Poverty and the Welfare State I

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If poverty is defined as a lack of the basic requirements of life, then clearly it does not exist in Canada, nor has it existed for some time. Steadily rising productivity, coupled with an expanding network of income security provisions, has ensured that every individual possesses at least the minimum necessities of life. Yet poverty is a relative concept. In an increasingly affluent industrialized economy the appropriate measure of poverty is not extreme absolute economic deprivation, but rather economic deprivation relative to existing socially acceptable living standards.

Poverty is generally assumed synonymous with low-income. However, defining poverty exclusively in terms of low current income is not totally appropriate, for such a definition fails to take into account total economic resources, both present and future. Nonetheless, the 1967 poverty lines, the annual incomes that demarcate the poor from the nonpoor, ranged from $1,740 for an unattached individual to $4,640 for a family of five or more.[1] This index of poverty is somewhat deficient in that it fails to adjust for differences in geographical location, farm-nonfarm status, age of head and composition of family. Moreover, it appears not to have taken into account developing programmes, such as medical and hospital insurance, that are designed to lower significantly the income needs of the aged and families with young children. In either event, the poverty line is a rather generous measure, ranging from 49% of the median income of unattached individuals to 68% of the median income of families of five or more.[2]

The task of establishing a realistic poverty index is crucial to the successful formulation of anti-poverty programmes. It is obvious that the

[1] The poor, according to the Economic Council of Canada definition of poverty, are those families and individuals who must spend 70% or more of their income for food, clothing and shelter. On this basis the poverty line in 1967 for an individual was $1,740 and for families of two, three, four and five or more, $2,900, $3,480, $4,060 and $4,640, respectively. See the Economic Council of Canada, *Fifth Annual Review.* (Queen's Printer, Ottawa 1968) 108, and D.B.S., *Income Distribution and Poverty in Canada, 1967.* (Ottawa, October 1969).

[2] Median income in 1967 was $3,553 for unattached individuals, $5,379, $6,855, $7,446, and $7,473 for families of size two, three, four and five or more, respectively. See D.B.S., *Income Distribution by Size in Canada, 1967* (Queen's Printer, Ottawa 1970) Tables 5 and 38.

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magnitude and composition of the poor will vary according to the index employed. For example, under an inflexible definition[3] the poverty population will be predominantly aged and rural, whereas under an appropriately flexible definition it will include more children and more urban families. Using the ECC* poverty index the 1967 poverty population was estimated at 840,000 farm and nonfarm families and 586,000 individuals, or 21% of the population. Rough calculations show that of the more than four million poor 35% were children under 16 years and almost 20% were aged persons. The 1967 estimates imply considerable success in the anti-poverty campaign since 1961, when an estimated 29% of the population was poor. In assessing the sharp reduction in poverty since 1961 it would be difficult to overstress the importance of a prolonged tight labour market.

The incidence of poverty in urban and rural areas is discussed in considerable detail by Lithwick.[4] Generally, poverty is most pronounced among families residing in rural and small urban areas, families headed by a female or an aged person, and families with a head who was either self-employed or not in the labour force. Presumably, these descriptive characteristics are not unrelated. The high prevalence of poverty among female-headed families is but one measure of the crises facing this group of families. Not only is the incidence of poverty among female-headed families more than twice that among male-headed families, the gap between actual receipts and minimum income requirements is also considerably greater. In 1967 an estimated 47.5% of all poor female-headed families had an income less than $2,000. By contrast only 28.3% of those poor families headed by a male were in this income class.

Poverty is not restricted to any one region, although its incidence varies from 12.4% in Ontario to 33.7% in the Atlantic provinces. British Columbia, as can be expected from its relatively high per capita income, had the second lowest incidence of poverty, 16.2%. Thus the Pacific region contained only 9.0% of all low-income families and 13.1% of all low-income unattached individuals.

A mere count of the poor according to some poverty index measures but one dimension of poverty. It conveys little information on the intensity of poverty, that is, "how poor." Conceivably the incidence and intensity

*Economic Council of Canada.

