

# POLICY SERIES



## FORCED ENTRY

### How Government Came to Dominate Welfare

By David Seymour

SENIOR POLICY ANALYST



### About the Author

**David Seymour**, Senior Policy Analyst, and Director of our Saskatchewan Office, joins the Frontier Centre from New Zealand. He holds degrees in Electrical Engineering and Philosophy from the University of Auckland, where he also taught economics. After working as an engineer in New Zealand he is applying his passion for high performance government to policy issues on the prairies. In his first year working for the Frontier Centre David has carried out extensive media work, presenting policy analysis through local and national television, newspapers, and radio. His policy columns have been published in the Winnipeg Free Press, Regina Leader Post, Saskatoon Star Phoenix, Calgary Herald, Edmonton Journal, Windsor Star, Nova Scotia Herald and the National Post. David has produced policy research papers in the areas of Telecommunications Privatization, Education, Environmental Science, Housing, Anti Poverty Policy and Fiscal Policy. However, his major project with the Frontier Centre is the Local Government Performance Index (LGPI). The second annual LGPI was released in November 2008, at a time when municipal accounting standards in Canada must be improved if the municipal government sector is to reach its potential as an economic growth engine for Canada.

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MB: 203-2727 Portage Avenue,  
Winnipeg, Manitoba Canada R3J 0R2  
Tel: 204 957-1567 Fax: 204 957-1570

SK: 2353 McIntyre Street,  
Regina, Saskatchewan Canada S4P 2S3  
Tel: 306 352-2915 Fax: 306 352-2938

AB: Ste. 2000 – 444 5th Avenue SW  
Calgary, Alberta Canada T2P 2T8  
Tel: (403) 230-2435

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# Executive Summary

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- Modern discussion of poverty and social services take place in a paradigm where government income redistribution and, often, service delivery are seen as indispensable.
- Today's welfare state is not the only way to solve the problems of inequality, unstable income, and the need for healthcare and education. Understanding how the welfare state came to be and what it replaced enables a much more imaginative poverty debate than we currently have.
- Victorian England gives us an historical model of solving poverty and delivering healthcare, education, and employment insurance with almost no state involvement.
- This comparison must be cautious. Victorian England was drastically poorer in real terms than modern Canada and had social norms that seem quaint in 2009. However adopting the Victorian model of welfare without the welfare state would not necessitate that we have either of those features.
- In the 1860's 95.5% of British school children were estimated to be in school, despite almost no government participation in the education sector.
- In 1892, close to 100% of working men were members of social insurance collectives which provided for their needs and those of their families.
- Hospitals were almost always funded by private endowment.
- Charitable giving, aside from self insurance, was as high as 10% of family income, today it is closer to 1%.
- Although much of Canada was established post Victorian times, many of these institutions existed here too.
- Throughout the late nineteenth century and the first half of the twentieth, western governments including Canada's staged a takeover of the education, healthcare, and employment insurance functions previously catered for by civil society.
- Governments have taxed civil society out of the means and the moral obligation to provide the services it once did.
- Evidence suggests that this takeover was driven more by the desire for universality in itself than better outcomes or greater efficiency in any of the functions.

## Background

One thing missing from most perspectives on beating poverty is simply the knowledge of how people fought poverty before the welfare state. In the following discussion, we will take a cursory look at the formation of the welfare state in the key areas of income security, health, education and housing. Before that though, we will look to Canada's cultural predecessor, Victorian England, to see what it replaced.

### A Cautious Comparison

The comparison to Victorian England may seem irrelevant and miserly. There are three broad reasons why advancing such a time and place as a comparison with the welfare state might *appear* as unenlightened and mean-spirited, but we can afford to ignore all of them.

Firstly, Victorian times were socially prudish, the role of women was constrained and sexuality was repressed. The works of Dickens have dulled our retrospective picture of the era even further. Religion was much stronger, and some would associate the times with less religious freedom. However, while the welfare state coincided with feminism and greater general tolerance, this has rarely been the primary aim of the welfare state, and it is not clear how anyone would argue that the social revolutions of the 20th century were necessarily dependent on it. It is not fair to equate the absence of the welfare state with social prudishness simply because these phenomena shared a historical era.

