine its three elderly benefits into a single, family income-tested broad based program (to be called the Seniors Benefit) analogous in design and philosophy to the Canada Child Tax Benefit. However, this proposal sparked criticism from both left and right – for different reasons – and the government abandoned the reform. Pension policy in Canada, as in the US and most other countries, is a politically explosive undertaking that must overcome strong, entrenched interests.

So also has the National Child Benefit provoked attacks from social groups complaining that some low-income families – those on social assistance – see no net increase in their child benefits, whereas others – the working poor – enjoy a significant real increase. This criticism is misleading – the whole point of this stage of reform is to raise working poor families up to the level of child benefits received by social assistance families. But it demonstrates that significant reforms of social programs typically raise issues about ‘winners and losers.’

Consolidation is never easy politically even though it appears logical from a program perspective and desirable from an administrative perspective. People may feel that they are losing something – despite the fact that the benefit which they received in past has been rolled into something new. They must be informed why and how the benefit is changing. Any consolidation should try to ensure that lower-income people are not worse off prior to any reform – that they are at least the same, if not better off, financially – and that reductions, if deemed necessary for cost reasons, affect only higher-income people.

Much remains to be done in streamlining income benefits in Canada besides elderly benefits. There are several tax-delivered benefits (in the form of income tax reductions) for persons with disabilities or their families that are difficult to understand and access and that have some qualifying linkages (i.e., to qualify for a certain benefit requires qualifying for another). Some progress has been made in recent years in improving these programs (in terms of increasing benefit levels, providing some refundable benefits to low-income people and widening eligibility), but the result has been even more programs and an even more unintelligible system.

ii. Determination of eligibility

Russia appears to rely to a great extent on a combination of needs testing and categorical demogrants (i.e., benefits go to all persons within a category not defined by level of income or other economic indicators of need) to determine eligibility. Canada also had such a mixture, but is in the process of moving to increasing use of income testing.

Needs testing is undesirable for several reasons: Social assistance, Canada's major remaining needs-tested income program, is a highly rules-and-regulations-bound system that is discretionary, costly to administer, highly intrusive in applicants' and recipients' lives and stigmatizing. Income testing, by contrast, is much simpler (eligibility for and amount of benefit is determined by a simple test of income), non-intrusive, inexpensive to administer and non-stigmatizing.

However, the latter approach requires a well-designed administrative mechanism. Ideally, the national tax system can be used for this purpose, as in Canada, since it can deliver as well as collect money within a single apparatus. But such an answer is likely not possible in Russia – because of fragmented income benefits and particularly in light of recent reforms which have regionalized the income tax system.

In the absence of a national tax system, it is possible to put in place a special-purpose delivery by having people fill in forms and apply for the program. But this approach is more costly to operate (because it requires building a new system) and typically brings problems of public awareness and take-up: Potentially eligible recipients fail to apply because they do not know of the program or do not want the hassle of dealing with government. The advantages of having the Canada Child Tax Benefit and other income-tested programs delivered through the income tax system is the fact that people are already reporting their incomes. Indeed, eligibility is determined automatically for them on the basis of their level of income.

Income testing through the income tax system, as in Canada, requires virtually universal compliance with that system. Such is not the case in Russia. One of the weaknesses of tax-based income testing is that it can result in a considerable lag between the period for which income is calculated and the receipt of benefit. This 'responsiveness' problem becomes more serious if people suffer a large drop in income. They fall from middle income to low income and hence would qualify for the maximum level of income support – but have to wait some months before the system can respond to their changed circumstances.

Needs-tested systems, by contrast, are very responsive because they test income and other circumstances frequently, though at the cost of intrusiveness and stigma. How serious the responsiveness issue would be in Russia depends on the design of the program and the distribution and regularity of incomes. If most recipients have low, albeit irregular, incomes, then the responsiveness problem is not serious (they already would qualify for the maximum payment).

In Russia, some people may be reluctant to report their income to authorities and remain outside the income tax system or any other purpose-built income testing mechanism. People may be paid 'under the table' and it may be difficult to get a true sense of their actual economic situation.

