



Finding unusual suspects

Why higher social assistance rates don't always lead to higher caseloads

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Executive Summary

In the annals of social assistance analysis, there is a prevailing view that higher social assistance benefit levels (rates) invariably lead to high social assistance caseloads during recessions. Even though all recessions are characterized by high unemployment, higher social assistance rates are thought to spur higher than normal rates of social assistance reciprocity. Indeed, unemployment rates correlate well at times with social assistance caseloads. But can we unequivocally say that higher rates lead to higher caseloads during recessions?

At first blush, there is good evidence to show a correlation between higher rates and caseloads in specific instances. There are two good examples of this in Ontario and Canada. The first is the 1930's Great Depression and the second is the recession of the early 1990's both which show high caseloads in excess of 13.5% of population where normal caseloads historically cluster around 5%.

Cash relief was first paid during the 1930's (1935 in Ontario) and was often the only cash that recipients were able to realize. The early 1990's also reveals social assistance rates in Ontario at their historical apex in 1993. Neither before nor since have benefit levels been as high as they were in real terms than in 1993, scant months before caseloads peaked at 13.9% in March 1994.

This evidence has suggested to policymakers that social assistance rates should be kept low to guard against potentially high caseloads when recessions inevitably occur. An important counterfactual to this argument can be found in the relentless erosion of rates that began in 1993 and continued unabated both into the Great Recession of 2008-09 but also to this day (2020).

The fact that there were no spectacular rises in caseloads in the 2008-09 gave further credence to the theory that low social assistance rates (and therefore the attractiveness of social assistance to potential recipients) correlate well to low caseloads. In fact, social assistance beneficiaries as a percent of population did not rise appreciably in the 2008-09 recession and in Ontario, went up by less than a percentage point.

Accordingly, the prevailing wisdom that correlates low rates and low caseloads is alive and well. But it is only based on a few examples. We must ask whether 'higher rates – high caseloads' and the 'lower rates – lower caseloads' has characterized other recessions.

It turns out that since the Great Depression, there have been other recessions with high unemployment where social assistance caseloads did not rise appreciably. In particular, the major recession of 1980-1982 was characterized by sharply rising social assistance rates – higher than inflation – but social assistance caseloads did not rise as they did in the 1930's and the 1990's.

The short sharp recession on 1958 led to higher unemployment but no major rise in social assistance caseloads. The same is true on the oil shock recession of the early 1970's that caused both economic stagnation and high inflation and resulted in the coining of the term 'stagflation'. But the 1970's recession did not result in the high caseloads of either the 1930's or the 1990's even though social assistance rates were raised dramatically in the late 1960's.

The fact that these other recessions do not confirm the 'higher rates higher caseloads' theory means that it is also legitimate to cast doubt on the fact that caseloads did not rise dramatically in the Great Recession of 2008-09. In other word, can we be certain that the erosion of rates in 2008-09 is the defining reason that social assistance caseloads did not rise?

One way to address this dilemma is to ask the question: are there any other factors that caused extraordinarily high social assistance caseloads in the 1930's and the 1990's. In other words, were other factors at work in the 1930's and 1990's that were not present in all other modern recessions (i.e., the last 100 years).

It turns out that there were two unique characteristics to the 1930's and 1990's recessions that resulted in very high caseloads. They are:

- High duration of unemployment¹; and
- A high social assistance ratio to minimum wages

The duration of high unemployment in the Great Depression is the stuff of legends. We call the decade '10 lost years'. Unemployment went as high as 25% in the years of the highest relief caseloads at 15% of the population. But the second longest duration of high unemployment in the last 100 years was during the 1990's recession when unemployment stayed above 10% for almost 4 years. No other recession exhibits this long a duration of high unemployment.

Similarly, the comparison of relief to employment income was very high in the 1930's mainly due to the unavailability of work at any wage. But at the beginning of the 1990's recession, the single social assistance rate stood at over 70% of the full time minimum

¹ Thanks to Andy Mitchell for suggesting unemployment duration as a superior metric to unemployment on its own.

wage. The 70% figure is absolutely unprecedented. At no time in the last 100 years has social assistance represented such a high ratio.

The central hypothesis of this paper is that there these two factors are in many ways the real ‘culprits’ behind [very high caseloads](#).²

In 2020, with the onset of a Covid-19 induced recession, we once again face real resistance to raising social assistance rates because of the fear of much higher caseloads. But the spectre of once expected long duration of unemployment with the availability of a vaccine is now low.

And the ratio of the social assistance single rate is at nearly a 100 year low with continued low social assistance rates compared to higher minimum wage rates. In Ontario the minimum wage is now [\\$14.25 an hour](#)³. At full time wages, this translates to \$27,000 a year (based on 37.5 working hours per week multiplied by 52 weeks) compared to a single social assistance rate which is barely \$10,000 a year, about 37% of the minimum wage.

Therefore, there could be a green light given to raising social assistance rates during the Covid-19 recession where unemployment duration is expected to be low and the social assistance ratio to minimum wage is also low. Just as in other recessions that did not have the characteristics of the 1930’s and 1990’s, the Covid-19 recession will not look like either of the 1930’s or 1990’s.

It will have little to do with social assistance rates or unemployment per se. It will be because there will be no long duration of unemployment and the social assistance compared to minimum wages ratio remains near a historic low.

Accordingly, we recommend immediate rate increases to the Ontario Works single rate and a move to a minimum wage of \$15.00 an hour.

² Stapleton, J. (2009). *The Silence of the Lines: Poverty Reduction Strategies and the Crash of 2008*. Canadian Centre for Policy Alternatives/Centre canadien de politiques alternatives.

This paper predicted in 2009 that caseloads of the 1990s would not repeat.

³ *Minimum Wage*. (2020, October 1). Government of Ontario.

Part 1: A tale of two eras: Hyperinflation vs. The Frog in a Bowl

The year 1967 is the beginning of the modern era of social assistance in Canada and Ontario. The Canada Assistance Plan (CAP) came into force in 1966 and ushered in important new rules in new legislation⁴. In Ontario, the Family Benefits legislation (FBA) covered lone parent mothers and persons with disabilities while the General Welfare Assistance legislation was remade to cover ‘employables’ with new sets of rules.

We divide the years between 1967 and 2020 into two 26-year periods: 1967 to 1993, and 1994 to 2020.

