APPENDIX B

(to "Setting Minimum Living Standards in Canada: A Review"
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THE EVOLUTION OF BENEFIT STANDARDS IN CERTAIN SOCIAL PROGRAMS

Relief and 'Welfare'

Some of the background to relief and 'welfare' programs, which have been the most typical residual program and have had rates among the lowest of official minima, has been discussed in the text. Here the discussion is on the actual movement of rates.

From Table 3 it can be seen that in absolute terms the maximum levels for relief and general welfare benefits increased over the period, though with great unevenness. The largest increases took place during the 1960s and early 1970s, while during the 1950s and after 1975 there were major declines. For the 1950s, a detailed study by Wismer (1964, esp. Chs. V and VII) confirmed that the Ontario general welfare allowances for food, clothing, fuel, household sundries, and shelter all fell behind movements in the cost of living. In 1982, research by the Social Planning Council of Metropolitan Toronto confirmed as well that "The real incomes of social assistance recipients have declined significantly since 1975."[1]

Relative to average wage-earnings, particularly for a family, the maximum payments for relief and general assistance declined over the period from 1936 to 1987. Wismer's study (1964, 89) also observed this relative decline for the 1950s. A 1977 study of welfare allowances by the Social Planning Council of Metro Toronto and the Ontario Welfare Council found that for the period 1961 to 1976 "most of the gains were achieved in the first half of the study period" while in the second half there were several years where rates fell below the increase in average incomes (1977, 60-70, 73-75). In terms of Table 3, the decline was most pronounced after 1969. Indeed, even in terms of poverty 'adequacy,' that is, the Statistics Canada low income cut-offs or the Social Planning Council of Metropolitan Toronto budget guidelines (which, as seen, have not increased to the same extent as average wages), the levels of general assistance fell after 1975 (Ontario Welfare Council and SPCMT [1981, Sec.2]). A more recent study by the Social Planning Council (1986), one which also set the Ontario general assistance benefit levels against the Council's family budget guidelines (minimum health and decency levels), showed that even the relative peak year of 1975 represented only a return of the generally higher levels of the mid-1960s. Overall, it was concluded (from the standpoint of 1986), "Present levels of assistance roughly mirror the adequacy of benefits which existed when the Canada Assistance Plan was enacted in 1966" (ibid., 46).[2]

The levels cited here are for maximum benefits. By no means all recipients have been paid the maximum levels, but these figures give a reasonable idea of what government institutions considered as a poverty minimum for those without any income. The official rates have been subjected to much criticism over their inadequacy, even in terms of minimum subsistence criteria. During the 1930s, many competent observers considered the unemployment relief levels to be below those necessary for the maintenance of health, especially over long periods of time (see, for example, Marsh et al [1938]; Grauer [1939, 23-24]).[3] This problem did not entirely disappear with the higher levels of employment and benefits of the post-World War II years. To supplement what little welfare they received, single persons, particularly, used the soup kitchens that continued to be operated by religious and charitable organizations. More adequate food benefits alone have been insufficient to alleviate the pressures of minimum subsistence budgets; there is evidence that "families meet their fixed obligations, such as rent and utilities, and are then forced to curtail expenditures for food and other household necessities."[4] The decline of welfare rates in the 1970s coupled with the major rise in case loads increased the demands on feeding programs. The advent of food banks, the first beginning in Edmonton in 1981, confirmed the deterioration of welfare rates. A study by Riches (1986, 81) reported "the inadequacy of social assistance benefits as the major reason why people apply to the food banks."

It is apparent that state relief/welfare rates cannot be taken generally as representing long-term subsistence minima let alone health and decency minima. In his 1943 *Report on Social Security*, Marsh argued that during most of the 1930s relief rations to unemployed families bore a relation only to a restricted, emergency budget. Key among its features were the following: "The scale of living presupposed for the emergency budget, is essentially a short-period one. 'Followed over a long period, the practice called for in the emergency budget may prove harmful to both health and morale.' ...It is unsuitable to long-term unemployment benefit because of the risk that employability may be impaired" (Marsh [1975, 35]). Some evidence for the prairie provinces in the 1930s suggests that nominal relief rates generally did rise. One reason, according to Duncan (1938, 101-2), was that "The longer families are on relief the lower their own reserves become and the greater the assistance which public authorities must provide."[5] Among the effects of living over a long period at this emergency standard was the deterioration of labour: "Certain it is that there is a high rate of obsolescence among relief recipients, i.e. making men unemployable before they would otherwise have become too old to work" (ibid., 105-6).

Consequently, the official welfare minima can be viewed at their highest as being a long-term minimum subsistence or maintenance standard for unemployed labour, which is itself less than a minimum subsistence standard required for the normal maintenance and reproduction of employed labour. At their lowest, the emergency or sub-maintenance standard, they lead more or less inevitably to the deterioration of labour-capacity. The latter was characteristic of the situation in Ontario for most of the years of the 1930s to 1950s and a major regression towards sub-maintenance standards appeared again in the latter 1970s.[6]

One final point to observe about the general welfare assistance rates is that the employable applicants have been viewed as 'less deserving' and, accordingly, have received less: "As a general rule, those assessed as being capable of working to support themselves have been subjected to more stringent eligibility criteria, and have received lower benefits, than those who are viewed as unable to support themselves" (SPCMT [1986, 66]). The work capability of such 'employables' is thus subject to more rapid deterioration--in contrast to its actual need for a higher standard to remain employable. The 'less eligibility' principle for employable workers has strongly affected if not dictated the underlying relationship between the benefit levels of relief and welfare and those of other programs. Hence, there has been a conscious effort to keep the welfare rates for single persons below minimum wage levels and unemployment insurance benefit levels. All welfare rates are well below Statistics Canada's low income cut-offs.

