

# Issues and Commentaries/ Issues et commentaires

## Getting It Backward? Economy and Welfare in Ontario 1985-1995

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Le nombre de ménages faisant partie de la population active mais qui bénéficient du bien-être social est resté constant en Ontario de 1985 à 1989, mais il a presque quintuplé au début des années 90. En utilisant les variables du marché du travail (emploi et population) et des variables de bien-être social, nous montrons que la capacité d'emploi de l'économie a augmenté durant la période 1985-89, mais qu'elle a diminué au début des années 90. Notre analyse suggère que les politiques gouvernementales ont soutenu un grand nombre de cas dans les années 80, alors que durant les années 90 les politiques gouvernementales ont limité le nombre de cas de bien-être social. En dépit de ceci, la capacité d'emploi du marché du travail est resté faible pendant cette dernière période. Nous concluons que durant la dernière décennie, les politiques de bien-être social en Ontario n'ont pas tenu compte des conditions du marché du travail.

The number of employable households on welfare remained steady in the province of Ontario from 1985-89 and then increased nearly five-fold in the early 1990s. Using labour market variables (employment levels and population) and welfare variables we show that the employment capacity of the economy expanded in 1985-89, contracting sharply during the recession of the early 1990s. Our analysis suggests that government policies sustained high caseloads in the 1980s, while in the 1990s government policies limited the number of welfare cases, notwithstanding that the employment capacity of the labour market remained low. We conclude that in the past decade welfare policies in Ontario failed to consider labour market conditions.

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### INTRODUCTION

Welfare caseloads are affected by labour market conditions and government policy decisions (eligibility criteria, rates, etc.). In this paper we examine the relationship between labour market

conditions and caseloads, and between policies and caseloads, to answer two questions. First, how sensitive were caseloads in Ontario to changes in labour market conditions from 1985 to 1995? Second, what was the effect of welfare eligibility policies on caseload levels?

## METHODOLOGY

We restrict our analysis to those classified as “employable” under the short-term General Welfare Assistance (GWA) program. In doing so we exclude those receiving welfare who are under the age of 18, over the age of 65, disabled, sole-support parents or in some other way not immediately employable (refugee claimants, full-time students, etc.). By limiting the analysis to employable cases or households we focus on the group most easily and most likely to obtain employment.<sup>1</sup>

The labour market variables we use are the seasonally adjusted unemployment and total employment levels, and total population.<sup>2</sup> The welfare variables we use are GWA caseloads obtained from the Ontario Ministry of Community and Social Services. For all variables quarterly averages were calculated.

In order to study the relationship between economic conditions and welfare levels we created an

employment capacity ratio (employment level over labour age population), consistent with the methodology of others (see Brown 1995). The ratio incorporates discouraged workers and adjusts for population growth, which unemployment levels do not. To measure welfare levels we calculated the ratio of employable cases over total population. Both ratios incorporate population levels and enable a common scale of measurement for statistical analysis.

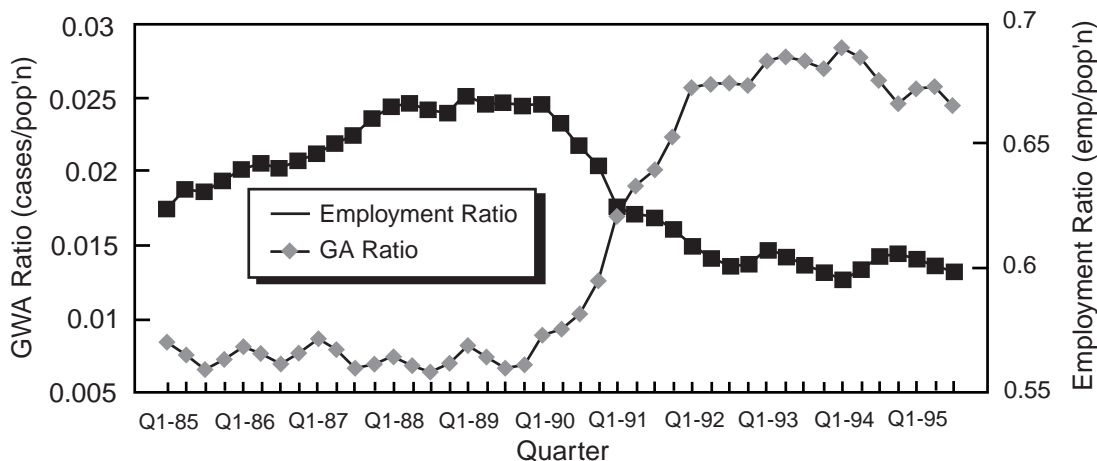
For most of our analysis we have partitioned the 1985-95 era into two separate periods. The first period comprises the economic boom (1985 to the end of the third quarter of 1989), while the second extends from the fourth quarter of 1989 to the end of 1995.

