



# THE COST OF POVERTY

AN ANALYSIS OF THE ECONOMIC COST OF  
POVERTY IN ONTARIO



---

ONTARIO  
ASSOCIATION OF  
FOOD BANKS

NOVEMBER 2008

### IN RECOGNITION

Although it is officially a publication of the Ontario Association of Food Banks (OAFB), the Cost of Poverty report is the result of six months of collaborative work with a dedicated group of researchers, advisors, supporters, and funders.

### NATE LAURIE, AUTHOR

Thank you to Nate Laurie, as the writing for the paper went above and beyond the originally stated task.

### PROJECT ADVISORS & REVIEWERS

Thank you to all of the Project Advisors & Reviewers who generously contributed their time and expertise on a pro-bono basis.

### PROJECT FUNDERS

Thank you to the Atkinson Charitable Foundation for their generous financial contribution towards the statistical analysis and writing of this paper. Thank you also to the George Cedric Metcalf Charitable Foundation for their generous contribution towards the statistical analysis included in the paper.

**METCALF**  
**FOUNDATION**

The **Atkinson**  
Charitable Foundation

## Publication Information

**Author:** Nathan Laurie

**Design & Photography:** Adam Spence

**Cover Photo:** Recently abandoned home in Sandy Lake First Nation, Ontario, a remote reserve community in northwestern Ontario

**Edited by:** Don Drummond, Judith Maxwell, Jim Milway, Adam Spence, Mark Stabile, and John Stapleton

**Published:** November 2008

All inquiries regarding this publication should be directed to:  
Ontario Association of Food Banks (OAFB)  
5 Adrian Avenue, Unit 118  
Toronto, ON M6N 5G4  
T: 416.656.4100 F: 416.656.4104  
E: [info@oafb.ca](mailto:info@oafb.ca) W: [www.oafb.ca](http://www.oafb.ca)

# Project Contributors

## **AUTHOR**

Nathan Laurie

## **PROJECT ADVISORS & REVIEWERS**

Don Drummond, Senior Vice President and Chief Economist  
TD Bank Financial Group

Judith Maxwell, Senior Fellow  
Canadian Policy Research Networks (CPRN)

James Milway, Executive Director  
Institute for Competitiveness and Prosperity and the Martin Prosperity Institute

Dr. Mark Stabile, Director  
University of Toronto School of Public Policy and Governance

John Stapleton, Innovation Fellow  
George Cedric Metcalf Charitable Foundation

## **PROJECT COORDINATOR**

Adam Spence, Executive Director  
Ontario Association of Food Banks (OAFB)

## **RESEARCH SUPPORT**

Sean Park, Public Education Coordinator  
Ontario Association of Food Banks (OAFB)

Vass Bednar, Summer Research Fellow  
Ontario Association of Food Banks (OAFB)

Joshua Murphy, Researcher  
Institute for Competitiveness and Prosperity

## **STATISTICAL ANALYSIS**

Roger Sauve, President  
People Patterns Consulting

## **OTHER CONTRIBUTORS**

Pedro Barata, Outreach & Communications  
The Atkinson Charitable Foundation

Colette Murphy, Community Program Director  
George Cedric Metcalf Charitable Foundation

# Key Facts

Poverty disproportionately affects certain populations, and has a complex mix of institutional and individual causes.

- Poverty hits Ontarians with disabilities, Ontario's children, Aboriginal Ontarians, single parents, and new Canadians the hardest. By all measures, the rates of poverty for Ontarians with disabilities, Ontario's children, Aboriginal Ontarians, single parents and new Canadians are much greater than the provincial average. For example, in 2001, 35.8 per cent of new Canadians lived below the low-income cut-off (LICO), compared to the Canadian average of 15.6 per cent.
- Poverty has a complex mix of institutional and individual causes. Poverty has no single cause. It results from a mix of institutional impediments including our system of social assistance, skills and credential recognition, and cultural barriers as well as individual gaps such as lower skills, education or literacy.
- There is a relationship between poverty and poor health outcomes, lower productivity, lower educational attainment, and children's future income. Analysis of microdata from the National Population Health Survey found that 73 per cent of Canadians with the highest incomes reported their health as excellent, while only 47 per cent of Canadians with the lowest incomes rated their health as high.

Poverty has a price tag for all Ontarians.

- Poverty has a significant cost for governments. The federal and Ontario government are losing at least \$10.4 billion to \$13.1 billion a year due to poverty, a loss equal to between 10.8 to 16.6 per cent of the provincial budget.
- Poverty has a cost for every household in Ontario. In real terms, poverty costs every household in the province from \$2,299 to \$2,895 every year.
- Poverty has a very significant total economic cost in Ontario. When both private and public (or social) costs are combined, the total cost of poverty in Ontario is equal to 5.5 to 6.6 per cent of Ontario's Gross Domestic Product (GDP).

The cost of poverty is reflected in remedial, intergenerational, and opportunity costs.

- The remedial costs of poverty related to health care and crime are substantial. In Ontario, poverty-induced costs related to health care have an annual public cost of \$2.9 billion. The national added cost to health care budgets is much greater, at \$7.6 billion per year. The poverty-induced costs related to crime in Ontario have a relatively small annual public cost of \$0.25 to \$0.6 billion, split between federal and provincial governments.
- The annual cost of child or intergenerational poverty is very high. If child poverty were eliminated, the extra income tax revenues nationally would be between \$3.1 billion and \$3.8 billion, while for Ontario, the additional (federal and provincial) taxes would amount to \$1.3 billion to \$1.6 billion. The total economic cost (private and social) of child poverty Ontario is \$4.6 to 5.9 billion annually.
- Opportunity costs or lost productivity due to poverty has a great economic cost. Federal and provincial governments across Canada lose between \$8.6 billion and \$13 billion in income tax revenue to poverty every year; in the case of Ontario, Ottawa and Queen's Park lose a combined \$4 billion to \$6.1 billion.

# Key Facts

Reducing poverty with targeted policies and investments over the life course generates an economic return. This return is equal to a proportion of the assessed cost of poverty.

- **Targeted early intervention initiatives focusing on low-income populations have a high rate of return.** An analysis of the Pathways to Education project, an early intervention initiative in Regent Park, demonstrated a present value of the social benefit of the program at \$50,000 per student.
- **An investment in child care has a significant return for low-income populations.** Many studies have shown a very high rate of return for investments in targeted child care for low-income populations, ranging from \$4 to \$16 for every dollar invested.
- **A reduction in poverty through increased skills and productivity amongst adults would generate a high rate of return.** If 25 per cent of adults moved from the first to second income quintile, this would generate a total social benefit of at least \$1 to \$1.5 billion in Ontario.
- **The recognition of current credentials alone as a poverty reduction intervention would result in a significant economic return.** In 2001, the Conference Board of Canada estimated that eliminating the “learning recognition gap” would give Canadians a total of \$4.1 billion to \$5.9 billion annually. This learning recognition gap primarily affects new Canadians.

# OVERVIEW

As a first step towards fulfilling the Ontario Government's election pledge to tackle poverty in the province, the new Cabinet Committee on Poverty Reduction will outline its strategy sometime in early December. The moral necessity for this strategy is simple: it is wrong that so many Ontarians live in poverty. But there is also a strong economic case for reducing poverty.

To help shape the government's strategy, the Ontario Association of Food Banks has collaborated with a group of eminent thinkers to produce the **first ever estimates of the costs of poverty** to all Ontarians. The focus on these costs leads naturally to a review of the kinds of policies necessary to bring them down.

Poverty in Ontario has a big price tag. Poverty costs the residents of Ontario a staggering \$32 billion to \$38 billion a year – the equivalent of 5.5 per cent to 6.6 per cent of provincial GDP. As one would expect, most of this cost is borne by the 1.9 million households with the lowest incomes.

But for every dollar that poverty takes from these low-income households, the province as a whole loses an additional 50 cents. That is, for each and every household in Ontario, the cost of poverty works out to at least \$2,300 a year. It shows up in extra costs to our health care system, the costs of crime, the cost of social assistance, the loss of tax revenue that accompanies low earnings, and the intergenerational costs that flow from the likelihood that a significant number of children from poor families will also be poor when they grow up. In total, these social costs of poverty add up to \$10.4 billion to \$13.1 billion a year.

But Ontarians do not have to bear such heavy deadweight costs. If the federal and Ontario governments took an integrated view of poverty and its root causes, they would quickly recognize that investments in poverty prevention would reduce the costs of treating its symptoms significantly over time. They would see the link between the persistent pressures on the costs of poverty-alleviating programs – such as social assistance, social housing and health care – and the inadequacy of the investments they make in early childhood development, literacy, programs that keep at-risk youth from dropping out of school, and programs that give low-income adults the skills they need. And starting with the onerous welfare system and counterproductive First Nations policies, they would make every effort to break down the institutional barriers that keep people poor and dependent.

In these challenging economic times, the government may not have the funds in the short term to treat the symptoms of poverty to any real degree. But if it starts making the kinds of investments this paper recommends, the costs of alleviating poverty will fall in the longer term; if it does not, those costs will increase. The government is, no doubt, already considering a reallocation of its resources to those areas where they can do the most good. Investing in people is the smartest move it could make.

With the huge savings that could be achieved over time by reducing poverty and its burdensome social costs, the province could very likely pay for the needed mix of policies without asking taxpayers for anything more.

# Introduction

Canadians who look at poverty through the eyes of those it afflicts know the poor bear huge costs from having to live with deprivation and the stresses it imposes. Together with the strains they create within families, these direct costs of poverty – hunger and inadequate nutrition, inferior housing, alienation from mainstream society and scant opportunity for a better life – take a heavy toll on the health of the poor, their self-esteem and the ability of their children to learn and thrive in school. These forces, in turn, can create a vicious intergenerational cycle in which poverty feeds on itself.

But if poverty taxes the health of those in its grasp, it is society at large that bears the heavy health care costs of treating the illnesses that tend to target the poor. To the extent that poor health contributes to unemployment and underemployment among the lowest-income Canadians, we all share the costs of the productivity that is lost. Similarly, we all pay over the long run for the failure of poor children to reach their potential in school and to acquire the education and skills that our modern economy requires. And where poverty-induced anomie and low self-worth play a part in aggravating crime, it is the victims who pay, as do the rest of us through the high costs of our justice system.

This paper gauges the magnitude of these social costs for Ontario. As they also represent the potential savings available to the province from attacking the root causes of poverty, they shed considerable light on the type of policies – as well as on a key source of funds to pay for them – that the provincial government needs to pursue as part of the comprehensive anti-poverty strategy it promised in the last election campaign.

There are three important components of the social costs of poverty.

First there are the **remedial costs** the province incurs in treating its symptoms: the incremental costs to the health care system that result from the lower health status of those who are poor; the cost of fighting crime committed by those who see themselves as excluded from the mainstream; and the cost of social assistance and related remedial programs.

Second are the **intergenerational costs** we pay by allowing poor children to be-

come heirs to the impediments which have held their parents back.

And third, there are the **opportunity costs** we all pay for our failure to address the root causes of poverty – the productivity and tax revenues we forgo as a society by not capitalizing on the potential economic contributions the poor could make.

This paper provides estimates of each of the social costs, as well as estimates of the larger private costs that low-income Ontarians bear.

Because this paper attempts to cast a spotlight on these costs of poverty, it does not concern itself with either the poverty “gap,” which is a measure of the difference between the income of households living in poverty and the poverty line, or with the fairness of the distribution of income between the poor and non-poor; what we are trying to gauge is the price all Ontarians pay for the harmful consequences poverty has on the health, capacity to learn, and the incentives to work or engage in crime of those in its grasp.

Since Ottawa and the provinces tend to justify their poverty-ameliorating initiatives on moral as opposed to economic grounds, they have not carried out the cost-benefit calculations that would reveal the savings and gains, as well as the costs, of a major reduction in poverty rates. As a result, our governments have continually underinvested in poverty reduction.

On moral grounds, it can be argued that some help for the poor is better than no help at all. But on strict economic grounds, the costs of providing insufficient help can be massive.

In a recent landmark U.S. study published by the Center for American Progress, the authors estimate that child poverty alone costs the U.S. at least \$500 billion a year in terms of increased crime, and the reduced productivity and ill health that children growing up poor are likely to experience later in life.<sup>1</sup> Those costs are equivalent to nearly 4 per cent of U.S. GDP.

And in a just-released, comprehensive study of child poverty in Britain, The Joseph Rowntree Foundation put the cost of child poverty at £25 billion a year (\$51 billion Canadian) or 2 per cent of GDP.<sup>2</sup> Of that, £17 billion represent the social costs.

Like both of those studies, this one also deliberately takes a conservative method-

## FACT

### THE COST OF CHILD POVERTY

#### UNITED STATES

Child poverty in the U.S. costs at least \$500 billion per year, the equivalent of four per cent of GDP.

#### UNITED KINGDOM

Child poverty in the U.K. costs £25 billion per year, or the equivalent of two per cent of GDP.

