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Poverty in Canada

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Abstract

In this article, we analyze how various historical modifications to welfare and old age pensions programs have affected poverty in Canada.

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1 Introduction

On may 19th 2006, a committee of experts from the United Nations responsible for the follow up of the International Covenant on Economic, Social and Cultural Rights, a treaty that Canada signed in 1976, strongly reprimanded the Canadian government due its waning commitment to upholding the objectives of this treaty. In spite of a vigorous economy and budget surpluses, it would seem that the poor are being left behind. The committee of experts underlines the impact of a decreasing number of unemployed benefiting from unemployment insurance; welfare transfers that aren't representative of the costs of maintaining basic living standards; affordable housing is rare, and its tenants are usually in dire situations; food banks are visited far too often; superior education has become a luxury; and finally, the fundamental rights of workers such as the rights of being syndicated and going on strike are being questioned. The objective of this article is to analyze how various historical modifications to welfare and old age pensions programs have affected poverty in Canada.

The remainder of the article is presented as follows. The following sections present the analytical framework. The third section presents the results of our analysis and the fourth section concludes.

2 Historical and analytical framework

During the early 90's, budgets presented by the Canadian government as well as provincial governments showed recurring deficits. To remedy this unsustainable situation, these governments brought on a series of measures to control public spending. Some of these measures affected the Canadian social safety net. Regarding the unemployment insurance, in 1993, Bill C-

113 modified the income replacement rate from 60% to 57%. In the following year, Bill C-17 reduces this rate to 55%. Regarding welfare, these transfers have simply not been indexed to inflation for over a decade. However, old age pensions have not been affected by these budgetary cuts and are indexed to inflation. This is coherent with results presented by Makdissi, Therrien and Wodon (2006) who conclude that most of poverty reduction in Canada is achieved through transfers targeting the elderly.

To analyze the various impacts on poverty these policy changes have incurred, we utilize the Survey of Income and Labor Dynamics (SLID) published by Statistics Canada for 2002. We consider three simulation scenarios¹. The first scenario reinstates the unemployment insurance rate to 60% (Simulation 1). We do however ignore the changes brought to admissibility criteria of this program. The second scenario increases welfare transfers to compensate for the loss of real income incurred by the lack of indexation (Simulation 2). The third scenario simulates the impact on poverty that would of followed if old age pensions were not indexed to inflation (Simulation 3).

When measuring poverty, we use the Foster, Greer and Thorbecke (1984) class of poverty indices. These poverty indices have the following form:

$$P_\alpha = \frac{1}{N} \sum_{i=1}^N \max \left[\left(\frac{z - y_i}{z} \right)^\alpha, 0 \right], \quad (1)$$

where N is the number of individuals, z is the poverty line which we have fixed at 50% of the median income, y_i is the income of individual i and α is the poverty aversion parameter. If $\alpha = 0$, the resulting index is the well known and widely used “headcount” index. If $\alpha > 0$, not only the incidence but the depth of poverty are considered by the resulting “poverty gap” index. Finally, if $\alpha > 1$, the resulting index is increasingly sensitive to inequality.

¹These effects are studied in the period of 1992 to 2002.

Thus, we will use these three (P_0 , P_1 and P_2) indices.

To make the equivalent incomes comparable across the various regions, we use the implicit deflator presented by Makdissi and Groleau (2002). When considering the composition and size of the survey's families, we use an equivalence scale which normalizes income. If we define total household income as x_i , we have $y_i = x_i/n_e$ with :

$$n_e = [n_a + \varphi n_c]^\beta \quad (2)$$

Where n_e is the number of equivalent adults in the household, n_a is the number of adults in the household and n_c is the number of children. The parameter φ is used to differentiate the cost of a child compared to an adult. Cutler and Katz (1992), who proposed this equivalence scale, indicate that there exists a consensus that this parameter should be equal to 0.40. The β parameter considers the economies of scale that exist when living in a household. This parameter does not have a consensus on its value; however, it ranges between 0 and 1 and usually has a value of 0.5 as we have adopted.

Index	Estimate	Standard Error
P_0	0.139491	0.002780
P_1	0.047378	0.001163
P_2	0.025970	0.000821

Table 1: Poverty estimates, SLID 2002

Table 1 displays the estimated indices of observed poverty for Canada in 2002. These estimates will be used as a benchmark of comparison for the results that will be generated by the simulations stated earlier.

3 Simulation results

In this section, we simulate the levels of poverty which would have been observed considering the three scenarios presented earlier. To begin, this first sub section analyses the levels of poverty for the entirety of the population. The other two sub sections is dedicated to impact of poverty on various family types and on children.

