SLIPPING THROUGH THE CRACKS:

MANITOBA'S WORKING POOR AND THE SOCIAL SECURITY SYSTEM

BY

MICHAEL P. SOSIAK

A Thesis
Submitted to the Faculty of Graduate Studies
in Partial Fulfillment of the Requirements
for the Degree of

MASTER OF PUBLIC ADMINISTRATION

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ABSTRACT

The objective of this thesis is to examine the income situation of the working poor in the province of Manitoba and to analyze the social welfare programs which are currently in use, or which could be used, to assist this group. We follow three main themes. First, we examine what is currently being done on a provincial level to assist the working poor and the efficacy of such programs. Second, this group is identified as to their median income and various demographic characteristics. This will point out not only the relative severity of the income deficiency faced by the working poor, but also help determine which sub-groups predominate within the working poor (ie. female vs. male, families vs. single individuals, the aged vs. youth). Finally, through an examination of a few possible alternatives, the most appropriate method of supplementing the working poor's incomes is determined. These methods will be discussed within the current, and possible future, context of federal transfers for social assistance through the Canada Assistance Plan.

Through this analysis, we have come to the conclusion that the current social assistance systems, due to problems associated with the categorical nature of the various programs, is inadequately serving the purpose of alleviating poverty amongst a relatively large subset of Manitoba's working population. As such, we propose a move towards a more comprehensive plan based upon the guaranteed annual income concept. While such a plan might incur a considerable short term expense to the provincial government, it would be much more efficient at delivering income support to all sub-groups within the working poor. Based on the work of previous studies, it has also not been found in to have the substantial work disincentives which are usually the major criticism of this type of plan. The author therefore suggests that further research be undertaken to devise an efficient and effective method of implementing a guaranteed annual income in Manitoba.

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CHAPTER ONE

INTRODUCTION

One area of public policy in Canada which has not suffered from a lack of program development is the field of social welfare policy. An examination of the social policy field at the provincial and federal levels of government reveals a plethora of programs of income support and social services to those, who for one reason or another, are in need of income support. In spite of the number and variety of programs, however, the fact remains that many Canadians do not enjoy an adequate standard of living, including some individuals and families who earn income from working. It is this group - those who work yet still have incomes below the poverty line or low-income cut-off as defined by Statistics Canada - who are referred to as the "working poor".

Many individuals in Canada are able and do work but are still poor for a variety of reasons. Some can only find work that is of a seasonal or part-time nature. Despite the existence of minimum wages, many permanent full-time jobs pay very low wages which leave workers with incomes below the poverty line. Finally, wages do not increase at all with family size. A wage that may be adequate for a single person may be insufficient for a family.[1]

In the past, solutions to the problem of poverty were usually aimed at the so-called "legitimate poor", those who fit into some type of pre-determined category and who were deemed to be deserving of support. This would include those who were blind, disabled, aged, or unemployed through no fault of there own. In 1966 however, the Parliament of Canada passed the Canada Assistance Plan (CAP) Act. The CAP and the federal financial transfers to the provinces which it entailed were designed to consolidate existing social assistance programs across the country into more comprehensive plans that would provide help to anyone deemed to be "in need or likelihood of need". Despite the lofty intentions of CAP, few provinces have instituted any programs designed to help the working poor.

Some very interesting results can be seen when Canada social spending response is viewed in an international perspective. In 1989, Canada spent 8% of its Gross Domestic Product (GDP) on social welfare. This ranks Canada well down among OECD countries behind such countries as Denmark at 33%, Sweden at 22%, Austria and the Netherlands at 19%. and Germany at 18%[2]. Furthermore, European countries such as Sweden, France, and Germany not only have more generous programs in terms of dollars paid out, their programs are more comprehensive in their coverage of the entire population. Working poor families are able to benefit from programs such as family allowances, paid maternity leaves, universal day-care, and in certain cases housing allowances.

While in December 1994, approximately 10% of the Canadian population was unemployed, the sad fact is that even having a job is sometimes not enough to save one from poverty. A problem of increasing importance faced by the working poor is that of the disincentive line. High marginal tax rates placed upon welfare benefits as a result of accepting paying jobs has meant low-income Canadians are often better off on welfare than working in low pay -and usually low prestige - jobs. A solution sometimes offered for this problem is simply to lower welfare benefits to the point that these low-paying jobs would suddenly become attractive. Such a response, however, conflicts with the aims of the Canada Assistance Plan to provide an adequate standard of living to all Canadians.

The objective of this thesis is to examine the income circumstances of the working poor in the province of Manitoba and to discuss the possible alternatives towards alleviating poverty among this group. It is argued that existing federal and provincial social allowance programs largely miss the working poor, and the design of a program to correct this problem is not only possible, but also necessary. Three main themes will be presented. First, we will describe what is currently being done on the federal as well as provincial level to assist the working poor and examine the efficacy of such programs. Second, the working poor of Manitoba will be identified as to their median income and various demographic characteristics. This will establish not only the relative severity of the income deficiency faced by this group, but also help to determine which sub-groups predominate within the working poor. Finally, through an examination of a few possible alternatives, the most appropriate method of supplementing the working poor's incomes will be determined. These methods will be discussed within the current, and possible future, context of federal transfers for social assistance through the Canada Assistance Plan.

This thesis will be divided into three substantive chapters. The first chapter shall briefly examine the current social assistance structure in Canada. The basic structure of payments available to working Manitobans from federal and provincial programs will be described. The theory behind targeted versus universal assistance programs as well as the costs and benefits of such programs will be examined. Included will be a discussion of the theory supporting the idea of a Guaranteed Annual Income. Given the importance of federal transfers in paying for provincial social assistance programs, the history and structure of Canada Assistance Plan transfers shall be discussed. Here the question of whether such transfers could be used to cost-share a provincial supplementation program for the working poor will be examined.

The second chapter analyzes the current economic situation of the working poor in Manitoba. Past statistical studies have identified the working poor in Canada on the basis of their income levels, age, marital status, and education. Using 1991 Census data from Statistics Canada, we shall replicate this information for Manitoba.

Finally, the last chapter of the thesis will examine the various costs and benefits of alternative methods that could be used for income supplementation of the working poor. Specifically, we shall look at a targeted GAI scheme, targeted tax credits, or universal demogrant programs. We will also examine a past experiment in Manitoba to aid the working poor. The experiment in the early 1970's with a guaranteed annual income (MINCOME) will be discussed, with reference to studies conducted by Derek Hum regarding the work incentive effects of program. Additional analysis of American experiments with the GAI will also be introduced. Given the constraints as well as opportunities for shared-funding under CAP, we shall propose the most appropriate alternative to be considered for achieving the objective of bringing the greatest number of working poor above the poverty line.

It should be noted that income supplementation alone is not the answer to the economic distress experienced by a significant number of working Canadians and their families.

Other policy responses are required which directly address the causes of systemic poverty. While not attempting to solve all the problems associated with social assistance delivery in the provinces, this study will hopefully focus attention on and spark debate towards possible policy action on the part of the Government of Manitoba.

CHAPTER TWO

II CURRENT SOCIAL ASSISTANCE STRUCTURE

(A) FEDERAL AND PROVINCIAL PROGRAMS

HISTORY

Historically, there has always been a problem in countries that provide social welfare as to how to provide the poor with adequate income without taking away their incentive to work. Generally, this has been solved by making support available only to those who were unable or not expected to find work; the so-called legitimate poor. Relief to the poor in English Canada had its roots in the Elizabethan Poor Law of 1598, the first legislation recognizing the duty of the state to look after people unable to support themselves. While the poor were protected from starvation under this provision, their treatment was so degrading that only those in desperate fear of starvation would apply for help.[3]

The idea of supplementing wage incomes that fell below subsistence levels was experimented with briefly in England under the "Speenhamland system". This system provided a subsidy in addition to wages, giving workers a floor of economic security regardless of their work effort. Critics of the Speenhamland plan, however, claimed it undermined the work ethic and the idea that people should only receive what they earned through their labour. The experiment soon came to an end, replaced by the edict of "less eligibility" - which required that the assistance given to the poor be considerably less than that which they could earn through their own work effort.[4]

The principle of less eligibility was soon transferred to Canada and became the key assumption on which the Canadian government's response to poverty was based. Federally-sponsored welfare programs of the 1920's and 1930's concentrated on people who fit into a pre-determined category, such as the blind, disabled, or aged. In response to staggeringly high unemployment during the 1930's, a first attempt to assist wage-earners was made with the passing of the Unemployment Insurance Act of 1940. Beneficiaries of this plan, however, still had to fit into a category; they had to be unemployed after having held a job. It was only after the second World War with the adoption of a universal Family Allowance program that the federal government recognized the viability of providing working Canadians with benefits.[5]

FEDERAL PROGRAMS

Despite the introduction of universal social welfare programs during the 1950's and 1960's, there is still a reluctance among Canadian governments to provide direct financial assistance to the working poor. Similar to its provincial counterparts, the federal government of Canada currently has relatively few social welfare programs aimed directly at the working poor. Most of its programs are designed to provide a level of insurance against income reduction due to temporary job loss or retirement, or to provide assistance to families through tax credits for child care expenses. Such payments are indirectly targeted at the working poor, but nonetheless three federal programs do deserve mention; these are the Old Age Security/Guaranteed Income Supplement, the Child Tax Benefit, and the Unemployment Insurance Program.

These various assistance programs fit into three broad categories based upon how the assistance is targeted. They may be either universal demogrants, which provides an equal income amount to all in society; income tested or needs tested plans, which provide assistance based upon the perceived income deficiency or need of the individual; or social insurance plans, which require the individual to partially fund a plan which would then support him or her in the case of some unforeseen exigency. The income support programs examined here encompass at least one of these three dimensions.

2.0 OAS/GIS

The Old Age Security (OAS) and Guaranteed Income Supplement (GIS), along with their more recent companion program the Spouse's Allowance (SPA), were designed to provide the elderly with some measure of financial security. They are administered by the Department of Human Resource Development under the Old Age Security Act. The OAS program was enacted in 1952, with the GIS following in 1967 and the SPA in 1975.[6]

Old Age Security provides a basic income for persons of age 65 or over. The Guaranteed Income Supplement is paid to OAS pensioners with little or no other income, thus providing them with a minimum guaranteed level of income. The Spouse's Allowance is paid to OAS pensioners' spouses of age 60 to 64 years whose income is below certain levels. SPA recipient households are thus guaranteed an income equivalent to that of a GIS pensioner couple. SPA is also paid to 60 to 64-year-old widow(er)s, to ensure them a minimum income until they become eligible for OAS. OAS/GIS/SPA rates are increased quarterly by the rate of increase in the Consumer Price Index, and while OAS benefits are considered as taxable income, GIS and SPA benefits are not.[7]

The monthly benefit rates for OAS/GIS/SPA for the period October to December 1993 are as follows.

Program	**Benefit Level**
Maximum Old Age Security Pension	$384.66
Maximum Guaranteed Income Supplement(single)	$457.13
Maximum GIS(married, each person)	$297.76
Maximum Spouse's Allowance	$682.42
Maximum Widowed Spouse's Allowance (persons aged 60 to 64)	$753.38[8]

These rates have increased slowly, but steadily, over the years as the Old Age Security maximum benefit was only $308.19 in October of 1987. In Manitoba, as of 1993, there were 149,727 persons receiving OAS/GIS/SPA payments, for a total federal expenditure of $75.996 million per month or approximately $912 million for the year.

While the OAS and GIS payments are intended for persons over the age of 65 and therefore not likely to be in the workforce, these programs do provide an important safety net for working Canadians once they reach retirement age. The Spouse's Allowance, meanwhile, does provide benefits to low-income spouses of OAS recipients from the time the spouse is 60 years of age. It is quite possible that these persons, especially those who are widowed, may be members of the workforce.

2.1 Child Tax Benefit

Working poor families which included children have benefited from federal social welfare spending since the Family Allowance program was initiated in 1944. This program provided families with a flat-rate payment for each child under the age of sixteen. Additional support was added during the 1970's with the introduction of the refundable child tax credit, and the non-refundable children's credit. In 1992, however, the method by which child benefits were paid by the federal government was drastically altered.

In a controversial move, the federal government replaced the family allowance program, the refundable child tax credit, and the non-refundable children's credit with a new program called the child tax benefit. The new benefit was paid monthly starting in January 1993. The basic credit was $85 per month - $1,020 per year - for each child under eighteen. The amount of $1,020 was exactly the same as what was provided by family allowances plus the refundable child tax credit.[9]

The design of this program is similar to the previous child tax credit. Low-income and middle-income families are targeted, with the largest payments going to poor families. Amounts paid out would decline and eventually disappear as family income rose above certain thresholds. Simply stated, here is how the program operates. As mentioned, the basic credit per child is $85 a month. The ceiling for maximum benefits would be net family income of $25,921 per year, the same as the threshold for the refundable child tax credit. Net family income is defined as earnings, interest and other income, minus deductions for items such as child care expenses, union dues, and contributions to pension plans and registered retirement savings plans. Welfare income or income from worker's compensation is also included, even though this income is not considered taxable.[10]

Benefits would begin to decrease for families with incomes over $25,921. Families with two or more children would be subject to a reduction rate of five percent. That is to say, their benefits would be reduced by five cents for every dollar of income above $25,921. The reduction rate for families with only one child would be 2.5 percent.

In addition to the basic credit, working poor families with children would be eligible for an earnings supplement of up to $500 per family. The size of this supplement would depend upon a family's earned income. Those who receive their income from welfare, unemployment insurance, or other government assistance - as oppossed to earnings from work - would not qualify for this supplement. This supplement would start as soon as income passed $3,750 per year. The amount of the supplement would be eight cents for every dollar of earnings over $3,750 to a maximum of $500 once earnings reached $10,000 per year. The supplement would decrease by ten cents for every dollar of income above $20,921 until it disappeared once family income reached $25,921. For larger families, this new system would offer an additional credit of $75 for the third child in the family and for every child after that. The 1992 budget also allowed for an increase of $1,000 per child in the amount taxpayers could claim for receipted child care expenses. The maximum claim, starting in 1993, would be $5,000 per child under seven years of age and $3,000 a child for children aged seven to fourteen.[11]

The federal government estimated that more than 3.1 million families would receive the new child tax credit. According to the 1992 budget, additional benefits of nearly $2.1 billion would be paid out over five years: $520 million in 1992-93 fiscal year, $645 million in 1993-94, $315 million in 1994-95, $310 million in 1995-96 and $300 million in 1996-97. The projected cost of the increased child care expenses deduction is $135 million through the end of the 1996-97 fiscal year: $10 million in 1993-94, $40 million in each of 1994-95 and 1995-96, and $45 million in 1996-97.[12]

While it should be evident that the vast majority of families will be better off initially under the new system than the old, the National Council of Welfare identifies a number of weaknesses with the new plan. First, the program is only partially indexed, increasing with increases in the Consumer Price Index in excess of three percent per year. Therefore, if CPI goes up by four percent, benefits would increase by only one percent. This will eventually erode the purchasing power of these benefits and is the reason the projected level of government expenditures decreases over the next five years. Another problem with the plan is that the $500 supplement is only available to those who work. While the working poor are definitely in need of this support, it is inequitable to discriminate against those on welfare through no fault of their own, or against those who received income from Unemployment Insurance. Finally, while the majority of the benefits are targeted at lower-income Canadians, there is a definite regressive element introduced through the child care expense deduction. Simple economic theory teaches us that tax deductions are always more regressive than tax credits. Those in higher tax brackets benefit the most since deductions allow them to reduce their taxable income which is being taxed at a higher marginal rate than less affluent individuals in lower tax brackets. Tax credits, however, provide the same amount of tax relief regardless of one's income level. Specific to this deduction, however, is the proviso that parents must have receipts for all child care expenses. Lower-income workers are often unable to afford the higher cost of licensed day-care facilities and must rely on friends or neighbours to look after their children. These in-home day-care providers usually can not issue receipts for the fees they charge and hence parents can not claim these expenses as a tax deduction. Federal funding for licensed day-care centres which would lower the cost of care for lower-income Canadians would be a more progressive way to spend this money.

