

NATIONAL COUNCIL  WELFARE REPORTS

**THE DOLLARS AND SENSE
OF SOLVING POVERTY**

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The National Council of Welfare is grateful to everyone whose work is referenced in this report for their ideas and evidence, and to authors and external reviewers who extended their expressions of support and commitment to the work of solving poverty. Because our report focuses on connecting ideas and finding patterns across different fields, we could not go into great depth in any—but the depth is there. We cannot overemphasize that there is a great deal more material underlying the examples we use in this report and we hope interested readers will consult the full bibliography on our website at www.ncw-cnb.gc.ca. We attempted to use as plain language as possible and to choose examples that could be understood by a wide readership. Making those decisions was a difficult responsibility given the wealth of material. We took from larger works what we found most relevant to our report on poverty. In so doing, we may not have reflected all the authors' objectives or other important aspects of their work. For more detail on any subject, we invite readers to consult original publications.



LETTER FROM THE CHAIRPERSON



Dear Readers,

In the following pages you will be presented with the disturbing picture of poverty in Canada. You will also be introduced to and challenged by an investment model full of promise for all Canadians. As you read and reflect, I invite each of you to be a part of creating lasting solutions to poverty. By implementing them, we will all gain, no matter our backgrounds or our various interests in family, community, business or



government. Many Canadians seem to be concerned that reducing poverty means more spending on people living in poverty, leaving others worse off. The growing body of research and experience, however, tells a very different story. It shows that *investing to reduce poverty improves wellbeing for everyone.*

Envision the day when explaining what poverty is to our grandchildren requires consulting a history book. My current reality, working in the housing field, is that my young son understands homelessness in a way that is bewildering and dismaying. Surely homelessness in Canada is not something we want to come to accept as familiar or normal. Surely we can create a better society where people have a proper place to live, enough food to eat, and multiple opportunities in life, where people are healthy and happy, and where work provides more than enough to make ends meet.

Poverty in Canada, especially among some population groups, creates damage that is pervasive through generations. We must urgently galvanize whatever resources we need to fight the threat of this epidemic—and prevent the persistence of poverty.

As this report shows, fear can be a powerful motivator and it might work in a crisis, but it cannot sustain action.

A practical plan is needed for lasting progress. In the aftermath of the most recent financial crisis, the federal government announced that 'old assumptions must be tested and old decisions must be rethought.' ***The Dollars and Sense of Solving Poverty*** does just that. It shows how we have fallen into some expensive spending patterns that carry large indirect costs and why we are not getting appropriate results. More importantly, it reveals that there are more effective and more hopeful approaches to poverty. What we need is to apply the best of our experience and know-how in a coordinated strategy that invests in people, particularly those at the bottom of the income ladder. In the process, all Canadians will see gains in our wallets and our wellbeing.

Your participation and commitment are a vital part of the solution.

Sincerely,

A handwritten signature in black ink that reads "John Rook". The signature is written in a cursive, flowing style.

John Rook
Chairperson



SNAPSHOT



Poverty is costing us too much. The National Council of Welfare provided examples in its 2002 report on the **Cost of Poverty**. In 2006, in **Solving Poverty: Four Cornerstones of a Workable National Strategy for Canada**, we outlined a governance model based on long-term vision, plans and budgets, accountability and measures to assess progress.

The Dollars and Sense of Solving Poverty expands on both reports by providing more examples from a growing body of studies as well as insights that can improve success in establishing clearer vision, designing more effective plans and budgets, improving accountability to Canadians and ensuring progress by measuring what matters.

This report provides insights into:

- Why the costs of poverty are far higher than many people realize;
- Why poverty has persisted in wealthy countries despite many policies and programs for people living in poverty;
- What economic and social factors need to be taken into account for public policy to be successful in ending poverty;
- A wide range of examples of the costs we are paying now compared to the savings and positive return on investment we could be getting;
- The role of government and Canada's experience and potential to be more successful.

The report reveals:

The total cost of poverty is higher than many think

- The costs and consequences of poverty are much larger than direct spending on poverty programs. We see the total cost when indirect and societal costs are taken into account.

- The poverty gap in Canada in 2007—the money it would have taken to bring everyone just over the poverty line—was \$12.3 billion. The total cost of poverty that year was double or more using the most cautious estimates.
- There is a consistent pattern of studies from Canada and other countries showing that investing to eliminate poverty costs less than allowing it to persist.

The indirect and societal costs of poverty are the most expensive ones

- Canadians are paying the most in the least productive areas, trying to fix costly problems linked to inequality, insecurity and poverty that are preventable.
- If someone can't afford medicine, for example, they end up in an emergency ward; without support for child care, a mother can't take a paid job; if someone has no home, they can't manage an illness or employment.
- The bigger that economic and social problems become the less likely individuals, families, communities or businesses can meet the need and the greater the odds that government has to step in—that means all of us pay a higher bill.

An investment approach is needed to end poverty, not just alleviate its symptoms

- The old saying that “an ounce of prevention is better than a pound of cure” applies to solving poverty as much as anything else.
- A long-term, investment approach is more appropriate to human wellbeing and development than a short-term spending approach focused largely on costs.
- We could achieve better human and financial outcomes by contributing to greater productivity and wellbeing. The results will show up in lower poverty rates, reduced strain on health care and other public service systems, and less stress, anxiety and debt in our lives.

Effective investments require that we understand what creates human wellbeing

- Poverty is not inevitable, natural, or too complex to manage.
- Poverty is about more than money because life for all of us is about more than money. The work we do without pay and the time we devote to family, friends and community, or to education and sleep, are essential to our wellbeing and quality of life.
- Time stress can matter as much as income stress in meeting needs. Living in poverty in Canada is very time-consuming.
- Societal networks and the ability to have some control over life are important to everyone. Science shows that a little stress is good for us, but too much stress can damage our bodies and brains, triggering physical and mental illness.
- Achieving greater wellbeing requires a better balance and connection between the economic and the social aspects of life.
- Good governance, where people participate and have trust in government institutions and public policy, supports both economic and social goals.

Canada has the capacity to invest in wellbeing and solve poverty

- Canada is a wealthy country. We have a great deal of knowledge and experience, good public policy models, and a concerned population. We have had success in dramatically reducing poverty among seniors over the past few decades.
- As a country we are in the middle of the international pack and slipping on some key indicators of wellbeing. If we can turn things around, avoid bigger problems that need bigger fixes and invest more wisely, our future can be brighter and more sustainable.

We will all benefit from a Canada without poverty

- All Canadians benefit by being able to use our time and money for the things that matter most to us individually and collectively and that make life more worthwhile.

Recommendations for Taking Action

The patterns revealed in this report, along with the Council's own deliberations and the conversations we have had with people from many walks of life, clearly show that it makes economic sense to solve poverty. The National Council of Welfare suggests that Canada can do this, for the benefit of all Canadians, by:

- 1. Adopting a Canada-wide Strategy for Solving Poverty** that builds on the Council's four cornerstones as a governance model, builds on existing poverty reduction strategies and initiatives, and continuously improves with experience.
- 2. Establishing a Sustained Investment Plan** within the strategy that builds human capacity, removes barriers, creates opportunities, and considers interrelationships among policies as well as the changing realities of Canadians over the course of their lives.
- 3. Developing a Consistent Design Framework** to get the greatest effectiveness from policies and programs. It should be based on: fairness and reasonable reward for work effort; support for autonomy and initiative; portability, security and stability; coordination and simplicity; and accountability and communication.
- 4. Fostering an Open Forum for Conversation and Action** involving many partners in an ongoing, inclusive pan-Canadian space for sharing ideas, questions, research, evidence, progress reports, and lived experience.



INTRODUCTION



The National Council of Welfare published a first report on **The Cost of Poverty** in 2002, looking at studies of the relationship between poverty and the five most cited areas where the consequences of poverty appear:

- health;
- justice;
- human rights and human development;
- work and productivity; and
- child development.

That report concluded that poverty is costing us dearly in human and economic terms, much of it preventable.

Then, in 2007, the Council highlighted the importance of a governance model for complex problems like poverty in **Solving Poverty: Four Cornerstones of a Workable, National Strategy for Canada**. The cornerstones reflect the need for long-term vision with targets and timelines, coordinated plans and budgets, accountability to Canadians for results, and the measurement tools needed to plan, monitor and assess progress.

The Dollars and Sense of Solving Poverty expands on elements of both reports. Research, experience and public debate relevant to poverty have virtually exploded in the past few years—in variety, depth and breadth. New examples from this growing body of knowledge provide important insights that can make a strategy to solve poverty in Canada more affordable than the status quo—and more successful. The extensive bibliography of books, journal



Many Canadians are concerned that reducing poverty means more spending on people living in poverty, leaving others worse off. The growing body of research and experience tells a very different story. It shows that investing to reduce poverty benefits everyone.

articles, academic papers, seminar presentations, media stories and commentary that informed this report can be found online at www.ncw-cnb.gc.ca.

This report synthesizes the main insights, themes and trends in many fields that the National Council of Welfare is convinced hold the keys to successful and cost-effective solutions. The examples, taken together, have been chosen to illustrate the range of resource material used:

- Approaches and methodologies from dollar calculations of cost to more conceptual studies;
- Economics as well as sociology, psychology, biology, medicine and more;
- Areas linked to poverty such as health, education and housing, and newer studies on business and the private sector;
- Small, precise studies of particular programs to larger studies of national tax systems and reviews of various program interactions;
- Many concerned actors at local, provincial, national and international levels from individuals and communities to academic institutions, research bodies, governments and businesses.

Some of our resources are highly technical, and the concepts and terms used by experts in one field are not necessarily understood by average Canadians or experts in other fields. Among economists interested in the operation of domestic and global markets, for example, a “haircut” is a financial instrument.

In this report, we have made every effort to use plain language and everyday examples, so if you see the word “haircut,” it means getting your hair cut. Although the report’s focus is economic, it is ultimately about people and human values and it must be meaningful to Canadians from all walks of life.



Sense:

The first few chapters are grouped under this title because they are about the meaning of ideas, words and frameworks used to talk about economic and social aspects of problems like poverty. They help make sense of the numbers in later chapters and pave the way towards workable solutions.

Dollars:

The chapters in this section provide cost/benefit estimates from comprehensive poverty studies and from focused areas like housing and business. The majority use calculations in dollars, and some use wellbeing measures. Some provide estimates of return on investment.

Dollars and Sense:

These chapters bring together money and meaning in the Canadian reality of public policy, governance and the potential for using our money more wisely and effectively.

Sensible Investment:

The National Council of Welfare's recommendations for taking action.

PART ONE

SENSE

- ■ ■ 1. COSTS, BENEFITS AND THE DIFFERENCE BETWEEN SPENDING AND INVESTING
- ■ ■ 2. THE ECONOMY AND POVERTY
- ■ ■ 3. SOCIETY AND POVERTY
- ■ ■ 4. SOCIAL AND ECONOMIC RELATIONSHIPS

1



COSTS, BENEFITS AND THE DIFFERENCE BETWEEN SPENDING AND INVESTING



There are different general approaches to poverty in Canada and elsewhere. One approach is based on an assumption that income from earnings and the support of family and friends will meet people's needs. Another approach sees a greater role for government intervention, often short-term, especially when large problems arise, such as during recessions. A third approach focuses more on preventing poverty through income security programs, along with longer-term investments to ensure people have opportunities to achieve wellbeing or quality of life, such as getting an education, holding a decent job, maintaining good health, and participating in the larger society.

Elements of each of these approaches can be found in Canada's current array of public policies. There is no defined strategy with the explicit goal of ending poverty or a target for reducing it for Canada as a whole, although there are certainly programs directed to low-income Canadians. In recent years, several provincial and territorial governments have adopted poverty reduction strategies and others seem to be moving in that direction. Some strategies are quite comprehensive, and across the country there are some promising new initiatives.

Policies focused on poverty, however, are only one part of the equation. The larger public policy context in Canada includes major systems that may not have been designed specifically to address poverty, but that nevertheless can have a large impact on the risks of poverty—and its costs. These include our health care system, the justice system and policy areas concerned with children, education, the labour market and taxation. In this larger context there are opportunities to prevent poverty. Where poverty persists, however, it adds a strain in all these areas that raises their costs.

It is within this larger public policy framework in Canada that a more complete picture of the costs and benefits of alternative, and better, approaches to solving poverty can be found.

The High Economic Cost of Poverty

Regardless of whether poverty is viewed as a cause or consequence of social ills, there is abundant evidence in research, and in front of our eyes every day, that poverty is linked with poor physical and mental health, joblessness, lack of education and skills, developmental difficulties in children, crime, homelessness, racial discrimination and other issues. Such problems are costly for societies.

The economic costs of poverty fall into three general categories:

- \$ **Direct costs** of poverty, such as income supports (e.g., social assistance, working income tax benefits) and services specifically for people in poverty.
- \$ **Indirect costs**, such as high use of emergency wards, police, courts, remedial education and other specialized services that are among the most expensive parts of the public service systems on which we all rely. There are indirect private costs to individuals and businesses as well, such as increased need for personal insurance and security systems, including gated and privately policed communities for the wealthiest.
- \$ **Societal costs** represent the loss of potential contribution to society and the strain that poverty and steep inequalities place on everyone along the income ladder. People in poverty often must devote a large part of their energy to finding enough food to eat, staying safe, traveling to and from part-time jobs and following the rules of various bureaucracies. Their time could be spent more productively in training and education, parenting and better jobs. The opportunities that are denied to children can carry especially long-term costs. Poverty and steep inequalities are connected to increased social ills and health problems that extend to the wider population.

Government budgets have often focused on containing direct costs. Many studies profiled in this report, however, show how very high the indirect and societal costs of poverty can be. For example, if a parent can't afford good food and medicine for a sick child, that family is more likely to have to use hospital emergency services to treat the child. The child may also have become more seriously ill and suffer longer-term impacts. In this example, taxpayers would be better off directly enabling parents to buy good food and medicine. This example also highlights that while spending matters, it matters even more what that spending is for—in other words, what value or benefit we are getting for the cost.

The Benefit Side of Cost/Benefit Analysis

People rarely buy anything on cost alone—we have to know what we want before deciding what we are willing to pay. We also have to look at the pros and cons of our options. The example below illustrates a basic cost/benefit analysis.



Is a \$150 pair of shoes worth the price? Yes and No. It depends on what you need, what you can afford and how it will benefit you.

No:

- If you want something stylish that doesn't need to last and you can get that for \$50.
- If you only have \$150 and you need two pairs of shoes.
- If you can afford \$200 shoes that are much more comfortable and durable.

Yes:

- If you have \$150 and less expensive shoes hurt your feet.
- If you have \$100 and can buy on credit because the shoes have the safety or support features needed for your new job. The shoes will cost a few dollars more with interest but getting the job is worth it.
- If you feel it reflects fair pay for the workers producing them.

Benefits are a central focus of this report for several reasons:

- In our initial research on the cost of poverty, we found that the benefit side of cost/benefit analysis was often less directly spelled out than cost. Benefits are usually understood to be increased earnings, where possible, and greater wellbeing. Those benefits could also be understood as the policy goals of poverty elimination.
- There are major new developments in measuring benefits in economic and social wellbeing.
- In public debate, and in much of the information historically provided by governments, the desired benefits, or goals, appear mixed.
- Governments regularly publish information on income security program costs. Information on the benefits of those programs is harder to find and less frequently discussed.
- In some debates, the goal appears to be to find more cost-effective ways to alleviate poverty. Cutting social assistance rates would be an example of continuing to enable people to survive in poverty with less public spending. The much higher indirect costs of poverty such as added stress, unsafe neighbourhoods and the need for emergency health services, however, are often left out of the equation.
- A positive goal, such as enabling people to be more productive or improving health and other aspects of the quality of their lives, may help generate public support for effective policy initiatives.
- Focusing on benefits allows us to move away from one-sided discussions about spending and move towards an investment approach.



