

Poverty and Policy in Canada: Some Recent Initiatives

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October 2010
Sacramento, California

Goals of the Talk

1. Start with the Canadian context
 - *How is poverty measured?*
 - *How much is there, and what are the trends?*
2. Discuss Canada's safety net, with particular emphasis on two aspects:
 - a) welfare assistance*
 - b) employment insurance*
3. Outline two recent experimental programs geared towards reducing poverty
 - a) Self-Sufficiency Project*
 - b) Earnings Supplement Project*

Poverty in Canada (1)

How is it defined?

- Québec's pioneering *Bill 112*:
 - Passed in 2002, "An Act to combat poverty and social exclusion"
 - Defines poverty as "the condition of a human being who is deprived of the resources, means, choices and power necessary to acquire and maintain economic self-sufficiency and participation in society."
 - As yet no federal bill, though one similar is being introduced
- There is *no official measure of poverty in Canada*
 - Debate over *relative* versus *absolute* measures
 - *Unofficial measure*: Statistics Canada's *LICO* measure (low income cut off)

Poverty in Canada (2)

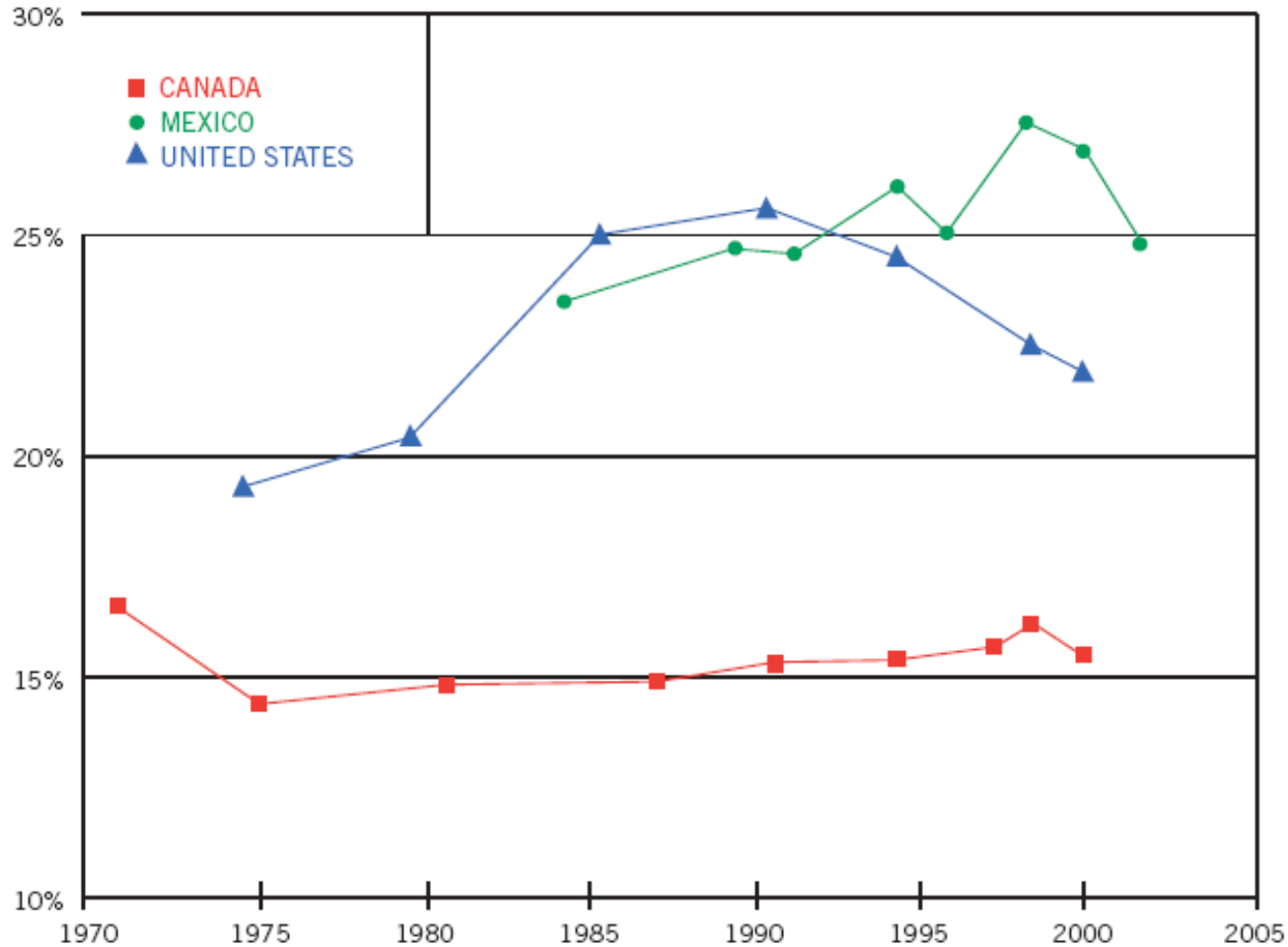
Statistic's Canada's LICO measure

- *Defacto* measure of poverty in Canadian research and policy circles, first introduced in 1967
- Relative measure of low income *not* poverty
- LICOs are estimated thresholds below which a family would spend a significantly higher proportion of its income on food, shelter and clothing than the average family
 - Set at spending that is 20 percentage points higher Cut-offs are adjusted for family size and community size
- Since 1990s, has been adjusted only according to inflation
- Some *Ontario LICO* numbers for 2007 (from *Statistics Canada*)
 - *Single person*: \$7,204
 - *Single parent, one child*: \$16,439
 - *Two parents, two children*: \$21,058

