

# Poverty and the Welfare State II

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Most of the income security programmes outlined in the paper by my colleague R. Swidinsky are under federal control. The only one under provincial control and designed specifically as an antipoverty programme is public assistance, the major component of which is general assistance.<sup>1</sup> Under this plan the federal government pays 50 per cent of the expense incurred by a province in providing assistance to the poor. Each province specifies a set of standards or budget needs that are intended to reflect the cost of maintaining an adequate living standard. Payments made to the welfare recipient are then generally set as the difference between these budget needs and any income accruing to the individual.<sup>2</sup> Each case must be handled separately in order to determine welfare eligibility in general and whether in particular special circumstances prevail that involve payments above the average budget needs.

Given that the initiative for these welfare payments rests with the provinces, it is of interest to consider how B.C. fares in its war on poverty compared with the other provinces. Table I contains some information that bears on this question. Section A of the table indicates that the incidence of poverty (number of people in poverty divided by total population) is lower in B.C. than in any other region except for Ontario, and possibly (although not probably) the prairie provinces.<sup>3</sup> This indicates that not only is per capita income relatively high in B.C. but the whole distribution of income lies above that of many other regions.

Section B of the table contains information on the extent to which the various provinces are attempting to meet the poverty problem. The entries

<sup>1</sup> Most of these programmes are now consolidated under the Canada Assistance Plan.

<sup>2</sup> However, in B.C. an individual can now earn up to \$100 a month without having his welfare payment reduced.

<sup>3</sup> As discussed in the paper by R. Swidinsky there are various measures of poverty that could be used. The (1967) poverty levels used here are \$1,740 for an individual, \$2,900, \$3,480, \$4,060 and \$4,640 for families of 2, 3, 4 and 5 or more. Of course these money income levels should theoretically be adjusted for cost-of-living differences across provinces, and for income in kind consumed on farms. However, even if the data were readily available to do this, it is very unlikely that the general conclusions drawn above would be altered.

are the number of recipients of assistance expressed as a fraction of the total number of individuals with incomes below the poverty level.<sup>4</sup> In B.C. a meagre one-quarter of those in poverty are receiving any assistance at all, and compared with the other areas only the prairie region provides assistance to a smaller fraction of the poverty population. But these data in themselves do not provide enough information to permit conclusions to be drawn about B.C. since they take into account only the numbers of individuals involved and not the payment levels.

Since actual payment levels made to a recipient depend on the provincially defined need levels and on the recipient's income, it is sufficient to compare the former across provinces. In section C of the table information is given on monthly budgets for items of basic need for the representative family, by province. These amounts are also expressed as fractions of the poverty line, thus indicating the fraction of the poverty gap (for a family of four) that the provincial government is willing to fill. The only province that provides for a lower average budget to those in need is New Brunswick. The implication of the data in Table I may be summarized as follows. B.C. is fortunate that its incidence of poverty is lower than anywhere else in Canada except for Ontario. In view of this fact one might expect B.C. to do more for the poor than is done elsewhere. Regrettably just the opposite is true — only in the prairie region is assistance provided to a *smaller fraction* of the poverty population, while only in New Brunswick is the provincially set payment standard (and hence probably the actual average payment level) lower than in B.C.<sup>5</sup>

On the other hand the B.C. government is to be lauded for its recently introduced wage subsidy plan, under which it pays for one-half of an employee's wages during the period November through April. It is required that the position be a new one, that the employee have received assistance for the preceding three months and have resided in B.C. for 12 months. Although this programme will be of some benefit there are reasons for expecting that its impact may not be very extensive. First it applies

<sup>4</sup> There is one qualification that should be mentioned here — the possibility that some assistance receivers in B.C. may have higher assets than those elsewhere, thus making them ineligible for assistance. Indeed we might not want to consider some of them as poor. For example the fraction of the population over 65 is higher in B.C. than elsewhere, and if this group owns more assets than younger poor people this may help to explain the low fractions in section B of the table for B.C. compared with the other provinces. On the other hand, it should be recognized that by analogous reasoning the incidence of poverty in part A would then be overstated for B.C. relative to the other regions.

<sup>5</sup> This conclusion likely holds regardless of the income levels used in defining property. That is, even if the poverty demarcation income levels were set say at one-half of those used currently, the relative position of B.C. would likely be unchanged.

