CALEDON
INSTITUTE OF SOCIAL POLICY

Ensuring the Welfare of 'Welfare Incomes'

by

Sherri Torjman

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I would like to thank the organizers of this Forum for the invitation to participate on the social policy panel. I appreciate the opportunity to speak about the role of evidence in policy-making and I am honoured to share the stage with Munir Sheikh.

At the recent celebration of the Caledon Institute's 20th anniversary, our closing speaker Environics President Michael Adams suggested that Caledon introduce an award to honour those who, in his words, "dare to defy – those who have spoken truth to power in the wider public interest." He continued and I quote: "Munir Sheikh strikes me as an obvious first candidate for the award, the former chief statistician who resigned from his dream job rather than act as the fig leaf that covered the otherwise naked emperor of the National Household Survey."

Well, Munir, we have a stage, we have a mic, we have an audience, so let's do this. Here is your award. Next year, Kevin Page, this is for you. But in your case, we'll hide it and you'll have to find it.

The need for reliable, credible evidence is crucial to good policy-making in all fields. From the perspective of the Caledon Institute, it is our lifeblood. All our analysis and proposals are based on solid evidence and data. So we are deeply concerned about the steady erosion and recent disappearance of evidence.

There have always been problems related to access to data – and I will be speaking about that today. What is troubling is that the problem has evolved from one of restricted access to the dismantling of many sources of data, which is *far more* damaging in terms of impact.

The abolition of the long-form Census typically is cited as the starting point for the assault on data.[1] Its withdrawal means the loss of vital information to organizations in a wide range of fields. This is not just a social policy issue.

One of the more insidious aspects of the Census cutting is that many important sources of data – including the Labour Force Survey and Survey of Household Spending upon which the Consumer Price Index is based – no longer will have available the statistical gold standard represented by the Census to help calibrate their results.

Evidence from other countries shows that in moving from a mandatory to a voluntary Census, the most vulnerable groups, including the very poor, have low response rates. In the absence of a full and mandatory Census, it is difficult to correct these imbalances in response.

But there is more to the story than just Census data. We have seen the demise of *Social Security Statistics: Canada and Provinces* that provided crucial social program data. Also axed was the Survey of Labour and Income Dynamics (SLID), which means the loss of powerful longitudinal information that helped track movement in and out of poverty.

Data tells an important story only to the extent that we can see patterns over time. It is this trend information that helps us appreciate the impact of economic and social measures introduced by various governments.[2]

Important surveys on disability are being altered. In 1981, I worked for the Parliamentary Committee on the Disabled; disability was virtually an uncharted area at that time. The Committee recommended that reliable data be collected so that we could better understand the challenges facing the disability community.

The Health and Activity Limitation Survey or HALS subsequently was introduced as a post-Censal Survey in 1986. It was then changed to the Participation and Activity Limitation Survey or PALS. Now this invaluable data source apparently is being changed yet again, though we don't yet know how.

But the problem runs deeper than the interruption of data. Lost in the conversation is the fact that it takes time and resources to rebuild reliable data sources. It's not easy to develop a trustworthy source of evidence – which leads me to the issue that I would like to discuss today.

Last year, Ottawa indicated somewhere in the bowels of the federal Budget 2012 that it would be closing the National Council of Welfare, with the resulting loss of its important series *Welfare Incomes* and *Poverty Profile*. After much deliberation, we announced that Caledon would take over these two publications. We will have to raise the funds on our own to sustain this work – effectively privatizing the task of providing crucial data about a major social program and about the state of poverty in Canada.

We were concerned about preserving these vital sources of information because we know how important they are to good policy-making. We have also experienced first-hand how difficult it was to formulate the methodology in the first place. I will focus today on *Welfare Incomes* because that is the report in which I was directly involved.

In 1986, I was hired by Ken Battle, who was Director of the National Council of Welfare, to write the first Canadian report on welfare (also known as social assistance). Its primary purpose is to act as a program of last resort for individuals with no other means of support. It comes into play when all personal resources, including income and assets, have been exhausted.