Workers' Compensation

In terms of the historical evolution of public social security measures in Canada, the advent of workers' compensation has been considered "the first stage of the modern era" (Guest [1985, Ch.4]). Certainly, the Workmen's Compensation Act of Ontario, which was passed in 1914 and came into effect on January 1, 1915, was the first major piece of social insurance legislation in Canada. Workers' compensation was supposed to alleviate problems of income loss for workers and their immediate dependants resulting from work-related death, disability, and sickness. Although there was some coincidence of interest between business and labour in establishing the principle of social insurance for industrial injuries,[7] there has been considerable antagonism over policies governing the level of and eligibility for benefits.[8]

Since the inception of the program in Ontario and in other provinces, workers' compensation benefits have been based on the workers' wage-earnings prior to injury or death. In Ontario, the benefits were originally set at 55 per cent of earnings; after pressure from labour (see, for instance, *Labour Gazette* January 1919, 2) this was eventually raised to 66 2/3 per cent in 1920 and to 75 per cent beginning January 1, 1950. But the program has also set maximum benefit levels.[9] For permanent total disability, for example, the real level of maximum benefits did not rise much if at all above its initial 1915 level and was most often below it until the 1950s. Thereafter, the level rose until the mid-1970s.

However, relative to average production wages in manufacturing, the maximum benefit level generally fell, from about 145 per cent of that level in 1915 to around 93 per cent in 1987. In the case of the death of the worker, survivors' benefits were based on a flat-rate system with a standard amount for the spouse and per child. Until the 1970s, a family maximum put a limit on benefits to large families. The survivors' benefits appear to have increased in real terms over most of the period except the 1940s. However, relative to average production wages, the standards of survivors' benefits were higher in the 1920s, 1930s, and early 1940s, than in the post-World War II years, although there was an upward movement over the latter decades, particularly after the 1950s.

Maximum total disability benefits were originally established close to a subsistence standard, while survivors' benefits were even lower. By 1981, as a result of falling standards, the level of maximum full disability benefits was closer to that of the lowest health and decency standard though the survivors' benefits remained at a subsistence level.

As in other income security programs based formally on social insurance principles, particularly unemployment insurance, the use of maximum benefit levels in workers' compensation has a major effect on the living standards of injured workers, especially skilled workers. Such higher paid workers have suffered a greater decline in income and, as dependants, become more like the 'average worker.' It is noteworthy that the maximum total disability payment in 1981 was about 12 per cent below the Statistics Canada poverty line for a family of five in a large urban centre (Table 5); the survivors' benefits for the same family (reduced to four) were about 27 per cent below their comparable poverty line.

In general, although benefits in social insurance-based programs have tended to follow more closely the levels of average wages than those in programs whose benefits were based directly on subsistence standards, the insurance base of the programs was modified and limited in ways which reduced this relationship to average wages.

Veterans' Pensions

Military pensions for death and disability existed in Canada long before World War I with benefits structured according to rank "on the assumption that officers must have compensation in keeping with their station in life" (Morton [1987, 199]) and the low ranks receiving bare subsistence, if that.[10] However, with the war came major changes. Shortly before the first engagements of Canadian troops at Ypres in 1915, pensions rates had been raised a small amount. But this put the pension of a fully disabled private at only $264 per year; those with lesser degrees of disability received less. The inadequacy of the pension rates "produced indignation and an acute threat to recruiting" (ibid., 201-2).

A 1916 parliamentary committee[11] that was established to consider veteran's pension rates studied the rates paid in Australia, Britain, New Zealand, and the U.S., and also what was done under workers' compensation. In fact, the committee's recommendation of an increase to $480 per year for lower ranks put the pension at the same level as the maximum survivors' benefits of Ontario's workmen's compensation program. At the same time, the highest class of veteran (including Brigadier-Generals) was recommended to receive $2,700 per year. The practice of higher rates for officers, especially senior officers, continued until 1971, but the principle of rates based on injury gradually overcame the principle of rates based on rank or on previous employment. The pension rates lowest on the scale were slowly raised while the highest rates were held stable; hence, over time the different rate classes were reduced in number to the current system of a single scale for all veterans regardless of rank.

In terms of setting the lowest rates at least, the underlying principle accepted by the 1916 committee was that the pension should provide a standard of living equivalent to that which "the average unskilled man can command for himself and his family."[12] In a major 1968 report, the Woods Committee recognized that there had been some contention over the interpretation of this principle and, as a means of determining a value for earnings in the unskilled labour market, suggested using a composite figure based on a sample of untrained labouring jobs in the Canadian public service.

The major law to come out of the reforms of World War I was the Pension Act of 1919. It raised the basic rate for the lowest ranks and included a cost of living bonus, for a maximum for disability of $720 per year.[13] Apart from stagnation during the 1940s, the real value of the pensions has grown over most of the period. Indeed, overall, the rates in the veterans' pension program have probably done better than the rates in most income security programs in terms of compensation for cost of living increases.[14] The maximum family rates for full disability and death have been above minimum subsistence standards though somewhat below minimum health and decency standards.

However, it is questionable whether the veterans' pensions were maintained at the wage levels of unskilled male labour. They have almost certainly fallen since the 1930s relative to average production wages in manufacturing and to average wages as a whole. By 1981, the full disability pension for single persons was below the average wage in Canada though above Statistic Canada's poverty line, while the rate for a family of five and the rates for survivors were below their respective poverty lines. It appears that dependence on this form of state assistance leads, once again, to a lower standard of living, especially for the higher paid. Further, the rates discussed here are the program's maximum levels, which are used as indicators of official minima; among disabled veterans, only a minority qualified for a full disability pension.