Other Measures of Poverty Sometimes Employed in Canada

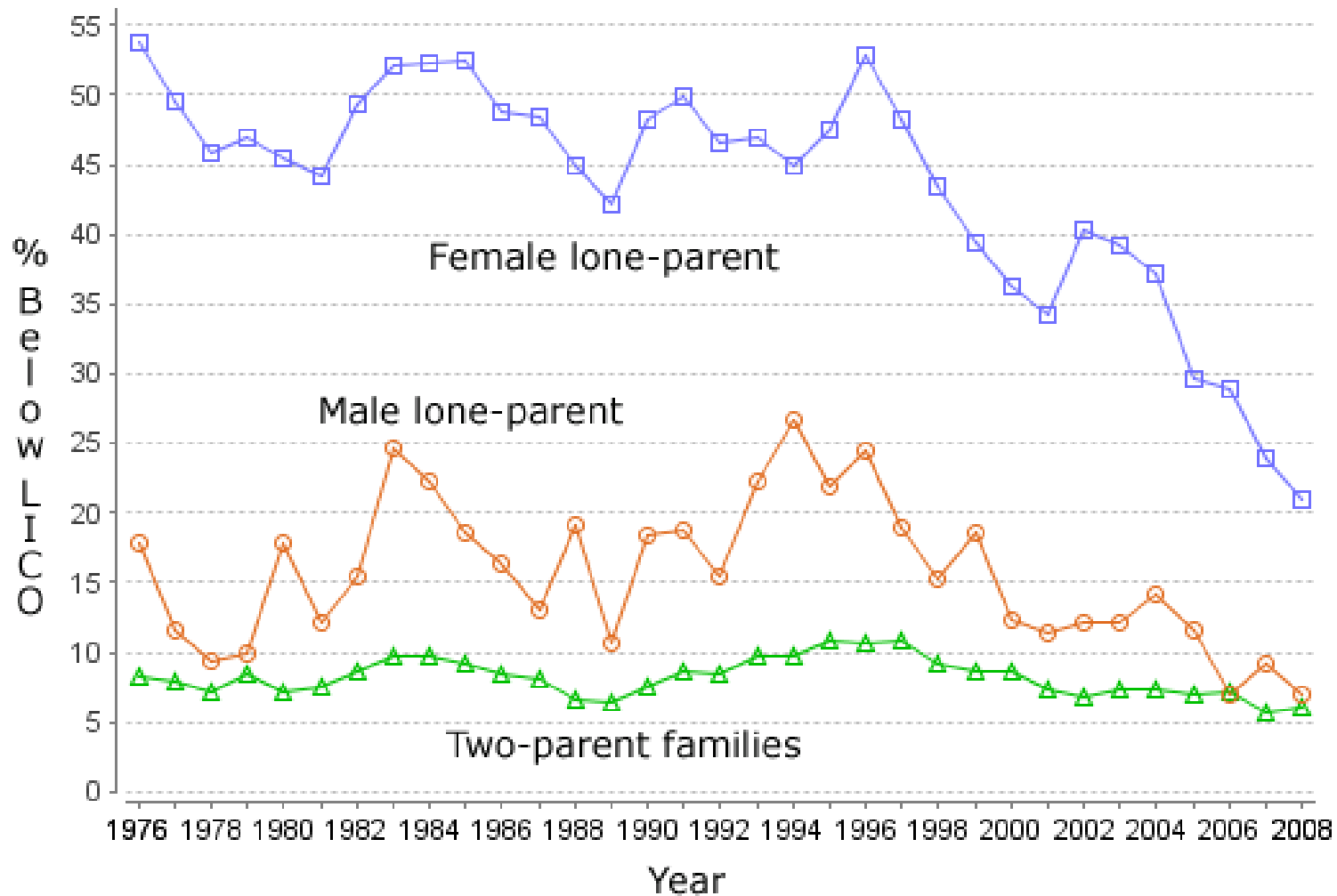
- *Low Income Measure (LIM)* that represent half of the contemporary median adjusted family income
 - Relative measure
 - Sometimes used to compare Canada with other countries
- *Market Basket Measure (MBM)* reflects the cost of a basket of goods and services that are deemed essential to maintain health and to moderately participate in community activities
 - Absolute poverty measure
 - Criticized for what is and isn't included

Child Poverty (measured by incomes below 50% of median) in Canada, Mexico and US



Source: Canada Council of Social Development. *Growing up in North America: The Economic Well-being of Children in Canada, the United States and Mexico.* page 11

Percent below LICO by Family Type, 1976-2008



Data Source: National Council of Welfare, Canada

<http://www.cnb-ncw.gc.ca/d.1tas.2t3@->

[eng.jsp?lang=eng&FAMILYTYPEID=7&FAMILYTYPEID=6&FAMILYTYPEID=4&chrtid=3&srsblfldidx=6&xgrplblfldidx=8&beye=4&chrttypid=2](http://www.cnb-ncw.gc.ca/d.1tas.2t3@-eng.jsp?lang=eng&FAMILYTYPEID=7&FAMILYTYPEID=6&FAMILYTYPEID=4&chrtid=3&srsblfldidx=6&xgrplblfldidx=8&beye=4&chrttypid=2)

Canadian Policy for Reducing Poverty

1. *Publically funded social services*

- education (including subsidized post-secondary school), medical care and subsidized housing

2. *Taxes and wage Laws*

- progressive income taxes, minimum wage laws

3. *Social transfers*

- old age security
- employment insurance
- welfare assistance
- child credits (which work in conjunction with welfare assistance)

Welfare Assistance in Canada (1)

What is it?