In addition to the direct benefits that the resulting reduction in poverty would provide to the individuals and families affected, it would generate a high social rate of return on the right kind of targeted investments and policy changes.

Poverty is an extremely complex condition with economic, cultural, social as well as institutional roots. Complicating it even further is the fact that the causes and effects of poverty are known to interact.

ological approach in order to ensure that we do not exaggerate or overstate the costs of poverty.

But as with the American and British studies, the estimates we have arrived at confirm that the costs in Ontario are indeed very high. In terms of the gains to society that would be manifest through the positive outcomes that a reduction in poverty in Ontario would provide, Ottawa and Queen's Park are losing at least \$10.4 billion to \$13.1 billion a year, a loss equal to between 10.8 to 16.6 per cent of the provincial budget.

In real terms, this means that poverty costs every household in the province from \$2,299 to \$2,895 every year. When both private and social costs are combined, the total cost of poverty in Ontario is equal to 5.5 to 6.6 per cent of Ontario's Gross Domestic Product (GDP).<sup>3</sup>

This immense sum of money would obviously be better spent removing the source of these dead-weight costs – widespread poverty – than continuing to treat the devastating symptoms of its effects. If properly spent, what this money would ultimately buy is a healthier, better educated and more productive workforce, in which far more Ontarians would have a stake in making the province work for the benefit of all.

This advances the argument for a preventive approach to poverty reduction that

tackles the root causes of poverty, both at the individual and institutional levels. In addition to the direct benefits that the resulting reduction in poverty would provide to the individuals and families affected, it would generate a high social rate of return on the right kind of targeted investments and policy changes.

In the analysis that follows, we do not limit ourselves to a single measure of poverty because some measures lend themselves better than others to estimating specific elements of the overall cost of poverty – mainly because of the availability of richer data associated with them.

Instead we rely on a number of measures in our calculations of the various costs. Although we use Statistics Canada's low-income cutoffs (LICOs) in a few instances, for the most part we classify people living in poverty as those in the lowest income quintile; that is, the 20 per cent of people who have the lowest incomes.

For a family of four in a major city, the low-income cut off is \$33,216 (\$8,304 per capita), while after-tax household income for households in the lowest quintile in Ontario did not exceed \$25,400 in 2006. An explanation of these and other poverty measures and their relationships is provided in Appendix One.

## The Causes & Characteristics of Poverty in Ontario

Poverty is an extremely complex condition with economic, cultural, social as well as institutional roots. Complicating it even further is the fact that the causes and effects of poverty are known to interact. That is why poor children, for example, have a greater chance of being poor in later life than children who grow up in more affluent households. Where the economic roots of poverty show up in low levels literacy, skills and educational attainment – all of which impede productivity and the ability to earn income – growing up poor can, in turn, deprive children not only of the nourishment, health and family resources that enable learning, but of the sense of self-esteem needed to succeed in school.

Layered on top of these family-based roots of poverty are a variety of systemic and institutional obstacles that help to keep many people poor. These range from the

rigid rules and punitive tax-back rates built into the welfare system itself to outmoded and counterproductive government policies that exacerbate alienation and anomie among Aboriginal Canadians in addition to denying them the capacity for self reliance. Because these factors weigh more heavily on some groups than on others, the chances of being impoverished in Ontario are not set by a lottery-like mechanism, in which everyone's number has the same odds of coming up.

The common set of characteristics that to a greater or lesser degree are shared by the majority of Ontarians who are poor – low levels of literacy and education achievement, poor health and a vulnerability to oppressive institutional shackles – tends to be most pronounced for lone-parents, recent immigrants, people with disabilities and Aboriginal peoples, all of whom are much



more likely than other Ontarians to be poor.

These characteristics, moreover, are often related. While the link between poor literacy and low educational achievement is fairly clear-cut, the connection between education and health status is more obscure. To the extent that education raises awareness of practices that contribute to good health, poverty is but a proxy for the shortfall in education as it contributes to poor health.

Yet while these linkages shed considerable light on the best strategies for fighting poverty, they do not affect the social costs. This is because the route through which poverty actually lowers the health status of the people it afflicts does not change the health care costs that society ends up paying. Accordingly, the various costs of poverty can be examined in isolation, even though a single remedy, such as improved literacy, conceivably might reduce them all.

The reasons why lone-parents, recent immigrants, people with disabilities and Aboriginals are particularly vulnerable to poverty are not hard to understand. While the vast majority of lone-parent families in Ontario are headed by women, within that group poverty falls most heavily on single mothers with at least one child under six. In a country where two incomes are the norm, the drain on a single, modest income caused by the high cost of both accommodation and child care easily explains why a phenomenal 66 per cent of single mothers with young children fall below Statistics Canada's low-income cutoff.

Recent immigrants confront a different challenge. Even though they tend to be highly educated – the proportion of recent immigrants with a university degree is about twice that of non-immigrants and established immigrants – their poverty rate is also double the norm for the province as a whole. This paradox suggests that recent immigrants lack certain key “soft” skills, including English language skills and the facility to make contacts in their respective fields, which in part would explain their higher unemployment rate and weaker performance in other measures of labour market success. On top of that, there appears to be a systemic element of new-immigrant poverty stemming from the misalignment of Canada's labour market and immigration policies. Instead of seeking out immigrants with skills that could meet our immediate labour market needs, Canada passively considers any and all skilled immigrants who

happen to apply. As a consequence, almost half of those accepted from 2001 to 2006, the period of the high-tech meltdown, had web design or similar skills.

Unlike recent immigrants, a significant cause of poverty among Aboriginals appears to be their extremely low achievement in school. For all Aboriginal people and particularly those living on reserves, the percentage who have not earned a certificate, diploma or a degree is well above the non-Aboriginal norm. For example, in the Sandy Lake First Nation, a remote fly-in community in northwestern Ontario, 69 per cent of the population aged 15 and older does not have a high school certificate, diploma or degree.

But here too, it is difficult to separate the poor school performance of Aboriginals from the stultifying institutional arrangements that govern virtually every aspect of life for First Nations peoples in Canada. Reserve communities in most cases are isolated, their economies underdeveloped, and basic infrastructure is poor. Outside of these reserve communities, the cultural, economic and social barriers to the success of Aboriginal Canadians are severe. While education must be improved, that will not improve the lot of Aboriginal peoples unless it is combined with changes that allow them to forge a new relationship with mainstream Canada.

Ontarians with disabilities are also much more likely to be poor – over 40 per cent of Ontarians with disabilities fall within the lowest income quintile for the province. But in this case as well, rigidities in income support programs for people with disabilities make it difficult for those who can work to make the transition to employment. As a result, the unemployment rate for disabled Ontarians is almost 3.5 times the rate for other Ontarians.

What this brief review of those most vulnerable to poverty in Ontario illustrates is that there is no magic bullet or single policy instrument for reducing overall poverty in the province. The government will have to apply a wide variety of policy tools if it is committed to significantly lowering the province's poverty rate over the next decade. But one common denominator that shows up among almost all those most susceptible to poverty is a major skills deficit of one sort or another, reflecting low literacy, insufficient education, weak language proficiency and/or inadequate mastery of Canadian workplace customs and job search skills.

## FACT

### POVERTY & POPULATIONS

**New Canadians**  
35.8 per cent of New Canadian households lived in poverty in 2001.

**Ontarians with Disabilities**  
40 per cent of Ontarians with disabilities fall within the lowest income quintile.

**Aboriginal Canadians**  
34.2 per cent of First Nations households lived in poverty in 2001.

**Single Mothers**  
45.4 per cent of single mothers lived in poverty in 2001.

By investing in the individuals with these deficits – through early childhood development; programs that improve school performance and promote higher education for at-risk youth; intensive language training and workforce integration programs for new immigrants; and literacy, educational upgrading and skills development for many of the adults – the Ontario government would ultimately realize a considerable proportion of the substantial annual savings identified in this paper, although it would take several years before the payoff would occur.

But to maximize the return from such investments, we need a complete overhaul of a wide range of government policies and institutions that work to perpetuate poverty among the most vulnerable groups. When we move to assist people living in poverty, we need to make changes to the institutions, public and private, that are in part responsible for poverty in the first instance. Given the magnitude of the potential savings, it would appear that a comprehensive strategy to stifle the roots of poverty could possibly even pay for itself.

Researchers who have examined the relationship between income and a wide variety of indicators of health status – from life expectancy, infant mortality, mental health, time spent in hospital to chronic conditions – have found that the health of people with lower incomes is invariably worse than that of people with higher incomes...

## The Costs of Poverty

### REMEDIAL COSTS OF POVERTY: HEALTH CARE

In this section we first provide a brief overview of the scientific literature showing a clear inverse relationship between people's income and their health. In Canada (as well as other countries) a wealth of evidence exists confirming that people with low incomes tend to suffer from poorer health.

#### THE LINK BETWEEN POVERTY AND POOR HEALTH

Researchers who have examined the relationship between income and a wide variety of indicators of health status – from life expectancy, infant mortality, mental health, time spent in hospital to chronic conditions – have found that the health of people with lower incomes is invariably worse than that of people with higher incomes, regardless of the health measure used.<sup>4,5,6,7,8</sup> A recent study performed by Human Resources and Social Development Canada found that “the prevalence of illness is higher among poor than it is among non-poor Canadians.”<sup>9</sup> It even discovered a gradient among working poor and low-income Canadians on social assistance, with the latter showing a greater prevalence of illnesses and lower perceived health.

While there are no doubt cases where poor health causes poverty, in her summary of the literature on health and poverty for the Canadian Institute for Health Information, author, Shelly Phipps, concludes that no matter how measures of socio-economic status and health are combined, “there is little doubt that poverty leads to ill-health.”<sup>10</sup>

The reasons are not hard to find. Inadequate nutrition and the related predis-

position towards obesity among the poor; overly cramped living quarters; high levels of stress resulting from the never-ending clash between basic needs and insufficient income; the financial barriers to prescription medicines as well as proper dental and eye care; and, in many cases, a sheer lack of knowledge about the practices that contribute to good health and the resources to put them into effect.

But whatever the interplay among these manifold attributes of poverty, the health outcomes are all too predictable. In her summary of the findings from some of the specific studies she considered, Phipps points out that a 1996-97 analysis of micro-data from the National Population Health Survey found that 73 per cent of Canadians with the highest incomes reported their health as excellent, while only 47 per cent of Canadians with the lowest incomes rated their health as high.<sup>11</sup> For single mothers, those claiming to be in excellent health made up just 21.9 per cent.

Phipps also calls attention to evidence showing that Aboriginals experience chronic diseases, including arthritis, rheumatism, diabetes, cancer, heart problems and hypertension, with much greater frequency than non-Aboriginals – often at twice the frequency. For diabetes, in particular, Aboriginal men are three times more likely to contract the disease, while for Aboriginal women the probability is five times as high.

More recent data on the use of hospital emergency rooms also exhibit a direct link with income. Although there are a number of possible causes, including lack of access

to a primary care physician, where 13 per cent of high-income Canadians and 14 per cent of middle-income Canadians reported at least one visit to an emergency room in 2003, the figure increased to 18 per cent for Canadians at the bottom of the income scale.<sup>12</sup>

And while lone parents, and especially single mothers, are predisposed to depression and the compromised immune systems that are often associated with emotional stress, research suggests that the incidence of poor mental health is far more pronounced within lower income groups. Recent data from the National Centre for Health Statistics in the U.S., for example, show that 8.8 per cent of Americans living below the poverty line experience serious psychological distress, compared to only 1.7 per cent among the most affluent group.<sup>13</sup>

The evidence is just as compelling for children in poor families in Canada. In a summary of a series of studies for the Canadian Institute on Children's Health, the author writes, "Poor children showed higher incidences of just about any health-related problem, however defined."<sup>14</sup> Of particular concern is the finding by Statistics Canada that roughly 43 per cent of children raised in low-income, lone-mother families experienced some psychiatric disorders, or schooling and social problems, compared to only 24 per cent of those in low-income two-parent families.<sup>15</sup>

## THE SOCIAL COSTS OF POVERTY-INDUCED ILL HEALTH

The relationships we are investigating – between income and health on the one hand, and between health and health care expenditures on the other – were firmly established in a 1998 study by Cameron Mustard et al.<sup>16</sup> Their results were used in a study on the costs of poverty in Calgary as well as by a Federal, Provincial and Territorial Advisory Committee which reported in late 2004.<sup>17,18</sup> The data for the initial calculations was based on a sample of 16,627 households (47,935 individuals) based in Manitoba. The study linked income data from the 1986 Census to individual health care use from the Manitoba Health Services Plan (MHSIP) for the fiscal year 1986/87. The sample was divided into 10 deciles from the poorest 10 per cent to the richest 10 per cent.

