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Addressing Holes in Canada's Social Safety Net

Press Release - Ottawa, August 13, 2020

The Centre for the Study of Living Standards (CSLS) today released a study entitled "*Holes in the Safety Net: Poverty, Inequality and Social Assistance in Canada*".

The report by Inez Hillel provides a comprehensive analysis of trends in poverty, inequality and social assistance dependence in Canada and by province and puts forward policies to close holes in the social safety net.

Attention is understandably currently focused on the short-to-medium run income support issues arising from the pandemic. As the world returns to some sense of normalcy in coming years, more long-term approaches to poverty reduction for the working age population will be needed. The report argues that enhanced wage subsidies is at the top of the list. Below is a narrative of the report focusing on the rationale for such a program.

- Canada has done a good job in addressing this issue for children and seniors. According to the Market Basket Measure, Canada's official poverty metric, the poverty rate for persons under 18 has fallen from 19.2 per cent in 2006 to 8.2 per cent in 2018. The poverty rate for persons 65 and over has also fallen significantly, from 7.6 per cent to 3.5 per cent.
- In contrast, the poverty rate for the working age population (18-64), at 10.3 per cent in 2018, is higher than that of the other two groups and has experienced a much smaller per cent fall. This group accounted for 75 per cent of persons in poverty in Canada in 2018, up from 67 per cent in 2006.
- The working age population is even more important in terms of the poverty gap, that is the total amount of income Canadians in aggregate fall below the poverty line. Statistics

Canada estimates this figure at \$18.5 billion in 2018 and that 82 per cent of this total would need to go to the working age population, up from 74 per cent in 2006. This means that, with perfect targeting, \$15.2 billion would be needed to eliminate poverty for the working age population, \$3.1 billion for children and \$700 million for seniors.

- A poverty-reduction strategy for the working age population needs a number of components, including higher welfare incomes and better skills upgrading programs. Such a strategy should focus on the principle of making work pay and that the best way to do this is through an earnings supplementation or wage subsidy scheme for low-wage workers.
- Canada already has a national wage subsidy program, the Canada Workers Benefit (CWB). But it is not particularly generous. The maximum annual benefit for a single person is \$1,355 and for a family \$2,335. The report proposes that the CWB be expanded to a maximum of \$5,460 per year through an enhanced wage subsidy of up to \$3 per hour based on hours worked up to a maximum of 1,820 hours per year (full-time, full-year employment at 35 hours per week).
- This enhanced wage subsidy seems the logical next step in Canada's poverty-reduction strategy now that the focus of attention has shifted to the working age population. Such a program has many advantages in addition to its obvious appeal of making work pay. Through the additional income it provides parents, child poverty would fall. The program could have automatic universal coverage of low-wage workers through integration with the income tax system. With higher effective minimum wages, welfare rates could be raised because of reduced work disincentive effects. As the effective wage for the employer would be unchanged, there would be no negative employment effects.

The report is posted at <http://www.csls.ca/reports/csls2020-06.pdf>.

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The Centre for the Study of Living Standards (CSLS) is a national, independent, Ottawa-based not-for-profit research organization. Its primary objective is to contribute to a better understanding of trends and determinants of productivity, living standards, and economic wellbeing in Canada through research.