Minimum Wages

Minimum wage legislation in most of Canada's provinces grew out of the World War I years.[15] Alberta passed the first Canadian minimum wage provision as part of its Factories Act in 1917, though this was effectively superseded by the establishing of a minimum wage board in 1922. Ontario's legislation establishing a minimum wage board received royal assent in June 1920.

There was considerable pressure from labour for minimum wage legislation and higher minimum rates. Such legislation was viewed as a means of helping to institute a minimum standard of living for workers and, in particular, of reducing the 'sweating' of labour. By limiting competition from female workers, whose rates were generally lower than those of men, wage workers as a whole would benefit, especially the unskilled, relative to capital. For capital, there were fears of labour political advances (see, for example, McCallum [1986]). As well, a particular group of employers, usually established firms and employers' organizations, could benefit from the standardization and stabilization of labour costs in each industry: "legitimate and fair employers who are willing to pay labour a decent living wage are compelled to cut wages because of the unfair competition received from the chiseller and pirate in industry who attempts to capture trade by unfair tactics and in the majority of cases at the expense of labour costs."[16]

The original minimum rates in Ontario and most provinces were established for women alone.[17] The general principle for setting the minima was the "living wage"--"the right of the worker to live from her work" (Ontario Minimum Wage Board, *Annual Report*, 1921). In practice, this meant the minimum required by a single or independent women without either children or other dependants; that is, to use a later formulation of the Ontario Board, "The budget for an independent working woman...representing the lowest wage upon which she can support herself." The board established the original minima based on commodity budget studies of female workers in Toronto. The board's first candidate was the laundry industry, officially because, according to a 1920 Bureau of Labour survey, "low wages seemed customary in it." (*Annual Report*, 1922). A conference of certain employees and employers apparently approved a $12.00 per week budget as being the minimum needed by a woman laundry worker for "food, clothing, shelter and such simple comforts and enjoyments as are requisite to the proper conduct of life" (as quoted in McCallum [1986, 44]). This was barely a minimum health and decency standard as applied to single women. For families, it has always been well below even minimum subsistence standards.

The next group investigated were saleswomen in retail stores. Here the board determined a budget of $12.56 per week was adequate--and the official minimum for experienced saleswomen in retail industry was set at $12.50 per week.[18] Most subsequent initial rates covering other industries were also set at $12.50 per week, so this is the minimum used in Table 3. These minimum rates applied to experienced women workers in Toronto. Lower rates were set for "young girls under 18," and for cities other than Toronto, which in turn were divided into those with populations greater than 50,000 and those with populations less than 50,000. The board also had the power to establish lower minimum rates for disabled and part-time workers. In the first years, some employers reacted to minimum wage regulations by lengthening the hours of employment, so the legislation was amended in 1922 to permit the board to regulate hours as well as minimum wage rates. Over the decades until the 1960s, the structure of minimum wages evolved with variations according to gender, age, experience, industry, and geographical area.

The Ontario minimum rates remained remarkably stable for the 1920s and 1930s, but, as is evident from annual reports and archival records, the enforcement of the regulations was far from rigorous--and, in general, as McCallum (1986, 56) concludes, "the board favoured employers." Although there was an increased number of prosecutions and adjustments during the Great Depression, the board did not lower the established minimum rates.[19] However, there is evidence that some workers on minimum wage during the Depression, particularly ones with children, were forced to have their wages supplemented by relief.[20] After some employers began replacing women on minimum wage with even lower-paid men, the practice was dealt with by forbidding their replacement by men earning less than the prescribed rates. In 1937, a minimum wage rate of $16.00 for men (compared to $12.50 for women) was set, but just for the textile industry. The female basis of the minimum rates remained until 1964 when Ontario established a single set of minimum rates covering both males and females. The 1960s also saw a shift to one unified minimum rate covering all geographical areas.

Table 4 indicates that the real value of the Ontario minimum wage increased during the 1920s and 1930s, then fell or stagnated until the 1960s. The 1960s and early 1970s saw its biggest increases, but thereafter also followed its biggest declines. Relative to the average production wages in manufacturing, the Ontario minimum wage over the same period fell from highs of over 60 per cent in the 1920s to under 38 per cent by 1987, despite a significant relative increase during the 1960s and early 1970s. A composite of all provincial rates for the years from 1965 to 1981 shows the same trend, falling from 55 to 39 per cent of average earnings (Ross and Shillington [1986, Table A-3]).

Early efforts at establishing a federal minimum wage occurred in the 1920s and 1930s, but the first legislation, which was passed in 1935, was found by the courts to infringe on provincial jurisdiction (see, for example, McGill [1936]). Not until July 1, 1965 was a federal minimum wage instituted, as part of the Canada Labour Code covering industries under federal jurisdiction. The federal minimum rates, which covered males and females were kept in line with provincial rates until the 1980s; however, during the 1980s they were allowed to fall even lower. In 1987, the provincial rates and the federal rate were well below the Statistics Canada low income cut-off for single persons as well as families.

Mothers' Allowances (or pensions)

Mothers' allowances (or, as they also have been called, mothers' pensions or family benefits) were first introduced in Manitoba in 1916. In Ontario, a Mothers' Allowances Act received assent in 1920. According to Kitchen (1977, 277), "Mothers' Allowances can reasonably be regarded as a turning point in the development of social welfare provision in Canada" and Guest (1985, 63) considers these provincial programs to be "the first modern public assistance programmes in Canada." Prior to this time, many children of the poor were forced to work instead of attending school or to leave home at an early age or were put in the care of orphanages, either temporarily or permanently (see, for example, Bradbury [1982]). Pressures for mothers' allowances came from women's organizations and trade unions,[21] but their official acceptance initiated some state action "to prevent children from being deprived of a home life and their mother's care simply because of lack of money" (Kitchen [1977]). Thus, the programs helped establish a new social minimum for a major category of the dependent poor, needy mothers and their children (Guest [1985, 63]). However, despite being among the first of the 'categorical' programs, mothers' allowances were not in effect in every province until 1949 (Department of National Health and Welfare, 1960, 1), the last province being Prince Edward Island.