Secondly, people were significantly poorer in real terms. Although it is difficult to compare living standards accurately due to changes in currency value and completely different products available for sale, here is



a U.S. example that illustrates the extent of wealth creation in the past 200 years: "In 1800, it took 95 of every 100 Americans to feed the country. In 1900, it took 40. Today, it takes just three."<sup>1</sup> If we assume three Americans can produce what 95 once did, and the other 92 are producing things other than food at a similar level of productivity, we clearly have a staggering increase in wealth. Whatever the difference in economic growth amongst the United States and other Western countries, those differences are dwarfed by such dramatic growth, so the U.S. example holds for all Western nations.



**(In 1892) it was harder to deceive workmates and neighbours about one's true ability to support one's self...**

The lack of wealth in Victorian England meant a lack of knowledge and technology. For example, even the super rich of earlier times were not able to overcome the overall primitiveness of contemporary medicine. "George III, the King [of England] had the best doctors money could buy but his life was nevertheless shortened by their well-meant ministrations."<sup>2</sup> It follows that any comparison of how societies from different eras supported the least well off should account for vast differences in overall wealth as separate to the introduction of the welfare state.

A third observation that is related to the second is that there appears to be a cause and effect confusion between a nation's wealth and the welfare state. Almost every developed nation, including the United States, has a welfare state. It is also true that many poor nations do not have a welfare state. However, it is not true, as some assume,<sup>3</sup> the welfare state is the cause of wealth. Obviously, we do not expect countries to redistribute wealth they do not have, and to say those countries that do redistribute wealth on a large scale owe their wealth to the redistribution is to beg the question of whether the welfare state as we know it has truly been a success. To avoid this, we must look for an example of welfare without the welfare state.

James Bartholomew's book *The Welfare State We're In* sets out to do just that. What follows is a brief overview of what he discovered while doing considerable research into British society before state involvement in income security, health, and education and housing.

## British Welfare Without the State

Income security was needed and available, but the state was largely uninvolved. Private charity was one source, and it is claimed that charitable giving was as high as 10 per cent of income (compared to 1 per cent today).<sup>4</sup> While some may say that receiving private charity results in indignity and shame, it is worth noting that interviews with Canadian welfare recipients reveal scathing reviews of the attitudes of welfare staff as providers of charity.<sup>5</sup> If receiving money from those better off was a problem, then there existed another solution.

Friendly societies were voluntary organizations whose members made regular contributions to them and expected to be supported if they were unable to support themselves through unemployment, injury or a death in the family. The societies were, in a sense, insurance co-operatives. In 1892, the subscription rate to friendly societies or unions offering similar services was close to 100 per cent of British working men.<sup>6</sup> It is also worth noting that these decentralized systems were better than modern centralized welfare at defeating moral hazard. In other words, it was harder to deceive workmates and neighbours about one's true ability to support oneself than it is to abuse the modern, remote system. Before the modern welfare state arrived in Britain, there were structures in place to ensure income security. Similar systems operated in Canada before our welfare state developed.<sup>7</sup>

Healthcare was also provided in a decentralized and egalitarian fashion by a large network of private hospitals and doctors that was funded by a number of different schemes. Friendly societies often had health schemes and sometimes employed a doctor. Some funding was pure charity; many hospitals received endowments from the very rich. Some doctors and hospitals effectively ran their own insurance companies, which took small, regular payments in return for free-of-charge service when needed. A key feature of the system was discretionary pricing. There

was an unspoken understanding that no one would be turned away because of inability to pay, and everyone would pay as much as he or she could. Bartholomew makes one devastating critique of the forcible state takeover of healthcare. The architects of nationalized healthcare did not justify their plan with a criticism of the existing system nor did they talk about the poor being excluded or the service being bad. A 1,000-page government report that formed the basis of the new system devoted less than one page to criticizing the level of service delivered by the existing system. Instead, their real problem seemed to be the lack of centralization.<sup>8</sup> If those who wanted to take over the entire national health system could not find practical problems to justify it, one wonders if there were any.

The pattern for education was similar. With the onset of the Industrial Revolution and little or no state involvement, a network of schools sprung up to educate the youth. In 1851, there were almost 4,000 private schools, notwithstanding those run by churches.<sup>9</sup> In 1861, it was estimated that 95.5 per cent of children were in school, and this was probably underestimated.<sup>10</sup> By 1865, 99 per cent of British Navy recruits were literate.<sup>11</sup> As with social security and health, the Victorian experience of education without the state was one of inclusiveness and high standards of service.