The 26-year-period between 1967 and 1993 is marked by high inflation, more generous Unemployment Insurance (UI), increasing social assistance caseloads, and widespread political empathy (with some exceptions) for low-income populations. During this period, inflation increased by 370 per cent. The Ontario Works and OSDP Single rates rose at a higher rate than inflation (Figure 1).

The next period between 1994 and 2020 tells a drastically different story. Ontario experienced lower inflation (60 per cent), decreasing caseloads (after April 1994), and a much less generous Employment Insurance (EI) system. Social assistance rate increases during the past 26 years have been modest and behind inflation (Figures 2 & 3).

In the early 1990s recession, social assistance rates reached their highest point in real terms in Ontario and several other provinces. In March 1994, social assistance caseloads reached 13.9 per cent of the Ontario population (Figure 1).

In June 1995, a Conservative majority was elected in Ontario, the new government enacted an unprecedented 21.6 per cent cut to social assistance rates. In 1996, the Canada Assistance Plan (CAP), the federal-provincial cost sharing mechanism for a social assistance was terminated, significantly reducing the amount of federal contributions to these programs.

Like the Great Depression of the 1930s, the 1990s recession was marked by a significant welfare backlash. Stories about abuse of the system and alleged welfare fraud were rampant in the 1930’s. Mitch Hepburn, Liberal Premier of Ontario from 1934 to 1942, made the following statement concerning relief recipients:

“There’s a growing impression among the taxpayers of this province that they are being drained of their money to provide a living for idlers... We will pay the municipalities a

⁴ E.g. Standard asset testing for all recipients.

lump sum each month... In other words, we will say to them: ‘[Here’s the alimony, you raise the children](#)’⁵

Not to be outdone in times of high caseloads, Mike Harris, Premier of Ontario from 1995 to 2002, on workfare and rate cuts said the following:

“There was rampant fraud and welfare abuse... it was inconvenient for people to have to go down to offices to pick up cheques so we mailed them out and we found out that mail was being re-directed to other provinces and even other countries...We had to re-adjust rates and give incentives for those who were able-bodied to go out and get into what we called ‘workfare’ or ‘education fare’ or ‘get-off-your-duff-and do-something fare.’ So, ‘workfare’ – ... and other policies in combination were [a huge success](#).”⁶

There are multiple factors behind the failure to make annual adjustments to welfare rates in line with inflation, but very low inflation during this period is [an important reason](#)⁷. It is likely that the low inflation environment from 1993-2020 kept pressure off government to index social assistance rates. Just like [a frog placed in gradually heated water](#)⁸, society as a whole became accustomed to periodic reviews of rates with increases that consistently tracked below the level of inflation.

⁵ Struthers, J. (1994). How Much Is Enough? Creating a Social Minimum in Ontario, 1930-44. *The limits of affluence: Welfare in Ontario, 1920-1970*. University of Toronto Press.

⁶ Mike Harris, Ontario Premier 1995-2002. (2003, July 30). Frontier Centre for Public Policy.

⁷ OW and ODSP Rates and the OCB Fall 2020. (2020, October 22). Income Security Advocacy Centre.

⁸ The boiling frog story is generally offered as a metaphor cautioning people to be aware of even gradual change lest they suffer eventual undesirable consequences. It may be invoked in support of a slippery slope argument as a caution against creeping normality.

Figure 1 depicts the changes in social assistance rates (in real term) and caseloads.

Figure 1

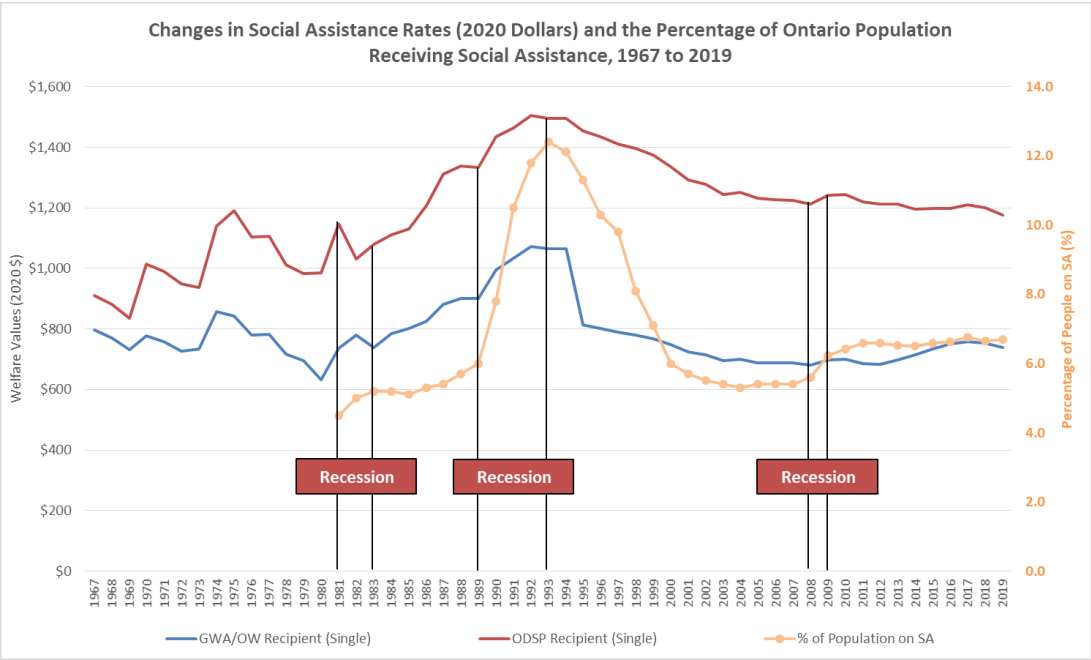


Figure 2 dramatically illustrates the stark differences between inflation and social assistance increases in the two periods.

