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A STEP TOWARD WORKFARE: 
THE SUPPORTS TO EMPLOYMENT PROGRAM 
AND SOLE SUPPORT MOTHERS

Steven Smart*

The involvement of sole support mothers with the social assistance system in Ontario dates back to the Mothers Allowance Act of 1920—the first direct income transfer program in the province¹. A new chapter in this involvement has recently opened with the implementation of STEP—the Supports to Employment Program. This paper will examine STEP's impact on sole support mothers, and its likely political consequences.

Although this paper focuses on sole support mothers, STEP and social assistance reform generally have a broader impact. This focus has been chosen because 30% of social assistance recipients are sole support parents, and 85% of these are women². Sole support mothers and their children together constitute about 37% of all social assistance beneficiaries³. Not only are sole support mothers a major part of the social assistance caseload, social assistance is relevant to the lives of a large portion of all sole support mothers. One third of all female headed families in Ontario receive social assistance⁴.

* Copyright © 1990 Steven Smart. Steven Smart is a student at Osgoode Hall Law School in Downsview, Ontario. This paper was written for the Intensive Program in Poverty Law and is published here as part of the special arrangement which the Journal has with that program. As part of the program, students work at Parkdale Community Legal Services in Toronto, Ontario. Selected papers written by students in the program are reviewed by the Journal for possible publication.


2. Ibid. at 30, 31.

3. Ibid. at 30–32. This figure was calculated by multiplying the percentage of beneficiaries who are children (37%) by the portion of child beneficiaries living in families led by sole support parents (75%), adding the percentage of beneficiaries who are sole support parents themselves (16%), and multiplying the total by the percentage of sole support parents who are women (85%).

4. Ibid. at 30.
A STEP Toward Workfare

The high degree of involvement of sole support mothers with social assistance is indicative of the disadvantaged position of women in society generally. The disadvantages faced by women in the labour market are substantial and will be explored later in this paper. Furthermore, women both within and outside of the labour market tend to be relegated to performing a kind of work that, although important and worthwhile, is undervalued in our society. This work, sometimes termed “women’s work,” has been described as “the direct servicing of people's immediate needs.” Both the undervaluing of this work and the fact that its burden falls inequitably on women are aspects of the way that women are socially disadvantaged.

The social assistance system itself also tends to have a more adverse impact on women than on men. Elizabeth Wilson argues in the context of the United Kingdom that welfare operates in a way that forces women “to keep to their primary task as adults. This is the task of reproducing the work force.” Welfare thus offers “a unique demonstration of how the State can prescribe what woman’s consciousness should be.” She points to the way that the rules and requirements of social assistance reflect assumptions and views generally held in society regarding the family and the role of women. For example, a woman who lives with a man is expected to be supported by him and therefore loses her welfare entitlement. Since these attitudes are often repressive toward women, social assistance necessarily has a more adverse impact on women than on men.

For these reasons, the impact of STEP on sole support mothers is particularly worthy of attention.

7. Ibid. at 7.
8. Wilson emphasizes that both welfare rules and generally held attitudes toward women result from repression by the State: "Women encounter state repression within the very bosom of the family", at 9.
9. Ibid. at 13.
The first section of this paper describes STEP and its political context, highlighting certain features that are relevant to sole support mothers. The next section examines the financial incentives to employment that sole support mothers will face under STEP. The third section questions the relevance of financial incentives generally to the decisions regarding work and welfare that sole support mothers make. The paper concludes by examining the possible political implications of STEP.

A. WHAT IS STEP?

On May 18, 1989 the Ontario government announced "a new agenda for social assistance" in Ontario. A reform package was announced that included increased shelter allowances, increased and simplified children's benefits, increased funding for employment support services, additional funding for literacy training, and the elimination of certain inequities such as the differential treatment of men and women aged 60 to 65 years. The centrepiece of the reform package was the Supports to Employment Program, or STEP. STEP "is intended to remove barriers to employment for individuals receiving social assistance." It attempts to remove the economic disincentives to employment within the social assistance system itself. STEP came into effect on October 1, 1989.

STEP changes the existing rules in seven ways:

1. Single parents are no longer subject to an arbitrary maximum of 120 hours of work per month to maintain categorical eligibility.

2. Net employment earnings are used instead of gross earnings in calculating the reduction of social assistance benefits. However, only Canada Pension, Unemployment Insurance, and income tax deductions are considered allowable deductions from gross earnings. This means that the "net earnings" amount can still exceed the recipient's actual take-home pay.

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10. Statement to the Legislature by The Honourable John Sweeney, Minister of Community and Social Services, May 18, 1989, at 1.

3. Single parents can deduct child care expenses from their employment earnings in calculating the reduction of their benefits. If the child care is unlicensed, the deduction is subject to a ceiling amount of $390 for each child under age 5, and $346 for each child aged 5 to 12 years.

4. Basic exemptions from earned income are increased. For single parents, the exemption is $175 per month.

5. The amount of employment income remaining after the above exemptions is taxed back at a rate of only 80%, i.e. 80% of the remaining income is deducted from the social assistance entitlement. The reduction was previously dollar-for-dollar.

6. A "buffer zone" is introduced which allows recipients to continue to receive health benefits even when their entitlement to social assistance is reduced to zero due to income from employment. Chargeable employment earnings must exceed the previous social assistance entitlement by less than a specified amount ($100 for single parents.)