In the case of each social service, Bartholomew recounts a similar story wherein the state displaced civil society's mechanisms with centrally planned, universal schemes. In the late 1800s, the British state got into education with the aim of filling what it considered gaps left by the existing system. In the 1940s, healthcare was nationalized and centralized into the National Health Service, and the tax and transfer system grew throughout the 20th century, eventually crowding out friendly societies and their ilk.

## Canadian Welfare With the State

Much of the community infrastructure in Manitoba and Saskatchewan was established by the time of these displacements, after the mid-1800's when the state was well on the way to displacing civil society's welfare infrastructure, so we will follow the path of European immigration to our Prairie provinces and survey the establishment of the welfare state.

Throughout the last century, the Canadian welfare state came to pervade the societies of Manitoba and Saskatchewan. From the Great Depression on, it has dominated social security, health and education. After decades of expansion, the welfare state contracted slightly in the 1990s. However, as much as welfare advocates may make of this contraction, the state continues to dominate these fields.

## Social Security

State involvement in social security took off with the Great Depression, which has often been posited as the justification for the welfare state we now have.<sup>12</sup> Along with the dominant Keynesian economic thinking, it was widely believed the state could avoid poverty and economic catastrophe by redistributing wealth to maintain demand and therefore sustain industry and jobs. Leonard Marsh's 1943 report set out the blueprint for a welfare state that would expand over the next four decades.<sup>13</sup>

In the mid-1930s, the Dominion and National Housing Acts mandated means-tested state provision of housing. The Unemployment Insurance Act of 1940 was effectively a type of nationalized friendly society, with contributions and payouts indexed to income and recipients were required to have worked for 180 days of the preceding two years. In 1944, the federal government passed the Family Allowance Act, which delivered a universal allowance to children under 16.<sup>14</sup> Twelve years earlier, Saskatchewan introduced provincial income tax.<sup>15</sup>





In the 1950s, the Old Age Security Act replaced the Old Age Pension Act. Unemployment Insurance was substantially overhauled with the criteria relaxed to remove aspects of mutual obligation. However, greater changes were due in the 1960s when Canada followed the United States in declaring “war on poverty.”

The Canada Assistance Plan, which was passed in 1966, aimed to standardize welfare across provinces with 50 per cent cost sharing between federal and provincial governments for general welfare, Status Indian programs and make-work schemes.<sup>16</sup> Over the succeeding decade, Unemployment Insurance became more generous and entailed fewer obligations (1971), and then the expansion of the welfare state into income security reached a high-water mark.

In the 1970s, the growth of the Canadian welfare state ran into fiscal trouble. The willingness and ability of taxpayers to support this growth waned, and as part of a trend replicated with striking similarity around the world, government spending as a proportion of overall wealth levelled off.<sup>17</sup> As the Keynesian economic models that gave rise to the welfare state and prevailed throughout the mid-century came into question, it was time for two decades of restructuring and reduction in the tax transfer system.

The 1973 Social Security review heralded a wave of social security reform. From 1975 to 1978, there were three reductions in Unemployment Insurance and family

assistance. The Child Tax Credit was introduced in 1978 to offset these reductions.<sup>18</sup> This represented a shift toward more targeted benefits.

The 1980s and 1990s saw more reform that aimed to reduce dependency on welfare and to increase the obligations that were gradually removed from benefit receipt over the preceding four decades.

For example, the National Child Benefit was offered to low-

income workers as well as the unemployed, which led to a significant reduction in welfare rolls over successive years.<sup>19</sup>

Today, Manitoba and Saskatchewan offer means-tested benefits for the unemployed and income supplements for those with low incomes. Income supplements in Saskatchewan are progressive up to a point, meaning that the payout increases with increasing earned income up to a certain level after which it is progressively rebated. Health supplements run in parallel to these in both provinces, along with subsidized childcare and provincial child benefits. Overall, both provinces have a social security system that reflects the lessons of the 1970s. The systems include targeted benefits and a degree of mutual obligation. These features were designed to create incentives for beneficiaries to enter the workforce.

It is noticeable that a lot of anti-poverty literature assumes the welfare state we inherited in the 1970s existed since time immemorial and the conclusion is that we are in a time of a minimal welfare state. Nevertheless, those commentaries miss the full story of the Canadian welfare state. It would be much more accurate to say we experienced significant growth throughout the mid-20th century, which was followed by a contraction in the later part of the century.



## Healthcare

The story of medicare has been well covered and debated all over Canada. There is little more to be said, as any useful contribution to this vast and contentious debate would exhaust the length of this short background paper.