The first allowance rate set in Ontario was at $40 per month (or $480 per year) for a mother with two children (under 16), with $5 more per month for each additional child.[22] This was the city rate; the "intermediate rate" for centres of 5,000 to 10,000 in population was $35 per month and the "country rate" was $30 per month. Among the mothers receiving support in 1922, nearly 84.5 per cent were widows, while the rest had incapacitated husbands, had husbands in asylums, had been deserted for 5 years or more, or were foster mothers (Ontario Mothers' Allowances Commission, *Annual Report*, 1922). The rates for such means-tested mothers were to be based on a "cost of living budget" (Ontario Department of Labour [1920, 88]).

In practice, the allowance was at a short-term minimum subsistence standard, not a health and decency standard. So low were the rates that they frequently needed to be supplemented: "Often in the city districts the allowances and the mother's earnings are insufficient to maintain the family without extra help from relief agencies during emergencies, such as sickness in the family."[23] Indeed, Table 3 suggests that the mothers' allowance rates were probably lower than relief rates until the 1950s.

The mothers' allowances rates have been subject to major shifts, downwards as well as upwards. The nominal benefit maxima established in 1920 did not change until after World War II. In real terms, the benefit rates generally increased until a peak in the mid-1970s, except for some declines in the World War II years. In relative terms, allowances levels increased somewhat during the 1920s and 1930s, largely because average production wage-earnings stagnated or fell, especially during the Great Depression. But the relative position of mothers' allowances benefits fell sharply during the early 1940s to their lowest relative levels, when wage-earnings were growing more rapidly. During the 1950s and, even more so the 1960s, the relative position of benefits levels increased, to a peak in the late 1960s. During the 1970s there was a rapid decline to relative levels below those of the 1920s and 1930s. Some small increases in benefits rates in the 1980s together with stagnating or declining wage-earnings increased the relative position of mothers' allowances, but not to a level as high as that as the late 1960s and still at levels comparable to or at times even below those of the 1920s and 1930s. This occurred despite the introduction in 1966 of a major new program at the federal level, the Canada Assistance Plan, which was a key factor in the significant increase in the mothers' allowances (or family benefits) programs in the late 1960s and early 1970s.

Old Age Pensions

There was considerable labour pressure for old age pension legislation during World War I -- for "the soldiers of industry" -- and in earlier years, but an Old Age Pensions Act was not passed until 1927.[24] The act provided for means-tested pensions to British subjects, the costs to be shared equally between the federal government and individual provinces. That same year the province of British Columbia was the first to pass enabling legislation; it was not until 1937 that all provinces were actually paying benefits (Bryden [1974]), 8; Joint Committee [1950, 6]).

The old age pension program evolved over three main phases. The early means-tested pensions, with an age requirement of 70 and over, remained in effect from 1927 to the end of 1951. During this first phase, in 1930, a War Veterans Allowances program was established along the lines of the old age pension program to aid impoverished veterans who had been "broken down or burned out" by their active war service (Guest [1985, 95-98]); Statistics Canada, *Social Security: National Programs* [CS86-201], 1976, 637-39).[25] As well, in 1937, an amendment to the Old Age Pensions Act increased eligibility to include impoverished blind persons 40 and over. The second phase began under the Old Age Security Act, 1951. Effective in January 1952, the federal government dropped the means test and provided flat-rate benefits (a demogrant) to all those 70 and over who met residency requirements. The third phase began with the Guaranteed Income Supplement program introduced as a 1966 amendment to the Old Age Security Act. Effective in January 1967, full and partial supplements were provided to those receiving old age pensions with eligibility determined by an income test. Thus, there emerged a combined demogrant and income-tested pension system. During the years 1966 to 1970, the minimum age of eligibility for old age pensions and the supplements was lowered by one each year until, in 1970, it was 65.

Initially, the level of benefits was set at $20 per month or $240 per year, an extremely low amount. The pensioner was permitted extra income to the limit of $125 per year; beyond that, the pension was reduced accordingly until, at $365, the pensioner was no longer eligible. Bryden (1974, 62) suggests that this $365 figure resulted from "an empirically unverified assumption prevalent in government circles at the time that an old person required a minimum of $1.00 a day to live." The Parliamentary Committee on Old Age Pensions did seek out and receive some returns on municipal and provincial expenditure of funds for the relief of aged persons and it was also found out that the average cost per inmate in 45 city houses of refuge in Ontario was 88 cents per day (Department of Labour, *Annual Report*, 1927, 90-95). Guest (1985, 74-75) argues that both the setting of the pensionable age at 70 rather than the more common 65 and the setting of the benefit rate at $20 per month rather than the more defensible rate of $30 per month were the result of concerns about the cost of the program. He also suggests that "the lack of statistical data on income distribution in Canada permitted the committee to indulge in the fantasy of viewing the pension as a supplement to other savings rather than an adequate pension in itself."

The $240 per year rate was a very low standard, at best a subsistence minimum. During the 1930s, many pensioners still found it necessary to apply for relief. During the 1940s, after some declines in the real value of the pension, certain provinces began to provide small monthly supplements to the old age pension. Marsh observed in 1950 (1274), of the adjustment in rates that had occurred, that the rates were "not based on an assessment of what is an adequate maintenance standard, but are primarily a recognition of the fact that the cost of living has risen substantially." From Table 3 it can be seen that the real value of the pension increased until the 1970s, in which decade it began to stagnate. The biggest single increase in the old age pensions came with the introduction of the Guaranteed Income Supplement program in the 1960s.

