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ARTICLE

Social Policy Responses to Rising Inflation in Canada and the United States

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Abstract
Social policies' responsiveness to rising inflation depends in large part on whether they contain automatic indexation mechanisms, which ensure that the real value of wages and benefits expands during inflationary periods. Here we compare how the indexation of Canadian and U.S. policies on pensions, minimum wages, and food security have affected their responsiveness to the recent cost-of-living crisis. Three main conclusions emerge from our analysis. First, automatic indexation is not necessarily a silver bullet to avoid policy drift. Second, automatic indexation and its design are not the only factors that matter to determine whether high inflation leads to policy drift. Finally, in times of higher inflation, social programs that lack automatic indexation can avoid policy drift, as long as a strong political consensus allows for ad hoc social policy expansion capable of offsetting the negative effects of inflations on social benefits.

Keywords: Inflation; cost-of-living; indexation; social policy; policy drift.

Introduction

Like the European countries discussed in other contributions to this themed section of *Social Policy and Society,* Canada and the United States are coping with a large-scale inflation crisis that began in the aftermath of the COVID-19 pandemic and the Russian invasion of Ukraine in late winter 2022 (Armstrong, 2023). Yet coping with – and, perhaps more importantly, responding to – rising prices is not merely a problem to be solved by central bankers through the hiking of interest rates. Elected officials in both countries have been confronted with the question of how to deploy a variety of *social policy* instruments to shield households from the negative effects of rising costs.

Ensuring that the real value of citizens' pensions, wages, and other social benefits does not decay with rising inflation is important not only as a policy matter, but as a political imperative. After all, macroeconomic policy responses to inflation – including both interest-rate hikes and supply-side reforms – do not promise a 'quick fix' to higher prices. Rather, these policy responses offer solutions whose effects may only manifest over a decade rather than on the time horizon of election cycles. And, as policy prescriptions go, higher interest rates contain the potential adverse side effect of growing unemployment which has social, economic and political consequences. In these difficult political conditions, social policies that can quickly adjust to rising prices may help to shield voters from the worst consequences of inflation today, rather than elected officials promising a return to normalcy at some projected point in the future.

Since Weaver (1988), scholars have argued that social policies' responsiveness to rising inflation depends in large part on whether they contain automatic indexation mechanisms, which ensure that the real value of wages and benefits expands during highly inflationary periods. In this article, we compare how the indexation of Canadian and U.S. policies on pensions, minimum wages, and food security have affected their responsiveness to the recent cost-of-living crisis. We selected these two countries because they are two federal liberal welfare state regimes (Esping-Andersen, 1990) but also neighbouring countries that are highly interdependent economically, as they 'share one of the largest trading relationships in the world, with nearly $1.3 trillion in bilateral trade in goods and services in 2022' (Government of Canada, 2023b). For these reasons, comparing social policy development in Canada and the United States (U.S.) is a well-established and legitimate tradition, as scholars have compared these two 'most-similar' cases (Gerring, 2007: 88) to study topics as different as policy design (Myles, 1998), health care reform (Maioni, 1998), and policy responses to the pandemic (Béland et al., 2021).

Our qualitative analysis of pensions, minimum wage, and food security in both countries illustrates the enduring importance of automatic indexation in social policies' responsiveness to rising prices. It also suggests three important wrinkles for discussions of "automatic government" (Weaver, 1988). First, while the presence of automatic indexation in a policy area might mitigate the negative impact of the cost-of-living crisis on workers and families, the specific design of indexation formulas is also crucial here because the devil is truly in the details. This is the case given that certain formulas might restrict responsiveness, something that we can observe in both Canada and the United States. Second, beyond automatic indexation, other policy elements affect whether high inflation can eat away the real value of benefits, even when social programs are expanded to address the cost-of-living crisis. Finally, in times of high inflation, social programs without automatic indexation formulas do not necessarily see the real value of their benefits fall over time as a consequence of policy drift. Policy drift refers simply to the transformation "of stable policy due to changing circumstances" (Hacker, 2004: 248). Yet, to prevent policy drift in this context, a high level of political consensus is required so that necessary policy actions are taken.

