

Where the Money Comes From
How Canada Built Its Welfare Policies, How It Pays for Them,
and Why Citizens Still Hold the Pen

Introduction

Most Canadians meet the welfare state as a deposit. A payment lands in an account on the twentieth of the month. A hospital visit generates no bill. A pension begins. The machinery that produced these things is invisible by design, and its invisibility has a cost: it makes the system feel either like a natural feature of the landscape or like a gift dispensed from somewhere above. It is neither. Canada's social programs were not designed so much as accumulated and assembled piece by piece, over a century, under severe constitutional constraint, and almost always in response to sustained pressure from people outside government.

This essay traces three things: how welfare policies were implemented, where the money specifically comes from, and how it is distributed. The purpose is not to defend the government of the day or to indict it. It is to make the plumbing visible because understanding it is a precondition for changing it. What emerges is a picture of a state that is far more constrained than most citizens assume, and far more open to influence than most citizens believe.

A Welfare State Built by Improvisation

Confederation made no provision for social welfare at all. The Constitution Act, 1867 assigned hospitals, asylums, charities, "property and civil rights," and "matters of a merely local or private nature" to the provinces under section 92, while giving Ottawa the broad taxing power and the lucrative customs and excise revenues. This produced the structural tension that has shaped every social program since: the federal government has the money, and the provinces have the

responsibility. Relief for the poor was left to municipalities, churches, and charities well into the twentieth century.

The first crack came in 1927. The Old Age Pensions Act offered to reimburse half the cost of a means-tested pension for residents over seventy in any province that chose to participate. It was modest, humiliating in its administration, and excluded First Peoples. But the story of how it passed is the most instructive thing about it: J.S. Woodsworth and A.A. Heaps, two Labour members holding the balance of power in a minority Parliament, extracted the pension as the price of their support for Mackenzie King. Two backbenchers with leverage created Canada's first national social program.

The wall appeared next. In 1935, R.B. Bennett's Employment and Social Insurance Act attempted to create a national unemployment insurance scheme. The Supreme Court struck it down in 1936, and the Judicial Committee of the Privy Council upheld that ruling in 1937: unemployment insurance was a provincial matter. Ottawa could not simply legislate a social program into existence. It took a formal constitutional amendment in 1940, requiring the unanimous consent of the provinces to add section 91(2A) and make the Unemployment Insurance Act possible.

That defeat produced the workaround that still governs Canadian social policy. The Family Allowances Act of 1944, which began paying in July 1945, claimed no new jurisdiction. Ottawa simply mailed cheques to mothers out of revenue it had lawfully raised. This is the federal spending power: the ability to spend money on things Parliament cannot legislate about. It became the central instrument of the Canadian welfare state, and it has been contested ever since, particularly in Quebec.

The rest followed in a rush. A 1951 amendment added section 94A and produced Old Age Security, universal, no means test. The Hospital Insurance and Diagnostic Services Act arrived in 1957. A further amendment in 1964 permitting supplementary benefits enabled the Canada Pension Plan in 1965, with Quebec building its own parallel plan, an early demonstration that Canadian federalism accommodates asymmetry. The Medical Care Act and the Canada Assistance Plan both came in 1966, the latter offering open-ended fifty-fifty cost-sharing for provincial social assistance. The Canada Health Act of 1984 gave the conditions teeth by tying them to the withholding of cash.

Then the direction reversed. The 1995 federal budget, driven by a debt crisis, folded health, post-secondary education, and social assistance transfers into the Canada Health and Social Transfer beginning in 1996, a block grant, smaller than what it replaced, with the Canada Assistance Plan's conditions on provincial welfare programs largely stripped away. In 2004, the block was split again into the Canada Health Transfer and the Canada Social Transfer. More recently, the direction has turned expansionary once more: the income-tested Canada Child Benefit in 2016, bilateral early learning and childcare agreements from 2021, and new federal dental coverage.