2.2 Unemployment Insurance

The final federal benefit program which we shall address is the Unemployment Insurance program. The Unemployment Insurance Act was passed in August 1940 and the program remained virtually unchanged until the 1970's, when a number of revisions were enacted. The major objective of this program remains, "the provision of insurance against the interruption of earnings resulting from unemployment"[13]. While the program does not provide support to the working poor exclusively, it does provide a safety net for those who do lose their job, and would necessarily end up on welfare without this benefit.

There are other objectives of this program that deserve mention. The difficulties encountered by seasonal workers has been recognized by the introduction of seasonal benefits in 1955. With the merging of the Unemployment Insurance Commission with the Department of Manpower in 1977 into a single

Department of Employment and Immigration, emphasis began to be placed upon using UI as a benefit that could be paid while workers are retraining for alternative types of employment. Finally, the original unemployment insurance program did not concern itself with redistribution of income. Based as it was on the social insurance principle, the UI scheme had only an indirect impact on poverty. This was because contributions to the UI fund were based upon income (up to a ceiling level) and benefits were based on past contributions and took no account of family size. The redistribution principle, however, as well as the principles of economic stabilization and regional income redistribution, has become a vital objective of the modern Unemployment Insurance scheme.[14]

In order to qualify for UI benefits, a person must have suffered an interruption of earnings from employment and have worked for a specified number of weeks in insurable employment. Almost 95% of all workers in Canada are employed in "insurable employment" and therefore are covered by the program. Regular benefits are payable to persons who have lost their employment. In order to be eligible: they must be ready and able to work; looking for a job; willing to accept suitable employment; and have worked a specified number of weeks.[15] Most claimants have to work between 10 and 20 weeks before they can claim benefits. The number of weeks depends upon the unemployment rate in the economic region in which they live. The higher the unemployment rate is, the shorter the working period must be.

Besides receiving benefits as a result of simple job loss, working Canadians may also claim Unemployment Insurance benefits if their earnings are interrupted due to sickness, injury, maternity, or the recent adoption of a child. In addition to cash benefits, the UI program also provides claimants with counselling on job opportunities and how to conduct successful job searches. The UI benefit rate is 55% of average weekly insurable earnings (a rate of 60% is allowed for low income individuals with dependents) up to a maximum of $780, beginning in June 1994. Unemployment Insurance benefits are taxable, and may be subject to a tax-back provision if yearly income is above a certain threshold. Regular UI benefits are payable for a maximum of 50 weeks in a 52-week benefit period. The length of this period depends upon the number of weeks worked as well as the regional unemployment rate. Beginning also in June 1994, the minimum number of weeks worked in order to claim benefits has been raised from 10 to 12. This affects high unemployment regions such as the Atlantic provinces or the north. The claim period for special benefits depends upon the reason for the claim; be it maternity leave, illness, or injury.[16]

Unlike other strictly welfare programs, the Unemployment Insurance program is financed partly through employer and employee premiums and partly through contributions of the federal government. This reflects of "semi-insurance" nature of this program. The UI premiums payable by employees and employers are based on weekly insurable earnings of the employees. Starting January 1, 1995 the basic employee premium rate will be $3.00 per $100 of weekly earnings. The employer's contribution rate will be $4.20.[17]

As an indication of the importance of this program to Manitoba, in fiscal year 1992-93 the number of UI beneficiaries in the province was 124,800. The total benefit expenditure in the province for that year was $517 million.[18]

The three federal programs discussed above are by no means the only assistance the federal government puts forward to working Canadians. The federal government has recently expanded financial support for training programs for unemployed or underemployed Canadians. These programs may be administered directly by the federal government through the Unemployment Insurance Commission, or by the provinces through cost-sharing arrangements. The subsidized training which the working poor may receive in the form of academic upgrading - such as high school equivalency programs - or through more direct occupational training constitute a real potential benefit to the working poor. While these training programs could be an effective long term solution to poverty amongst working Canadians, they are not as such meant to improve the income situation of their recipients in the short term. They act as a type of "in-kind" assistance and therefore will not be included in this discussion social assistance delivery mechanisms.

The provincial governments of Canada also have a number of programs by which the incomes of the working poor may be supplemented. These programs are discussed in the following section.

PROVINCIAL PROGRAMS

There are a variety of provincial tax credit and direct cash benefit programs that could potentially supplement the income of the working poor. Again, these are not payments specifically targeted at the working poor, but may indirectly benefit those in this group. Most of the programs concentrate upon tax credit relief of property tax or housing costs, but there is an important program that benefits working families with children. These programs, in no particular order, are listed below.

2.3 55 Plus - A Manitoba Income Supplement

The 55 Plus program provides quarterly benefits to Manitobans aged 55 or over, whose income falls within certain specified levels. Persons receiving federal OAS/GIS/SPA benefits automatically become eligible for the 55 Plus program, but those not in receipt of federal program monies may also apply. This program was implemented in 1974 to cover those who were in receipt of GIS supplements but was expanded to include non-OAS pensioners in 1980.

The maximum quarterly supplement for 1993-94 for a single, widowed or divorced OAS/GIS pensioner is $111.60. For married couples receiving OAS/GIS, the supplement increases to $119.90. In order to receive full benefits, the pensioner's income from sources other than OAS/GIS can only be $24 for a single person or $48 for a couple. Maximum quarterly benefits for single persons 55 years or over who do not receive OAS/GIS are $111.60, where income falls below $8,930.40. Benefits decrease on a sliding scale until they disappear at an income level of $9,722.40 For each eligible spouse in a non-OAS/GIS receiving married couple, the maximum quarterly benefit is $119.90, where income is below $14,479.20. Benefits decrease on a sliding scale until they disappear at an income level of $16,207.20. These maximum benefit levels are indexed annually using the Winnipeg Consumer Price Index.[19]

This income supplement is a relatively minor one affecting low-income retired Manitobans. In and of themselves, the cash benefits are not enough to lift elderly Manitobans out of poverty but they do provide a number of pensioners with needed extra income. For the 1992-93 fiscal year, 21,111 Manitobans took advantage of this program, with the total government expenditure being $8.22 million.[20]

2.4 Shelter Allowances for Elderly Renters (SAFER)

In addition to the 55 Plus program, the Manitoba government provides a non-taxable monthly shelter subsidy to citizens 55 years or older who are renting in the private market. Persons residing in public housing or in a personal care home, as well as those receiving social assistance, are not eligible for these benefits.

This allowance covers 90% of eligible rent costs that exceed 25% of the pensioner tenant's gross income. All SAFER benefits must be deducted from the amount of Manitoba Property Tax Credit (see below) to which the tenant is entitled. The maximum 1992 benefits were $170 per month for a single person whose income did not exceed $17,640 and whose rent was $405 per month or more. The allowance is also $170 for a couple whose income did not exceed $19,800 and whose rent was $455 or more. The payment decreases as income increases and rent decreases in proportion to income. Again, this is a relatively minor program, benefiting only 4,590 households in 1992 at a total cost of $4.345 million for fiscal year 1991-92.[21]

2.5 Shelter Allowance for Family Renters (SAFFR)

The first two provincial assistance programs described are targeted specifically at elderly Manitobans. While this group is technically not included in the working poor, these programs - like that of the OAS/GIS supplements - do provide an important safety net for working poor Manitobans once they reach retirement age. The rest of the provincial programs that shall be discussed, however, are aimed more generally at all working Manitobans; regardless of their age. The first of these is the Shelter Allowance for Family Renters.

Similar to the SAFER program, this program provides a non-taxable monthly allowance to offset rental costs. This plan, however, is directed at low-income families with dependent children. Rental costs are subsidized up to 90% where they exceed 25% of family income. Families receiving Social Allowances (welfare) or who live in government-subsidized housing are ineligible for SAFFR benefits. Since July 1992, the maximum monthly allowance of $180 is payable where:

> "i)for one parent and one child, rent is $445 per month or more and monthly income does not exceed $1,615.
> ii)for a three-person family, rent is $480 per

month or more and monthly income does not exceed
$1,745.
iii)for four or more persons, rent is $500 per
month or more and monthly income does not exceed
$1,814."[22]

The amount of assistance is reduced as income rises and rent drops in proportion to income. Even fewer people are able to take advantage of this program than the SAFER plan. In 1991-92, 1,777 families were beneficiaries with the total cost to the government being $1.596 million.

2.6 Property Tax Credit

The property tax credit is delivered to Manitobans through the income and property tax systems and is designed to provide income-related assistance to homeowners and tenants. The benefit is payable to all Manitoban homeowners and tenants who are not receiving Social Allowance. The maximum benefit for 1994 is $525 generally, or $625 for claimants age 65 and over. The benefit is reduced by 1% of net income down to a minimum of $250. Therefore, for all claimants whose net family income is $27,500 or more, the maximum benefit is $250, or the amount of property taxes payable on the principal residence in excess of $250 - which ever is lesser. An equivalent rent threshold was introduced in 1993 limiting eligibility for the Property Tax Credit to those persons paying more than $1,250 in rent per year.[23]

Owners of single family homes receive their minimum benefit of $250 immediately as a deduction on their municipal property tax statements. The province reimburses the municipalities for the full amount of these allowed deductions. This program is funded by the Manitoba Department of Finance and is a rather costly one. In 1991, 573,550 families were beneficiaries of this program, costing the provincial government $165 million in foregone tax revenue.[24]

2.7 Cost of Living Tax Credit

Low-income persons who are not receiving Social Allowance may apply for a Manitoba Cost of Living Tax Credit on their federal income tax form. This credit, like other tax credits, serves to increase an individuals tax refund or to reduce taxes payable. As of January 1992, an amount equal to this tax credit has been added into provincial Social Allowance rates and therefore welfare recipients are not eligible for the credit.

The basic Cost of Living Tax Credit for a single or a married person in 1994 is $190. Additional credits are available depending if the person is aged or disabled, or if they support a dependant child or disabled adult. From this basic credit, 1% of net family income is subtracted. Most forms of taxable and non-taxable income are included in this calculation except for the following: 55 Plus Income

Supplements; Shelter Allowance for Elderly Renters; and Shelter Allowance for Family Renters.

This program started in 1974 and like the Property Tax Credit, is administered by the Manitoba Department of Finance. For the 1991 tax year, 383,070 Manitobans received this benefit, costing the government a total of $69 million.

The obvious question arising from the above discussion of the various provincial tax credits and allowances is how much they benefit low income Manitobans. The answer is difficult to provide, in part because some of the programs can not be accessed by all low-income earners. As indicated, some programs apply only to the elderly or to families with children. It may also be difficult for potential beneficiaries to decipher for which programs they may be eligible. As such, it is difficult to determine whether all those who are entitled are receiving benefits. The National Council of Welfare, however, attempted in 1991 to quantify the average benefit received by various low-income household types of the two more universal credits; those being the Property Tax credit and the Cost of Living tax credit. They found that the average single employable person in Manitoba received $715 per year from these credits, a single disabled person received $825, a single parent with one child received $897, and a couple with two children received $939.[25]

2.8 Child Related Income Support Program (CRISP)

So far, the programs we have discussed have not addressed the specific needs of low-income families with dependent children. None of these plans have based the benefit level directly upon the number of children living in a given household - in recognition of the fact that it becomes harder for low-income earners to support their families as these families grow larger. In January 1981, however, the Manitoba government responded to this issue by instituting the Child Related Income Supplement Program, or CRISP.

This program provides cash benefits to low-income families with dependent children under 18 years of age on the basis of income rather than earnings. As such, persons on Social Allowance may receive these payments, as may members of the working poor - provided their incomes are below the threshold levels. One provision placed on eligibility is that net family assets (excluding principal residence, furnishings, and family car) may not exceed $200,000. Benefits are based upon total family income for the previous tax year, less the following deductions: 6% of total gross family income; $763 for each eligible dependent child: and any maintenance or alimony payments made. The maximum benefit per child for 1993-94 is $30 per month or $360 per year. This maximum benefit is payable to families with one child whose net annual income is $14,817 or less. The income ceiling increases for every extra child the family has, up to $19,251 for a family with six children.[26] The base income eligibility level is indexed to increases in the Consumer Price Index in the previous year.

CRISP benefits are not taxable, and are considered as part of Social Allowance entitlements for eligible families. For the 1991-92 tax year 6,793 families (15,426 children) benefited from this program. The split between single parent and two-parent families was almost equal. The cost to the Manitoba government was $5.316 million.[27] The effectiveness of this program in helping poor families with children is in question, however, as Manitoba currently leads the country in the incidence of child poverty.[28]

Manitoba is not alone in providing income supplements to its population that works. Every other province has similar tax and/or shelter assistance programs at their disposal that are at least partially aimed at the working poor. A few other provinces have income supplementation programs worth noting. Saskatchewan, for example, established the Family Income Plan (FIP) in 1974 which provides benefits to Saskatchewan residents who have dependent children, and whose annual income meets FIP requirements. Saskatchewan's program is very similar to the

CRISP plan but pays allowances that are generally more generous than in Manitoba.[29]

Ontario and Quebec both have programs that are slightly different in that they are specifically work-related income supplementation plans. These programs are similar in that they both place a great degree of emphasis upon work incentives. The Quebec Work Income Supplementation Plan was instituted in 1979. This plan attempts to ensure that individuals are financially better off working than they would be on welfare. Those earning less or equal to what they would receive under social assistance can apply for an income supplement equal to 25% of their earnings. Benefits are reduced by one dollar for every three dollars of earnings above the social assistance level.[30] Since benefits are paid as a percentage of earned income, the actual amounts paid will vary from person to person. The allowances paid under the Quebec program were conceptualized as a type of "preventative" welfare - as the benefits were intended to keep low income earners from becoming recipients of social assistance - and this program has been described by Derek Hum as "a significant advance in income maintenance for the working poor"[31]

The Ontario Work Incentive Program (WIN) was also implemented in 1979. It provides an allowance and health related benefits for up to two years to recipients who leave long-term social assistance programs for full-time employment. Maximum monthly benefits are paid to any client who voluntarily withdraws from the provincial FBA or GAINS-D programs and accepts employment. The maximum benefit deceases by a set percentage for every dollar of family income in excess of a set threshold. In addition to the cash benefit, supplementary benefits in the form of complete coverage of provincial health insurance premiums, prescription drug costs, dental care, eyeglasses, and hearing aids are also provided.[32] The strongest criticism of the Ontario plan, however, is that it only pays benefits to persons who have left provincial welfare programs, and only for a set period of time. It does nothing to support those low-income individuals who have always worked in poorly paid jobs and never received welfare. As such, it is difficult to call this program a true income supplementation plan for the working poor because of its lack of comprehensive coverage.