- 13 different welfare systems—one for each province or territory

Four sources of welfare income include:

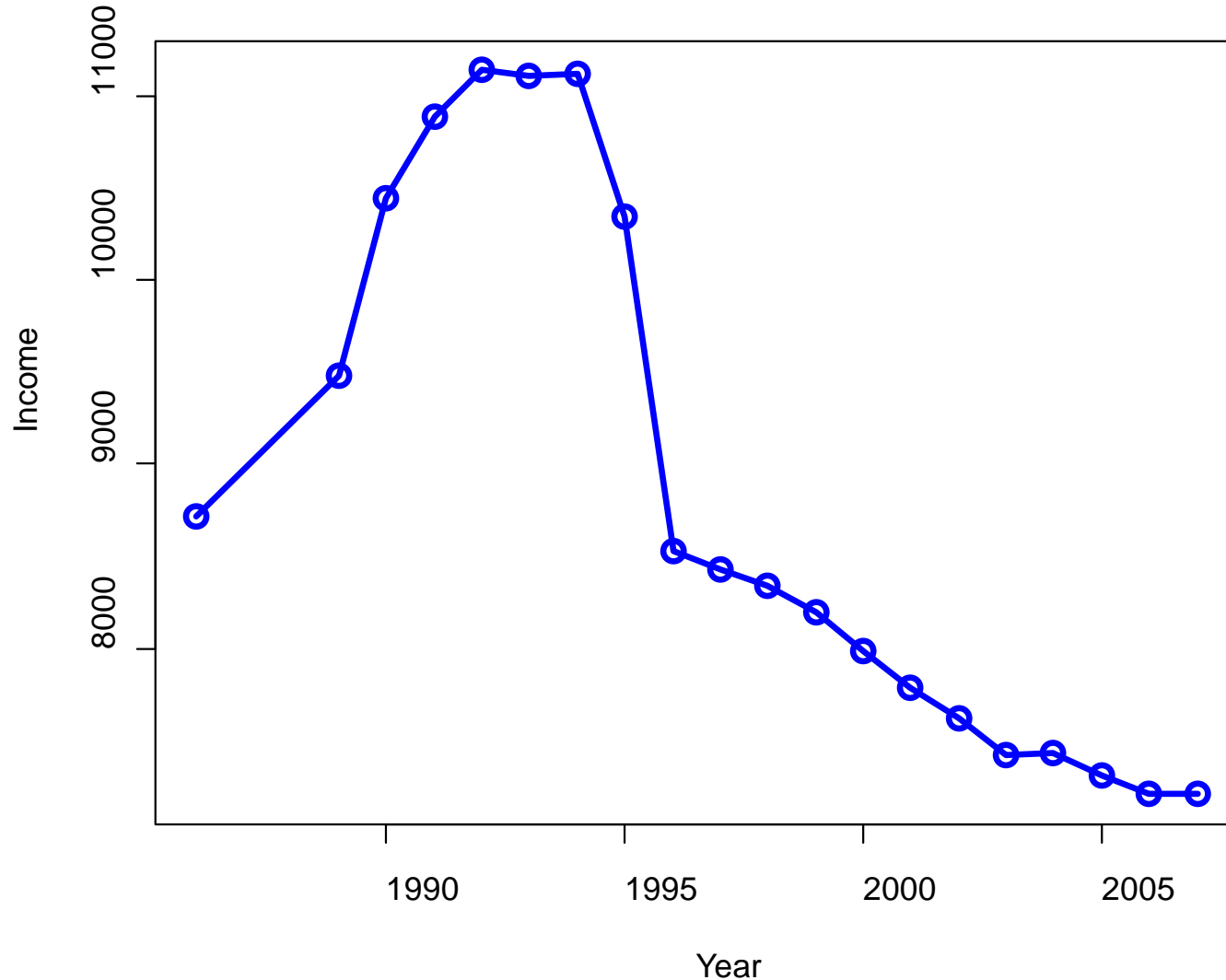
- 1. Basic Income Assistance* (food, clothing, shelter, utilities and basic household needs)
- 2. Additional Benefits* (transportation allowances, child care, drug benefits, non-insured medical services, back-to-school allowances, winter clothing allowances, disability allowances)
- 3. Child Benefits* (both federal and provincial and territorial child benefits)
- 4. Tax Credits*

Welfare Assistance in Canada (2)