For the basic pensions alone compared to average production wages, the level of benefits fell, even taking into account the very low rates established in 1927. However, with the new supplement program, which increased substantially in real and relative terms since 1967, the total maximum pension also tended to rise. Nonetheless, in 1973 pension income was made taxable for income tax purposes, which would have reduced the actual effect of the increases. The main cause of the relative increases in the total pension in the 1980s, was that, on the one hand, the federal government was compelled to maintain indexing while, on the other hand, real wages were tending to decline or stagnate. All this said, in 1981 the maximum total pretext pension was only about 73 per cent of the Statistics Canada low income cut-off for single individuals and 90 per cent for couples.

Unemployment Insurance

A state program of social insurance for the unemployed had been proposed by the Royal Commission on Industrial Relations in 1919, it had been supported by a parliamentary committee in 1929, and it had been legislated in 1935 (though later declared ultra vires). And it had long been a major demand of trade unions and the unemployed. Yet it was not until 1940, in conditions of rising employment and the need for labour co-operation in World War II, that the B.N.A. Act was amended and the Unemployment Insurance Act, 1940 was passed.[26] The act became effective on July 1, 1941. Subject to numerous ongoing amendments and changes in regulations, the act had two major revisions, in 1955 and 1971. Over the period of the program the coverage increased considerably, from about 84 per cent of civilian wage-earners in 1941 to about 97 per cent in 1981.[27]

In principle, the unemployment insurance program was based on social insurance principles, i.e., workers were insured against temporary income loss due to unemployment. Benefit levels were related to contributions and contributions to wage-earnings. Thus, the benefits would be paid to the unemployed as a certain percentage of their previous earnings for a definite, limited period (usually less than a year and excluding an initial waiting period). In practice this was modified. From the outset until 1975, for each level of contribution there was a lower benefit rate for those who were single and a higher benefit rate for those with one or more dependants. As well, the program set a maximum to the level of insurable earnings. At the beginning of the program, workers earning over a specified ceiling ($2,000), even though otherwise eligible, were excluded from participation. This gave rise to considerable pressure from labour, particularly from skilled workers, to raise the ceiling (see, for example, House of Commons, *Debates*, 4931-37). Later, in 1971, the use of the maximum insurable earnings concept permitted the partial insuring of the wages of workers with earnings higher than the stated maximum.

As can be seen from Table 3, the level of maximum insurable wage-earnings was increased in 1943, but its real value fell over the rest of the 1940s; thereafter it rose until the 1970s. However, relative to average wages, the level of maximum insurable earnings fell sharply, especially during the 1960s and 1970s. Despite the stated insurance approach, there was evidently a deterioration of the benefits situation of higher paid workers. This paralleled developments in workers' compensation, the other program discussed here that was formally based on social insurance principles.

The first scale of benefits gave some recognition of need by setting a smaller percentage benefit for those in the higher earnings groups than those in the lower earnings groups. The range was from 31.8 to 75.6 per cent for single recipients and from 37.5 to 88.9 per cent for recipients with one or more dependants. Over the next three decades this type of range remained. But in 1971, the government instituted a policy whereby benefits were determined as a flat (66 2/3) percentage of earnings. This raised the benefit rate for higher-paid workers (although it was counteracted somewhat by the real decline in maximum insurable earnings); on the other hand, there was a continuation of the decline in the benefit percentage for those with lower incomes, especially for those with dependants.[28] In 1979, the benefit percentage was reduced to 60 per cent.

From its inception, the unemployment insurance program was concerned to make any benefits <u>less</u> than the going level of wages, particularly those of general unskilled labour. Again, the pressures of 'less eligibility,' which had dominated unemployment relief policies during the 1930s,[29] continued to affect the unemployment insurance program as it did welfare programs. In Ontario, the <u>maximum</u> single benefit rate was generally lower than or approximate to the minimum wage, with the main exceptions being around the late 1950s and the late 1970s. Also in Ontario, the maximum dependant benefit rate was actually lower than some family relief rates in the initial years of the program, though soon after the war the maximum dependant benefit rate climbed above welfare rates. The minimum benefit rates (about $212 and $250 on an annual basis) were at extremely low levels, inadequate in most circumstances for the barest subsistence without supplementation. Although the benefit levels varied greatly, it is apparent for the lower levels and especially for families that the levels were set at temporary or short-term subsistence standards, particularly for low-income wage-earners and those with families.

With the notable exceptions of the 1940s and the latter 1970s, there were real increases in maximum benefit levels for unemployment insurance. Relative to average wages, there was a general decline in maximum benefit levels until the upward revision of benefit levels in the mid-1950s, then another decline until the major upward revision of the early 1970s (although UI benefits were made taxable in 1973). The decline of the later 1970s was especially significant since it occurred both in the real value of maximum benefits as well as relative to average wage-earnings. In the 1980s there was an upward revision in the real level of maximum insurable earnings and, therefore, of maximum benefits; however, there was also a tightening of coverage and of the duration of benefits (which would reduce annualized value of benefits). In any case, the percent of insurable wage-earnings used for determining benefits, which was reduced from 66 2/3 to 60 per cent in 1979, remained unchanged at 60 per cent, while average wage-earnings tended to decline or stagnate.

