

Social Assistance Trends and Dynamics: Evidence for the 1990's

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Dependence upon social assistance (SA) in Canada diminished radically in the latter part of the nineties. By the year 2000 the number of dependent individuals was in the neighbourhood of two million, down from three million in 1993/94. This reduction was reflected in a correspondingly massive reduction in the cost of support to provincial governments – from \$14.3b to \$10.4b. As a percentage of the Canadian population, the dependency levels implied by these reduced numbers are in line with those for the pre-1982 recession, when there were approximately 1.5 million individuals dependent upon SA.

Such declines are unprecedented in the history of the Canadian SA system. A well-established pattern in the Canadian economic cycle has been for welfare rates to ratchet up during a recession and to fall rather little in the subsequent expansion. This tendency certainly characterized the seventies and eighties cycles, in Canada as elsewhere, and prompted Lindbeck (1995) to write in despair on ‘hazardous welfare state dynamics’, meaning that the increase in dependence could become endemic in society.

Our objective in this study is to examine this dramatic change. The project exploits the “LAD” – Longitudinal Administrative Database – which comprises a large, representative sample of tax filers matched into family units that provides information on incomes, taxes, and various socio-demographic characteristics at the individual and family level. Due to its national and representative coverage, large number of observations, longitudinal nature, and variables available on the file, the LAD provides a unique opportunity for studying SA dynamics and the trends in these patterns over time.

We begin by providing a cross-sectional description of SA participation rates by sex, family type and province over the 1992-2000 period. We then calculate simple entry, exit, and re-entry rates, along with the associated empirical hazard and survivor rates, to provide a descriptive picture of these dynamics and to see how the observed changes in SA rates have been driven by the various underlying dynamics. The dynamic nature of the data is then exploited further to identify individuals’ longitudinal SA profiles, and to characterise the population according to its SA experiences over time (never on SA, occasionally on SA, on SA in a substantial number of years, always on SA). These profiles are then built upon to calculate how much of the SA population in any given year is comprised of long- versus short-term SA participants.

With these descriptive results in hand, we then present the estimation results of a set of econometric models representing the receipt of SA income in a given year, and – most importantly – the underlying entry, exit, and re-entry processes. This analysis will

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provide a full profile of SA experiences in Canada in a way that static analyses do not and no other study has been able to do at the national level.²

The first main goal of this modelling approach is to paint a detailed descriptive picture of the structure of SA dynamics – that is, how these dynamic processes vary with various demographic characteristics (sex, age, marital status status, number of children, etc.), place of residence (province, urban-rural), and other individual and situational attributes. In the hazard specifications employed, the duration terms will be of particular interest, as they show how exit and re-entry rates vary with the time spent on – or off – SA.

The second major goal is to attempt to unravel the factors underlying the decline in SA rates over the 1992-2000 period covered by the analysis. This will be done by focusing on the calendar year variables included in the models to capture the relevant trends over time, and then adding additional explanatory variables, including the unemployment rate and SA benefit levels, to see how the trends are explained by these economic/policy variables. Initial results indicate that the decline in unemployment rates explains a substantial portion of the decline in SA rates, which in turn stem from a combination of lower entry rates, higher exit rates, and lower re-entry rates after leaving a spell of SA. The lower SA benefit levels available to recipients – to which entry, exit, and re-entry rates are related in the expected manner – explain a further part of the time trends. But even after controlling for these factors, time trends persist in each of the processes (entry, exit, re-entry), thus pointing to the influence of other policy factors (e.g., changes in eligibility rules), or other more “structural” changes in SA program participation. Other potentially explanatory variables might be added to the analysis, including an “E/U-I” disincentive index that has been developed by Pierre Fortin and further built upon by Tim Sargent.

In a policy context, the improved understanding of the characteristics and events associated with SA transitions should aid the development of specific policy measures. All such policy implications will be discussed.

² Barrett and Cragg (1998) examine the rate of welfare recidivism in British Columbia, and Duclos and others (1999) examine entry and exit rates using Quebec data.