**TABLE I**  
**SELECTED REGIONAL POVERTY STATISTICS AND AVERAGE**  
**BUDGET NEEDS UNDER PROVINCIAL ASSISTANCE PROGRAMMES**

<i>Section A</i>	<i>Number of Poor Families and Individuals as a Percent of all Families &amp; Individuals, 1967<sup>a</sup></i>	
	<i>Families</i>	<i>Individuals</i>
Atlantic Prov.	33.7	52.5
Quebec	20.3	42.5
Ontario	12.4	32.5
Prairie Prov.	23.0	39.8
B.C.	16.2	40.5

  

<i>Section B</i>	<i>Recipients of Social Assistance as a Percent of the Poverty Population, March 1970<sup>b</sup></i>	
Atlantic Prov.	30.9	
Quebec	36.1	
Ontario	31.7	
Prairie Prov.	21.6	
B.C.	25.3	

  

<i>Section C</i>	<i>Basic Assistance Rate for a Family of Four, 1970<sup>c,d</sup></i>	
	<i>Annual Rate</i>	<i>As a Percent of Poverty Line</i>
Newfoundland	\$2760	68
P.E.I.	2928	72
N.S.	3156	78
N.B.	2256	56
Quebec	2616	64
Ontario	3252	80
Manitoba	2952	73
Saskatchewan	2580	64
Alberta	4020	99
B.C.	2532	62

**NOTES AND SOURCES:**

<sup>a</sup>D.B.S., *Income Distribution of Poverty in Canada, 1967*, (Ottawa, 1969), Table 6.

<sup>b</sup>Calculated from Department of National Health and Welfare, *Income Security for Canadians* (Ottawa, 1970) 53, Table 2, and D.B.S., *Income Distribution and Poverty in Canada, 1967* (Ottawa, 1969).

<sup>c</sup>Two parents, boy age 13, girl age 8.

<sup>d</sup>Monthly Rates given in Department of National Health and Welfare, *Monthly Budgets for Items of Basic Need under Provincial Assistance Programs* (Ottawa, December 1970).

only to the employable poor. Second it relies heavily on the substitutability of capital for unskilled labour, and this may not be very great. Third because it is only a temporary measure many employers may feel that it is not worth the adjustment cost, particularly if it involves substitution for capital. Finally most big employers have a union or closed-shop agreement, thus barring many of the poor from employment. Nevertheless it will be interesting to observe the extent to which use is made of this attempt to move welfare recipients off the assistance roles and into employment.

The wide discrepancy in treatment of the poor depending on province of residence is a result of allowing the provinces to set their own standards. However, the latter is only one of a number of serious criticisms that can be levelled at Canada's major anti-poverty programme. A second one is that the method of financing — equal sharing with the provinces — discriminates against provinces in which a large fraction of the population is poor. That is even if the "equalization payments" between provinces actually equalized each province's ability to pay a given amount to every resident, the poorer provinces would still be at a relative disadvantage because they would have to make payments to a larger fraction of their population. Third the existing plan has serious work disincentives associated with it, in that welfare payments are generally reduced dollar for dollar as earnings increase, and hence earnings are taxed at a 100% rate.<sup>6</sup> Finally since each case must be treated individually the welfare recipient is required to consult with a social worker in order to determine eligibility. Regardless of how well-meaning is the social worker, some of the poor will undoubtedly consider this a demeaning experience.

We consider in the next pages our alternative anti-poverty programme — the guaranteed annual income (GAI). The latter does not suffer from any of the serious drawbacks of the current system just discussed.<sup>7</sup>

A GAI involves three essentials: the basic allowance, the offsetting tax and the break-even level of income. The basic allowance is the income guaranteed a family with zero earned income. The off-setting tax is a deduction from the basic allowance that increases with earned income. The break-even level of income is the income level at which the off-setting tax just equals the basic allowance so that the payment under the guaranteed plan is zero. There exists, of course, an interrelation between these

<sup>6</sup> This is subject to the qualification mentioned earlier.

<sup>7</sup> The GAI concept has been discussed extensively in the literature in recent years. The reason for considering it here is to point out explicitly its advantages over the existing Canada Assistance Plan programmes.

three elements; any two determine the third. Specifically, Break-even Level = (Basic Allowance)/(Off-setting Constant Tax Rate) so that for any given off-setting (constant) tax rate, the break-even level is directly related to the basic allowance.

The dilemma of all GAI plans becomes apparent from this relationship. If the plan is designed to eliminate poverty then the basic allowance must be set equal to the poverty demarcation income level. However, the break-even level is then substantially above this level, and payments are made to the non-poor. Although the latter payments are smaller with a higher offsetting tax, work incentives are more seriously hampered. For example, with a basic allowance of \$4,000 for a family of four if the off-setting tax rate is 50%, payments are made to families with incomes up to \$8,000, while if the tax is 90% payments are only made to families with incomes up to \$4444. However, in the latter case earnings are taxed at 90%.<sup>8</sup>

A GAI plan would serve primarily as a replacement for the existing general assistance programmes.<sup>9</sup> The major advantages of such a plan over these plans are the following.