## FINDINGS

### Employment Capacity and GWA Caseloads

As illustrated in Figure 1, the employable monthly caseload ranged from slightly over .5 to .8 percent

FIGURE 1  
GWA Caseload and Employment Capacity



of the population (48,000 to 65,000 cases) from 1985 to the beginning of 1990. However, during 1991 and 1992 there was explosive, nearly five-fold, growth with caseloads approaching 3.0 percent of the population (240,000 cases) in early 1994. Such an increase is unprecedented in the history of the province and caseloads only began to decrease somewhat in mid 1994.

From Figure 1 it is also apparent that the employment capacity of the economy increased from 1985 to 1989 as more of the working age population was employed, and then fell sharply during 1990 and 1991 remaining at a depressed level from 1992 to 1995.

Given the quite different economic conditions in 1985-89 and 1989-95 we have conducted statistical analysis for each time period. The correlation between the employment capacity ratio and the GWA ratio for 1985-89 is weak at  $-.359$  (sig. =  $.185$ ). Regression procedures were used to estimate the degree of change in the GWA ratio associated with changes in the employment capacity ratio. Ordinary regression analysis with serially correlated time series is unreliable in this situation because the two series could be correlated simply because of their trends, regardless of whether or not they are causally related. The autoregression procedure we used estimates true regression coefficients from time series with first-order autocorrelated errors. The regression shows that for 1985-89 increasing employment capacity had virtually no influence on the number of welfare cases.

As Figure 1 shows, the increasing employment capacity of the economy did not cause caseloads to decrease from 1985 to 1989. We postulate, in keeping with Sabatini (1996), that government policies were offsetting economic conditions, preventing caseloads from decreasing. During this period welfare rates increased at a faster rate than inflation, CPI, and the minimum wage. Furthermore, during this time, eligibility criteria were loosened allowing previously excluded households to qualify for benefits.

The relationship between employment capacity and caseloads was very different during the 1985-89 and 1989-95 time periods. During 1989-95 there was a sizable decline in employment capacity and a corresponding large increase in GWA caseload levels. The correlation between employment capacity and GWA caseload ratios for this period is strong and significant at  $-.956$  (sig.  $< .000$ ). Regression was again used to determine the influence of employment capacity on caseload. During this period, labour market competition exerted a strong significant influence on caseload ratio ( $B = .238$ , sig. =  $.001$ ). During this period, every percentage point decrease in the employment capacity ratio is associated with a  $.24$  increase in our measure of welfare utilization (caseload/population).

### **Welfare Policies and Caseloads**

The final expansion of eligibility for welfare in the 1980s was the introduction of the Supports to Employment Program (STEP) in late 1989. STEP was a formula for determining how employment income affects the level of welfare benefits. Until 1989, if welfare recipients earned income from employment, benefits were reduced roughly dollar for dollar. Under the new STEP rules, some employment income was allowed without triggering a concomitant decrease in welfare benefits. The effect of the rules was to ensure that, in terms of income, welfare recipients were better off working, even at low paying jobs, than relying solely on welfare.

STEP was comprised of four components. First was the exclusion of the first \$100 of employment income for the purpose of calculating social assistance levels. Second was a further reduction of 20 percent of the remaining income. Third was the exclusion of payroll deductions (such as union dues and Canada Pension Plan contributions) from employment income. Last was the subtraction of employment related expenses — notably childcare — from earned income. The result of these four calculations is the dollar amount by which the monthly welfare payment to an employed recipient was reduced.

The introduction of STEP in 1989 occurred before caseloads began to grow, suggesting that the decision was predominantly influenced by political, not economic, considerations. In the late 1980s social action groups were clamouring for government action on the recommendations of a major review of welfare, an election was imminent, and provincial revenues were at an all-time high (Social Assistance Review Committee 1988).