Béland, Marchildon, and Prince (2019) argue that this history resists a single organizing principle. Universality is real in health care and in Old Age Security, but Canadian income security also runs on the contributory logic of social insurance and the selective logic of income testing, often in the same program. The Canadian welfare state is layered, not unified. Rodgers (2018) supplies the other half of the explanation: none of these programs originated inside government. Labour organizing, the farm movements, the Co-operative Commonwealth Federation, the women's movement, disability rights organizations, seniors' associations, and

anti-poverty coalitions each pushed problems onto the agenda before any minister acted on them. In Miljan's (2021) terms, a problem that never reaches the agenda never gets solved, and getting problems onto the agenda is work that citizens do.

Where the Money Comes From, Specifically

In the fiscal year ending March 31, 2025, the Government of Canada collected \$511.0 billion, equal to 16.6 percent of gross domestic product (Department of Finance Canada, 2025a). The composition matters more than the total:

Personal income tax accounted for \$234.3 billion, or 45.9 percent of all federal revenue. Corporate income tax contributed \$97.0 billion (19.0 percent) and non-resident income tax \$13.5 billion (2.6 percent). The GST raised \$52.5 billion (10.3 percent). Energy taxes, customs duties, and other excise taxes together added 3.8 percent. Employment Insurance premiums brought in \$31.5 billion (6.2 percent), carbon pollution pricing \$13.6 billion (2.7 percent), and "other revenues," where Crown corporation profits, interest, penalties, and the sale of goods and services- \$ 49.2 billion (9.6 percent).

The single most important fact in that list is the first one. Nearly half of everything the federal government spends comes out of the paycheques of working people. Add EI premiums and the GST, and the ordinary employed Canadian is funding the system three times over. There is no separate reservoir of "government money." Every dollar of a benefit is a dollar somebody earned.

Two large pots are deliberately walled off from all of this. Employment Insurance premiums flow into the EI Operating Account, with the premium rate set to break even over a seven-year cycle. The Canada Pension Plan sits entirely outside the federal budget: employees and employers each contribute 5.95 percent of earnings between \$3,500 and \$74,600 in 2026,

plus a second-tier contribution of 4 percent on earnings up to \$85,000 (Canada Revenue Agency, 2025). Those contributions are invested by CPP Investments, which held \$793.3 billion in net assets on March 31, 2026 (CPP Investments, 2026). The government cannot spend that money on anything else, and changing the plan requires the agreement of two-thirds of the provinces representing two-thirds of the population, which is a higher bar than amending most of the Constitution.

The fourth source is borrowing. Ottawa ran a \$36.3 billion deficit in 2024–25, and the accumulated federal debt stood at \$1,266.5 billion, or 41.2 percent of GDP. Servicing that debt cost \$53.4 billion, which is 9.8 percent of all federal spending, purchasing nothing but interest. That figure is a discipline, not an abstraction. In 1990–91, interest consumed 37.6 percent of every dollar of federal revenue, and that crisis produced the 1995 cuts. It is also worth noting the comparison: Canada’s total government net debt was 11.9 percent of GDP in 2024, the lowest in the G7, compared with a G7 average estimated by the IMF at 92.9 percent (Department of Finance Canada, 2025a).

How the Money Is Distributed

Federal expenses totalled \$547.3 billion in 2024–25 and flowed through three main channels.

The first channel is direct payment to individuals: \$131.6 billion, or 24.0 percent of all federal spending. Elderly benefits, with Old Age Security and the Guaranteed Income Supplement, accounted for \$80.3 billion of that; children’s benefits for \$28.6 billion; and Employment Insurance benefits and support measures for \$24.9 billion. Almost all of this is delivered through the tax system. The tax return is the machine. This has a practical consequence that is easy to overlook: a person who does not file does not receive, no matter how eligible they are.

The second channel is transfers to provinces and territories: \$105.1 billion, or 19.2 percent of federal spending, rising to \$103.8 billion in major transfers alone for 2025–26 (Department of Finance Canada, 2025b). Of that, the Canada Health Transfer is \$54.7 billion, protected by a legislated five per cent annual growth guarantee through 2027–28; the Canada Social Transfer is \$17.4 billion; and Equalization is \$26.2 billion, with Territorial Formula Financing on top. Two clarifications are worth making here, because both are widely misunderstood. Equalization is paid entirely from federal general revenue; no province writes a cheque to another province, and it is unconditional, meaning recipients spend it however they choose. And the health and social transfers are per-capita block grants: beyond the five criteria of the Canada Health Act, Ottawa has very little say in how the money is used.