Table 1 on the following page presents the results in terms of quintiles, which are the sum of two deciles. Column 1 shows that the first quintile accounted for 30.9 per

cent of all public health expenditures even though the group comprised only 20 per cent of all individuals. The second quintile was responsible for 24.2 per cent of all expenditures, while the middle income quintile was responsible for 16.2 per cent. The share of total health care expenditures generally declines as incomes increase through the first four quintiles and then rises a bit for the fifth quintile.

This distribution of spending by quintile was applied to the latest estimate of health spending produced by the Canadian Institute for Health Information. The spending for Canada is shown in column 2 and for Ontario in column 3.

How much would be saved if the health status and health expenditures of the poorest 20% were equal to those of people with higher incomes?

To find out we carried out a type of "thought experiment," in which the health care costs for those in first quintile were "reduced" by "raising" their incomes to the levels of the second quintile. Although the actual savings from such a reduction in poverty would in all likelihood depend on the manner in which poverty was tackled, this de facto reduction in poverty nevertheless gives us a useful estimate of the potential savings involved. For Canada, health expenditures would decline by \$7.6 billion per year. For Ontario, the costs could be reduced by \$2.9 billion for a single step up the income scale.

## FACT

### EMERGENCY ROOM VISITS

Thirteen per cent of high-income Canadians and 14 per cent of middle-income Canadians reported at least one visit to an emergency room in 2003, the figure increased to 18 per cent for Canadians at the bottom of the income scale.

Table One: Impact on public health expenditures of a reduction in poverty – Canada and Ontario 2007

Income quintiles (each quintile contains 20% of all individuals)	(1) Share of total public health expenditures by quintiles*	Total public health expenditures distributed as per percentage shares in column (1)	
		(2) Estimated distribution of \$113 billion** for all of Canada in 2007	(3) Estimated distribution of \$42.9 billion** for Ontario in 2007
1 (poorest 20%)	30.9%	\$34.9	\$13.3
2	24.2%	\$27.3	\$10.4
3 (middle 20%)	16.2%	\$18.1	\$6.9
4	14.1%	\$15.9	\$6.0
5 (richest 20%)	14.6%	\$16.5	\$6.3
Estimated reduction in total public health expenditures depending on the degree of reduction in poverty			
If first quintile spending were reduced to second quintile spending		<b>\$7.6 billion</b> (from \$34.9 billion to \$27.3 billion)  7.1 % of total Canadian health care spending	<b>\$2.9 billion</b> (from \$13.3 billion to \$10.4 billion)  7.2 % of Ontario's health care budget

\* People Patterns Consulting based on Cameron A Mustard, Morris Barer, Robert Evens, John Horne, Teresa Mayer, and Shelley Derksen, *Paying Taxes and Using Health Services: The distributional consequences of tax financed universal health insurance in a Canadian province*, presented to the Conference on the State of Living Standards and the Quality of Life in Canada, October 30-31, 1998, Ottawa.

\*\* People Patterns Consulting based on Canadian Institute for Health Information, *National Health Expenditure Trends 1975-2007*, ISBN 978-1-554465-167-2 (PDF)

## FACT

### POVERTY & HEALTH CARE

In Ontario, poverty-induced costs related to health care have an annual social cost of \$2.9 billion.

## REMEDIAL COSTS OF POVERTY: CRIME

Of all the deadweight costs that society is forced to bear, crime is the most insidious – in two senses of the word. Crime is not only menacing, it is also subtle in that its roots and causes are not as clear as they might seem. While poverty, in particular, is correlated with crime, no one has been able to establish a definitive causal link between the two.

In fact, one notable study, based on a Baltimore, Maryland experiment in which low-income families were moved from high-poverty, high-crime neighbourhoods to other neighbourhoods, found that “providing (poor) families with the opportunity to move to lower-poverty neighbourhoods reduces violent criminal behavior by teens.”<sup>19</sup>

At the same time, other studies have confirmed that the greater the inequality of income in a community, the higher is the incidence of crime.<sup>20</sup> Since the poor sit at one extreme of the spectrum of inequality, it is possible then that poverty is a contributing factor for crime.

On the other side of the coin, the National Council of Welfare has concluded that “the social status and income of the parents have little or no direct effect on the likelihood that children will turn to delinquency.”<sup>21</sup>

At the same time the Council readily acknowledges that poverty “may in some cases have indirect effects by amplifying life

problems that can lead to crime.” It notes, for example, that “children with learning difficulties whose parents have little education and whose inner-city schools offer inadequate remedial programs may get less help with their problems than similar children with better-educated parents in more affluent neighbourhoods with better schools. This can result in more children from poor backgrounds doing badly at school, and it has been established that there is a strong association between school failure and the likelihood of becoming a repeat offender, to the point where school performance in adolescence is one of the best predictors of both juvenile delinquency and adult criminality.”

Since weak literacy skills are known to be a fairly strong indicator of poor performance in school, the foregoing suggests that literacy is also probably a reasonable predictor of the likelihood of involvement in crime. Indeed, as Statistics Canada’s Criminal Justice Indicators (2005) points out, “research has shown that poor literacy skills for men and poor numeracy skills for women increase the likelihood of offending, and that offenders who improved their literacy and numeracy skills had a lower readmission to prison. Overall, research suggests that literacy levels of incarcerated offenders are significantly lower than those of the general population.”<sup>22</sup>

There is considerable evidence confirming that education, in its broadest sense, can have a major bearing on crime. A long-term study in the U.S found that a \$1 investment in a quality, preschool program for very disadvantaged children could save \$7 in spending in subsequent years on welfare, policing, social services and prisons.<sup>23</sup> According to Dr. David Butler-Jones, Canada's chief public health officer, that 7:1 ratio of payoffs to costs of early childhood development in the U.S. is even higher here: he puts the payoff-to-cost ratio in Canada at 9:1.<sup>24</sup> And at the other end of the schooling pipeline, it has been estimated that by raising the high school completion rate by one per cent, the U.S. could cut the cost of crime by \$1.4 billion a year.<sup>25</sup>

So how we choose to fight poverty is just as important as the question of how much to spend. If poverty were attacked in the right ways, the savings from reducing it could be substantial in this area, even if the link from poverty to crime is not direct.

The potential savings are large because the costs of crime are extremely high. In 2002-03, Canada spent \$12.7 billion in direct expenditures on policing, courts, legal aid, criminal prosecutions, and adult corrections. On top of that, another research report estimated the costs of pain and suffering endured by victims of violent and property crimes.<sup>26</sup> The report concluded that the costs to victims could be in the range of \$9.8 billion to \$35.8 billion in 1999. Adding these two types of costs to society yields an estimate of the total cost of crime in the range \$22.5 billion to \$48.5 billion a year.

## THE POVERTY-INDUCED COST OF CRIME IN ONTARIO

Because literacy is probably one of the best predictors of involvement in crime, we use it here as the indirect link between poverty and crime. Each element in Table 3

below gives the joint probability of a particular combination of literacy and income. For example, the probability that a person will be in the lowest income and literacy quintiles is 8.3 per cent. The probability that an individual will be the lowest literacy quintile and the highest income quintile, by contrast, is only 0.8 per cent, one-tenth as large.

Combining these income-literacy probabilities with the probabilities that people at the five levels of literacy will engage in crime generates a new distribution, giving the probabilities that people in each income quintile will be involved in crime. For this purpose, we have assumed that the probabilities linking literacy to crime are reduced by half for each step up the literacy ladder, and are the same for all income groups. Applying these combined probabilities to the overall cost of crime provides an estimate of the contribution that each income quintile makes to the overall cost of crime.

Then, by equating the literacy probabilities in Table 3 for the lowest income quintile to those for the second quintile, we were able to calculate the reduction in the cost of crime that would result from raising literacy rates in the lowest quintile to the corresponding rates in the second income quintile (and presumably incomes as well). The advantage of this approach is that differences in literacy across income quintiles serve as the only cause of differences in crime rates and thus in the distribution of the cost of crime.

For Canada, the resulting saving in the cost of crime would be between \$1 billion and \$2 billion. For Ontario, the savings would drop to between \$250 million and \$550 million because the province accounts for only 28 per cent of all Canadian crime. When compared to other factors, this relatively low figure demonstrates that, although crime has a cost, it is certainly a lesser factor amongst the others reviewed.

So how we choose to fight poverty is just as important as the question of how much to spend. If poverty were attacked in the right ways, the savings from reducing it could be substantial...

Table Two: The joint distribution of literacy and income in Canada

LITERACY QUINTILE	INCOME QUINTILE				
	1st	2nd	3rd	4th	5th
1st <b>Lowest</b>	8.3	5.8	3.4	1.6	0.8
2nd	4.4	5.3	4.4	3.4	2.4
3rd	2.5	3.9	4.8	4.9	4
4th	1.9	3.2	4.4	5.2	5.4
5th <b>Highest</b>	1.3	2.4	4.2	4.9	7.4

Note: Based on calculations from IALS 2003. Literacy refers to Document Literacy. Income refers to household pre-tax and transfer income. Cell entries correspond to percentage of total observations in the given cell, defined by quintiles of the literacy and income distributions. Numbers in each row and column may not add up to 20 due to rounding.  
Table source: Statistics Canada, 2007, International Adult Literacy Survey, Number 18, "Literacy and the Labour Market: The Generation of Literacy and Its Impact on Earnings for Native-born Canadians", Catalogue number 89-552-MWE.

# INTERGENERATIONAL COSTS OF POVERTY

The issue of child poverty has received a great deal of attention in Canada, in part, because of the concern that poor children would not be able to escape poverty later in life. And to the extent that poverty among adults contributes to a lifetime of poverty among their children, we must all accept responsibility for denying children the equality of opportunity we claim to cherish by allowing Canada's high poverty rate to go unchecked.

Although the transmission mechanisms of intergenerational poverty are complex and not all that well understood, it seems clear that success or failure in school plays an important part in determining which children are able to climb the ladder of economic success and which ones are destined to remain behind. One barrier to this route out of poverty is the hopeless confluence of welfare rules, which, as a recent study shows, keeps thousands of Ontario youth out of school by making it virtually impossible for them to attend.<sup>27</sup>

At a recent conference on poverty at Queen's University, John Stapleton, an expert on Ontario's welfare system, told the story of Ali, a young Somali-Canadian, to illustrate how the system works against those trying to get ahead.<sup>28</sup> It is a story of how the welfare system, the subsidized housing authority and the Ontario Student Assistance Program – three programs that are supposed to help those in need – in effect conspired to make life impossible for Ali and his family when he tried to pursue a post-secondary education. Because it is so instructive about the kinds of institutional barriers that low-income Ontarians face when trying to escape poverty, we include it in its entirety in Appendix 2.

The link between poverty and achievement in education becomes all that much more important in our rapidly changing economy as college certification or a university degree replaces the high school diploma as the entry level prerequisite for a decently paying job. In a 2005 study, Statistics Canada reported that children of parents who did not complete high school had only a 52.5 per cent chance of attaining a post-secondary degree or diploma, compared to 68.2 per cent for children of parents who graduated college and 81.1 per cent for the children of those who obtained a degree.<sup>29</sup>

And education is, of course, tied to literacy. Whether low literacy is considered to

be a cause of poor educational attainment or the result of inadequacies in the education system itself, the lack of basic skills in reading, writing (and arithmetic) needs to be addressed in any discussion of poverty and its costs. The links between low literacy, inadequate achievement in school and poverty are absolutely clear. Sixty-five per cent of those receiving welfare and 70 per cent of criminals in our prisons have low literacy skills.<sup>30</sup> And while low literacy affects children from all economic strata (and thus can have an important bearing on their earnings later in life), disadvantaged children and adolescents tend to be the most vulnerable, particularly the children of Aboriginals and recent immigrants.<sup>31</sup>

For Aboriginal children, in particular, the widespread failure to obtain even a high school diploma is undoubtedly a significant contributing factor to their high rate of poverty later in life.

A high correlation between neighbourhood income and high school dropout rates in Toronto was also noted in a recent study by the Boston Consulting Group.<sup>32</sup> In Regent Park, the neighbourhood with the highest poverty rate in the Greater Toronto Area and a preponderance of children living in single-parent and recent-immigrant families, the dropout rate in 2005 was 56 per cent or twice the city average. The comparable rate for Toronto's highest income neighbourhood was just 11 per cent.

Since then, the Regent Park figures have been turned around dramatically, thanks to a Regent Park Community Health Centre program called Pathways to Education, which provides financial, academic, social and counseling support to neighbourhood youths. As a result, the dropout rate has plummeted from 56 per cent to 10 per cent, and post-secondary enrolment has increased from 20 per cent to 80 per cent. For every dollar spent on the program, the Boston Consulting Group estimates that there is a \$12 payoff to society, most of it in the higher income taxes paid.<sup>33</sup>

In the absence of such interventions, a considerable body of evidence on dropouts suggests that a significant proportion of children from poor households have limited chances of improving their economic status later in life.