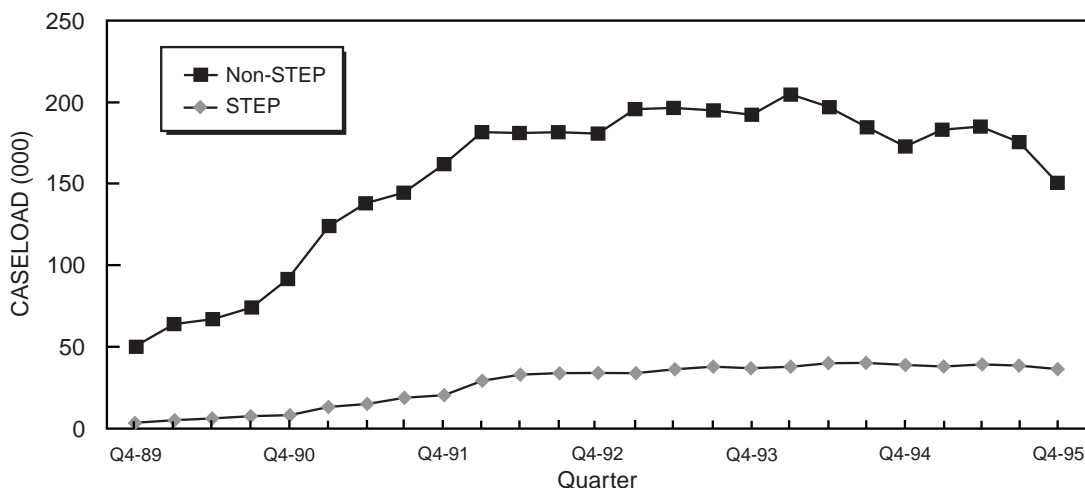
STEP was originally designed to facilitate the exit, via employment, of recipients from welfare (Ministry of Community and Social Services 1991). However, the calculation was also used when determining the eligibility of welfare *applicants*, as well as for calculating payments for existing recipients. This broad application of STEP extended welfare entitlements to a larger segment of the population, namely the working poor.

Immediately prior to the implementation of STEP, 36 percent of welfare recipients reporting some earnings from employment had such income when they first applied for social assistance. The remaining 64 percent had no earnings when originally applying for assistance. Two years after the implementation of STEP, the proportions were nearly reversed with 56 percent of those on STEP having had earnings when originally applying for assistance.

The number of STEP cases increased rapidly after the introduction of the program, as illustrated in Figure 2 below. The STEP caseload represented about 8.6 percent of total employable caseloads one year after its inception, growing to 16.0 percent two years later.

The dramatic increases in GWA caseloads, and associated expenditures, between 1990 and 1992

FIGURE 2  
GWA Caseload — Step and Non-Step



caused decision makers to fear that STEP was drawing people onto social assistance. In late 1992, STEP was revised so that it could only be accessed by recipients already on welfare for three months. This change prevented the working poor from becoming eligible for welfare supplements under STEP.

In order to determine the effect on caseloads of the 1992 restriction to STEP, we have conducted an intervention analysis. Intervention analyses concentrate on disruptions in the normal behaviour of a time series using an autoregressive integrated moving average (ARIMA) model (McCleary and Hay 1980). We used a simple ARIMA model (1,0,0) for the period 1989-95 with a dummy variable signifying the onset of the STEP policy change in 1992 to determine the impact of the eligibility restriction on the proportion of GWA recipients on STEP. Following the policy change, caseloads stopped growing and levelled out at an average of 16.9 percent of total employable caseload over 1993 to 1995. The intervention analysis shows that the policy change dampened STEP caseload growth by about 10 percent by preventing working-poor applicants from being eligible for welfare.

## CONCLUSIONS

Different variables influenced caseload levels and growth in the 1985-89 and 1989-95 periods. Although the employment capacity of the economy increased from 1985 to 1989, caseloads failed to decrease. We postulate this was due to policies that expanded eligibility and increased welfare benefits. When economic conditions worsened during the recession of the early 1990s, caseloads swelled dramatically and government policies sought to stem the growth, in part by restricting STEP in 1992. The changes to STEP did reduce growth in caseloads even as the declining employment capacity of the economy inflated caseloads.

Recent policies such as lowering welfare rates in late 1995 and the introduction of workfare require-

ments in 1996 are further attempts to ratchet down caseloads. These policies assume that the employment capacity of the economy is increasing allowing government to reduce benefits and limit eligibility.

Policies to constrain program expenditures and facilitate the labour market (re)entry of welfare recipients will be effective only if the underlying dynamics of caseload change are understood. Given the pattern of incongruence between welfare policies and labour market conditions from 1985 to 1995 it may well be that current policies continue to be discordant with economic conditions.

## NOTES

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1. The majority of employable cases are one-person households.
2. The labour market and population data are derived from the Statistics Canada series 71-201. The welfare caseloads are from the Ontario Ministry of Community and Social Services. The raw data are available upon request from the authors.

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