Although insurance, need, and 'less eligibility' principles have been warring continuously in the evolution of the unemployment insurance program benefits, it is clear that the insurance and 'less eligibility' forces have dominated. Even under the somewhat more liberal benefits regime of the early 1970s, the maximum rates were approximately 55 per cent of average wage-earnings and lower than the Statistics Canada poverty lines for families of three of more persons living in urban areas.[30]

<u>Income Tax Personal Exemption</u>

The personal income tax was never essentially an income security program, but certain elements of its development provide indications of official views on minimum living standards. This is most evident in the personal exemption, which has been part of the federal income tax system right from the latter's origins in World War I as a compromise measure to "conscript capital" (as well as labour) in the war effort.[31]

Under the Income War Tax Act, 1917, a personal exemption of $1,500 was established for single persons and $3,000 for married persons. At the time, the Minister of Finance, Sir Thomas White, argued that "on the one hand, we must be careful that the entire burden of the taxation is not borne by a particular class, and on the other hand, we must see to it that our taxation is not oppressive to those whose incomes are barely sufficient to enable them to sustain the burden of the cost of living as it is to-day" (House of Commons, *Debates*, 1917, 3761-62). White claimed that his recommendation had taken into account the rising cost of living, the fact that some municipalities and provinces were levying their own incomes taxes, and the level of the existing income tax in the U.S. However, there was a very rough and highly subjective character to the determination of the exemption levels. Originally, White had proposed the single personal deduction at $2,000 but, after criticism, the amount was reduced reluctantly to $1,500. White's reasoning for the higher exemption, which he supported by his own personal observations and not with statistical evidence, was that many single men had dependants and that few single men without dependants had high incomes.[32]

In 1919, the single and married exemptions were lowered to $1,000 and $2,000, respectively, though the government also introduced an exemption for dependent children under 18 of $200 per child. These levels, which lasted for a few years before being raised, reappeared during the 1930s (though with higher children's rates); they were the lowest exemption levels appearing prior to World War II.[33] Generally, the early exemption levels were higher than the wage-earnings of most blue-collar workers, though they were not far above the 1925 minimum health and decency standard estimated by Gould (i.e., a deduction of $2,600 compared to the minimum of about $2,200 for a family of five).

With World War II, the implied minimum standards were lowered sharply, to an historic low of $660 and $1200. For large urban areas, these exemptions approximated a minimum health and decency level. (For a family with child, the income tax had an additional exemption per child or a tax credit depending on what year during the war.) Some confirmation of this is provided by a 1941 Federal Department of Labour statement relating to the implementation of wartime wage controls that considered $25 per week (or $1,300 per year) as a minimum family wage for basic necessities.[34] In his study of minimum standards for 1940-41, Leonard Marsh suggested $1,134 a year would be an "Assistance Minimum budget," or a minimum subsistence level that was "conceded rather than recommended", while $1,577 would be needed for a "Desirable Living Minimum budget" comparable to a minimum health and decency standard.[35] At the same time, the single exemption was close to the level of the Ontario minimum wage.

Once the war was over the single and married exemptions were returned to the $1,000 and $2,000 level and stayed there until the 1970s. Only the child rate moved up somewhat. Consequently, the real value of the personal exemption declined through the late 1940s, the 1950s, and the 1960s. During the 1970s, there was an initial increase in the personal exemption levels which was stabilized by indexation until the end of the period.[36] Nonetheless, relative to average wages, the levels of the exemption fell sharply over the period.

By the 1970s, the deductions were at or below minimum subsistence standards. While not precisely formulated, the general view continued that the deduction was a type of minimum standard. During the 1960s, a staff member of the Royal Commission on Taxation (the Carter Commission) commented: "The personal exemptions under the Income Tax Act are intended to provide a tax free basic subsistence allowance."[37]

By the 1980s, the levels of personal exemption were not only less than half of the Statistics Canada poverty lines, they bordered on Ontario welfare levels.[38] Hence, the personal exemptions had shifted generally from above minimum health and decency levels in the 1920s and 1930s, to approximate minimum health and decency levels beginning in World War II, to minimum subsistence levels by the end of the period.

NOTES

1 As calculated for *Social Infopac*, July 1982, the rates for general welfare assistance recipients had increased 34.5 percent since 1975 and those for FBA/GAINS-D (family benefit [or mothers'] allowances and disability assistance) had increased 45.5 percent, but the cost of living had jumped 71.1 percent.

2 The study noted that the program improvements initiated in Ontario since 1981 "largely offset the decline in adequacy that occurred in the preceding five years" but they have "done little to redress the longer term situation" (ibid., 48).

3 According to King (1939, 107): "The general consensus of opinion of competent observers in the United States and other countries is that malnutrition, caused by inadequate diet over a long period of time, appears to result in a general lowering of physical resistance, which makes for incapacity to hold jobs and to shake off disease. Attention has been directed to the effects of malnutrition on the physical and mental development of children, and investigations point to an excessive and increasing incidence of illness in long-term relief families."

4 PAC, MG 28, I 10, Vol. 120, File: "Relief General 1935-64," 1961 document by the Social Planning Council of Toronto entitled "Regulations under the General Welfare Assistance Act - 1960."

5 Duncan (1938) considers the rise was also caused by the post-1932 increase in the cost of living.

6 Ontario's welfare levels relative to those in other provinces have fallen somewhat since 1975 (Federal-Provincial Working Party on Income Maintenance [1975, Table 6]; *Social Infopac*, Oct. 1983). Relative to median provincial incomes, the incomes of Ontario families on welfare were the lowest in Canada; further, Ontario was one of four provinces that did not provide young, single employable recipients with enough to meet even food and shelter minima (*Social Infopac*, Oct. 1983).

7 In essence, most employers ceased to be individually liable for damages. Guest (ibid., 46) argues that the collective insurance was cheaper than what could be obtained from private insurance companies and that "Smaller businesses no longer faced the risk of financial ruin through lawsuits, and costs of accident compensation and accident insurance, which up to the passage of the new act were unpredictable and rising, now became predictable and stabilized." For the workers there was less of the expense and delay of litigation, some assurance that benefits would be paid regardless of the financial conditions of individual firms, and greater opportunities for democratic pressures to change the operation of the compensation system itself.