Figure 2

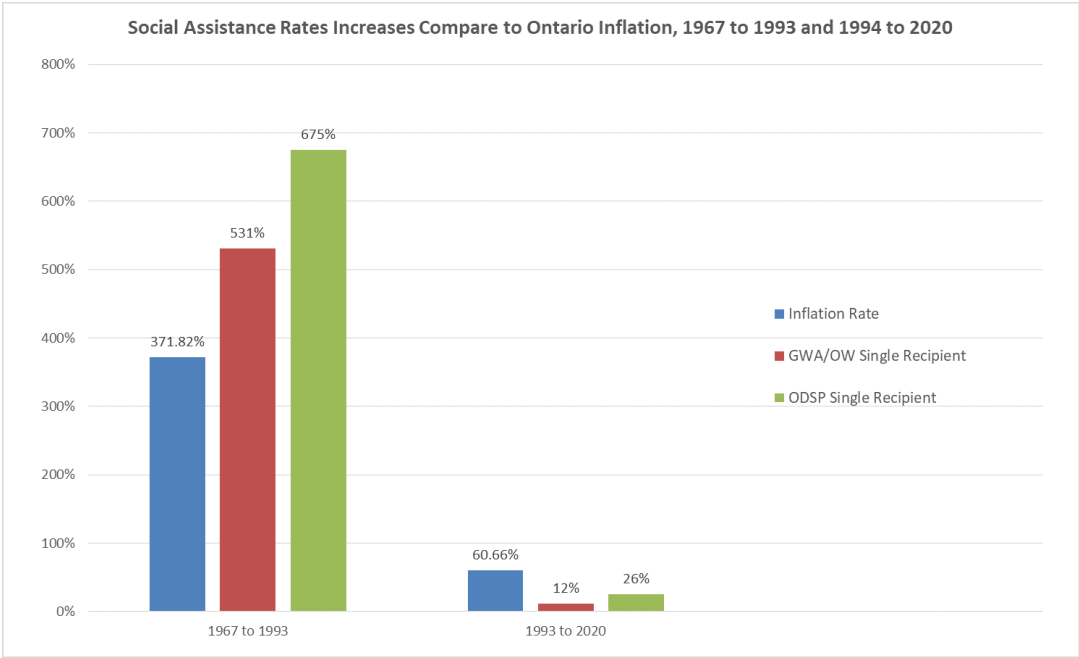
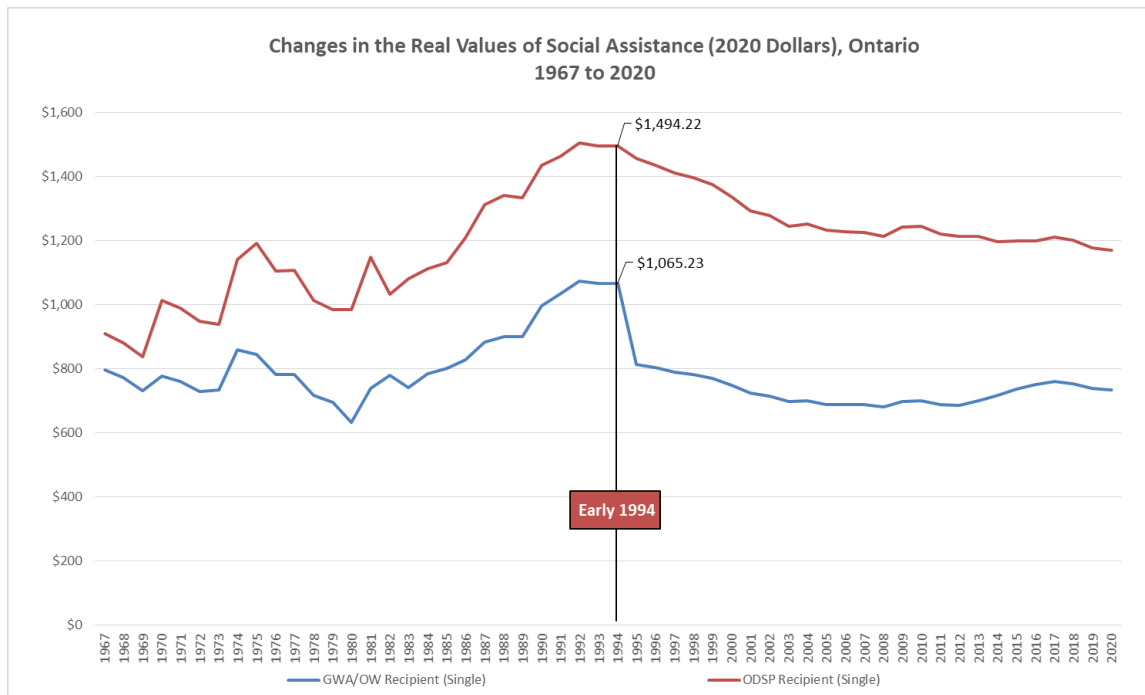


Figure 3 shows that real social assistance rates were at their highest at the beginning of 1994 in Ontario, consistent with the highest caseloads seen since the Great Depression.

Figure 3



Unemployment and social assistance

From 1990 to 2010, unemployment and social assistance increased and receded in lock step. Indeed, in the early 1990's, unemployment and social assistance caseloads both reached highs not seen in a generation.

However, in 1983, the unemployment rate in Ontario was more than 10 per cent but the population receiving social assistance remained low at 5.2 per cent of the total population. A more interesting phenomenon took place after this major recession: even with a drop in unemployment between 1983 and 1988, social assistance caseloads remained relatively stable (Figure 4).

In 2009, the unemployment rate reached 9.1 per cent while the number of social assistance recipients represented 6.2 per cent of the Ontario population, even lower than 2019 (6.7 per cent) in advance of the pandemic.

Although there is a strong correlation between high caseloads and high unemployment rates during some downturns, there is no strong relation during others. Similarly,

higher social assistance rates increasing more than inflation in other recessions did not have an appreciable effect on social assistance caseloads.

As illustrated in Figure 5, higher social assistance rates in the 1980's recession and lower rates during the Great Recession of 2008-09 did not appreciably increase caseloads. In many ways, the 1990's represent an 'outlier' event much more similar to the Great Depression than any other modern recession.

Accordingly, we must look elsewhere for other culprits to explain why social assistance caseloads increased to such an extent during the 1990s. In addition, given the similarity between the 1990s and the Great Depression of the 1930s, it is not unreasonable to look to similar phenomena that characterized both economic downturns for clues.