[3] The initial definition adopted by the U.S. Council of Economic Advisers assumed a family poverty line of $3,000 and an individual poverty line of $1,500.

[4] N. H. Lithwick, *Urban Poverty*, Research Monograph No. 1 (Government of Canada, Ottawa 1971).

of poverty can move in the same or in opposite directions. That is, fewer people may be more intensely poor. The poverty income gap, devised as a complimentary estimate of poverty, measures the amount by which the total income of the poor falls short of the income that would prevail if all the poor were elevated to the poverty line. The poverty income gap in 1967 is estimated at $3.6 billion, or 5.8% of G.N.P.[5] This is not to suggest that an income transfer of $3.6 billion would eliminate poverty. Rather, the filling of the poverty gap by income transfers from the nonpoor to the poor requires transfers of considerably greater magnitude. A crude gap-filling transfer scheme is bound to induce a reduction in the flow of non-transfer income to the poor and near poor, whereas a more sophisticated scheme, which would minimize this adverse effect, cannot be designed so as to avoid making considerable transfers to the nonpoor as well.

Poverty inflicts a severe cost not only on those directly involved but on the whole society. Its by-products include human misery and degradation and the social costs of ignorance, disease, crime, irresponsibility and indifference. It destroys a nation's most precious resources, its people. Children born and raised in poverty are unlikely to achieve their potential, and to the extent that their talents are untapped, they represent a vast source of wasted resources. Hence the price of poverty is not only the resources diverted to cope with poverty's social by-products but also in the production lost in wasted human potential.[6] The elimination of poverty would constitute an investment in human capital that would more than pay for itself.

The strategy against poverty cannot rest with any one policy. Indeed, a successful attack on poverty must include both economic policies that encourage economic growth and redistribution policies that ensure that the gains from growth are equitably distributed within the society. Foremost in the struggle against poverty is the need for a sustained tight labour market, but a full-employment policy must be supplemented by manpower policies, minimum wage legislation and income security policies. It is fully recognized that the majority of the permanent poor are beyond the reach of the labour market[7] and are thus likely to be unscathed by full-employment and manpower policies, but in the absence of such policies the swelling of the ranks of the poor with the employable poor would prove an undue burden on income security programmes. The sharp

[5] This estimate does not take into account the existing transfer payments to the poor.

[6] See, for example, the Council of Economic Advisers, *Economic Report of the President* (Washington 1964).

[7] Lithwick, *Urban Poverty*, 30-31.

reduction in poverty between 1961 and 1967 may be totally attributable to the rapid real economic growth rate of 5.5% during this period. However, as Lithwick points out, the anti-poverty impact of the economic recovery may have exhausted itself, leaving behind the permanent poor that lie outside conventional labour market policies.

A full employment policy will not only eliminate that portion of poverty which is due solely to unemployment, it will reduce poverty among the working poor by altering relative wages in their favour. The narrowing of wage differentials can be accelerated by an appropriate redistribution of government spending, but it is clear that this may be at odds with other public policies.

The argument for full employment as an anti-poverty measure rests, in part, on the assumption that the price level can be controlled, or at least that its increase will be less than the increase in money wages. If unemployment is the result of structural imbalances in the labour market it is conceivable that any wage gains attributed to aggregate demand policies may be dissipated in price increases. In fact, unless measures are taken to protect the real income of the poor, especially those outside the labour market, a full-employment policy may fall short of its desired objectives. It is not only essential that proper attention be paid to the kind of expansionary policies that are being pursued, it is imperative that certain powerful interest groups, such as high-wage, highly unionized labour, not be allowed to manipulate the expansionary policies into their personal gains at the expense of the poor.