For these reasons, Russia may prefer to maintain a needs-tested approach that includes a detailed assessment of assets and, perhaps, other indicators of need. But we know from our experience in Canada that needs testing is a costly, inefficient

and stigmatizing route. Indeed, welfare is the most ‘despised,’ least desirable form of income security. There are also problems in counting assets as deemed income. Even though a household may have shelter, they still may not have sufficient cash to pay for food, utilities and clothing. The major advantage of needs testing is its ability to respond rapidly to changes in recipients’ circumstances, and to identify and ideally to help compensate for extraordinary costs associated with health- and disability-related conditions, and other special needs (e.g., funeral costs; special transportation).

By far, the simplest way to deliver income benefits is through demogrants, which pay (usually the same amount to) all people in a category (e.g., families with children, veterans, seniors) regardless of their income, assets or other economic characteristics. By the same token, though, universal programs are blunt instruments that fail to directly take account of economic need and do less to attack poverty than targeted programs. Canada abandoned two of its major demogrants, universal Old Age Security and Family Allowances, in the early 1990s in favour of income-tested systems.

In Russia, however, an income-tested approach likely would pay a similar (maximum) amount to a larger percentage of the population, simply because incomes are more concentrated at the low end. Depending on its design, then, an income-tested program in Russia might end up very similar to a demogrant in distributional terms. Still, an explicitly income-tested approach can vary its benefits according to income level and thus can be targeted to need unlike a flat-rate demogrant (even one that is subject to income tax). This strength could become quite important to the extent that Russia’s economy grows in such a way as to create a larger middle (and upper) class.

iii. Type of benefit

The cost of any income security scheme that provides a non-trivial benefit is bound to be substantial, especially if it is a broad based income-tested program or

demogrants. Canada's federal government spent a total of \$60.3 billion on its income security programs in 1998-98 (note that this figure excludes federal transfers to the provinces for their income programs, primarily needs-tested social assistance) which amounts to 49.5 percent of total federal program expenditures and 6.7 percent of Canada's GDP. The largest single expenditure was on elderly benefits (\$22.8 billion), which are increasing steadily in real terms because of the aging of the population.

For the same level of expenditure, a highly targeted (either income-tested or needs-tested) program can provide a larger maximum benefit, though of course to far fewer recipients – usually, only or mainly the poor. As noted above, Canada has been moving in the direction of broad based income-tested income security programs away from both demogrants and needs-tested benefits. However, the move from demogrants to income-tested programs has not been undertaken as a cost-saving exercise. The income test on Old Age Security affects only a tiny minority of upper-income seniors, while the Canada Child Tax Benefit not only serves the large majority of families, but also is significantly raising maximum benefits for the poor and modestly improving payments to the non-poor.

Several provincial governments provide earnings supplements for lower-income families with children, and earnings supplement experiments for single parents are under way in British Columbia and New Brunswick. As noted in the paper, both levels of government operate significant child benefit programs that help the large majority of working families and all non-working families. However, neither the federal nor provincial governments offer earnings supplements for the working poor generally (i.e., including single people and childless couples) mainly for two reasons: concerns about cost and about 'interfering' in the private wage market.

While the government of Russia might want to consider some form of earnings supplementation to top up earnings, similar concerns would hold as for Canada. We would suggest beginning with improving child benefits before launching large-scale earnings supplements for all lower-income workers (which in Russia's case likely would prove extremely costly given its high concentration of low-wage workers). Moreover, earning supplements are predicated upon a well-functioning

wage system; they are meant only to supplement low wages.

In Canada, the federal and provincial governments set minimum wages (the federal rate equals the rate applicable in each province) though they are not indexed to either prices or average wages and are relatively low. Again, however, this form of income security is predicated upon the existence of a well-functioning wage system and on its own cannot be expected to assure that paid work can adequately support all workers (especially those with dependants).

iv. Jurisdiction

One of the key lessons from income security reform in Canada is the crucial importance of interjurisdictional cooperation. Problems have arisen in the past (and continue to arise) from lack of coordination and the inability of the senior levels of government to agree to coordinated structural change in their interdependent income programs. The only serious attempt to institute a system of earnings supplements (in the mid-1970s) failed in part because of the inability of the federal and provincial governments to strike a deal. The current National Child Benefit is a rare and welcome example of – and, hopefully, model for – close cooperation between the central and provincial governments.

Reform of programs and redesign of benefits cannot succeed without considering the respective roles of the various levels of government. If programs are not structurally integrated, at least there might be improved coordination between levels of government (e.g., sharing of administrative data). Canada's positive experience in child benefit reform underlines the importance of close cooperation and joint work at the level of both politicians and public servants. The National Child Benefit was engineered and implemented by a federal-provincial officials working group that is still operating actively, and a similar organization has been established for reform of services and supports for Canadians with disabilities (another important area where the federal and provincial governments are very much intertwined in responsibility and expenditure).