7. Treatment of income from training allowances is changed. This income is subjected to different rules than employment income under STEP. A recipient automatically becomes subject to STEP when she reports income from employment or a training allowance. A portion of such income, termed "chargeable earnings" is deducted from the recipient's cheque. Chargeable earnings are the actual earnings, less the exempted amounts (mandatory deductions, basic exemption, and allowable child care), and less 20% of the remainder. If chargeable earnings exceed the welfare or Family Benefits entitlement by $100 or less (in the case of a sole support parent), the recipient receives a cheque for the minimum amount of $2.50 as well as health benefits.

The calculation to determine the entitlement of a recipient with employment income is set out in detail in Appendix "A" to this paper. Appendix "A" is a worksheet that was prepared by the author for use with recipients and potential recipients, entitled "Would You be Better Off Working?"

1. **STEP IN POLITICAL CONTEXT**

STEP and the related initiatives announced with it did not arise in a political vacuum. They came after an intensive lobbying campaign, mounted by recipient groups and their allies, that focused on imple-
mentation of *Transitions*. STEP must be understood as a part of this ongoing political process if we wish to consider the likely implications of STEP for future social assistance reform in Ontario.

*Transitions* divided its reform program into five stages. The first of these stages, intended as a program for the first year of reform, identified the most glaring inadequacies of the system and did not include the more controversial recommendations, such as implementation of opportunity planning and income supplementation for the working poor. Consequently, implementation of Stage 1 of *Transitions* formed a rallying point around which a wide range of interest groups were able to gather.

The voices calling for implementation of the Stage 1 reforms ultimately came to include recipients, social service professionals, religious groups, labour, municipal government and big business. These diverse interest groups had widely varying reasons for supporting Stage 1. Some saw it as a step toward a more just distribution of wealth, while others saw it as a prudent investment in human resources intended to prevent even greater expense in future. Nevertheless, all were able to agree on the short term action they wanted government to take.

The Government took no action on *Transitions* between its release in September 1988 and the 1989 budget in May of the following year. During this time, support for implementation of Stage 1 steadily grew. Prominent newspaper ads, paid for with money from the private Laidlaw Foundation, appeared in major newspapers. The March on Poverty drew 3,000 to Queen’s Park in April and received widespread media attention. Even the Legislature’s all party Standing Committee on Finance and Economic Affairs, in its report on its annual pre-budget public consultation, unanimously endorsed implementation of Stage 1 as its primary recommendation.

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12. SARC, *supra*, note 1 at 529-532.


The Government's response to this was to announce a package of reforms to social assistance that looked something like Stage 1, but was not Stage 1. Stage 1 was to have cost $415 million; the announced reforms also cost $415 million. The announcement was carefully worded to express support for Transitions without stating that Transitions was being implemented. For example:

"Mr. Sweeney said that the new agenda is based on recommendations contained in the report of the Social Assistance Review Committee as well as advice he received from a variety of individuals and groups across Ontario.

"The initiatives we are undertaking reflect our own consideration of priorities while at the same time, capture the essence of Transitions, the report of the Social Assistance Review Committee," said Mr. Sweeney.

"Today's agenda is the result of three years of careful study," said Mr. Sweeney. "I thank the Social Assistance Review Committee for its excellent work..."15

Clearly the Government wanted to create the impression that the political pressure was being responded to, and Transitions was being implemented in some form. In fact, the announced reforms implement only a fraction of the Stage 1 recommendations. Of 62 specific recommendations included in Stage 1, the implementation of only about 13 was announced16. The following is a partial list of Stage 1 recommendations that were not implemented: reduction of categories of eligibility; raising asset ceilings; making sponsored immigrants eligible pending sponsorship enforcement; adoption of a market basket approach to adequacy; improving staff workload and case ratios; tighter and clearer rules to guide discretion; a simplified application process; a new disability determination process; improvements to the Social Assistance Review Board; and provincial funding of Special Assistance at 80%.


16. SARC, supra, note 1 at 529-532. This figure can only be a rough approximation because it is not clear whether certain recommendations have been implemented or not. For example, it is not known whether STEP will extend eligibility for GWA to recipients working full time who remain in need, as was recommended. Only eight recommendations were clearly implemented in full.
Stage 1 encompassed much broader improvements to the system than are represented by STEP and the other announced reforms. The Government has suggested that broader changes must await new legislation. However Transitions did not recommend deferring the above changes until new legislation is ready, even though it did recommend new legislation at a later stage.

The Government’s May 18, 1989 announcement fell far short of implementation of Stage 1 of Transitions. Nevertheless, the elements of STEP were among the Stage 1 recommendations of Transitions. They address one of the major concerns raised by recipients: the financial barriers to employment created by the system itself. Can this not be viewed as a partial success?

In fact, the Government was aware of the problem addressed by STEP long before Transitions was published or the Social Assistance Review Committee struck. In December 1985, six months before the establishment of SARC, the Ministry of Community and Social Services released a public statement setting forth its long term goals and strategies. Objective number 1 was “to ensure that Ontario’s income support system provides help and incentives to those who can return to work….”17 The strategy to reach this objective was to “review the effectiveness of income support programs and assess their... flexibility to encourage and ease transition to the work force.”18 Thus the creation of incentives to enter the work force was already on the Government’s agenda before the review process had even begun.

