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The Silence of the Lines

POVERTY REDUCTION STRATEGIES AND THE CRASH OF 2008[1]

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"There's something happening here; what it is ain't exactly clear…" *For What it's Worth*, **Buffalo Springfield,** 1967

With the adoption of *Breaking the Cycle*, Ontario plans to reduce child poverty by 25% in five years. It will be tough for the Ontario Government to meet this commitment as poverty usually increases during recessions and welfare caseloads grow. Poverty and its attendant costs increase a lot in major recessions.

We already know that it is going to be a major recession. The stock market has already dropped almost 50%, commodity prices have gone south, consumer confidence is in question, unemployment is heading the wrong way and the former stalwart of the economic bubble, house prices, have started to move down.

We started this recession with a full blown liquidity crisis, a debt bubble, and a crisis in confidence. This makes things very similar to the 1930s and the Great Depression.

Comparing the Crashes: Already Worse than 1929

In July 1929, the Dow Jones Industrial Average peaked at 380 points. On October 28, 1929, it had dropped to 261 points (68% of its previous value) and on the day of the crash, Black Tuesday, it fell 31 points to 230 or 61% of its July value.

In November 2007, the Dow peaked at 14,165. On October 28, 2008 it had dropped to 9,065 (64% of its previous value) and by November 20th, had fallen to 7,552 (53% of its previous value). In other words, the crash of 2008 is already larger than the crash of 1929.

But the 'moral individualism' following the 1929 crash that caused Treasury Secretary Mellon to admonish Herbert Hoover to "Liquidate, liquidate, liquidate" has been replaced by the US mantra of "save them at any cost". The new Obama administration is continuing to save all that fail.

What About the Poor?

In the first three years of the Great Depression in Ontario, our relief expenditures tripled while our Old Age Pension costs doubled. Following all but the last big recession of 1990–93, governments made sure that they protected the vulnerable. What will happen this time?

The answer is that things will be different.

1. There will be plenty of low pay jobs for the newly unemployed to accept

Labour market demand at the low end will offset all but the deepest recessions. The OECD recently noted that the increase in working age adults from 1950–2000 in the richest countries was 76%. In the next 50 years, from 2000–2050, the increase will be 4%. That's 19 times slower than the previous 50 years and it means that net labour market demand is here to stay. Richer governments will be competing for low wage labour between themselves.

Low paid jobs that would have gone to new immigrants and guest workers will now be offered to unemployed factory workers and those laid off from a myriad of sectors and industries.

The faces at your local coffee shop serving us over the next while may look an awful lot different than they did before. This will be one of the first canaries down the well and you can look for it soon in a coffee shop near you. If you speak English, have your high school and are mobile, you will have a job during the recession — but it won't be necessarily a good one.

This will be the first big change.

2. Employment Insurance and welfare will both be turning people away from their doors

In Ontario, the Variable Entrance Requirement (VER) under Employment Insurance (EI) generally runs from about 500 to 700 hours. In essence, this change from the 360 hour EI requirement for some regions means that far fewer unemployed workers will be eligible for EI. The increases in EI rolls from Ontario in the fall of 2008 is likely to be a one-time 'blip' as those with fewer hours start to apply.

But people who once could successfully apply for welfare during a rough patch (along with all the people turned away from EI) are going to be turned away at the welfare office. The reason for this is that since the last major recession, governments have brought in four significant sets of changes:

- Lower social assistance rates;
- Much lower assets limits;
- Earning exemptions policies that do not apply to new applicants; and
- 'Workfare' — now called 'community participation'.

The confluence of these four sets of changes has not been tested in a recession but when the 'new poor' make a welfare application, they will be turned down to live off lower paid jobs or their dwindling savings.[2] When they re-apply later on, they will be told that 'any job is a good job' and will be pointed in

TABLE 1 Ontario Population Receiving Social Assistance as a Percentage of Population
Twenty Seven Years (Based on December Caseloads)