Canada's social security system overall has tried to cope (with

debatable success) with the problem of imbalance of responsibility and revenue capacity mentioned in the Russia Paper. Canada has used three main instruments.

In the 1970s, the federal government ceded some tax points to the provinces (i.e., allowed the provinces to occupy a larger part of the income tax field) to enhance their revenue generating capacity. The Canadian central government provides social transfer payments and equalization payments intended to help pay for provincial social expenditures and to help level the playing field between poorer and richer provinces. And the federal government has increased its role in one key area of income security – child benefits – with compensating payments to the provinces. They can shift their expenditures from social assistance to other program and services for low-income families with children. Russia could consider the Canadian experience in this important aspect of income security policy on a federal system of government.

v. Public role in reform

Canadian governments (especially the federal government) have long followed a tradition of seeking the views on public policy reform of the general public and of nongovernmental interest groups, through such mechanisms as Royal Commissions, public inquiries and task forces and (on a permanent basis) Parliamentary committees that head witnesses and accept written briefs. In recent years, there has been increasing emphasis on the need for governments to form ‘partnerships’ with various nongovernmental actors (e.g., employers, unions, voluntary groups, communities) both to design and implement public policy reform.

There is cynicism from some quarters (especially social groups) about the extent to which these consultative and partnership efforts are mere window dressing that play only a tangential role in policy making and give merely the appearance of democratic government. Nonetheless, these partnership arrangements have played an important role from time to time in generating ideas and responding to government proposals.

6. Post-Welfare State: Canadian Experience of Designing Social Policies and Some Lessons for Present Day Russia

INTRODUCTION

The transformation process is seemingly of the universal nature and differs in various countries only by “phases of growth” and packages of methods and mechanisms within the economic and social policies frameworks applied in any given case.

Russia, which has been apparently behindhand with reforms in the social sphere, is interested in an analysis of causes, consequences, and methods applied to settle problems in the social area in practically any country with traditions of such a reformation. In this respect, Canada may be of a special interest, since notwithstanding considerable differences in the levels of citizens’ welfare, different legal traditions, long-time domination of the Northern American model of market economy, two our countries have much in common -- from the state basing on the federative principles to belonging to the same “northern” group of countries with similar demographic and labor market situation.

The formation of the conceptual and legal framework of social policy, alongside with the creation of mechanisms ensuring its financial and organizational aspects in the course of economic reform in Russia of 1990s was affected by rather contradictory factors.

The first five years of the reform may be defined as the period dominated by the liberal thesis that an effective system of social assistance may be established only on the foundation of an adequate resource base, which may be created only in the framework of an efficiently functioning economy. At the same time, the necessity to smoothen social tensions in the society over resulted in the fragmented governmental actions in the social sphere, which were adapted to current challenges, that sharply decreased the stability and predictability of social policy thus undermining the public confidence.

The August 1998 crisis has caused complete paralysis of the reform component of social policy, which lasted until end-1999. The government actions were mostly aimed at mitigation of negative social consequences of the crisis on the one hand, and to restrain pro-inflation components of social policy on the other hand.

The elimination of old social and economic system, and the designing of new “rules of the game” were often formalized by directly adopting organizational and legal mechanisms in

force in developed market economies. Since the newly created institutions lacked consistency with both their formal pre-reform analogs, and, more importantly, current informal rules and traditions, the underestimation of real interests of economic agents and changing social structure resulted in sharp deterioration of effectiveness of social innovations.

The dominance of macroeconomic approach to the reform relegated institutional transformations to background (for instance, the reorganization of financial and organizational infrastructure of the social sector and the regulation of labor relations was neglected).

A profound transformation of the social and economic system carried out without regard to the mutating system of interests resulted in the emergence of informal adaptation mechanisms with intrinsic to them customs, behavior stereotypes, organizational forms of production and consumption.

Dualism of the modern Russian social and economic system (the “shadow economy” generating, according to different estimates from 1/3 to 1/2 of the GNP, is the most common form of the manifestation of adaptive trends) results in the high real authority of unwritten rules of social behavior, which, due to their universality and relative stability negatively affect the perception of a number of social innovations by the society, on the one hand, and, on the other hand, forms a certain “social demand” with regard to the philosophy and implementation methods of transformational social projects (for instance, the “social pact” as a pledge of the continuation of reforms, much discussed recently, since long exists in the framework of the “shadow economy”).