On April 1, 1987, the Ontario Government entered into an agreement with the Government of Canada regarding the employability of social assistance recipients. This agreement, known as the “four-cornered agreement” because it was signed by two federal ministers and two provincial ministers, implemented an earlier agreement reached at a federal-provincial conference on September 18, 1985. The essence of the agreement was that funds from the Canada Assistance Plan would be diverted from social assistance to programs intended to enhance the employability of recipients. The problem of financial disincentives to employment was recognized and addressed. The Ontario Government agreed to the following:

17. COMSOC, “Investing in Ontario’s Future: Strategic Directions for the Ministry of Community and Social Services” (December 1985, revised June 1986), at 17.

18. Ibid. at 19.
"Social assistance programs will be reviewed and adjusted, as appropriate, to provide positive incentives and the retention of non-cash benefits for those social assistance recipients participating in programs pursuant to this Letter of Understanding to assist the social assistance recipients with the transition from social assistance to training and employment."

Thus, the Government had already committed itself to changing social assistance to provide financial incentives to at least those recipients participating in federally funded training programs. STEP goes beyond this, but the basic principle was already established before Transitions was released.

2. STEP AND CHILD CARE

Two of the initiatives contained in STEP, the deduction of child care expenses and the removal of the 120 hour rule, are directed specifically toward "single parents," the vast majority of whom are women. The recognition of child care costs as "a legitimate work related expense" which may be deducted from employment income is perhaps the most significant feature of the program. However, the government is not paying for child care costs under STEP. Child care expenses will come out of the mother's earnings, and not out of funds provided by welfare or Family Benefits. This has two implications: a woman is only better off working under STEP by the amount that her net employment earnings exceed her child care expenses; and an increase in child care costs will not automatically be met by an increase in funds to pay for it.

These two points are best illustrated by an example. Consider the situation of a sole support mother working 40 hours per week at $5.00 per hour. Her gross monthly income is $866. Her net monthly income can be estimated as 90% of this amount, or $779. If she has two children...
aged less than 5 years in unlicensed day care (ie. with a babysitter), and the babysitter charges $3.50 per hour for 45 hours per week, monthly child care expenses are $682.

Total exemptions in this situation are $175 for the flat rate exemption, plus the entire $682 for child care ($682 is lower than the applicable ceiling amount of $780 for unlicensed care for the two children). Therefore total exemptions are $857, an amount which exceeds the net earnings of $779.

The result is that none of the earnings from employment will be deducted from her welfare or Family Benefits entitlement as the entire amount is exempt. This means that she will be better off working by $97 per month. $97 is the difference between her net employment earnings and her child care expenses. Her welfare or Family Benefits cheque will not decrease, but almost all of the additional income from working will be spent on child care. If the government were actually paying for the child care or subsidizing it, she would benefit far more.

In the above example, no amount of additional child care expenses would result in the recipient having any more money in her pocket with which to pay for it. She is already receiving the maximum amount available to her from the government, namely, her previous welfare or Family Benefits entitlement. Under these circumstances the ceiling on unlicensed care deductions is irrelevant. She would be in the same position financially if there were no ceiling at all.

If her child care expenses were to increase, the increase would come out of her own pocket and would not be matched by an increase in assistance from the government. Only an increase in welfare or Family Benefits rates (or wages) would give her more money with which to pay for increased child care costs.

3. THE NOTCH EFFECT

Child care expenses are not the only expenses that increase with employment. Others, like transportation and clothing, are not taken directly into account in the calculation. Of particular note are the effects of increased income on subsidies that a sole support mother

23. There is a $250 “Employment Start-up Benefit” to cover the costs of beginning to work. It is payable as often as once per year, and is not deducted from subsequent entitlement.
may already be receiving, such as public housing and child care subsidies. The "notch effect" of reductions in these subsidies may negate any financial benefit the recipient would otherwise derive from employment under STEP.

Child care subsidies are based on ability to pay, which is defined as the difference between household income and allowable household expenses, less certain exemptions (for example, 25% of earned income is exempted.) Before STEP, recipients of social assistance were deemed to have an income of zero for purposes of the subsidy calculation, and were eligible for a full subsidy. However, recipients on STEP will be assessed according to their actual income, including both earned income and social assistance. This means that, if total income exceeds allowable expenses plus exemptions, 75% of any increase in income from earnings will have to be spent on child care expenses because the subsidy will be reduced by that much.

Recipients in subsidized housing may find that their rent increases as a result of increased income. In MTHA (Metro Toronto Housing Authority) housing, for example, 25% of any increase in income must be devoted to rent. This rent increase can easily exceed the financial benefit a recipient would derive from STEP.

B. INCENTIVES UNDER STEP

This program treats you like white bread. You know what they do to white bread—the take all the goodness out, then put 20% back in and call it enriched. This is a very enriched program.

— reaction of one FB recipient to the STEP program

STEP is an attempt to improve the financial incentives faced by social assistance recipients as they contemplate whether or not to enter the workforce. The stated goal of the program is to make it easier for social assistance recipients to work. Therefore, one way of evaluating the effectiveness of STEP is to examine what the financial incentive to work will actually amount to in light of existing labour market condi-

24. This is based on a conversation with a supervisor at Metro Toronto Children’s Services, December 11, 1989.

25. At the time of writing, there is a possibility that MTHA will exempt tenants participating in STEP from such rent increases, but this is uncertain.
tions and availability of child care. This section will attempt to quantify the financial incentives that will typically be faced by sole support mothers under STEP.