While welfare is often referred to as a single program, it actually is administered by different departments in 13 provinces and territories. Each jurisdiction sets its own rules regarding eligibility, amount of aid, type and level of special assistance, enforcement and appeals.

We knew that it would be important to proceed cautiously because it was in the interest of all jurisdictions, quite frankly, to keep the details of the program under wraps. Ken decided early on that it would be wise to inform the (then) Department of Health and Welfare about the project, given that the Minister likely would be hearing about it from provincial counterparts. Little did we know how ***infuriated*** the officials would be when they learned of this work.

Given their less-than-enthusiastic response, I asked Ken whether the Council would be proceeding with the project. He replied: "Of course, we're proceeding with the project. The day that the National Council of Welfare can't write a report on welfare is the day they should shut us down" – which they did 26 years later.

Because the welfare system had been kept hidden, we wanted to explain its structure and its myriad rules, which determine both eligibility and expectations around work performance. We also wanted to figure out how each province and territory calculated their respective welfare rates. This work subsequently evolved into the detailed methodology that is still used today – and that was almost lost until Caledon rescued it.

Developing the welfare methodology was no easy task. Every province and territory used a different method to arrive at their respective rates of assistance – though they all basically employed a variation of a market basket approach.

In an effort to ensure comparability across jurisdictions, we articulated very clearly our assumptions – of which there was a long list. We chose, for example, the value of the housing allowance that was paid in the largest centre in the jurisdiction. We changed the rates in the precise month that any amendments were introduced. We were fastidious in checking the provision of special items to determine whether these should be added to the base calculations.

In one province, it wasn't clear, for example, whether a clothing allowance for children was included in the basic rates or whether families had to apply for the extra amount. I remember calling the key policy person to ask that very question – and will never forget his reply: "Good question. Hey Paul (he said to his colleague). Is the clothing allowance automatic or is it squeaky wheel?" That basically sums up everything you need to know about welfare!

The findings of this exhaustive study were published in 1987 in a report called *Welfare in Canada: The Tangled Safety Net*. The report made 55 recommendations for improving welfare, including a set of proposals related to closing the data gap. It presented the first-ever compilation of income benefits for three representative household types.

The study also included other sources of income that were available to welfare recipients, such as federal family allowances and provincial/territorial sales or property tax credits. Total income from federal and provincial/territorial sources came to be known collectively as 'welfare incomes.'

Over the years, we continued to calculate these rates and the Council published these tabulations. The *Welfare Incomes* series, as it came to be known, added and subtracted provincial/territorial benefits and tax credits as they were created and ended. The report replaced the federal sales tax credit with the GST credit in 1992 and included a fourth household type – a single person with a disability. Changes in federal and provincial/territorial child benefits over the years were incorporated.

Perhaps most important was the fact that we contacted every jurisdiction and asked them to verify our assumptions and calculations each year before going to press. It took time to build these trusting relationships and while all the players have changed, the process of fact-checking remains in place. In fact, the latest round was just completed by Caledon in March.

But the welfare saga was not the end of the data story. Shortly after the welfare publication, Ken began working on a report that was tracking trends in federal social expenditure. He realized that most of the information was being presented in current dollars, effectively exaggerating the actual spending and the value of benefits to Canadians. His analysis of federal expenditure in constant dollars showed different results to what the government was reporting.

While the information was a goldmine, it was also a landmine – given the recent welfare drama. Ken ended up publishing the findings outside of government in *Policy Options* in a 1990 article called "Social Policy by Stealth: How, and why, our social system is under threat" under the pseudonym Grattan Gray.

Fortunately, these stories came to the attention of Caledon's founder, Alan Broadbent. Because he believed so strongly in the value of open and informed public policy, Alan approached Ken in 1992 to create an independent social policy think tank. Little did we realize when we set up Caledon more than two decades ago how foundational the welfare reports would be to our capacity to formulate innovative, but practicable, social policy proposals.