8 See, for example, Piva (1975), Campbell (1981), Jennissen (1981), *Labour Gazette* January 1919, 2, and *Labour Gazette* February 1930, 187. For an overview of more recent aspects of workers' compensation, see Statistics Canada (1980[April])(CS86-501).

9 Beginning in 1923, an amendment to the legislation required that the 66 2/3 percent of previous earnings provision would not reduce the level of benefits below a specified minimum (of $12.50 per week or $650 per year). However, until the 1960s, if total earnings prior to injury were below the specified minimum, then the lower of the two, the total earnings level, would be the benefit level.

10 Morton (ibid., 200) mentions that: "In 1885 widows and soldiers' mothers were pensioned only if they were poor enough to need the money, if they remained widows, and if 'they proved worthy of it.' Disability pensions in 1885 ranged from $1000 for a politically influential paymaster who had hurt his arm to 60 cents a day for a private rendered 'totally incapable by enemy action.'" For an overview of more recent aspects of veterans' pensions, see Statistics Canada (1983[January])(CS86-511).

11 See Special Committee on Pensions for Disabled Soldiers (1916) in *House of Commons Journals*, 1916, Vol. LII, Part 2, Appendix No. 4.

12 The committee made the following revealing statement: "The soldier brings to the service of his Country a human machine with a certain ability or capacity. For convenience this machine may be taken to be the healthy mind and body of a man in the class of the untrained labourer. If he shows ability he will gain a higher rank, if not, he will remain a private. If he has not gained promotion he will return, upon discharge, to civil life with nothing more than a human machine, the healthy mind and the body he brought with him into the Service. If he is not incapacitated, he is as valuable to himself as he was previous to his enlistment. If, on the contrary, he is incapacitated, he has lost a certain degree of earning power, which is to be calculated only from the point of view of his earning power as a human machine in the market for untrained labour. The earning power of a man in the class of the untrained labourer is considered to be sufficient to provide decent comfort for himself or his family, that is to say, that standard of living which the average unskilled man can command for himself and his family." These are as quoted in the *Report of the Committee to Survey the Work and Organization of the Canadian Pension Commission*, also known as the (Mervyn) Woods Committee, which contains the most detailed treatment of veterans' pensions yet available (see, especially, Vol.II, Ch.13).

13 The basic rate was $600 per year and the bonus $120. See Schull (1973, 25) and *Statutes of Canada.*

14 This discussion relates to official maximum rates and not to changes in eligibility or the actual handling of applicants. There has been a long history of grievance about not only pension rates but also the administrative treatment of veterans, which itself was a factor giving rise to the Woods Committee survey of the Canadian Pension Commission.

15 For more on the advent of minimum wage legislation in Ontario and in Canada as a whole, see Derry and Douglas (1922), Burns (1926), Whittingham (1970), West and McKee (1980), Campbell (1981), and McCallum (1986).

16 Archives of Ontario, RG7, VIII-I, Vol. 28, File 202/1, memorandum for Roebuck re: Industrial Standards Act. This memo is from the 1930s, though the theme appeared earlier.

17 Although Alberta's minimum rates under the Factories Act, 1917 applied to both men and women, they were very low--$1.50 per shift, $9.00 per week (assuming a 6-day week), and only $1.00 for apprentices. When a Minimum Wage Act was approved in Alberta in 1928, it covered females not males; the first orders of the Alberta Minimum Wage Board, which were in January 1923, set the minimum for experienced women workers at $14.00 per week. For some material on the Alberta minimum wage, see Coulter (1982, 151-52).

18 The budget for laundry workers was probably lower because it was thought less would have to be spent on appearance. However, the $12.50 budget for retail saleswomen was still very stringent, as McCallum (ibid., 44) supports: "Although the budget included $12.00 per year for church and charity, it included nothing for savings or vacations. Therefore, unless a woman managed to avoid spending the $20.00 per year allotted for doctor, dentist, and optician, she had to work full-time, fifty-two weeks a year, just to stay out of debt. And even then, on the board's calculations, she would be $3.12 short."

19 In 1931, the Ontario board observed that "From the first the minimum rates were set at modest levels, and were not raised during periods of temporary expansion. Consequently, there has been no general demand that they be lowered during the present depression" (*Labour Gazette* 1932, 769). The board suggested that if there were a "considerable and permanent reduction of the cost of living of working women" they would scale down the minimum wages, but apparently the Depression was viewed as temporary and, as well, the board considered that necessary expenses had not had the big drops of raw material or wholesale prices.

But pressures later increased. In their 1934 report, the board wrote: "During past three years employers have adopted the practice of reducing wage rates and actual hours of employment until, in many instances, the minimum rates fixed by the Board have become the prevailing rates and the short time worked has resulted in weekly earnings below the amount necessary to maintain a decent standard of living. Consequently, the Board has been faced with the necessity of either enforcing the Act more vigorously or permitting an ever increasing number of violations, which in a short time would render this protective legislation useless insofar as the workers are concerned, and a source of annoyance and unfair competition to the honest and conscientious employers. Backed by the Government, the Board has chosen the first alternative and is making a sincere effort to maintain the minimum wages for all female employees despite the increasing tendency to regard the minimum fixed by law as a fair rate of wages."

20 See Special Committee on Price Spreads (1934, Vol. I, No. 2). These proceedings also contain interesting material on the general administration of Ontario minimum wages.