At the same time, however, a number of studies that have examined the direct relationship between the incomes of young

## FACT

### EDUCATIONAL ATTAINMENT

Children of parents who did not complete high school had only a 52.5 per cent chance of attaining a post-secondary degree or diploma, compared to 68.2 per cent for children of parents who graduated college and 81.1 per cent for the children of those who obtained a degree.

adults and those of their fathers have all shown fairly high rates of intergenerational income mobility – that is, a relatively small likelihood that the children of low-income Canadians will themselves experience low incomes when they grow up.<sup>34</sup> In contrast to evidence from the United States, where estimates of the likelihood that children will inherit the economic status of their fathers range between 40 per cent and 60 per cent, Canadian research suggests the probability here is closer to a range of 20 per cent to 25 per cent.<sup>35</sup>

Using the mid-point estimate of 50 per cent for the likelihood that a person growing up poor in the U.S. will remain poor in adulthood, the Centre for American Progress study cited above puts a figure of \$170 billion on the resulting annual loss to national output in the U.S.

### THE COSTS OF INTERGENERATIONAL POVERTY IN ONTARIO

Of the 760,000 Canadian children under the age of 18 living in poverty in Canada in 2006, the estimate of our relatively high rate of intergenerational mobility suggests that approximately 152,000 (20 per cent x 760,000) will also be likely to live in poverty when they are adults. According to Table 2 on the following page, they can expect average incomes in adulthood of only \$16,000 a year. But if these 152,000 children were, in fact, able to escape the poverty of their parents by moving up the educational ladder and thereby raising themselves to the second income quintile, their incomes would increase on average to \$37,154 or by \$21,154. By doing so, the extra income they would earn would be \$3.2 billion (\$21,154 x 152,000).

Using the 25 per cent ratio, their combined increase in income would rise to \$4 billion. Or put another way, Canadian children who fail to outgrow poverty in adulthood will contribute at least \$3.2 billion to \$4 billion less to the economy each year than they would have if they had been able to reach just the second income quintile. Given that 42 per cent of all poor children in Canada live in Ontario, the intergenerational cost of this lost opportunity is within a range of \$1.3 billion to \$1.6 billion annually.

These estimates of the costs of intergenerational poverty, however, represent the lower bounds of lost earnings because they are based on the assumption that all 152,000 children could not hope to make it past the second income quintile, regardless of how

far they are able to go in school. With a program like Pathways to Education able to raise the post-secondary participation rate in Toronto's poorest neighborhood from 20 per cent to 80 per cent, it seems far more likely that the distribution of income of children who are able to free themselves in adulthood from the shackles of intergenerational poverty would resemble the income distribution for the population as a whole. If true for the 152,000 children identified to be at the greatest risk, their annual earnings in adulthood would rise by between \$8.2 billion to \$10.3 billion, and for the Ontario economy, the gain would in the order of \$3.3 billion to \$4.3 billion a year.

While this gain in earnings would be largely private, accruing as it would to those escaping poverty, it would nevertheless be accompanied by additional benefits to society as a whole. As is evident in the differences between columns 2 and 3 in Table 2, one such benefit would be the increase in government income tax revenues associated with the increases in earnings the at-risk children would realize during their working lives. For Canada, the extra income tax revenues would be between \$3.1 billion and \$3.8 billion, while for Ontario, the additional (federal and provincial) taxes would amount to \$1.3 billion to \$1.6 billion.

### FACT

#### SOCIAL COST OF INTERGENERATIONAL POVERTY

For Canada, the lost income tax revenues are at least \$3.1 billion to \$3.8 billion, while for Ontario, the foregone federal and provincial taxes amount to \$1.3 billion to \$1.6 billion.

...when a significant proportion of a country's labour force pulls down that average, not only do those with low productivity pay the price in terms of poor earnings; the entire economy pays...

Table Three: Incomes of households aged 16-64, Canada

	Average household income before income taxes	Average household income after income taxes
Households classified as being in low income (poverty) 2006		
Average incomes poverty incomes for households aged 16-64*	\$16,800	\$16,000
Average incomes for households * aged 16-64		
1 (poorest 20%)	\$20,260	\$18,765
2	\$43,048	\$37,154
3 (middle 20%)	\$64,785	\$53,138
4	\$89,268	\$71,413
5 (richest 20%)	\$160,352	\$118,495

\*Source: People Patterns Consulting, Statistics Canada: *Income in Canada*

## OPPORTUNITY COSTS OF POVERTY

The biggest cost of poverty, by far, is the private cost borne by those households – 1,948,850 in Canada and 904,845 in Ontario – that find themselves in the lowest income quintile. Their low earnings, or lack of earnings, can, for the most part, be taken as a reflection of either their low levels of skills or of the lack of demand for the particular skills that they have. In an economy in which people are generally paid according to the value of the contributions they make to the success of their employers, low (and redundant) skills and poor earnings are associated with small contributions to output, or in the jargon of economists, to low productivity.

The most common measure of the wealth of a country is its gross domestic product or GDP, which is conceptually nothing more than the product of the number of people working and the value of their average productivity. Accordingly, when a significant proportion of a country's labour force pulls down that average, not only do those with low productivity pay the price in terms of poor earnings; the entire economy pays through its lower GDP. And since federal, provincial and local governments claim about 37 per cent of GDP in revenues, lower GDP means our governments have less money to spend.

The linkages between weak skills, low productivity, poor earnings and government revenues and expenditures (as well as the feedback mechanisms) are illustrated in the graphic on the following page.

We would all be better off if new immigrants had the language skills they need

to take full advantage of their higher educations, or skills that were not surplus to the economy's current needs; if high school dropouts had the training they need to raise their productivity; if the poor had better literacy and numeracy scores; and if so many of their children were not falling behind in school.

How much does the low productivity of the poor cost them and the rest of us? Table 4 presents an overall measure of these costs in terms of the extra income those in the bottom quintile between the ages of 16 and 64 forego by virtue of not being able to move up one step on the economic ladder.

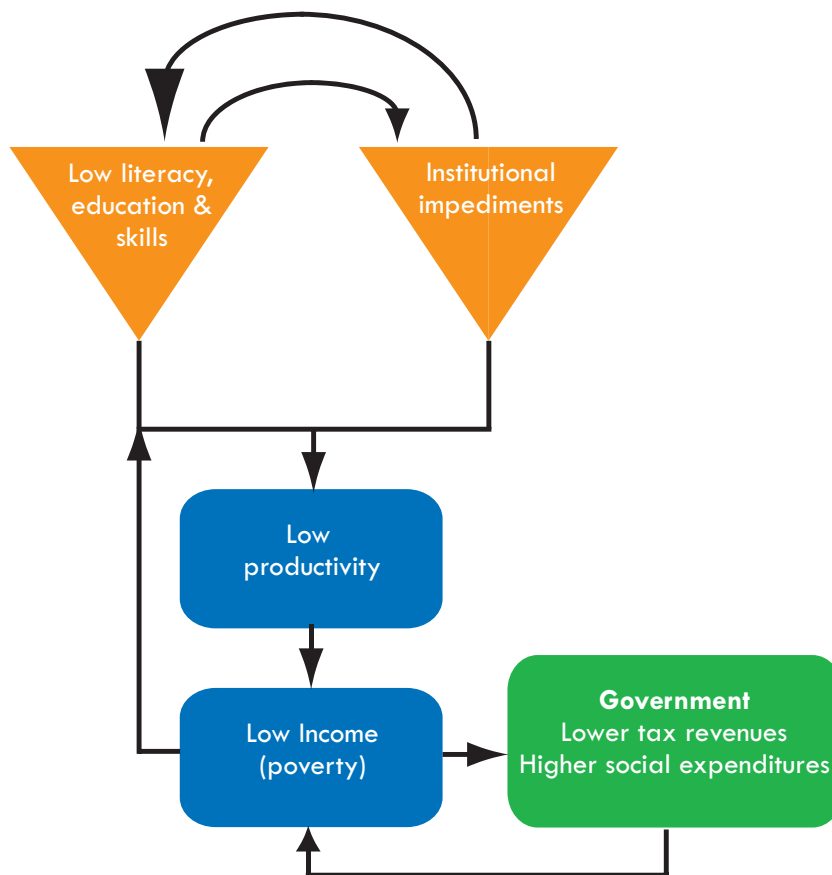
The framework provides a "big picture" estimate of the economic or opportunity cost of eliminating poverty. The top of the table presents average household incomes before and after income taxes. In 2006, the average household income of those who lived in poverty was \$16,800 before income taxes and \$16,000 after income taxes. In 2005, the average household income of the poorest quintile was \$20,260 before income taxes and \$18,765 after income taxes.

Following the same approach we used to measure the costs associated with intergenerational poverty, we start by "raising" the after-tax income (\$16,000) of poor households to the average for the second quintile (\$37,154). This provides an additional \$21,154 per poor household. When this amount is multiplied by the number of households (1,948,850) in the quintile, overall incomes in Canada increase by \$41.2 billion.

Alternatively, if we assume that the



Chart One: Some of the Linkages between Poverty, People, Institutions and Governments



after-tax income (\$18,765) of the poorest quintile of households rises to that of the second quintile, the economic impact in this case would be an increase in income of \$35.8 billion. Table 5 provides similar estimates for Ontario. The only difference from Table 4 is that estimated household numbers for Ontario are used in the calculations.

While this analysis focuses on the private cost of poverty as reflected in terms of lost income, Tables 4 and 5 also provide estimates of one element of the social costs – the income tax revenue that government loses to poverty. Depending on the definition of poverty that is “eliminated” in these exercises, federal and provincial governments across Canada lose between \$8.6 billion and \$13 billion in income tax revenue to poverty every year; in the case of Ontario, Ottawa and Queen’s Park lose a combined \$4 billion to \$6.1 billion.

It should be noted that the results in Tables 4 and 5 actually understate the productivity-driven private gains to households required to raise the incomes of the poor to second quintile levels. Because social assistance and employment insurance make up a considerable portion of first quintile incomes, the productivity-driven

private gains would have to be about \$4 billion higher than shown in Tables 4 and \$2 billion higher than shown in Table 5 to make up for the loss in transfer payments to households moving up from the first to second income quintiles.

By the same token, as households moved from first to second quintile incomes, there would be a net reduction in the cost of national and Ontario social benefits, equal in magnitude to the extra private income, reflecting the savings in transfer programs such as social assistance and employment insurance. We have adjusted both the private and social costs of poverty to reflect these differences in Table 6, which combines the costs of poverty estimated in this paper.

**FACT**

**SOCIAL COST OF LOST PRODUCTIVITY**  
 Depending on the definition of poverty that is “eliminated” in these exercises, federal and provincial governments across Canada lose between \$8.6 billion and \$13 billion in income tax revenue to poverty every year; in the case of Ontario, Ottawa and Queen’s Park lose a combined \$4 billion to \$6.1 billion.

**Table Four: Impact on incomes and taxes of a reduction in poverty for households aged 16-64, Canada**

	Average household income before income taxes	Average household income after income taxes	Average household taxes paid
Households classified as being in low income (poverty) 2006			
Average incomes poverty incomes for households aged 16-64*	\$16,800	\$16,000	\$800
Average incomes for households * aged 16-64 : 2005			
1 (poorest 20%)	\$20,260	\$18,765	\$1,495
2	\$43,048	\$37,154	\$5,894
3 (middle 20%)	\$64,785	\$53,138	\$11,627
4	\$89,268	\$71,413	\$17,855
5 (richest 20%)	\$160,352	\$118,495	\$41,857
Estimated increase in total household incomes resulting from a reduction in poverty (9,744,2300 Canadian households or 1,948,850 households in each quintile)			
If low income (poverty) income was increased to second quintile income	An additional \$26,248 in annual incomes times 1,948,850 households = \$51.2 billion	An additional \$21,154 in annual incomes times 1,948,850 households = \$41.2 billion	An additional \$6,694 in annual incomes taxes times 1,948,850 households = \$13 billion
If first quintile income was increased to second quintile income	An additional \$22,788 in annual incomes times 1,948,850 households = \$44.4 billion	An additional \$18,389 in annual incomes times 1,948,850 households = \$35.8 billion	An additional \$4,399 in annual incomes taxes times 1,948,850 households = \$8.6 billion

Source: People Patterns Consulting based on custom tabulations by Statistics Canada using \* *Income in Canada* data.