Our article proceeds as follows. First, we explore recent inflation trends and the sudden rise in the cost of living in Canada and the United States. Second, we examine the concrete social policy responses to inflation in Canada and the United States, with a particular focus on pensions, the minimum wage, and food security. Finally, we draw out several broader lessons from our comparison of how pensions, the minimum wage, and food security in both countries responded to inflation. We also stress the limits of the analysis and potential avenues for future research on inflation and social policy in these two liberal welfare state regimes. Our evidence suggests that, while the 'automaticity' of social benefits is an important factor in responding to rising inflation, its ability to prevent policy drift hinges on the details of policy formulas, the structure of policy itself, and the capacity of legislative bodies to make discretionary changes to programs that enhance their responsiveness to rapid shifts in economic conditions.

Inflation and the rise in the cost of living in Canada and the United States

Inflation in Canada increased slowly in 2020 and gained speed in 2021, with the highest rates recorded in 2022. Much of this rise in the cost of living can be attributed to the economic impacts of the COVID-19 pandemic. Reports have also shown how national and foreign fiscal stimulus packages adopted during the pandemic, including those adopted in Canada and the US, contributed to inflation (de Soyres et al., 2022). Furthermore, Russia's invasion of Ukraine, which began on 24 February 2022, acted as a catalyst for inflation in specific sectors of the economy. Yet, while this development had a particularly dramatic impact on energy prices worldwide, rising household bills for gas and electricity did not become a central policy in Canada and the United States compared to the situation prevailing in some of the European countries discussed in the present themed section.

Table 1 illustrates inflation rates in Canada and the United States, calculated as a twelve-month change between January of one year to the next between 2019 and 2023. This includes both the

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Table 1. Headline consumer inflation in Canada and the United States (2019-2023)

	Canada (all-items)	Canada (all-items excluding food & energy)	USA (all urban consumers)	USA (all urban consumers, all-items less food & energy)
2019-2020	2.39	1.86	2.4	2.28
2020-2021	1.02	0.76	1.4	1.4
2021-2022	5.13	3.54	7.48	6.07
2022-2023	5.91	4.95	6.41	5.55

Calculated as a 12-month percentage change between January of one year to the next using not seasonally adjusted the Consumer Price Index data from Statistics Canada and U.S. Bureau of Statistics.

headline (i.e. all-items) rate as well as core inflation, which excludes volatile food and fuel prices. These statistics show the rate of inflation in Canada was steady during the first year of the pandemic. In Canada, the monthly year-over-year measure of core inflation based on the Consumer Price Index (CPI) varied between 1.5 per cent and 1.8 per cent between March 2020 and March 2021. Inflation then consistently increased from 1.8 per cent in March 2021 to 3.5 per cent in February 2022 when the Russo-Ukrainian war began (Statistics Canada, n.d. a). Overall, the headline inflation rate increased by 5.1 per cent in Canada January 2021 and January 2022 with the highest areas of inflation being in transportation (8.3 per cent), shelter (6.2 per cent) and food (5.7 per cent) (Statistics Canada, n.d. b).

By June 2022, the CPI indicated an 8.1 per cent year-over-year increase, with inflation reaching 4.9 per cent for that month (Statistics Canada, 2022). As during previous months, the largest increases remained in transportation, food, and shelter. Inflation also varied regionally on a year-over-year basis with the largest increases in June 2022 in Eastern Canada (Prince Edward Island, 10.9 per cent, Nova Scotia, 9.3 per cent and New Brunswick, 9.1 per cent) and the Prairies (Manitoba 9.4 per cent and Alberta, 8.4 per cent) (Statistics Canada, n.d. c). This can be partially attributed to dependence on natural gas for electricity in the Prairie provinces.

