

The Economic Impact of Social Assistance in Hamilton

**Submitted by
Econometric Research Limited**

April, 2011

Introduction

There is a general presumption that Social Assistance in Ontario or elsewhere, whether through Ontario Works (OW) or ODSP benefits, is a general burden on the tax payers in the province with no or little benefits for the people of Ontario beyond the small cohort receiving it. The results of the economic impact analysis we undertook show that this is not true. Rather, the expenditures the beneficiaries make (incidentally it is typically the case that the recipients of these benefits spend all what they receive) in the local economy tend to generate significant impacts in both the local and provincial economies.

Econometric Research Limited (ERL) used its standard Regional Impact Model (RIM) to estimate the economic impact of both Ontario Works and ODSP expenditures in Hamilton. The data was derived from accounts gathered by the Community Services Department of the City of Hamilton that show that in 2009 OW benefits were about \$123.6 million and ODSP benefits exceeded \$244.1 million. These expenditures were further broken down into several subcomponents of expenditures on shelter, basic needs and several other items.

The economic impacts of the two programs were estimated separately as they involve different compositions of expenditures. Impacts were estimated at the local level (Hamilton-Wentworth) and at the provincial level.

Approach

The standard approach for this analysis is based on a hybrid integration of input output analysis, location theory and relevant segments of typical macroeconomic models. General descriptions of the tools of analysis that were employed in this exercise are presented below.

A dollar spent on processing by a beneficiary of social assistance on shelter and basic needs circulates and re-circulates within the economy, multiplying the effects of the original expenditures on overall economic activity. This process is referred to as the economic *multiplier effect*. It operates at several levels:

- The initial expenditures of the beneficiaries on shelter, food, services and products are generally referred to as the direct expenditures and their effects are referred to as **the initial (direct) effects**.
- Subsequent purchases by suppliers of materials and services to sustain the original and derivative expenditures of the social assistance beneficiaries are called **the indirect effects**.

- The *induced effects* emerge when workers in the sectors stimulated by initial and indirect expenditures spend their additional incomes on consumer goods and services.

Economic impact analysis is a useful mathematical tool capable of quantifying the patterns and magnitudes of interdependence among sectors and activities. It is one of several social accounting systems that can be used to evaluate programs, projects and activities in terms of a suite of non-market criteria. Impact analysis is typically predicated on three fundamental propositions.

- Regardless of the inherent value of primary activities such as the creation of employment, income and decent life for the beneficiaries, these activities generate socio-economic consequences that are recognized and deemed important by communities and policy makers. These impacts go beyond the customary outcomes of profits or returns on investment.
- These socio-economic impacts are quantifiable and can be measured and compared within the same platform.
- Economic impacts are only partially captured by assessing the outcomes generated by initial expenditures. The economy is a complex whole of interdependent and interacting activities, there are significant indirect and induced impacts associated with the direct expenditure. These indirect and induced impacts are often larger than the direct impacts.

The expected impacts will be estimated in terms of total gross output (sales), GDP, employment, taxes by level of government and in terms of five major tax categories. Besides the output and employment impacts will be allocated over the standard 33 sectors of the M-aggregation of Statistics Canada IO for the Ontario economy.

The Economic Impact Model

The impact model that will be used in this project is a special and proprietary application of a unique regional impact model (RIM: Canada) developed by Econometric Research Limited. It is a unique model in that it captures the economic impact of different activities at the local level, the regional (Hamilton and area) and the provincial level. The local impacts are a special feature of the ERL system that few other systems can duplicate. The model is based on a novel technology that integrates input-output analysis and location theory. The system has already been applied to the study of the economic impact of several food processing and agricultural activities in Canada and abroad.

The model utilises a large set of economic and technical databases for local communities, provinces and Canada that are regularly published by Statistics Canada. A short list includes the inter-provincial input output tables, employment by sector, taxes by type of tax and the level of government collecting it, prices of products, location quotients, etc.