**Table Five: Impact on incomes and taxes of a reduction in poverty for households aged 16-64, Ontario**

	Average household income before income taxes	Average household income after income taxes	Average household taxes paid
Households classified as being in low income (poverty) based on Canada 2006			
Average incomes poverty incomes for households aged 16-64*	\$16,800	\$16,000	\$800
Average incomes for households ** aged 16-64 based on Canada: 2005			
1 (poorest 20%)	\$20,260	\$18,765	\$1,495
2	\$43,048	\$37,154	\$5,894
3 (middle 20%)	\$64,785	\$53,138	\$11,627
4	\$89,268	\$71,413	\$17,855
5 (richest 20%)	\$160,352	\$118,495	\$41,857
Estimated increase in total household incomes from a reduction in poverty, based on Ontario household numbers (4,524,225 Ontario households or 904,845 households in each quintile)			
If low income (poverty) income was increased to second quintile income	An additional \$26,248 in annual incomes times 904,845 households = \$23.8 billion	An additional \$21,154 in annual incomes times 904,845 households = \$19.1 billion	An additional \$6,694 in annual incomes taxes times 904,845 households = \$6.1 billion
If first quintile income was increased to second quintile income	An additional \$22,788 in annual incomes times 904,845 households = \$20.6 billion	An additional \$18,389 in annual incomes times 904,845 households = \$16.6 billion	An additional \$4,399 in annual incomes taxes times 904,845 households = \$4 billion

Source: People Patterns Consulting based on custom tabulations by Statistics Canada using \* *Income in Canada* data.

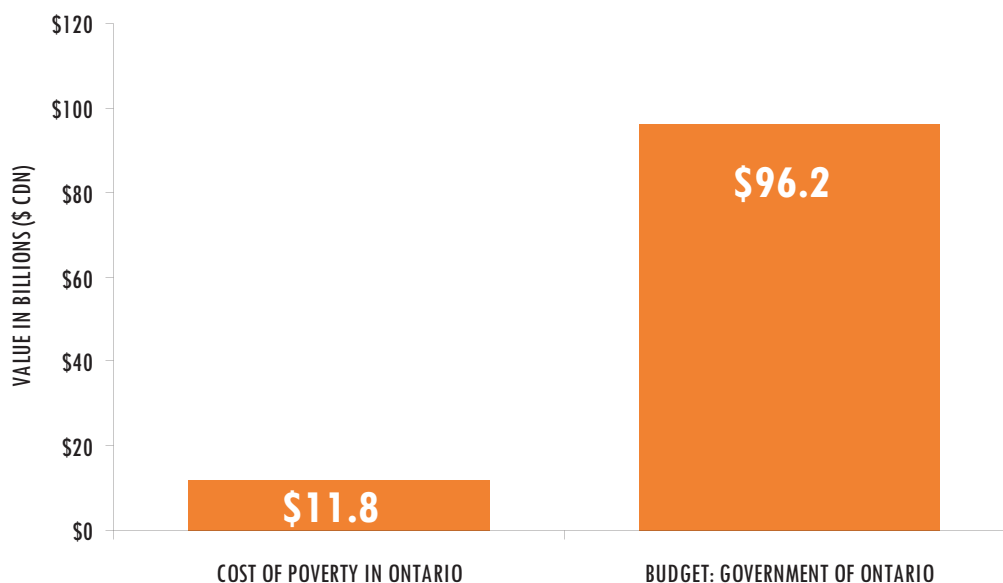
# THE TOTAL ECONOMIC COST OF POVERTY

Table Six below adds up the private and social costs of poverty that we have been able to identify in this study. It should be noted that the list of these costs is not exhaustive, particularly for the social costs, which are probably somewhat greater than the totals shown here. In any event, the estimates of the social costs of poverty are roughly 50 per cent of the associated private costs, indicating the costs of poverty to society are indeed very high.

Table Six: The Costs of Poverty in Canada and Ontario (2007 Dollars)

CANADA	PRIVATE COSTS	SOCIAL COSTS
Health Care		\$7.6 billion
Crime		\$1 - 2 billion
Intergenerational	\$8.2 - \$10.3 billion	\$3.1 - \$3.8 billion
Lost Productivity	\$35.8 - \$41.2 billion	\$8.6 - \$13 billion
- Adjustment for understatement of productivity loss	+\$4.1 billion	
- Adjustment for transfer payments		+\$4.1 billion
<b>TOTAL</b>	<b>\$48.1 - \$55.6 billion</b>	<b>\$24.4 - \$30.5 billion</b>
ONTARIO	PRIVATE COSTS	SOCIAL COSTS
Health Care		\$2.9 billion
Crime		\$0.25 - \$0.6 billion
Intergenerational	\$3.3 - \$4.3 billion	\$1.3 - \$1.6 billion
Lost Productivity	\$16.6 - \$19 billion	\$4 - \$6.1 billion
- Adjustment for understatement of productivity loss	+\$1.9 billion	
- Adjustment for transfer payments		+\$1.9 billion
<b>TOTAL</b>	<b>\$21.8 - \$25.2 billion</b>	<b>\$10.4 billion - \$13.1 billion</b>
<b>GRAND TOTAL</b>	<b>\$32.2 - \$38.3 billion</b> <b>5.5% - 6.6% of Ontario's GDP</b>	

Graph One: The Average Estimated Total Social Cost of Poverty Compared to the Provincial Budget in Ontario, 2008



# The Costs & Benefits of Reducing Poverty

To reduce the costs enumerated in the table above would, of course, involve a different set of costs to society – the cost of attacking the roots of poverty.

In the following section, we explore these costs, and where possible compare them to the potential savings that could be realized by reducing poverty and its costs as set out in Table 6.

In essence, if poverty has an associated cost, then the reduction of poverty should generate an economic return. This return would be realized both for individuals in terms of increased earnings as well as for the entire province in the form of reduced social expenditures and higher tax revenues. These returns would not be equal in magnitude to the social costs of poverty because there is no practical or affordable way to eliminate them all. However, reducing poverty with the right policies and investments would generate a long-term return equivalent to a portion of the substantial social costs outlined in Table 6.

Given our decision to focus this paper on the social costs of poverty to Ontarians, we have not attempted to outline a comprehensive program of specific policy initiatives that would lead to the major reduction poverty we believe is possible. We have only included selected examples of the type of policy interventions that have already been shown to have the potential to conquer some of the root causes of poverty. But they all point to a clear direction that our government must follow to achieve a permanent reduction in poverty rates. Combined with systemic changes needed to remove the institutional barriers that keep people mired in poverty, policies are needed that promote learning among those at-risk at every age, from early childhood education and child care programs to programs that improve literacy, education and skills for adults.

There are numerous ways of raising the incomes of low-income Ontarians, ranging from increasing direct income supplements to measures that increase income by breaking down the barriers to employment in better paying jobs.

While increases in income supplementation and other poverty-alleviating measures require a significant investment, they

do have a role to play in strategies that primarily target the roots of poverty because, as we have already noted, the line between the causes and effects of poverty is not always clear cut. Poor diet and inadequate housing can impede learning just as much as an inferior school.

But poverty-ameliorating or remedial policies can be made far more effective if they are backed up with measures that directly deal with the characteristics that contribute to poverty – low literacy, inadequate education, and the low productivity they engender. Policies that build human capital not only have the best chance of reducing the social costs of poverty, they are far less expensive to put into effect. By producing private gains as well as public benefits, policies that raise the employment prospects of the poor have the added advantage of promoting inclusiveness and social cohesion.

But such “supply-side” initiatives must be married to changes on the demand-side as well, if they are to succeed in reducing Ontario’s poverty rate. They must be implemented in conjunction with industry, labour and workplace programs that respond to the recent and unsettling labour market dynamic that seems to segment new job opportunities into two categories: good jobs with steady hours, good pay and benefits, and insecure jobs with uncertain hours, low pay and limited or no benefits. This dynamic is driven by the disproportionate creation of part-time and temporary positions, as well as the rapid decline of our manufacturing sector. Although these changes present a major challenge, the end goal is as simple as it is clear: we need good jobs with good benefits that will allow all Ontarians to live a high quality of life.

## THE NET BENEFITS OF REDUCING INTERGENERATIONAL POVERTY

As shown in Table 6, eliminating intergenerational poverty would ultimately produce total benefits of between \$4.6 billion and \$5.9 billion a year, with roughly a third taking the form of savings to the public. One way of realizing these future benefits would be to make early intervention programs like Pathways to Education available to as many of the 66,000 to 78,900 poor, at-risk

...if poverty has an associated cost, then the reduction of poverty should generate an economic return. This return would be realized both for individuals in terms of increased earnings as well as for the entire province in the form of reduced social expenditures and higher tax revenues.

children in Ontario as possible. Because the social infrastructure on which Pathways to Education is so dependent is not available in every community, there are limits to the scope for such an approach. That said, similar programs should be provided wherever it is feasible to do so.

If it were possible to encourage all at-risk children to stay in school instead of dropping out, it would cost the Ontario government between \$231 million (66,000 x \$3,500) and \$279 million (78,900 x \$3,500) a year, where \$3,500 is the annual marginal schooling cost for one child. The annual cost per child in Pathways to Education is roughly the same amount. Hence at a maximum, it would cost \$462 million to \$558 million a year to address the special needs of the most vulnerable children in the province.

As shown in Table 6, the social benefit (income tax revenues alone) from such an approach is in the range of \$1.3 billion to \$1.6 billion a year. Hence the ratio of social benefits to social cost of dealing with intergenerational poverty is in the order of 2.8.

The analysis of Pathways to Education by the Boston Consulting Group provides an alternative measure of the ratio of benefits to costs. It puts the present value of the social benefit from the program at \$50,000 per student. For the four years that a typical high school student is in the program, the combined cost of schooling and Pathways is about \$28,000. Accordingly, the ratio of the present value of social benefits to costs is about 1.8, a multiple that certainly justifies an expansion of the approach to as many poor children as possible.

Given the notable success that Pathways to Education has achieved in helping to keep poor, vulnerable teens moving up the education ladder – a reduction in the high school dropout rate in Regent Park from 56 per cent to 10 per cent; an increase in the post-secondary participation rate from 20 per cent to 80 per cent; a 32 per cent decrease in violent crimes and a 56 per cent decrease in property crimes in police division 51; and a reduction of 75 per cent in teen birth rate from 30 to 7.5 out of 1,000 – the Ontario government would profit over time by extending the Pathways to Education approach as far as would be feasible. The program has proven to be an effective response to the reality that only 50 per cent of children aged 12 and 13 in families with incomes of less than \$20,000 per year see themselves going to university, compared to 71 per cent of children from families mak-

ing \$80,000 or more.<sup>36</sup>

Over time, such an initiative would also reduce the health costs and the costs of crime associated with poverty, which have not been incorporated into the calculations provided here of benefits of reducing intergenerational poverty.

Since not all vulnerable children in Ontario are of an age appropriate to the Pathways approach, the annual cost of implementing similar programs would be considerably less than indicated above. But with a potential payout of \$9 for every dollar invested in early childhood development, Ontarians would also profit from expanding the public investment they make in child care and early development for the youngest at-risk children in the province.

For Aboriginal children, however, an even greater intervention may be required. As is highlighted in many studies, at every level of education, Aboriginals aged 15 to 24 living on and off-reserve are falling far behind their non-Aboriginal counterparts.

Although a complete overhaul of government First Nations policies would be required to realize all the potential benefits that better education could hold for Aboriginal children, there are key areas where an immediate start could be made. For example, as noted in a forthcoming paper prepared for the Canadian Language and Literacy Research Network, “children who have opportunities for early childhood learning in programs such as Aboriginal Head Start (which involve both parent and child) are starting school with confidence in their ability to learn and with the active support of their parents.”<sup>37</sup>

If the Ontario government were to take up this challenge, it would still come out ahead – even if it had to invest 50 per cent more on each Aboriginal child than the combined cost paid for a student in Pathways to Education.

Even though the payoffs of overcoming intergenerational poverty are very substantial, as demonstrated in the present-value calculations for Pathways to Education by the Boston Consulting Group, these payoffs only start to show up several years after the initial government subsidy has been paid. Because governments are almost always looking for immediate returns on the public investments they make – or at least within the short government mandate – they tend to underinvest in programs like early childhood development, even though the benefits from such programs are lasting and large.

If the provincial government is deter-

**Even though the payoffs of overcoming intergenerational poverty are very substantial, as demonstrated in the present-value calculations for Pathways to Education by the Boston Consulting Group, these payoffs only start to show up several years after the initial government subsidy has been paid.**

**If the provincial government is determined to make a real difference in combating poverty, it will need to take a long-term view.**

mined to make a real difference in combating poverty, it will need to take a long-term view.

### THE NET BENEFITS OF REDUCING POVERTY AMONG ADULTS

Where children have their full working lives before them, the remaining productive years of an adult ultimately depends on his or her age. Accordingly, an investment in literacy or education that has a high rate of return for a 25-year-old might make less sense for someone in his or her mid-fifties. So an aggregate cost-benefit analysis appropriate for anti-poverty initiatives targeted on children cannot readily be applied to the poor adult population. Moreover, because many adults have children of their own to support, the costs involved in helping adults lift themselves out of poverty are not the same as for children. As a result, evaluating the costs and benefits of reducing adult poverty in Ontario is far more complicated than for children.