First, as Premier Bennett has recently proposed, it would treat individuals uniformly regardless of province of residence, thus avoiding current wide provincial variations in both the probability of receiving assistance, and in the level of assistance, as discussed above. These variations are attributable to the fact that provincial attitudes towards standards differ and to the fact that specific needs and hence payments are subjectively determined by social workers. Under the GAI payments would depend on income levels, and the same basic allowance and off-setting tax rate would be used throughout the country.<sup>10</sup>

Second since the GAI would be financed by the federal government it would avoid the discrimination involved in the current plan arising from

<sup>8</sup> This problem is not avoided by using changing marginal tax rates since the weighted average of such rates must equal the flat rate which reduces the basic allowance to zero at the break-even level. Hence higher as well as lower marginal tax rates are required.

<sup>9</sup> Some payments under categorical programmes involving for example certain aspects of child care, counselling, juvenile correction and homes for the elderly would be retained, as would some payments under general assistance involving unusual circumstances.

<sup>10</sup> Some people would argue that a uniform GAI throughout Canada is inconsistent with the concept of fiscal federalism. I would argue that provinces should have autonomy in providing most services above a minimal level of basic need, but should not be permitted to decide (individually) the level of these needs. In a wealthy country such as ours it should be the role of the federal fisc to ensure that every citizen receives a minimal level of services, here defined as the basic allowance.

cost sharing on an equal basis between the provinces and the federal government.

Third since payments under a GAI would be made on the basis of income levels the role of the social worker in attempting to assess eligibility and needs would be greatly reduced, as would the likelihood of inequities resulting from different subjective evaluations. In addition individuals would not have to "apply" for assistance thus avoiding what some consider to be a demeaning feature of the current setup. Also there are probably many eligible recipients now who do not receive assistance because of lack of information. This inequity would be avoided under the GAI with eligibility determined by income.

Fourth it is often argued that a major drawback to a GAI is that it is detrimental to work incentives. One must be careful, however, to distinguish, between individuals currently receiving, and those not receiving, welfare payments. For those not on welfare the incentives will be more adverse under the GAI, although there is very little empirical evidence available on the extent to which hours would actually change.<sup>11</sup> However, for those already receiving assistance and currently being taxed at an effective rate of 100%, the GAI clearly involves work incentives that are more favourable.

Finally the administrative problems although difficult under a GAI are likely to be less serious and the administrative costs lower than the sum of those that currently exist for programmes that could be phased out with the introduction of a GAI.

Although the GAI is intended specifically to meet the inequities involved in existing social assistance programmes, its scope would in fact be much wider. Family allowances should be dispensed with since the equivalent of their intended effect on the poor could be incorporated by having the basic allowance of the GAI vary with family size. Old Age Security and the Guaranteed Income Supplement Payments could be phased out provided the basic allowances were above poverty levels, while if they were not then the best solution might be to supplement the incomes of the aged so as to permit them to escape from poverty. In any event this would avoid paying OAS to millionaires and paupers alike as is done currently.

On the other hand the GAI is not a suitable replacement for unem-

<sup>11</sup> One would expect both psychological and sociological factors, in addition to economic incentives, to play a role in the individual's decision about hours worked under a GAI. Indeed several pilot project studies are currently being undertaken in the U.S. in an attempt to determine (among other things) the extent to which hours worked change with the introduction of income maintenance schemes.

ployment insurance payments since the latter prevent incomes from dropping drastically below levels to which individuals are accustomed, and these may be far above poverty levels. Further both private pension plans and the Canada Pension Plan provide a suitable means for guarding against old-age poverty and should be continued.

Finally it is of interest to consider very briefly what the approximate costs would be of introducing a GAI plan for Canada. The estimated costs of two guaranteed income programmes are contained in the 1970 *White Paper on Income Security*. The more costly plan involves basic allowances or guaranteed income levels approximately equal to poverty levels — \$1,800 for a single person and \$4,800 for a family of five or more persons. In the less costly programmes the basic allowances range from \$1,600 to \$3,900 respectively. On the assumption that the offsetting tax rate is 50 per cent, the gross costs of the two plans in 1971 are estimated at \$5 billion and \$3.8 billion, respectively. The saving in cost from the abandonment of programmes that directly aim at poverty is approximately \$1.4 billion,<sup>12</sup> and payments under all other continuing programmes that affect persons otherwise qualifying for guaranteed incomes (e.g. OAS) is estimated at a maximum of \$1.6 billion. Thus the maximum reduction in welfare costs is \$3 billion, in which case the net cost of the GAI would be a minimum of \$2 billion with the higher basic allowance, and \$800 million with the lower one.<sup>13</sup> Hence the total cost of income security programmes would be about \$5-6 billion since current expenditures are about \$4 billion, as reported in the paper by R. Swidinsky.

<sup>12</sup> This includes Family and Youth Allowances, the G.I.S., War Veterans' Allowances and some social assistance payments.

<sup>13</sup> This assumes work effort is unchanged, and hence probably understates the net cost.