The objective, pursued by social policies implemented in modern Russia, is a contradictory one. Ideally, it is necessary to improve the effectiveness of the state discharging its responsibilities to citizens in the framework of Constitutionally set social guarantees to the populace in the situation of constantly shrinking budget capacities of the state.

Narrow range of possible decisions creates incentives to study foreign experience more thoroughly, especially that of the “next step,” since the cost of both theoretical and administrative mistakes manifold increases under the present conditions.

ARCHITECTONICS OF THE CANADIAN SOCIAL POLICY MODEL

The description of elements of the Canadian social security system (more precisely, the system of public income support) presented in the paper is of a certain methodological interest (in particular with regard to the recent debate about the reform of the mechanism of funding

social payments in Russia), since it rather clearly structures various types of social assistance by category.

The authors base the typology on the nature of the source of funding of social payments – insurance or tax.

Social insurance programs (in the framework of such programs individual contributors seek to protect themselves from the insecurities associated with a given risk) in Canada are:

- At the Federal level - Employment Insurance (formerly known as Unemployment Insurance); the Canada Pension Plan;
- At the regional level - workers` compensation systems, which protect employers from potential financial ruin in the event that an employee experiences a work-related accident and decides to launch a lawsuit for damages.

There are also *four tax-supported income programs*.

The authors introduce additional differentiating criteria for this group dividing it into three types. Tax-supported programs include *universal, income-tested and needs-tested programs*².

1. Universal income security programs

At present Canada does not have in place any universal income security programs funded from budgets of different levels, i.e. not based exceptionally on social and demographic eligibility criteria for provision of income-support payments (such as old age, presence of children, etc.)³.

Two programs basing on this principle (Old Age Security for all Canadians age 65 and over, and Family Allowances, under which all families with children qualified for the payment) were in place until early 1990s.

2. Income-tested programs

² It shall be noted that practically no such typology can be found in the Russian literature on social and economic issues, although it seems to be useful to render the set of concepts more consistent.

³However, it may be noted that Canada's social insurance programs are universal in the sense that the income is taken into account implicitly (as contributions made to insurance financial institutions).

At present *all*⁴ of Canada's tax-supported income security programs are delivered on an *income-tested basis*.

3. Needs-tested programs

The major program based on this principle⁵ in place in Canada is the social assistance program funded from regional budgets.

The conclusions the authors arrived at after comparing different models of social mechanisms in place in Canada are of a certain interest:

<i>Type of program</i>	<i>Advantages</i>	<i>Disadvantages</i>
Social Insurance Programs	<ol style="list-style-type: none"> 1. They are efficient, effective and fiscally responsible income replacement for the contributors who fell victim to a designated risk; 2. The use of collective provision offers economies of scale; 	<ol style="list-style-type: none"> 1. They decouple contribution from entitlement, both in the sense of lesser entitlement, and the variance between the number of contributors and recipients, what results in the undermining of the fundamentals of the "social contract."
Income-tested Programs	<ol style="list-style-type: none"> 1. They are objective (eligibility can be established through tax statistics); 2. They are administratively simple and do not create incentives for corruption (no contact between recipients and government officials); 3. No decisions are made on the basis of a detailed assessment of personal 	<ol style="list-style-type: none"> 1. Absence of built-in indicators of fairness and reciprocity of social payments since they are provided on the basis of only one criterion.

⁴ They include the new Canada Child Tax Benefit, the trio of federal benefits for seniors (Old Age Security, the Guaranteed Income Supplement and the Spouse's Allowance) and the refundable Goods and Services Tax credit.

⁵ The liquid and fixed assets, and potential sources of income are assessed against household basic requirements and special needs.

	circumstances.	
Needs-tested Programs	1. They provide the most complete information about the real social and income situation of recipients.	1. They require extensive information; 2.They employ administrative discretion.

In principle, the assessments presented in the table look very convincing. The basic disadvantages in determining the eligibility of recipients are apparently inherent to these very mechanisms. At the same time, it shall be noted that under present conditions in Russia the system of social payments based on the criteria of households incomes can not exist without a declaration component (due to the absence of objective statistical data, etc.), thereby it becomes very complicated. Needs-testing requires complex bureaucracies with corruption and biased decisions inherent to them.