The very first study we carried out was for the Ontario Fair Tax Commission. We were asked to analyze the impact of direct and indirect taxes imposed on Ontario welfare recipients who work for wages. We examined 11 household types, tracking what happened to them at every $1,000 of earnings. We were able to carry out this study in the detail we did *because* the welfare reports had provided such a rich source of information on the structure and design of this program.

The welfare/tax interface study found that welfare recipients who supplement their benefits by working can keep only a small fraction of their earnings. Single employable individuals, for example, can increase their work earnings by 1,200 percent (from $1,000 to $13,000 in earnings) and yet end up with only a 25 percent gain in disposable income.

Welfare recipients pay back to government most of their employable earnings – mainly through the welfare taxback, but also in income and payroll taxes and in lost refundable credits. Another disincentive to work is the potential loss of 'income-in-kind' such as supplementary health and dental benefits, which can be worth hundreds or even thousands of dollars for some families.

We described the problem in a report called *The Welfare Wall: The Interaction of the Welfare and Tax Systems*. We arrived at the term "welfare wall" because all the graphs of this interaction between welfare and income tax came out looking like a wall over which it would be almost impossible to climb. It was a term that derived directly from what the data actually looked like – and is a concept used widely in both government budgets and academic reports.

We realized in doing this analysis that, unlike the position we had taken several years earlier, continuing only to recommend improvements to welfare was actually not the most effective way to tackle poverty in the long run. The welfare wall analysis subsequently became the foundation for our work on dismantling welfare piece by piece and replacing it with more adequate and less intrusive programs of income support. Welfare basically would revert to a program of last resort, as it was originally intended.

The proposal for the multi-governmental National Child Benefit reform became the first brick in a proposed new architecture of income security. Its core imagery was the welfare wall; it aimed at removing that part of the welfare wall created by social assistance-embedded child benefits. Ottawa introduced its part of the National Child Benefit in the form of the Canada Child Tax Benefit in 1998. It plays a major role in reducing poverty and inequality in Canada.

It was because of our detailed understanding of the structure and rules of welfare that we were able to formulate a proposal for a basic income program for people with severe disabilities – another building block in our proposed new architecture of income security for Canada.

Welfare is the primary source of income for more than 500,000 Canadians with severe and prolonged disabilities. Welfare also provides income-in-kind in the form of disability supports. But welfare never was intended as a lifetime guarantee; it was designed as a last-resort safety net. We recommended that these individuals not have to rely on welfare but should qualify instead for a separate income program, run by the federal government, that would be adequate, indexed and portable across the country. Resulting provincial and territorial savings would be reinvested in the supply of disability supports.

It was because of the detailed information regarding the structure and rules of welfare that we formulated the proposal for a temporary income program as a bridge between Employment Insurance and welfare. This idea was put forward in a Caledon paper by Michael Mendelson and Ken Battle entitled *Fixing the Hole in Employment Insurance*: *Temporary Assistance for the Unemployed*.

It was crucial to have information on the welfare structure and rules when I was asked by the Canada Millennium Scholarship Foundation to carry out a study on the interaction of welfare and student aid. The findings are presented in the report *Student Aid Meets Social Assistance*. It would have been difficult to understand this complex interface in the absence of the foundational reports on welfare.

Caledon also used data from *Welfare Incomes 2000 and 2001* in Ken Battle's 2003 study on minimum wages. That report compared minimum wage disposable income and welfare income for several family types.

We relied on the welfare reports in the design of the Registered Disability Savings Plan, an idea proposed by the Planned Lifetime Advocacy Network (PLAN). The RDSP was introduced by the federal government in 2008.

I wrote a short paper about the concept to be used by PLAN in their pan-Canadian discussions. To assist with the design work, Caledon hired Keith Horner who had just retired from the Department of Finance where he had responsibility for Registered Retirement Savings Plans. He helped us explore the so-called 'quantum' of this proposed tax-assisted savings plan – its possible design parameters and the associated cost at various levels of contribution to the plan.