*Estimating the costs associated with poverty can also be understood as **estimating the total economic value of increased production and higher quality of life that would accrue if poverty were eliminated.***

Holzer et al. (2007)¹



Spending on Poverty Programs


Canada's approach to poverty among working-age adults appears largely driven by a concern with the spending side of cost/benefit analysis. There is very little information available on what benefits are being obtained, such as percentages of people considered "employable" who leave welfare for jobs that keep them out of poverty and enable them to increase their wellbeing and their contribution to society. In the case of maternity and parental policy, the benefits to mothers' health and their babies' development by having more time to devote to parenthood and less financial stress may be more difficult to calculate than yearly program dollars, but they are of great and lasting value.²

Canadians spend a large amount of money on poverty-related programs. Yet, the percentage of working-age adults and children experiencing poverty has fluctuated with economic ups and downs, with little evidence of lasting change over the past few decades. Some of the people who have lived in poverty will suffer long-term effects that add to indirect poverty costs. The story for seniors is more positive, though not completely solved, and we will return to it in later chapters. The persistence of poverty among Canadians in their prime developmental and active years is a problem that needs urgent attention.

If the benefit Canada seeks is to enable people to survive in poverty, then we have achieved a measure of success. This, however, is achieved at great societal expense. If success means ending poverty and its costly consequences, a different approach is necessary.

Investing to Get Better Value For Money

Poverty-related expenditures are not usually considered investments, especially in government budgets. The majority of the research underlying this report, however, indicates that an investment approach is more likely to succeed in halting the growing costs of poverty and improving quality of life for Canadians.



As a study from Statistics Canada explains, when an individual (or economic entity) undertakes expenditures, the effects can be categorized in one of two types:

- The benefits of the expenditures are realized in the same time period as when the outlays occur (e.g., a period of one year);
- The benefits are realized in future periods and possibly after considerable waiting.

The first type of expenditure is categorized as “consumption,” while the second type of expenditure is defined as “investment.”

“This economic principle suggests that expenditures on human development should be classified as investment because the benefits of these expenditures accrue to the individual over a lifetime.”³

In other words, if benefits are going to be realized in the future, then costs are appropriately considered investments. The research and analysis that includes dollar calculations of the cost of poverty tend to show that initiatives to reduce poverty can pay for themselves and provide positive returns on investment over the longer term.

Dollar estimates of return on investment in this report tend to be conservative.⁴ That caution, combined with a great deal of other evidence and insight gathered from many different areas of study, shows there might be room to debate the numbers, but the **tendency is almost invariably in a positive direction—for society and for the economy.**



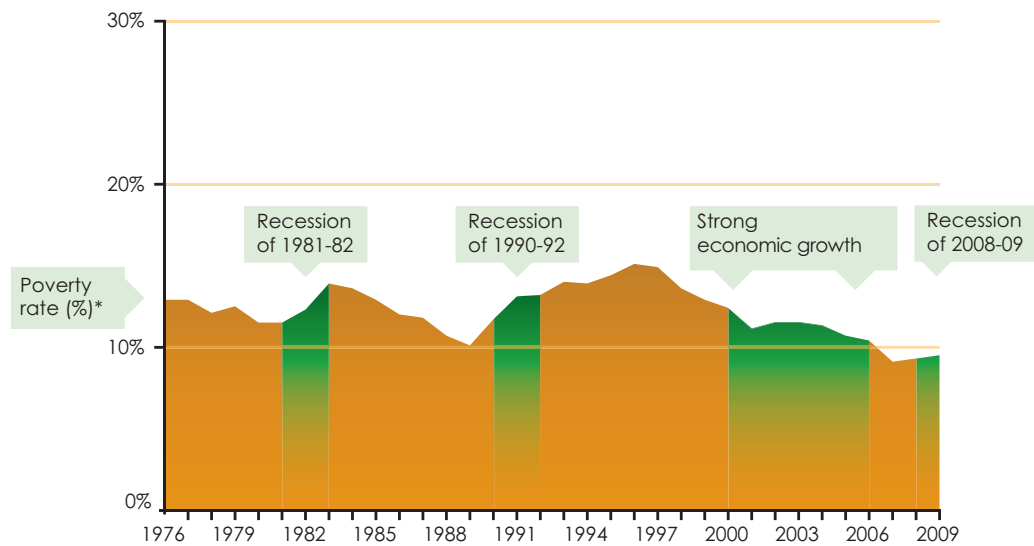
This chapter explained the importance of taking an investment approach focused on benefits. The next chapter addresses economic issues implicated in getting better value for money.



2 THE ECONOMY AND POVERTY

There is no doubt that the economy has a major impact on poverty, especially for working-age adults and children. Chart 2.1 clearly shows the impact of recessions and periods of strong economic growth in the market economy on overall poverty rates over the past few decades.⁵


Chart 2.1: The state of the economy influences poverty trends in Canada



* All Persons, using after-tax Low income cut-offs (LICOs).

Source: Statistics Canada, *Income in Canada 2009*, Table 2020-802

Poverty rates in the early '80s and '90s jumped up quickly when recessions hit and took a long time to recover. Following the 1990-92 recession, poverty rates continued to climb and even in a very strong economy, as Canada had starting in the late 1990s, poverty rates declined gradually until recession hit again in late 2008. This indicates that, while the economy alone is unlikely to provide the answers to poverty, it is necessary to understand in general terms how the economy and poverty connect.



The next sections consider the market economy, the non-market economy and their implications for poverty. The market economy includes the employment that provides most of us with our income. The non-market economy includes the work of raising children and caring for elderly parents, as well as laundry, cleaning and other necessities of daily life. Everyone has the same 24 hours in a day to accomplish their work, as well as to eat, sleep, learn and hopefully have some leisure. Some people, however, have very high demands on their time that can limit how much income they can earn. That puts them at greater risk of poverty unless appropriate investments are made to support the household as well as the market economy.

The Market Economy

The market economy is concerned with market production and is most commonly measured using Gross Domestic Product (GDP). GDP is part of the United Nations system of national accounts and per capita GDP is used frequently to compare living standards among countries. GDP quantifies **economic activity in the formal economy in dollar terms**. The importance of the market economy for the problem of poverty cannot be underestimated. Growth in the market economy contributes to the ability of societies to afford a good standard of living. GDP is thus used widely by governments and reported in mainstream media as a principal indicator of progress.

Several studies on the affordability of poverty that were examined for this report calculated the costs of poverty in terms of a percentage of GDP. These studies make an important contribution by showing the size of poverty's costs and the large opportunities for savings.

The formal or market economy is not the whole economy, however, and using GDP as an indicator of progress on its own can be misleading. A larger view of the economy and other indicators is needed to get a more complete picture of economic wellbeing.

The Non-Market/Household Economy

The other major, but often overlooked, part of the economy is made up of **work of economic value primarily for your own and your family's needs** and is thus often called the household economy. Work is classified this way if the goods and services are marketable, meaning they could be bought and sold on the market. Growing tomatoes and herbs and making spaghetti sauce are examples of work of economic value. The same activity, however, can have two destinations. If the spaghetti sauce is sold at a local bistro or supermarket in the formal economy, it will be counted in GDP. If it feeds your own family, it will contribute to nutrition and wellbeing but it will not be counted in GDP. Similarly, you could fix your own car or cut your own hair, or you could pay someone else to do those things.⁶

It is especially important to understand that the work of raising children and caring for adults who are ill, elderly or have disabilities, although indispensable to society and the economy, is not counted in GDP. Nor is it counted in another comparable, regularly used measure, even though without it, the rest of the economy would collapse. Until the late 1980s, non-market work was statistically invisible almost everywhere.⁷ Canada and most other developed countries currently do gather statistics on how much time people spend in non-market work, but they are collected less frequently, and there is not yet one internationally accepted method that is common to all countries.^{8,9}

Non-market work is often referred to as unpaid work because it does not produce an income. In theory, however, it can be compensated and there are examples in practice. Some public policies, like maternity and parental benefits for example, allow parents who meet certain conditions to receive income while they are away from their paid job and working to care for newborn or newly adopted children. Volunteer work, which involves a greater element of choice, is also counted as non-market work.

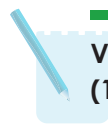
The reason the non-market economy and information on how people spend their time is important is because both money and time are valuable economic resources. Comparing incomes is one way to tell how well off we are, and the difference between top and bottom income levels can be large. In contrast, time is the resource that everyone has in common on a daily basis—24 hours—to allocate to paid work, personal needs like sleeping and eating, care for others, and leisure or free time. The way people spend their time and the time constraints they face, therefore, serve as a very good measure of wellbeing.

Non-market work is a very large part of the economy, and its benefits go as much or more to society and the economy at large as to the individuals doing the work. This is especially the case in caring for children. Children are the next generation of workers, taxpayers and citizens, and their contribution will benefit others far beyond any benefit to the parents who raised them.

In 1998, the most recent year for which figures are available, the time spent in non-market work (30.4 billion hours), converted into dollar value, was the equivalent of \$297.3 billion or 33% of GDP.¹¹ A reflection of this value in national

accounting could improve our understanding of the wellbeing of our society. If incomes are increasing only because people are spending more time in paid work, rather than increasing through higher wages or greater productivity, we may not really be better off.¹²


In Canada, when the dollar estimates of the value of non-market work were calculated, Canadians were spending more time in that part of the economy than in the paid economy. More recent time-use surveys reveal that time spent in market activity has now surpassed non-market activity.¹³ How this trend is affecting overall societal wellbeing and how it is affecting particular individuals and families is very important to the study of the economy and poverty. There are significant differences in patterns of time use related to gender and family status, and



**Value of Non-Market Work
(1998, in billions)**

Household	\$279.7
Volunteer/community	\$17.6
Total (33% of GDP)	\$297.3

Hamdad (2003)¹⁰



other factors like race, education and immigrant status may also play a role. There are certainly important differences in time use as people move through different stages of their lives.

The data that Canada and other countries collect and the in-depth research conducted on non-market work make an important, vastly underutilized, contribution to understanding wellbeing and poverty.¹⁴

Poverty

Because a day is only 24 hours long for everyone, individuals with high demands on their unpaid time are going to have greater difficulty making trade-offs between the market economy and the household economy. They will also be at higher risk of poverty, especially if the time available for paid work is too limited or their hourly wages are low, or both.

Parents of pre-school children have very high care demands, including legal obligations that make them responsible 24 hours a day, 7 days a week.¹⁵ The responsibilities involve direct care, the need to be there even when children are sleeping and the need to leave paid work when a child is ill. Adults who provide care to older children, or to adults who are ill or elderly or have disabilities, can also have high demands. Adults with disabilities or other limiting physical or mental health conditions can also be in the high care demand category. They may be quite able to work at a paid job but require additional time for cooking and personal care, for example, or physically getting from one location to another and developing new skills.

Two-adult households have less risk of poverty. They have greater earning capacity and more flexibility in juggling jobs, child rearing, cooking, cleaning and other tasks. Lone parents are especially at risk of both income and time poverty because they have to juggle all those income and family demands alone in the same 24-hour day.¹⁶ In the necessary trade-offs, something important almost always gets sacrificed—income, time for children, supportive social networks, even sleep. Individuals are also at high risk when they have low earnings, few benefits and no other household or family members to cushion financial shocks due to factors such as rent increases, reduced work hours or illness.

In addition, once people become impoverished, they have little access to the time-saving goods and services, such as washing machines, prepared food or cleaning services, available to better-off individuals who can afford to buy them. That increases demands on their unpaid time.

Social assistance recipients, in particular, face high time demands related to depth of poverty and the many rules and regulations that have to be followed. These rules can include low asset limits that mean applicants must be almost destitute before they can qualify for benefits. Further, low earnings exemptions mean that people often can't get ahead if they have employment.¹⁷ Because most social assistance rates are far below the poverty line, many recipients rely on frequent trips to food banks and other agencies to meet basic needs. They must also comply with an array of rules and regulations that can be very time-consuming.¹⁸ These additional time demands leave less time for more valuable non-market work, training and education and/or better income-earning opportunities that could lead out of poverty.

Gender and Poverty

There is a very clear gender and poverty link in the division of market and non-market work. Women spend almost two-thirds of their total working time in non-market work and men spend roughly one-third. There has been a very gradual trend toward balance as this work becomes better shared.²⁰ All along the age spectrum, women provide more care and daily household work than do men. Beyond the average numbers, however, there are large differences in time use. Women with young children perform the vast majority of work related to children and have very high total workloads.



Time Spent Caring for Children 0-4 Years (2010)

Parents with full-time work

Women: 5 hours 13 minutes per day


Men: 2 hours 59 minutes per day

Parents with part-time work

Women: 6 hours 43 minutes per day

Men: 2 hours 41 minutes per day

Statistics Canada 2011¹⁹



The risk of poverty is clear: as long as women perform the majority of child care and daily household work, the time and energy they have available to earn income is limited. While lone parents are especially vulnerable to poverty, two-parent families that require two incomes to make ends meet are also at risk when mothers' paid work is limited.

The risk of poverty can be reduced when public policy helps share the cost of valuable non-market work that benefits society, so that parents, especially mothers, do not have to carry so much of the cost themselves. The public policy that best provides some income in recognition of non-market work in Canada is maternity and parental benefits. But benefits are still tied to the market economy, because they are based on employment history and level of prior employment earnings. Therefore, low-income mothers who need the support the most often have the greatest difficulty qualifying for benefits. Publicly funded child care is another way that the work and cost of raising children can be shared more equitably.


A number of factors often combine to put a great deal of economic stress on families and make women at higher risk of poverty than men, especially if they live alone or if families break up.

Two factors are especially notable. First, there is an upward trend in higher education for women. That is positive for the market as well as for women and their children. Post-secondary education costs are growing too, however, and many women in prime child-bearing years are carrying the financial burden of student debt repayment.²¹

Secondly, women still earn less than a man's dollar. One key factor that explains the gap is that jobs that are similar to women's traditional unpaid work tend to be undervalued in the market. Counting non-market work in national accounts, making it more visible, and taking it into account more consistently in public policy may be a way to also help increase its market value.²²

Economic Wellbeing

As outlined above, because the whole economy is larger than the market economy, it requires measures beyond GDP to understand how well we are doing.



Much of the growth in GDP in the last few decades is due to our buying what we used to do or make at home. We are not necessarily preparing more meals, doing more repairs or providing more care for children now, but we are more often paying other people for those tasks. This is largely a transfer from the household economy to the formal market economy and in Canada it reflects a combination of choice, economic necessity and public policy that has tended to privilege the market.²³

Determining how well we are doing depends on what matters to us—what we value. Some people maintain that GDP is a measurement tool and it was never meant to address values. From another vantage point, any decision about what is being measured is based on values and assumptions. In addition, many people think that when governments officially adopted GDP and it became used as a primary indicator of progress, it became what was most valued. The term “money illusion” has been used to describe the assumption that only goods and services with a price tag on them affect economic welfare.²⁴ There is no doubt that this kind of assumption has influenced public policy to a very great extent. For average Canadians, the concept of how well we are doing is more inclusive and there are additional indicators that can fill in the picture.

For example, as the chart at the beginning of this chapter indicates, activity in the market economy can be volatile, with periodic recessions causing major hardships for large portions of the population. Most people would agree that economic wellbeing would include a degree of stability and security from the effects of economic shocks.

The focus of the market also tends to be short term, with costs that affect long-term wellbeing not well captured. Natural resources are considered free, and their depletion, or damage to ecosystems or to human health, does not factor in as a cost. By not counting the work of creating families, neighbourhoods and communities outlined earlier, it also treats them as free, so that deterioration of our social fabric would not show up as a cost. Given that our future depends on the health of our environment, human relationships and generations to come, these would be considered important elements in measures of wellbeing.

Indicators of Wellbeing

Fortunately, significant progress has been made in Canada and around the world on a more inclusive set of indicators of wellbeing. They enable us to measure economic and social outcomes more comprehensively. In France, for example, the Commission on the Measurement of Economic Performance and Social Progress established in 2008 is led by two world-renowned economists, Joseph E. Stiglitz and Amartya Sen. Its 2009 report recommends ways to better understand current measures and what's needed for future measures of wellbeing and sustainability.

In Canada, Andrew Sharpe and Lars Osberg of the Centre for the Study of Living Standards have developed an index that brings together several dimensions of economic wellbeing for the purpose of informing public policy. The index includes measures related to the environment and time use and its dimensions of income distribution and economic security are particularly important to solving poverty.