In the US, the early evidence, which showed inflation rising soon after President Joe Biden entered the White House, was downplayed by many economists as a likely short-term problem caused by strains to supply chains resulting from COVID-19 precautions. For example, the chair of the Federal Reserve Board (FRB), Jerome Powell, commented in March 2021, 'What we see is relatively modest increases in inflation . . . But those are not permanent things' (Tankersley, 2021). This proved to be a misdiagnosis. The inflation in the economy was not benign and, by spring of 2022, it had spread menace to the political as well as the economic realm. In March 2020, the CPI showed an increase of 1.5 per cent over the previous year. In March 2021, that figure was 2.6 per cent, which then accelerated to 8.5 per cent in March 2022, and touched 9.1 per cent in June (Statista, 2022). Rises were especially stark across the energy sector, despite some downward adjustment to gasoline in the summer of 2022, transportation and food prices. In its September 2022 report, the Bureau of Labor Statistics (2022a) noted: 'The index for cereals and bakery products increased 16.2 per cent over the year and the index for dairy and related products rose 15.9 per cent.' Within this national picture, there was some modest regional variation. In June 2022, the CPI showed inflation over the previous twelve months of 9.8 per cent in the South, 9.5 per cent in the Mid-West, 8.8 per cent across the West and 7.6 per cent in the North East (Bureau of Labor Statistics, 2022b).

Social Policy Responses to Inflation in Canada and the United States

Canada

The main tool to fight against inflation, the interest rate, has consistently been within a range of 1 to 3 per cent in Canada. The federal government and the Bank of Canada have shared

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inflation targets since 1991 and have extended the objective of attaining 2 per cent throughout that period (Bank of Canada, 2023). Inflation is a recurring issue in modern economies. In Canada, the most recent dramatic and sustained episode was the inflationary period beginning in 1973 (Statistics Canada, 2023). This monetary policy was, in part, instituted in response to rising inflation during this period.

Although geopolitics, most notably the price of gasoline, was a contributing factor to inflation in the mid-late 1970s and early 1980s, Canada's economic context was different to that of COVID-era inflation. The Canadian labour market was characterised by high unemployment in the 1970-80s. Whereas, the recent inflationary period has occurred in a context of labour shortages with the unemployment-to-job vacancy ratio having decreased across the country. *The Anti-Inflation Act*, the most visible policy response to high inflation in the 1970s adopted by the Pierre Trudeau Liberal Government, allowed the federal government to temporarily introduce price and wage controls. Another controversial policy adopted at the time was the 1980 National Energy Program, which created much political resentment in the oil-rich province of Alberta by seeking to tackle high energy prices (Janigan, 2012). Finally, while welfare retrenchment in the form of changes to cost sharing between the federal and provincial governments for social assistance and healthcare was discussed during this period, federal cutbacks only truly occurred in the early 1990s (Boychuk, 2015).

At the federal level, the inflation crisis that has emerged in the aftermath of the COVID-19 pandemic has been tackled by Prime Minister Justin Trudeau, Pierre Trudeau's son. In power since 2015, his Liberal government has been reduced to minority status as of 2019, which requires Prime Minister Trudeau to forge legislative alliances with opposition parties to survive confidence votes and get bills passed by the House of Commons. Legislative tensions were less conspicuous during the first stages of the pandemic, but have become more discernible over time. Here the most natural legislative dance partner for the Liberals is the left-wing New Democratic Party (NDP), a situation that has led to the signature in March 2022 of "a confidence-and-supply agreement that would allow the Liberals to govern with NDP support until 2025, contingent on the implementation of a negotiated list of policies and priorities" (Wherry et al., 2022). This agreement gives the centre-left Liberals more stability to govern and fight inflation by enacting legislation while increasing pressures to expand health and social policies which ensures their alliance with the NDP lasts.

Canadian governments demonstrated a willingness to adopt wide-ranging policy responses to the COVID-19 crisis (Béland et al., 2021), but only homed in on inflation after Russia's invasion of Ukraine. The most immediate policy response was not political. In fact, the Bank of Canada, Canada's independent central bank, consistently increased the overnight interest rate from 0.25 per cent to 4.5 per cent between March 2022 and January 2023 as a measure to contain price growth. In attempts to compensate increases in the cost of living, federal and provincial governments also adopted various measures, most of which maintain existing policy legacies, while others are temporary in nature. For instance, the federal government has added one-time payments to some existing tax credits. Only the adoption of dental care for children in low-income families represents a break from existing policy and is the result of a political compromise by the minority federal government.