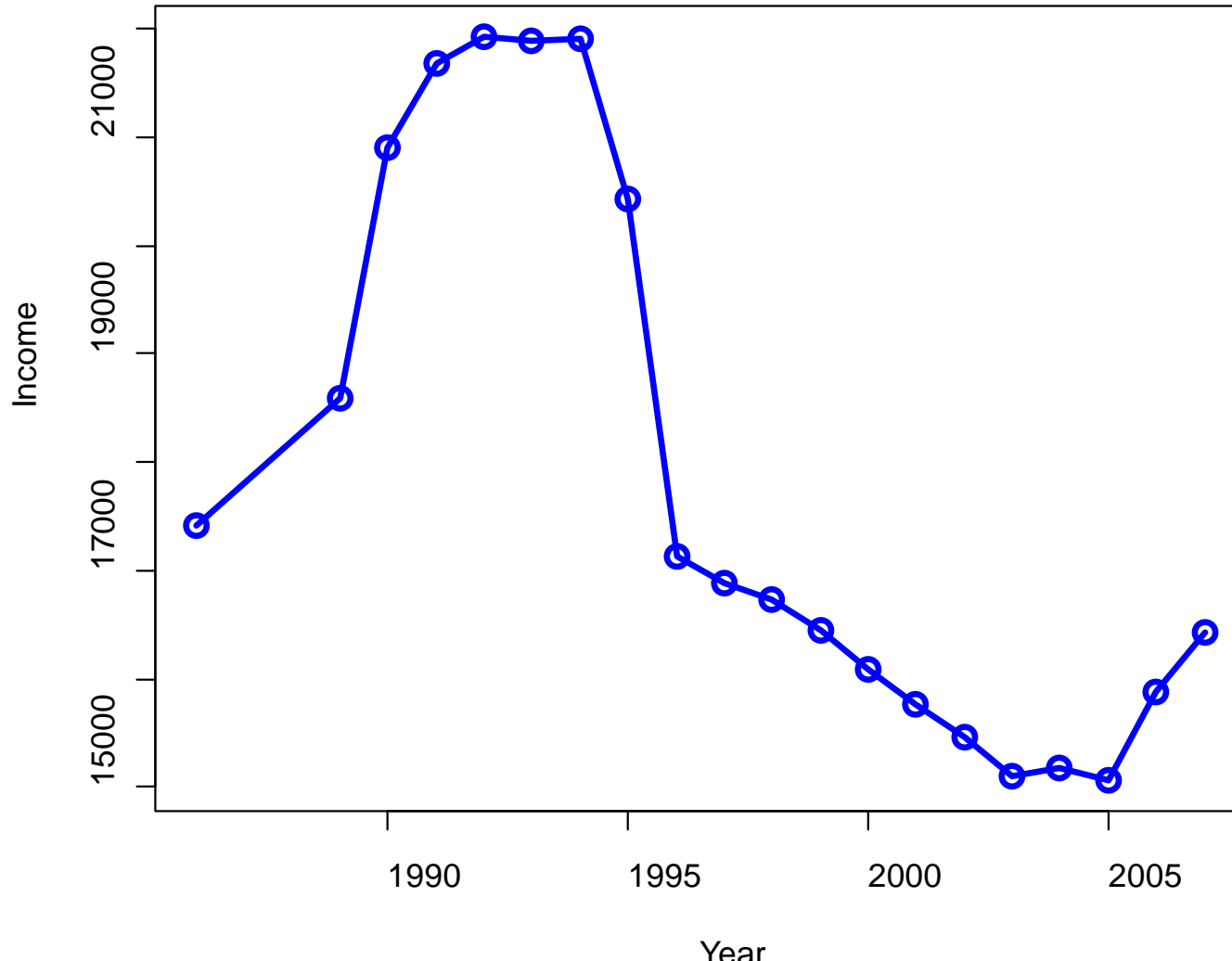
Eligibility

- Rules vary by province, but they are generally similar:
 1. *Age requirement* (usually between 18 and 65)
 2. *Written documentation of financial situation*
 3. *Medical certification if disabled*
 4. *Satisfy a needs test*
 - Fixed assets typically exempt (house, household effects, car)
 - But, must convert all non-exempted assets into cash to cover needs before applying for welfare (*e.g.*, a single person can have no more than 0-\$1,500 depending on the province)