Year	Ontario Population	Total Beneficiaries of Social Assistance	Percentage of Population
1981	8,812,286	392,540	4.5%
1982	8,920,288	453,456	5.0%
1983	9,039,564	465,750	5.2%
1984	9,167,484	474,077	5.2%
1985	9,294,657	477,015	5.1%
1986	9,437,359	499,938	5.3%
1987	9,637,945	517,329	5.4%
1988	9,838,620	556,177	5.7%
1989	10,103,305	606,710	6.0%
1990	10,295,832	806,501	7.8%
1991	10,431,306	1,099,326	10.5%
1992	10,572,205	1,246,173	11.8%
1993	10,690,038	1,329,760	12.4%
1994	10,819,146	1,309.472	12.1%
1995	10,950,115	1,231,928	11.3%
1996	11,082,903	1,144,828	10.3%
1997	11,227,651	1,098,659	9.8%
1998	11,365,901	922,891	8.1%
1999	11,505,759	816,574	7.1%
2000	11,896,663	713,599	6.0%
2001	11,897,000	682,862	5.7%
2002	12,091,029	663,374	5.5%
2003	12,242,273	659,961	5.4%
2004	12,390,599	660,991	5.3%
2005	12,528,480	677,315	5.4%
2006	12,665,346	684,852	5.4%
2007	12,793,572	693,453	5.4%
2008	12,928,996	724,678	5.6%

the direction of the relatively plentiful low paid jobs that will be available.

Welfare is usually a leading indicator of a recession. For example, Ontario's caseloads galloped forward before the recession of 1990. In July 1989, with only the prospect of good times ahead, the social assistance caseload in Ontario stood at 298,700. When Bob Rae took office, caseloads were already up by 35%. By August 1991, (less than one year after Bob Rae took office) and just as talk of a recession was intensifying, the caseloads stood at 505,600, an increase of almost 70%. In the recessions of both 1974 and 1982, caseload increases of 13% had preceded each of those recessions.

Fast forward to 2008 — caseloads are silent. As shown in Table 1, Ontario Works caseloads are where they were eight years ago or two years ago. The December 2008 caseload of 202,121 is about the same as it was in December 2000 (202,875) and March 2006 (201,603).[3] The diversion of would-be 'persons in need' to take up the slack of the low paid job market is already happening — silently.

We await the bread lines that won't materialize. The symbols of the past have irrevocably changed.

3. New pressures on seniors' benefits

In 2011, the baby boom will turn 65. The babies of 1946 and onward number many more than the rare wartime babies of 1944 turning 65 in 2009. Already, headlines have started to alert us to the costs of our programs for seniors as they now comprise almost one half of our entire income security system in Canada. There will be many calls for review. We will start talking about intergenerational equity and fairness again. Without sound leadership and direction in Canada, these debates could be damaging. We must try to avoid them

Four Predictions

1. Survival loans

Consumers who can no longer qualify for the safety net that was there in the past will be loaned money to survive. Just as Wall Street and Bay Street got their protections in the form of loans, the political calculus tells us that Main Street will not be denied their loans. Just as the banks had their loans guaranteed by government, new survival loans will likely be offered to consumers with easy payment terms.

The new poor will deposit their loans in Tax Free Savings Accounts and governments will provide them with some sort of match. To keep many people from starvation, all tax advantaged instruments (RRSPs, RESPs and TFSAs) will be loosened and taxpayers will be allowed to liquidate them in part to meet their needs. Seniors will be allowed to keep their RRIFs but social assistance rates will not rise.

2. A new search for resources

Many more people will start to apply to other programs like those that provide benefits for disability. If EI and welfare are no longer there, one has to look elsewhere and there are many untested areas in our income security system.

3. A raid on our nest eggs

The third event will be mass liquidation of RRSPs and RESPs and other less defined nest eggs. In some senses, this has already started but when people start to need money to buy food, the tax advantaged nest egg will start to look very good as a source of food for the next meal. We will see more people taking packages and early retirement. The lucky 11% with long-term employment and defined benefit plans will be the big winners — everyone else will fare less well.

4. Social assistance will not be increased

Following all our past recessions except the last one, Ontario experienced large increases in social assistance rates and rules were usually loosened to accommodate short-term recipients so that they would not get trapped on welfare.

It is likely that memories of the 1990s will make welfare increases a cautionary tale that decision-makers will not want to repeat. They will do almost anything to keep from increasing social assistance to meet need. But this does not mean that they won't do anything.