By design, many federal programs are automatically indexed including Canada Pension Plan (CPP), the Goods and Services Tax (GST)/Harmonised Sales Tax (HST) tax credit and the Canada Child Benefit (see Table 2). Regarding *retirement security*, the CPP is a federally administered contributions-based social insurance program that is indexed annually. Although Quebec's Pension Plan (QPP), which was created in 1966 for Quebec residents, is an exception to this, it is also indexed annually. Old Age Security (OAS), another federally administered social insurance program for those over the age of sixty-five is indexed, but quarterly. Initially, OAS adhered to annual indexation, but this changed in response to high inflation in the 1970s (Léonard, 2014). Nonetheless, indexation should not be viewed as a panacea for benefit erosion. For instance, OAS's indexation mechanism to CPI, thus prices, leads to the long-term erosion of the program's

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Table 2. Significant Features of Pensions, Minimum Wage, and Food Security Policies in the US and Canada

	Canada	United States
Pensions	*Policies:* Canada Pension Plan & Old Age Security *Governance*: • CPP: federal social insurance program (average for a retired worker at 65 is $811/month (CAD)) • Quebec has its own version, QPP (maximum rate for a 65-year-old is $1306/monthly (CAD)) • OAS: federal social insurance program (varies between $691-760/month (CAD) with Guaranteed Income Supplement for low-income Canadians) *Indexation?*: Yes. Quarterly indexation for OAS, annual indexation for CPP and QPP)	*Policy:* Social Security *Governance*: Federal social insurance program (average retired worker receives $1,866/month) *Indexation?*: Yes. Annual indexation based on change in Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W).
Minimum Wage	*Policy:* Federal minimum wage for federally regulated industries & workplaces/ provincial and territorial minimum wages *Governance*: federal minimum = $16.65 (CAD), low of $13.00 (CAD) in Saskatchewan, high of $16.77 (CAD) in the Yukon *Indexation?*: No	*Policy:* Fair Labor Standards Act and State/ Local laws *Governance*: Federal minimum = $7.25/ hour. 30 states, District of Columbia, 3 territories, and 55 cities/counties exceed federal minimum. 7 states have no minimum wage. *Indexation?*: Varies. In 19 states and the District of Columbia (formula varies)
Food Security	*Policy:* One-time "Grocery Rebate" (2023) *Governance*: Federal tax-credit *Indexation?*: GST credit is income-tested and indexed, but this is a one-time increase	*Policy:* Supplemental Nutrition Assistance Program *Governance*: Means-tested federal-state grant program (max. monthly allotment for individuals = $281) *Indexation?*: Yes. Income eligibility adjusted for changes in Consumer Price Index for All Urban Consumers (CPI–U). Maximum monthly allotments updated annually reflect inflation-adjusted value of the Thrifty Food Plan.

replacement rate. This is because there is no inclusion of wages in the indexation formula and, outside of times of high inflation, wages rise faster than the CPI and therefore the OAS mechanism does not increase (Béland and Marier, 2019).

Provincial governments are less likely to automatically index social benefits compared to the federal government. Only two provinces and one territory, New Brunswick, Quebec, and the Yukon, automatically index social assistance benefits to inflation (Laidley & Tabbara, 2021). Analogously, social programs including child benefits and tax credits are automatically indexed for inflation in New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, and Saskatchewan. Finally, Quebec automatically indexes personal income taxes – a policy Alberta announced in August 2022.

While many federal programs are indexed, there are notable exceptions including Employment Insurance (EI) and the minimum wage. EI was modified to create additional temporary supports during the pandemic but has not been indexed or changed in response to rising inflation despite many calls to update the policy. The *minimum wage* is decentralised and varies considerably across the country. Wages are set by the provincial and territorial governments which maintain responsibility for employment regulation for most workers, with the federal government also having a minimum wage for industries and workers under its responsibility.