2.9 Worker's Compensation

One cannot leave a discussion of provincial support programs without at least briefly mentioning the role played by Worker's Compensation. This program protects members of the labour force and their families against wage loss due to occupational injury or disease and assists them with medical or other expenses. This system is based upon the principles of collective liability on the part of employers and compulsory insurance for workers guaranteed by a publicly administered insurance fund. A mutual insurance scheme is established whereby employers in a given industry are jointly liable for the costs of all injuries occurring in that industry.

In Manitoba, not all industries are covered by worker's compensation. Only about 75% of Manitoba's labour force is covered, which is a problem for many low-income occupations fall into these uncovered industries.[33] Benefits are only paid to those who suffer a work-related injury or illness, which presents another problem in that workers who are injured off the job - or whose injury cannot be proven to be work-related - receive no compensation.

In 1992, there were 42,203 reported accidents or illness for Worker's compensation claims. This figure was down 5.3% from the year before. The total claim costs to the Worker's Compensation Board in 1992 was $126.7 million. Revenue from current assessments was $133.6 million, but due to past deficits, the unfunded liability at the end of that year was about $93 million.[34]

As has already been mentioned, there is considerable difficulty in measuring the adequacy of both federal and provincial programs that assist the working poor. While low-income Manitobans are fortunate in that Manitoba has perhaps the greatest number of income assistance and tax credit programs of all the provinces, the problem lies in the lack of integration of these programs. This problem is not unique to Manitoba, however. Administrators and social workers who operate income security programs across the country despair over the lack of an integrated system; one rationally designed and simple to administer.[35]

The working poor of Manitoba are also at a disadvantage in that there is no one program - or combination of two or more programs - that covers them all. The assistance plans we have examined tend to be targeted at the elderly, at families with children, at those who are unemployed, or at those who pay a high percentage of the monthly wage in rent. There exists no program like Quebec's Work Income Supplementation Plan that provides adequate benefits to all of the working poor, regardless of their age or family circumstances. The portion of working poor in Manitoba that are therefore most at risk are single persons or childless couples between the ages of 18 and 55. Just how large and needy this group is shall be examined in the second chapter of this thesis where a statistical analysis of the current economic situation of the working poor in Manitoba is presented

Having presented a description of a rather complicated system of social programs and indicated that none is specifically intended to assist the so-called working poor, it is useful to consider now a single, omnibus income guarantee and/or income supplementation plan that might be designed to benefit this category of recipients. We shall begin by examining the theory behind the structure of such benefit programs.

II (B) THEORY OF BENEFIT PROGRAM STRUCTURE

The primary objective of assistance programs is usually to provide the poor with a level of income adequate to meet their basic needs. Many have taken this to mean that society needs to ensure the poor have a "guaranteed income". What exactly does the concept of guaranteed income entail? How should such an income be paid out to the poor? The following section shall detail some of the numerous approaches that could be used to ensure the poor a guaranteed level of income. Here we will introduce the concept of the negative income tax and examine one Canadian proposal to implement such a system.

The idea of ensuring a guaranteed income to the poor is intimately tied to the idea of redistribution of income. A taxation system that incorporates a progressive tax rate structure can be seen to embody the goal of redistribution. The Canadian tax system, like most others in the developed nations of the world, already utilizes a progressive rate structure and thus aims towards the redistribution of income. The tax system is therefore seen as a logical place to start in guaranteeing a minimum level of income to the poor; whether this be directly through a negative income tax, or taxing back universal benefits granted to the rich in order to redistribute them to the poor.

Three basic approaches to ensuring a guaranteed income level are examined here: the universal demogrant system; the minimum wage or wage subsidy route; and the negative income tax system. Each of these methods could be used in conjunction with, or as a partial or full replacement for the various forms of income or means-tested income assistance programs, existing demogrants, or social insurance programs already in place. This would all depend upon the relative generosity of the new approaches adopted. The tax system may be affected to a greater or lesser degree by each of these approaches, and may undergo appropriate changes in tax rates and exemptions. There are also a few variations in how each of these methods could be operationalized and these variations shall be examined as well.

A) The Universal Demogrant

The universal demogrant entitles everyone in society to an equal payment, which would constitute the basic level of support. Any income earned above the basic support level would be taxed back so that final income would be comprised of the demogrant plus other income after taxes. This is the simplest form that a guaranteed income could take but is also the most costly since it requires advancing funds to both the rich and poor.

As an example of how this would operate, let us take a system that pays a demogrant of $20,000 combined with a flat-rate tax of 50% on earned income. An individual with an earned income of $20,000 would end up with a total income of $30,000. If the individual earned $30,000 instead, his or her after tax income would be $35,000. The lower the tax-back rate is, the more generous this program becomes.

The major disadvantages of this approach are those of cost, and the work disincentive effect it introduces. A system that uses a low tax-back rate will end up being very costly to government as very little in earned income is being taxed relative to the universal demogrant payment. If the system, however, incorporates a high tax-back rate, there is little incentive for individuals to earn extra income since most of it will be lost to taxes. In order to combat these problems, most income guarantee proposals have combined relatively low income guarantee levels with low tax-back rates. This combination, however, does not eliminate poverty.[36]

The universal demogrant approach is very similar to the idea of the social dividend. The social dividend was first proposed in Great Britain in 1942 by Lady Juliette Rhys-Williams through a basic credit income tax (CIT) format. The social dividend was a universally paid per capita credit or cash payment to all citizens of the United Kingdom regardless of their economic circumstances or work status. This plan would replace the social minimum approach developed by Lord Beveridge which consisted of social insurance schemes, modest direct income grants such as universal family allowances, and social assistance provided on the basis of demonstrated need. The social dividend would be financed through a flat marginal tax rate on all income, but there is no reason why the scheme could not be integrated with a progressive tax system. Since Lady Rhys-Williams's proposed dividend was to have been taxable and most of the benefits to the rich were to be recovered through the income tax system, this proposal really represented a guaranteed income for the poor. This proposal was largely ignored, however, and never introduced in Britain.[37]

The social dividend concept is not completely dead. In fact, it is evident in the Canadian system in two income security programs which have been quite popular among the Canadian population: the former Family Allowance program and the current Old Age Security plan. Family Allowance payments were paid to families with dependent children, regardless of the family's income. This program was replaced with the current Child Tax Benefit program on the ground that Family Allowances were an inefficient means of getting more income into the hands of those most in need - that is, persons with low incomes. The OAS plan still pays universal payments to those who fit into a specific demographic group (the elderly) and therefore can be considered as a demogrant.[38] While not used to replace existing social programs with one single payment, the social dividend concept is still alive in Canadian income security policy.

(B) Minimum Wage/Wage Subsidy

Minimum wages have been in place for a long time in Canada; established to ensure that no worker was paid a wage below what was considered a fair return for a day's labour. The minimum wage does not as much provide a guaranteed income as it does provide a guaranteed wage. It has, however, been championed as a poverty-fighting technique. There are separate minimum wages for work establishments falling under federal, provincial and territorial legislation. While seemingly a perfect device for ensuring that working people do not fall into the grips of poverty, the minimum wage has come under considerable criticism as of late.

The most obvious problem of the minimum wage as an income support device is that the wage income it insures workers will receive is simply not enough. In every province, workers who are paid the minimum wage fall below the poverty line. No where is this more evident than in Manitoba. In 1976, the minimum wage annual income in Manitoba was $5,716, which as a percent of the poverty line was 102%. In 1992, the minimum wage annual income in this province had risen to $10,400, but this constituted only 69% of the poverty line income cut-off. In 1992 constant dollars, the minimum wage income had actually fallen from $15,415 in 1976 to $10,400 in 1992, a decrease of 32.5%.[39] In fact, the minimum wage is so low that there exists a disincentive to work. In 1992 in Manitoba, a single employable person would receive $42 more through receiving welfare than by working at a minimum wage job. This disincentive grows even larger when one considers the situation of married couples with children. A married couple with one partner earning the minimum wage having two children would receive $9,047 less by working rather than accepting welfare.[40]

One of the reasons that welfare often provides greater annual income than does a job paying minimum wage has to do with the size of working poor families. Welfare payments, of course, are indexed according to the size of one's family. As the family grows in number, so does the size of the payment. The minimum wage, however, does not account at all for the size of the worker's family. The minimum wage is the same for a worker with no dependants as it is for one with a large family. The larger a worker's family grows, the less adequate the minimum wage becomes.

Another problem associated with the minimum wage is that it does nothing to help workers who are often unemployed. Those workers who face occasional or seasonal unemployment can not benefit from a minimum wage. Likewise, the minimum wage does little to support the incomes of those who can only find part-time work. Given that female workers are much more likely than males to work in part-time jobs, and given that the Economic Council of Canada has estimated that females are five times more likely than males to work for the minimum wage, this presents a significant problem for working poor women.[41] We will examine the distribution of full and part-time workers, as well as the distribution of males versus females in the working population of the Manitoba in the third chapter of this paper.

A final criticism of the minimum wage has to do with the assumptions inherent in this concept. The key assumption held by advocates of the minimum wage is that workers are poor simply because there wages are too low. It does not address the question of why the working poor are paid low wages. According to the National Council of Welfare, the working poor are overwhelmingly segregated into what is known as the primary or marginal labour market, and the low wages that they are paid are a product of market forces over which they have no control. By the marginal labour market, we are referring to establishments where jobs not only pay low wages, but where workers have few opportunities for career mobility and where workers have limited power over the conditions of their employment.[42]

Firms that operate in the marginal labour market are usually small and lack the sophisticated technology, managerial expertise, and capital that characterize industries in the normal labour market. Therefore they are often less productive, earn smaller profits, and struggle for survival in a competitive marketplace. Workers for such firms often face a bleak future since their fate is tied to vulnerable enterprises who can be forced to lay-off workers or go out of business at a moment's notice. To stay competitive, these firms tend to employ more part-time workers, since this gives them the flexibility to increase their workforces at peak periods, and decrease them when business slacks off. While minimum wages do help workers in the marginal labour market, they do not address the causes of low wages in the primary labour market, and therefore cannot be expected to provide an effective income threshold for all low-income workers.[43]

An alternative to the idea of minimum wages is the concept of the wage subsidy. The wage subsidy, or negative wage tax (NWT), is a method of supplementing the income of full-time low-wage workers. It works by increasing the rate of pay per unit of time. In effect, it makes leisure more expensive. The total subsidy to a worker varies with the number of hours worked. The more one works, the more he or she receives from the subsidy. It works much like the minimum wage except that the government ensures that the worker receives a guaranteed wage by supplementing the market wage, rather than legislating that the market wage be a certain level. The advantage to this system is that the cost of employing the worker is the same to the employer after the subsidy as it was before. Therefore there is no pressure on the employer to cut back on the number of workers employed in order to save labour costs. As well, there is no work disincentive effect to this method of supplementing incomes. The worker only receives the subsidy if he or she works.

The negative wage tax formula works as follows:

$$P = s(B - W)H$$

where:

P = total transfer payment
s = rate of subsidy
B = breakeven wage rate at which the subsidy is zero
W = the market wage rate, and
H = hours worked[44]

For example, if the breakeven wage rate is $7.00 per hour and the market rate $4.00, with a rate of subsidy at 50%, the hourly wage subsidy will equal $1.50. Based on a 40 hour work week, the worker would receive an extra $60 per week.

The main disadvantage to this plan is that like the minimum wage, it is of no use to the unemployed and of only little help to part-time workers, since the amount of the subsidy increases with hours worked. The other problem with the wage subsidy is that it gives no incentive for employers to pay workers a decent market wage in the first place. In fact, there would be incentive for employers to decrease the wages they pay if they knew the government would subsidize their wage rates. Workers would be no better off, only the firms employing low-wage workers. The wage subsidy could amount to a subsidy to Scrooge-like employers, out to get the most work for the cheapest pay.

(C) Negative Income Tax (NIT)

The most direct use of the tax system in the supplementation of the working poor's incomes is through the negative income tax (NIT). This term was coined first by Milton Friedman in the 1960's but the idea of using negative taxes as transfer payments is much older. Economists have long known that the income tax system could be used to pay out income just as easily as it collects it. All that is required is a rethinking of how the tax system should be utilized.

The negative income tax is actually a type of refundable income tested tax credit. The NIT simply extends the tax rate schedule into the negative income zone. More specifically, an NIT system consists of two elements: (1) a basic support level, G, which represents the payment or guaranteed income that the family receives if it has no other income; and (2) a tax rate or benefit reduction rate, r. As the individual receives income from earnings or other sources, the payment for which it is eligible declines at the tax rate r. Individuals receive some payment up to some breakeven level, B. The breakeven level is determined by dividing the basic support level (G) by the tax rate (r). The breakeven level, B, represents the income level at which negative taxes are phased out and positive taxes begin.[45]

The NIT formula is as follows:

$P = G - rY$, which can be rewritten as

$P = r(B - Y)$ for all $Y < B$ where:

P = negative income tax payment
r = negative tax rate
B = breakeven level
Y = total income

For example, let us say that the individual's income is less than the total exemptions and deductions he or she is allowed. Under a traditional tax system, the individual would simply pay no taxes. Under the NIT, however, the individual would receive back a "negative" tax payment. If the basic support level (G) is $10,000, and the tax rate is 50%, then the breakeven level (B) is $20,000. If total family income equalled $8,000, the negative income tax payment would equal $6,000 (.50 X ($20,000 - 8,000)). Total family income would be $14,000. If the individual had not worked at all, total income would be $10,000 (.50 X ($20,000 - 0)). Since the NIT system reduces benefit payments by less than the full amount of any wages received, the individual is always left with a higher income from working than not working. The NIT system can therefore be a very effective means of supplementing the incomes of the working poor.