Figure 4

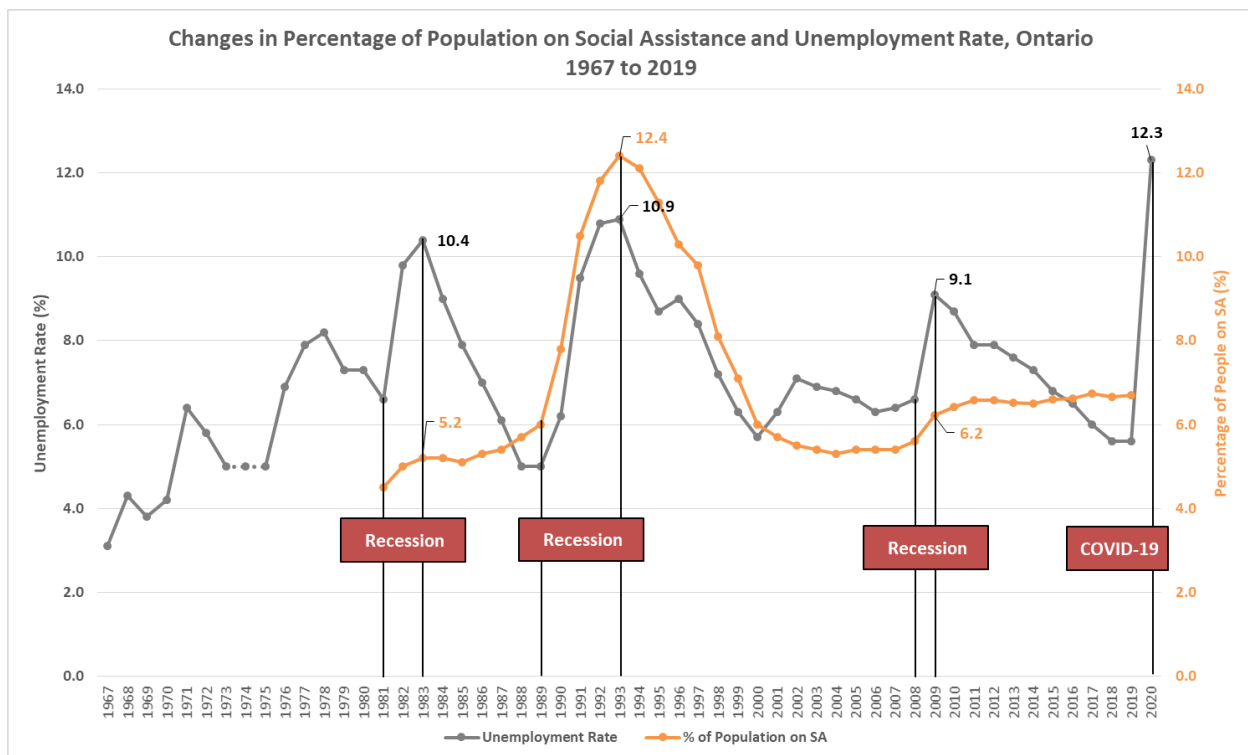
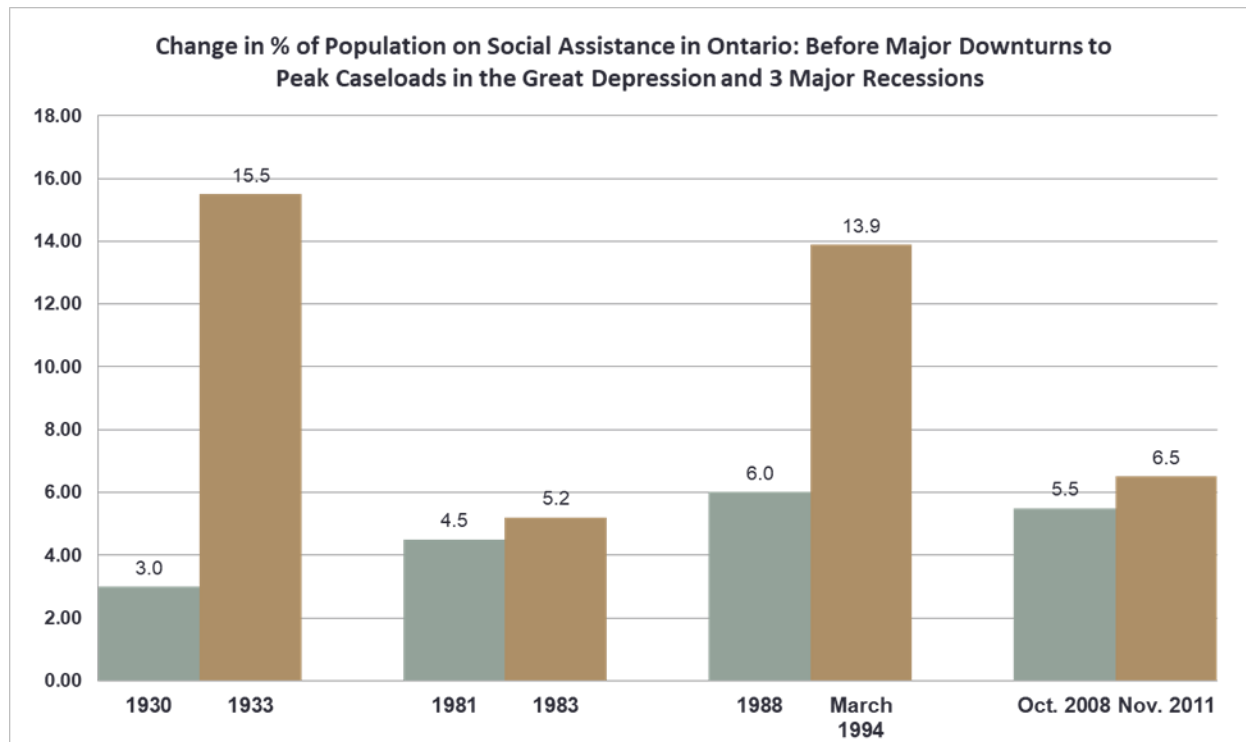