The **Index of Economic Well-being (IEWB)** is premised on the understanding that the development of public policy involves social choice and that rational social choice requires the organization of information in a meaningful manner. The IEWB is intended to contribute to the political process by enabling citizens to make more informed decisions.²⁶ It focuses attention on four crucial dimensions of economic wellbeing:

- **consumption flows;**
- **income distribution; and**
- **accumulation of wealth;**
- **economic security.**

Looking even more broadly to indicators that reflect quality of life in areas such as personal health, education, culture and the health of our communities, there has also been significant development over the years. The United Nations' Human Development Index, which includes gender equality and poverty measures in its rankings of countries, is an example. The

GDP mainly measures market production, though it has often been treated as if it were a measure of economic well-being. Conflating the two can lead to misleading indications about how well-off people are and entail the wrong policy decisions.

Stiglitz, Sen and Fitoussi (2009)²⁵



UN System of National Accounts also allows for the production of household accounts, like those Canada produced in the past. The Redefining Progress public policy think tank in the United States has produced the Genuine Progress Indicator, and the New Economics Foundation in the United Kingdom has a project called Measuring What Matters.

In Canada, the Institute of Wellbeing has produced the **Canadian Index of Wellbeing (CIW)**. The CIW distinguishes between good outcomes, such as good health, clean air and trust, and bad outcomes, such as sickness and time crunch. There are eight domains:

- Living Standards
- Healthy Population
- Community Vitality
- Civic Engagement
- Arts, Culture and Recreation
- Education
- Environment
- Time Use

Figures available from the CIW (2010) suggest we have made some gains but are not moving in the right direction on all fronts.²⁷ For example, it notes that inequality increased as the rich got richer and the poor stayed poor, a trend of growing concern to Canadians.²⁸ The CIW also showed that visible minorities, on average, have poorer health, lower incomes and higher rates of poverty, and that the portion of men and women experiencing high levels of “time crunch” grew from 16.4% in 1992 to 19.6% in 2005.²⁹

Measuring wellbeing in this more comprehensive way requires using a variety of indicators not easily reduced to one common denominator. That makes it more challenging to develop a set of measures that can be formally adopted and produced more frequently. The importance of this work, however, cannot be underestimated.



With this more complete view of wellbeing that includes a range of indicators, the next chapter turns more specifically to the societal aspects of wellbeing and their relationship to poverty.



3 SOCIETY AND POVERTY

Societal Wellbeing

Advances in health and other indicators mentioned in the previous chapter have improved the ability to compare patterns of wellbeing across societies. A number of studies have focused on the linkages among wealth, status, inequality, material wellbeing and other social factors that affect wellbeing and have implications for poverty.

Richard Wilkinson and Kate Pickett in *The Spirit Level: Why Equality is Better for Everyone* (2010) detail how greater equality contributes to the health and wellbeing of societies.³¹ Their extensive international evidence links inequality to a wide range of social issues, including mental and physical health, drug use, obesity, educational performance, teenage births, violence, imprisonment and social mobility. It compares differences among countries, and within countries among regions and cities, with results showing similar patterns.

“...there is a very strong tendency for ill-health and social problems to occur less frequently in the more equal countries.”

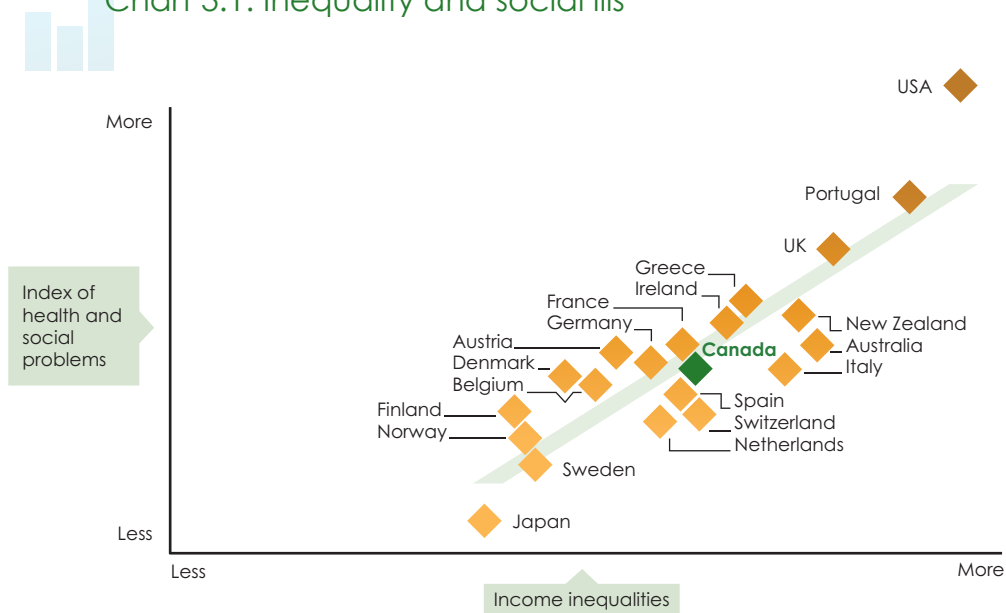
Wilkinson and Pickett (2010)³⁰

It demonstrates that societies with the greatest inequalities in income and wealth are those most afflicted by serious social ills. **The greater the inequalities, the greater the stress on people all along the income spectrum, and the worse the outcomes are for a society overall, not just for those at the bottom of the income ladder.**

Further, the comparisons among countries with different levels of per capita GDP show that **growing wealth does not, in itself, tackle social ills** and that a concerted effort to reduce inequality in all its forms is required. The United States is a key example—it is one of the wealthiest countries but it has a very

great distance between the top and bottom of the income ladder. The US has much higher rates of crime, violence, teen births, health problems and poverty than less wealthy nations. On most measures, the US is at the very high end on the social problem being measured. Most other wealthy nations including the Nordic countries, France, Germany and Japan are generally closer together with less inequality and fewer social ills.

Chart 3.1: Inequality and social ills



Source: Wilkinson and Pickett, Equality Trust Foundation (obtained April 11th, 2011)

On Wilkinson and Pickett's international comparisons, Canada usually falls in the middle. This indicates, optimistically, that we are doing some things well. A number of recent studies, however, indicate that we are slipping in some areas. On child material wellbeing for example, recent figures show the Canadian situation is going backwards.³² Moving people out of poverty would certainly improve Canada's ranking. For wellbeing to significantly improve in Canada, we will need to learn from and build on the policies that are achieving good outcomes.

Societal Structure and Wellbeing


This is another area where there is significant new research that can contribute to greater social and economic wellbeing. It provides a key to understanding what human beings need, beyond money and material wellbeing, to live healthy lives. When those needs are not met, poor mental and physical health are predictable outcomes. This goes a long way to explaining how indirect costs to health care systems, remedial education, and other social programs grow. It also offers insights into why approaches to income assistance that are intrusive and stigmatizing can work against wellbeing.

For example, in *Successful Societies: How Institutions and Culture Affect Health* (2009), edited by Peter A. Hall and Michèle Lamont, authors from diverse disciplines address the issue of why some societies are better than others at promoting individual and collective wellbeing. This work looks deeper into the structure of societies to explain differences in wellbeing that material factors alone, like income inequality, cannot. It also suggests there is more than one path to success, and that is important for policy makers.

“...officials think about the economy as a structured set of market relations ... By contrast, policy makers ...are less accustomed to thinking about society as a structure of social relations.

Hall and Taylor (2009)³³

Successful Societies shows that the structure of social relations has enormous impact on wellbeing. It explores the importance of issues such as social hierarchies and the obligations that ordinary people feel towards their friends and neighbours that establish a sense of trust. **It stresses the critical importance of the psychological sense of control people need, something that is often taken away from people who must rely on last resort income programs in Canada.** It highlights the value of various social connections that help people manage daily life, from intimate networks of family and friends who will care for you through a serious illness, to larger acquaintance-based networks that are more effective for helping find a new job.



The research talks about the “wear and tear of daily life” people face, and the problems that arise if there are more challenges than capacities to meet them. With too much wear and tear of daily life and too few social supports, stressors can build and can literally get “under the skin.” They change our chemistry, can damage our brains and our bodies, and make us less able to cope with new stressors. This explains how positive social relations can have a greater impact in improving health than advances in the health care system.³⁴

According to specialized science on the human brain, surviving “is not just something we do in the presence of a wild beast. Social situations are often survival encounters.”³⁵ The faster heart rate, increased blood pressure and other aspects of a fight or flight response kick in. The brain is also affected. Mild stress can be a good thing but if stress persists too long, for example, the hippocampus (the region of the brain that is very important to the ability to learn and remember) “begins to falter in its ability to control the release of stress hormones and to perform its routine functions.”³⁶ Because some changes cannot be reversed, our wellbeing is best served by preventing stress overload wherever possible.

The supports and resources that people have to promote wellbeing and cope with stressful events are not just personal. Economic and social resources provided by institutions, in particular through public policy, can shape wellbeing in many ways.³⁷ Public schools and student loans are examples of ways in which education policy is a social resource. Those public policies enable students from many different backgrounds to interact and develop wide social networks.

Cultural identity and repertoires can also shape wellbeing. Cultural repertoires include the frameworks that determine what is thinkable and what strategies and tools for action are available. Some people grow up with more advantages in the form of wide social networks, many possibilities that are thinkable, and many tools that can help them get ahead.



The meaning of culture

Culture in the context of societal structure refers to all the elements that go into defining identity and social membership, such as the boundaries between who is considered to belong to your group, who is not, and what is your own place in your group.

For example, thinking that becoming a doctor or lawyer is possible is influenced by whether other members of your social group have ever been in those professions. On a practical level, applying to university is easier if you know others who have done it. If your frames and tools are very limited, as they are for many people living in poverty, especially in the case of intergenerational poverty, you will have a much more difficult time making important life decisions. **Resilience, including the ability to cope with the stigma of poverty, can also vary across different cultural repertoires. This helps explain why some people can more easily and quickly overcome periods of hardship than others.**

Societal Structure and Poverty

At least as far back as Adam Smith, poverty has been recognized as an issue of social status and human dignity as much as an economic issue. One of the reasons why we may not always see poverty in our midst is due to the efforts that people make to avoid the stigmatizing label of poverty. People may even sacrifice food and other basic needs that they can keep private in order to buy a cell phone or brand name running shoes that give them status in public.


In a 2010 article on *Reconsidering Culture and Poverty*, Small, Harding and Lamont reflect new research that has emerged over the last 30 years. A more interdisciplinary approach is developing, including among economists who draw on cultural concepts to better understand how people make economic decisions.



Ultimately, the greatest barrier to middle-class status among the poor is sustained material deprivation itself. But there is significant variation in behavior, decision making, and outcomes among people living in seemingly identical structural conditions.

Small, Harding and Lamont (2010)³⁸





This is good news for efforts to solve poverty. Authors highlight, for example, that:

- Strategies that work for the middle-class to manage the wear and tear of daily life don't necessarily work the same way for people living in poverty.
- In a study from the United States, the issue of whether low-income single mothers undervalued marriage was discovered to be the reverse—many held marriage in very high esteem but had little confidence their partners would ever become “marriage material” and waiting put them at high risk of never becoming a mother.
- **Sometimes the tools to cope with poverty and the tools to escape poverty conflict.** For example, some low-income people adopt more middle-class behaviours, from different ways of speaking to choices about dress and who they associate with, in an effort to help them get out of poverty. But in identifying with a higher income group, they can appear to be rejecting their own community. They can face criticism and loss of support from family and social networks, so that coping with daily life becomes more difficult and stressful.
- People who can manage to cross cultures, however, meaning they can fit well in a variety of social settings, often do well.

Research such as this on societal structure, wellbeing and poverty can be very important to finding better routes out of poverty that need to be opened up. It suggests that public policy is more likely to be successful by reducing stigma, fostering autonomy, valuing the goals, skills and knowledge people already have, and building capacity to meet the real challenges they face.



This brief overview of societal wellbeing shows that the social aspects of our lives matter as much as economic ones. It also highlights that investments to support positive social structures and relationships can have a significant impact in reducing the indirect and societal costs of poverty caused by social stress. The next chapter looks at efforts to reintegrate social and economic spheres and at the challenges to this in the context of inequality, insecurity and poverty in Canada.



4 SOCIAL AND ECONOMIC RELATIONSHIPS

One of the challenges with measuring the cost of poverty, understanding its indirect impacts, and moving to an approach that can get a better return on investment, is that economic and social policy have historically developed on separate tracks. Further, the social track has been considered less important, with consequences in inequality, insecurity and poverty. This is changing and offers potential for better solutions to poverty.

Social/Economic Interdependence

A growing number of influential economists and organizations are widening their frame of reference beyond traditional market-based economics to include a range of social and economic interdependencies. Developments in measuring wellbeing contribute to a better understanding of these relationships.

“...the relationship between economic and social policy cannot be one where growth is given primacy over distribution, and where social policy comes to be understood merely as a corrective for the undesirable consequences of growth processes.”

United Nations (2010)³⁹

One study of economic and social interactions comes from the Employment, Social Affairs and Equal Opportunities Directorate-General of the European Commission prepared by Didier Fouarge. He examines the economic costs of not having social policy and reevaluates the traditional **equity/efficiency trade-off**.

It has often been argued by economists that greater equity, through a more redistributive government, for example, puts the efficiency of the market in jeopardy. Optimum performance of the market is expected to result in better future equity. In this

view, you cannot have both, but rather must trade them off against each other and accept the sacrifice it entails. Fouarge concludes differently—that good public policy can achieve both equity and efficiency.



A case for equity **and** efficiency

Fouarge explains that policies focusing solely on efficiency leave income redistribution to market forces, which history and research reveal as inadequate to achieve equity. In his analysis, “[s]ocial policies based on investments in human and social capital are conducive to higher economic efficiency for they improve productivity and the quality of the labour force. Social policy is therefore a productive factor, even though its costs are generally visible in the short term while its benefits are often only apparent in the long term.”⁴⁰

This study recognizes that one of the obvious costs of non-social policies is poverty. Fouarge is optimistic that **“economic and social performance are interrelated in such a way that the potential for win-win situations is high.”**⁴¹

Costs of Non-Social Policy: Towards an Economic Framework Of Quality Social Policies – And The Costs Of Not Having Them (2003). Fouarge

Research by the Organization of Economic Cooperation and Development (OECD) reaches similar conclusions, in studies such as Furceri’s 2009 *Stabilization Effects of Social Spending: Empirical Evidence from a Panel of OECD Countries* and Adema and Ladaique’s 2009 *How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)*.

Canadian reports on the interdependencies between social and economic policy include: *Prosperity, inequality, and poverty*, a 2007 working paper from the Institute for Competitiveness & Prosperity; *Linkages Between Economic Growth and Inequality* (2003) by Andrew Sharpe at the Centre for the Study of Living Standards and *Social Policy and Productivity Growth: What are the Linkages* (2002) by Richard G. Harris.

The Canadian Context

The current reality in Canada is one where there remains a large divide between social and economic policy that is reflected in the patterns of inequality and insecurity that affect the middle class as well as people living in poverty. Understanding those patterns and trends in Canada is important to finding the policies that can achieve win-win situations, such as less poverty, a higher quality labour force and fewer social problems.

Inequality

As the findings in the previous chapter point out, steep income inequalities are strongly associated with negative health and other social consequences for everyone on the income ladder. In Canada, the ladder is getting steeper, and recent studies reflect growing public concern about the trends at the very top.⁴²

Canadians holding on to **middle-class** status are doing so largely because women are spending more time in the paid labour force. Thirty or forty years ago, full-time dual earner couples were fewer and were usually found quite high up on the income scale. What they lacked in time, they had the ability to make up for in purchased goods and services, like an additional car, a nanny and restaurant meals. Today, many more families have two full-time earners and they are found at lower rungs on the income ladder and even at the bottom. **They are crunched for both time and money.**⁴³

Particular patterns of inequality in Canada show other causes for concern on both economic and social fronts. For example, David Hulchanski has studied the changing income map of Toronto over several years.⁴⁴ That map shows an increasing polarization of neighbourhoods. His initial maps showed three cities within a city, one wealthy, one middle class, and the other low income. In the most recent map, the middle-class areas that once dominated Toronto have lost ground to more impoverished ones. Toronto's neighbourhoods are also divided by race and immigrant status as well as income lines. Many communities across the country are struggling with similar issues.