The Province Wide (Ontario) Impacts

The expenditures by the beneficiaries of social assistance in Hamilton of about \$123.6 million under the OW program and over \$244.1 under the ODSP sustain a significant stream of benefits on the provincial economy. The province wide results include the following:

- A total of \$439.3 million in value added of which \$144.4 million is attributed to OW and about \$250 million to ODSP (Table 1 and Figure 1).

Table 1
Economic Impacts of Social Assistance in Hamilton
Province-Wide Impacts
 (Thousands of 2009 Dollars)

	Ontario Works	Disability	Total
Initial Expenditure	\$123,575	\$244,138	\$367,713
Value Added			
Direct	\$72,023	\$142,808	\$214,831
Indirect & Induced	\$72,333	\$152,124	\$224,457
Total	\$144,356	\$294,932	\$439,288
Multiplier	1.17	1.21	1.19
Gross Output			
Direct	\$123,575	\$244,138	\$367,713
Indirect & Induced	\$158,939	\$328,585	\$487,524
Total	\$282,514	\$572,723	\$855,237
Multiplier	2.29	2.35	2.33
Wages & Salaries			
Direct	\$38,063	\$83,877	\$121,940
Indirect & Induced	\$44,071	\$93,362	\$137,433
Total	\$82,134	\$177,239	\$259,373
Employment			
Direct	745	1,483	2,228
Indirect & Induced	1,018	2,195	3,213
Total	1,763	3,678	5,441
Multiplier	2.37	2.48	2.44
Taxes			
Federal	\$22,764	\$47,534	\$70,298
Provincial	\$19,117	\$38,123	\$57,240
Local	\$5,689	\$11,345	\$17,034
Total	\$47,570	\$97,002	\$144,572
Imports			
From Other Provinces	\$19,217	\$39,303	\$58,520
From Other Countries	\$11,104	\$21,633	\$32,737
Total	\$30,321	\$60,936	\$91,257

Source: Econometric Research Limited based on data from
 Community Services Department, City of Hamilton

- Over 5,441 Ontarians owe their jobs in Ontario to the expenditures of social assistance beneficiaries in Hamilton (Table 1).
- The total cost of the program in Hamilton is about \$368 million. The net cost is significantly lower as taxes are collected by all levels of government on the impacts of these expenditures. A total of \$144.6 million is collected by the three levels of government on these impacts (Table 1 and Table 3). Of course, the federal government ends up with the lion share of \$70.3 million but the provincial government collected \$57.3 million (Table 1 and Figure 2).
- Wages and Salaries rise by about \$260 million in response to these expenditures (Table 1 and Figure 1).
- All of the familiar multipliers associated with these expenditures are relatively high and compare favourably to other industrial multipliers. This is not surprising because the beneficiaries spend all of their benefits (there is no room in these benefits to save) and because of their high proclivity to buy domestic products.