Figure 5



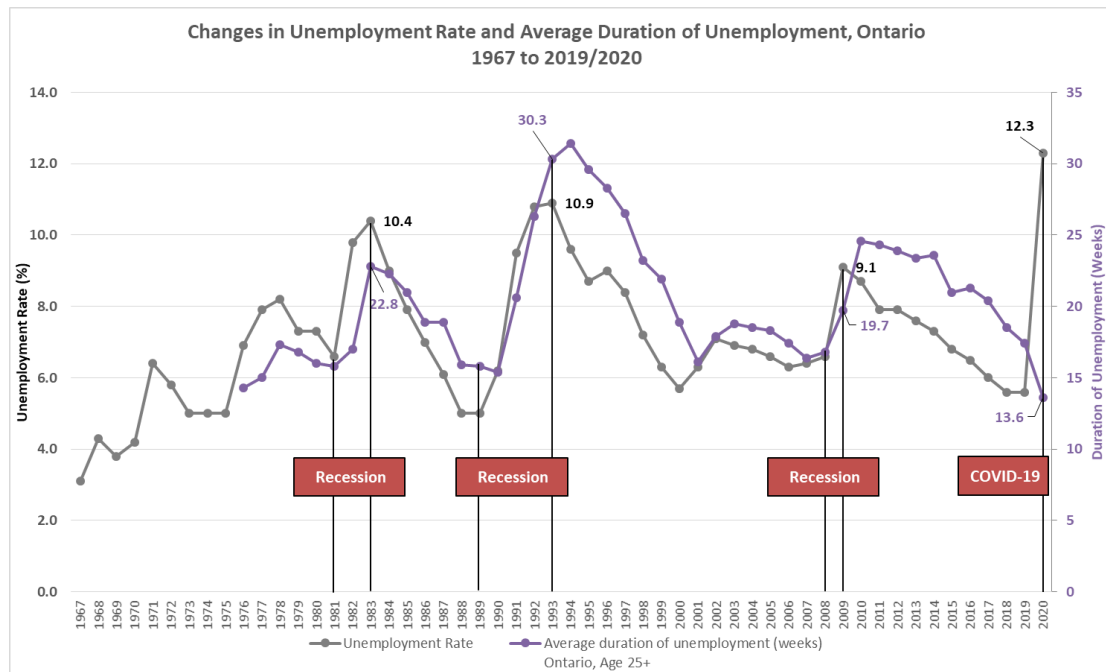
Part 2: The True Culprits

Suspect #1: Duration of unemployment.

During the 1930's and 1990's Canada experienced its two longest periods of sustained high unemployment in the last 100 years.

Duration of unemployment often matches unemployment per se (Figure 4).

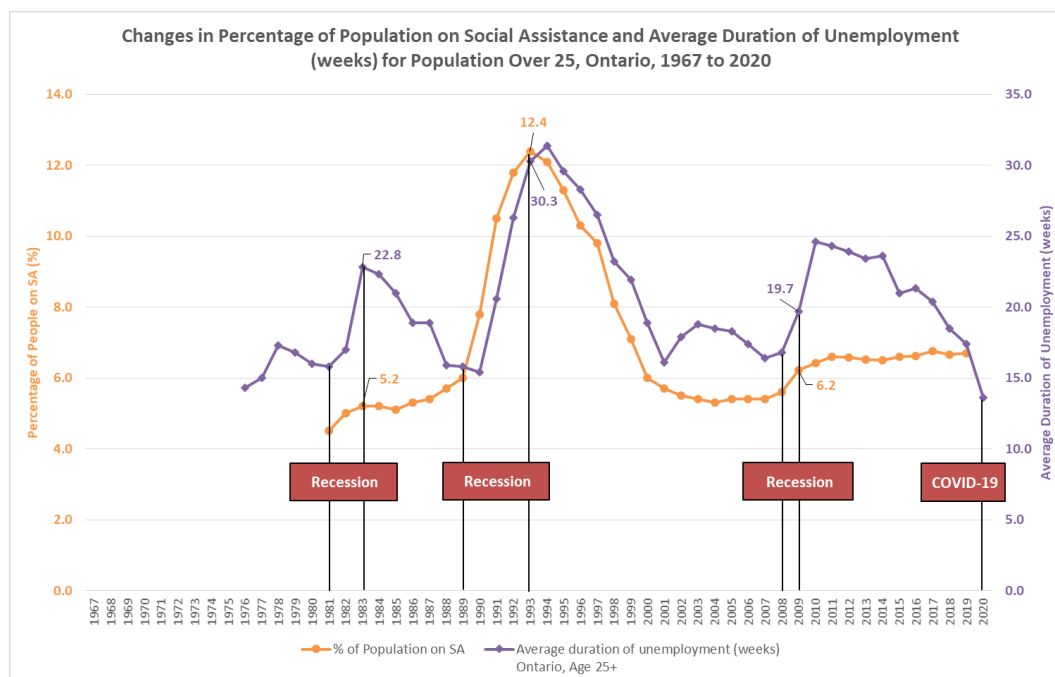
Figure 6



Somewhat similar to the unemployment rate, duration of unemployment reached its high-water mark in the early 1990s (31.4 weeks), and correlates much better with the social assistance caseloads (Figure 6). In the early 1980s, when the unemployment rate was similar to the 1990s, the duration of unemployment was significantly shorter.

The early 1980s and 2008 economic recessions, on the other hand, did not result in large caseload increases, consistent with shorter durations in unemployment.

Figure 7



Suspect #2: Social assistance ratio to minimum wages

During the recession of the early 1980's, the single social assistance rate stood at 50% of full-time minimum wages. During the Great Recession of 2008-09, the same ratio fell below 40%. However, at the outset of the recession of the 1990's, the amount a single person received from social assistance was 70 per cent of the minimum wage (Figure 7).