Insecurity

Insecurity is also a growing issue for Canada and it is a growing **middle-class problem**. An aging population, the high cost of housing, precarious jobs even in higher paying sectors, cutbacks to Employment Insurance and other programs, and rising indebtedness are among many reasons why Canadians' income security is fragile. For example, the average consumer credit and loan debt increased 88% between 1990 and 2010. In addition, in the wake of the most recent recession both the delinquency rate on credit cards and the number of insolvencies increased significantly.⁴⁵

Increasingly, middle-class families are experiencing the kinds of insecurity and anxiety about job losses and price increases usually associated with lower income populations. Also, the risks that come with the part-time, precarious work historically associated with women are increasingly also being faced by men as fewer good-paying, full-time jobs are available.

A key reason why economic insecurity is a growing concern is the increasing dependence on the earnings of two adults as safety net. The steady decades-long increase in the hours that women are spending in the paid labour force has helped households withstand recessions, program cutbacks, increasing prices and other economic shocks. But with women's labour force patterns already becoming very similar to men's, that basis of security cannot grow much further. It also does not address the insecurity faced by individuals who have only their own earnings on which to rely.

Poverty

Living in poverty is qualitatively different than not living in poverty and it requires specific attention. Poverty is about much more than income as the previous chapter showed, but income plays a big part. Poverty means having too little income to meet basic needs and reasonably participate in the society in which you live.⁴⁶

Poverty is different than being at the bottom of the income ladder

There is a difference between having marks at the bottom of your grade 4 class at school, and failing. In one case you move on to grade 5, learn new things and you might even do better with a new teacher. If you fail, you must start all over again and repeat even the subjects you were good at. Another description originates with people living in poverty, shared with us by le Collectif pour un Québec sans pauvreté.⁴⁷



The Poverty Escalator

Imagine being on the main floor of a building where there is an escalator going up and down. As soon as you step on the up escalator it gets easier for you to reach the next level, then the next. In real life the main floor is the place where you can meet your basic needs, save a bit and are able to participate to a modest extent in society. From the main floor, you might take a step up by accessing credit which allows you to buy a car, with the car you have wider job opportunities, with a better job, you might also get additional health coverage and your life gets better.

If you step on the down escalator, you travel just as fast. If you only take one step, you might be able to quickly jump back—perhaps you lose your job but with Employment Insurance and some savings you get by until you find a new one. But if you lose your job as well as health coverage and you are diagnosed with an illness requiring medication you can no longer afford, your circumstances continue to worsen. At that point, you are too far down to jump back.

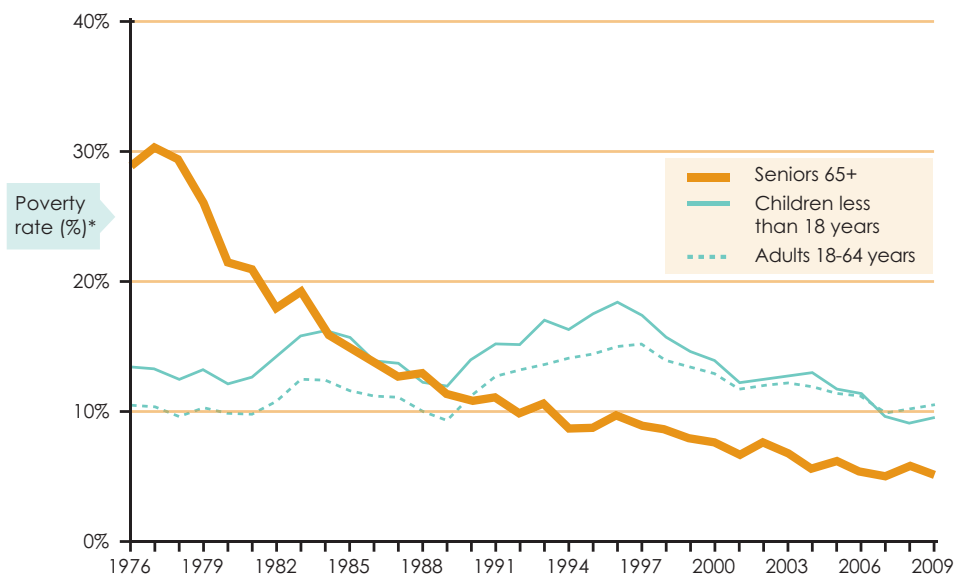
What is worse—on this lower floor there is no up escalator. Often, each step up gets you no further ahead. As your health improves, you may get a job but after child care and transportation costs you are barely further ahead and your health is at risk again because of the stress of juggling housework, raising your child and being at your paid job. Many things have to go right for you to make the run up the down escalator.

People in deepest poverty must often just conserve energy for survival.

Canada has a mixed record on poverty

Canada does not have an official poverty line, but several measures are used by organizations for different purposes. The focus in Chart 4.1 is on a particular pattern over time. It shows clearly that Canada has done a far better job in reducing poverty among seniors than in the rest of the population.

Chart 4.1: Seniors poverty rates steadily decline; poverty rates for other age groups fluctuate



* Using after-tax LICOs.

Source: Statistics Canada, *Income in Canada 2009*, Table 2020-802

Chapter 8 provides more detail on the seniors' relative success story. Since the late 1990s, children's poverty started tracking more closely to that of working-age adults rather than considerably higher, another policy story that will be picked up in Chapter 8. The focus here is on **working-age adults**.

The major risks of poverty for working-age adults in Canada are related to the structure of the economy, lone parenthood, being female, belonging to a racialized population group, immigrant status, Aboriginal status, serious physical or mental health condition, and low levels of literacy, education and skills. **Note that people**

in these higher-than-average risk groups are the very populations upon whom Canada's labour force will increasingly rely. This makes solving poverty for working-age adults even more critical.

Note also, however, that a sizeable majority of people in higher-than-average risk groups are, in fact, not in poverty and many are doing well. This suggests we must be very cautious about overly targeted programs that may not be appropriate or effective.

Poverty and working-age adults


Most adults living in poverty are employed. Having a job is not the answer to poverty if jobs are low-paying, precarious and have few benefits.⁴⁸ For social assistance recipients, there are many people who want more employment but doing so may not put them ahead if social assistance claws back much of their earnings, or if other benefits linked to welfare, such as housing, health and dental benefits, are lost.

There still seems to be a public perception that people will not take jobs if income supports are too “generous,” meaning they reach or exceed the poverty line, but this is not well-founded. The evidence suggests that greater income support can actually be the key that enables people to overcome poverty and prosper over the longer term. The examples below indicate that we should be far less worried about greater income support as a work disincentive and far more interested in investing in the social and economic benefits we would all gain by putting an end to poverty.

- The theoretical work of economists is mixed as to whether there is a work disincentive issue to worry about, how large or small it might be, and what, if anything, needs to be done about it.
- In practice, both in the United States and Canada in the 1970s, several experimental programs that provided a guaranteed annual income (GAI) ran over a number of years in order to test these assumptions. The GAI was

Economic theory cannot on its own furnish accurate estimates of the work disincentive resulting from a GAI—which is a main reason Canada and Manitoba conducted Mincome ... The reduction in work effort was modest, about one per cent for men, three per cent for wives, and five per cent for unmarried women. These are small effects in absolute terms ...

Hum and Simpson (2001)⁴⁹




provided based on a negative income tax model—just as the more money you make the more tax you pay, this works so that the less money you make, the more income you receive from a GAI to bring your income to a more adequate level. The current GST credit works this way on a smaller scale. The GAI that was tested thus did not have the rules, restrictions and stigma of welfare. Overall, the work disincentive evidence was found to be relatively insignificant in both countries and even less so in Canada than in the US.

- Recent analysis of Canadian data indicates that some of the small reduction in employment with the GAI was the result of young adults staying in school beyond the mandatory minimum age.⁵⁰ This is a strong predictor of better future earnings so that is a positive development. Work reduction rates were a little higher for women than men as they may have temporarily spent more time with young children (note this was before parental benefits were available).
- Contrary to the stereotypes of low-income Canadians as lacking work ethic or initiative, they contribute large proportions of time and money to help others. In 2007, people with household incomes less than \$20,000 donated an average of 1.6% of pre-tax income to charitable or non-profit organizations, while those with over \$100,000 contributed just 0.5%. The lowest income group also had a 31% rate of formal volunteering and the highest average annual volunteer hours at 200.⁵¹ Work effort and social responsibility appear to be at least as strong among those with low income as those who are better off.

New insight into poverty

Philosopher Charles Karelis, in *The Persistence of Poverty: Why the Economics of the Well-Off Can't Help the Poor* (2007), shows how a key theory of “rational” economic decision-making was the product of middle-class thinkers whose basic needs are already met.



He adds an alternative perspective to economic thinking that assumes that as we get more of something its value diminishes—the first ice cream cone on a hot day is highly satisfying, the second less so, and so on. This is based on the assumption that we are driven by our preferences for what gives us pleasure. For people in poverty this is not the case. **For people whose basic needs are not met, it is usually pain avoidance that drives decision-making.** When you have seven bee stings, for example, it is not the first drop of ointment that is the most valuable but rather the seventh because only that brings relief from pain. For people living in poverty, the “bee stings” might be different matters, such as a health condition, a lost job, a lack of skill in a new technology, a rent increase and a broken car. The more that help can impact all areas for the better, the greater the odds of escaping poverty.

Karelis's alternative theory provides particular insights into the issue of work and work effort, as shown below in a version of an employment example he has used. Our story is about Jane's attempt to take on a new job.



Getting to work

Jane is on welfare and she has discovered a job opportunity at a firm seven kilometres away. It doesn't pay much so transportation costs are a barrier and her health is not the best. If she wakes up very early and walks, she will arrive tired and distracted, with blisters and sore feet. It will get worse on the walk home. She will not last long at the job under those conditions and she'll quickly wear out her poor quality shoes. She then learns of a new environmental bus program providing a few free kilometres of travel each day as an incentive to take public transportation. This helps but is still not enough to offset the pain, wear and tear of the remaining walk. If only her new employer could top up the environmental program, or raise her wages, or if she were allowed to keep the bus pass she can get when she is on welfare, she could take and keep the job. In this case, more is better because it removes a work disincentive and enables her to stay employed.



Part One of this document has outlined the main social and economic factors that are driving up the costs of poverty, and how reintegrating social and economic policy and challenging old assumptions can help us get better value for money. Part Two details just how high the costs have become and how much potential there is for more beneficial investment.



PART TWO

DOLLARS

- ■ ■ 5. COMPREHENSIVE COST/BENEFIT CALCULATIONS
- ■ ■ 6. SPECIFIC COST/BENEFIT EXAMPLES



5 ■ ■ ■ COMPREHENSIVE COST/BENEFIT CALCULATIONS ■ ■ ■

There is increasing interest internationally in estimating the costs of poverty. This chapter features studies that are relatively comprehensive, with calculations in dollars. The examples provided are from studies in the United States, the United Kingdom and Canada, and they all suggest that **a positive, and in some cases very high, return on investment is possible by eliminating poverty.**⁵²

Calculations in Dollars



Investments to eliminate poverty in the United States

This study calculates the direct and indirect costs of healthcare for the under- and uninsured, social services such as shelter costs for homeless individuals, costs due to higher poverty-related crimes and crime prevention, and reduced income and taxes resulting from under- and unemployment.

It calculates that “investing in the eradication of poverty in America would **increase the resources of each American household by an average of more than \$18,000 a year.**”¹⁵³

It adds that even **cash grants to every low-income household to bring all income to a minimum middle-income level, although expensive—\$397 billion a year—would save almost four times the cost—a benefit:cost ratio of 3.75:1.**

The Economics of Poverty: How Investments to Eliminate Poverty Benefit All Americans (2006). Oppenheim and MacGregor



The cost of child poverty in the United States

Estimating the cost of poverty related to crime and poor health for every child living in poverty, this study concludes that childhood poverty **cost the US a total of about \$500 billion annually, the equivalent of nearly 4% of GDP.**

The Economic Cost of Poverty in the United States: Subsequent Effects of Children Growing Up Poor (2007). Holzer et al.

Also on the international stage, Hirsch and colleagues from the Joseph Rowntree Foundation, an independent organisation in the United Kingdom, have produced three reports focused on the economic costs of child poverty, especially in public spending fields such as social services, education, and police and criminal services.⁵⁴



The cost of child poverty in the United Kingdom

The UK results point to conclusions similar to the American studies.

Using cautious estimates for 2010, public spending for the fallout of child poverty was estimated at £12 billion a year (almost \$20 billion CDN) and the cost of below-average employment rates and lower earning levels come up to £13 billion (a little over \$21 billion CDN) for a total of **£25 billion (about \$41 billion CDN)**.

Estimating the Cost of Child Poverty (2008). Hirsch

In Canada, there are several comprehensive studies that estimate the cost of poverty from a government or taxpayers' point of view. One example focuses on Ontario and Canada, two others look at Nova Scotia and Prince Edward Island, and one concentrates on the city of Calgary. The results are consistent with the American findings that it would be more cost-effective to close the poverty gap than maintain the status quo. For comparative purposes, the Canadian poverty gap is presented first.

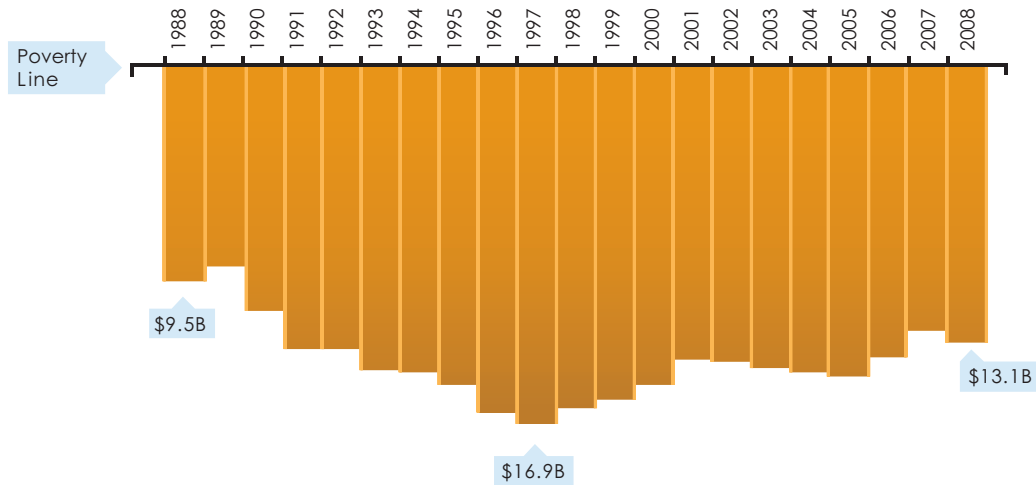


The poverty gap in Canada

The NCW has for several years published the total poverty gap in Canada. The gap is the amount of money it would take to bring everyone living in poverty up to the poverty line (using after-tax LICOs). In 2008 it was **\$13.1 billion**.

*Survey of Labour and Income Dynamics (SLID) – custom tabulations (2008).
Statistics Canada*

Chart 5.1: Canada's poverty gap in 2008 constant dollars 1988-2008*



*The poverty gap changes with the size of the population and the poverty rate. Using after tax Low income cut-offs (LICOs).

Source: Data for 1988-2007: Statistics Canada, *Income Trends in Canada 1976-2007*, Table 202-0805. Catalogue no. 13F0022XIE.

Data for 2008: Statistics Canada, *Survey of Labour and Income Dynamics 2008* custom tabulation

Note: The data for 1988 to 2007 was converted to 2008 constant dollars by the National Council of Welfare.

When looking at the indirect costs of poverty in Canada, it is important to note that even very conservative estimates are significantly higher than the poverty gap. The following study, for the Ontario Association of Food Banks (OAFB), indicates that for 2007, the low-end estimate of public cost for Canada was \$24.4 billion. That was almost twice the \$12.3 billion poverty gap that year.

In other words, we could have closed the poverty gap by paying the direct cost of poverty and achieved very large indirect cost savings that would continue over the long term.



The cost of poverty in Ontario and Canada

In this OAFB study, three types of poverty costs are estimated: the remedial cost incurred by treating poverty's symptoms related to health and crime; the intergenerational cost of child poverty from lower educational attainment resulting in lower adult earnings and lost tax revenues; and the opportunity cost of productivity and tax revenues foregone because people are unable to develop and utilize their potential. In addition to public costs, there are private costs to low-income Canadians that they bear themselves.