THE GENESIS OF CANADIAN SOCIAL POLYCY SYSTEM: FROM EXTREMES TO A BALANCE?

The authors review the development of Canadian social security system in the context of transition from the traditional market “residualist” system via the post-World War Two “universalist” model to the emerging system of the “post-welfare state.” However, this transition is far from being completed.

At the technological level, this development is seen as the transition from universal and needs-tested techniques to the system of income-tested targeting.

A brief outline of the basic parameters of the consequent concepts of social security predominant in Canada may be presented as follows:

Dominant concept of social policy	Basic parameters of concepts
-----------------------------------	------------------------------

Market («residualist»)	1.A «laissez-faire» approach dominates, the market is seen as the main regulator of social and economic processes; 2. Government shall play a limited role in questions of social policy, distribution of goods and services, its role shall be limited to a last resort only for the poor and destitute. 3. Reliance on oneself, family, church or charities.
«Universalist»	1. Conviction that government has major role to play in altering the market economy's unequal distribution of income, wealth and opportunity; 2. It is recognized that the state has a responsibility to ensure universal access to essential public goods; 3. Social benefits are regarded as rights to be granted to citizens according to objective criteria of need; 4. The model envisages a much broader set of social policies directed to larger segments of the population; a "universal," not specifically targeted approach dominates; 5. Much attention is paid to labor market problems, for instance, more effective and full employment; 6. Government seeks to ensure basic living standards.
«Post-Welfare State»	1. Social assistance schemes are designed on the basis of recipients' income-testing replacing former universal approach; 2. More attention is paid to unintended work disincentive effects (both objective and subjective); 3. Attention to interactions and links between tax and social policies; 4. Desire to balance 'active' and 'passive' social programs; between reactive and preventive approaches; 5. Concern about the financial sustainability of social programs; 6. Concern to harmonize federal and provincial social programs; 7. Recognition that there are several players (public, private sector and voluntary) in social policy, and the need to better utilize and combine their resources through partnership; 8. Increased recognition that communities have a major role to play in social policy design as well as delivery; 9. Emphasis on the economic functions of social policy, especially in education and training to ensure a competitive workforce, and on functions of social policy in generating economic growth; 10. Emphasis on transparency as a mechanism of social policy and the use of the results of social reporting.

Summing up the table, it may be noted that *the key trend in the development of Canadian social policy from the “free market” model of late 19th century via various Keynesian and neo-Keynesian constructions (judging by the contents of the “universalist” model it is a typical model of an age characterized by rapid economic growth and desire to effect the transition to a “welfare state”)* to a rather technocratic, conservative by its political dominants model, which attempts to combine a balanced participation of the state and other social actors in social policy with more effective methodological tools.

The “universalist” vision has never been fully realized in Canada’s social policy and all its implemented elements were put in place between the 1940s and 1970s⁶.

Factors preventing the creation of an integral model of social policy in Canada over the last three decades will be listed and briefly analyzed below:

Factors behind the revision of “welfare state” in Canada		
Economic	Social	Political
1. End of rapid economic growth in mid-1970s; 2. Higher inflation rates; 3. Mounting federal and local government deficits, reduced funding of social programs in the situation of growing demand and increased number of programs (unemployment and household incomes support); 4. Growing unemployment (including concealed unemployment) and part-time employment; 5. Polarization of earnings at	1. Changing social roles in families (the dramatic increase the number of families with both spouses working); 2. The high rate of marriage breakdown and remarriage; 3. A dramatic increase in the number of single-parent families; 4. Less children per family (that increasing the burden of housework on parents); 5. Increased mobility of families (as a result many of them are isolated from	1. The Keynesian-inspired civil servants and politicians have long retired. They have been replaced by neoconservative bureaucrats, especially in financial institutions. 2. The change in the political paradigm – the cost of welfare shall be taken into account, there is the need to put the finances in order. 3. Strengthening centrifugal trends – at present the Federal Center has less rights in the

⁶ However, the list is impressive: social housing programs implemented both at the federal and provincial levels of government; universal health care (‘medicare’); loans for postsecondary students, broad use of “tax expenditures” within the income tax system as a tool to ensure income security, etc.

the expense of middle-income employment; 6. Increase in hours of work.	traditional supporting structures);	social field of policy than provincial governments.
---	-------------------------------------	---

Therefore, *the situation of the Canada's social policy sphere is affected by practically the same set of factors, as in Russia*. Of course, the full analogy would be out of place (for instance, the Canada's external debt is considerably less than that of Russia, and Canada did not experience a default over last five decades). However, it would be appropriate to emphasize the importance of political variables, such as a change in the paradigm of social and economic theory and the influence (both positive and negative) of absolutely external unpredictable economic perturbations, such as fluctuating prices of energy resources.