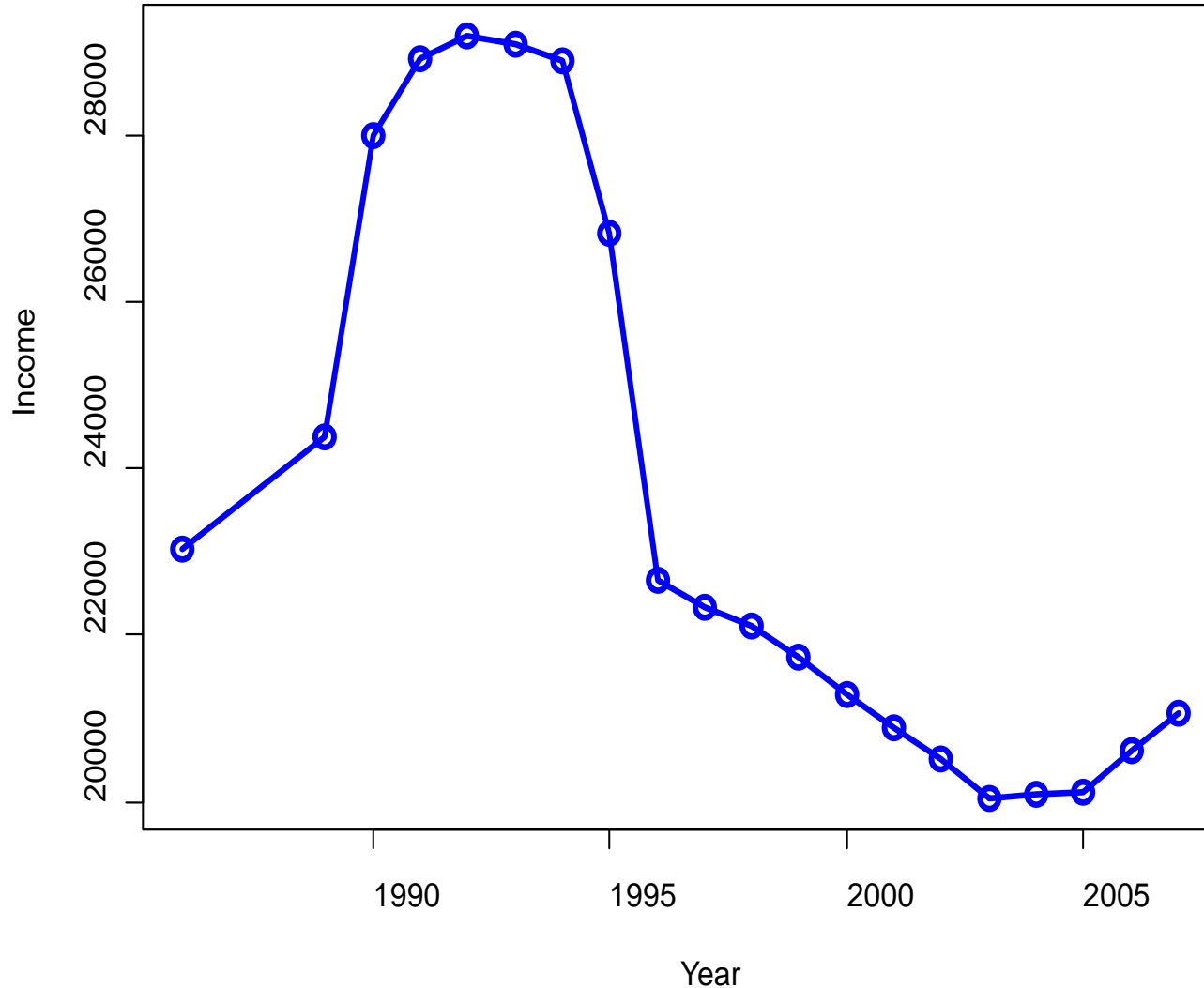
Welfare Assistance in Canada (3) Income in Ontario, Single Persons, 1986-2007 (in 2007 \$)



Welfare Assistance in Canada (4) Welfare Income in Ontario, Single Parent with One Child, 1986-2007



Welfare Assistance in Canada (5) Welfare Income in Ontario, Two Parents with Two Children, 1986-2007



Welfare Assistance in Canada (6)

Welfare Income relative to LICOs, Ontario 2007

| | Median Income | Welfare Income | After- Tax LICOs | After- Tax LICOs diff | Welfare Income/ LICO |
|--------------------------------------|--------------------------|---------------------------|---------------------------------|--|-------------------------------------|
| Single person | \$23,400 | \$7,204 | \$17,954 | -10,751 | 40% |
| Single parent, one child | \$35,630 | \$16,439 | \$21,851 | -5,412 | 75% |
| Two parents, two children | \$76,510 | \$21,058 | \$33,946 | -12,888 | 62% |

Welfare Assistance in Canada (7)

National Child Benefit

- A direct federal payment to low income parents with children instituted in 1998
- Designed with *three goals* in mind:
 1. Reduce the depth of child poverty
 2. Encourage labour market participation
 3. Reduce overlap and duplication across jurisdictions
- In short, it was an attempt to help parents overcome the “welfare wall”, where employment income is less than welfare assistance
 - *i.e.*, meant as a supplement to the family’s working income when they left welfare assistance
- ***Very ineffective***: All provinces (except PEI) eventually clawed back payments by all or part of the amount of the national child benefit
 - Disappointingly, the National Child Benefit has not helped at all

Employment Insurance in Canada (1)

What is it?

- Formerly known as *unemployment insurance*
- Income support for those who are unemployed
 - EI is *not available to all unemployed people*
- *How much do you get?*
 - *Maximum of 55%* of one's average insurable earnings over the past 20 weeks for a period of from 14 to 45 weeks depending on region
 - As of January 1, 2010, the *maximum yearly insurable amount is \$43,200* (or \$457 per week)

Employment Insurance in Canada (2)

Conditions for Eligibility

1. Unemployed for at least seven consecutive days
2. Have insurable earnings (*i.e.*, paid into the EI program)
 - *Self-employed* excluded from regular benefits, but as of January 2011 they will be eligible for special benefits (*i.e.*, maternity, parental, sickness, and compassionate care benefits)
3. Not have been fired for just cause or quit
4. Worked a minimum number of hours over the past year
 - Depends on the unemployment rate of the region but ranges between 420 and 700 hours
5. Not exhausted (used up) their eligible benefits
6. Available and actively looking for work

Self-Sufficiency Project (1)

General Overview

- Ten year project that started in 1992 and funded by *Human Resources Development Canada (HRDC)*
- Conducted by *Social Research Demonstration Corporation (SRDC)*
- Three related *randomized experimental studies* of the effects of income supplements for *single parents on long-term welfare assistance*
 - Some of the participants also received career and educational counseling
 - Involved more than 9,000 welfare recipients in New Brunswick and British Columbia
 - Extensive follow up interviews at 12, 30, 48 and 72 months after the start of the program

Self-Sufficiency Project (2)