An additional beneficial aspect of a tight labour market is that it tends to draw secondary workers from low-income families into the labour force. Several studies have noted that the labour force participation rate of married women in low-income families is considerably more sensitive to labour market conditions than is the participation rate of those in high-income families.[8] One avenue of escape from poverty is the employment of more members of the family unit, particularly the wife, although this has its social and private costs. Thus in assessing the impact of improved economic conditions on the poverty population one must consider not only how many of the poor will move from unemployment to employment and how many of the employed will earn higher wages, but also how many of the poor will move into or out of the labour force.

[8] See, for example, Joseph D. Mooney, "Urban Poverty and Labour Force Participation," *American Economic Review,* March 1967. Similar results have been obtained for Canada in a study of Rosalyn Kunin, *Labour Force Participation Rates and Poverty in Canadian Metropolitan Areas,* (University of British Columbia, Unpublished Ph.D. Thesis, 1970).

A wide range of policies is required to ensure that persons who are essentially capable of work will be employed and in jobs that provide incomes at socially acceptable levels. Essentially this entails increasing the productivity of the poor and perhaps even elevating their wage rate through minimum wage legislation. Unfortunately, minimum wage legislation is a sword that cuts with both edges: it reduces poverty for those who remain employed but it increases poverty for those whom it renders unemployable. Yet there may be some gain in eliminating poverty among those who remain fully employed and concentrating effort on those whose productivity is too low to be employable at the prevailing minimum wage rates.[9] Unfortunately, minimum wages as presently constituted are not a guarantee against poverty. In 1968 minimum wage rates varied from $1.00 in New Brunswick to $1.30 in Ontario. Thus a worker employed continuously at the minimum wage prevailing in Ontario would earn an annual income of $2,700, less than the poverty line for a family of two.

Increasing worker productivity is primarily a matter of upgrading the stock of human capital through education and manpower programmes. Increasing educational standards is of foremost importance since it makes entrants into the labour force trainable and employable and it reduces the difficulty of retraining if shifts in labour demand should require it. Moreover, education is by far the most effective vehicle by which disadvantaged children can break the poverty cycle.

Manpower policies are directed at the supply side of the labour market. They are intended to assist the labour force in adjusting to changing skill requirements and to changing regional patterns of labour demand. Although Canadian manpower training policy is not oblivious to the problems of poverty, the main thrust of such policy is directed at facilitating economic growth.[10] Nonetheless, 50% of the 301,000 adults trained in 1969 were poor. An estimated 48.4% of the trainees had a pre-training income of less than $3,000 where as only 40.8% had a post-training income in that range. The results are encouraging but they are not overwhelming.

There are certain unique features in the federal manpower training programmes. First, there exists an unusual and, perhaps unwise orienta-

[9] Kaufman and Feran have shown that the arguments against minimum wages as an anti-poverty device are not very convincing. See Jacob J. Kaufman and Terry G. Feran, "The Minimum Wage and Poverty," *Towards Freedom From Want,* ed. Sar A. Levitan, Wilbur J. Cohen and Robert Lampman (Wisconsin Industrial Relations Research Association, 1967).

[10] Economic Council of Canada, *Eighth Annual Review,* (Information Canada, Ottawa 1971) 98. The following factual information is derived from the Review.

tion towards institutional training. Only 3.9% of the funds spent on training were directed at on-the-job training as opposed to 76.8% in the United States. This exclusive emphasis on institutional training has recently come under provincial attack, especially from British Columbia. Second, the multi-purpose objectives of manpower training programmes mean that expenditures are unequally distributed among regions. Expenditures in fiscal year 1969-70 varied from a low of $18.42 per labour force member, or $376 per unemployed person, in British Columbia to a high of $81.78 and $1,553, respectively, in Prince Edward Island. Provincial governments typically conduct their own manpower programmes but these are largely unintegrated with federal efforts. Rough estimates show that Ontario spent more than $60 million on manpower training in fiscal year 1968-69 whereas British Columbia spent over $10 million. Thus at both the federal and provincial levels manpower training in British Columbia has a rather low priority. Perhaps this low priority is explicable in terms of the high net in-migration which is the source of the skilled labour essential for industrial expansion.