Apparently, at present *expensive systems of social protection and assistance are a luxury even for rather well-to-do countries*. At the same time, the predominance of purely monetarist approach may ruin both the most fine part of the social protection system – its infrastructure, and seriously damage the human component of economy.

INNOVATIONS IN CERTAIN AREAS OF SOCIAL PROTECTION SYSTEM OF CANADA

A. Child Benefits and Social Assistance

Two components of social security -- child benefits and the social assistance system -- underwent the most dramatic reform.

The reform of social assistance is aimed to tighten the rules of its provision and to narrow eligibility requirements.

Social assistance programs, based on households needs-testing and financed from provincial budgets, vary across provinces with regard to the social constraints on eligibility.

For instance, in Quebec adults 18 years of age and over who have not yet declared their independence (e.g., they are not married; they have no children of their own to support) are considered dependent. Therefore, their parents are required to contribute maintenance and support.

Ontario announced in 1995 that an employable person quitting or losing a job without justification was disqualified from applying for welfare for three months. Besides, in 1997, the province introduced a program which made it mandatory for employable welfare recipients to participate in work-related or community service programs (like taking care of the elderly, persons with disabilities, etc.).

In principle, *all reforms of the system of social benefits are implemented in accordance with the uniform scenario recommended by OECD, which seeks to provide welfare recipients with the supports and skills they require to move off the program as quickly as possible.* The social assistance may take the forms in essence associated with active labour market measures, like skill training and upgrading, preparation of résumés, job search, etc.

In Canada, the system of child benefits historically has pursued two fundamental objectives: social support to the poor and the “horizontal equity,” i.e. a way for society to provide some financial recognition for the fact that families at all income levels with children face larger costs than childless households.

The history of Canadian child benefits can be divided into five main periods:

- The first phase, between the two World Wars, can be characterized as *‘regressive targeting.’* The personal income tax system provided a children’s tax exemption that delivered its benefits in the form of tax savings which increased with taxable income and excluded families with low incomes (in fact, most families were excluded in the times of the Great Depression characterized by widespread poverty and low average incomes);
- The arrival of universal, monthly Family Allowances in 1945 heralded the second phase: *‘untargeted universality.’* Child benefits were extended to include low- and modest-income families. But better-off households still got more because they were eligible for both systems;
- The 1970s ushered in the third phase: *‘progressive universality.’* Family Allowances were tripled, indexed to the cost of living and made taxable;
- The fourth phase, *‘progressive targeting,’* began in the 1980s. It culminated in 1993 with a single, income-tested Child Tax Benefit. It increased payments for working

poor families with children, maintained benefits for other low-income families, reduced amounts for middle-income families and excluded high-income families;

- Canada recently entered a fifth phase: an *'integrated child benefit'*.

The reform of child benefits – known as the *federal-provincial National Child Benefit*, which treats all low-income families equally, whether they are working or not – is now underway.

. Since the funding system of this benefit is of mixed nature, as the federal government increases payments under the Canada Child Tax Benefit, provinces are allowed to reduce their social assistance-provided child benefits by the amount of the federal child benefit increase. Provinces must reinvest the resulting savings in other programs and services for low-income families with children.

Over time, governments' objective is to raise the Canada Child Tax Benefit to the point where it would fully displace social assistance-delivered child benefits. These are estimated at a target of about \$2,600 in today's dollars⁷. In this way the system will become an integrated child benefit financed from the single source.

B. From Unemployment Insurance to Employment Insurance

Unemployment Insurance, one of Canada's first modern social programs based on the universalist model, was introduced in 1940.

While initial coverage under the program was limited (generally, to industry and commerce) and extended to less than 43 percent of the labour force, by 1971 almost all workers, including the self-employed, were covered.

The system existed (with some minor changes) until 1996, when *the federal government announced that a new program – Employment Insurance would replace all old programs.*

⁷ It is planned to reach about \$ 4,200 maximum per child annually within the first decade of the 21st century. That amount is a rough estimate of the annual cost of raising a child in a low-income family.