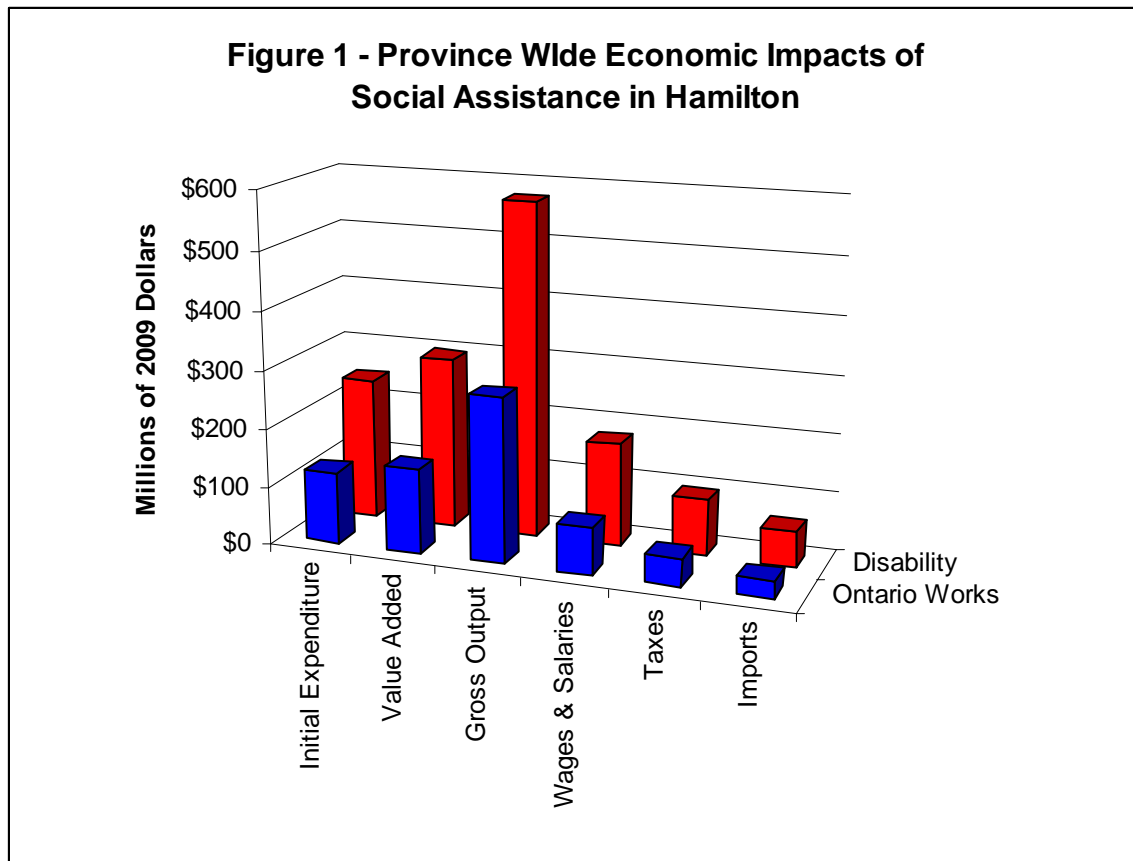
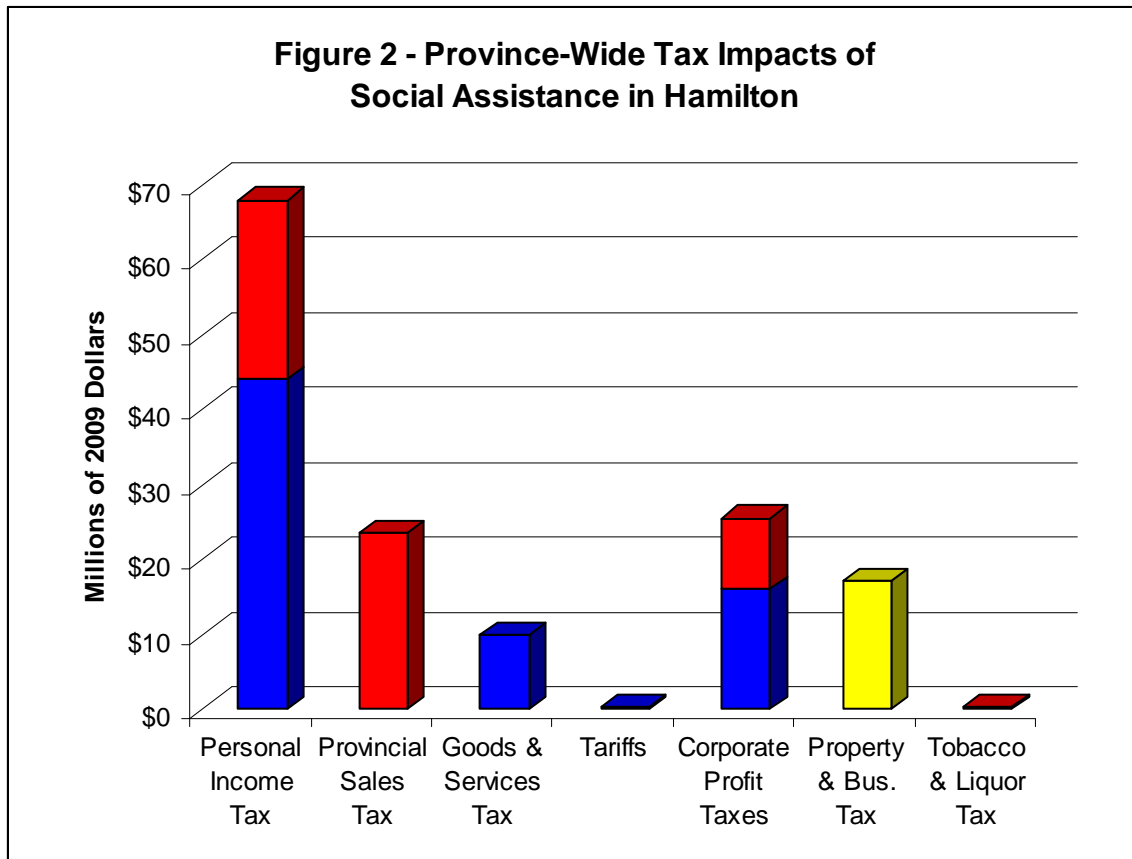