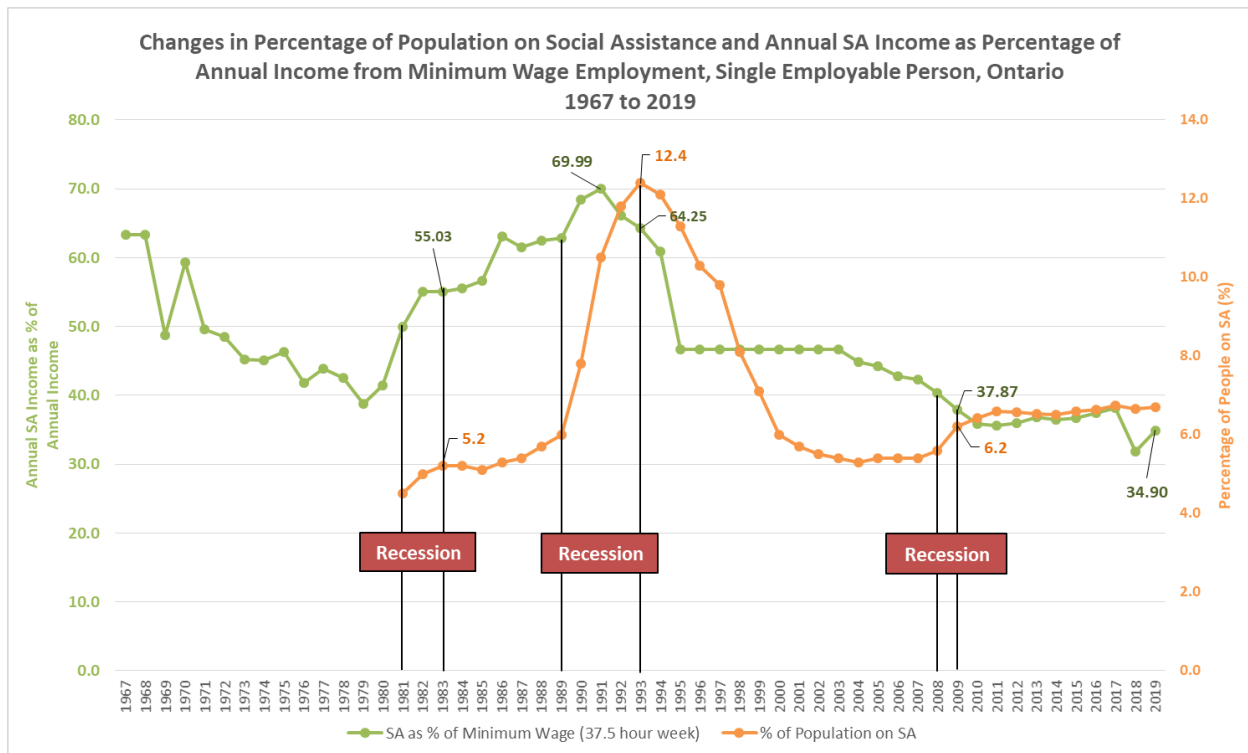
In other words, people earning a wage of \$1,000 a month in 1990 could receive a replacement income equivalent to \$700 a month. This is not to say that social assistance rates were too high. However, it became clear that minimum wages in the early 1990's were far too low and this policy misalignment was eventually corrected by the minimum wage increases that took place between 2005 and 2018, taking minimum wages in Ontario from [\\$7.45 an hour](#)⁹ to \$14 an hour¹⁰. These increases were far higher than inflation during the period.

With the ratio decreasing to less than 40% by 1995 (mostly through rate decreases as opposed to minimum wage increases), caseloads began to decline precipitously.

⁹ Pilioci, V. (2017, May 31). Province minimum wage increase highest in more than four decades. *Ottawa Citizen*.

¹⁰ Ibid., 3

Figure 8



Part 3: Closing Statement

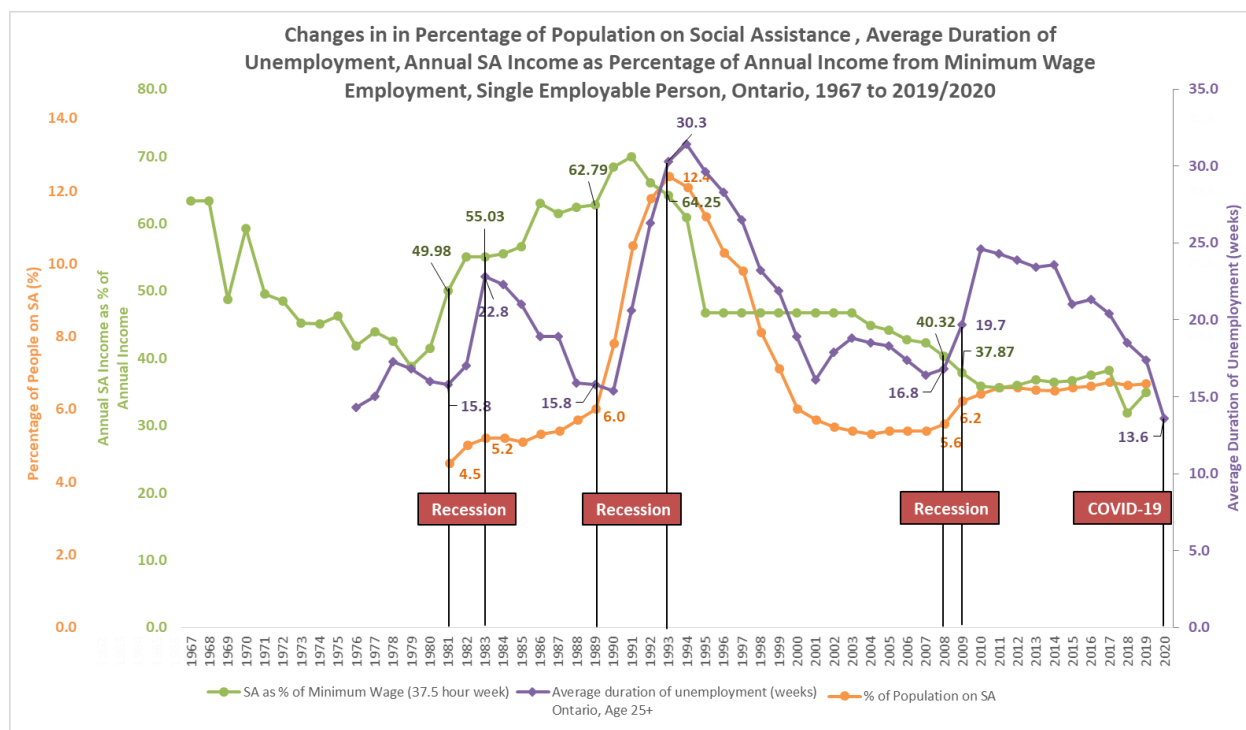
It has become clear that our other two culprits: duration of unemployment and the single social assistance rate percentage of minimum wages are just as or more important than social assistance rates compared to unemployment per se.

Changes in caseloads are not only decided by social assistance and unemployment rates, they are also explained by two other influential factors:

- Duration of Unemployment; and
- Welfare income to minimum wage ratio.