However, it is necessary to say three things: Firstly, a largely voluntary, non-government system was displaced by a coercive government system. This is more noticeable in the history of healthcare than in any other policy area. Indeed, the government dominance of Canadian healthcare is the most explicitly prescribed among Canadian social services as well as among modern Western healthcare systems.

Secondly, participants in the debates around the effectiveness and sustainability of medicare would do well to consider the arrangements put in place by civil society pre-medicare. Because we have had medicare for so long, significant adjustments must be made for differences in the real material wealth of society when comparing the outcomes in the pre- and post-medicare worlds.

Thirdly, it may be that the requirement for government healthcare has diminished over time as wealth has increased. As we saw in an earlier section, the increase in wealth amongst Western nations is both immeasurable and large, with estimates placing it between a factor of five and a factor of 30 since the beginning of the twentieth century. The effect is that the ability of people to purchase healthcare has increased dramatically over the past century just as it has with purchasing power increasing relative to food, shelter, transport and other services.



“**(In the 1970s) the willingness and ability of taxpayers to support this (1960s) growth waned... and government spending as a proportion of overall wealth levelled off.**”

## Education

K-12 education on the Prairies followed the familiar pattern of civil society practices gradually being displaced by a state system. Requests for government funds were met with greater requirements for central control of education from the government purse-keepers.

Before the North-West Territories Act (1871-1875), there was no public school system on the sparsely inhabited Prairies. This is not to say there was no education, there was but it was run in a decentralized manner by local communities and, particularly, churches. In 1873, the newly formed council in charge of the North-West Territories introduced a bundle of regulations that governed the relationship between schools and communities. Two years later, the council formalized the process of funding schools by enacting a new version of the North-West Territories Act, which provided for communities to assess residents for school taxes – the genesis of Canada's property tax funding of education. Interestingly, one still gets a sense that education was “by the people for the people” from the fact that there was limited ability to opt out of funding or attending these schools.

The regulations said the faith that was in the minority in a given school district – Catholic or Protestant – was able to opt out of the majority faith school and run a school in its own way, including individually setting its own assessment levels to fund it. In the 1870s, the council declined to fund education saying it would “not be expedient” for the council to raise taxes for such a purpose.

However, this resistance eventually lessened, and by 1880, the council was funding half of each teacher's salary from its coffers. In 1886, the inevitable counterbalance to that funding arrived, and the council prescriptively formalized the structure of responsibility within the education system with school boards required to regulate the qualifications and suitability of teachers, to select uniforms and textbooks, and to control the internal operating procedures of schools.



Thus, by the time the Prairies were barely settled and before Alberta and Saskatchewan formally existed, all of the building blocks were in place for education to be a government entity.<sup>20</sup>

One hundred and twenty years later, the state-dominant paradigm of organizing education is still in place. Attendance at schools outside the state system is so rare it is almost a statistical anomaly, and the schools are faced with considerable regulation that minimizes their true distinctions.

Like most debates over the true role of the state, state involvement in education is contentious and can invoke very strong reactions from various angles. Nevertheless, in the spirit of this paper, it is worth noting that things have not always been the way they are now. When the British government was displacing the organic structures civil society had erected to educate its children, government on the Prairies was behaving in a similar way. The key difference was that Britain was the wealthiest nation on Earth and one of the most densely populated while the Prairies were sparsely populated by First Nations people and a handful of settlers. The effect of this difference is that the story of a thriving school system prior to state involvement does not read as well on the Prairies as it does in Britain.

Nevertheless, there was a displacement of civil society structures for ensuring welfare for all have been displaced, and thinking about the

problems of poverty that relate to education will be enriched if people consider by considering how government involvement in education came about, and whether it was necessary and the extent to which it has been or successful.

## Conclusion

Over the past two centuries, anti-poverty policy went from a hands-off role for government to full government participation in every aspect of what we call the welfare state. This paper made an extensive digression into the solutions that existed before the 20th century in Britain, Canada's cultural, political and economic precursor. Through this review, we threw the debate open much wider than usual. Instead of debating anti-poverty policy within the framework of the welfare state that has prevailed for much of the 20th century, we are now in a position to look at options from the last two centuries of Canada's local and cultural heritage for tackling poverty.



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## Further Reading:

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Minimum Wages, Tax Credits or Tax Exemptions? FC Policy Series No. 37, January 2008

### A CONVERSATION WITH DAVID BEITO

Author of *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890-1967*, July 2000



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