An Answer: Building Income Security Outside of Welfare

We do not want to relive the two decades from 1980 to 2000. During this period, social assistance benefits became a matter of very high public interest. In the late 1980s and the early 1990s, benefits were increased, rules were relaxed and caseloads increased dramatically through the recession and afterwards. By the time caseloads started heading down in April 1994, it was too late to keep Ontario from an unprecedented backlash of rate cuts and eligibility clampdowns.

If we open up social assistance rules again, especially in the key four areas mentioned in this paper, welfare may be forced to do the heavy lifting that it took on in the last recession and it could once again be faced with serious cutbacks again, if history repeats, from seven to ten years from now.

But it doesn't have to be like that. We could do what we have started with the Ontario Child Benefit (OCB) and the Canada Child Tax Benefit (CCTB). Currently, a poor lone parent with two young children receives 46% of her total income from child benefits other than social assistance. Any poor lone parent with three young children or more derives more than half of her income from child benefits outside of social assistance.

This is not the case for poor single people who receive about 8% of their income from sources outside welfare. Single welfare recipients receive less than $7,500 a year (including GST credits); down 45% in real terms since 1993 and less than 50% of what the lowest income senior receives.[4] The $7,500 figure is about one third of what someone will be able to earn at $10.25 an hour and less than 40% of the poverty line (after tax LICO). It is also $300 less per month at $572 than the $872 a month a single employable recipient would have received had the rates been indexed to inflation.

Similarly, a single disabled recipient obtaining a disability allowance under the Ontario Disability Support Plan receives just over $12,000 a year, down more than 20 per cent in real terms from the early 1990s, and now at least $3,500 a year less than the neediest senior.

Setting New Targets

Governments could provide a new base income of $1,000 a month and $12,000 a year to all single persons and increase disability benefits up to the level received by aged persons at $15,600.

How Could It Be Done: What Are the Mechanics?

We could start by reforming Employment Insurance by setting the Variable Entrance Requirement (VER) at 360 hours across Canada to allow EI to flow to those displaced from their jobs due to recession.

We could then convert non-refundable tax credits into refundable credits that pay every single low-income person in Canada a basic income of $2,500. Everyone would pay tax but those at the bottom of the income scale would get some money back. It could be planned in a way that does not incur major new costs.

On top of that, we could allow a further working income tax benefit of $1,200 to supplement earnings.[5] For those without any resources we could continue the payment in place now of close to $7,500 a year without raising or cutting welfare rates.

We could also, over time, transform the existing shelter component within welfare to a generally available housing benefit for all low-income people, further reducing the role of welfare.

Finally, with a small matching grant to the new Tax Free Savings Accounts, the base income for a single non-aged person could approach $1,000 a month across Ontario.

Conclusion

As we start to slowly climb out of the great downturn of 2008, things will be different. To the good, we will not repeat the recession of 1990 because we were smart enough to widen the denominator for reform from social assistance (Transitions: 1988) to poverty reduction in 2008. We will have recognized that the 'poor can be us' and we will have made the important investments in the programs we needed.

But we will have become a far more suspicious lot as a public. The unprecedented market run-up from 1980 to 2007 that made many of our fully invested seniors well-to-do will no longer be with us and our savings perspectives will have changed. We will also be suspicious as to why we cut our safety net in the good times somehow not believing that we would ever need it again.

As we bring to mind the vision of the men lining up for food from the 1930s, we will be careful to remember that the first direct cash relief was not paid in Ontario until the summer of 1935. Needless hardship was endured for almost five years.

But our best chance to ensure the adequacy of the amounts we provide and the form in which we provide them is now. Let's hope we take advantage of the opportunity.

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Notes

1 This paper is a longer version of an op-ed feature in the *Toronto Star* called "Welfare won't be much help." http://www.thestar.com/article/558110

2 This is contrary to the fears of some municipal politicians. See http://www.thestar.com/article/545812. The only part of the overall caseload that is growing is among single recipients, mostly ODSP. This latter program is 100% delivered and funded by the Ontario government.

3 See *New York Times*: February 2, 2009. http://www.nytimes.com/2009/02/02/us/02welfare.html?th&emc=th

4 A resident of Ontario who turns 65 with no savings, no Canada Pension or other income of any kind receives a base guarantee of $15,600 a year through Old Age Security, the Guaranteed Income Supplement and provincial credits of various sorts.

5 Partially achieved in federal Budget 2009.

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