- The **total public cost in Canada per year at the lower end estimate was \$24.4 billion** and the total private cost that low-income Canadians bear was \$48.1 billion.
- The total public cost in Ontario per year was \$10.4 billion and the total private cost was \$21.8 billion. In real terms, this means poverty costs every household in Ontario \$2,299 per year, approximately 5% of the provincial GDP.

The Cost of Poverty (2008). Laurie

The Nova Scotia and Prince Edward Island Cost of Poverty studies by the Canadian Centre for Policy Alternatives both use the OAFB's methodology and arrive at similar results.

For Nova Scotia, the total public cost of poverty was calculated at \$0.5 billion to \$0.65 billion and the total private and public cost between \$1.5 billion and \$2.2 billion—about 6% to 8% of Nova Scotia's 2007/08 budget.⁵⁵

For PEI, the total public cost of poverty was calculated at \$0.08 billion to \$0.28 billion and the total private and public cost between \$0.24 billion and \$0.32 billion—about \$1,720 and \$2,265 per person living in PEI, averaging about 5% to 7% of the provincial GDP.⁵⁶



The cost of poverty for the city of Calgary

The focus of this research is on the “external” costs of poverty—the costs incurred by people other than those who live in poverty. Their conservative estimate for Calgary is **\$8.25 million**. The breakdown per year of this and their less conservative estimates are:

	Conservative Estimates	Speculative Assessment
To the health care system	\$3.35 million	\$16.3 million
To the education system	\$4.9 million	\$7.9 million
To the criminal justice system	-	\$2 million
From the reduced transfer cost due to fewer Income Support recipients	-	\$18 million
From social support/services	-	\$0.6 million

The External Cost of Poverty: a Conservative Assessment (2004).
Sheill and Zhang



The issue of administrative savings:

The Calgary-based research also raises a dimension not usually found in cost of poverty studies: the administrative cost of running income support programs.

Some international proponents of a guaranteed or basic income that is not needs-tested argue that large administrative savings would be possible compared to most social assistance systems, while others are more cautious about such claims.⁵⁷ This issue warrants further investigation. **Given Canada's different social assistance systems in 13 provinces and territories, each with its own complex set of rules to be administered and enforced, the administrative costs could indeed be more significant than in other countries.**

Calculations in Tax Benefits

Two notable studies examine the benefits and cost-effectiveness of major tax and transfer programs. The Quebec study by Bibi and Duclos highlights the importance of policy design and policy mix in efforts to reduce and eliminate poverty, noting that some programs have objectives that are broader than poverty reduction.



The effects of taxes and transfers on poverty

A 2009 study by Bibi and Duclos presents the effects of taxes and transfers on poverty in Quebec and includes some comparisons with Ontario. It finds:

- The most generous fiscal measures do not necessarily have the greatest impact on poverty. For example, while provincial child tax benefits are not the most generous program, they have a larger relative impact in reducing poverty than other more generous programs.
- Employment Insurance and social assistance may perform well in reducing the depth of poverty but are the least effective in eliminating poverty. Employment Insurance for low-income workers who have lost their jobs, and social assistance for most individuals and families, provide income that is well below the poverty line.
- In general, social programs in Quebec, such as the Quebec Pension Plan and maternity benefits, perform better at reducing poverty compared to similar programs in Ontario and other parts of Canada. Their design is generally more flexible and/or more generous.

The study also notes that different forms of taxation have different impacts on poverty:

- Income taxes, to the extent that they are progressive, have the least impact in contributing to poverty. Consumption and payroll taxes have a greater tendency to impoverish—they represent a larger share of income for those who have very little.

L'effet des prélèvements fiscaux et des transferts aux particuliers sur la pauvreté au Québec et au Canada (2011). Bibi and Duclos

The second report highlighting benefits, while not as directly focused on poverty, is important because it shows clearly the economic value of public spending to Canadians at all levels of income. It demonstrates that public services provide great value. Without this public investment, poverty rates in Canada, and the consequences of poverty for everyone, would likely be much higher.

“*Reforming tax and benefit policies is the most direct and powerful instrument to increase redistributive effects. Large and persistent losses of low-income groups following recessions underline the importance of well-targeted income-support policies.*”

OECD Forum on Tackling Inequality (2011)⁵⁸



The value of public services to Canadians

Everyone in Canada depends, to a significant extent, on public services such as education, health care, child care, public pensions, employment insurance and family benefits for their living standard.

Canadians enjoy an average per capita benefit of \$16,952 from the public services that our taxes fund — about the same amount a Canadian working full-time, full-year at the minimum wage would earn (2006). **Approximately 56% of that benefit comes from health care, education and personal transfer payments.**

- + For more than two-thirds of Canadian households, the benefit from public services represents over 50% of their total income.
- + In median income households, the benefit amounts to \$41,000 or about 63% of their total income.
- + In households in the \$80,000 to \$90,000 income range, the benefit from public services is equivalent to about 50% of their private income.

Canada's Quiet Bargain: The benefits from public spending (2009).
Mackenzie and Shillington

Calculations in Wellbeing

The international work of Wilkinson and Pickett on why equality is better for everyone was mentioned in Chapter 3. Some of the key findings are presented here to show the range of benefits to wellbeing that are possible.




The value of increasing equality

- + Levels of trust are up to six times higher in more equal societies, compared to less equal ones. As equality rises, people are more caring of one another.
- + Children's math and literacy scores are higher in more equal societies. In the US, more equal states have lower drop-out rates.
- + Teenage birth rates are lower at all income levels in more equal societies.
- + Rates of homicide and imprisonment are lower in more equal societies. A trend towards higher rates of re-offending in more punitive societies is starting to develop, for example in the US and the UK, compared to more equal societies like Japan and Sweden.
- ≈ Amongst the many countries in this study, Canada is in the middle on most measures.

The Spirit Level: Why Equality is Better for Everyone (2010). Wilkinson and Pickett

The beginning of this Chapter mentioned the Oppenheim and MacGregor study, which estimated that providing cash grants to bring people out of poverty would cost a great deal, but also provide a high return. The policy of providing cash grants or other forms of guaranteed income is, in fact, growing. For example, the Bolsa Familia in Brazil is showing positive results. It is a regular basic income provided to low-income families with only two conditions—the children must attend school and have medical checkups. Other experimental programs have shown that conditionality is not necessary to achieving desirable outcomes, and it only adds to administrative costs.

Canada provides a regular, minimum income, through the tax system, for seniors (Guaranteed Income Supplement) and children (National Child Benefit Supplement) whose families have low income. Many countries have similar programs. In



light of these developments, and the persistence of poverty despite other welfare-type programs, there is renewed interest in the guaranteed minimum incomes that were tested in several American and Canadian locations in the 1970s.⁵⁹

The “Mincome” program tested in Dauphin, Manitoba, was unique. Everyone in the community was part of the 4-year experiment, unlike in other places where participants were randomly selected. From 1974-78, working-age adults and seniors whose income was below a certain level received a guaranteed minimum income. It took the form of a negative income tax (like a GST credit but much larger) so there was no stigma and no one knew which families received it. In Dauphin, it was possible to see the effects of a minimum income on recipients—and on the entire community.

Every household had the security of knowing the Mincome was available if it was needed. In this respect it was like insurance against income loss and it is reasonable to anticipate that it could influence family decisions. For example, in families where the income of older children, or their labour in agriculture, is important to making ends meet, there is an economic pressure for students to leave high school before finishing. With a Mincome available for four years, however, taking the chance to enable teenagers to stay in school another year or two becomes less risky. Staying in school then helps improve their future economic prospects.

There was little analysis done at the time of the experiment, but as recent research by Forget reveals, there were indeed significant, positive impacts. In addition, there was no evidence of increased family dissolution that some US researchers claimed was a concern.



The societal benefits of income adequacy and stability

In new research on the Dauphin Mincome experiment of 1974-78, detailed health and other records were used to study its effects. These records do not show who received the guaranteed income and who did not. What they do show is a portrait of the community before, during and after the experiment. They reveal a pattern of positive change that is too large to be accounted for only by the people who received the Mincome. In other words, there were benefits to the community as a whole.

Among the key benefits found:

- + Students in Dauphin were more likely to stay in high school longer and to graduate compared to other rural students and compared to urban students. Before and after the experiment period, they had patterns similar to other rural students and were not doing as well as urban students;
- + First births were at later ages and women had fewer children over their lifetime;
- + Overall hospitalizations, especially for accidents and injuries, as well as mental health problems, declined for Dauphin relative to the comparison group; and
- + Physician contacts for mental health diagnoses fell as well, relative to comparators.

The town with no poverty: A history of the North American Guaranteed Annual Income Social Experiments (2008). Forget



The results of all the studies in this chapter show that very large cost savings are possible from eliminating poverty and that more adequate, secure, non-stigmatizing incomes, implemented broadly in society, can have benefits beyond qualifying individuals and families, thus improving the quality of life of communities.



6 ■ ■ ■ SPECIFIC COST/BENEFIT EXAMPLES

This chapter provides examples from a range of policy and program areas. The studies vary in size and include some that are small and very detailed and some that focus on particular population groups.

Housing and Homelessness

Several studies focus on people who are homeless. In Canada, six cities and one province have evaluated the cost, or negative consequences of, homelessness.⁶⁰ The Mental Health Commission of Canada is currently implementing research demonstration projects in mental health and homelessness across the country.⁶¹

These projects and several other homeless studies feature the “housing first” model. It is repeatedly demonstrating better cost-effectiveness compared to traditional approaches, usually centred around providing a meal and a bed for the night at a shelter.

The most comprehensive study on the housing first model was conducted in the United States by Culhane, Metraux and Hadley between 1987 and 1997 with a large sample of 4,679 homeless individuals living with mental health problems.⁶² The study found that providing supportive



The “housing first” model

The housing first model consists of finding appropriate housing facilities for an individual or family. Other issues that some homeless people may face, such as drug addictions, health concerns or long spells of unemployment, are addressed after their lives are stabilized through housing. For some homeless people, especially those who have jobs, affordable housing is all they need.

housing resulted in a substantial reduction in homelessness, and a marked reduction in the use of shelters, hospitals and correctional facilities.

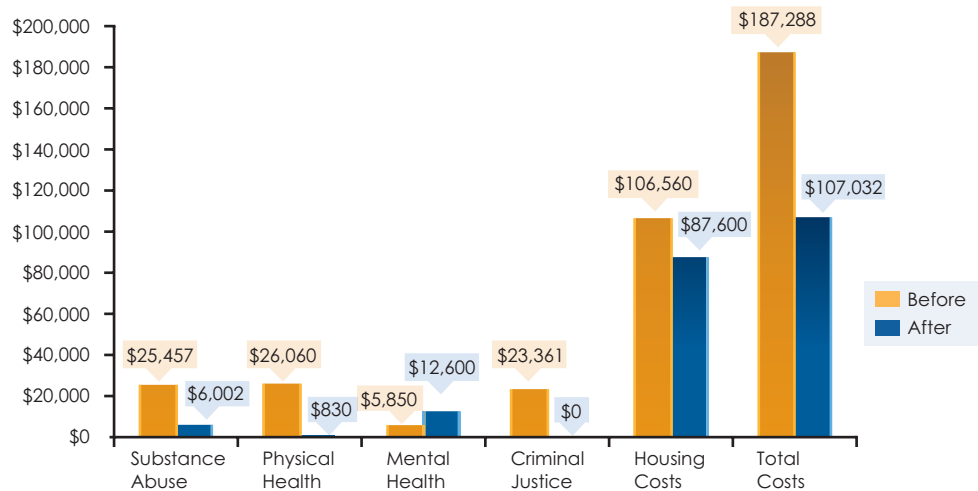
The cost savings, conservatively estimated, covered 95% of the cost of the supportive housing and did not include the value of other benefits to program participants as a result of having stable housing. The overall success rate led the authors to conclude that the program is a sound investment of public resources. The authors continue to study the program's effectiveness, for example in *Accountability, Cost-Effectiveness, and Program Performance: Progress Since 1998 (2010)*.⁶³

Some evaluations have been done for particular cities, such as Los Angeles, Toronto and Calgary. Sample sizes are smaller, but consistent results have reinforced the main conclusion that it costs less and produces greater rates of success to house people, than to keep paying for the over-use of expensive public services due to homelessness.



The cost of homelessness in Los Angeles

In this in-depth study, service costs were calculated for chronically homeless people for two years prior to, and two years after, having a home. The average costs are presented below:



*Chart reproduced with author's data

Source: United Way of Greater Los Angeles. Homeless Cost Study. Los Angeles: United Way of Greater Los Angeles, 2009.

“Costs went up in one area—mental health This is not only expected but desirable as the benefits of regular encounters with the community mental health system can connect people to counselling, help them maintain compliance with medication and reduce unnecessary emergency department visits.”⁶⁴

The total cost of public services for two years on the streets was \$187,288 compared to \$107,032 for two years in permanent housing with support services—a **savings of \$80,256, or almost 43%**.

Homeless Cost Study (2009). United Way of Greater Los Angeles



The cost of homelessness related to a hospital stay in Toronto

This 5-year study tracked the cost of medical, surgical and psychiatric services for both housed and homeless discharged patients. After adjusting for patient differences such as age and sex, the study found that homeless patients cost \$2,559 more. The higher costs for medical and surgical services were due to longer hospital stays of homeless patients, but this factor did not explain the additional \$1,058 for psychiatric admissions.

Hospital Costs and Length of Stay Among Homeless Patients Admitted to Medical, Surgical and Psychiatric Services (2011). Hwang et al.



The cost of homelessness in Calgary

- Government pays a shelter \$40 a day to give someone a mat on the floor and a meal, for a total of \$1,200/month.
- ✦ A person can live in an apartment for \$600 to \$800/month, plus money saved for support services.
- ✦ Building affordable housing helps create jobs—the construction industry employs more than one million Canadians.
- Emergency services are expensive:
 - Average annual costs per person for institutional responses (prison, detention and psychiatric hospitals): \$66,000 to \$120,000
 - Emergency shelters: \$13,000 to \$42,000
- ✦ Supportive housing is more cost-effective:
 - ✦ Cost of supportive and transitional housing: \$13,000 to \$18,000
 - ✦ Cost of affordable housing without supports: \$5,000 to \$8,000

The Homeless Among Us (2009). Calgary Homeless Foundation

Crime

The relationships between poverty and crime have also been the subject of specific studies. The study below on women who have been jailed for poverty-related crimes shows how much more cost-effective the alternatives would be.⁶⁵



The costs of poverty-related crime

- 80% of incarcerated Canadian women are there for poverty-related crimes, 39% of which are for failure to pay a fine.
- 70% of incarcerated women are single mothers.
- **The cost to incarcerate a woman for the length of time needed to pay off a \$150 fine is \$1,400.**
- Costs can include losing custody of children, losing a home, employment or possessions, and increasing health problems for mothers and children.
- ➕ **The return on investment of alternative measures is 6:1.**

"These costs might seem warranted if the goals of incarceration, to punish and rehabilitate the offender, were achieved, but they are not. Incarcerating a woman for a poverty-related crime does punish her, but the punishment is for being poor and trying to cope by using a socially inappropriate but readily available means. Given this, the rates of re-offence are significant and costly."⁶⁶

Crimes of Desperation: The truth about poverty-related crime (2008).
The Poverty Reduction Coalition of Calgary

Health and Wellbeing

In the health sector, there has been exponential development from the cost of poverty perspective. The health section of the National Council of Welfare's 2002 *Cost of Poverty* report was largely based on the pioneer Whitehall Study of British civil servants (from 1967-1977 and 1985-ongoing).⁶⁷ This study followed the health of more than 10,000 civil servants for nearly 20 years and showed that health and life expectancy improved at each level upwards in the ranks of the civil service. Other studies are expanding and reinforcing the type of evidence found by Whitehall that inequality, low status and low control account for the largest differences in health outcomes.

Recent work by Wilkinson and Pickett also documents the relationships between inequality and health and wellbeing within, and among, many countries. Key health findings of relevance to Canada include:

- Rates of mental illness of 10% in Germany, Italy, Japan and Spain, while rates in Canada and the United Kingdom were double that, at 20%. The United States, with the greatest inequality and highest poverty rates, also had the highest rate of mental illness at 26%.⁶⁸
- Illegal drug use, obesity, infant mortality and many other health problems are more common in highly unequal societies.
- In contrast, there is no clear pattern between amount of health care spending and good health outcomes.