These two factors interact 'beneath the radar' of more well-known and available factors such as social assistance benefit levels and unemployment rates (Figure 9).

Figure 9



What makes the 1990s recession and its high social assistance caseloads so unique is the long duration of unemployment and the failure to raise minimum wages during the long period of high inflation between 1967 and 1993.

By 2008, both the ratio of social assistance to minimum wages and the duration of unemployment were back to the more normal levels seen in 1980. By 2019, unemployment duration was stable at far lower levels than the 1990s and the social assistance to minimum wage ratio was below 35%.

Social assistance rates have not risen and minimum wages have not gone down making the ratio of social assistance benefit levels to minimum wages constant.

Accordingly, the persistent fear of high social assistance caseloads is unfounded and the belief that higher benefit levels would result in the return of the Great Depression or the 1990's is unfounded.

Before Covid-19, we had entered a period with one of the shortest durations of unemployment (13.6 weeks) along with the lowest unemployment rate (5.6%) in decades. These two metrics show durations and rates that are considerably lower than what they were during the recessions of the early 1980s, early 1990s, and 2008-09.

The \$14.00 hour minimum in Ontario wage guarantees a \$27,300 annual income for single persons if they work full time full year while Ontario Works only provides approximately \$9,500 per year for single recipients. Even if the Ontario Government raised the Ontario Works single rate to 40% of the full-time minimum wage (\$10,920 per year), there would still be major financial incentives to obtain minimum wage work.

Although the Covid-19 pandemic has caused a massive surge in unemployment, the arrival of successful avoidance protocols and approved vaccines will likely result in a shorter duration in unemployment starting as early as mid-2021. To support this conclusion, The Federal government announced recently that, [by the end of June, at least 14.5 million Canadians 14.5 million. If shots from other vaccine companies that are currently under Health Canada's review are granted approval, up to 24.5 million Canadians could be fully vaccinated around the end of June](#)¹¹.

Accordingly, we offer the following recommendations for immediate implementation:

Either:

1. Raise the single Ontario Works assistance rate by 14.3% to \$838 per month to equal 40% of full-time minimum wages along with parallel increases for other family sizes;

or

2. Raise Ontario refundable tax credits by \$1,365 per year so that all low-income single people can benefit from an increase in income.

We also recommend that minimum wages be immediately increased to \$15.00 per hour.

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Open Policy is located in Scarborough, Ontario. Both John and Yvonne work and live in Scarborough.

The Social Assistance Coalition of Scarborough (SACS). SACS is a Scarborough-focused social assistance recipient-led group that pushes for improvements to OW and ODSP so that people receiving social assistance and people with disabilities can live with justice and dignity.

¹¹ Aiello, R. (February 18, 2021). 14.5M Canadians to be immunized by June, updated vaccination timeline shows. CTV News.

Appendix A: Measures of Unemployment, Tom Zizys¹²

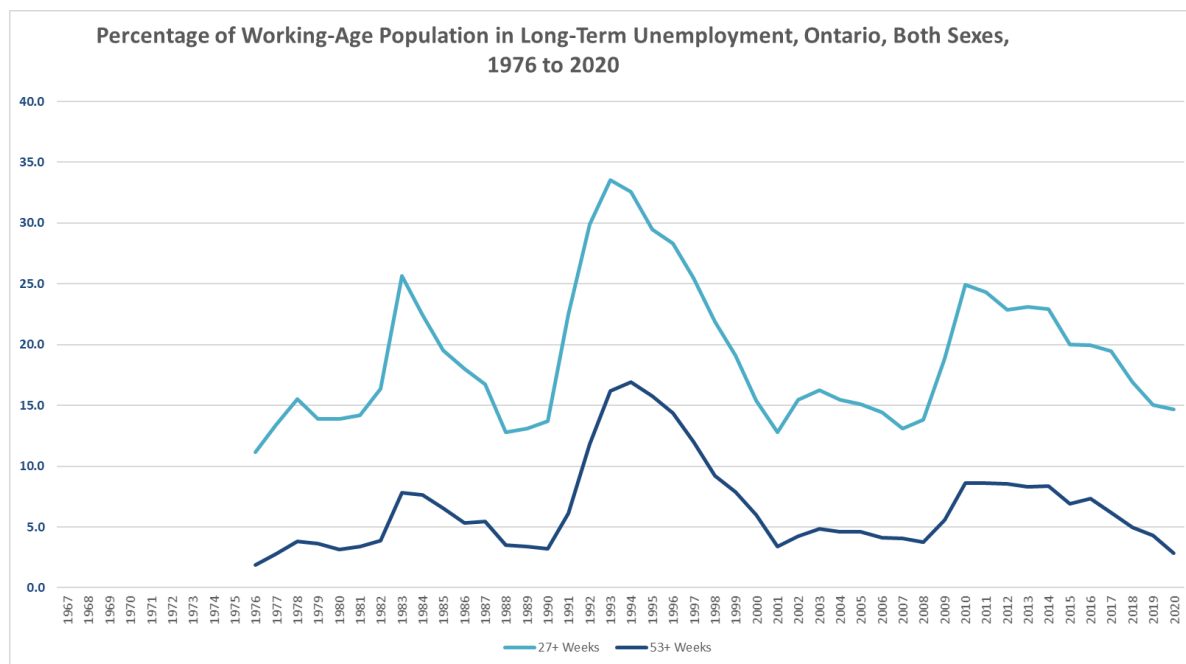
Just as in Agatha Christie's famous *Murder on the Orient Express*, there were several culprits responsible for the large increases in social assistance caseloads in the early 1990's in Ontario.

Workforce development expert Tom Zizys read our paper and found another.

1. Percentage of the unemployed who are long-term unemployed (27+ weeks or 53+ weeks).

The chart (Figure 10) below brings another perspective on unemployment. Similar to our 'unusual suspects', the average duration of unemployment and the unemployment rate- the percentage of working-age population in long-term unemployment (27+ weeks or 53+ weeks) – reached its highest peak unsurprisingly in 1993/94. Even though the recessions of the 1980's and the Great Recession of 2008-09 are arguably better known, the recession of the early 1990's had unprecedented post-war impact on long term unemployment and social assistance caseloads.