That said, we can still carry out a rough cost-benefit comparison for the average adult, recognizing that it makes more sense for those with below average ages than for the older cohort. Assuming that the average low-income adult is 44 years old and has 21 years of work to look forward to, a computation of the present value of the extra income taxes such an individual would pay by moving up to the second income quintile (from Table 5) puts the benefit to society at \$71,500 to \$108,000, depending on the measure of poverty used. On an annual basis, this would generate a total societal benefit in tax revenues of \$1 billion to \$1.5 billion

if 25 per cent of adults were able to move from the lowest to second income quintile.

While it is impossible to say with certainty what it would cost to raise the average adult's productivity to a level consistent with a second quintile income, the present value of the partial (21 year) potential gain in tax revenue makes it clear that an investment in such an individual would still leave society better off even if the cost of that investment were substantial. A \$50,000 investment, for example, would still leave a profit for society of between \$21,500 and \$58,000, which doesn't count the savings in health and crime that undoubtedly would also result. Because the payoff would be all that much greater and more certain for younger low-income adults, that is where the government should focus its greatest investment effort, while ensuring adequate income supplementation for adults too old to turn a social profit from a costly upgrading of education and skills.

While we cannot say at this point what form such investments in productivity enhancement should take, the evidence is overwhelming that interventions such as efforts to raise the recognized education and skill levels of low-income adults should clearly be at their core.

These types of interventions focusing on basic skill development have a proven rate of return. For example, a Statistics Canada study estimated that a country which is able to improve its mean literacy score by 1 per cent relative to other countries will enhance its relative per capita GDP by 1.5 per cent in the long term.<sup>38</sup>

## FACT

### BENEFIT OF LITERACY IMPROVEMENTS

A Statistics Canada study estimated that a country which is able to improve its mean literacy score by 1 per cent relative to other countries will enhance its relative per capita GDP by 1.5 per cent in the long term.

## TWO SPECIAL CASES: SINGLE MOTHERS AND NEW CANADIANS

### SINGLE MOTHERS

In a country that truly believes in opportunity for all its citizens, the best programs are those that equip people to find meaningful, stable and well paying jobs.

It is true than an expanding job market is an effective – and a vital – weapon in any war on poverty, as is evident in Graph Two on the following page showing a strong positive relationship between Canada's employment rate and general affluence as measures by the proportion of the population not in poverty (100 per cent minus the poverty rate).

But what is just as clear in the picture of

poverty we have painted above is that there are significant barriers to reducing poverty by simply increasing the availability of work. Be it through poor literacy, inadequate education as reflected in high dropout rates and low participation in post-secondary institutions – all of which are directly linked to poverty – those who are not equipped to participate in our increasingly knowledge-based economy are more likely to be poor throughout their lives.

Those who have education and skills, by contrast, have a far better chance of escaping poverty – as one key factor underlying the drop in the poverty rate as Graph Two

attests.

From 1980 to 2000 there was a sharp rise – 12 percentage points – in employment among lone mothers, which was accompanied by a 39 per cent increase in their average earnings. As a result, the poverty rate for this group fell from 59 per cent in 1980 to 48 per cent in 2000, helping to pull down the overall poverty rate.

The researchers at Statistics Canada who examined this phenomenon explain it in this way: “In 1980, the population of lone mothers was made up predominantly of cohorts born before 1950.<sup>39</sup> During the 1980s and 1990s, they were replaced by the baby boom cohorts born in the 1950s and early 1960s, consisting of women with much higher levels of education (italics ours) and labour force attachment. Then, during the 1990s, these socio-demographic changes were amplified by the aging of the baby boomers in two ways. First, the baby boom cohorts began entering their forties, an age when both employment and earnings tend to be higher. As a result, the share of all lone mothers aged 40 to 49 rose from 25% in 1981 to 38% in 2001, while the share of lone mothers under 30 declined from 25% to 18%. Second, as the baby boom mothers aged, their educational profile improved substantially, reflecting the tendency of early births to occur among less-educated women.”

Although the authors say these demographically driven gains by single mothers constituted “a historical event unlikely to be repeated in the future,” the role that

education played in lifting this substantial segment of single mothers out of poverty appears to be indisputable.

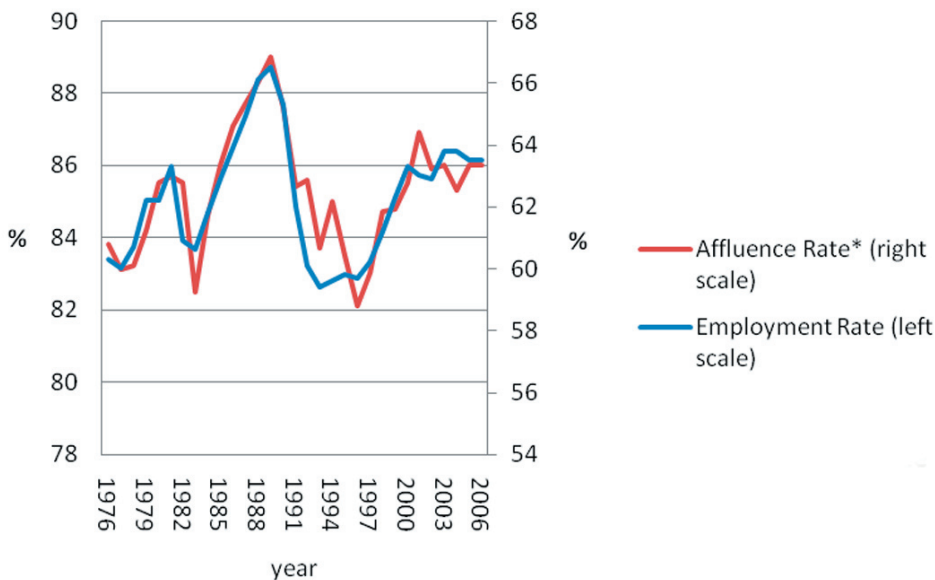
The lessons for policymakers from this unique episode ought to be clear: low-income single parents who lack the education they need to move out of poverty should be given the opportunity and resources to go back to school.

To do that, they would also need child care for their children, which could provide a second important front in the war on poverty by ensuring that any gains we make today are not lost in future years. High quality, publicly funded day care would not only allow single mothers the chance to study and enter the labour market, it would, as we have already noted, provide the boost to the early child development many poor children need to get a good start in life.

Many studies have shown a very high rate of return for investments in targeted child care for low-income populations, ranging from \$4 to \$16 for every dollar invested.<sup>40</sup> The private return for a single mother receiving post-secondary education is also substantial, as the rate of poverty declines as educational attainment increases. In 2001, 75 per cent of those without a high school diploma lived in poverty compared to 54 per cent for those with non-university postsecondary education.<sup>41</sup> Average earnings for a lone parent mother with some form of post-secondary education are 103 per cent greater than for a lone parent mother without a high school diploma.<sup>42</sup>

Many studies have shown a very high rate of return for investments in targeted child care for low-income populations, ranging from \$4 to \$16 for every dollar invested. The private return for a single mother receiving post-secondary education is also substantial...

Graph Two: The Link Between Poverty and Employment Rates in Canada, 1976 to 2006



The reluctance within Canada to recognize foreign credentials also plays a part in explaining the high rate of poverty among new Canadians.

The recognition of current credentials alone as a poverty reduction intervention would result in a significant economic return. In 2001, the Conference Board of Canada estimated that eliminating the “learning recognition gap” would give Canadians a total of \$4.1 billion to \$5.9 billion annually.

## NEW CANADIANS

Canada accepts new immigrants as much for the contributions they can make to this country as for the opportunities it can provide to them. That’s why we welcome highly skilled and educated immigrants – fully 42 per cent of recent adult immigrants in 2001 arrived with a university degree.

Yet, despite the qualifications they bring to Canada, too many new immigrants are falling behind.<sup>43</sup> According to the 2001 Census, 27.5 per cent of new immigrants (those living in Canada for five years or less) with university degrees had incomes below the Statistics Canada low-income cutoff – a figure surprisingly close to that for all new immigrants (35.8 per cent). Even with the boom in technology, the poverty rate for recent immigrants with degrees in applied science and engineering was 24.2 per cent or seven times higher than the rate for the Canadian-born cohort with equivalent credentials. And because new immigrants tend to settle in Canada’s largest cities, the entire 1.9 percentage point rise in the overall poverty rate in Toronto from 1990 to 2000 was accounted for entirely within the immigrant population. The same was pretty much true for Vancouver and Montreal.

If Canada keeps failing to provide new immigrants the opportunities they expect to find when they arrive in this country, we will almost certainly lose out in the increasingly fierce competition for skilled immigrants that is taking place around the world. Given our aging population, we simply cannot afford to lose this race.

Researchers at Statistics Canada posit three main reasons as to why new immigrants are not succeeding in the Canadian labour market at the rate at which they should.<sup>44</sup> First, there has been a dramatic shift in the composition of new immigrants and the countries from which they come. This change shows up in the languages new immigrants speak, in cultural differences, and in their visible minority status. Second, pre-immigration work experience is heavily discounted for new immigrants from non-traditional source countries. And third, new immigrants are treated like new entrants into the labour market, regardless of their age.

The reluctance within Canada to recognize foreign credentials also plays a part in explaining the high rate of poverty among new Canadians.

But these causes do point to the kind of remedies that need to be undertaken.

First and foremost, where language and/or cultural differences are impediments to economic success among new immigrants, the Ontario government should be taking action to accelerate their integration into the labour force. (Although the federal government should properly be taking responsibility for this issue, Queen’s Park should act if Ottawa will not.)

Because we do not really know what other skills new immigrants may be lacking, both levels of government should make it a priority to determine what is standing in the way of new immigrants’ economic success. Developing appropriate programs to facilitate the rapid entry of new immigrants into jobs commensurate with their skills would be much easier and cost effective if we knew more about what is holding them back.

As with the assessment of foreign credentials, the Ontario government also needs to explore new ways to assist the private sector in properly evaluating the foreign work experience that new immigrants bring to Canada. Finally, to the extent possible, government needs to be more alert to the balance between Canada’s short- and longer-term labour market needs. Skilled new immigrants are unlikely to find work in Canada commensurate with their skills if those skills are likely to remain redundant over an extended period of time because of a surplus of Canadians with comparable skills.

The recognition of current credentials alone as a poverty reduction intervention would result in a significant economic return. In 2001, the Conference Board of Canada estimated that eliminating the “learning recognition gap” would give Canadians a total of \$4.1 billion to \$5.9 billion annually.<sup>45</sup> This learning recognition gap primarily affects new Canadians.



# Conclusion

This paper does not take the customary approach to poverty – one that is primarily concerned with poverty alleviation and the tools best suited to that end: the provision of affordable housing, child benefits, welfare, income supplementation, and tax benefits to ease the plight of the poor. These programs and their aims are important.

However, we have instead focused on the significant costs of poverty and the societal benefits that could be realized by attacking the roots of poverty, as opposed to the shortage of money through which they manifest themselves.

There are significant systemic causes of poverty – social assistance and Aboriginal policies, for example, which need to be overhauled and the immigration selection process fine-tuned. The remaining roots of poverty are associated in large part with serious deficiencies in education, which show up as low literacy, poor language and/or cultural skills, failure in school or simply not enough schooling.

But however they present themselves, these individual and institutional deficiencies deny those saddled with them the chance to accumulate the human capital needed to earn a decent pay cheque.

As a result, there are significant private and social costs of poverty related to health care, crime, lost productivity and lost potential for children who grow up in poverty.

But just as important, what this paper has demonstrated is that the high costs to

society of poverty could be reduced significantly by providing low-income Ontarians with the education, training and skills they need to improve their circumstances. And the potential savings generally outweigh the costs of fighting poverty in this way.

If Ontario could reap just half of these savings from reducing poverty and its associated social costs, government would stand to gain from \$5.2 billion to \$7.6 billion a year. That is as much as the Ontario government's total current budget for post-secondary education and training, suggesting that an attack on the roots of poverty should easily pay for itself.

At the same time, this analysis is not meant to imply that the alleviation of poverty through traditional means isn't also a vitally important part of an overall strategy to combat Ontario's unacceptably high poverty rate. As we have already noted, treating the symptoms of poverty in some cases can have a comparable effect to directly treating the cause.

Moreover, not everyone has the ability, unfortunately, to realize the benefits that education can provide to the majority. Some are too old to generate sufficient benefits to justify the costs involved. Others have disabilities so severe that they cannot realistically ever hope to work. Unfairness may be part of life, but in a caring society, those who have been stuck with the short end of the stick should not have to carry the additional burden of material deprivation.

# APPENDIX ONE: DEFINITIONS OF POVERTY AND LOW INCOME

This appendix attempts to provide some understanding of who is poor or has low income.

There is no official poverty measure for Canada. In spite of this, there is a general consensus on the way to measure and examine poverty. The most widely used or traditional measure of low income or poverty is the LICO-IAT (Low Income Cut Offs After Income Taxes). Using this measure, Statistics Canada classifies households who spend more than 63% of their after income tax incomes on food, clothing, footwear as being in “straitened circumstances” or what is more commonly called low income or poverty.