Two major variables determine the work incentive that will be faced by a sole support mother: wages of available jobs and cost of available child care. STEP treats these two factors in such a way that their effect on financial incentives varies as they increase or decrease. Other factors, such as transportation costs, are not subject to special treatment by STEP, and their effect on financial incentives is therefore constant. For example, additional transportation costs of $40 per month decrease the incentive to work by $40 per month, regardless of income or other expenses. However, additional child care costs of $40 per month, because they are deductible from earnings up to a ceiling amount, will have an effect on the recipient's bottom line income that varies according to income level and total child care cost. For this reason, the following analysis will consider only wages and child care costs, even though there are other costs associated with working.26. These other costs may simply be deducted from the final amounts arrived at as the “incentive” amounts.

It should also be born in mind that recipients with day care or housing subsidies may face increases in day care costs or rent as a result of participation in STEP.

1. TYPICAL EARNINGS

What jobs are typically available to sole support mothers on social assistance, and what wages do these jobs typically pay?

Women are more likely to be employed in the service sector than in the goods-producing sector of the economy. In August 1989, 83% of women who were employed were employed in the service-producing sector of the economy, defined as those industries other than agriculture, other primary industries, manufacturing, construction, and utilities. By contrast, only 58% of employed men were employed in the service sector.27.

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26. Only ongoing costs of employment should be considered. Start-up costs (up to $250) will be covered by the Employment Start-up Benefit.

27. Statistics Canada, The Labour Force (Ottawa: 1989) at B-22. Comparable figures for February 1989 are 84.5% and 40%. Figures are for Canada.
Employment in the service sector is more likely to be part time than employment in the goods-producing sector. The average number of hours worked in manufacturing was 40.0 hours per week, and in construction was 42.3 hours per week in August 1989. By contrast, the average number of hours worked in trade (wholesale and retail) was 37.3 per week, and in services was 36.8 per week.28

The occupational categories employing the most women in Ontario in 1985 were as follows: clerical (31.3%), service29 (17.1%), and sales (10.0%). These three categories employed 58.4% of employed women. They employed only 25.3% of employed men30. Occupations in the categories classified as managerial and professional employed 29.1% of employed women31. Jobs in these occupational categories are again more likely than other jobs to be part time. 32% of jobs in the service category in 1985 were part time, and 20.5% of clerical jobs32. This compares to an overall figure of 15.5% of all jobs part time33.

Thus it is not surprising that a high percentage of women work in part time jobs. In 1985 in Ontario, 26.3% of women who worked did so part time. In service occupations, 43.6% of women worked part time, in clerical occupations 23.7% worked part time, and in sales 41.9% worked part time34. Much part time employment among women is involuntary, ie. chosen because full time work is unavailable. A Statistics Canada study concluded that “one woman in three working part time in the service occupations in 1985 did so because she was unable.
to find full time work." The high level of part-time work among women is, among other things, an indication that the structure of labour market itself plays a large part in determining how women are employed. The jobs that women are actually employed in are often the only jobs available to them.

What wages do these jobs pay? Average hourly earnings for Canada in July 1989 for all service producing industries were $10.46. The comparable figure for goods producing industries was $14.16. These average figures, however, do not fully reflect the pay differential that exists between men and women. Data regarding average annual earnings of full time workers in 1982 show that, in Canada, the average annual earnings of women were 64% those of men. In clerical occupations, earnings of women were 66.9% of men's, and in service occupations 55.5% of men's.

These figures only give a rough indication of the wages available to women. If the average annual income of women employed full time has continued to be about 65% that of men employed full time, we can assume that the hourly wages of women in the service-producing industries are about 65% those of men. Since 53% of employees in these industries are women, or approximately half, the average wage of women in these industries can be calculated as follows:

Let \( X \) be the average wage of women in the service producing industries:

\[
\frac{X + (X/0.65)}{2} = 10.46
\]

\[
X = 8.24
\]

This figure of $8.24 per hour may overestimate the wages of jobs available to sole support mothers on social assistance, since it is based on statistics pertaining to women generally. It includes the wages of well paid administrative and professional jobs that would be closed to most social assistance recipients. Women on social assistance and not pres-

35. Supra, note 31 at 21.
38. Ibid. at 62.
39. Supra, note 27.
ently working also face the additional barrier of having to enter or re-enter the workforce after a period of absence.

A 40 hour per week full time job at $8.24 per hour yields a gross monthly income of $1,427. The monthly earnings of participants in STEP are unlikely to exceed this amount.

2. CHILD CARE COSTS

There are two kinds of child care: formal, licensed care, usually in day care centres; and informal, unlicensed care, often in a private home. The supply of licensed care is extremely limited relative to the demand. The federal government’s Task Force on Child Care estimated that, in 1984, the number of licensed child care spaces in Canada was only 8.8% of the total child care need. Consequently, over 80% of children receiving non-parental care receive it in unlicensed arrangements.

The Metro Toronto Day Care Planning Task Force estimated in 1986 that there were 180,000 children in Metro Toronto whose parents work outside of the home, and that the parents of 90,000 of these children would choose licensed day care if it were available. Yet the total number of licensed spaces available in Metro was only 26,847—less than one third of this estimated demand.

The supply of licensed care is not likely to increase relative to the demand for it in the near future. The Ontario government, in announcing in 1987 new spending intended to build a “comprehensive child care system that will meet the needs of all citizens” predicted only a 25–30% growth in the capacity of the licensed system over the three years from 1987 to 1990. Given that this probably overestimates the actual growth being experienced, unlicensed, informal care will remain the predominant form of child care for the foreseeable future.