The negative income tax system can, of course, be more or less generous depending upon where the basic support level and the tax-back rate are set. This is where a definite problem is encountered in integrating a negative tax system with its positive counterpart. The fundamental aims of a negative income tax and the regular positive income tax (PIT) system differ too widely. The PIT objective is to enhance tax revenues and this is done by incorporating a low level for basic exemptions with a high average tax rate. To alleviate poverty, on the other hand, a NIT design requires a high basic support level. To minimize work disincentives, the negative income tax rate r should be as low as possible, and certainly no higher than the average positive tax rate t. But a generous level for G combined with a low r will result in a high level for B, meaning a very costly supplementation system for the government.[46] Given these constraints, is it possible to devise a negative income tax system that will adequately supplement low-wage incomes and reduce income inequality in Canada?

In 1986, Derek Hum and Wayne Simpson performed some calculations to answer this very question. By expressing G as a fraction of the Statistics Canada low-income cut-off line, and assuming a flat positive tax rate of t, they tested a number of NIT system combinations. They found that using a "high G, high r" plan ($G = 1.0$, $r = 0.7$, $t = 0.3$) income inequality could be reduced in Canada by one half, at a cost equal to what was then spent by the government on income transfers. This program would imply a positive tax rate of only 30%. The negative tax rate of 70%, however, might discourage work among low-income individuals. Therefore, they devised another plan using a lower negative tax rate ($G = 0.75$, $r = 0.3$, $t = 0.68$) which would also reduce income inequality by one half. This program would cost 40% more, however, and require a politically unattractive positive tax rate of 68%. The same amount transferred under either of these plans could also be transferred using a plan with: G = 1.0, r = 0.5, t = 0.46. This is slightly more politically palatable.[47]

As a result of the conflicting goals of the negative and positive tax systems, it is difficult to devise a NIT system that will provide adequate income for the poor, without imposing a large tax burden on the rest of society. Difficult, however, does not mean impossible. It is essentially a political decision. Does the government have the political will to change the existing tax system to incorporate negative taxes at the cost of possibly higher positive tax rates? As Hum and Simpson so eloquently point out in their 1986 study, there is a way, but is there a will?

II (C) CANADIAN THEORETICAL PERSPECTIVE

There have been a number of proposals in Canada designed to revise the way in which social welfare benefits are paid to those in need. One of the first attempts to institute a guaranteed annual income program in Canada came in 1967 with the Castonguay-Nepveu report of the Quebec government. Approaching the subject from a provincial level, this report proposed an integrated, comprehensive social security system that transferred areas of concurrent federal-provincial authority - such as family allowances, occupational training, pension programs, and unemployment insurance - to exclusive provincial jurisdiction. The Castonguay-Nepveu report saw the need to design policies relating to income support, pensions, child-related benefits, retraining, and job creation within one system. In addition to the integration of existing federal and provincial social welfare programs, the report also called for the introduction of a guaranteed annual income.[48]

The GAI proposed by the Castonguay-Nepveu Commission was to be a two-tiered system having two different levels of benefits; one for persons deemed to be unemployable and another for the working poor, the latter containing strong work incentives. Along with different benefit levels, there were also different tax-back rates. For those not expected to work, a high support level, was combined with a high tax-back rate. The working poor, however, were expected to provide themselves with additional work-related income, so a second plan for them with lower support levels and low tax-back rates was devised.

This type of GAI plan is categorical in that a group that is expected to work is separated from one that is not. This is generally referred to as the tagging of the specific group. This plan also incorporated an income-testing principle in that two different tax rates were used. As such, this proposal sparked the debate over whether income assistance should be delivered on a categorical or income-tested basis. It is difficult in theory to establish the superiority of one system over the other. Income-tested transfers can reduce poverty to a greater extent than categorical programs if the tagged groups do not correspond closely to the low-income population. On the other hand, tagging may create less distortion in the work incentive structure. This implies that a trade-off exists; the policy gains of redistribution must be weighed against the losses due to adverse work incentives.[49] While the proposal was never enacted, the attention to this debate specifically, and income assistance reform in general, was the major contribution of the Castonguay-Nepveu report.

The work of the Castonguay-Nepveu Commission set the stage for the federal government's Social Security Review of the early 1970's. The Social Security Review itself was predated by a report of the Senate Committee on Poverty in 1968. This report was extremely critical of the existing state of federal-provincial fiscal arrangements for social assistance and recommended that the system be scrapped and replaced by a guaranteed annual income scheme.[50]

Similar discussion resulted in social assistance issues becoming a major point of contention between the federal and provincial governments. Despite the failure to solve this or any issue at the 1971 Victoria Conference, the conviction that reform of social assistance was needed still persisted, and the result of this search was the Social Security Review of 1973.

In the Minister of National Health and Welfare's published Working Paper on Social Security in Canada (popularly known as the "Orange Paper") the Income-Maintenance Strategy formed the core of the review. Five propositions were encompassed in this strategy. The first was that the federal family allowances should be increased from the then existing average of $7.21 per child to $20.00 per child, and be made taxable. Furthermore, the level of these allowances should be reviewed from time to time and increased on the basis of increases in the Consumer Price Index. The second proposition was that the incomes of the working poor which were inadequate by reason of family size, or by reason of the nature of their employment, should be supplemented under a single income supplementation plan with built-in work incentives. In addition to this, a guaranteed income should be available to people whose incomes are insufficient because they are unable or are not expected to work; namely the retired, disabled, single parent families, or those who are unemployable because they lack needed skills or workforce experience. To reconcile this second and third proposition, a "two-tier guaranteed annual income" system was proposed with one guarantee level and tax-back rate for those who worked and another for those who did not. Federal planners suggested a guarantee level of $4,800 for a family of four with a 75% tax-back rate after a $50 monthly exemption for those with no other income. For those with employment income, the guarantee level was $1,800, with a 37.5% tax-back rate, creating a breakeven point of $7,200.

The fourth proposal was that the existing OAS and GIS supplement plans be continued, but that people over 65 and with low incomes be given the option to choose the new guaranteed income plan if it was more advantageous. The final proposition was that even with the guaranteed income plan in place, there should still be a supplementary or "last resort" program to meet special situations as they arose.[51]

The review created working parties of technical advisors who dealt with specific welfare policy areas. One such group, the Working Party on Income Maintenance, concerned itself with the development of a comprehensive and co-ordinated income maintenance system. Using the propositions spelt out in the Orange Paper as a guide, this group set out about the task of devising a guaranteed annual income plan for Canada. The proposals of this group were eventually accepted by the provincial welfare ministers and a basic outline for a new guaranteed income scheme was revealed. The program would have two components: income support for those unable to work and income supplementation with built-in work incentives for those who were working but whose incomes were inadequate. Support levels would be set by the provinces and the federal government was prepared to increase its 50% share of assistance costs by paying two-thirds of the supplementation component of the scheme.

Although this proposal was approved by federal cabinet committee, the full cabinet delayed its introduction and the following year approved only a pared-down version of the program. Eligibility would be restricted to families with children and to those aged 55 to 65. the cost of the program would also be scaled down from $2 billion to $240 million. This proposal was presented to the provinces in 1976, but was abandoned after Ontario rejected it outright.[52]

The Social Security Review was an attempt to change the welfare system from one encompassing 'assistance plans' towards 'income and employment plans'. Although the review did encourage new provincial income and employment plans, it essentially failed since no new delivery systems were introduced, nor was the cost-sharing basis of the Canada Assistance Plan changed.[53] One explanation for this failure is offered by Keith Banting, who suggests the degree of integration of social assistance promised by this review was hampered by the number of programs that were excluded from the talks. Certain income related programs that were not under provincial jurisdiction (such as Unemployment Insurance, Worker's Compensation and minimum wage laws) were simply not up for discussion or inclusion in an integrated system.[54] Establishment of a truly comprehensive guaranteed income system was thus not possible.

Then Deputy Minister of Health and Welfare, A.W. Johnson further emphasized the problems of jurisdiction and the financing of the proposed programs as possible reasons for the failure of the Social Security Review.[55] The energy crisis that hit Canada and the rest of the world in the early 1970's placed a considerable financial constraint upon the federal government. As a result of this and other factors, government revenues were curtailed leaving less money available for ambitious spending plans. Finally, political support for the idea of income support to the working poor may simply have been lacking. Regardless of the reason, the Social Security Review did fail and Canada was left without a guaranteed annual income plan.

Reform of social assistance was not finished in Canada with the death of the Social Security Review. A number of federal bills aimed at welfare policy were proposed during the 1970's but none achieved success. We are left in Canada, then, with federal and provincial social welfare policy structures that are virtually unchanged since the Canada Assistance Plan was instituted in 1966.

II (D) CANADA ASSISTANCE PLAN

We have examined so far a number of social assistance programs on a federal and provincial level, as well as the theory behind how such programs presently are, and in the future could, be structured. In order to determine how social assistance might best be delivered to the working poor in Manitoba, we must first understand how the present set of fiscal arrangements between the federal and provincial governments for social assistance works. In this section, the history and structure of the Canada Assistance Plan will examined to determine whether the current structure allows for cost-sharing for programs directed towards the working poor.

The Canada Assistance Plan is a comprehensive set of intergovernmental transfers through which the Government of Canada shares the cost with the provinces of providing social assistance and welfare services to needy Canadians. These social assistance programs are intended to be the "last resort" of Canada's social security system. Assistance is provided to the needy when earnings or income from other sources - such as unemployment insurance and public or private pensions - are unavailable or inadequate. The primary objectives of the Canada Assistance Plan are to support the provincial provision of: "1) adequate rates of social assistance and institutional care for persons in need, and 2) welfare services which have as their object the lessening, removal or prevention of the causes and effects of poverty, child neglect, or dependence on public assistance"[56].

The Canada Assistance Plan effectively combined several shared-cost assistance programs already in place into one comprehensive plan. These programs were as follows: The Old Age Assistance Act, the Blind Persons Act, the Disabled Persons Act, and the Unemployment Assistance Act. The objective of all these programs was to provide income support for those least able to provide for themselves. The federal government shared the cost of these provincially administered programs. Payments were made on a means-tested basis and the programs were categorical; that is they were aimed at specific groups not in the labour force.[57]

Before we enter into a full discussion of the design of the Canada Assistance Plan, we should introduce CAP by briefly stating that it is a needs-tested social assistance program in which cost is shared between the federal, provincial, and in some cases municipal governments. It is also generally viewed as an "open-ended" plan in that the federal government pays 50% of the costs of assistance for all those qualifying for the needs-tested provincial public assistance program.[58] In order to qualify for the federal grant, the provincial social assistance program must base eligibility for assistance on need alone, and must not make previous residence in the province a requirement. The program must also allow for an appeal procedure in case of a dispute. Otherwise, CAP sets no major constraints on provincial discretion.[59]

A "needs-tested" program simply means that in order to be eligible for assistance, a recipient had to be "in need or likelihood of need".[60] As such, any individual deemed to be in need according to a provincially designed needs-test is eligible for cost-shared assistance. Social assistance programs established prior to CAP (such as the Old Age Assistance, Blind Persons, Disabled Persons and Unemployment Assistance Acts) based eligibility upon the individual fitting into some pre-determined category. Therefore, a person had to be either blind, disabled, above a certain age or unemployed in order to receive assistance. Equally needy people who fit into none of these categories would conceivably have been left to their own devices.

The categorical nature of these earlier programs that focused on the potential cause of poverty, rather than the need of the individual, was one of major criticism of the pre-CAP era. Criticism also centred on the income ceilings that were established and the constraints on allowable income. In addition to the discontent with the existing programs, there was increasing public concern during the 1960's with poverty and inadequacy of opportunity in Canada.[61]

As an answer to these and other problems with Canada's social assistance programs - and after considerable federal-provincial deliberations - the Canada Assistance Plan Act was introduced in the House of Commons as Bill C-1 on April 4, 1966. The bill was eventually given Royal Assent on July 23, 1966 and was made retroactive to April 1 of the same year.[62]

Hailed as a landmark in Canada's social security system, CAP hoped to achieve a number of aims. These included: "1) better and more comprehensive coverage for those in need of assistance, including the working poor; 2) increased opportunities for the unemployed through vocational rehabilitation and upgrading of skills; and consolidation of Assistance programs."[63]

The Canada Assistance Plan is divided into three main parts. The first part deals with general assistance and social services. Under part one of the CAP legislation the federal government sought to replace the Unemployment Assistance Act. Provinces were also able to create an integrated system by combining the various cost-shared categorical programs with their own assistance programs.

Eligibility under the general assistance of CAP is based on a needs test and in order to maintain national standards, provinces can not require a period of residence as a condition of eligibility. The federal government agreed to share 50 per cent of all costs. General assistance is intended to cover individuals basic requirements (such as food, shelter, clothing, utilities, etc.); prescribed special needs; travel and transportation; funerals; health care services; and prescribed welfare services (such as rehabilitation, counselling and daycare services).[64]

Under the welfare services portion of part one, eligibility is again based on a needs test or on the basis of likelihood of need if the services are not provided. The federal government shares 50 percent of increased costs of welfare services after the 1964-65 fiscal year. The coverage of the welfare services portion is essentially similar to the prescribed welfare services part of the general assistance portion.[65]

The second part of CAP covers aboriginal welfare. Under this section, the federal government could make special contributions to provinces agreeing to extend their welfare programs to cover status Indians on reservations or living in native communities. A special formula is designed for the cost-sharing to incorporate the federal government's statutory obligations under the Indian Act and the fact that provinces that assumed this responsibility would incur higher expenditures for welfare.[66]

Finally, part three of CAP refers to special work-activity projects for people who, for one reason or another, have difficulty obtaining and holding employment. Eligibility is once again based on a needs test to determine those individuals who have a problem getting a job. Costs are shared on a 50 - 50 basis with coverage extended to projects providing technical or vocational training or rehabilitative work-oriented experience. An important feature, however, is that a province can not deny assistance, as covered under part one of CAP, to someone who refuses to participate in such a project.

After its introduction in 1966, the Canada Assistance Plan was implemented relatively smoothly. By August 1967, all provinces except Quebec had entered into direct cost-sharing agreements under part one of the plan. Quebec took advantage of the opting-out provisions of the Established Programs (Interim Arrangements Act, 1965) and chose to receive a four per cent income tax abatement instead of the conditional grants. It should be noted however, that although financed differently, Quebec still carries out the same provisions in the cost-sharing arrangements as do all other provinces.[67]

With the signing of agreements under part one of CAP, at least one of CAP's main objectives - that being a more comprehensive assistance program aimed at needy Canadians - has been met. Many provinces began to abolish their categorical aid programs and consolidate them under one all-encompassing plan. Meanwhile, the federal government also carried out a withdrawal from the cost-shared categorical programs so that by ten years after CAP's introduction, spending on these programs was a minute fraction of what had been in the pre-CAP period.[68]

What has the implementation of the Canada Assistance Plan meant for the working poor in Canada? As stated, the plan allows for programs that provide assistance to those "in need or likelihood of need". This would imply that if a province deems the working poor to be in need of assistance, it could establish a program to assist them that would be cost-shareable under CAP.