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As of 2023, the lowest minimum wage is in Saskatchewan ($13.00 CAD/hour) and the highest is in the Yukon ($16.77 CAD/hour). The federal government has adopted different minimum wage strategies over time, having set its own minimum wage from 1965 to 1996, only to coordinate with the provinces from 1996 to 2015. As of the 2015 budget, the centre-left federal government has been more responsive and increased minimum wage to $15 CAD/hour and has consistently increased the minimum wage since then. Currently, the federal minimum wage is $16.65 CAD/hour (Government of Canada, 2023c). This policy area is therefore highly dependent on political will and can be a source of credit claiming (Weaver, 1986) as was the case when the federal labour minister made the announcement in March of 2023 (Government of Canada, 2023d).

A common federal and provincial response to the consequences of inflation was to adopt multiple temporary supports including employment and unemployment protection as well as social and family assistance in response to the COVID-19 pandemic (Béland *et al.*, 2021, 2022). As inflation began to rise, targeted policy responses were also adopted.

In December 2021, the federal government made changes to the Advance Payments Program to provide additional support for food producers ahead of the 2022 growing seasons. Additional modifications were made in April 2022 with the objective of increasing cash flow for producers given increases in agricultural expenses (Government of Canada, 2022a). In June 2022, the federal government also announced an 'affordability plan'. This would see $8.9 billion invested in a host of measures, many of which already existed or had been previously announced before the pandemic-related supports began (Government of Canada 2022b). This includes increases to the Canada Workers Benefit, a refundable tax credit for low-income workers, as well as increases to Old Age Security and previously announced investments in early learning and childcare and maintaining indexing for many benefits.

In a more visible show of solidarity with Canadians affected by inflation, in September 2022, the federal Liberal minority government introduced two bills *The Cost of Living Relief Act, I and II*, which both became law later that year. The first bill doubled the Goods and Services Tax (GST) credit, an indexed and income-tested tax credit which is paid quarterly to eligible Canadians, for six months. This bill featured a one-time increase to the tax credit between $225 and $467 CAD depending on the number of individuals in the household and would cost approximately $2.5 billion CAD. In a similar vein, the Liberal federal government announced a 'Grocery Rebate' for low-income Canadians in its 2023 budget. Despite the name of the policy, it is in fact another increase to the GST credit representing a one-quarter increase for qualifying Canadians between $225 and 467 CAD depending on household composition (Government of Canada, 2023a).

The second bill created the previously announced Canadian Dental Benefit. This program, a condition imposed by the left-leaning New Democratic Party (NDP) in exchange for agreeing to support the minority Liberal government, should reimburse the cost of dental services for uninsured children under the age of twelve with qualifying parents. Reimbursement should be graduated into three tiers based on family income with families with an income of over $90,000 CAD not qualifying. The program was estimated to cost $938 million CAD. This bill also put forward a one-time addition payment of $500 CAD for low-income renters under the existing Canada Housing Benefit, to which the government had already committed itself. The measure was estimated to cost $1.2 billion CAD. Thus, these anti-inflationary bills maintained the Liberal government's commitments, including those with the NDP, and existing policies.

To review, in the three key policy areas discussed (retirement, wage and food security), we find that Canada largely maintained existing policy legacies. Although specific temporary supports were added such as the GST credit and the Grocery Rebate, built-in indexation was primarily relied upon to maintain purchasing power for pensions. Wages, a policy area without indexation, were increased. This can be explained by the fact that inflation-related measures are a source of credit claiming for both the federal and provincial governments, who respond to popular demands for new economic and social benefits to address the higher costs of living. At the same time, inflation is exposing these governments to much criticism on the part of opposition parties, who

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blame those in power for what they frame as insufficient measures (on credit claiming and blame avoidance see Weaver, 1986). For instance, at the federal level, new Conservative leader Pierre Poillievre has been relentless in his attacks against the Trudeau government's handling of inflation, even accusing it of creating the inflation crisis in the first place through misguided fiscal and economic policies (Aiello, 2022). Finally, where the political will exists, new policies can be adopted in the Canadian context as shown by the Canadian Dental Benefit.