In Canada, there is a great deal of additional information documenting the impact of income inequality and low income on health outcomes:

- Approximately 20% of health care spending can be attributed to socio-economic disparities, such as large income differences.⁶⁹
- Compared to the wealthiest neighbourhoods, deprived neighbourhoods have a 28% higher death rate and double the suicide rate. Type-2 diabetes and heart attacks are also more common. This demonstrates that “the primary factors that shape the health of Canadians are not medical treatments or lifestyle choices but rather the living conditions they experience Income is perhaps the most important social determinant of health.”⁷¹

Financial stress can affect our mental health, the numbers show. Nurturing our human capital is a priority for recovery There is very solid data correlating unemployment and personal financial stress with increased mental-health problems, including higher rates of depression and suicide. In Windsor, Ont., where the auto industry was hit early and hard by the recession, demand for mental-health services has jumped 50 per cent in the past year.

Kirby (2009)⁷⁰

- Regardless of similar access to treatment and outcomes of care, the rate of heart attacks in the least affluent neighbourhoods was 37% higher than the rate in the most affluent ones.⁷²
- The city of Hamilton, Ontario found that within the city there was a 21-year life-expectancy gap between neighbourhoods at the upper and lower ends of the income spectrum.⁷³
- Compared to people at the higher end of the income scale, those at the lower end have fewer years of health-adjusted life expectancy. This measure combines data on mortality and morbidity, including disability and reduced health-related quality of life, into a single index.⁷⁴

More than 20 studies solely related to health can be found in the Council's online bibliography. They document external costs, such as health care system use, the cost of lives lost early, and diminished quality of life.

The majority of reports on poverty and health use indicators of health and wellbeing. Few health-related reports specifically calculate monetary costs, but one large and important study by Mackenbach et al. from Europe does.



The economic cost of health inequality in the European Union

For one year:

- Inequality-related health losses due to less labour productivity totalled €145 billion or about \$232 billion CDN.
- The economic impact of socio-economic inequalities in health due to reduced individual utility (i.e., satisfaction or ability to engage in work and leisure) was €980 billion or \$1,568 billion CDN.
- Inequality-related losses to health account for 15% of the costs of social security systems, and for 20% of the cost of health care systems in the European Union as a whole.

Economic costs of health inequalities in the European Union (2010).
Mackenbach, Meerding and Kunst⁷⁵

Education

Cost/benefit analyses are well developed in the field of education. Many focus on the value of human capital and the cost of lost potential and school drop-out. In Canada, several studies in the bibliography have adopted different approaches to measuring their results. Often, benefits of positive interventions are presented at both the individual and societal level, as the examples highlight.



The economic benefits of education

This study estimates the benefit:

- + to students who can access higher education, by demonstrating the relationship between employment, earnings and higher education: post-secondary graduates are more likely to be employed, and they earn more than those who did not continue their studies past high school. **In Ontario, a bachelor's degree holder earns a total of \$769,720 more over 40 years than someone with only a high school education.**
- + to society, by demonstrating how much post-secondary graduates contribute to the tax base in Canada. **University graduates make up 22% of the population, contribute 41% of income tax paid and receive 14% of government transfers.**

The Price of Knowledge. Access and Student Finance in Canada (2009).
Berger and Parkin

The Ontario Undergraduate Student Alliance (OUSA) study, *Ontario's Knowledge Economy: The Economic Impact of Post-Secondary Education (2009)*, used Berger and Parkin's results and a TD Bank Group report that found a return on investment of between 12% and 28% for a student with a university or college diploma. Weekly earnings averaged 61% higher for university-educated workers compared to their counterparts with only a high school education.

For the most disadvantaged in our society, higher education is especially important. Simply put, it lifts people out of poverty.

Ontario Undergraduate Student Alliance (2009)⁷⁶

The OUSA report also stresses that **in addition to increased government revenue, Ontarians with a post-secondary degree are likely to live longer, be healthier, commit fewer crimes, vote in larger numbers, donate to charity, and volunteer in their communities.**

A unique program, Pathways to Education, started in an area of extreme poverty in Toronto. This program works to break the cycle of poverty by reducing the high school drop-out rate and increasing access to post-secondary education by youth in low-income families. It provides tutoring, group mentoring, support workers, and immediate financial support such as free bus tickets and bursaries for post-secondary education. Results from Toronto's Regent Park neighbourhood where it was first implemented, and from new sites in Toronto, Ottawa, Kitchener and Montreal, are impressive.



The benefits of support to low-income students

In the new Pathways to Education sites, initial results show:

- + A 23% to 52% reduction in students academically at-risk of dropping out.
- + A 74% to 165% increase in the number of students enrolled and a 65% to 91% increase in the number enrolled as a percentage of the total number of eligible students.

The Pathways program in Regent Park, now in its eighth year, continues to be successful:

- + The dropout rate has been reduced from 56% to below 10%.
- + 462 young people from the Pathways program have completed high school and 80% of those high school graduates have gone on to post-secondary education. The vast majority are the first in their family to do so.
- + The attrition rate for Pathways students in university is 1.8%—well below the 16% average—while the rate in college is 9.3% compared to the 25% average rate.

Pathways to Education (2009).

According to research done by the Boston Consulting Group in 2011, Pathways also provides good value for money with a very high social return on investment and a dramatic increase in the overall quality of life of the community.⁷⁷

Early Learning and Care

The importance, and cost-effectiveness, of quality early learning is one of the most well-documented fields of study. Examples of prominent American child care programs focused on at-risk children were included in the Council's 2002 *Cost of Poverty* report, showing savings in the range of 7 dollars for every dollar spent when children reached adulthood. Another study estimated that a universal system in Canada for 2 to 5 year olds would return about 2 dollars for every dollar spent.⁷⁸

More recently, we are able to see the impact that Quebec's child care program, established in 1997, is having on poverty. Figures from Quebec's statistical institute show that between 1997 and 2007, the poverty rate for female lone parents declined 15 percentage points, using after-tax LICOs as the poverty measure. Using the Market Basket Measure, the drop was 20 percentage points between 2000 and 2007, compared to a drop of 12 percentage points for Canada as a whole.⁷⁹

An analysis of the child care situation in Quebec, by the Association québécoise des centres de la petite enfance (2007), noted many other benefits. For example, between 1995 and 2005, the increase in the labour force participation of child-bearing women in Quebec was twice that for Canada overall. The provincial government benefits through a reduction in welfare rolls and an increase in taxes paid, as well as a reduction in the need for social services and the healthcare system. The private sector gains access to a larger workforce and creates jobs in the early childhood sector. Women benefit by becoming more independent and better able to leave abusive relationships, with positive effects on their health and decision-making as well as their children's health and development. This analysis also identified the long-term benefits of higher education and a greater ability to break the poverty cycle.

A number of studies have also looked at the impacts of direct financial support to low-income families with children. One study offers insights into the effects of different program interactions that can help or hinder the objective of reducing poverty.



The value of national child benefits (and of supporting parents)

The policy objectives of the National Child Benefit Supplement (NCBS) include both the reduction in the poverty rate of families with children in Canada and the decrease in the depth of poverty for these families.

With the introduction of the NCBS, the national poverty rate for economic families with children fell 4.6% between 1996 and 1999. The drop in the poverty gap was even greater, falling by 8.7%.

“While the National Child Benefit Supplement has been successful in achieving its objective of reducing child poverty, the impact of changes in other social programs such as social assistance and employment insurance has not been as positive. Indeed, these policy changes appear to have more than offset the impact of the NCBS on poverty. This may account for the limited decline in the poverty rate in the 1990s despite the strong economic growth in the latter part of the decade.”⁸⁰

The Impact of the National Child Benefit Supplement on the Low Income Status of Canadian Families with Children: The SPSP/M Results (2002). Centre for Studies of Living Standards

Employment, Business and Productivity

A significant development in examining the affordability of poverty is the increased attention to solutions on the part of businesses and economists concerned with productivity issues. Pierre Fortin, a former President of the Canadian Economics Association, looked specifically at how eliminating poverty can improve productivity.

He could have talked about the economic recovery, but the president and CEO of BMO Financial Group had another message to convey to Toronto's business elite. "It's time to invest in people."

Downe (2009)⁸¹



Eliminating poverty and improving productivity

Fortin identifies the most pressing task of addressing the productivity conundrum in Canada as one that requires fostering basic skills, reducing the high-school drop-out rate, and raising the profile of community colleges and CEGEPs (post secondary institutions in Quebec). This would bring the low-productivity segment of the workforce closer to the median.

"I build my defence of this recommendation on three pillars: recent empirical research on the sources of well-being, the impact of basic skills on growth, and the effect of global competition on our low-skilled workforce

"The view that well-being is linked to relative income, whereas the quality of the environment (and hence the long-term sustainability of economic systems) deteriorates with absolute income growth has stark implications for growth policy. As philosopher Joseph Heath has stressed, it means first that pushing on further growth in advanced countries is not such an urgent task. Second, it implies that the focus of growth policy should be on eradicating poverty from low-income countries, and on bringing poor people in advanced countries closer to the median income ...

"Raising literacy and numeracy at the bottom of the skills distribution is more important to economic growth across countries than producing more highly-skilled graduates and more investment in physical capital."⁸²

From *Productivity to Well-Being: Keep the Focus on Basic Skills* (2005). Fortin

An important look at the implications for the business sector of improving the lives of individuals and communities is found in a new book by Heymann and Barrera.



Companies and employees succeeding together

Heymann and Barrera look at how companies, countries and the lowest level employees are faring in the current economy. They note that the private sector has found itself in an increasingly vulnerable position due to its reliance on speculation rather than true increases in value.

The authors detail studies from around the world, including Canada, that document how companies and their employees, even those at the bottom of the ladder, can succeed together. They offer a blueprint for change that includes learning from workers who perform the majority of essential work at their firms. The investments that were found to work include:

- + **Providing incentives at the bottom of the ladder.** Some companies provided financial incentives that resulted in higher productivity and lower turnover, higher annual sales, and higher profits than low-wage competitors. Asset-building, offering career tracks, and profit sharing also paid off.

- + **Supporting the health of the lowest level employees.** A range of company health improvement programs resulted in a 3% to 16% reduction in absenteeism and a return on investment for those companies of \$2 to \$6.40 for each dollar invested.
- + **Training employees at every level of the company.** Free English as a second language programs helped increase the efficiency of production workers from different parts of the world, and in other cases, significantly reduced turnover rates compared to the industry average.
- + **Ensuring companies and communities profit together.** Location advantage was gained by companies with good reputations for providing decent wages and advancement opportunities, where other companies who depended on low paid, precarious work faced opposition in many communities.

The companies presented in the book, while describing what employers can do, also highlighted where it is more appropriate and cost-effective for governments to take responsibility, with child care at the top of the list for countries like Canada and Australia, and health care for the United States.

Profit at the Bottom of the Ladder (2010). Heymann and Barrera

Several studies have emphasized the cost of economic barriers faced by particular populations such as immigrants, racialized minorities, Aboriginal people, lone parents, and people with disabilities.

The Toronto Board of Trade, for example, published a report on the economic cost of the non-integration of immigrants, along with some potential solutions for ways forward. Recently immigrated men earned only 63% of the income of Canadian-born men in 2005, while the rate for women was even lower, at 56%, reflecting a significant downward trend since 1980. This is a costly trend given that Canada's net labour force growth is highly dependent on immigration.



The value of promoting social cohesion and economic inclusion

“\$3.42 to \$4.97 billion

The cost per year to the Canadian economy resulting from failure to recognize the qualifications and experience of immigrants

“\$13 billion and 400,000

The rise in personal income for Canadians and the number of additional people employed in the workforce if immigrants had the same likelihood of employment at the same average income as people born in Canada.

“Issues of social cohesion and economic inclusion are generally viewed from a social justice, rather than an economic, perspective. The reality is a strong business case exists for addressing these issues the Toronto region's economy underperforms and experiences minimal productivity growth partly because foreign-trained professionals and other immigrants cannot put their skills to work. Toronto's diversity can become a competitive advantage if we maximize the potential of the region's citizens.

“Small investments can yield social and economic results ...government working with the private sector can help to improve neglected neighbourhoods, while also building globally competitive industries whose expertise can be exported to other jurisdictions.”⁸³

Lifting All Boats: Promoting Social Cohesion and Economic Inclusion in the Toronto Region (2010). The Toronto Board of Trade

Aboriginal people represented 3.7% of the Canadian population in 2006 and represent a very important proportion of the population in some parts of the country. The Aboriginal population is younger and increasing at a faster rate than among non-Aboriginals. Aboriginal people are making gains in education, but continuing rates of poverty that are much higher than Canadian averages are another costly trend that wise investments could help reverse.⁸⁴



The value of investing in Aboriginal people

If, in 2026, the educational and labour market outcomes of the Aboriginal population in Canada would reach the non-Aboriginal level for 2001, then

- + Annual output would be **\$36.5 billion higher** (in 2006 dollars) compared to the status quo;
- + Annual tax revenues would be \$3.5 billion higher; and
- + Government expenditure would be \$14.2 billion lower.

The Effect of Increasing Aboriginal Educational Attainment on the Labour Force, Output and the Fiscal Balance (2009). Sharpe et al.

In the case of lone parents, poverty rates were improving prior to the most recent recession. They remain high, however, indicating there is a great deal of room for improvement. Because the situation of lone mothers can have long-term impacts on children, it is especially important that the focus of support for these families is not just short term. The example below shows how social return on investment for this population can build over time.

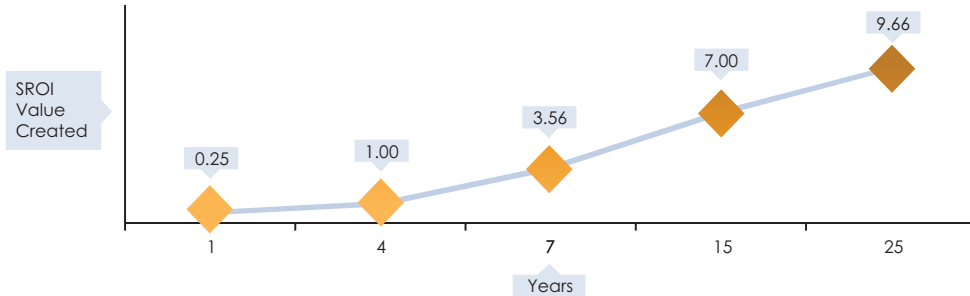


A short-term program for lone mothers with a lifetime impact

Women Moving Forward is a 10-month program that provides low-income, lone-mother families with support to define career path objectives and the developmental programs to attain them, including getting better jobs, going on to higher education, and being a better role model for their children. Since 2005, 110 women have participated and:

- + 72% have successfully completed the program;
- + 99% report improved decision making;
- + 83% report increased financial knowledge; and
- + 65% no longer receive social assistance.

It takes time for investments to pay off and in this case the return grows larger over time:



Social Return On Investment (SROI) Case Study: Women Moving Forward (2011). Women Moving Forward

A novel example of a business response to a poverty-related need is provided by a pilot project in Ottawa started in 2007. The premise was that stabilizing finances might help stabilize mental health. People living with mental health issues identified barriers such as feeling unwelcome in banks and lacking the identification needed to open an account. As a result, they turned to costly cheque-cashing operations or to carrying cash. This made them vulnerable to impulse purchasing, loss and theft, making it difficult to meet needs and stick to treatment plans. The project and its results are highlighted below.



Return on investment in people with mental health issues

Ottawa mental-health workers and the Toronto Dominion Bank collaborated in an effort to support people who have severe mental illnesses by setting them up with savings accounts, debit cards, direct deposits and lessons in money management. An independent review by Carleton University showed that:

- + three-quarters of these new clients had more control over their money;
- + more than two-thirds said their money lasts longer; and
- + clients reported a 25% drop in borrowing money from friends and family.

Another 10 TD branches in the Ottawa area are now adopting a similar strategy.

Creating Change by Saving Change: A Participatory Evaluation of the Banking Accessibility Pilot Project. (2009). Whitmore



This section has provided some of the many examples of how much poverty is costing and investment strategies that demonstrate positive returns. The next section highlights the role of governance and public policy in getting the best returns on the largest scale.