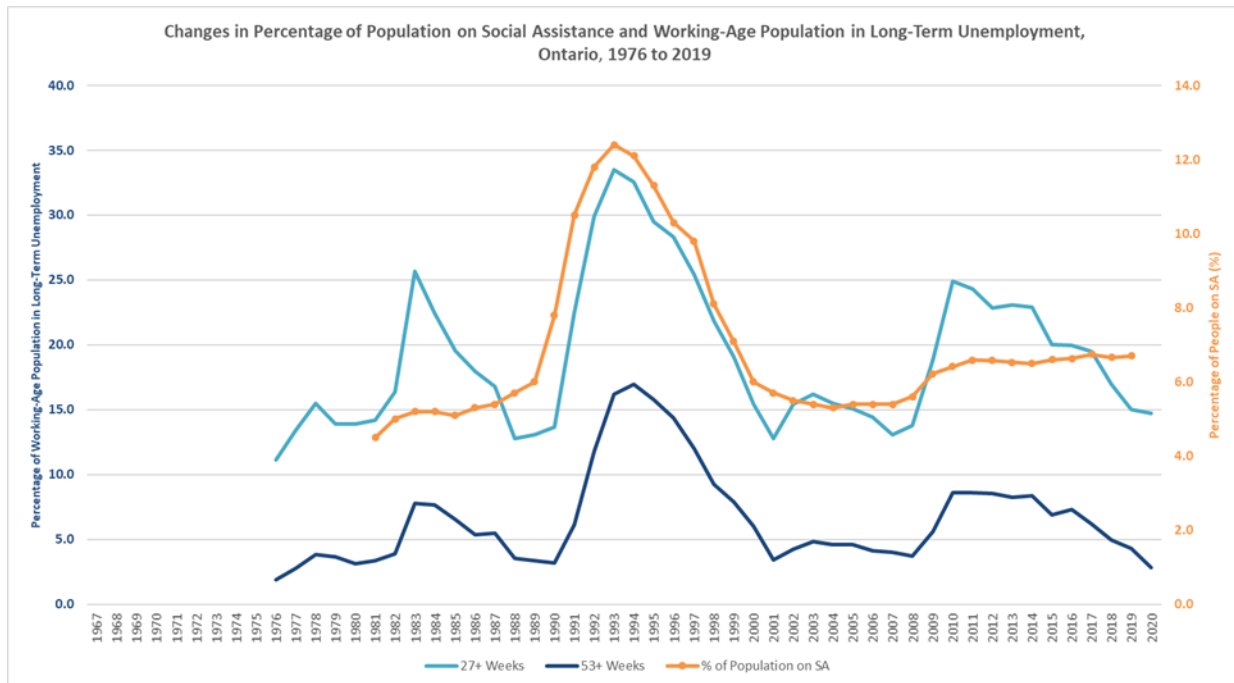
Figure 10



¹² <https://www.linkedin.com/in/tom-zizys-96b852ab/?originalSubdomain=ca>

When compared to the percentage of population on social assistance, this factor's 'modus operandi' is almost identical to its companions under the category of unemployment, where it peaked together with caseloads in 1993/94, but posed little influence on it in 1983 and 08/09.

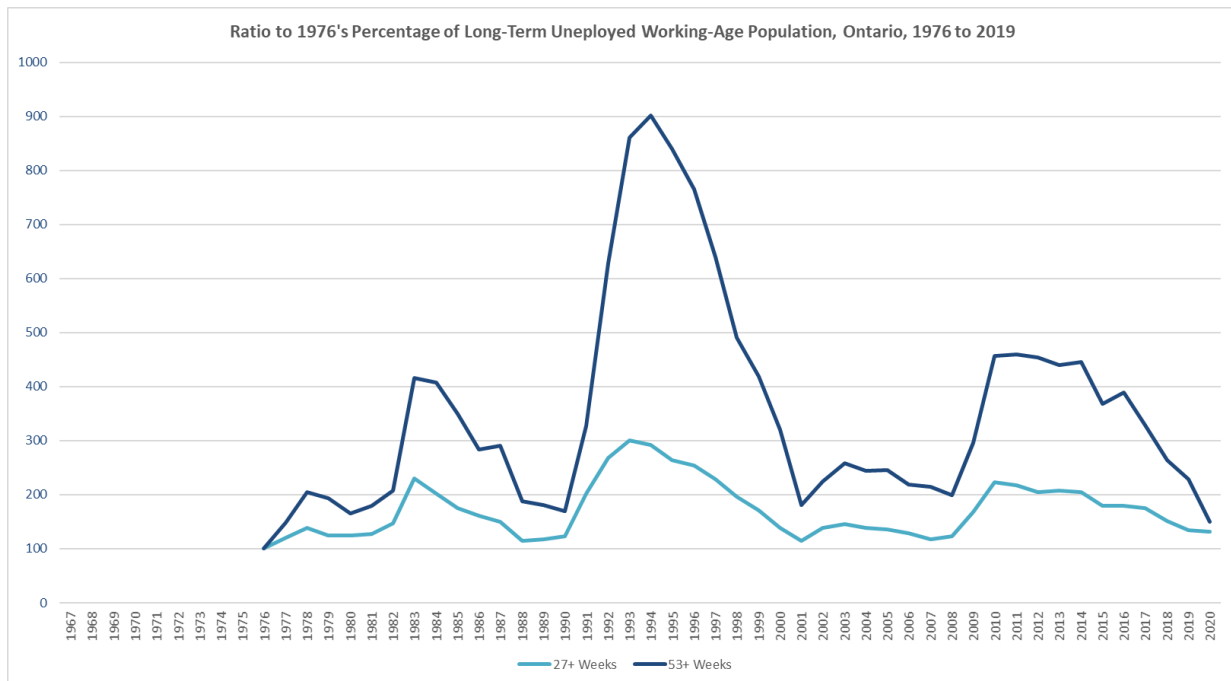
Figure 11



2. Ratio of percentage of long-term unemployed in comparison to 1976, Ontario

“The proportion of unemployed who were unemployed for 53 weeks or more in the mid-1990s was completely out of proportion of anything else. In those days, that also marked a typical point when someone would run out of UI benefits.” – Tom Zizys

Figure 12



Then again, we witnessed the great ‘synchronisation’ of peaks in the early 1990s.

Figure 13