41. Ibid. at 45.
42. Metropolitan Toronto Day Care Planning Task Force, “Blueprint for Child Care Services: Realistic Responses to the Need” (Toronto: 1986) at 7.
43. Ibid. at 6.
44. COMSOC, “New Direction for Child Care” (Toronto: 1987) at i.
45. Ibid. at 17.
How much does licensed child care cost? The Social Planning Council of Metro Toronto, in its *Guides for Family Budgeting*, stated that the typical cost in 1987 for day care centres operated by Metro Toronto Children's Services was $33 per day for infants and toddlers, $21 per day for pre-school aged children, and $11.50 per day for school aged children. For a parent employed full time, that works out to $714.45, $454.65, and $248.98 per child per month respectively.

The availability of subsidies is limited. In 1986, only 15,250 children in Metro Toronto were assisted by subsidies, yet the Metro Toronto Day Care Planning Task Force estimated the demand for subsidized spaces at 30,000. Furthermore, the subsidies of participants in STEP, if they do have them, may decrease as their earned income increases.

The cost of unlicensed child care is more difficult to specify. The federal Task Force on Child Care conducted a telephone survey in 1984 and found that fees for unlicensed home day care in Ontario were approximately 60% of fees charged by licensed day care centres for infants, and 80% of fees charged by such centres for pre-schoolers. If similar ratios prevail today, unlicensed care in Metro Toronto would average about $20 per day for infants ($17 per day for pre-schoolers). The amount of $20 per day seems typical based on discussions held with sole support parents during the course of presentations on STEP by the author. This is equivalent to $433 per month.

The cost of child care for additional children from the same family may be discounted. This is more likely to be true of informal, unlicensed arrangements. The federal Task Force on Child Care found that 52% of unlicensed caregivers gave discounts for second children,


47. These figures are arrived at by multiplying the daily rate by five days per week and 4.33 weeks per month.


50. See p. 9 *infra*.

51. *Supra*, note 40 at 195. The figures provided are $5010 per year for infants in licensed centres (about $19 per day), $3820 for pre-schoolers in licensed centres ($14.70 per day), and $3050 per year for licensed home care for both infants and pre-schoolers ($11.73 per day).
A STEP Toward Workfare

averaging 45%. Only 30% of licensed centres gave similar discounts, averaging 30%52.

Thus the cost of full time care for one infant or pre-school age child is likely to range from $400 to $700 per month. For two such children, costs will range from $600 to $1400 per month. For school age children fewer hours of care are required, and costs are accordingly lower. The same is true for part time employment.

3. QUANTIFYING THE FINANCIAL INCENTIVES

The financial incentive faced by a sole support mother currently receiving social assistance to undertake employment is the difference between what her total income will be while working less additional expenses incurred because of working, on the one hand, and her present total income on the other hand.

The financial incentive can be represented by the following expression:

Let N1 represent present welfare/FB entitlement
Let N2 represent welfare/FB entitlement while working
Let X represent income from employment
Let Y represent cost of additional child care
Let I represent financial incentive

\[ I = X - Y + N2 - N1 \]

This should be modified by recognition of the difference between gross and net employment income. It is the net income that is relevant to the decision that a recipient will make, and thus to the financial incentive. An additional tax refund, though possible, is unlikely and in any case would not be seen until too late a time to be relevant to the decision. Mandatory deductions for the range of incomes being examined can be estimated at 10% of gross income.53 Therefore the above equation should be modified to read as follows:

\[ I = (0.9)X - Y + N2 - N1 \]

What is the value of N2 (the new welfare or FB entitlement)? The procedure for calculating it is set forth in Chapter 1. For a sole support mother, it can be represented as follows:

52. Ibid. at 196 and 197.
53. Supra, note 22.
Let max(A, B) be the maximum of the two values A and B
Let min(A, B) be the minimum of the two values A and B

For licensed care:
\[ N2 = N1 - \min[N1, \max(0, (0.9)X - 175 - Y)] \]

For unlicensed care for one child age 0–5:
\[ N2 = N1 - \min[N1, \max(0, (0.8)((0.9)X - 175 - \min(390, Y))] \]

Other amounts should be substituted for the child care ceiling of 390 as appropriate, e.g. 346 for one child aged 5–12 years, 780 for two children aged 0–5 years.

Therefore, the financial incentive amount (I) is as follows:
\[ I = (0.9)X - Y + N1 - \min[N1, \max(0, (0.8)((0.9)X - 175 - \min(390, Y))] - N1; \]

or
\[ I = (0.9)X - Y - \min[N1, \max(0, (0.8)((0.9)X - 175 - \min(390, Y)]]. \]

The value of this expression as earnings and child care costs vary is illustrated in the following series of graphs. All are applicable to a sole support mother on Family Benefits receiving the maximum shelter subsidy and with nothing presently being deducted from her cheque. Graphs 1 and 2 are for unlicensed child care; the ceiling for child care costs used is that for one child aged less than 5 years ($390). Graph 1 shows I at various levels of earnings over the range of child care costs from zero to $800/month. Graph 2 reverses this, showing I at various levels of child care costs over the range of earnings from zero to $2000/month.

It appears from graph 1 that STEP affects the financial incentives faced over a range of incomes between roughly $200 per month and roughly $2000 per month. This is due to the fact that, below $175 per month, the entire amount of earned income is exempted so that one's FB entitlement is never reduced regardless of child care costs. Above $1900 per month, chargeable earnings are high enough that the entitlement is always reduced to zero, again regardless of child care costs\(^54\).