The potential of manpower programmes as anti-poverty devices has not been fully exploited, but clearly there exist limitations. In a work-orientated society helping the poor through manpower programmes is socially more acceptable than helping them through a system of transfer payments. Yet manpower policies must weigh the costs and benefits of training various classes of workers. In particular, it may be far less costly to provide income maintenance to certain categories of employable poor than to retrain them.

The poor who remain unscathed by labour market policies must be assisted through a wide array of alternate policies. In addition to income support schemes an effective anti-poverty programme must contain some protection for the poor against abuses in the field of housing, education, and recreational and health facilities. The poor are frequently victims of slum housing, poor schools and inadequate community services. Even under comprehensive hospital and medical care programmes there remains a disparity in the medical resources allocated to poor regions, especially poor rural regions, although the utilization of medical care among the lower-income groups has increased significantly.[11]

Income security programmes, which incorporate both income protection and income support programmes, are an acknowledgement that governments have a basic responsibility for the welfare of their citizens.

[11] Howard N. Fraser, "Differential Utilization of Health Resources," *Poverty and Social Policy in Canada*, ed. W. E. Mann (Copp Clark, Vancouver 1970) 381.

Social policy compensates for the tremendous complexity of the social and economic structure, the continual and unpredictable changes within this structure and the imperfect knowledge on the part of individual decision-makers. It is an acknowledgement of the presence of personal risks, against which the individual has inadequate protection, and economic risks, against which in principle the individual cannot protect himself.[12] But this is not to imply that governments must usurp responsibilities that in a market economy should rest with the individual. Such action would undoubtedly be in conflict with individual freedoms. Rather, social policy should come into play only in those contingencies which are beyond an individual's control.

As shown in Table I, the instruments through which income security is attainable can be broadly classified as: (1) social insurance, (2) demogrants, (3) guaranteed income supplements and (4) public assistance.

Social insurance is not primarily a device for redistributing income, although it obviously contains certain redistributive features, some of which are perverse. As an example, under the previous unemployment insurance programme high-wage construction workers were subsidized by the more stable but the lower paid clerical and sales workers. The Prairie region subsidized British Columbia.[13] The revised unemployment insurance scheme has the potential for a more extensive redistribution of income, giving it the appearance of a welfare rather than insurance programme. Moreover, it contains features that are bound to distort the allocation of labour.[14] Social insurance is basically a technique for protecting the income of those who are financially solvent, but as such it is an indispensable element in the struggle against poverty.

Demogrant programmes, which represented 50.4% of total income security expenditures in 1970, are designed basically to cope with the problem of poverty, but because of their universal features they perform their task very inefficiently. If poverty is the paramount objective the same resources can be utilized considerably more effectively by selective rather than demogrant programmes. The guaranteed income supplement for the aged is a clear example of the effectiveness of selective application of funds. The federal government has apparently recognized the inefficiency

[12] See Harry Johnson, *The Social Policy of an Opulent Society* (Canadian Welfare Council, Ottawa 1961).

[13] Economic Council of Canada, *Eighth Annual Review,* Table 7-5, 164-65.

[14] This analysis is pursued fully in T. J. Courchene, "Unemployment Insurance in Canada: Some Implications of the Present System and an Evaluation of the White Paper Proposals." *Research Report 7025* (Department of Economics, University of Western Ontario, October 1970).

of demogrants and has proposed appropriate changes in the structure of OAS and family allowance payments.[15]

Public assistance is the traditional and, perhaps, most efficient programme for dealing with poverty, but it remains an odious programme to the poor. It is in this area of social policy that reform is most urgently needed but least likely to appear. Basically, the provinces are incapable or unwilling to cope with the crises of rising dependency rates and costs. In fiscal year 1968-69, gross public assistance expenditures were $94 million in British Columbia, $45 million in Newfoundland, $242 million in Ontario and $365 million in Quebec.[16] Total expenditures on social assistance programmes increased by 220% between 1960 and 1970, whereas, total expenditures on all income security programmes increased by only 118%.