The working poor are generally not eligible to apply for welfare. This is partly a result of relatively low liquid asset exemptions that are currently in federal legislation. For a welfare program to be cost-shareable under CAP, recipients are not allowed to have more than a few thousand dollars in liquid assets. Liquid assets are defined as being all assets readily converted into cash or equivalents. Other financial resources exempted include the cash surrender value of a life insurance policy to a maximum of $2,000, equity in the home in which the individual resides, and inventory and equipment essential to carrying on a viable farming or business operation.[69] In 1992, Manitoba raised its liquid asset exemption from $400 to $1,000 for the first person in the family, and the family maximum was set at $3,000. For persons with disabilities, the maximum was raised from $400 to $2,000 for the first person in the family, with a family maximum of $4,000.[70] Most working poor individuals would have liquid asset holdings of more than $1,000. Even those who do not, however, would probably earn more than the monthly allowable limit which is set extremely low in most provinces.

Simply because the working poor are not eligible for welfare payments does not mean that CAP legislation excludes them from any type of income support. Currently, the working poor for the most part do receive social services from the province in which they live. Such services include day care for children, home making or home support for the elderly or disabled, rehabilitation, and other services provided by the departments of child and family services. These social services are cost-shared under CAP provided the recipients qualify under an income-test. As such, the Canada Assistance Plan operates under two different principles to determine eligibility - a needs-test for income support and an income-test for social services.

An income-test is more simple and straight-forward than a needs test. Provinces set limits on the amount of income a family or individual can have and still receive subsidized services. These services are cost-shared by the federal government provided the provincial income limits are no higher than the limits set by Ottawa. For example, the federal income limit for one individual as of March 1991 was $14,388. The limit for a family consisting of one adult and one child was $28,776. In practice, no province has limits as high as the federal limits.

If provinces provide social services to the working poor which are cost-shared under CAP, why do they not provide direct income assistance as well? The answer resides in the ambiguous language found in the CAP legislation in terms of the definition of need which has been interpreted to mean that funding cannot be extended to programs that rely upon an income-test to determine eligibility. The only exception to this interpretation occurs for the aforementioned social services. This point is made in the 1988 report of the Ontario Social Assistance Review Committee which states that for CAP cost-sharing purposes, eligibility must be determined on the basis of a needs test. As the committee pointed out, some other mechanism must be found to permit cost-sharing in this crucial area. They advocated the implementation of a special new fiscal arrangement in order to ensure cost-sharing for income-tested income supplementation programs.[71]

Alternatively, a way could be found to transfer income to the working poor through the existing needs-test provisions. The Canada Assistance plan embodies the principle that social assistance should be made available on the basis of a test that looks not only at a persons income, but also at the relation between resources and budgetary requirements.[72] If a province like Manitoba were to establish a definition of budgetary requirement as being in line with the current poverty line, large numbers of the working poor who fall below this level would end up as being in "need" - at least as far as the Canada Assistance Plan is concerned. A program could then be established that would be cost-sharable under CAP.

Again, what is required here is the political will to define those who work, yet have inadequate incomes, as being needy. In part, this political will comes from a recognition of the need for income support of the working poor. How big of a problem is poverty amongst the workforce of Manitoba? The next section of this study shall address this very question in an analysis of income data for Manitobans in 1990.

CHAPTER THREE

III STATISTICAL SURVEY OF WORKING POOR IN MANITOBA

Past studies of the working poor in Canada have identified this group according to their income levels, age, marital status, and occupations.[73] In this section, we shall offer a statistical survey of the working poor in Manitoba, both in family groups and as individuals. Most of the income data in this study comes from the Statistics Canada publication Selected Income Statistics: The Nation 1991 which uses 1990 Census data. Exceptions to this are noted in the text.

The Low Income Measure (LIM) used to identify the working and non-working poor is taken from Statistics Canada, which bases its cut-off as being one-half the median adjusted family unit income. Corresponding to the year of the data, the low income measures are taken for 1990, and they vary depending upon the size of the family unit in question. For the purposes of our study, two different measures are used. For an individual adult, the low income measure cut-off is $11,838. The income groups in our data, however, are only available in increments of $5000, so we therefore rounded the cut-off level down to $10,000 for an individual adult. Likewise, the low income measure for a three person family (two adults and one child, or one adult and two children) according to Statistics Canada is $20,125. We have rounded this figure down to $20,000.

As such, the numbers and percentages of low income individuals and families in our study will slightly underestimate the total population in these groups. The statistical error will obviously be larger for individuals than for families.

It must be noted that the definition of the poverty line is not a simple exercise. It is a contentious issue which is clouded by a number of different definitions. The Low Income Measure we are using is very similar to the Canadian Council on Social Development's poverty line. The CCSD poverty lines are motivated by the idea that poverty is a relative concept. According to this perspective, households with less than half the average income of others in the community are relatively deprived and therefore poor.[74]

This contrasts to Statistics Canada's Low Income Cut-offs (LICO) which calculates poverty based upon the basic needs of a household. LICO measures are calculated using Statistics Canada's Family Expenditure Survey. The first step is to estimate the percentage of gross income spent by the average Canadian household on food, clothing and shelter. Since poor households are observed to spend a greater proportion of their income on basic necessities than non-poor households, those spending substantially more than the national average are defined as being in poverty. The income level at which different sized households spend 58.5% of their gross income on essentials is then defined as the low-income cut-off.[75] The CCSD and Statistics Canada LICO poverty lines are actually very similar for single individual households. The gap between them grows wider, however, as the size of the household increases.

There are of course other poverty lines which have been contemplated as the measure of poverty in Canada. Based upon a 1992 report by Christopher Sarlo published by the Fraser Institute, the House of Commons subcommittee on poverty, chaired by Tory MP Barbara Greene, attempted to recalculate the line on the grounds that the Statistics Canada line was much too high. The subcommittee contended the present calculation allowed far too many people to be counted as poor; perhaps as much as half of the then 4.2 million persons considered to be living in poverty. Their proposed definition was based upon a "basic needs budget" which included food, shelter, clothing, transportation, and other necessities. The result was to reduce the poverty line by as much as one-third to one-half of the LICO line. Receiving tremendous criticism by opposition parties and anti-poverty organizations alike, the subcommittee's report was boycotted by opposition MP's and the final product was produced and publicized by Conservative party backbenchers alone. With the subsequent defeat of the Mulroney government, this report was never acted upon and is not part of Liberal government policy.

We shall begin our analysis be examining the situation of low income families in Manitoba. The following chart shows the number of low income families based upon their total income, and the percentage this group comprises of the total number of families in each family type. A family's total income includes all employment income plus any government transfers. These figures, therefore, show the total number of poor, three-person families in Manitoba, regardless whether they are working or not.

TABLE 1

Number and Percentage of Low Income, Three-Person Families by Family Type - Manitoba, 1990

Family Type	Number	Percent of Total
All Families	52,380	18%
Husband-Wife Families	34,960	14
Male Lone Parent Families	1,960	28
Female Lone Parent Families	15,445	64

Therefore, for all three-person families, 52,380 could be classified as low income, comprising 18% of all three-person families. Families having both spouses living in the home had the lowest incidence of poverty as only 14% of these family types were low income. The highest incidence of poverty fell in the female lone parent category as 64% of these families had total family incomes below $20,000.

When examining the incidence of poverty among the total population based upon total income, the results are very similar. The low income cut-off for individual adults aged 15 and above is again $10,000. These results are shown in Table 2

TABLE 2

Low Income Population 15 Years and Over

by Sex and Total Income

Manitoba, 1990

Gender	Number	Percent of Total
Both Sexes	245,530	32%
Males	92,135	24
Females	153,390	40

In 1990, 32% of individuals 15 years or older had income below $10,000. Only 24% of all males suffered from low incomes compared to 40% of all females. Therefore, women were nearly twice as likely as men to be poor. This data can be further broken down by age. Table 3 illustrates the total number of individuals by age group and their incidence of poverty.

TABLE 3

Low Income Population 15 Years and Over by Sex and Age Groups - Manitoba, 1990

Males

Age Group	Number	Percent of Total
Total	92,135	24%
15-19	25,855	91
20-24	16,635	44
25-34	14,285	16
35-44	9,330	12
45-54	6,810	13

Females

Age Group	Number	Percent of Total
Total	153,390	40%
15-19	24,245	92
20-24	19,355	53
25-34	26,015	32
35-44	20,370	27
45-54	14,475	30

Those most susceptible to low incomes are women and youth. While only 24% of all males had low incomes, 91% of those aged 15-19 and 44% of those 20-24 fell below the low income cut-off. The incidence of poverty drops, however, as men grow older as those in the 25-54 age group are considerably less likely to be poor. Young women are in a far worse situation, as 92% of 15-19 year olds and 53% of 20-24 year olds suffer from low incomes. The situation does not improve as much for women as they grow older as it does for men. Approximately 30% of women aged 25-54 are poor. This figure is twice as high as the corresponding rate for similarly aged men.

The groups we have just examined are not exclusively those of the working poor. These figure are based upon total income which includes both earned and unearned income. While these individuals and families living in poverty may have earned money from working, they also may have received their income from government transfer programs. Our definition of the working poor includes any individual who receives any part of their total income from employment earnings. While these individuals may receive some income in government transfers as well, the relatively low allowable earning and asset levels provided for in Manitoba's social assistance legislation will ensure that the overwhelming majority of the working poor population will not be receiving welfare assistance. The next two tables examine the working poor exclusively. The first illustrates the incidence of poverty among those earning wages and salaries. This data shows the number of persons receiving less than the low income cut-off of $10,000 from wage or salary income.

TABLE 4

Low Income Population 15 Years and Over by Sex

Earning Wages/Salaries - Manitoba, 1990

Gender	Number	Percent of Total
Both Sexes	155,945	30%
Males	64,280	24%
Females	91,665	37%

The total number of individuals below the low income measure was 155,945, 30% of the total wage earning public. The percentage of wage earning males living in poverty was 24% while for females it was 37%. The results are quite similar if we examine the population earning employment income. This definition of income includes not only wages and salaries, but also self-employment income from those who own a business or operate a farm. These results are shown in Table 5.

TABLE 5

Low Income Population 15 Years and Over by Sex Earning Employment Income - Manitoba, 1990

Gender	Number	Percent of Total
Both Sexes	188,050	32%
Males	82,690	26
Females	105,360	39

One very problematic consequence of using income data to define the working and non-working poor is that it may tend to overestimate the total number of those who live in poverty; specifically among those in the younger age categories. The original source of the Statistics Canada data we have used is the individual tax returns of Manitobans. These returns show the amount of income each person reports, but not whether this income is his or her sole means of support. For example, a high school or university student may have a part-time or summer job which earns him or her a few thousand dollars per year. The student's parents, however, may earn considerably more than the low income measure for poverty and be able to afford to support the student in a very comfortable lifestyle. Therefore, while the data above might include such students among the ranks of the working poor, he or she might be enjoying a far from impoverished standard of living. Such facts have caused the Fraser Institute to question the low income data published by Statistics Canada and encouraged recent debate into redefining the poverty line.

Are such concerns valid? In order to determine to what extent poverty figures are inflated for younger age groups, we need to examine the statistics regarding the number of full and part time students between the ages of 15 and 24, enrolled in high school, university and community college in Manitoba. Table 6 illustrates this data.[76]

TABLE 6

Number of Individuals Enrolled in High School, Community College, and University - Manitoba, 1990.

Institution		Enrollment
High School	(Gr.10)	16,075
	(Gr.11)	14,726
	(Gr.12)	16,611
	Total	47,412
Community College		40,952
University		19,057
	Total	107,421

Therefore, 107,421 individuals were enrolled in secondary or post-secondary education in Manitoba in 1990. However, there were 129,145 individuals between the ages of 15 and 24 in Manitoba in 1990. Therefore, approximately 22,000 young men and women between these ages were not in school, about 17% of the total demographic group. Given the assumption that most of the people in this group would be working for low wages - if they worked at all - this would put the true poverty incidence for the 15-24 age group at about 17%; a figure in line with that of the other age groups in table 3.

The assumption being made by those who would have us remove the student population from poverty figures is that no student lives an impoverished lifestyle. Even if there are those who do subsist on little income, they are doing so in the expectation or higher future incomes. While this may have been true in the past, when post-secondary education was mainly the domain of the elite, it is no longer the case. More students than ever are forced to work long hours in part-time jobs just to be able to afford their education. Like the rest of society, the student population is also aging. More and more men and women in their late 20's and even 30's and 40's are dropping back into post-secondary institutions in order to retrain and obtain advanced skills for an increasingly competitive job market. Many of these individuals are working people with families to support. The enrollment figures quoted in table 6 include some students who are older than 24 years. As it is not possible to obtain data adjusted for these individuals, we have undoubtedly overestimated the actual student population between 15 and 24. As such, it is likely that the true incidence of poverty for this demographic group is higher than 17%.

Having examined the incidence of poverty among working Manitobans, it is helpful that we should discuss some of the factors that contribute to poverty in this group. We have already seen how one's gender can influence one's chance of being poor. Occupation and marital status are also contributing factors. The next six tables illustrate the effect that occupation has upon the incidence of poverty.

Data regarding the number and average incomes of persons employed in various occupation groups in Manitoba in 1990 is taken from the Statistics Canada publication Employment Income by Occupation. Table 7 shows the total number of persons employed in various occupation groups, as well as the number of persons employed full-time. The occupations with the lowest percentages of full-time workers fall into the clerical, construction, medicine, service, and sales groups. All of these occupation groups have a lower percentage of full-time workers than the average for all occupations.

TABLE 7

Population 15 Years and Over with

Employment Income, by Occupation Group

Total Number - Manitoba, 1990 - Both Sexes

Occupation	Total Employed	Total Employed Full-Time	% Employed Full-Time
All Occup.	583,400	308,205	53%
Managerial	56,545	43,915	78
Nat. Sciences Engineering & Mathematics	16,835	12,730	76
Soc. Science	14,315	7,755	54
Teaching	27,875	15,665	56
Medicine	33,605	16,320	49
Clerical	101805	52,130	51
Sales	52,760	26,800	51
Service	83,210	31,370	38
Farming	37,485	20,930	56
Processing	11,475	6,435	56
Machining	9,725	6,460	66
Fabricating Assembling & Repairing	36,195	22,780	63
Construction	32,620	13,540	42
Transport Equip. Operating	21,310	12,120	57

Table 8 and 9 below relate the same information for males and females respectively.