\(^54\). This assumes an FB entitlement before STEP of $917 per month, as explained above. Gross earnings of $1900 per month result in chargeable earnings of $916 per month if the maximum child care exemption is claimed.
GRAPH 1
Incentives for Various Earning Levels
One child age less than 5, unlicensed

GRAPH 2
Incentives for Various Child Care Costs
One child age less than 5, unlicensed
It is over the range between these two extremes that STEP taxes back a part of the FB entitlement. Graph 2 shows that there may or may not be a positive financial incentive to work over that range, depending on the level of child care costs. At $200 per month child care, there is an incentive over that entire range of generally between $200 and $400. However, at $600 per month child care there is no positive financial incentive until earnings exceed $800 per month, and then the incentive will be less than $200 per month until income exceeds $1900 per month. At $800 per month child care, there is no positive incentive at all unless earnings exceed $1800 per month.

The effect of a higher or lower Family Benefits entitlement (before STEP) is to broaden the range of earnings levels over which the entitlement is taxed back. A lower entitlement would affect Graph 2 by moving the point at which the lines begin to curve sharply upward to the left, and a higher entitlement would move that point to the right.

An increase in the applicable ceiling amount for child care expenses (which would tend to go together with a higher previous entitlement) has a somewhat different effect. Graphs 3 and 4 below illustrate this by showing the incentives faced where child care is licensed, and there is therefore no ceiling on child care expenses. They once again assume

GRAPH 3
Incentives for Various Earnings Levels
Licenced child care

![Graph 3](image-url)
a sole support mother on Family Benefits with one child, maximum shelter subsidy, and no other present deductions from her cheque.

Graphs illustrating the situation where there is a ceiling amount, but higher than $390 per month, would show a pattern somewhere between the preceding set of graphs and the following set.

By comparing Graph 3 with Graph 1, one can see that incentives have been altered only for higher earnings levels and child care cost levels. Incentives appear to be higher for earnings over about $600 and child care over about $500 per month.

Graph 4 shows that a positive financial incentive is now faced at all levels of child care expense, provided that child care does not exceed 90% of gross earnings. However, the amount of the incentive is still in all cases less than about $400 per month over the entire range that the Family Benefits entitlement is taxed back.

The following graph (Graph 5) illustrates the range of earned incomes and child care expenses for which there is a positive financial incentive, by plotting earned income directly against child care expenses. The lines indicate where the financial incentive is zero, for licensed care and for unlicensed care assuming a ceiling on the deductibility of child care expenses of $390 per month.
Recipients face a positive financial incentive for combinations of the two factors falling below the lines. It can be seen that, for licensed care (ie. no ceiling on deductibility of child care expenses), a positive incentive is faced wherever net earned income exceeds child care expenses. For unlicensed care, there is an additional range of earnings/child care combinations that do not create a positive incentive. Where the ceiling on child care deductibility is greater than $390, the line for unlicensed care will fall somewhere between the two lines illustrated.

The above discussion of earnings and child care costs concluded that earnings are unlikely to exceed $1427 per month, and child care costs are likely to be in the $400 to $700 range for full time care for one child aged less than 5. Under such circumstances, a recipient will face an incentive of no more than about $300. Gross earnings of $1427 and unlicensed child care expenses of $400 per month yield an incentive of $309. The same earnings with unlicensed child care expenses of $700 per month yields an incentive of only $9.

A recipient with more than two children may easily face child care costs that exceed her net income from employment. Under such circumstances she can never face a positive financial incentive to work under this program.
4. THE WORKING POOR

Sole support mothers who are presently working full time did not qualify for welfare or Family Benefits prior to STEP, due to the rule prohibiting more than 120 hours of work per month. However, with the removal of that rule, and the deductibility of child care expenses, many may now qualify for a "top up" amount while continuing to work full time.

Applicants will only be eligible for the top up if they meet all other criteria of categorical eligibility. In particular, ceilings on liquid assets still apply. In effect, the money can only be received if it is going to be spent in the near future.

The amount of the top up is the amount termed "N2" in the calculation above—the new welfare or FB entitlement. The formula for calculating it is thus the following, where N1 is what the entitlement would be if there were no earned income, X is the earned income, and Y is the child care expenses.

For licensed care:

\[ N2 = N1 - \min[N1, \max(0, (0.8)(0.9)X - 175 - Y)] \]

For unlicensed care, for one child age 0-5:

\[ N2 = N1 - \min[N1, \max(0, (0.8)(0.9)X - 175 - \min(390, Y))] \]

Graph 6 shows the combinations of earned income and child care expenses for which a top up amount may be received, in the case of a sole support mother with one child aged less than five years, receiving the maximum shelter subsidy, with no other deductions from her cheque. Combinations below the lines qualify for a top up amount. As may be observed, earnings less than $1468 per month will qualify for a top up regardless of child care expenses. The effect of the ceiling on deductibility of unlicensed care is to impose a ceiling on earned income of $1900 per month, above which no top up may be received regardless of actual child care expenses.

This means that sole support mothers working full time and earning average wages will qualify for a top up. At $1427 earned income per month, the top up in the above mentioned circumstances would be $30 plus 80% of child care expenses up to the ceiling amount. The maximum top up would be $342.