In British Columbia, the province in which public assistance is in a perpetual crisis, the caseload increased from 28,786 in 1963 to 49,525 in 1970, an increase of 72%. In the same period, average monthly outlay per case increased from $81.45 to $120.65, an increase of 48.1%. By contrast, average weekly wages and salaries for the industrial composite rose from $90.10 to $138.00, or by 53.2%. It thus appears that welfare recipients have not, on the average, made any relative gains.

Table I shows that expenditures on income security in Canada rose from $.7 billion to $4.3 billion between 1950 and 1970. Despite this dramatic increase the per cent of GNP allocated to income security expenditures increased only from 4.7% to 5.2%. By contrast, in 1963 the U.S. allocated 6.5% of G.N.P. on income security, Australia 8.2%, Sweden 13.8%, Britain 11.8%, and France 15.4%.[17]

Moreover, although the problem is highly complex, rough calculations suggest that probably less than 50% of income security expenditures in Canada reach the poor. As an example, only 20% of family allowance expenditures are currently paid to children in poor families. Thus the evidence suggests that we have not as yet achieved a welfare state, but to the extent that one exists it is clearly not a welfare state for the poor.

The call for the guaranteed annual income is largely a reaction to the

[15] Department of National Health and Welfare, *Income Security for Canadians* (Queen's Printer, Ottawa 1970).

[16] Under the Canada Assistance Plan the federal government assumes 50% of most social assistance expenditures. In most provinces the municipalities assume between 10 and 20% of the costs, leaving the provincial governments with considerably less than 50% of total expenditures.

[17] Felix Paukert, "Social Security and Income Redistribution: A Comparative Study," *International Labour Review*, November 1968, Table 1, 430.

TABLE I

TOTAL EXPENDITURES ON INCOME SECURITY BY ALL LEVELS OF GOVERNMENT FOR FISCAL YEARS ENDING 1950, 1960 AND 1970

	(1) 1950	(2) Fiscal Year Ending 1960 ($000,000)	(3) 1970
1. Social Insurance Programs			
Canada & Quebec Pension Plans	—	—	$ 63
Unemployment Insurance	$ 86	$ 415	542
Workmen's Compensation	41	85	185
Veterans' Pensions	96	150	218
Sub-Total	$223	$ 650	$1,008
2. Demogrant Programs			
Old Age Security	—	575	1,467
Family and Youth Allowances	298	493	734
Sub-Total	$298	$1,068	$2,201
3. Guaranteed Income Programs			
Guaranteed Income Supplement	—	—	263
4. Public Assistance Programs			
Categorical Assistance	183	162	156
General Assistance	29	116	735
Sub-Total	$212	$ 278	$ 891
Total Expenditures	$733	$1,996	$4,363

SOURCE: Department of National Health and Welfare, *Income Security for Canadians*, Ottawa, 1970, Table 2, p. 58.

real and perceived evils of the current income maintenance system, as well as a desire to provide a simple and neat solution to a complex and unpleasant problem. The GAI has much to recommend it, but it too has specific failings. GAI is merely an income support scheme not an all encompassing social policy. It does not eliminate income transfers to the nonpoor. It does not deal adequately with the question of incentives, and it does not lead to a complete dismantling of the present system. Moreover, the cost of the GAI under fluctuating employment has not been adequately considered,[18] nor have the administrative barriers been resolved.

18 The nature of GAI means that it would have an extremely important role as an automatic stabilizer.

The GAI plans that have been proposed vary basically in terms of the three interrelated elements: the basic allowance, the offsetting tax and the break-even level of income.[19] Any two elements determine the third. Because the poverty objective demands a high basic allowance and the incentive objective a low offsetting tax rate, the break-even level must be considerably higher than desirable in terms of the cost objective. A GAI that is to satisfy the poverty and incentive objectives cannot avoid making sizable transfers to the nonpoor, thus imposing enormous financial costs on the society.