PART THREE

DOLLARS AND SENSE

- ■ ■ 7. GOVERNANCE AND PUBLIC POLICY
- ■ ■ 8. CANADIAN POLICY IN PRACTICE



7 ■■■ GOVERNANCE AND PUBLIC POLICY ■■■

Earlier chapters in this report stress the importance of better understanding the interdependencies of social and economic spheres. In every country, governance—political processes, government institutions and public policy—plays an essential role in supporting economic and social structures to achieve healthy outcomes in both.


One of the most basic examples is that of roads and bridges built by governments with public revenues that are used by private businesses to transport the goods they make. At the same time as they support the market economy, the roads also enable families and friends to stay connected. The tax system is another good example, as it is increasingly used as a vehicle for a wide array of subsidies and supports for businesses and people.

Governance also matters when major social or economic problems arise, and the bigger the problem, the bigger the role government often must play. Governance plays a crucial role in helping individuals and families through recessionary times. During the global financial crisis in late 2008, governments also took the unprecedented action to aid financial institutions.

Governance varies among countries. Although costly problems from obesity to mental illness to violence tend to increase as inequality increases, the patterns among countries are not all alike. While variations may have roots in history or culture, governance and public policy frameworks are often the key to differences in patterns of poverty and inequality. Governments have choices. Where, when and how governments decide to act is highly important. Norway and the United States, for

“*Having a strong economy, effective governance and vibrant culture is not well-being in itself, but these factors do—typically—provide an enabling environment in which human well-being will improve.*”

Hall et al. (2010)⁶⁵



example, have strong market economies and similar per capita GDP but their approaches to poverty, their public policy frameworks and their social outcomes are very different. In earlier decades, Japan had far greater inequality than the United States and now those positions are reversed.


Change and improvement are possible and just like individuals, countries and governments vary in their capacities and challenges. Canada has a great deal of capacity when it comes to the potential to solve poverty.

The research for this report indicates that Canada's most important capacities include:

- Wealth, and thus more options than many other countries;
- Well-developed economic and social indicators, years of solid research, analysis and policy design capacity;
- Government poverty reduction strategies that mark a new approach to solutions at the provincial/territorial and municipal level;
- Public opinion that is largely supportive in key areas related to poverty solutions; and
- Policy experience and success, especially in reducing poverty among seniors.

Canada's main challenges include:

- Growing inequality—in income, in access to education and in other resources such as jobs with decent working conditions and pay;
- Myths, stereotypes and discrimination based on social conditions as well as race, gender and other factors;
- Lack of consistency and cohesion necessary for policies to work together most effectively; and
- An entrenched, stigmatizing welfare model as last resort income support.



Some factors, such as recessions and other human or natural disasters can have both positive and negative influences. They can be a wake-up call that more stability and preparedness are needed, and thus encourage the public and decision makers to support change. They can also dominate debates about current resources and create concern about future spending.

The importance of poverty reduction strategies and public opinion is more fully explained in the remainder of this chapter. Wellbeing indicators have been described in earlier chapters. The final points under capacities and challenges will be explored in the next chapter, where the different policy frameworks underlying social assistance and income support for seniors and children will be examined in greater depth.

Government Poverty Reduction Strategies

The majority of Canadians now live in a jurisdiction with a provincial government poverty reduction strategy. Other provinces and territories are also moving in that direction. Many of the initiatives being brought forward are testing old assumptions and adopting new approaches.⁸⁶ This experience of trying to “do things differently” provides an important learning environment and body of evidence that can contribute to better, more cost-effective investments in solving poverty.

Provincial poverty reduction strategies are starting to shift their focus to investing for the longer term to achieve greater benefits. There are significant differences among the strategies in their scope, cohesion, political commitment and level of investment. In general, they are taking steps in the direction of a new governance model for poverty with greater clarity of objective, aiming not only to make living in poverty less harsh, but to reduce or eliminate poverty. Some have particular strengths, such as fostering greater coordination across different spending areas, consulting more widely, taking greater account of feedback from people affected by poverty, establishing strategies in legislation, and identifying statistical measures against which to assess progress and plan for the future.

The Government of Newfoundland and Labrador's guiding principles illustrate the kind of comprehensive framework that is focused on investment and coordination for greater effectiveness.

The Canadian Council on Social Development, as part of its Social Development Report Series, published a report in 2009 on *Poverty Reduction Policies and Programs*, one for Canada and each of the provinces. These reviews offer a good overview of the policies and programs put in place by governments. These independent reports, along with government reports, provide a good foundation upon which to build a more fully realized cost/benefit analysis.

The basic principles and structure of these strategies are largely consistent with the National Council of Welfare's four cornerstones for a workable national strategy for solving poverty, which in turn was based on international and Canadian experience. This approach is also being applied at the municipal level. **All strategies involve an expanding range of government, business and community partners.**

In New Brunswick, during the final Forum of its innovative consultation, the government sat side by side with low-income representatives, business leaders and heads of other political parties to work out poverty reduction goals and plans. In a similarly collaborative mode, House of Commons and Senate committees have undertaken in-depth studies of poverty involving wide consultation and have reached important conclusions upon which there is broad agreement.



Newfoundland and Labrador's Guiding Principles

- Taking a long-term approach
- Focusing on prevention
- Building on partnerships
- Finding the right policy mix
- Demonstrating accountability and measuring progress
- Taking an integrated and coordinated approach
- Addressing rural and urban differences
- Consideration of gender
- Consideration of Aboriginal issues

Newfoundland and Labrador (2009)⁸⁷

Provinces and territories have primary responsibility for social assistance (a direct cost of poverty) and health care (which includes indirect costs of poverty). It is important, therefore, to note that some jurisdictions are increasing social assistance payments. Some are improving health benefits such as extending prescription drug and dental care to all low-income residents. The latter is one of the ways of removing disincentives to employment. In some cases, there is little or no price tag to improvements, as they are being achieved through simplified administration or better policy design.

In line with the research presented in this report, these strategies are starting to see a return on their investment.⁸⁸ For example, increasing benefit levels and easing some of the rules is enabling people needing only temporary help to more quickly and easily exit the social assistance system, take up jobs and free up resources for the smaller number of clients with more complex needs.⁸⁹

As provincial and territorial poverty reduction strategies are implemented and more results become available, greater comparisons across jurisdictions and opportunities for sharing experience and for collaborating will be possible. Wider and longer-term pay-offs from initial investments can also be expected to show up. This, in turn, has the potential for accelerating success.

Public Opinion

According to consistent polling research that has been conducted for more than three decades, Canadians' views over time on key economic, social and governance matters have been quite stable.⁹⁰ The responses to some questions, in particular, indicate a strong public interest in, and willingness to, adopt more effective approaches to poverty. The survey in 2010 revealed that:

- 83% of Canadians agree that the government should reduce the gap between rich and poor;
- 78% think the federal government should spend more on child poverty;
- 90% think Canada has better quality of life than the United States; and
- 70% of Canadians think taxes are mostly a good thing because they contribute to a positive quality of life.



While Canada has some challenges, it has great potential in public policy successes, in good ideas and in public values that can support an investment strategy to solve poverty and reduce its high human and economic costs.



8 CANADIAN POLICY IN PRACTICE

There are three well-established programs designed to provide income support to Canadians with low income—the Guaranteed Income Supplement for seniors, the National Child Benefit Supplement and social assistance or welfare, that goes by different names in the 13 provinces and territories. A more recent addition for low-income, working-age adults is the Working Income Tax Benefit. We use these as examples of different approaches to poverty and look at them from the cost/benefit perspective of the research in this report.


Social Assistance

Social assistance programs have been in place for several decades, following essentially the same model. With few exceptions, the 13 different social assistance regimes are characterized by: requirements to be nearly destitute to qualify; incomes that are far below poverty levels; and complex rules and restrictions that are highly intrusive and make it hard to get ahead. Social assistance also interacts with other federal and provincial tax measures and a range of services and subsidies, for example for prescription drugs and dental care, and child care or housing, all based on different rules.

The National Council of Welfare has for years tracked welfare incomes and the rule changes affecting those income calculations for four different family types: a couple with two children, a lone parent with one child, a single person considered employable and a single person with a disability. Most regimes have separate programs and rules for people with disabilities and

Last resort social assistance programs using the budget deficit method are by their nature intricate, rule-bound, complicated, hard to understand, and difficult to administer fairly.

Ontario Social Assistance Review
Advisory Council (2010)⁹¹



they may interact with disability benefits available through the Canada and Quebec Pension Plans and a variety of tax credits and other programs.

Other information on the impact of rules and rates, if collected or available, is not readily accessible. A critical gap on the cost side is a lack of information on the administration and rule enforcement costs involved in running these systems. Given their complexity it is reasonable to assume they could be quite large.

There is also a critical gap on the benefits side. Scant information is available on the net benefit of social assistance to the wellbeing of the people who receive income from this source. On one hand, there is little doubt that many people receiving social assistance are able to meet some needs that otherwise would have been impossible with no other source of income. On the other hand, the larger health and other social research evidence strongly suggests that incomes too low to meet basic needs, combined with stigma, lack of control and work disincentives, can increase stress, create new problems and make existing conditions worse.

This model of income support, therefore, is likely to be costing us a great deal in administrative inefficiencies and in indirect poverty costs such as increasing need for medical care, food banks and a range of other services.

There are thousands of stories of people on welfare who have tried to move forward in their lives, but fall into the welfare trap, blocked by the complex system of rules.⁹² Taking a part-time job to help make ends meet, for example, could push a family's earnings up to the point of losing social housing which would be almost impossible to get again, due to very long waiting lists, if the job was lost. This loss of productivity is a societal cost of poverty.

Some elements of welfare regimes might also be more effective than others, but again little evaluation is available. For example, in almost all provinces in the early 1980s, lone parents who received social assistance for the family's basic needs were also able to access student loans to pay for post-secondary education. During periods of welfare cutbacks this practice was disallowed and only recently have some jurisdictions started to reconsider. Given the


important link between education and income, it would be useful to know how the lone parents who had easier access to higher education have fared. If they and their children have fared better over the long term, as research would suggest, this aspect of welfare worked more like part of an investment model rather than a model of continuous short-term spending.

- Overall, the dominant social assistance model in Canada generates large indirect poverty costs, and would likely continue to do so even with higher benefit rates as long as the stigma, control and disincentive elements persist. Greater coordination with other policy and service areas could reduce inefficiencies and alleviate some of the time and income burden on recipients. On the whole, however, this is not a preventative model, nor one well-suited to fostering longer-term wellbeing.

National Child Benefit Supplement

Low-income families receive this supplement as part of the Canada Child Tax Benefit (CCTB) that is available to the vast majority of Canadian families. The National Child Benefit Supplement (NCBS) works on a negative income tax basis, where the lower the income, the greater the benefit. It does not carry stigma and gives autonomy to parents to make decisions about the use of the income in the interests of their children. The amount of the payment is relatively generous and the benefits to the children will accrue over time as they are raised in improved living conditions. This provides a continuing return on investment beyond the childhood years.

The CCTB/NCBS links well to some other programs, such as provincial and territorial child benefits, specific benefits for lone parents and a number of services. In order to stay above the poverty line, however, the family still requires significant earnings or earnings replacement such as Employment Insurance. This is especially challenging for lone parents earning low wages, parents who do not qualify for EI or only receive a small benefit level, and cases where disability affects parents or children and limits time available for employment.



The CCTB/NCBS, in its objective to support the labour force attachment of parents, is also dependent on the availability and affordability of quality child care, which varies greatly from place to place in Canada. Aside from Quebec, Canada does not compare well to most other OECD countries in terms of publicly-supported child care.

The NCBS does have the advantage of providing stability and security to parents who may have to move on and off welfare as employment opportunities and family circumstances change. On the other hand, it has sometimes been described as taking children off welfare, but that is misleading. Children live in families and if parents must rely on welfare to make up the rest of the family's income, all the welfare rules, income inadequacy and stigma will attach to the whole family.

- Compared to social assistance, the design of the NCBS for low-income families is based more on an investment model. It is more inclined to prevent a fall into poverty, to contribute to wellbeing and to reduce the indirect costs of poverty. Its effectiveness, however, is still dependent on the other income sources and supports available to parents. Complementary policies, such as support for child care, earners with low wages, and periods of maternity and job loss are needed.

The child benefit story highlights the importance of having policies work together to support each other for greater effectiveness. The case of several policy areas that joined up to prevent poverty and improve wellbeing for lone-parent families provides a good example.

At the time the NCBS was being established and amounts were being increased, new child support guidelines for separated and divorced parents were brought in across Canada, enforcement was improved, and the tax treatment of child support was changed. Previously, as the employment income of a custodial parent increased, an ever-higher percentage of child support would be taxed back, making it hard to get ahead. The end-of-year tax bill could make the difference between being above or below the poverty line, or between paying rent and being evicted. The new policies increase fairness and support to children, reward work effort, and line up


well with the CCTB/NCBS to help lone parents avoid poverty and the need to resort to social assistance. The significant reduction in poverty among lone-mother families in recent years owes a great deal to these policies, along with a strong economy.

Guaranteed Income Supplement for Seniors

The policy framework for low-income seniors offers the longest running Canadian example of an investment approach, policy coordination, and considerable success in achieving objectives. The concept of investment is understood here in its widest sense, reflecting the reality that we all invest time, effort and money in the things we value and the endeavours that improve our wellbeing. As earlier chapters have described, money is not the only measure of return on investment. The reduction of poverty among seniors has brought with it many benefits that would not otherwise have been possible.

The history of seniors' programs is one of progress building steadily over time. In 1952, a former social assistance type benefit for destitute seniors was replaced by the universal Old Age Security (OAS) program. In 1967, the Canada and Quebec Pension Plans were introduced as well as the Guaranteed Income Supplement for seniors whose other sources of income were insufficient for a reasonable standard of living. There have been modifications over time since then, including additional benefits for low-income seniors delivered by most provincial and territorial governments. Recommendations for improvement usually take the form of building on the existing structure, as overall it has proven to be effective.

In 1961, the poverty rate for senior families was close to double that of younger families and about 7 of 10 unattached seniors were considered living in poverty.⁹³ In 2008, the poverty rate for senior families was 1.6% and the rate for unattached seniors was 12% for men and 17% for women.⁹⁴ Depth of poverty is also vastly improved since the days when many seniors were destitute. Now, for unattached seniors living in poverty, their average income is over 85% of the poverty line. The income of unattached individuals aged 64 or younger relying on social assistance, in contrast, averaged only 40.7% of the poverty line in 2008.⁹⁵



While poverty has not been eliminated for seniors, the retirement income system and other supportive policies over a couple of generations have dramatically reduced the incidence and depth of poverty. Further, they have also enabled many more seniors who otherwise might have stayed quite close to the poverty line, to actually do better and to thrive. Continuing progress will depend on what happens throughout earlier stages of the lifecycle as much as on seniors' policy.

How seniors' programs work together

While the GIS is considered the main income security measure for low-income seniors, in fact the system has several features that work together to prevent as well as reduce low income. This is important if the goal is not just to eliminate poverty but to enable people to achieve greater wellbeing and to thrive.

Old Age Security (OAS) is available to a large majority of seniors. Its one major condition concerns the number of years lived in Canada. It is not completely universal because benefits are clawed back from seniors with higher incomes but it does contribute to recognition of the worth of human beings regardless of family status or work history.⁹⁶ It thus contributes to dignity and control. For earlier generations of women who did not have paid work, it was often their first independent income. It is relatively generous and administratively simple due to the need to apply only once. About 39% of OAS recipients also received some GIS in 2006.

The **Guaranteed Income Supplement (GIS)** is income-tested and works as a negative income tax. Family income is used to determine the amount of GIS that a couple can receive and the benefit is divided so that each partner gets his or her own cheque. As other income increases, including from employment, GIS is reduced, but not nearly as steeply as with social assistance, providing greater reward for seniors able to be active in the labour force compared to those 64 and under.

The **Canada and Quebec Pension Plans (CPP/QPP)** are also important. They are funded by employer and employee contributions from past earnings. In addition, benefits for spouses, survivors and orphans recognize family relationships too. One of the most important features allows periods of low

or no earnings while raising young children to be dropped out of the pension calculation so parents are not penalized for their care giving responsibilities.