TABLE 8

Population 15 Years and Over with

Employment Income, by Occupation Group

Total Number - Manitoba, 1990 - Males

Occupation	Total Employed	Total Employed Full-Time	% Employed Full-Time
All Occup.	315,535	189,215	60%
Managerial	36,320	29,745	82
Nat. Sciences Engineering & Mathematics	14,065	10,930	78
Soc. Science	5,310	3,495	66
Teaching	9,915	7,065	71
Medicine	6,285	4,175	66
Clerical	21,920	12,590	57
Sales	28,665	18,170	63
Service	33,255	16,270	49
Farming	28,665	16,505	58
Processing	8,260	4,960	60
Machining	9,260	6,180	67
Fabricating Assembling & Repairing	27,920	18,650	67
Construction	32,210	13,245	41
Transport Equip. Operating	19,715	11,630	59

For males, the occupations with the lowest percentages of full-time workers are service, clerical, and construction. Full-time work in the construction industry is obviously limited due to the seasonal nature of such work. This explanation does not hold for jobs in the service industries or for clerical positions. These jobs, however, tend to fall in the marginal labour market, where one of the characteristics identified with this market is the part-time employment.

Table 9 illustrates the situation with female workers. As the data shows, females are much more likely to be employed only part-time than males. For all occupation groups, only 44% of women work full-time compared to 60% of men. This phenomena is not restricted to only a few occupations, as in every group, women have a lower percentage of full-time participation than do men. Again, the results are most dramatic in the sales, service, construction, and transport industries where approximately one-third of women work full-time. Women enjoy a slightly higher than average full-time participation rate in the clerical occupation field, but the rate is still relatively low. It is only in the managerial and natural sciences fields where full-time work becomes the norm for women.

TABLE 9

Population 15 Years and Over with

Employment Income, by Occupation Group

Total Number - Manitoba, 1990 - Females

Occupation	Total Employed	Total Employed Full-Time	% Employed Full-Time
All Occup.	267,865	118,990	44%
Managerial	20,220	14,165	70
Nat. Sciences Engineering & Mathematics	2,770	1,800	65
Soc. Science	9,005	4,260	47
Teaching	17,965	8,600	48
Medicine	27,325	12,140	44
Clerical	79,885	39,540	49
Sales	24,090	8,635	36
Service	49,955	15,100	30
Farming	8,820	4,420	50
Processing	3,215	1,470	46
Machining	460	280	61
Fabricating Assembling & Repairing	8,265	4,130	50
Construction	870	295	34
Transport Equip. Operating	1,595	490	31

The significance of these results to the working poor lies in the fact that part-time work is a contributing factor to poverty among this group. Those who work only part-time are much more likely to suffer from insufficient incomes than those who hold full-time jobs. Furthermore, we have seen how the existing welfare programs do not adequately cover those who work, and legislative regulations such as minimum wages are of little help to those who are employed only part-time.

The distribution of part-time work amongst occupation groups is also a matter of concern. As we have seen, part-time jobs are much more common in fields that dominate the marginal labour market. Clerical work, jobs in retail sales or service industries, and unskilled construction and factory work not only employ more part-time workers, but these jobs also tend to pay less, have irregular working hours, poorer working conditions, and offer considerably less generous benefits than permanent positions in professional or skilled trades occupations. The overwhelming concentration of the working poor in these industries - especially female members of the working poor - is established when we examine the average incomes of workers in the various occupation groups.

Tables 10 through 12 relate information regarding the average employment income of workers in each of these fields as well as the percentage each occupation group's average income is of the average income for all occupations. Table 10 presents data for both sexes, with tables 11 and 12 showing the situation for males and females respectively.

TABLE 10

Population 15 Years and Over with
Employment Income, by Occupation Group
Average Income - Manitoba, 1990 - Both Sexes

Occupation	Total Avg. Income	Full-Time Avg. Income	Full-Time Income As % of All Occupation Avg.
All Occup.	$21,257	$29,607	100%
Managerial	36,254	40,487	137
Nat. Sciences Engineering & Mathematics	33,647	38,917	131
Soc. Science	24,288	38,591	130
Teaching	28,391	39,117	132
Medicine	27,829	36,828	124
Clerical	16,737	23,053	78
Sales	18,810	28,154	95
Service	12,830	22,569	76
Farming	12,902	16,261	55
Processing	20,530	25,826	87
Machining	25,265	28,593	97
Fabricating Assembling & Repairing	21,615	26,098	88
Construction	22,584	31,517	106
Transport Equip. Operating	26,146	33,271	112

The second column of table 10 is the average income of all workers in the respective industries. As we see, the average employment income for all occupations is $21,257. The lowest paid fields are clerical, sales, service, and farming; all of which pay salaries considerably lower than $21,257. The third column shows the average incomes of all full-time workers in these occupation groups. The average full-time wage for all occupations is $29,607. The last column in table 10 shows the percentage that each industry's full-time average income comprises of the full-time all occupations average income. Therefore, the clerical group's full-time average income is $23,053, which is 78% of the overall full-time average of $29,607. We should note that every occupation group's full-time average income is above the $20,000 poverty threshold for a family of three, with the exception of farming. These figures are only averages though, and some individuals will have incomes below this threshold. Another consideration of course is that since in the lower paid industries, part-time work predominates, not many workers will come near receiving the full-time average income.

TABLE 11

Population 15 Years and Over with

Employment Income, by Occupation Group

Average Income - Manitoba, 1990 - Males

Occupation	Total Avg. Income	Full-Time Avg. Income	Full-Time Income As % of All Occupation Avg.
All Occup.	$25,791	33,509	100%
Managerial	41,681	45,169	153
Nat. Sciences Engineering & Mathematics	35,473	40,298	136
Soc. Science	38,618	50,666	171
Teaching	37,250	44,286	150
Medicine	51,600	58,197	197
Clerical	20,220	27,724	94
Sales	24,612	32,070	108
Service	18,243	28,507	96
Farming	13,900	17,636	60
Processing	23,271	28,212	95
Machining	25,670	28,959	98
Fabricating Assembling & Repairing	24,066	28,094	95
Construction	22,807	31,676	107
Transport Equip. Operating	27,166	33,817	114

TABLE 12

Population 15 Years and Over with

Employment Income, by Occupation Group

Average Income - Manitoba, 1990 - Females

Occupation	Total Avg. Income	Full-Time Avg. Income	Full-Time Income As % of All Occupation Avg.
All Occup.	$15,916	$23,403	100%
Managerial	26,503	30,655	131
Nat. Sciences Engineering & Mathematics	24,369	30,538	130
Soc. Science	19,961	28,678	123
Teaching	23,498	34,869	149
Medicine	22,363	29,479	126
Clerical	15,772	21,566	92
Sales	11,906	19,915	85
Service	9,227	16,172	69
Farming	9,457	11,130	48
Processing	13,479	17,792	76
Machining	17,134	20,528	88
Fabricating Assembling & Repairing	13,338	17,077	73
Construction	14,482	24,408	104
Transport Equip. Operating	13,541	20,311	87

Tables 11 and 12 show the results of average income comparisons for males and females in Manitoba. In every occupation field, men enjoy higher employment incomes than do women. The overall average male full-time income is $33,509 compared to $23,403 for females. Even in the poorer paid occupations (clerical, sales, service, processing) the male full-time wages are much closer to the average wage than are the female wages. The exception to this situation is the farming industry where males earn only 60% of the full-time average income. These figures, however, include only employment income and do not take any government transfer payments to farmers into account.

The result of this disparity in income distribution between men and women is that in many occupation groups, female full-time incomes are lower than the low income measure of $20,000. The results are even more dramatic if one examines the averages for all female workers - both full and part-time. Men, on the other hand, tend to have average incomes above this threshold. This numbers tend to corroborate our findings regarding poverty incidence among males and females.

We have seen the effect that one's occupation can have upon the incidence of part-time work and subsequent poverty amongst working Manitobans. Another factor that may contribute to the incidence of poverty amongst this group - specifically through its effect upon the ability of women to accept full-time work - is the marital status of the individual. Table 13 illustrates the number and average income of all individuals with employment income, differentiated by marital status and gender. Figures are shown for all full and part-time workers as well as for just full-time employees.

TABLE 13

Population 15 Years and Over with

Employment Income, by Sex and Marital Status

Number and Average Employment Income - Manitoba, 1990

Both Sexes

Marital Status	Total Number	Avg. Income	Full-Time Total Number	Full-Time Avg. Income	Full-Time Worked Percent
Total	563,400	$21,257	308,205	$29,607	55%
Married	375,285	24,813	225,480	31,443	60
Single	160,260	12,664	56,075	22,718	35
Separated	14,550	23,735	8670	29,560	60
Widowed	10,615	16,814	4275	24,503	40
Divorced	22,685	23,630	13,710	29,216	60
Non-Married Total	198,556	19,211	82730	26,499	42

Males

Marital Status	Total Number	Avg. Income	Full-Time Total Number	Full-Time Avg. Income	Full-Time Worked Percent
Total	315,530	$25,791	189,215	$33,509	60
Married	203,920	31,394	144,870	35,921	71
Single	92,875	13,278	33,180	23,073	36
Separated	6,780	28,779	4,200	34,494	62
Widowed	2,390	22,413	1,190	30,904	50
Divorced	9,565	26,567	5,780 3	2,796	60
Non-Married Total	111,610	22,759	44,350	30,317	40

Females

Marital Status	Total Number	Avg. Income	Full-Time Total Number	Full-Time Avg. Income	Full-Time Worked Percent
Total	267,870	$15,916	118,990	23,403	44%
Married	171,365	16,981	80,610	23,395	47
Single	67,380	11,816	22,895	22,205	34
Separated	7,780	19,341	4,475	24,927	58
Widowed	8,220	15,185	3,080	22,037	37
Divorced	13,120	21,490	7,930	26,607	60
Non-Married Total	96,500	16,958	38,380	23,944	40

Table 13 presents information for males, females, and both sexes combined in the following categories. Column one shows the total number of persons of each marital status type. the second column presents the average income (full and part-time) of these individuals. Column three shows the number of persons working full-time, while the fourth column indicates these individuals' average income. Finally, the last column illustrates the percentage the individuals of each marital type who worked full-time. The results of this examination support the conclusions already drawn as to the incidence of poverty amongst employed Manitobans. In every case, females earn an average income lower than that of their male counterparts. The full and part-time average income of females generally hovers at or below the threshold level of $20,000, while the full-time average income levels are not much higher than this cut-off. None of these results should be surprising as they are mirrored in our earlier results.

The most noticeable income disparity when examined by marital type occurs between single and married individuals. The "single" category refers to persons who have never been married. For single persons, both sexes combined, the average full or part-time income is only $12,664, while the full-time average is $22,718. Furthermore, only 35% of these individuals worked full-time. The figures are very similar when men and women are examined separately; with women faring slightly worse. Married individuals, on the other hand, enjoy the highest average incomes of nearly any category, as well as the highest percentage of full-time workers.

More surprising results are found in the statistics for females. Married women do not have the highest average full-time employment income, as both separated women ($24,927) and divorced women ($26,607) enjoy higher incomes than married women ($23,395). These statistics are directly contradictory to reasons put forth by the conservative right for the "feminization of poverty". Research supported by the conservative governments in both Canada and the United States has pinned the cause for increasing female poverty in society upon marital dissolution and the rise of female-headed households.[77] Our data, however, refutes this hypothesis as divorced and separated women are doing better than their male counterparts. As evidenced in table 1, however, 64% of all female lone-parent families live in poverty and are almost fifteen times more likely to live below the poverty line than are male lone-parent families. How can this apparent contradiction exist?

First of all, just because there are a large number of female lone-parent families living in poverty does not mean that they are a result of marital dissolution. Some single females who have never married may be part of this group. When an unmarried couple has a child and subsequently separates, the child is much more likely to stay with the mother than the father. To the extent that the father is unwilling or unable to pay child support, this family is likely to end up amongst the working poor.

It is also much too simplistic to suggest that divorce is the only, or even the principle, cause of the feminization of poverty. The economic status of women is affected by many interrelated social and economic institutions; the family, the labour market, and the social welfare system being only three of them. Changes in family structure, the inferior labour market status of women, and changes in social welfare policy have all contributed to the growth and persistence of poverty among women and their children. We have already discussed how the social welfare system has provided an inadequate response to the problems facing working poor women. How then does the labour market affect poverty amongst working women?

Tables 9 and 12 illustrate the high concentration of women into the service, clerical and sales occupation categories in Manitoba and the high degree of part-time work and low pay that working in these fields entails. This situation is known in the literature as occupational segregation and is criticized as being the primary reason for the wage gap between men and women, and subsequent high rates of female poverty. The majority of women remain employed in low paying "women's jobs" of the "pink collar ghetto". These jobs are mainly in retail sales, light assembly, clerical, and other service industry work - occupations that offer low wages and little opportunity for advancement. In our analysis of dual labour market theory, these types of jobs were classified as part of the marginal or secondary labour market. It is argued that the majority of "women's jobs" are in this secondary labour market. Even though over the years more women have entered the labour market, most have entered into the secondary sector where their incomes are inadequate to keep them out of poverty.[78]

Before closing of this chapter, it is necessary to reiterate a few important points and make a few qualifying statements about our data. It should be remembered that controversy does exist as to the exact level at which the poverty line should be set. The lines we have used, however, are consistent with the Statistics Canada and CCSD lines.

We have used data selected at a specific point in time - 1990 - and therefore the results do not, and cannot show any change in poverty over time. They also only show the incidence of poverty for a given individual at a specific point in his or her life. We therefore cannot hypothesize about the length of time one may stay poor throughout one's life. The Lifetime Income Hypothesis suggests that one's income may indeed be lower at the start of one's career, rise to a peak towards the end of one's working life, and then decrease again after retirement, and that this is not necessarily an undesirable phenomena. To the extent this is true, and given that our data only shows the income of a given individual at one point in his or her life, we may be overstating the problem of poverty among younger individuals. Finally, while we cannot overemphasize the extent to which a wage gap exists between males and females, it should be noted that recent evidence shows this gap to be narrowing ever so slightly. The reason for this narrowing of the gap, however, has more to do with decreasing average male incomes rather than increasing female wages or salaries.

The data that has been presented in this chapter suggests that poverty amongst the working population is a considerable problem in Manitoba. Based upon employment income, close to one-third of the employed population could be classified as working poor. While government transfers do help some of the working population to escape poverty, these transfers are generally inadequate in their coverage of this population. For those who do qualify for support, the benefits are generally not large enough to be of considerable help. Furthermore, we have seen how single individuals, young persons, female headed families, and women in general are most at risk of belonging to the working poor. It is these groups, because of their presumed employability, that the existing categorical social welfare programs tend to exclude. What then can be done to assist the working poor segment of Manitoba's population? What types of reforms to existing allowance programs need to be made and what new approaches should be considered?

CHAPTER FOUR

IV ALTERNATIVE METHODS OF INCOME SUPPLEMENTATION

Having identified in the previous chapter the existence of a significant poor population in Manitoba, this chapter will examine alternative policy approaches to bring the greatest number of working poor above the poverty line. Not only will the theoretical advantages and disadvantages of the various alternatives be discussed, but more practical considerations such as expected program costs, and the expected benefit in terms of poverty reduction shall also be examined.