Table II gives rough estimates of the gross cost of GAI under various assumptions of basic allowances and offsetting tax rates for 1967. The basic allowances, shown for a family of four, are calculated on the basis that children receive 60 per cent of adult benefits. Since the GAI costs are calculated from an income distribution which includes transfer income from current income security programmes they understate the true costs of the GAI that would result if the present welfare structure were eliminated. Nonetheless a realistic GAI scheme would most likely carry a gross cost well in excess of $3.5 billion.

TABLE II

THE GROSS COST OF A GUARANTEED INCOME UNDER VARIOUS ASSUMPTIONS OF BASIC ALLOWANCES AND OFFSETTING TAX RATES, 1967

($000,000)

Basic Allowance (Family of four)	*Offsetting Tax Rate* 30	40	50	60
$1,600	$1,295.2	$ 833.6	$ 656.8	$ 504.4
2,000	2,338.6	1,575.8	1,119.4	996.6
2,400	—	2,553.7	1,774.1	1,486.9
2,800	—	3,510.5	2,674.1	2,142.8
3,200	—	—	3,648.7	3,145.2
3,600	—	—	4,677.5	3,629.1
4,000	—	—	—	4,152.2

SOURCE: Calculated from data contained in D.B.S., *Income Distribution by Size in Canada*, 1967, Tables 5 and 38.

[19] See the paper by Terence J. Wales in this issue.

The efficiency of the GAI and the burden to the taxpayers are shown in Table III. The higher the basic allowance and the lower the offsetting tax rate the less efficient is the plan in that it distributes a sizable portion of total payments to the nonpoor. Likewise, as more of the nonpoor become net beneficiaries the proportion of families and individuals subjected to a positive tax declines, with the result that the tax burden on the upper income groups must increase.

The net cost of GAI would depend on the savings that would result from the replacement of existing income security programmes by GAI. Obviously, as the basic allowance is increased more of the existing programmes can be eliminated, but even with a $4,000 basic allowance the entire system cannot be dismantled. Thus the cost of income security programmes, if they included a GAI with a $3,600 basic allowance and a 50 per cent offsetting tax rate, would be more accurately placed at $5 to $6 billion, even under conditions of full employment. Given the magnitude of this financial burden it is obvious that the provinces cannot assume responsibility for a GAI unless appropriate federal-provincial tax revenue arrangements can be made.

TABLE III

PERCENTAGES OF TOTAL BENEFITS GOING TO THE POOR AND THE PERCENTAGE OF FAMILIES AND UNATTACHED INDIVIDUALS SUBJECTED TO POSITIVE TAX RATE, 1967

Basic Allowance	*% of benefits going to poor (Offsetting Tax Rate)*				*% subjected to positive tax (Offsetting Tax Rate)*			
Family of 4	*30*	*40*	*50*	*60*	*30*	*40*	*50*	*60*
$1,600	93	100	100	100	76	90	92	94
2,000	62	89	100	100	64	76	90	92
2,400	—	70	90	99	—	69	84	90
2,800	—	59	78	94	—	62	70	84
3,200	—	—	76	82	—	—	66	76
3,600	—	—	56	71	—	—	62	69
4,000	—	—	—	62	—	—	—	64

SOURCE: Calculated from information contained in D.B.S., ***Income Distribution by Size in Canada, 1967***, Tables 5 and 38.

The problems and solutions to poverty are multi-dimensional. Clearly no one policy or approach will prove equal to the task of eliminating poverty. The maintenance of high employment and rapid economic growth is crucial in combatting poverty, but manpower policies, minimum wages and income security programmes must play their respective roles.

The relatively low incidenceof poverty in B.C. is inconsistent with the anti-poverty effort generated by the province. The B.C. unemployment rate is consistently above the national average, whereas expenditures on manpower and income support programmes are far from impressive, even by national standards. However, the low incidence is consistent with the rapid rate of economic growth achieved by B.C.