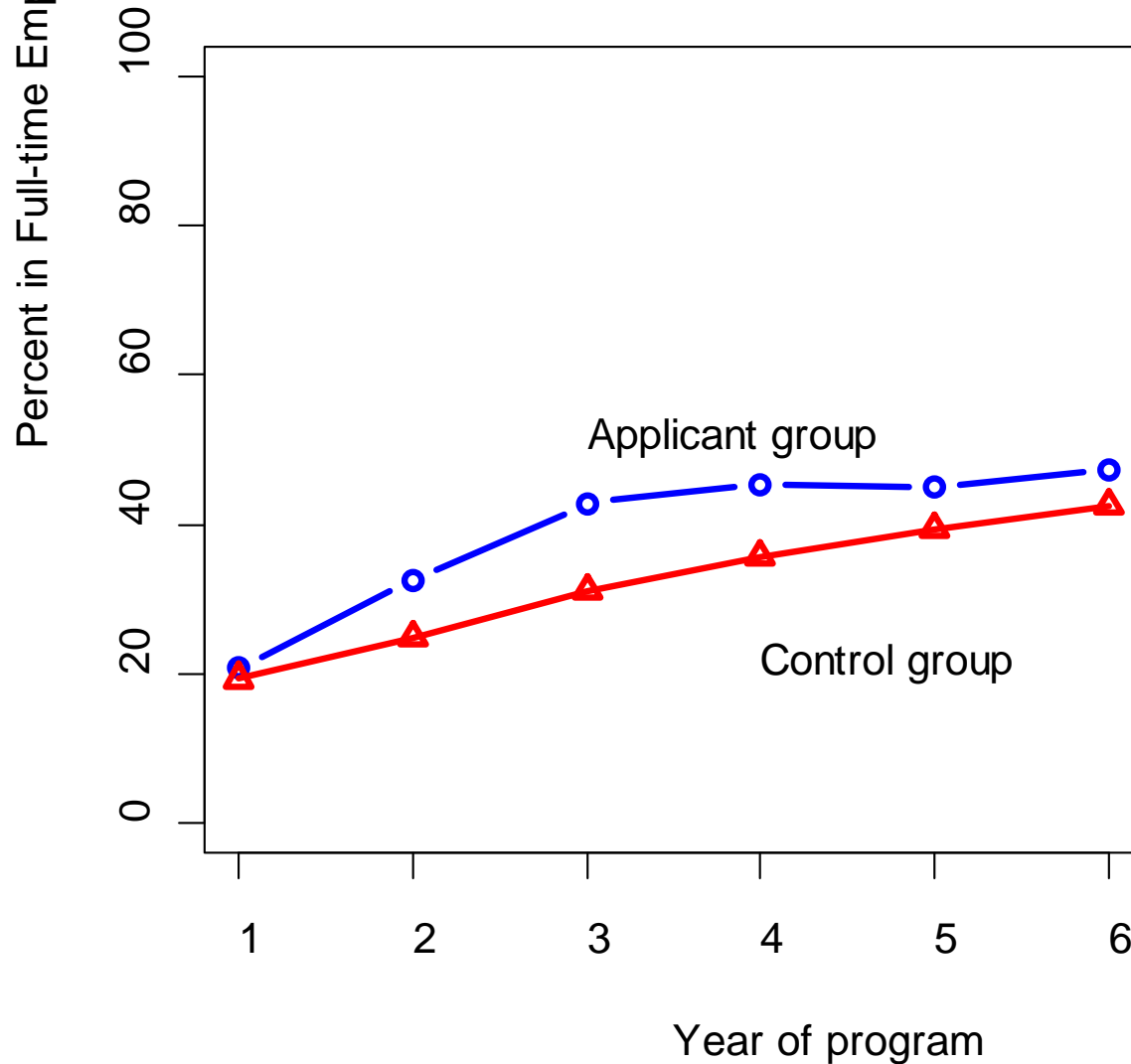
Eligibility for the Study

1. *Single parents* who were newly receiving income assistance
2. *On income assistance for a full year* before they could participate
3. *Leave income assistance for full time employment* (at least 30 hour per week) within the second 12-month period
4. *Completely voluntary*
 - Those chosen for the study could choose not to participate and remain on regular welfare assistance
 - Could leave the program at any time