Following the theoretical groundwork laid out in the second chapter, three methods of program delivery will be evaluated: a guaranteed annual income delivered through a negative income tax, targeted tax credits delivered through the positive income tax system, and the continued and increased use of universal demogrants. Each will be defined and examined in turn starting with the universal demogrant approach. The minimum wage or wage subsidy approach to poverty reduction amongst the working poor shall not be considered due to the limitations in effectiveness of this approach that have already been established.

4.0 Universal Demogrant

As defined in chapter two, a universal demogrant entitles everyone in society to an equal payment, which would constitute the basic level of support. Any income earned above this level would be taxed back so that final income would be comprised of the demogrant plus other income after taxes. This is the simplest form of a guaranteed income but is also initially the costliest since it requires advancing funds to both the rich and poor.

A limited form of the universal demogrant has been used in Canada through the Family Allowance Program and the principle is still in use in the Old Age Security Program. While these programs could not be considered as "pure" universal demogrants - as everyone in society has not benefitted from them - they are universal to all persons who fit into a given category. That is, all persons who fit into the category deemed worthy of support do receive the payment, regardless of their income or economic circumstances.

We have also defined this method of social assistance as being very similar to the social dividend or credit income tax (CIT) approach as developed in Great Britain by Lady Juliette Rhys-Williams. There are two ways in which we could evaluate this approach to poverty alleviation. The first would be to examine how programs based on this principle have assisted working poor and whether they are likely to be as effective in the future. The second method for evaluation is to examine the theory behind the "pure" form of the social dividend and evaluate the efficiency and effectiveness of this approach in comparison to other methods of delivering assistance to the working poor. Our basis for comparison for the purposes of this evaluation will be the negative income tax.

The Family Allowance program introduced in 1944 operated on a limited social dividend principle in that it advanced a flat-rate payment to all families for each child under the age of sixteen. Initially, this program did help alleviate poverty among working families with children, but suffered from one major weakness; the purchasing power of allowances gradually decreased over time as payments were not indexed to inflation rates. While lump-sum increases to payments did occur from time to time, families could not be guaranteed from year to year that family allowances would cover their increased child-care expenses. While the Child Tax Benefit program introduced to replace Family Allowances are considered to be an improvement, they also suffer from the failure to fully index benefits to the rate of inflation.

The Old Age Security program is also a partial universal demogrant program that provides a basic income to all persons over the age of 65. Like Family Allowances, this program is categorical in that only a certain group receives benefits. As such, it is of limited direct benefit to the working poor other than providing a measure of security for these persons once they reach retirement. The Old Age Security Program provides payments to all senior citizens. Those with income above a cut-off level of $53,215, however, will have their payments taxed back through the income tax system. While this provision appears to follow the social dividend principle of taxing back payments to rich, in the case of Old Age Security the cut-off level has not been indexed for inflation. Therefore, the real-dollar value of this income cut-off may very well be eroded over the years. While this may not at present be a concern since inflation is currently running at less than one percent, there is no guarantee that this situation will continue indefinitely.

As we can see then, the limited nature of universal demogrant programs have drastically reduced their effectiveness in alleviating poverty amongst the working poor. The future of such programs in Canada also seems tenuous at best. The Family Allowance program has been cancelled and replaced by a tax credit program. Old Age Security is also increasingly coming under fire for the fact that it provides equal benefits to all elderly Canadians, regardless of their income. Some feel the future of this program is in jeopardy unless more income-testing is introduced.

The use of universal benefit programs on a categorical basis is therefore not likely to be considered as a way to help the working poor in Manitoba. What about following a "pure" social dividend scheme as proposed in the theory of Lady Rhys-Williams? Would the introduction of such a plan in Manitoba be a better way to deliver social assistance?

The social dividend, or credit income tax (CIT) scheme, as devised by Lady Rhys-Williams is based upon the principle of universal provision. This feature separates it from a negative income tax program which determines eligibility for benefits on the basis of a means or income-test. A means test refers to a scheme whereby a person's income is observed (perhaps through the tax system) with any gap between income and the poverty line being bridged by a government transfer. Universal provision, by contrast, makes a benefit available to rich and poor alike, regardless of income.[79] Both the credit income tax (CIT) and the negative income tax (NIT) approaches can be considered to be effective methods of alleviating poverty - provided one defines this objective as being to bring all individual's incomes at least to the poverty line level. The difference between these two - which forms the basis for our evaluation of the CIT approach - is the efficiency with which each program meets its objective.

In defining efficiency as the simple measure of explicit costs, at first glance it is inconclusive as to whether the NIT or CIT is more efficient. Universal provision entails a cost in the form of leakage of some of the benefits to the non-poor. The NIT's use of a means-test minimizes these overpayments, but is also costly to administer since it requires a test of eligibility for claimants.

Two very common measures of efficiency for these types of programs are distortive efficiency and administrative efficiency.[80] Distortive efficiency refers to the degree to which a program distorts, or interferes with, the work-leisure decision of the individual. That is to say, how much work disincentive is embodied in a CIT versus an NIT transfer plan. Administrative efficiency embraces all costs borne by the private and public agents in compliance with, and enforcement of, the income-tax-transfer system. These include the costs of record-keeping, tax withholding, and the issuance of income statements to payees and public agencies.[81] Administrative efficiency can be viewed as being a cost-based measure of efficiency.

This cost based measure of efficiency was examined by Timothy Besley in his 1989 paper which attempted to make precise the trade-off between the costs of means-testing and the leakage in universal payments. He asked the question: "What is the critical level of costs at which means-testing is preferred to a universal benefit using the same revenue?"[82] Besley's results suggested the superiority of means-testing. He found the critical costs of means-testing would have to be very high relative to the leakages from universal provision in order for universal provision to be preferred. Besley cautioned, however, that the results were merely suggestive and by no means conclusive.[83]

On the other hand, Kesselman and Garfinkel have argued that there are strong presumptive arguments for favouring the CIT over the NIT on administrative efficiency grounds. While both the CIT and the NIT can offer cost savings compared to the traditional tax-transfer system, the CIT offers added savings in several administrative costs: (1) CIT credits can be paid universally on a periodic basis, through the mail or direct account deposits, NIT payments can only be made after processing initial applications and periodic income report forms; (2) Taxes under the CIT can be withheld at a flat rate at source on most types of income - wages and salaries, benefits, interest and dividends, and public transfer payments - only persons having rental, self-employment or capital-gain income would need to file a tax return; (3) The comprehensive base of the CIT would eliminate all personal non-business deductions for the taxpayer. The taxpayer deduction would have to be retained under the NIT because of the varying marginal tax rates. Therefore, simplified tax planning and cheaper tax compliance for individuals, along with lower public costs for administering the tax-transfer system, tend to favour the CIT over the NIT.[84]

From a distortive efficiency standpoint, Kesselman and Garfinkel are far less laudatory of the CIT. They find very small distortive efficiency differences between the two systems, the relative generosity of each program determining its distortive effect. The greater the benefit levels paid and the more people the program encompasses, the greater will be the work distortive effect. Certain types of NIT programs were even found to be slightly more efficient than the CIT at the margin for all but the most generous of programs. It was found that more than half the population would have to be beneficiaries for the CIT to more efficient than a marginal move towards a fully integrated NIT.[85]

Theory suggests that the CIT can be a relatively efficient method of delivering social assistance. Why then is this configuration of a universal demogrant not more accepted in Canadian social policy? Perhaps the answer lies in the political unpopularity of instituting such a system. A universal payment system would entail a visible transfer of public funds to the richest, as well as the poorest, individuals in society. In a time of increasing deficits and the resulting threats to popular health care and education programs, undertaking such a transfer program would undoubtedly be politically risky. We have already seen the death of one universal program in Canada - the Family Allowance. It seems unlikely that Manitoba would move towards a more universal system of delivering assistance when the latest trend has been to move in the opposite direction. Considerable intestinal fortitude on the part of politicians is once again needed to advance the ideas for reform that will help the working poor.

4.1 Targeted Tax Credits

The second chapter of this study illustrated the number of provincial tax credit programs that are indirectly targeted towards the working poor. Manitoba has quite a few of these programs, compared to other provinces, but a major problem lies in their lack of integration. They are by no means comprehensive in their coverage of the working population and at best offer only limited relief of poverty. Two of the more comprehensive programs, the Property Tax Credit and Cost of Living Credit, were found in 1991 by the National Council of Welfare to offer less than $1,000 in benefits to the average family. Other categorical programs such as shelter allowances or CRISP payments can increase this benefit, but generally the support is only in the range of a few hundred dollars. Just how effective are these programs in alleviating poverty?

Surprisingly little study has occurred regarding Manitoba's existing tax credit schemes. The last major government examination of this system took place in the provincial budget of 1980 with the release of the White Paper on Tax Credit Reform. The title of this study has, in fact, been referred to as a misnomer. Much like the Holy Roman Empire was neither holy, nor Roman, nor an empire, the comprehensive Manitoba white paper on tax credit reform was neither comprehensive, nor a white paper (by the usual definition) nor exclusively concerned with Manitoba's tax credit programs.[86]

According to the white paper, the primary objectives of the tax credit programs are "to provide assistance to homeowners and tenants in meeting the costs of school and property taxation, and to provide extra assistance in relation to the actual needs of its low-income citizens"[87] The overall focus of the reforms advocated in this white paper was to target tax credits more towards those groups in society the government felt were most deserving. In short, the plan was to make such programs more categorical. Firstly, tax credit programs would be delivered on the basis of family income rather than the taxable income of the higher-earning spouse.

Manitoba would also take all federal and provincial income support payments into account for purposes of defining family income. Finally, improved targeting of assistance measures would be attempted to ensure greater benefits went to retired persons over the age of 55 or to low-income families with children. Manitoba declared its retreat from universality while at the same time designating its priority target groups.

The targeting principle that was emphasized in the 1980 white paper was illustrated in subsequent tax credit policy directions. The Shelter Allowance for Elderly Renters (SAFER) program was already in place at the time of the white paper but was limited to senior citizens. The white paper proposed to extend benefits to retired persons between the ages of 55 and 65, as well as to low-income families with children. This change to SAFER was made and in 1981, the Shelter Allowance for Family Renters (SAFFR) was introduced. The compromise, as Hum and Stevens saw it, was to foster the appearance of a selective approach while at the same time broadening the program coverage to include more identifiable sub-groups.[88] To this day, low-income, childless, non-pensioner renting households are still ineligible for SAFER or SAFFR benefits.

The white paper reforms also served to make the more comprehensive tax credit programs less effective as poverty alleviation techniques. The Cost of Living Tax Credit before the 1980 reforms based its benefits on 3% of personal exemptions less 1% of taxable income. This plan cost each Manitoba household an average of $87 per year and achieved a 2% reduction in the number of households below the poverty line. The target efficiency of this plan - the ratio of the average transfer payment to households below the poverty line to the average transfer payment to households above the poverty line - was a relatively low figure of only 2.0. The new COLA credit, after the white paper reforms, based benefits on 3% of personal exemptions less 1% of net family income. This plan cost each household less on average ($39) and had a higher target efficiency ratio (4.7), but did not affect any reduction in the number of households below the poverty line.

Hum and Stevens, in their 1980 study, calculated that by instituting a COLA tax credit that based benefits on 10% of personal exemptions less 5% of net family income, the poverty reduction rate of 2% could be reinstated. Their plan would cost the average household $76 per year but would provide the average household below the poverty line with two and one-half times the benefit that the newly reformed tax credit would. Furthermore, their tax credit plan would achieve a target efficiency rate of 12.0, nearly three times the rate of the new COLA plan.[89]

In place of the reduced benefit for poor households that the new COLA tax credit would impose, the white paper proposed the introduction of the CRISP program; a categorical transfer directed to low-income families with children. Introduced in 1981 in the wake of the white paper's reforms, CRISP served to pay a monthly allowance of $30 per child per month to low-income qualifying families. This program was the final stone in the building of the new white paper tax credit package. Hum and Stevens have shown that while this package was a considerable improvement over the tax credit system existing before the reform, it lags behind the optimal package that could be built from their recommendations.

The old package, which included only the property tax credit and the old COLA tax credit, cost an average of $372 per household per year. It reduced the number of households below the poverty line by 10% by transferring an average of $397 per household per year. The target efficiency ratio for this package was 1.1. The new white paper package - which included a new property tax credit, SAFER, pensioner school tax assistance, the new COLA tax credit, plus CRISP - cost an average of $547 per household. The poverty reduction rate would be 16% with an average transfer of $848 to poor households. The target efficiency ratio of this package would be 1.9. The optimal package, as defined by Hum and Stevens, would include the following: the extension of SAFER to all low-income renter households, the elimination of the pensioner school tax assistance program, the COLA tax credit program using 10% of personal exemptions less 5% of new family income, plus CRISP. This plan would cost $552 per household each year. It would achieve an 18% poverty reduction rate by transferring $1,026 on average to each poor household. The target efficiency ratio of this plan would be 2.6.[90] These transfer amounts are obviously based upon 1980 dollar values and would undoubtedly be larger in today's values.

The lessons to be learned from examining Manitoba's tax credit reform of 1980, and the consequent design of these programs in the following years, should be quite clear. While these programs do achieve a modest rate of poverty reduction, the results are just that, modest. Both the target efficiency and effectiveness in alleviating poverty are limited by the categorical design of these tax credit programs. Hum and Stevens have shown how by opening up the SAFER and SAFFR programs to low-income renters of all ages and family types, a greater degree of poverty reduction can be achieved. In the absence of a more broadly based assistance plan such as the NIT or CIT, however, a more generous and comprehensive tax credit program may be a second best alternative.

The important point, however, is not that targeting benefits is bad, just that improperly targeted benefits will do little to reduce overall poverty. All impoverished Manitobans, both working and non-working, old and young, families with children and without, need and deserve support. Benefits must not be targeted at groups that do not accurately represent all of those living in poverty in Manitoba.

4.2 Guaranteed Annual Income - NIT Approach

We have already discussed in the second chapter how a guaranteed annual income delivered through a negative income tax would work in theory. We have also shown that Hum and Simpson have posited a system that could transfer a guaranteed benefit that is equal, or very nearly equal, to the Statistics Canada low-income cut-off line. The negative income tax can therefore be a very effective method of ensuring all persons enjoy a standard of living at least as high as the poverty line - which is our objective for eliminating poverty. The cost that may have to be paid to meet this objective is relatively high tax rates; both positive and negative. The question that must be answered is how efficient is a negative income tax as a social allowance transfer system.

When discussing this efficiency question, we shall not be concerned with high tax rates per se, but with their resulting effect upon the incentive to work. Does guaranteeing individuals an income at least equal to the poverty line, while taxing back additional work income at relatively high marginal rates, discourage work among low-income individuals? Standard economic theory would suggest that such a disincentive would exist.