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55. Based on an entitlement (without earned income) of $917. The equivalent figure for other entitlements for a sole support mother can be calculated as \[1.25(N1)+175]/.9.\
The result is that sole support mothers currently on assistance face relatively little incentive to leave assistance, while many sole support mothers currently not on assistance will qualify. STEP may ironically have the effect of increasing the Family Benefits caseload of sole support mothers considerably.

C. THE RELEVANCE OF FINANCIAL INCENTIVES

The preceding chapter considered the financial incentives that sole support mothers will face to engage in employment under STEP. But how relevant are such financial incentives to the decision that a sole support mother will make regarding participation in the labour market? To answer this question, the nature of the labour market and of the participation of assistance recipients in it must be examined more closely.

Patricia Evans has identified three major approaches to increasing the employability of social assistance recipients: the service strategy, the financial strategy, and the work strategy. The service strategy attempts to increase the employability of recipients by providing train-

56. P. Evans, “Perspectives on Work, Women and Welfare: A Dual Labour Market Analysis” (Toronto: University of Toronto Faculty of Social Work, 1983) at 69.
ing, education, and support services such as day care. The financial strategy attempts to improve the financial incentives faced by recipients contemplating entering the market. The work strategy attempts to increase the supply of available jobs by altering the labour market. STEP is a financial strategy.

The financial strategy is based on assumptions of economic rationality characteristic of classical economic theory. Individuals are assumed to be engaging in a process of maximizing their self-interest by choosing among two or more available alternatives. The labour market is not itself a focus of analysis, but simply the background to this process of "rational" individual choice. Yet these assumptions do not reflect the realities of low income people's lives. Social assistance and low paying jobs are not so much options from which one chooses as they are necessities that one is forced into and out of. There is little scope for the exercise of choice.

Evans argues that the labour market confines sole support mothers on assistance to jobs that are badly paid and unstable—that form part of the "marginal labour market." For this reason, these women move back and forth between work and welfare, alternating short periods on assistance with short periods of employment. They also frequently mix part-time work with receipt of social assistance. Because of the instability and low wages, getting a job cannot be equated with ongoing financial independence for people confined to the marginal labour market.

This pattern of "cycling" in and out of the labour market is found among sole support mothers on social assistance in Ontario today. More than one-quarter (26%) of the sole support mothers who entered the Family Benefits caseload for the first time in 1975 had left and returned again by 1984. A random sample of cases leaving FBA between September 1978 and August 1979 found that 38% of the sole support mothers returned over the next seven years. This pattern of

57. Ibid. at 13-19.
58. Ibid. at 20.
60. Supra, note 56 at 9, and Rein, ibid.
62. Ibid. at 17.
leaving and returning to social assistance mirrors a pattern of leaving and returning to the labour market. There is also substantial mixing of assistance with part time work: 31.5% of sole support mothers who began receiving Family Benefits in 1981 reported some earned income while on family benefits within the following three years.\(^\text{63}\)

This indicates that labour market conditions are the primary determinants of the employment behaviour of assistance recipients, and that financial incentives are of secondary importance. When jobs are available, people take them, and when jobs are not available they go back on assistance.

Empirical studies of the effect of financial incentives on employment patterns of assistance recipients generally do not show that they have a significant effect. Mildred Rein surveyed empirical studies of the effect on AFDC (Aid for Families with Dependent Children) mothers in the United States of the introduction in 1969 of exemptions for earned income. Before 1969, earned income was taxed back dollar for dollar in most states. After 1969, thirty dollars per month plus one third of all earned income was exempted. She concluded that "it would appear that the thirty and one third earnings exemption did not have an appreciable effect on the work effort of AFDC mothers."\(^\text{64}\) A survey of AFDC mothers in 1972 showed that 80% said they had engaged in no work-related behaviour as a result of the increased incentive, about 6% said they had started to work because of it, and none had left welfare as a result of the new policy.\(^\text{65}\)

Although some studies have concluded that increases in the tax back rate on earned income lead to decreases in the willingness of recipients to work, the magnitude of this effect is small. One study of AFDC mothers in the United States estimated that a 10% increase in the tax back rate on earned income would lead to a 1 to 3% reduction in the employment rate of recipients.\(^\text{66}\)

\(^{63}\) Ibid. at 21.


\(^{65}\) Ibid. at 56.

Thus, the financial incentives discussed in the preceding section will not be likely to have a major impact on the employment behaviour of sole support mothers receiving assistance. Changes to the labour market itself will have to take place before the goal of long term financial independence for the majority of these women can be achieved.

CONCLUSION

While it is true that recipients themselves requested the kinds of changes to the benefit structure that constitute STEP, that request was always in the context of broader and more fundamental reforms. The Advisory Group of Sole Support Parents to SARC, for example, recommended the use of net instead of gross earnings, an increase in earnings ceilings, and that child care expenses be deductible. But they also recommended provision of adequate child care, adequate housing, raising the minimum wage, and a guaranteed adequate annual income. In the context of such broad reforms, STEP would be in the best interest of recipients.

As an isolated initiative, however, it has entirely different effects and implications. As we have seen, financial incentives alone are unlikely to make a significant difference to recipients, especially on the scale of those created by STEP. Such an isolated reform of financial incentives to employment was not recommended to SARC by assistance recipients. Among the organizations that did advocate such an approach was the Business Council on National Issues, which submitted the following:

"We recommend that measures be undertaken to create positive incentives for labour market participation by the able-to-work unemployed on social assistance, although we do not believe that expenditure reduction should be a goal of reform in this area. Indeed, it is likely that some additional expenditures may be required...however, we urge that any additional expenditures in this area be financed by reallocation within the social policy envelope."