Self-Sufficiency Project (3) Supplement

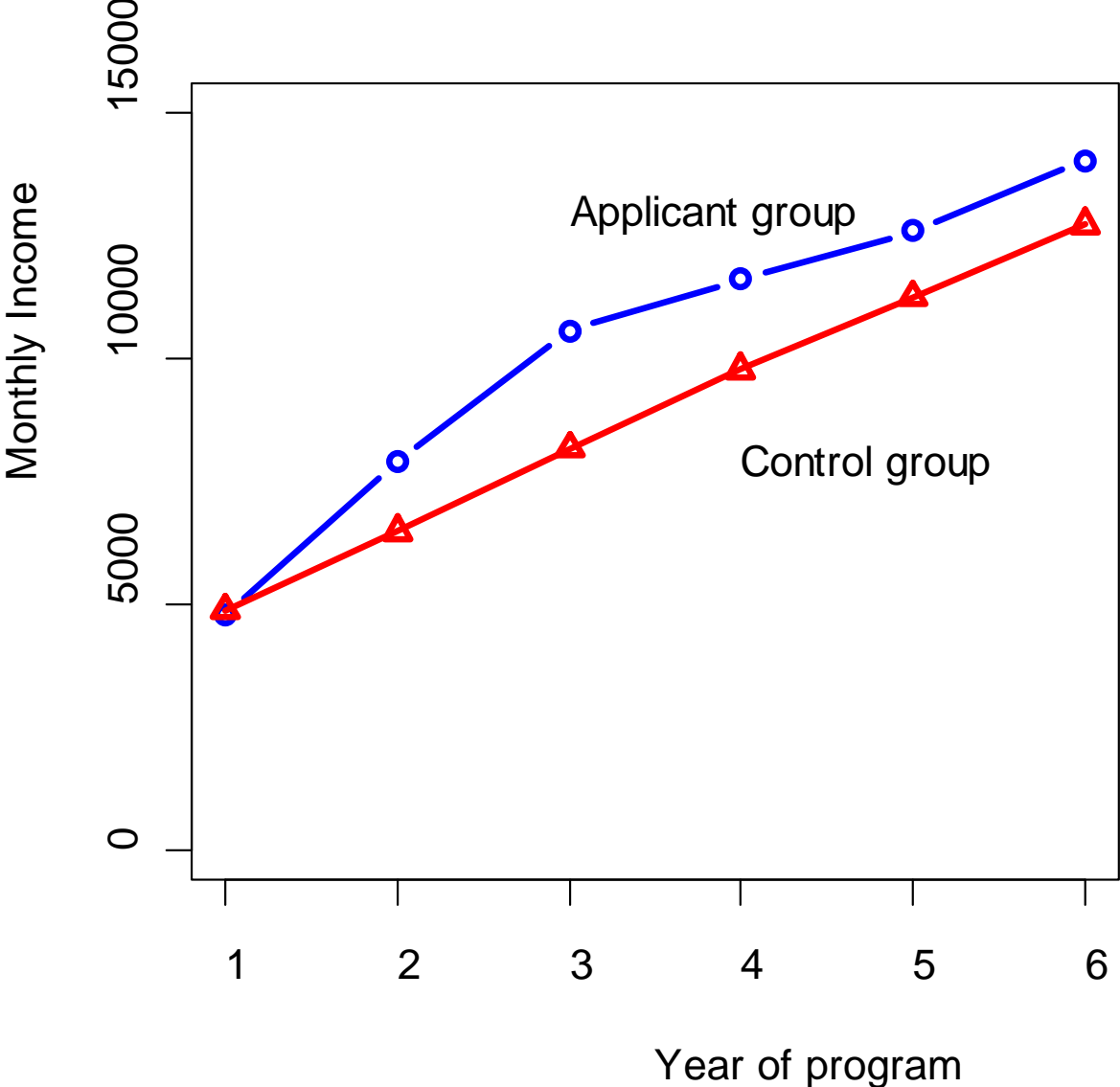
- *Half the difference between a participant's earnings from employment and an "earnings benchmark"* set at a level designed to make full-time work pay better than income assistance for most IA recipients
 - Benchmark adjusted according to time and region but was roughly 50% higher than welfare assistance, meaning that participants could get as high as 25% more than welfare
 - Unearned income (such as child support), earnings of other family members, and number of children did not affect the amount of the supplement
- *Three-year limit*, after which time the supplement would be stopped

Self-Sufficiency Project (4) Supplement's Effect on Full-time Employment



Self-Sufficiency Project (5)

Supplement's Effect on Monthly Wages



Self-Sufficiency Project (6)

Summary (1)

- *Economic impact* was largest in Year 3, but started to level out afterwards
 - *Full-time employment*: 11.7% point difference in year 3; only 4.9% by last year
 - *Monthly Income*: \$2406 difference after three years, only \$1306 in last year
 - *Use of food banks*: After 30 months, applicant group 3% less likely than control group, but only 1% less by end
- *Children's health and academic achievement* not helped or harmed by participation in the program (Wilk et al, 2006)
- *Career counseling* led to slight increases in *human capital* (Riddell and Riddell 2006)
- *Short-term effects were modest*; then, and SSP tells us little about the effect of taking low income jobs in the long run

Earnings Supplement Project (1)

- Implemented in 1994 and funded by *Human Resources Development Canada* (HRDC); conducted by *Social Research and Demonstration Corporation* (Bloom et al. 1999)
- Tests the impact of a *re-employment incentive for displaced workers*
- Consisted of *two separate* studies:
 1. Study of permanently displaced workers who lost their jobs due to changing economic conditions in five cities
 2. Study of workers who frequently experienced bouts of unemployment

Earnings Supplement Project (2)