The new Employment Insurance Act provides for two types of benefits: *income benefits* and *employment benefits*.

The first *type of benefits* is paid to provide temporary income support for income claimants while they look for work and may *include sickness, maternity or parental benefits*.

The second type of benefits is similar to Russian “*unemployment benefit*.”

Benefits are calculated as 55 percent⁸ of average insurable earnings. The upper limit in the band of earnings over which benefits are calculated was decreased from \$ 42,380 to \$ 39,000. Maximum benefits are at \$ 413 a week. The new Employment Insurance Act reduced the maximum length of claim from 50 to 45 weeks.

The Act tightened up the *eligibility criteria* by increasing *the number of hours* (previously the number of weeks) worked required to qualify for benefits (from 420 to 700 hours, or the equivalent of 12 to 20 weeks), depending on the unemployment rate in the region⁹. This change represents an increase of between 180 and 300 hours over the former entrance requirement.

C. Elderly benefits

Canada has a multi-tier retirement income system with the following elements:

The base is made up of an almost-universal, income-tested old age pension program, financed through general government revenues.

There are five independent programs in the base tier:

1. *Old Age Security*, created in 1952. It pays a flat-rate, but taxable, monthly payment.

For year 2000 the maximum monthly payment was \$ 429.

⁸ There was introduced a rule intended to reduce the repeat reliance on Employment Insurance: recipients face a penalty of a one percentage point reduction in their benefit replacement rate after each 20 weeks of benefits, reducing the rate from 55 percent to as low as 50 percent.

⁹ This change represents an increase of between 180 and 300 hours over the former entrance requirement.

2. *The Guaranteed Income Supplement* is a monthly benefit (\$ 510 a month for a single person and \$ 327 for each member of a couple) for seniors with no income other than the first benefit.
3. *The Spouse's Allowance* equal to the sum of two first benefits has been paid to widowed pensioners since 1975.
4. *The Age Credit* provides a nonrefundable tax credit to pensioner taxpayers. It is worth a maximum \$ 900 in total federal and average provincial income tax savings.
5. *The Pension Income Credit* provides a tax break of up to \$ 255¹⁰ in combined federal and average provincial taxes to taxpayers who have income from occupational pension plans or individual retirement savings plans.

The second tier is the contributory earnings-related Canada Pension Plan that covers the entire workforce;

The third (private) tier is composed of private pension insurance programs (employer-sponsored occupational pension plans, and individual retirement savings accounts);

The fourth public tier consists of income tax breaks for pensioners.

The story of introduction and implementation mechanism of the so called “claw-back” tax intended to offset increases in social payments with additional taxes on pensioners is of a special interest.

After the claw-back was introduced in 1989, Old Age Security and Family Allowance recipients with individual net incomes over \$ 50,000 had to repay their benefits at the rate of 15 cents for every dollar of net income above the \$ 50,000 threshold.

The claw-back affected only four per cent of seniors when it was introduced in 1989. However, the initial trigger level for the claw-back was only partially indexed until year 2000, what resulted in the fact that the trigger level declined rather sharply in real terms. Only in 2000 was the threshold fully indexed, rising to \$ 53,960 (but this amount is worth only \$42,540 in 1989 dollars). This partial deindexation, naturally, results in a considerable

¹⁰ Naturally, pensioners with incomes too low to owe income tax do not benefit from these two tax breaks.

increase in the number of those paying the claw-back and, respectively, of budgetary revenues, even if these revenues were targeted for social payments. Starting in July 1996, the claw-back on Old Age Security is applied before cheques are sent out to seniors, on the basis of last year's income, rather than after they fill in their tax return as was previously the case.

Another interesting scheme is the introduction of an income test on the age credit, which used to be available to all seniors who owe income tax, in 1994. Since that time the full age credit is now available only to elderly taxfilers with net incomes under \$ 26,284, while seniors with net incomes over \$ 49,824 do not qualify for any age credit.

The following is a brief outline of Canadian lessons in the sphere of social policy, which are of interest to Russia.

First lesson is the integration of the system of social benefits. The Canada's social protection system employs a much more modest set of programs as compared to the Russian one. The Canadian federal government has jurisdiction only over eight programs: old age security, the guaranteed income supplement, employment insurance, the Canada pension plan, the child benefits program, programs of aid to veterans and native peoples of Canadian North.