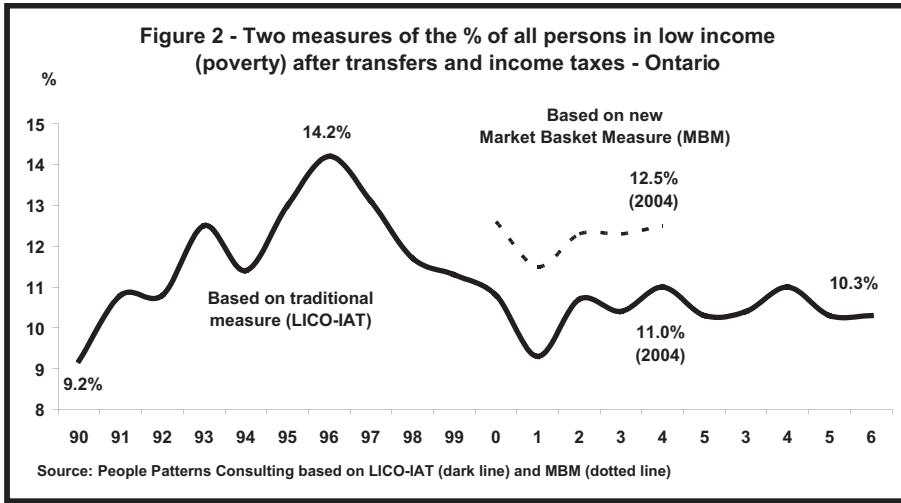
Another measure of low income or poverty has been developed in Canada in the past decade. It is a joint effort by Human Resources and Social Development Canada and all provincial and territorial governments.<sup>46</sup> It is called the MBM (Market Basket Measure) and is based on a specific basket of goods and services. It answers the question of how many households in Canada lack the disposable income to purchase the goods and services in the specific market basket within their community or community size. The basket includes food, clothes, footwear and shelter but it also includes other expenditures that are deemed as basic needs for households. These include such expenditures as transportation, payroll deductions, child support, alimony payments, out-of-pocket spending on child care and non-insured but medically-prescribed health related costs. Families who do not have the disposable income to purchase the basket can be classified as low income.

Figure 1 gives the low income cutoffs for both of these measures for Ontario. The per capita incomes are shown in brackets. The cutoffs for the LICO-IAT are lower than those for the MBM for rural areas and cities with less than a 30,000 population. The cutoffs for the larger cities are higher using the LICO-IAT than for the MBM measure. All cutoffs seem to be at reasonable levels and certainly not too high.

Figure 1 – Low income cutoffs/thresholds for a family of four people – Ontario		
	LICO-IAT (low income cutoffs after income taxes)  (4 persons any age)	MBM (Market Basket Measure)  (family comprised of 1 man and 1 woman aged 25-49 and 1 girl aged 9 and 1 boy aged 13)
	2006	2004 (latest available)
Rural Ontario		
Total rural	\$21,728 (\$5,432 per capita)	\$26,745 (\$6,686 per capita)
Urban Ontario by population size		
Under 30,000	\$24,867 (\$6,216 per capita)	\$26,846 (\$6,711 per capita)
30,000-99,999	\$27,741 (\$6,935 per capita)	\$24,809 (\$6,202 per capita)
100,000-499,999	\$28,091 (\$7,022 per capita)	\$26,194 (\$6,549 per capita)
500,000 and over	\$33,216 (\$8,304 per capita)	See below by CMA
Ottawa CMA		\$28,203 (\$7,050 per capita)
Hamilton/Burlington CMA		\$25,778 (\$6,444 per capita)
Toronto CMA		\$30,121 (\$7,530 per capita)
Source: People Patterns Consulting based on Statistics Canada catalogue 75F0022XIE and Human Resources and Social Development Canada SP-682-10-07E		

Figure 2 provides the low income or poverty rate for all persons for Ontario from 1990 to 2006. The two end years both represent similar periods in terms of general economic conditions in the province. In 1990, 9.2% of all persons in Ontario were living in poverty and 10.3% were doing so in 2006. It should be noted that the recession and other factors caused a sharp jump in the poverty rate with a peak of 14.2% in 1996. In 2006, 1.3 million people were living in poverty. The measure of poverty using the MBM was higher than for the LICO-IAT during each of the five years available and direction of change is similar.

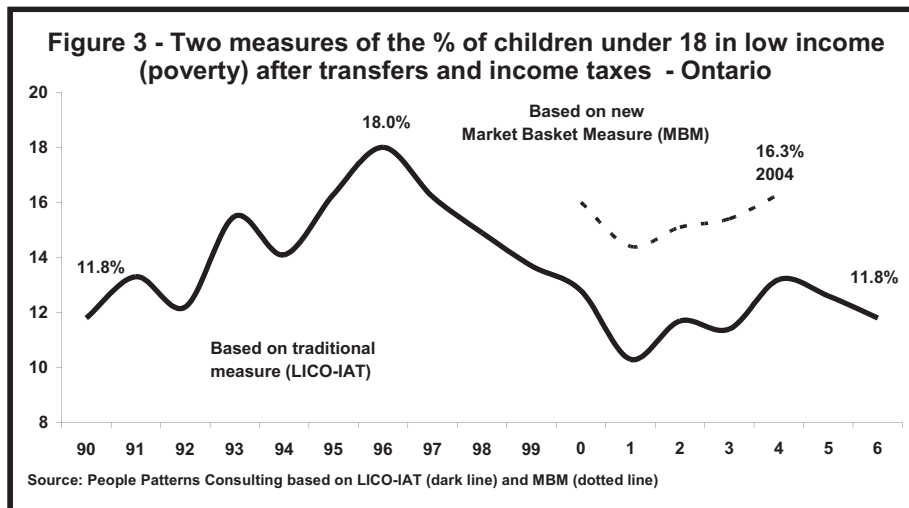
Figure 3 shows that the poverty rate (LICO-IAT) for children under the age of 18 in Ontario. It was at 11.8% during both 1990 and 2006. The difficult times in the early 1990s



pushed the poverty rate for children to 18% in 1996, almost one in every five Ontario children lived in poverty in that year. The new and more comprehensive MBM measure is only available for five years but it does track the movements in the traditional measure, even if at a higher level. The patterns are similar. In 2006, there were 325,000 children living in poverty.

At the national level, the MBM highlights five working-age (18-64) groups as being in a high-risk category relative to being in low incomes. Except for lone-parents, low income estimates were not available for these groups in the past. A surprise is the high poverty for unattached individuals aged 45-64. The poverty rate among children is highest for lone-parents (41.7%) and children of recent immigrants (31.5%)

The MBM measure has also been used to estimate the number of working poor in



Canada. The “working poor” are defined as persons aged 15-64 who are not full-time students who have worked for pay for a minimum of 910 hours in a reference year and yet live in families whose disposable income is below the MBM low income threshold in that year. In 2004, families who had a high attachment to the labour market (910 or more hours) comprised 34% of all low income families in Canada and 48% of all poor children under 18 years of age.

The author requested a custom tabulation based on employee earnings from the Statistics Canada Labour Force Survey. In 2007, over 2 million Canadian employees earned less than \$10 per hour representing 14.1% of all employees. In Ontario, about 805,000 employees or 14.3% of all employees earned less than \$10 an hour. Workers working at \$10 an hour for an average work week (37.2 hours) would earn \$372 per week or \$19,344 per year if they worked year round. For a one earner family, this would be below all of the low income cutoffs in Figure 1.

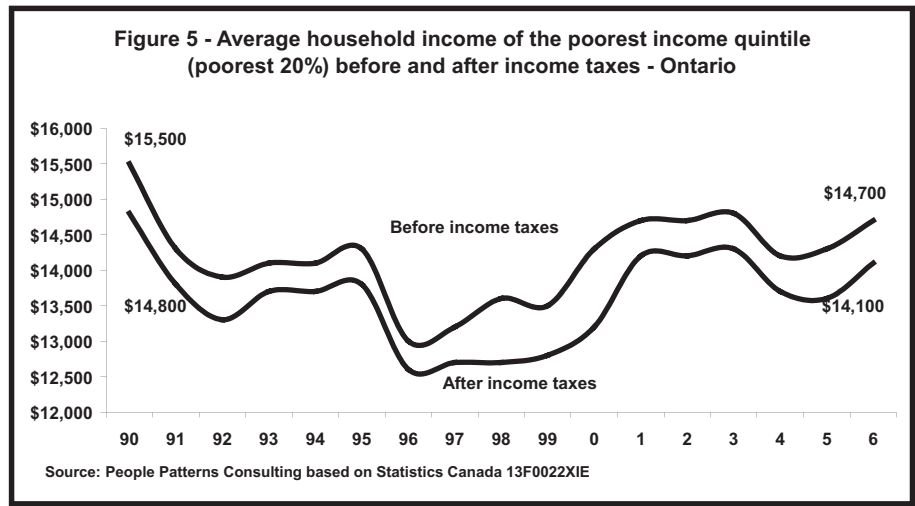
Another very useful measure of low income, based on income quintiles, can be used to examine how the 20% of households with the lowest incomes compare with those with

Figure 4 – Incidence of low income (poverty) among selected groups based on market basket measure – Canada – 2004		
Household type	Total	Children under 18 years of age
Lone-parents	37.6	41.7
Work-limited disabled	36.8	28.0
Unattached individuals 45-64	34.2	*
Recent immigrants	31.2	31.5
Aboriginals Off-Reserve	27.4	29.9

Source: People Patterns Consulting based on Human Resources and Social Development Canada Market Basket Measure SP-682-10-07E

higher incomes. The literature review and other sources reveal that the quintile approach has a much richer comparative database than the other measures.

Figure 5 provides the average income for the poorest 20% of households aged 15 and over in Ontario. The average income in 2006 was \$14,100 after income taxes, down from the average of \$14,800 some 15 years earlier. This historical perspective highlights the difficulties suffered through much of the 1990s before entering a somewhat more stable period so far this decade. This current level of income is certainly below any reasonable poverty measure. The average income for all Ontario households advanced by 13% over the same period, from \$52,600 after income taxes in 1990 to \$59,400 in 2006.



Still another measure is based on SES (Socio-Economic Status) which describes the position of an individual in terms of several broad measures which usually include income, education and occupation in a population or society. The SES categories are often examined from a quintile perspective with 20% of the population in each SES classification. Using most measures, those living in low income have a lower level of well-being than those with higher incomes. This measure is used in the examination of literacy in this report.

## APPENDIX TWO: THE ANNOTATED STORY OF ALI<sup>47</sup>

One of the Somali young people that I interviewed over the last two years attended two focus group sessions. This youth is now a young adult. For the purposes of this essay, we will call him Ali.

Ali lived in subsidized housing as he grew up with his parents and younger sister and brother. The family has been in Canada since 1994. Ali's family receives Ontario Disability Support Plan payments as his father is disabled. His mother works part time but makes very little.<sup>48</sup> They came from the Refugee camps in Kenya.<sup>49</sup>

Ali had dreams of going to school full time after graduating from high school. He had had a part time job since he was 17 and (as a child) none of his earnings reduced the family's ODSP payments.<sup>50</sup> He was able to help a bit with household expenses from his earnings.

When Ali turned 18, the family lost the \$105 or so monthly payments from the (empted) federal Canada Child Tax Benefit.<sup>51</sup> The family needed this money and Ali was able to make it up by getting more hours where he worked.

As the fall approached, Ali and his family realized that it was not going to be possible for him to attend school full time. It was not just the absence of savings or the loss of the \$105 in child benefits. He just needed more money to make a go of it. He also discovered that 50% of his net earnings of about \$600 a month would now be deducted from his father's ODSP cheque (as Ali was now no longer a dependent child and was no longer in secondary school).<sup>52</sup>

At the same time, the Housing authority notified Ali's parents that their rent would be increasing given that Ali was over age 16, had graduated from secondary school, was not going to school full time, and was making over \$75 a month.<sup>53</sup> The rental increase (effective immediately) was another \$90 a month.<sup>54</sup> The cumulative loss of \$490 a month in lost child benefits, deducted earnings, and increased rent was too much to lose so he made new plans to go to school part time and perhaps make some more money to make up the losses.

Ali anticipated correctly that his OSAP entitlement would go down due to his part time status but he worried that he had to input his gross income earned on the OSAP application.<sup>55</sup>

But did OSAP know that ODSP deducted 50% of his net pay? Did they take into account the rental increase? There is nowhere on the OSAP form to note that you are in public housing. How would OSAP know about the rental charge? When he tried to ask, he was told to submit his application and he would get an answer in due course. OSAP simply doesn't answer these questions.

At the end of the summer, Ali came to the reluctant realization that he could not remain at home with almost \$300 of his net pay coming off his family's ODSP payment along with the \$90 increase in rent. Like so many others in his situation, Ali moved out and established his legal residence at a friend's house.