United States

In the United States, the Federal Reserve has an inflation target of two per cent over the long term, which it deemed 'most consistent with the … mandate for maximum employment and price stability' (The Federal Reserve, 2020). However, as inflation grew through 2021 and into 2022, there were regular refrains that the cost of living was rising at its fastest rate in forty years. That prior era of inflation had heralded efforts at welfare state retrenchment as President Reagan insisted that government spending was part of the problem rather than a policy solution. Those conservative efforts at downsizing the welfare state had mixed success (Pierson, 1994), but this era did not set a precedent that social policy was a tool to combat the economic harm to households caused by rising prices.

Yet, 2021 was not a rerun of the 1970s. The COVID-19 pandemic and associated economic chaos had presaged major state intervention to protect households from financial ruin. The measures included massive expansions of Unemployment Insurance, protections against eviction, and the delivery of three rounds of economic impact payments adding up to $814 billion (Rocco *et al*., 2020; PRAC, 2022). On the other hand, these efforts became contested over time and the final major legislative effort enacted at the start of the Biden presidency under the guise of a response to COVID-19, the American Rescue Plan (ARP), was pushed through along strictly partisan lines. Republican opponents of the administration also latched onto the spending in the ARP as fuelling the emergent inflation. There was abundant evidence to the contrary, particularly given the primary roles of rising profits and supply-chain snarls in contributing to the inflationary dynamic in the U.S. (U.S. Bureau of Economic Analysis, 2022; Bivens et al., 2022). Nevertheless, the political environment in 2022, as the Russian invasion of Ukraine added to the economic turmoil, and it became impossible to dismiss inflation as a temporary problem, was mixed and the framing of the problem – whether government action protects households or fuels further inflation – was unsettled.

Importantly, the design of pre-existing social policies for responding to inflation mattered in the U.S., because the political space for creating new reforms in the midst of rising inflation proved more limited. Although the Democrats enjoyed unified control of government in Washington D.C. from January 2021 to January 2023, the party's majorities in both chambers of Congress were minimal without enough votes to get past a filibuster in Senate. Even when passing policy changes under the budget reconciliation process – which requires only a simple majority in the Senate – Democrats' narrow majority meant that conservative Democrats like Sens. Joe Manchin and Krysten Sinema played a pivotal role in limiting the scope of reforms and slowing down the process by which they were considered (Zhou 2022).

In this context, U.S. social policies' responsiveness to inflation varied substantially according to their policy design – specifically, though not exclusively, whether and how these policies have been indexed to inflation (see Table 2). Indexation played an especially important role in *retirement security*. The Old-Age, Survivors, and Disability Insurance (OASDI) program – more commonly known as Social Security – provides benefits to one in six U.S. residents, including retirees, those qualifying for disability insurance, and survivors of deceased workers. As with Canada's retirement programs, Social Security has built-in protections to guard against inflation eroding the value of benefits. Thanks to a provision added to the program in the Nixon era, Social Security payments are indexed to increases in the cost of living (Béland and Waddan, 2006; Weaver, 1988).

According to a statutory formula, the program's Cost of Living Adjustment (COLA) is calculated by comparing the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W) of the third quarter in the previous year to the average CPI–W of the third quarter of the current year.

Thus, the Social Security Administration (2022) announced in October 2022 that the cost-of-living allowance increase for the approximately seventy million program beneficiaries would amount to 8.7 per cent and followed an increase of 5.9 per cent from the previous year. According to reporting in the *New York Times,* "the increase will lift the typical monthly retiree benefit by $140 to $1,827" (Bernard, 2022). This figure represents the largest COLA increase in four decades.

The historical increase in benefits notwithstanding, it is important not to confuse Social Security's responsiveness to inflation with the program's failure to adapt to broader changes in the policy environment, or what Hacker (2004) refers to as 'policy drift'. Over the last fifty years, employers in the U.S. have shifted away from providing defined-benefit pensions and towards defined-contributions plans, whose benefits are contingent on worker contributions and the rate of return. As a result, for most workers, Social Security is now the only source of guaranteed retirement income insulated from market fluctuations. And for one in four retired workers, Social Security represents 90 per cent of their annual income. Even so, its benefits remain modest, especially in comparative terms. When the percentage of an average worker's earnings replaced by public pensions – the so-called 'replacement rate' – is concerned, the U.S. ranks near the bottom-third of the Organization for Economic Co-operation and Development (OECD) countries (Center on Budget and Policy Priorities, 2023).