We also hired analyst Richard Shillington to conduct a study on welfare systems and how they might treat this proposed new measure. We knew from having conducted the welfare studies about the practice of reducing welfare when other income benefits are raised or introduced.

Basically, federal or provincial/territorial improvements to an existing income security program or through a new benefit typically reduce welfare payments by the same amount. This offset is the result of 'liquid asset exemption guidelines,' which we explain and continue to track in the *Welfare Incomes* report. Welfare recipients are no further ahead even though the purpose of these enhancements is to help them and other low-income households.

We commissioned this study to highlight the potential problem and to ensure that the welfare offset did not happen. I am happy to report that the Registered Disability Savings Plan has been granted exempt status in virtually all jurisdictions. Welfare recipients are not penalized if their family sets up an RDSP on their behalf.

The information on earnings exemptions also explained and tracked in the *Welfare Incomes* series likely influenced the design of the Working Income Tax Benefit introduced in the 2007 federal Budget. The WITB, as it is known, is an earnings supplementation program that pays a small benefit starting at earnings of $3,000.

We assume that this trigger point was selected because it clears the earnings exemptions levels set by welfare systems in all jurisdictions. The identified threshold ensures that this benefit is directed exclusively toward the working poor and not toward welfare recipients. It is a measure that, in theory at least, helps recipients climb the welfare wall. In our view, its value needs to increase if it is to act as a true employment incentive for the working poor.

Welfare Incomes remains crucial to this day not only to help us appreciate the circumstances of Canadians living in the deepest poverty. It also acts as a conceptual foundation for reforming the income security architecture in Canada. This work has influenced the design of policy proposals related to the National Child Benefit, a basic income for persons with disabilities, a new temporary income assistance program, student aid, minimum wages, the Registered Disability Savings Plan and the Working Income Tax Benefit.

We are continuing the work on welfare incomes. The 2012 report, written by consultant Anne Tweddle, will be published shortly and will become part of a new *Canada Social Report* that Caledon is developing.

The *Canada Social Report* will present key socioeconomic data and will track major policy developments in such areas as child care, seniors, disability, mental health, home care and affordable housing. Its purpose is to provide policy-makers, voluntary organizations, academics, students, the media and the public with accurate and up-to-date information on key social and economic trends.

Of course, the *Canada Social Report* cannot replace what is missing. The dismantling of data will leave big holes that we won't be able to fill. But at least the *Canada Social Report* will help consolidate and make publicly available what we have. Maintaining *Welfare Incomes* as part of this work will protect an invaluable source of data that took years to develop and is still evolving with various shifts in provincial and territorial policies. Caledon is also continuing the National Council of Welfare's *Poverty Profile* series on trends and characteristics of low income.

All this to say: Policy formulation in any field in the absence of a solid foundation of evidence is like a house of cards; it is constructed on shaky ground. Our well-formulated sources of national data should be recognized as valuable resources that must be protected. They are *not* easily replaced – and we lose them at our peril. Thank you.

Endnotes

1. The death of the long-form Census in 2010 typically is seen as the starting point for this assault. The short Census had a few basic questions in 2006 – name, sex, age, marital status, common-law union, family relationships and mother tongue. The long-form Census in 2006 covered such items as education, disability, citizenship, landed immigrant status, ability to speak official and other languages, language spoken at home, ethnic or cultural origins, member of Indian Band or First Nation, mobility, parents' place of birth, education, household activities, labour market activities, incomes and sources, and dwelling.

2. Employment Insurance is a case in point. When we track the changes in caseloads and benefit/unemployment ratios after the introduction of the 1996 reforms, it is clear how powerful was the impact of rule changes that went from weeks-based to hours-based eligibility and also increased the work requirement. We can tie the changes in the patterns to the introduction of specific policy measures.