68. Ibid., recommendations 16, 8, 12, and 1 respectively, at iv-ix.

The reforms announced on May 18, 1989, bear considerably more resemblance to the recommendations of this business organization than they do to the recommendations of recipients.

STEP and related reforms should not be regarded as implementation of Stage 1 of Transitions. Nor should they be regarded as a response to the concerns raised by social assistance recipients before SARC. Unfortunately, both the publicity that surrounded the May 18 announcement and the failure of those groups lobbying for implementation of Transitions to respond have created in the public mind a perception that the Government has responded to Transitions and given assistance recipients what they asked for. This perception results in a very dangerous political situation for assistance recipients, and sole support mothers in particular.

The danger arises from the expectation of results that goes along with such a perception. We have seen in previous chapters of this paper that STEP does not create financial incentives that sole support mothers on assistance are likely to respond to. The trend toward an increased assistance caseload of sole support mothers is likely to accelerate as a result of STEP. But the public has been led to expect reliance on assistance to decrease, because additional public money is being spent to help recipients “move from dependence to autonomy.” When this expectation fails to materialize, it is the sole support mothers themselves who will be blamed, because they have not engaged in the behaviour STEP is intended to promote.

This blame is likely to take the form of a mandatory requirement of participation in STEP or some other form of employment-oriented program. Five out of ten provinces already have such a work or training requirement for sole support mothers: British Columbia, Alberta, Saskatchewan, Quebec, and Nova Scotia. Transitions itself foreshadows the eventual introduction of “workfare” for sole support moth-

70. Supra, note 10 at 2.
71. Stairs, supra, (revised), note 20 at 31.
72. The term “workfare” is here used in the sense of a program where entitlement to benefits is conditional upon participation in activities intended to lead to employment or increase employability, rather than in the more narrow sense of a program where benefits are wages for make-work projects. See Melanie Hess, “Traditional Workfare: Pros and Cons”, SARC Background Paper #21, April 1987.
ers. As Felicite Stairs has pointed out, *Transitions* exempts sole support mothers from conditional entitlement to benefits only because they have such a strong desire as a group to participate in the labour force.\(^7^3\) It is "unnecessary to compel" sole support mothers to participate in employment related programs.\(^7^4\) Such a rationale carries with it the implication that, should they fail to take advantage of opportunities made available to them, compulsion would be appropriate.

Sole support mothers are the fastest growing portion of the Family Benefits caseload already.\(^7^5\) If STEP results in this caseload growing even faster, conditional entitlement in some form will be a very attractive option politically, especially if the public has been convinced that STEP has made it easier for sole support mothers to choose to leave assistance. The ultimate consequence of STEP may therefore be workfare for sole support mothers.

\(^7^3\) *Supra*, (revised) note 20 at 22-25.

\(^7^4\) *Supra*, note 1 at 232.

\(^7^5\) *Ibid.* at 37.
APPENDIX “A”
WOULD YOU BE BETTER OFF WORKING?

STEP 1 – Your earnings from employment
Use the figures from your pay stub if you can. If you don’t know the exact amounts of the deductions, estimate them as one tenth (10%) of the gross earnings.

Gross earnings (before deductions) ________
Deductions: Tax ________
CPP ________
UI ________
Total ________

Subtract deductions from gross earnings ________
— these are your net earnings

This must be converted to a monthly amount. If you used your weekly earnings, multiply by 4.33. If you used your earnings for two weeks, multiply by 2.17.

Net monthly earnings ________

STEP 2 – Exemptions from earnings
Flat rate exemption
- single (no children) on GWA, $75
- single (no children) on FBA, $160
- family on GWA, $150
- sole support parent (GWA or FBA), $175

Child care expenses up to a maximum amount:
If care is unlicensed, the maximum amount is $390 for each child less than 5 years old, plus $346 for each child aged 5 to 12. If child care is licensed, the full amount can be exempted. No amounts can be exempted for children over 12.

Child care expenses exempted ________
Add flat rate exemption and child care exemption ________
— these are your total exemptions
**STEP 3 – Your chargeable earnings**

Chargeable earnings are the earnings that will be deducted from your FBA or GWA cheque.

Net monthly earnings
subtract total exemptions
subtotal
- (this amount cannot be less than zero)
Multiply this amount by four fifths (.8) to obtain your chargeable earnings.

**STEP 4 – Your new FBA or GWA entitlement**

Your present entitlement
subtract chargeable earnings
Your new entitlement

To see if you would be better off working, you must compare your total income while working with your total expenses while working:

<table>
<thead>
<tr>
<th>Income:</th>
<th>Expenses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWA or FBA</td>
<td>Present expenses</td>
</tr>
<tr>
<td>Employment income</td>
<td>Child care</td>
</tr>
<tr>
<td>Other income</td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>Other extra expenses</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Would you be better off working? Only you can make that decision.

**BUFFER ZONE:** If your new FBA or GWA entitlement is less than zero, you may still be eligible to receive health benefits. You are eligible if your chargeable earnings exceed your present entitlement by less than $100 (for sole support parents), or $50 (for singles without children.)

**NOTES:** Do not use this worksheet if you have income from a training allowance rather than from employment. Do not use it if you have a spouse with income. In these cases, different calculations must be used.