Table 2
Tax Impacts of Social Assistance in Hamilton
Province-Wide Impacts
(Thousands of 2009 Dollars)

	Federal	Provincial	Local	Total
Personal Income Tax	\$44,045	\$23,906	\$0	\$67,951
Provincial Sales Tax	\$0	\$23,576	\$0	\$23,576
Goods & Services Tax	\$10,014	\$0	\$0	\$10,014
Tariffs	\$222	\$0	\$0	\$222
Corporate Profit Taxes	\$16,017	\$9,527	\$0	\$25,544
Property & Bus. Tax	\$0	\$0	\$17,034	\$17,034
Tobacco & Liquor Tax	\$0	\$231	\$0	\$231
Total	\$70,298	\$57,240	\$17,034	\$144,572

Source: Econometric Research Limited based on data from
Community Services Department, City of Hamilton



Hamilton Impacts

The economic impacts generated by these expenditures are naturally smaller in Hamilton than the corresponding impacts at the provincial level. The economy of Hamilton cannot meet all the demands of the beneficiaries and a large volume of imports is necessary. Imports represent a leak from the economy which reduces the impacts as the leakages reduce the recirculation of impacts within the local economy.

Table 3
Economic Impacts of Social Assistance in Hamilton
Hamilton Impacts
 (Thousands of 2009 Dollars)

	Ontario Works	Disability	Total
<i>Initial Expenditure</i>	\$123,575	\$244,138	\$367,713
<i>Value Added</i>			
Direct	\$64,602	\$132,859	\$197,461
Indirect & Induced	\$32,301	\$66,430	\$98,731
Total	\$96,903	\$199,289	\$296,192
Multiplier	0.78	0.82	0.81
<i>Gross Output</i>			
Direct	\$123,575	\$244,138	\$367,713
Indirect & Induced	\$74,145	\$146,483	\$220,628
Total	\$197,720	\$390,621	\$588,341
Multiplier	1.60	1.60	1.60
<i>Wages & Salaries</i>			
Direct	\$34,424	\$78,964	\$113,388
Indirect & Induced	\$16,151	\$33,215	\$49,365
Total	\$50,575	\$112,179	\$162,753
<i>Employment</i>			
Direct	678	1,393	2,071
Indirect & Induced	407	905	1,312
Total	1,085	2,298	3,383
Multiplier	1.60	1.65	1.63
<i>Taxes</i>			
Federal	\$8,165	\$16,486	\$24,651
Provincial	\$6,911	\$13,299	\$20,210
Local	\$2,057	\$3,958	\$6,015
Total	\$17,133	\$33,743	\$50,876
<i>Imports</i>			
From Other Provinces	\$6,781	\$13,366	\$20,147
From Other Countries	\$4,109	\$7,710	\$11,819
Total	\$10,890	\$21,076	\$31,966

Source: Econometric Research Limited based on data from
 Community Services Department, City of Hamilton

The local impacts include:

- Local income is raised by \$296.2 million by the expenditures of the OW and ODSP beneficiaries.
- More than 3,383 full time equivalent jobs are sustained in the local economy by these expenditures.
- Wages and salaries are augmented by over \$162.7 million in local economy.
- Even the local government derives in implicit \$6 million in tax revenues on these impacts.

