Regional Council Attachment 2

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

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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.