The third channel is everything else: \$107.1 billion in other transfer payments, covering programs for Indigenous Peoples, students, farmers, researchers, and international assistance, plus \$130.5 billion in operating costs across 137 departments, agencies, and consolidated Crown entities.

This structure produces the central limitation of Canadian social policy. The federal government funds but does not control. Social assistance in the narrow sense, what most people mean by “welfare,” is designed, rate-set, and administered by provinces and territories. Maytree’s annual Welfare in Canada report found that in 2024, across all provinces and territories, social assistance incomes remained below the official poverty line, with single working-age adults deemed employable receiving the least adequate incomes of all (Maytree, 2025). Federal dollars flow; provincial rate-setting determines what a person lives on. Any citizen who wants that changed needs to know which government to address.

Why Governing Is Genuinely Hard

Set against that machinery, several constraints on any Canadian government come into focus.

Jurisdiction and money are separated. Ottawa collects most of the revenue while the provinces hold most of the social policy authority, which means every national program is a negotiation with thirteen governments, each with its own election calendar, fiscal position, and priorities. Béland (2025) documents how even a federal government determined to expand social programs must work through bilateral agreements, opt-outs, and side deals rather than national legislation.

Most spending is not chosen annually. Elderly benefits, the Canada Child Benefit, Employment Insurance, and the major transfers are statutory and indexed to inflation. They grow whether any minister decides they should. Elderly benefits alone rose by \$4.3 billion in a single year due to indexation and recipient growth, which is roughly the entire annual cost of a mid-sized national program appearing on the books without a decision being made.

Debt service consumes \$53.4 billion before any program is funded. Constitutional change requires provincial consent, as the years of negotiation preceding the 1940 unemployment insurance amendment demonstrated. Accountability blurs whenever money crosses a jurisdictional boundary. And as Miljan (2021) observes, the policy process itself (agenda-setting, formulation, decision-making, implementation, evaluation) is overwhelmingly incremental.

Wholesale redesign is rare, and usually only follows a crisis.

What the System Nonetheless Achieves

It would be easy to read all of this as an argument for despair. The record argues otherwise.

Canada's official poverty rate, measured by the Market Basket Measure, fell from 14.5 percent in 2015 to 6.4 percent in 2020, then rose to 11.1 percent in 2023 and 11.0 percent in 2024 (Statistics Canada, 2022, 2025).

The 2020 figure is the one worth sitting with. It was produced by pandemic emergency benefits, and it demonstrates something that no amount of theoretical argument could: the machinery is capable of cutting poverty by more than half within a single year when it is used at scale. That is simultaneously an achievement and a standing challenge. The country knows it can do this. What it has not settled is whether it will, and at what cost, and who pays.

Meanwhile, the direction of travel over the past decade has been expansionary within all the constraints described above: an income-tested child benefit that delivers more to lower-income families than the universal-plus-taxable arrangement it replaced, indexation that protects benefits against inflation automatically, a legislated floor under health transfers, bilateral childcare agreements negotiated province by province, and new dental coverage. Each of these was built through negotiation, not by fiat, because fiat was unavailable.

Where the Citizen Stands

Every program in this essay began outside government. The 1927 pension came from two members of Parliament with leverage in a minority House. Medicare began as a provincial experiment in Saskatchewan and was pulled to the national level by the pressure it generated. Family allowances came from postwar anxiety and organized demand. The Canada Child Benefit, childcare agreements, and dental coverage each rest on decades of advocacy by organizations that produced the evidence long before any government acted on it.

Rodgers (2018) offers a framework for understanding why some of these efforts succeeded. Movements gain traction through framing, naming a problem in language that resonates beyond the people directly affected; through resource mobilization, assembling money, people, and expertise; and through political opportunity, by acting when a window opens,

whether that is a minority Parliament, a fiscal surplus, a court ruling, or a crisis. This is not a description of protest alone. It is a description of ordinary organized effort.