Indexation also figured prominently, though in a more complex fashion, in the area of *food security*. Unlike Canada, the United States has long had a national program dedicated to food security: the Supplemental Nutrition Assistance Program (SNAP). Run jointly by the U.S. Department of Agriculture (USDA) and the state governments, SNAP is a means-tested benefit program which serves over forty one million low-income Americans. Prior to emergency expansions of the program during the COVID-19 pandemic, SNAP provided average monthly benefits to individuals of $175. As of 2023, the maximum monthly allotment for SNAP for a single person was $281 (FNS 2023c).

SNAP is designed to be responsive to inflation in several ways. First, the program's eligibility standards are adjusted for changes in the cost of living. Under the traditional pathway to eligibility, household income cannot exceed 130 per cent of the Federal Poverty Level. Federal poverty guidelines, issued each January, are adjusted for changes in the Consumer Price Index for All Urban Consumers (CPI–U). Between 2022 and 2023, the average poverty threshold rose by 8 per cent on average. For a family of three, the poverty guideline rose from $23,030 to $24,860 (HHS 2023).

SNAP's benefits are also indexed to inflation. The USDA's maximum benefit allotments in the program are based on changes in the cost of the Thrifty Food Plan (TFP). Used in one form or another since 1962, the TFP represents – in the USDA's estimation – the lowest-cost of a nutritious diet prepared at home for a 'reference family' defined in law as "an adult male and female, ages twenty-fifty, and two children, ages six-eight and nine-eleven" (FNS, 2021). The cost of the TFP is updated to current dollars by using the Consumer Price Index (CPI) for specific food items.

Typically, indexation of TFP has resulted in marginal adjustments. Yet in the 2018 bipartisan farm bill, Congress directed the USDA to update the TFP based not only on current food prices, but also on data about food consumption patterns and dietary guidance. In a 2021 executive order, President Biden directed the USDA to prioritise the TFP update – which resulted in an increase of SNAP's maximum benefit allotments by 21 percent starting in fiscal year 2022 (FNS, 2021). With this change in place, SNAP benefits expanded significantly. Between February of 2022 and February of 2023, the monthly cost of the TFP for a

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reference family grew from $887.80 to $979.40 – an increase of 10 per cent (FNS, 2022; FNS, 2023a).

These changes notwithstanding, SNAP's responsiveness to inflation was also limited in three ways. First, neither poverty guidelines nor benefit allotments take into consideration wide *regional* variation in the cost of living in the United States. In 2022, the average monthly cost of groceries ranged from $183 in New Hampshire to over $400 in states like New York, Massachusetts, and West Virginia (Flynn, 2023). Second, even if SNAP benefits and eligibility expand with inflation, SNAP *participation* is often limited by onerous administrative burdens placed on applicants by both the federal and state governments (Schanzenbach, 2023). Nationally, 82 per cent of those eligible for SNAP are enrolled in the program, though that figure varies by state. Whereas Pennsylvania enrols 98 per cent of the SNAP-eligible population, Texas enrols only 75 per cent (FNS, 2023b). Finally, while Congress enacted emergency allotments for SNAP during the COVID-19 pandemic, it passed legislation phasing out these benefits in December 2022 – which mean that the average recipient would see $90 less in monthly SNAP benefits for 2023 than she did in 2022 (Center on Budget and Policy Priorities, 2023).

One U.S. policy that did not adapt well to inflation is that of the *minimum wage.* Illustrating the importance of policy design and legacies, the federal minimum wage is a classic example of a program subject to 'policy drift' (Béland *et al.*, 2016; Hacker, 2004). Since minimum wages set under the *Fair Labor Standards Act* are not indexed to rises in the cost of living, this wage rate relies on ad hoc action by Congress and President to uplift its value. When such action is not forthcoming, the value is eroded in real terms, which is particularly stark when inflation is high. By the summer of 2022, there had not been an increase in the nominal federal minimum wage, set at $7.25 an hour, for thirteen years. If calculated at 2022 prices that meant the value had declined from $9.99 to $7.25 over that period (Vega, 2022). President Biden did repeatedly call for the federal minimum to be raised to $15 and was able to use executive powers to introduce that figure for federal workers and employees engaged on federal contracts starting from January 2022.