When a guaranteed income is transferred to individuals, there are two effects on work response that economists would identify; the substitution effect and the income effect. As a result of the net wage or net tax change resulting from the transfer, there is a substitution effect which would serve to reduce the amount of work being done. If the tax bill associated with undertaking additional work increases as a result of the guaranteed income, people will substitute more leisure for income and thus work less. Furthermore, as the government transfer increases family income, people will need to work less to achieve the standard of living to which they are accustomed. This is referred to as the income effect. Both effects in this case serve to reduce the amount of work an individual would undertake. The overall degree of work reduction would of course depend upon the generosity of the benefit conferred and the severity of the increased tax bill imposed upon additional work.

Does this theory hold when held to experimental analysis, and if it does hold, what is the exact degree of work reduction we can expect from a guaranteed annual income plan? To answer these questions we turn to the results of five NIT experiments conducted across North America in the late sixties and early seventies; four in the United States and one in Canada. Unfortunately, we have to rely on this somewhat out of date evidence since no major NIT experiments have been carried out in subsequent years.

The four American experiments were conducted in separate sites: New Jersey; North Carolina/Iowa; Seattle/Denver; and Gary, Indiana. Started between the years of 1968 and 1971 and running for approximately three years, these studies were the initiative of the Office of Economic Opportunity which the U.S. Congress established to be the vanguard of the antipoverty movement.[91] Each experiment concentrated on low-income households. The New Jersey, North Carolina/Iowa and Seattle/Denver experiments used income cut-off levels of about 150% of the poverty line, while the Gary experiment admitted households with incomes up to 240% of the poverty line and beyond. Seattle/Denver was the largest study with 4,800 participants. The others had between 800 and 2,000 participants. Each experimental site examined a different low-income household type in a different area of North America. New Jersey concentrated on inner-city households in an older industrial area. North Carolina/Iowa examined areas of widespread rural poverty. While Seattle/Denver looked at one city with considerable employment instability (Seattle) and another with greater employment stability (Denver). Finally, Gary examined African-American ghetto households, particularly female-headed households.[92]

These experiments tested various configurations of negative income tax plans; with tax back rates ranging from 0.3 to 0.7, and guaranteed benefit rates ranging from 50% to 140% of the poverty line. Not all combinations of tax and benefit rates were tested as the more generous plans (high benefit, low tax rate) were typically excluded.[93]

The Canadian NIT experiment was conducted in Manitoba, introduced by the Schreyer government in the mid-nineteen seventies. Following the introduction of the federal Social Security Review, there was considerable interest by policymakers in the advantages and disadvantages of the guaranteed annual income concept. Attention tended to focus on the possible work disincentive effects of such a plan, and notice was taken of the recent American experiments.

The most serious interest in testing the guaranteed income concept appeared in Manitoba as early as 1971. By March 1973, the Manitoba government had submitted a proposal for a guaranteed annual income project for funding to the federal Department of National Health and Welfare. The proposal was approved and on June 4, 1974, Canada and Manitoba signed an Agreement Concerning a Basic Annual Income Experiment Project covering cost-sharing arrangements and the respective roles and responsibilities of the two governments.

The Manitoba Basic Annual Income Experiment (Mincome) "sought to evaluate in rigorous manner a guaranteed income program within the broader context of an overall review of the social security system".[94] It is important to note that in the view of Premier Schreyer, the guaranteed annual income involved income-testing and did not differ at all from a negative income tax. Furthermore, because this program would substitute for the Canada Assistance Plan, Mincome "would be established under the aegis of the Canada Assistance plan"[95] Canada agreed to cover 75% of the program's costs. The proposal submitted by Manitoba in 1973 outlined a cost of some $17 million with an expected enrollment of well over 1,000 participants.

Very simply, Mincome's design involved selecting participants randomly and assigning them to various NIT programs for a three year period. Households were selected from three site, Winnipeg, the community of Dauphin, and a number of smaller rural communities. Since the primary research objective was work response, the experiments excluded the aged, the disabled, and the institutionalized from participation.[96] In Winnipeg, there were seven different plans, with tax back rates of 0.35, 0.5, and 0.7, and guaranteed benefit rates of $3,800, $4,800, and $5,800. In Dauphin, there was only one plan, with a tax rate of 0.5 and a benefit level of $3,800. The unique feature of Dauphin, however, was that it served as a "saturation site"; every resident of Dauphin, regardless of his or her income, was eligible to participate in the guaranteed annual income program. The Winnipeg plans randomly drew their participants from a population that was limited to all able-bodied household heads under 58 years of age, with household incomes of less than $13,000 for a family of four.[97] For experimental purposes, a control group which did not receive income transfers was also established. This results in a total of nine plans in the design.

To test the efficiency of an NIT guaranteed income, we can determine the experimental response from the five North American studies described above. We shall attempt to determine whether these plans had any effect upon the work behaviour of their recipients, and if so, by how much. The experimental response is simply the difference in work effort between families eligible for GAI payments and those not eligible to receive payments (the control group).

In concrete terms, these results illustrate the decline in labour supply of participants in the GAI experiments. The decline in labour supply is measured by the annual hours worked by individuals. Two basic research methods were employed, involving either non-structural or structural models. Non-structural models simply compare the average differences in hours worked between experimental and control groups. Table 1 summarizes the results on labour supply response from the four American experiments and from Mincome. As expected, these results show that recipients of the guaranteed annual incomes reduced annual hours worked in each experiment.

TABLE 1
CHANGE IN ANNUAL HOURS WORKED FROM GAI EXPERIMENTS
NON-STRUCTURAL MODELS

Experiment	Husbands	Wives	Single female Heads
Mincome	-20(1%)	-15(3%)	-56(5%)
New Jersey	-57(3%)	-62(28%)	
N.C./Iowa	-93(5%)	-180(28%)	
Seattle/Denver	-135(8%)	-129(20%)	-134(13%)
Gary	-76(5%)	-18(6%)	-84(23%)
All US Experiments	-69(6%)	-70(19%)	-85(15%)[98]

For men, the work disincentive is relatively small, about 6% of annual hours for the U.S. and only 1% for Mincome. For women the response is larger as hours worked fell by 19% for wives and 15% for single female household heads in the U.S.. For Mincome, however, the response is considerably less.

The advantage of non-structural models is their simplicity. The results are very easy to interpret. Unfortunately, these results are specific to the design of program that is tested and therefore cannot be applied to general policy analysis.

Structural models, on the other hand, divide labour supply response into two categories: effects measured by wage (substitution) elasticities, and effects measured by income elasticities. Wage elasticities illustrate the percentage change in hours worked for a 1 per cent change in after-tax wages, income held constant. The income elasticity measures the percentage change in hours worked from a 1 per cent change in household income. Households participating in the experiment receive an income guarantee which substantially increases their income relative to the control group. However, they also must pay a tax rate which reduces their after-tax wage relative to the control group. It is these changes that allow structural models to estimate the wage and income elasticities with experimental data.[99] Table 2 illustrates the results for the structural labour supply models for the Mincome and U.S. experiments.

TABLE 2
CHANGE IN ANNUAL HOURS WORKED FROM GAI EXPERIMENTS
STRUCTURAL MODELS

Experiment	Substitution elasticity	Income elasticity
HUSBANDS:		
New Jersey	0.09	-0.02
N.C./Iowa	0.09	0
Seattle/Denver	0.09	-0.14
Gary	0.06	-0.08
All US	0.08	-0.10
Mincome	0.20	-0.10
WIVES:		
New Jersey	-0.08	-0.28
N.C./Iowa	0.28	0.01
Seattle/Denver	0.14	-0.12
Gary	0.37	0.26
All US	0.17	-0.26
Mincome	0	-0.10
SINGLE FEMALE HEADS:		
New Jersey	n/a	n/a
N.C./Iowa	n/a	n/a
Seattle/Denver	0.12	-0.15
Gary	0.14	-0.20
All US	0.13	-0.16
Mincome	0.40	-0.10[100]

The wage and income elasticity estimates are generally quite small, consistent with the labour supply results from Table 1. Income estimates are approximately 0.10 for all groups both in the U.S. and for Mincome. This indicates a 10% increase in income would reduce annual hours worked by 1%. Substitution elasticities are also quite small; the largest being 0.40 for single female household heads for the Mincome experiment. The rest for these elasticities hover in the 0.10 to 0.20 range, the lowest values being for males. This would imply that an increase in taxes for GAI recipients that reduces after-tax wages by 10% would decrease annual hours worked by 1 to 2%. The important point is that the labour supply effects of guaranteed annual income payments are quite small; the variation in response depending upon the gender of the recipient and the design of the specific program. The labour supply effects are definitely smaller than conventional theory would have suggested, as these experiments provide solid evidence that negative income tax schemes will not have associated with them large work disincentives.

As Hum and Simpson have so eloquently summarized in regards to the labour supply response generated by NIT plans, "few adverse effects have been found to date. Those adverse effects found, such as work response, are smaller than would have been expected without experimentation"[101] The most surprising element found was the relatively small work disincentive discovered for married women. While single female household heads did reduce the total number of hours worked quite substantially as evidenced in the non-structural models, the elasticities for this group shown in the structural models are relatively low. This is quite possibly a result of their working less hours and for lower pay than married women or men. Therefore any reduction in hours would show up as a large percentage of total hours worked. As well, the increase in income associated with NIT payments might have been quite substantial relative to their previous income so their income elasticity figures would be relatively low. We must remember that these studies were conducted in the late 1960's and early to mid 1970's when women faced even greater employment and wage discrimination than they do today. It is not surprising then that women experienced larger work reductions when granted guaranteed incomes than did men. Given the increased role of women in the workplace, and the reduction in the wage gap between men and women since these experiments were conducted, we should expect to find less of a difference between men and women if a similar experiment was conducted today.

In past experiments, guaranteed annual income systems, whether delivered through a universal demogrant or a negative income tax scheme, have been found to be very effective and efficient means of alleviating, and in fact eliminating poverty amongst all sub-poverty line individuals in society - the working poor included. More targeted systems, such as tax credits, have been found here to be less than effective generally as a result of their lack of comprehensive coverage. They tend to confer benefits on too narrow a base of the population; aimed as they are at families with children and elderly persons. To truly eliminate poverty from the ranks of the groups we have labelled the working poor, a more inclusive program must be envisioned. Given the political difficulties with providing universal demogrants to the population, the system that we find most promising to meet our objective is the negative income tax system.

CHAPTER FIVE

CONCLUSION

This study has attempted to put forth the argument that the working poor population of Manitoba is inadequately served by the existing social assistance system. In the first chapter, we have seen how the current design of both federal and provincial social assistance programs are not comprehensive enough in their coverage of the working poor, and these improperly targeted programs miss large sub-groups of the working poor. The second chapter has highlighted the incidence of poverty amongst almost one-third of the working population in Manitoba, and the particular problem faced by the young and by women - who are often segregated into the low-income, and low growth potential job market. Finally, in the third chapter we have examined a number of alternative methods for income supplementation for the working poor, with a concentration on the guaranteed annual income concept.

We have shown that the income insufficiencies faced by the working poor are not a trivial matter. Relatively large percentages of working Manitobans earn incomes that are below the Statistics Canada poverty lines; these percentages being higher for younger Manitobans and especially high for females. The data also suggests that occupational segregation plays a role in keeping working people in a state of poverty, again with women facing the most serious situation. This thesis has not addressed the idea of more market-driven remedies for female poverty. From the results presented here, it seems likely that considerable poverty reduction could be achieved through the introduction of pay equity legislation covering both the public and private sectors of the economy. Currently, pay equity in Manitoba only affects the public sector. While this is an interesting side-topic of our discussion, it must be left for analysis in other locations.

In our examination of the alternative methods to supplement the incomes of the working poor to a level at least equal to the poverty line cut-off, we have found that the most efficient and effective method to meet the objective may very well be the introduction of a guaranteed annual income through a negative income tax scheme. Our analysis has shown that the one major disadvantage of negative income tax programs - their associated work disincentive effect - has been proven by experimental evidence to be relatively minor. This is not to say, however, that over the years, if an NIT program became an accepted part of the social security system, that recipients of income by right may not display a greater propensity to work less. It is difficult to extrapolate the results of a temporary experiment to a permanent program. We can not ignore the fact, however, that social assistance recipients currently face a huge disincentive to work; the virtual 100% marginal tax rate imposed upon their benefits if they accept a paying job. The degree of work disincentive is directly proportional to the size of the tax back rate that NIT recipients face upon additional earned income. The challenge is to devise an NIT program that minimizes this rate, while still ensuring adequate benefit levels are paid.

The time has come now to renew the study of a guaranteed annual income. The newly elected Liberal government in Ottawa has called for a re-engineering of the social welfare system in Canada. Prepared as they are to support provincial programs that would begin to re-think and eventually overhaul the delivery of income assistance, the Government of Manitoba should propose a pilot project of the GAI concept that wold target benefits towards the working poor. This could be a first step towards consolidation of existing federal and provincial programs which heretofore have inadequately covered the working poor. Undoubtedly, cost savings would be incurred as recipients of a GAI would no longer require various tax credits or long term Unemployment Insurance coverage provided that the GAI was designed properly to account for family size, and was responsive in adjusting for job loss in the middle of a tax year.

A word of caution must follow the above discussion. Some see the introduction of a guaranteed annual income scheme as an opportunity to eliminate all existing welfare programs and services currently provided by government. While definite savings in welfare outlay will certainly follow from a comprehensive system such as a negative income tax, this does not mean that these types of programs can be completely eliminated. Negative income tax payments are based upon an individuals previous year's income and may be tied to the size of one's family at that point in time. Unexpected exigencies such as illness or injury or increases in family size may require additional government support for those earning low incomes to ensure they survive until the next negative income tax calculation period.

Negative income tax schemes also do not address the question of why individuals suffer from low incomes, they only serve to correct the end result. Introducing these plans does not mean the need for social services such as subsidized day care, family counselling, occupational training and education (literacy), and substance abuse programs will no longer exist. Continued provincial funding of these programs, fully cost-shared by the federal government under the Canada Assistance Plan, is required to ensure the cycle of poverty can be broken.

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4.Ibid. pp.5-7.

5. for a more complete historical account, see Hum Federalism and the Poor and Banting The Welfare State and Canadian Federalism.

6.Department of Health and Welfare Canada Inventory of Income Security Programs in Canada January 1988 (Ottawa: Minister of Supply and Services Canada, 1989). p.11.

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8.from published rate card, Department of Human Resources and Labour Canada.

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10.Ibid. p.3.

11.Ibid. p.2-3.

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13.Hum, D. Unemployment Insurance and Work Effort: Issues, Evidence, and Policy Directions (Toronto: Ontario Economic Council, 1981) p.4.

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16.obtained in telephone interview with Mike Jones, Information Officer, Department of Human Resources, April 13, 1994.

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20.Ibid.

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