That framework points to specific leverage, and the machinery described above tells us where it lies. Because social assistance rates, housing, health care delivery, and education are provincial responsibilities, the highest-leverage representative for most welfare questions is a provincial member, not a federal one, and most people write to the wrong one. Both federal and provincial finance committees run pre-budget consultations that accept written submissions from any citizen. Most of the detail of policy lives not in statutes but in regulations, which are published in the Canada Gazette with public comment periods that almost nobody uses. Municipal councils control shelters, social housing, transit, and zoning, and are elected in contests where turnout is often below 40 percent, and a few hundred votes decide the outcome. Organizations such as Maytree, Campaign 2000, and food bank networks produce the data that governments are then held to, and volunteering with them, funding them, or serving on their boards is direct policy work. And a free tax clinic moves real money to real people this year, without a single legislative change.

Conclusion

Canada is not a perfect country. Social assistance leaves recipients in deep poverty across all jurisdictions. Indigenous people were excluded from the earliest programs by law. The federal-provincial machinery is slow, opaque, and frequently frustrating, and a great deal of what governments cannot do is genuinely beyond their power rather than beneath their notice.

But the record is the record. A country that had no social programs at all at Confederation now transfers roughly a quarter of a trillion dollars a year to individuals and to the provinces that serve them, and it built that inside a constitution that never contemplated it: through amendment,

negotiation, litigation, and pressure from people who were not in power. The system responded to two backbenchers in 1927. It responded to a provincial experiment in the 1960s. It is still responding.

The point of understanding where the money comes from and where it goes is not to be impressed or discouraged. It is to know where to push. Loving a country well does not mean insisting it is finished. It means knowing how it works, appreciating what it has managed, and refusing to leave the rest to someone else. Canada is good; it is unfinished, and it is ours to finish.

References

- Béland, D. (2025). Federalism and social policy expansion in Canada during the Justin Trudeau era. *Publius: The Journal of Federalism*, 55(2), 379–398.
<https://doi.org/10.1093/publius/pjae049>
- Béland, D., Marchildon, G. P., & Prince, M. J. (Eds.). (2019). *Universality and social policy in Canada*. University of Toronto Press.
- Canada Health Act, R.S.C. 1985, c. C-6.
- Canada Revenue Agency. (2025). CPP contribution rates, maximums and exemptions. Government of Canada. <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/canada-pension-plan-cpp/cpp-contribution-rates-maximums-exemptions.html>
- Constitution Act, 1867, 30 & 31 Vict., c. 3 (U.K.).
- CPP Investments. (2026, May). CPP Investments net assets total \$793.3 billion at 2026 fiscal year end. <https://www.cppinvestments.com/newsroom/>
- Department of Finance Canada. (2025a). Annual financial report of the Government of Canada: Fiscal year 2024–2025. Government of Canada. <https://www.canada.ca/en/department-finance/services/publications/annual-financial-report/2025.html>
- Department of Finance Canada. (2025b). Major federal transfers. Government of Canada. <https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html>
- Maytree. (2025). Welfare in Canada, 2024. <https://maytree.com/welfare-in-canada/>
- Miljan, L. (2021). *Public policy in Canada: An introduction* (8th ed.). Oxford University Press.

Reference re Employment and Social Insurance Act, [1936] S.C.R. 427, aff'd Attorney-General
for Canada v. Attorney-General for Ontario, [1937] A.C. 355 (P.C.).

Rodgers, K. (2018). Protest, activism, and social movements. Oxford University Press.

Statistics Canada. (2022, March 23). Canadian Income Survey, 2020. The Daily.

<https://www150.statcan.gc.ca/n1/daily-quotidien/220323/dq220323a-eng.htm>

Statistics Canada. (2025, December 12). Provisional poverty estimates, 2024. The Daily.

<https://www150.statcan.gc.ca/n1/daily-quotidien/251212/dq251212e-eng.htm>