- The research in this report indicates that the seniors' income security framework has several factors that contribute to wellbeing and fit an investment model. They include:
 - Canada-wide, portable benefits with regular adjustments to protect from inflation erosion that link together to foster security and stability with relatively efficient administration;
 - A mix of market and non-market features; and
 - A mix of universal elements that provide very broad public support along with specific elements geared to low income that are not stigmatizing or controlling.

In addition to these income security programs, there have been other supportive policy changes since the 1960s. Greater access to education, job opportunities and fairer pay for women as well as racialized and other minority populations, along with the advent of public health care, have lined up to enable Canada's seniors population to be among the best off in the world.

Indirect and societal return on investment

The improved incomes of seniors tell only half the story we want to convey—the other half is about how much seniors give back that benefits others. As in other policy areas, information on benefits is harder to find than information on costs. A full analysis of the benefits of seniors' wellbeing to society is beyond the scope of this report. The older population is not monolithic, there are differences by income group although not as large as among younger Canadians and with age comes greater health concerns. Overall, however, there are many indicators of the range of contributions seniors are making to our economy and society that would not have been possible with the high poverty rates of earlier generations.⁹⁷ For example:

- Seniors 65-84 had a higher prevalence of good health in 2009 than they did a decade earlier; 65-74 year olds are less likely to be obese and slightly more likely to be physically active and engaged in education and social activity rather than passive leisure like watching television.

- 
- 65-74 year olds are more likely to report positive wellbeing (self-confidence, satisfaction with accomplishments, feeling appreciated, having goals) than younger adult age groups, and they report less psychological distress.
 - Canadians 65 and over are the least stressed by lack of time, lack of money, and work situation; time pressure for 25-54 year olds was about triple that of 65-74 year olds, and stress over work situation was ten times as much for the younger age group.
 - Over 450,000 seniors aged 65-74 provided some unpaid child care in 2006 and over 49,000 provided 30 or more hours a week; about 413,000 helped or cared for seniors too, with 55,000 providing 20 hours or more in a week; more than 2 million seniors did some unpaid housework with well over half a million doing 30 hours or more; the share of women's time devoted to unpaid work is fairly consistent from age 35 to 74.⁹⁸
 - Canadians 65 and older had a formal volunteer rate of 36% in 2007, with 100 hours as the median contribution; seniors also had a 70% rate of providing direct help to others, with 35% helping at least once a week and 14% helping daily or almost daily, rates similar or higher than age groups from 25 to 64.
 - Seniors donate at a rate of 87% to charitable or non-profit organizations, very close to the 90% rate of 45-64 year olds in 2007. Seniors had the highest average donation amount at \$611 and the highest median donation at \$205.
 - Seniors 65-74 have far higher rates of voting in federal, provincial and municipal elections than younger age groups.⁹⁹

The indicators above portray an overall picture of seniors as healthy, active participants in society and the economy where their wellbeing contributes to the wellbeing of the rest of us.


Working Income Tax Benefit

The most recent addition to income security programs in Canada is the federal **Working Income Tax Benefit (WITB)** introduced in 2007. It is a refundable tax credit with a dual purpose: to provide a financial support to low-income workers to stay in the work force, and to help reduce the disincentives that welfare recipients face when they leave welfare for work. It helps people with low earnings by supplementing their wages. It interacts positively with welfare in that it does not produce a reduction in welfare benefits. The interaction is somewhat different in each jurisdiction, however, as there is some flexibility for provinces and territories to adapt it to coordinate with their welfare system.¹⁰⁰

The WITB is especially important for the many working-age adults who live alone, whose risk of poverty is very high and for whom there is very little in the way of stable income support, such as the benefits available to families with children, or the GIS available to seniors living alone. Workers have to have minimum earnings and they must apply for this credit on an income tax form that is rather more complicated than applying for the GST credit, as people with low income usually do. On the other hand, it has a major advantage in that it does not carry the stigma or involve all the rules and disincentives of social assistance.

The value of the WITB has increased since 2007, and in 2010, maximum benefits in the federal model were \$931 for a single person and \$1,690 for a family. To be eligible, earnings had to be above \$3,000. Benefits ended when net income was above \$16,770 for a single person, and \$25,854 for a family. Benefits usually stop before people even reach a poverty level income, and depending on jurisdiction and circumstances, recipients can often face very high marginal tax rates just as they are starting to get ahead.¹⁰¹

- The Working Income Tax Benefit has potential, but in its present design with very low thresholds that leave workers below the poverty line, it, like welfare, will continue to entail expensive indirect poverty costs. Making the application process more easily accessible would add to its potential positive impact. Most importantly, if benefits can be increased significantly and extended so that recipients



can become much more securely attached to the labour force and able to meet needs, improve wellbeing, rebuild some assets, and have the ability to withstand occasional financial setbacks, the WITB could be a much more effective investment in the immediate and long-term wellbeing of Canada's working-age population.

The policy areas featured in this chapter illustrate how there are elements of different approaches to poverty all at work and all interacting with each other, some in much more effective ways than others. We have had relatively dramatic success with the approach that has guided seniors' policy for many years. That success in reducing poverty and enhancing wellbeing indicates just how much better off all Canadians would be if we similarly invested throughout the life course, from the years of the most rapid development among children, through to the years of greatest potential energy, creativity and productivity among adults.



This chapter outlined Canada's experience with different models or frameworks for addressing poverty. Social assistance is largely based on a short-term spending model that has not been able to bring down poverty rates, has a mixed record of improving wellbeing and contributes to indirect poverty costs. Income supports for children and seniors have adopted a more coordinated, investment-based model oriented to the longer term, and they are achieving greater and more lasting results. In the case of seniors in particular, there are indicators of improved societal wellbeing beyond poverty reduction.



PART FOUR

SENSIBLE INVESTMENT

■ ■ ■ 9. TAKING ACTION: COUNCIL RECOMMENDATIONS



9 ■ ■ ■ TAKING ACTION: COUNCIL RECOMMENDATIONS



The body of ***The Dollars and Sense of Solving Poverty*** provides many examples of a diverse range of research and thought that stresses the urgency of solving poverty because it costs Canadians far too much. Most importantly, it reflects a range of research and thought that contributes enormously to an understanding of the potential for solving poverty and creating greater economic and social wellbeing.

The patterns revealed in this report, along with the Council's own deliberations and the conversations we have had with people from many walks of life, clearly show that it makes economic sense to solve poverty. Canada can do this, for the benefit of all Canadians, by:

1 Adopting a Canada-wide Strategy for Solving Poverty

The Council is encouraged by the progress already made in Canada with the growing number of government poverty reduction strategies being adopted and implemented. We urge continued efforts to build and improve with experience. We also applaud the engagement of communities and organizations in similar, multi-stakeholder efforts across the country.

We remain confident that the four cornerstones set out in our 2006 *Solving Poverty* report are the foundation of an effective strategy—a vision, targets and timelines; a coordinated plan of action and budget; an accountability structure; and a set of agreed poverty indicators. Such a strategy must be linked to overall economic and social goals.

2 Establishing a Sustained Investment Plan

The Council urges that such strategies to solve poverty, especially in the development of government action plans and budgets, take an investment approach to poverty that builds human capacity, removes barriers, creates opportunities and demonstrates the potential for positive, lasting returns in the short, medium and long term.


An investment plan focuses on achieving good returns and benefits over time, in contrast to spending, where the focus is primarily on immediate costs. Too often, the spending is done in silo fashion where savings to one program can add costs to other programs, or to Canadians directly.

An investment plan is more holistic and forward thinking, using a fuller cost-benefit analysis to be more effective. To maximize benefits, assure sustainability and develop growth potential, it considers the interrelationships among policy and program areas and the socio-economic realities of Canadians throughout their lives—from their health, education and family life to employment and civic participation.

3 Developing a Consistent Design Framework

An effective investment plan obviously requires up front funding and the range of studies in this report shows that investments in preventing and reducing poverty do pay off. But getting the best return and greatest benefit is also a matter of design. In some cases, it may even be more about the design than the money.

Understanding interrelationships is critical, so that policies, programs and partners can work together to maximize results. Having a consistent design framework is especially important in Canada, where there are several layers of government, a richly diverse population, and many active, engaged organizations.




Whether we are looking at income or any other area—child rearing and elder care; literacy, education and training; physical and mental wellbeing; housing; employment; issues for new Canadians; and remedies for discriminatory barriers often faced by people with the fewest resources—design is critical to success. Some of the principles or guidelines that are most important to the design of an investment plan to solve poverty include:

Fairness and reasonable reward for work effort. Employment needs to pay. But for people with low wage, precarious jobs or those on social assistance, it does not. Other forms of meaningful work need to be recognized as well, including the essential work of caring for dependents. Lone parents of young children and people with disabilities or low levels of literacy or education are among those who may be unable to meet all their needs through employment but they want paid work and should be supported and rewarded in that effort.

Support for autonomy and initiative. Low-income earners and people on social assistance should be supported in their efforts to improve their future circumstances, whether that means getting more education or skills upgrading, being able to save and hold on to their assets, accessing credit or sharing rent and other ways of pooling resources. Program rules and interactions too often limit autonomy and initiative, and some create harm by stigmatizing. Supporting the positive provides greater return on investment.

Portability, security and stability. Child benefits, working income tax benefits and public pensions are examples of good portability and stability. They are widely available, and while based on income, do not change significantly when income sources change, for example if you change employers, or lose a job or have a spell on social assistance. Universal health care and the extended prescription drug and dental plans available to low-income residents in some provinces are examples of portability and stability in service areas. Some provinces are moving in this direction for training and employment services as well. These kinds of measures help counter the welfare trap in particular.



Coordination and Simplicity. Income support for seniors is stacked so that CPP/QPP, OAS, GIS and provincial/territorial supplements all combine in a coordinated way to make a very big difference in reducing the extent and depth of poverty. This coordination also reduces administration costs and makes it easier and simpler for people to access what they are eligible for. Children's income-related benefits are quite well coordinated too. Links across service areas and between services and income need improvement and social assistance is in desperate need of design overhaul on many counts. In general, the more directly and simply initial problems can be resolved or even prevented, the lower the cost and the greater the benefit. That prevents problems from expanding and frees up resources for the smaller number of people who do have complex, multiple needs.

Accountability and Communication. Governments especially, but the private sector too, need to provide better information on both the cost and benefit sides of the balance sheet. Canadians will be much more inclined to support initiatives that show we are getting good value for our money.

4 Fostering an Open Forum for Conversation and Action

Solving poverty involves many partners and therefore needs an ongoing, open, inclusive pan-Canadian forum for sharing ideas, questions, research, evidence, progress reports, and lived experience. The NCW hopes *The Dollars and Sense* report stimulates and advances conversations that are already established. We also hope that new conversations, ideas and partnerships will be created.

We invite readers to visit the full bibliography for this report on our website at www.ncw-cnb.gc.ca. We would also be pleased to receive e-mails with your comments, ideas and especially your stories of how a policy or program has provided a benefit that meant preventing or escaping poverty at dollarsandsense@ncw-cnb.gc.ca.



While the engagement of many partners in informed conversation is essential, the National Council of Welfare reiterates its belief that the leadership, championship and political will of federal, provincial, territorial and municipal governments is paramount to solving poverty—it is the role of responsible governments to provide social infrastructure in the public interest.

The Council believes that Canadians from all walks of life will get behind the action needed to invest in a better future for everyone. Canadians value fairness. We all want our country to continue to prosper and we can see that poverty reduction strategies are starting to make a difference. Added to that confidence, *Dollars and Sense* shows that not only is solving poverty affordable, it is highly cost-effective and central to achieving national social and economic goals.



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■■■ APPENDIX: NOTES ON THE RESEARCH



The NCW report is based on a wide range of research to connect ideas and find patterns across different fields. This range of research reflects a number of challenges, as well as impressive achievements. In particular, studying social issues from an economic perspective is still a relatively new approach. In many of these studies, the authors had to address a number of conceptual and methodological issues. These are briefly summarized in this appendix.



Research Challenges

- **Data availability:** Gaps in readily available data required the authors of some reports to make assumptions about costs and develop methodologies to adjust or fill in what was missing. Some dynamics of poverty related to age, family size, depth or duration of poverty, for example, are not always identified. Data on specific groups, such as racialized groups, Aboriginal populations, immigrants and people with disabilities are also limited. In addition, the use of different income measures and data bases among the studies can limit comparisons.
- **Establishing relationships between poverty and its consequences:** When the goal is to calculate costs and benefits, it can be important to see the relationships among the dimensions of poverty, as well as the direction of those relationships. The relationship between poverty and mental health is one example. A mental health condition may lead to poverty or poverty may lead to mental health difficulties or make them worse. Cause and consequence can run in both directions. From a cost perspective, therefore, it cannot be assumed that eliminating poverty will eliminate poor mental health or illiteracy or other factors associated with poverty, although they may be reduced significantly. This would have to be taken into consideration when calculating costs. The challenge for researchers is to make reasonable estimates based on as much evidence as possible.
- **Establishing relationships between the consequences of poverty and spending areas:** Once a relationship has been identified, care must be taken to uncover patterns. For example, there is a generally accepted link between poverty and poor health. A researcher cannot automatically assume that this translates into higher costs to the health care system by people living in poverty. One study found that the use of certain health care specialists was higher among top

income groups. It also found that although the lowest income quintile had higher use of the health care system than the top three income quintiles, the second lowest income quintile had the highest rate of use. Relationships such as these require careful investigation to uncover patterns and explanations.

- **Calculating potential cost savings, not just costs:** Calculating potential cost savings requires identifying the outcomes that are expected to result if poverty were eliminated. For example, we might expect that educational attainment and productive capacity of people formerly living in poverty would come to more closely resemble that of people living above the poverty line. Likewise, we might expect that health would improve with higher income by virtue of being able to eat more nutritious food, or live in better housing. Some areas, such as positive outcomes in later life that can be attributed to quality early childhood development, are well documented. Others areas may be less so. Cost saving estimates are based on assumptions and the more grounded they are in evidence, the more reliable they will be.



Research Achievements

- **Clear Frameworks:** Most studies establish a clear framework that identifies the dimensions being researched and how the consequences of poverty or alternatives being investigated will be defined and measured.
- **Conservative Estimates:** To address challenges of measurement, data availability, relationship and other uncertainties, most studies opt for underestimations and/or conservative cost evaluations. The opportunities for cost-effectiveness may, therefore, be even greater than stated.
- **Specific Dimensions of Poverty or Population Groups:** Some studies concentrate on specific populations. Some focus on causal links among poverty, other issues such as housing, and related areas of spending. These focused studies can contribute to better policy design and decision-making.
- **Consistent Results:** While the detail and size of effects varies, whether looking at health, crime or education, a consistent pattern of results shows positive returns on investment in reducing and eliminating poverty. This suggests that the results of small scale studies could be transferable to a larger scale.
- **Lived Experience:** Reports on the actual impact of poverty reduction policy on people's lives complements and often confirms the findings of more theoretical or conceptual research and adds validity to studies that undertake future cost estimate projections.
- **Comparable Outcomes:** Much of the international research offers an opportunity for comparisons across countries, and some studies enable comparisons over time. The outcomes from different studies in one area, such as housing, also can help identify common or divergent findings. The more outcome information that is available for these comparisons, the better it can inform future initiatives to solve poverty.

- **Social and Economic Interdependency:** Most of the research incorporates both social and economic aspects to some extent or provides rationales for the development of more inclusive and comprehensive approaches. This wider scope is more reflective of human experience.
- **Measures of Wellbeing:** Many reports measure costs and benefits in terms of wellbeing, such as health status or income distribution, and some use both these kinds of measures, as well as monetary calculations that can be compared to GDP. Efforts are also being made to develop wellbeing indicators that can potentially gain international acceptance similar to that of GDP.
- **Diverse Points of View:** Expanding the research perspective can enhance the quality of the findings. A few studies have included an environmental perspective in their research, for example, or taken into account the points of view of diverse stakeholders.
- **Current Spending and Benefits:** A few studies examine what is currently being spent on poverty-related programs and the general impact it is having. There is scope for a great deal more to be done to identify and communicate the benefits of the investments in order to know if policies are achieving their objectives.

■■■ ABOUT THE NATIONAL COUNCIL OF WELFARE ■■■

MANDATE

The mandate of the Council is to advise the Minister regarding any matter relating to social development that the Minister may refer to the Council for its consideration or that the Council considers appropriate.

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David Pankratz
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