He became what is known by many public housing kids as a 'couch rider', named after the place where they normally sleep in their friends' homes. The good news: Ali's father's ODSP cheque went up by a net amount of \$112 the next month and the rent went down by a net amount of \$90. Ali's best possible contribution to the family home at this point had been to leave.

From his friends, Ali learned about some new special programs for work and study that were only available to young adults in public housing but as he pointed out: "I would have had to go back to live with my family and they would have taken 50% of my earnings off my father's cheque and raised the rent again – so none of this works."<sup>56</sup> Ali also discovered that additional rent would be charged over and above the \$90 charge because rent is charged on part time student aid.<sup>57</sup>

In the ensuing months, couch riding did not prove too conducive to studying and working at the same time so Ali gave up his courses and started to look for another part time job to cobble together with his existing job.

Just about the time he got a letter demanding that the small amount of OSAP that he received be repaid with interest, his mother got a letter from 'housing' noting that without Ali in the house, the family was 'overhoused' and no longer qualified for their apartment and that the family would have to leave.<sup>58,59</sup> She had turned down two moves to much

smaller apartments because of the stress of moving her disabled husband and her two children during the school year. One more refusal and the family would be evicted.

She begged Ali to come back. Ali thought long and hard. He would come back for a short period to get the housing reinstated but he would move out again after about a month and let Housing catch up to them. He would arrange a leave from his job for a month so that ODSP would not reduce the cheque and use his small savings from 'couch riding' to pay off OSAP and not lose his credit cards (like so many of his friends).<sup>60</sup>

Ali is a smart young guy and you can see it in his eyes. He did what so many do and just kind of disappeared from the scene. He roomed with some friends for a couple of years while helping his family with the housing authorities to move into a smaller apartment. He went back to school (with no OSAP) and is working towards a diploma while continuing to work. He bought his first car last year.

The fear in telling Ali's story is that people will say "Look, he's making it", but Ali believes himself to be in a minority. Many more do not make it. Ali was the first to ask a variation on the title I used for my report when he asked "Why do they make it so tough to get ahead?"

*Reprinted with permission, by John Stapleton.*

# References

1. Holzer, Harry J., Whitmore, Diane, Duncan, Greg and Ludwig, Jens. "The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor." Centre for American Progress. Washington, 2007
2. Hirsch, D. Estimating the costs of child poverty. The Joseph Rowntree Foundation. York, 2008.
3. Statistics Canada. Gross domestic product, expenditure-based, by province and territory. April 28, 2008. As found on: [http://www40.statcan.ca/101/cst01/econ15.htm?sdi=ross%20domestic%20product](http://www40.statcan.ca/101/cst01/econ15.htm?sdi=gross%20domestic%20product). Ontario's expenditure-based GDP was \$582.02 billion in 2007.
4. Report on the State of Health in Canada (2008) – Public Health Agency of Canada.
5. Curtis, L. &. (2007). Health-care utilization in Canada: 25 Years of Evidence. McMaster University. Hamilton.
6. Jolly, D. N. (1991). The impact of poverty and disadvantage on child health. *J. Paediatr. Child Health*, 27, 203-217.
7. Lasser, K. H. (2006). Access to Care, Health Status, and Health Disparities in the United States and Canada: Results of a Cross-National Population-Based Survey. *American Journal of Public Health*, 96 (7), 1300-1307.
8. Community Health Survey (June 2008) Statistics Canada.
9. Fortin, Myriam. "How (Un)Healthy are Poor Working-Age Canadians?" Policy Options. September 2008.
10. Phipps, Shelly. "The Impact of Poverty on Health: A Scan of Research Literature." Canadian Institute for Health Information, Ottawa, 2004.
11. Curtis, Lori, and Phipps, Shelly. "Social Transfers and the Health Status of Mothers in Norway and Canada." *Social Science and Medicine*, Volume 58, Issue 12, June 2004, Pages 2499-2507.
12. Carrière, Gisèle. "The Use of Hospital Emergency Rooms." Statistics Canada Health Reports, Vol. 16, October 2004.
13. United States Government Accountability Office. "Poverty in America." Washington, 2007.
14. Raphael, Dennis (2000) "Health Inequalities in Canada: current discourse and implications for public health action." *Critical Public Health*, 10:2, 193-216.
15. Corak, Miles, Ed. Labour Markets, Social Institutions, and the Future of Canada's Children. Ottawa, Statistics Canada, 1998.
16. Cameron A Mustard, Morris Barer, Robert Evens, John Horne, Teresa Mayer, and Shelley Derksen, Paying Taxes and Using Health Services: The distributional consequences of tax financed universal health insurance in a Canadian province, presented to the Conference on the State of Living Standards and the Quality of Life in Canada, October 30-31, 1998, Ottawa.
17. Sheill, Alan and Zhang, Shelly. "The External Costs of Poverty: A Conservative Assessment – A Report for the United Way of Calgary and Area." Tamarack. Centre for Health and Policy Studies University of Calgary and Institute for Health Economics. June 2004.
18. Health Disparities Task Force of the Federal/Provincial/Territorial Advisory Committee on Population Health and Health Security, Reducing Health Disparities – Roles of the Health Sector: Discussion Paper, December 2004, HP5-4/2005 ISBN 0-662-69313-2.
19. Ludwig, Jens, Duncan, Greg J, and Hirshfield, Paul. "Urban Poverty and Juvenile Crime: Evidence from a Randomized Housing-Mobility Experiment." *Quarterly Journal of Economics* 116 (2001), 655-679.
20. Kaplan, George A, Pamuk, Elsie R, Lynch, John W, Cohen, Richard D, and Balfour, Jennifer L. "Inequality in income and mortality in the United states: analysis of mortality and potential pathways." *BMJ* 312 (1996), 999-10003.
21. National Council on Welfare. Justice and the Poor. Report No. III. Spring, 2000. From <http://www.ncwcnbes.net/documents/researchpublications/OtherPublications/2000Report-JusticeAndThePoor/ReportENG.htm>.
22. Statistics Canada. Criminal Justice Indicators 2005. From <http://www.statcan.ca/english/freepub/85-227-XIE/0000285-227-XIE.pdf>.
23. Michael Valpy, "Taking it out on child care," *The Globe and Mail*, 24 January 1996: A23.

24. Contenta, Sandro and Rankin, Jim. "Solving Crime? Tackle the root causes first: Nurturing the young, reducing poverty keeps people out of jail and it's cheaper, too" Toronto Star 26 July 2008: A1.
25. Lochner, Lance and Moretti, Enrico. "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports." *The American Economic Review*, Vol. 94, No. 1 (Mar., 2004), pp. 155-189
26. Ambrose Leung, *The Cost of Pain and Suffering from Crime in Canada*, May 2004, Research and Statistics Division, Department of Justice Canada.
27. Stapleton, John. "Why is it so tough to get ahead? How our tangled social programs pathologize the transition to self-reliance." The Metcalf Foundation. Toronto, 2007.
28. Stapleton, John. "The Story of Ali." Presentation to a conference on The New Poverty Agenda: Reshaping Policies in the 21st Century, Queen's University International Institute on Social Policy, August 18-20, 2008.
29. Drolet, Marie. *Participation in Post-secondary Education in Canada: Has the Role of Parental Income and Education Changed over the 1990s?* Ottawa: Statistics Canada, February 2005. This is a longstanding trend, also as reported in a 1998 Statistics Canada study by De Broucker, Patrice and Lavellee, Laval. "Intergenerational Aspects of Education and Literacy Skills Acquisition." Ottawa, Ed. Miles Corak. Ottawa: Statistics Canada, 1998. 51-63.
30. Maxwell, Judith and Teplova, Tatyana, "Social Consequence of Low Language/Literacy Skills." *Encyclopedia of Language and Literacy Development* (pp. 1-8). London, ON: Canadian Language and Literacy Network. Retrieved Sept. 12, 2008 from <http://www.literacyencyclopedia.ca/pdfs/topic.php?topld=34>
31. Ibid.
32. Boston Consulting Group. "Assessment of Pathways to Education." Toronto, 2007
33. Contenta, Sandro and Rankin, Jim. "Solving Crime? Tackle the root causes first: Nurturing the young, reducing poverty keeps people out of jail and it's cheaper, too" Toronto Star 26 July 2008: A1.
34. Fortin, Nicole and Lefebvre, Sophie. "Intergenerational Income Mobility in Canada." *Labour Markets, Social Institutions, and the Future of Canada's Children*. Ottawa, Ed. Miles Corak. Ottawa: Statistics Canada, 1998. 51-63. and Corak, Michael and Heisz, Andrew. "How to Get Ahead in Life: Some Correlates of Intergenerational Income Mobility in Canada." *Labour Markets, Social Institutions, and the Future of Canada's Children*. Ottawa, Ed. Miles Corak. Ottawa: Statistics Canada, 1998. 65-89.
35. Ibid.
36. Canadian Council on Social Development. "The Progress of Canada's Children 2001."
37. Maxwell, J., & Teplova, T. (in press). "Canada's Hidden Deficit: The social Costs of low literacy skills." *National Strategy for Early Literacy*. London, On: Canadian Language and Literacy Research Network.
38. Coulombe, S., Tremblay, J-F, and Marchand, S. Literacy scores, human capital and growth across fourteen OECD countries, *Statistics Canada Catalogue no. 89-552-MPE*, no 11, 2004. from <http://www.statcan.ca:8096/bsolc/english/bsolc?catno=89-552-MIE2004011>
39. Myles, John, Feng Hou, Garnett Picot and Karen Myers. 2006. "Why Did Employment and Earnings Rise Among Lone Mothers During the 1980s and 1990s?" Ottawa: Statistics Canada. Retrieved Sept. 27 from <http://www.statcan.ca/english/research/IIF0019MIE/IIF0019MIE2006282.pdf>
40. Bruner, Happy Returns: Three Economic Models that Make the Case for School Readiness." State Early Childhood Policy Technical Assistance Network. December 2004
41. Charles. "Many." [http://www.finebynine.org/uploaded/file/SECPTAN\\_MHR\\_final.pdf](http://www.finebynine.org/uploaded/file/SECPTAN_MHR_final.pdf) (accessed May 27, 2008).
41. Galarneau, Diane. "Education and Income of Lone Parents." *Perspectives on Labour and Income*. Ottawa: Statistics Canada, December 2005.
42. Ibid.
43. Pico, Garnett and Sweetman, Arthur. "The Deteriorating Economic Welfare of Immigrants and Possible Causes: Update 2005". Ottawa, ON. Statistics Canada. Catalogue no. IIF0019MIE -No. 262
44. Ibid.
45. Bloom, Michael and Michael Grant. *Brain Gain: The Economic Benefits of Recognizing Learning and Learning Credentials in Canada*. Ottawa: Conference Board of Canada, November 2001.



46. Human Resources and Social Development Canada, Low Income in Canada: 2000-2004 Using the Market Basket Measure, catalogue SP-682-10-07E
47. Stapleton (2008) op. cit.
48. The fact that Ali's mother has earnings means that she receives a TCHC (SHRA) exemption on her earnings that then does not apply to her son's earnings – This is explained in TCHC guidelines and in case examples. See: [http://www.toronto.ca/housing/social\\_housing/rgi/rgi-guide-july2005revision.pdf](http://www.toronto.ca/housing/social_housing/rgi/rgi-guide-july2005revision.pdf) in section 6-3.
49. Focus group members often likened refugee camp life to the regimented lifestyle of subsidized housing.
50. [http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_980222\\_e.htm#s38](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_980222_e.htm#s38)
51. <http://www.cra-arc.gc.ca/benefits/cctb/menu-e.html>
52. Reg. 38-4 [http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_980222\\_e.htm#s38](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_980222_e.htm#s38)
53. See footnote 1 above for reference
54. The cumulative marginal effective tax rate on Ali's part time earnings of \$600 a month was at least 69.9%. (1.4% EI, 4.5% CPP, 15% rent, and 50% ODSP)
55. See page 8 of OSAP form: <https://osap.gov.on.ca/eng/PDF/0708/07-08%20OSAP%20Application%20Form%20FINAL%20June%202007.pdf>
56. Many references: see <http://www.servicecanada.gc.ca/en/audiences/youth/education.shtml>
57. Note that Ali is still a dependent adult under the ODSP, SHRA and OW legislation. See ( for example) [http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_010298\\_e.htm#s49s4](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_010298_e.htm#s49s4)
58. [https://osap.gov.on.ca/eng/not\\_secure/repay\\_howwhen\\_12.htm](https://osap.gov.on.ca/eng/not_secure/repay_howwhen_12.htm)
59. See Footnote 1: Definition of overhousing is provided by TCHC and in SHRA at [http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_010298\\_e.htm#s27s1](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_010298_e.htm#s27s1) and [http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_010298\\_e.htm#s33](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_010298_e.htm#s33)
60. For Example, see: <http://sfas.mcmaster.ca/gradosap.html#defaults>





We can end hunger. **Think about it.**

[www.endhunger.ca](http://www.endhunger.ca)