Even if the system of social protection is compact, there is an apparent trend to its further internal integration along, at least, two lines: first, the provision of a package of related social services in the framework of one program (for instance, the Canadian Pension Plan provides a package of retirement, survivor, disability, children's and death benefits). Second, programs of social assistance merge and increase in scope.

The most illustrative example of this process is the development of the system of child benefits. Three previously independent programs with peculiar objectives and designs (family allowances, refundable and nonrefundable child tax credits) merged in the framework of a uniform income-tested program of child benefits. At the same time, there is an apparent trend towards the merger of individual federal and provincial payments allocated for these purposes in the framework of phased replacement of needs-tested provincial programs with a uniform income-tested federal program.

Therefore, the Canadian experience is an evidence of the desire to create a more compact (including less components), but more integral (with a rather complex internal structure) system of social protection based on the income-testing of recipient households.

Second lesson is the choice of eligibility criteria. At present Russia's social policy is based on a mixed two-criteria system of determining the eligibility for social assistance:

category- and needs-testing of assistance recipients. A similar situation exists in Canada. However, Canada seeks to deliver the bulk of income security benefits to households on an income-tested basis.

The difference between two our countries directly affecting not only effectiveness, but the very capacity to use the income criterion within the system of social policy is the level of development of the tax system. In the situation, where a full-fledged tax system disposing of reliable information on real household incomes in Russia is in the process of emergence, the only possible regime permitting to employ income indicators in social policy is the use of income declaration procedure, which is expensive, complicated and requires special information support. Only in case the declaration of incomes for taxation purposes is at least to a certain extent automatically employed for provision of social benefits an income-testing system may work efficiently and effectively. For instance, in Canada the provision of child benefits is practically automatically triggered by tax declaration showing that the citizen's income makes her or him eligible.

There is yet another danger. Russia's household income-tested social assistance programs may deteriorate into demogrants – category-based payments employing as the eligibility criteria not social and demographic (all families with children, all pensioners, etc.), but income indicators (all poor citizens). This may occur due to obvious factors – a considerable stratification of the Russian society and a substantial size of low-income population groups.

Due to these factors at the stage of transition Russia will probably have to resort to needs-tested eligibility criteria within its system of social policy, although systems built on these criteria are non-efficient.

Third lesson is the choice of the type of benefit. As it was noted above, the paradigm of Canadian social policy has been developing from the eligibility principles based on category and needs-testing towards income-tested programs. However, it does not mean that this process is rooted only in the desire to reduce the amount of funds allocated for the realization of social programs (up to 6.7 per cent of the Canada's GDP in 1998 through 1999).

The provision of social benefits ultimately aimed to increase household income is never reduced to this purpose alone. Determining a household eligibility for the inclusion in the system of social assistance decision-makers always take into account a system of certain indicators, for instance, the maintenance of normal income levels necessary to raise children.

Therefore, the alleviation of poverty takes a form of moderating its negative social consequences for households. Exactly because of this neither federal, nor provincial governments in Canada have implemented universalist programs aimed to maintain income levels of low income groups (while in Russia the problem of putting in place a system of benefits for the poor has recently been in the focus of public discussion).

The fourth lesson is the necessity to coordinate the activities of governments at different levels for the implementation of social policy. The Canadian experience reveals that the effectiveness of social policy directly depends on this factor. Coordination is especially important in case federal and local social assistance programs are not integrated into a single system. Seeking to promote a balanced cooperation between authorities, since 1970s the Canada's government has been mainly employing three tools:

- Delegation of some tax collection authority to the level of provincial governments, what permitted to form a stable financial basis for regional social programs;
- Use of the system of social transfers and equalization payments moderating differences between rich and poor regions and aiding regional authorities to implement social payment programs;
- Concentration of the most cost-extensive social program – child benefits – at the federal level, thus making it easier for provinces to reassign funds made available due to the transfer of functions associated with this programs to the higher level of government.

The fifth lesson refers to social reforms and public participation. The current Canadian social policy is gradually transiting from formalized forms of discussion of its aims and objectives (via various commissions, committees, working groups, etc.) to the real-time cooperation with non-governmental actors. Partnership is the slogan of the day. It is obvious that there is no other way to create a broad context for the discussion of urgent social problems and means to settle them.

These conclusions outline the state of the contemporary Canadian social policy and some of its mechanisms, that may be applied in Russia's social practices.