Below the federal level, however, there was some important variation in minimum wage policy. In 2022, thirty states plus Washington D.C. had minimum wage rates that were higher than that mandated by the federal government. Furthermore, in nineteen of those states and D.C., the higher rate was indexed to inflation (Economic Policy Institute, 2023). In addition, in eight states there were cities and counties with provisions for higher minimum levels than the state-wide mandate (Desilver, 2021). At the same time, thirteen states abided by the federal minimum wages. Two states, Georgia and Wyoming, had minimums below the federal level, and five states – concentrated in the south – had no minimum wage at all (Statista, 2023).

In sum, the three U.S. policies we reviewed displayed mixed responsiveness and regional differences to COVID-era inflation. To the extent that these policies softened the blow of rising inflation for most Americans, they did so through automatic provisions built into existing programs like Social Security and SNAP. By contrast, where the minimum wage is concerned, indexation was highly variable – contingent entirely on decisions made by state governments. Unlike Canada, which routinely updates the minimum wage through discretionary policy changes, the partisan polarization within the Congress typically pre-empts similar moves in the United States.

Additionally, indexation *itself* was not a sufficient condition for policy responsiveness. On the one hand, the formula used for indexation has a significant effect on policy outcomes. In the case of food stamps, for example, improving benefit adequacy required a *discretionary* change to the TFP, as well. While Social Security beneficiaries saw a significant increase in their monthly benefits with the rise in inflation, the program continues to be subject to the forces of policy drift, as it was designed with the assumption that workers could also rely on strong defined-benefit pensions, which have long declined (Hacker, 2004).

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Conclusion

Based on the above analysis of policy responses to the recent cost-of-living crisis in Canada and the United States in the areas of pensions, the minimum wage, and food security, three main conclusions are clearly emerging.

First, our analysis shows that automatic indexation is not necessarily a silver bullet to avoid policy drift (Hacker, 2004) in the form of a gradual decline of the real value of benefits over time. This is the case because, as Canada's Old Age Security shows, even when indexation is quarterly, the design of particular indexation formulas might not prevent policy drift from occurring. Thus, the type of indexation is also a key factor in understanding the long-term value of these social policies.

Second, automatic indexation and its concrete design are not the only factors that matter to determine whether high inflation leads to policy drift. Where the necessary political will exists, it is possible to adopt new investments, such as the Canada Dental Benefit. Importantly, the ability to claim credit and advance existing policy agendas can facilitate the adoption of new social policies that last beyond the recent crisis.

Finally, and relatedly, in times of high inflation, social programs that lack an automatic indexation formula can avoid policy drift, as long as a strong political consensus allows for ad hoc social policy expansion capable of offsetting the negative effects of inflations on social benefits. Minimum wage policy in Canada is an example of this. Although policy drift is certainly possible in this decentralised policy area, provincial and federal governments have all been able to adopt increases in recent years.

At this point, it is necessary to note that this article and the entire themed section you are reading were prepared in the middle of an inflation crisis. This means that our conclusions are not definitive. Additional research will be needed to take a more detailed and longer-term look at ongoing social policy responses to what is the most severe inflation crisis in the advanced industrial world since the mid-late 1970s and early 1980s. Such future scholarship could include more systematic comparisons of policy responses to inflation over time through different episodes of acute inflation. These analyses should pay close attention to how policy responses might be able or unable to address policy drift, which occurs when policies are not properly adapted to counter changing circumstances (Hacker, 2004). As our analysis suggests, both inflation and indexation are directly related to policy drift and future research should use a longer time frame to access the durable impact of inflation-related measures of social policy adequacy in contemporary welfare states. As suggested by Jacob Hacker (2004), the issue at hand here, policy drift, is political in nature so the above analysis of the politics of inflation responses is the first step in a broader analysis of their relationship to policy stability and change across different countries and welfare regimes.

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