3.1 An overview

Index	Simulation 1	Simulation 2	Simulation 3
P_0	0.139442	0.129150	0.157121
P_1	0.047372	0.043031	0.052639
P_2	0.025969	0.023907	0.027782

Table 2: Simulations

Table 2 displays the poverty levels for our three scenarios. We notice that the reduction of income replacement rates of unemployment insurance have had little effect on the poverty indices². However, the non indexation of welfare transfers has increased P_0 by 8.0%, P_1 by 10.1% and P_2 by 8.6%. On the other hand, the elderly population seems to have been protected seeing how indexing the pensions have avoided an increase in poverty for the whole of the population of 12.6% for P_0 , 11.1% for P_1 and 7.0% for P_2 .

²There would most likely have been an impact if we would have considered the admissibility criteria. However, the SLID database does not contain enough information to conduct such simulations due to the incredible complex nature of the admissibility criteria.

3.2 Breaking down of the impacts of Simulation 2 on various family types

Seeing how the non indexation of welfare transfers seems to have been a political decision that has hindered the fight against poverty in Canada, it is interesting to see how this political decision has affected poverty levels across various family types.

	Singles		Couples without children		Couples with children	
Index	Estimate	Simulation	Estimate	Simulation	Estimate	Simulation
P_0	0.295080	0.284945	0.088517	0.083849	0.058196	0.053181
P_1	0.104216	0.096248	0.027321	0.025437	0.018116	0.016512
P_2	0.060073	0.055621	0.014274	0.013347	0.008958	0.008308

	Lone mothers		Lone fathers	
Index	Estimate	Simulation	Estimate	Simulation
P_0	0.346232	0.276721	0.134004	0.118760
P_1	0.095502	0.076148	0.043976	0.038779
P_2	0.042451	0.035572	0.020713	0.018820

Table 3: Simulation 2 by family types

In Table 3, we present the results of the second simulation broken down by family type. These results show that both single parent family types and families with children are greatly affected by this political decision. The family types touched by this perverse affect are, in decreasing order of magnitude, mother led single parent families, followed by the father led single parent families and finally, the couples with children group. These results remain constant regardless of which poverty index is used. The magnitude of the effects induced by the political decisions are the following; for P_0 , an increase of 25.1% for mother led single parent families, 12,8% for father led single parent families and 9.4% for couples with children. For the P_1 index, these increases are of, 25.4%, 13.4% and 9.7% respectively and for P_2 , of

19.3%, 10.1% and 7.8%. Seeing how those who are the most affected by this political decision are the family groups with children, the following section will deal explicitly with the impact of these policies on children in Canada.

3.3 Non indexation des prestations de sécurité de revenu et pauvreté des enfants

In 1989, the Parliament of Canada had adopted a resolutions aiming to completely eliminate child poverty in Canada by the year 2000. Within this framework, it is interesting to see how the decision not to index welfare transfers has affected child poverty.

	2 parents		Lone mother		Lone father	
Index	Estimate	Simulation	Estimate	Simulation	Estimate	Simulation
P_0	0.058135	0.052523	0.407638	0.319519	0.134700	0.119092
P_1	0.016056	0.014623	0.110225	0.084739	0.041511	0.036797
P_2	0.007654	0.007145	0.045836	0.037713	0.017644	0.015956

Table 4: Simulation 2, Poverty among children by family types

Table 4 presents the results of not indexing the welfare transfers on child poverty in Canada. The direct consequence of this political decision has been that P_0 has increased by 27.6% for children living in single mother families, 13.1% for those living in single father families and 10.7% for those living with both parents. For the P_1 index, these increases have been of 30.1%, 12.8% and 9.8% respectively and for the P_2 index, of 21.5%, 10.6% and 7.1%. We can note that the decision not to index welfare transfers has hit hard with Canada's children, particularly those living in single mother families. This political decision was taken in spite of the parliamentary resolution to eliminate child poverty.

4 Conclusion

In this article, we have analyzed the impact of certain major budgetary restriction decisions that have affected Canada's social safety net. We note that cuts brought to the income replacement rate of unemployment insurance have affected various families, but have not had a significant impact on poverty. We can also note that the Canadian governments decision to continue indexing old age pension transfers have protected this segment of the population from increases in poverty. However, the decision to stop indexing welfare transfers has had an important impact on poverty levels in Canada, especially in relation to child poverty where single mother families are the most perversely affected group. Regarding the poverty levels of children living in single mother families, the Canadian government does not seem to have held its own resolution to eliminate child poverty. Audet, Boccanfuso and Makdissi (2006) have shown that the recent decision (spring 2006) to eliminate the national childcare program which the previous government had started to implement will significantly increase poverty in this family group.

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