Goals of the Project

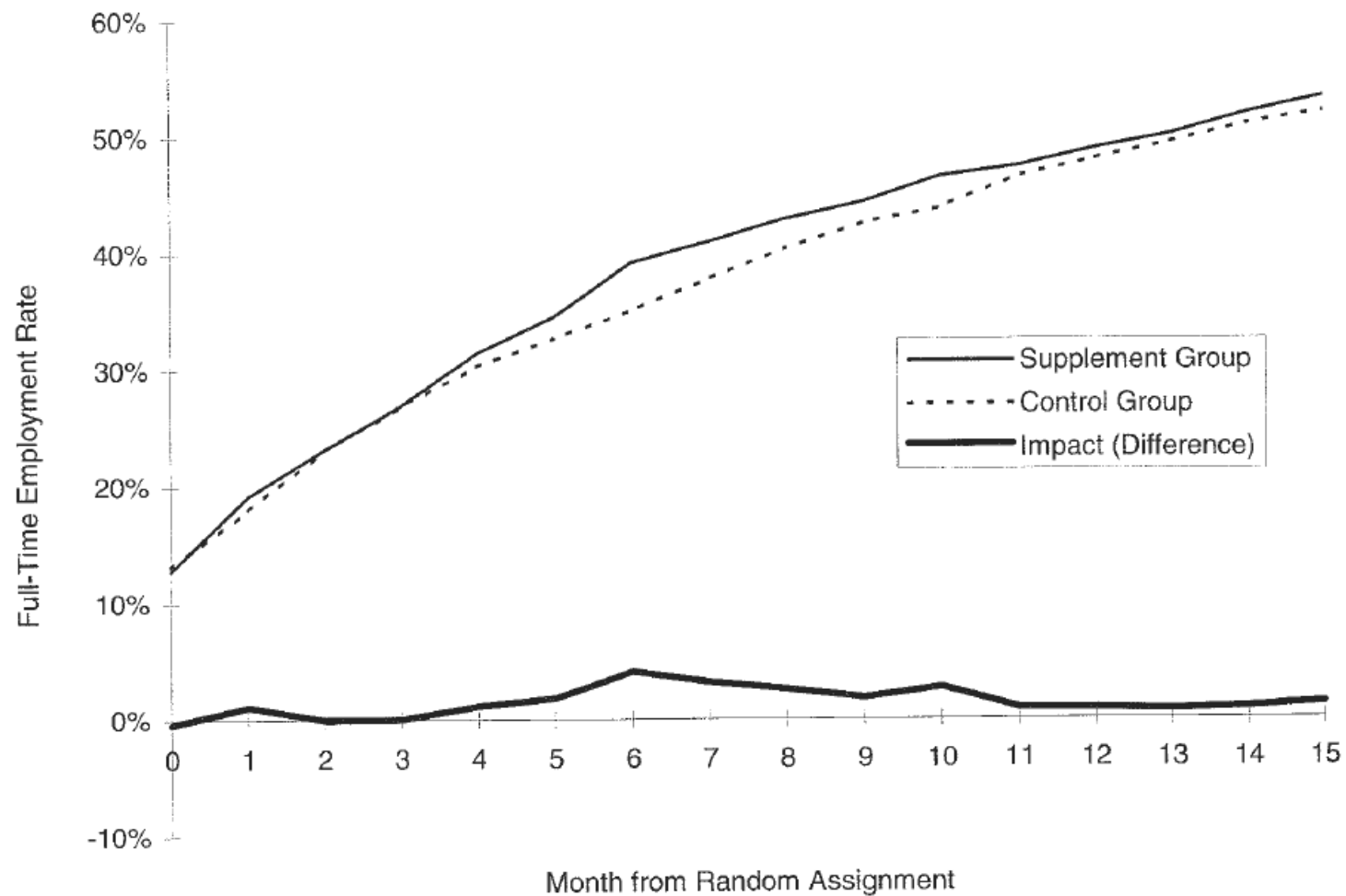
- *Financial incentive* to “top up” earnings of unemployment insurance claimants if they quickly found a new job that paid less than their old one
 - Supplements could be as much of 75% of the difference in pay between the two jobs, up to a maximum of \$250/week for up to two years
- Those who found a 30+ hour/week job within 26 weeks were eligible
- *Two goals:*
 1. Soften the blow of unemployment for claimants
 2. Reduce the costs of unemployment by getting more people working

Earnings Supplement Project (3) Randomized Experimental Design

- Subjects randomly assigned to ESP group and control group (that included regular benefits)
 - 5,912 workers in total (2960 in the supplement group)
 - Approximately 20% of the claimants in the ESP group actually received the earning supplement
 - Received an average of \$8,705 for 64 weeks
 - 44% received payments for 2 years

Earnings Supplement Project (4)

Effect of ESP on full-time employment



Adapted from Figure 6.1 in Bloom et al. 1999 "Testing a re-employment incentive for Displaced Workers: The Earnings Supplement Project" *Social Research and Demonstration Corporation*, page 49

Earnings Supplement Project (5) Summary

- *Very small positive impact on quick re-employment*
 - 4.4% difference
- *No significant effect on the amount or length of unemployment benefits*
 - Only 0.2 weeks (0.9%) and \$90 (1.4% in total) difference
- Positive effect on earnings in short-term *but negative effect on earnings in long term*
 - Many took jobs that paid less than their previous job
 - Average wages were **4.6% less** when the supplement is not included (which happened to everyone after 2 years)

Other Recent Initiatives to Reduce Poverty

- *Working While on Claim* project
 - Instituted in 2005 in selected regions; Allows EI claimants to earn extra money while receiving income support
- *Best 14 Weeks* program:
 - Instituted in 2005 in selected regions; Calculates EI benefits based on the highest 14 weeks (rather than usual 20 weeks) of earnings over the year preceding a claim
- *Extended EI Benefits* program:
 - Provides an extra five weeks (over the usual limit) of EI support in selected regions until Sept. 15, 2012.
 - The project is considered temporary, and will end if there is sustained economic recovery

Conclusions

- LICOs suggest that the *proportion of poor people in Canada is decreasing*
- But, *those who are poor are getting poorer!*
 - Welfare income assistance is far less now than ten years ago, and it is far below the LICOs
- *If the goal is to eradicate poverty, Canada's welfare state is not doing enough*
- Experimental programs to tackle the problem have focused on getting people into employment quickly through *income supplements*
 - Securing good employment is certainly the key
 - It isn't clear, however, that short-term income supplements decrease poverty in the long-term
 - Initiatives to increase human capital may be better rewarded in the long-term