21 For more on the background of mothers' allowances, see Guest (1985, Ch. 5), Davies (1984), Hepworth (1981), Strong-Boag (1979), Kitchen (1977, Ch. 8), Ontario Department of Labour (1920). Guest (ibid., 49) writes that: "The problem of the one-parent family became more acute as the processes of industrialization shattered the informal social security system that grew out of a settled, rural life and the support of the extended family and long-time friends and neighbours. The anonymity of city life weakened the informal sanctions operating in small, closely knit communities to reduce the incidence of family breakup and to remind husbands and wives of their responsibilities to one another and to their children. By drawing more women into the labour force, industrialization broke down the conventional male-female roles, while the economic security of the breadwinner, now increasingly both male and female, was made dependent upon the state of a labour market which fluctuated unpredictably. Divorce became more common, as did desertion (the poor man's divorce), leaving many women and children without financial support."

22 As in other programs, there was generally a broadening of coverage, at least until the mid-1970s. For instance, in 1935, the legislation was amended to include mothers with one child. Decades later, in 1982, sole-support fathers were made eligible.

23 The commission believed the home-grown food stuffs and lower rents in rural districts enabled mothers living there to fare better on the allowance (*Annual Report*, 1922).

24 For more background on pension legislation, including the Government Annuities Act of 1908, see Laycock (1952), Bryden (1974), Donnell (1980), Statistics Canada (1982[June])(CS86-509), Roome (1986), Myles (1984), and Guest (1985, 74-79).

25 Under the War Veterans' Allowances program, such veterans were considered "pre-aged" and made eligible for the means-tested old age pension at 60 instead of 70. Schull (1973, 27) suggests this provision "was based on the theory that the rigours of front-line service pre-aged a man approximately ten years." As well, eligibility was opened to those veterans regardless of age who were permanently by reason of physical or mental disability.

26 For discussion of the background and evolution of unemployment insurance, see Cuneo (1979), Armstrong (1980), Johansen (1980), Task Force on Unemployment Insurance (1981), Dingledine (1981), Statistics Canada (1984[November])(CS86-506), Struthers (1983, 1984, 1987), and Pal (1988).

27 Based on Dingledine (1981, 11, 173) and official labour force data. The civilian wage-earners include both employed wage-earners (minus the armed services) and the unemployed.

28 The minimum benefits payments were effectively determined by eligibility. In particular, people earning less than 20 percent of the maximum insurable or 20 times the applicable minimum wage were excluded. Using 20 percent of the 1981 maximum of $315 per week, the minimum insurable earnings were $63 per week and the minimum benefit (at 60 percent) was $38 per week (or $1,966 per year).

29 See, for example, Struthers (1983). Struthers argues that one reason relief was left to the municipal level was that "Municipalities were more in touch with local wage rates, which varied widely across the country, and thus they could justify politically keeping relief scales below these levels in a way the national government could not." He points out that the doctrine remained even after the federal government stepped further into the area of unemployment relief. "After 1938, maximum levels of support set below local wage rates for unskilled labour were written into every relief agreement the federal government signed with the provinces." (Struthers [1983, 211-12]).

30 The Statistics Canada low income cut-offs are from Ross (1975, Table 2) and the calculation assumes conservatively a 52-week duration of benefit. In 1987, the maximum benefits remained generally below the Statistics Canada low income cut-off. For instance, the maximum benefit for a family of five was as low as 63 per cent of the cut-offs (Table 5).

31 The income tax system had long been the object of intense political interest and conflict--the "tax struggle" as called by MacDonald (1985, 1986, 1988). For background on its evolution, see also Perry (1955), Russell (1984), Gillespie (1991).

32 Ibid., 3769: "There are many men who are unmarried because they have others dependant upon them. I do not believe there are very many single men without dependents who have large incomes." One of his critics commented: "Probably, when we are discussing salaries, or taxation, we are apt to be guided to some extent by the conditions existing in Ottawa. We know that in the different departments at Ottawa, a man who is receiving only $2,000 is, in his own mind, a menial, and in the eyes of the people of Ottawa is not entitled to any kind of social distinction. When, however, a man in the ordinary country districts of Canada--and I do not care what part it may be--receives a salary of $2,000, he is looked upon as being in pretty affluent circumstances. There is no part of Canada, even including the city of Ottawa, where a married man in receipt of a salary in excess of $2,000 should not pay taxation on the excess. The same principle applies to the unmarried man. A man who is not supporting a wife or family in this country, in this time of stress, ought to pay much more heavily than the minister is providing for under this legislation." (Ibid., 3770)

33 The single and married exemptions were returned to $1,500 and $3,000 in 1926. The child exemption was raised to $300 in 1922 and to $500 in 1924. In 1932, the single and married exemptions were reduced to $1,200 and $2,400 and, in 1933, they were returned to $1,000 and $2,000. In 1934, the child exemption was reduced to $400.

34 "The standard formula is suggested on the assumption that a wage of $25 per week leaves a family practically no margin for expenditures on anything but the basic necessities of life." (From a Department of Labour letter entitled "Suggestions for the Application of Order-in-Council P.C. 7440 by Boards of Conciliation and Investigation," dated March 31, 1941, as quoted in Workers' Educational Association (1941, 3.)) One can perhaps assume a family of five as that had long been the typical family size used in the Department of Labour family budget statistics.

35 Marsh's calculations were based on a 1939 Toronto Welfare Council study for a family of five (with 3 children) (Marsh [1975, 29-44]). See also the proposals of Charlotte Whitton for a "living wage policy," the contributions for which would be paid beginning at the $660 and $1,200 levels of the minimum taxable incomes (Guest [1985, 117-18]).

36 Since then the government has moved towards deindexation of a variety of programs including the income tax. See Battle (1986).

37 PAC, RG 33/65, Vol.2, blue sheet by M. Clay for the submission of the National Council of Women.

38 In 1981, the single exemption rate was somewhat lower and the family of five rate somewhat higher than the respective general assistance maxima. During part of the 1960s both exemption rates had been lower than the general assistance maxima.