

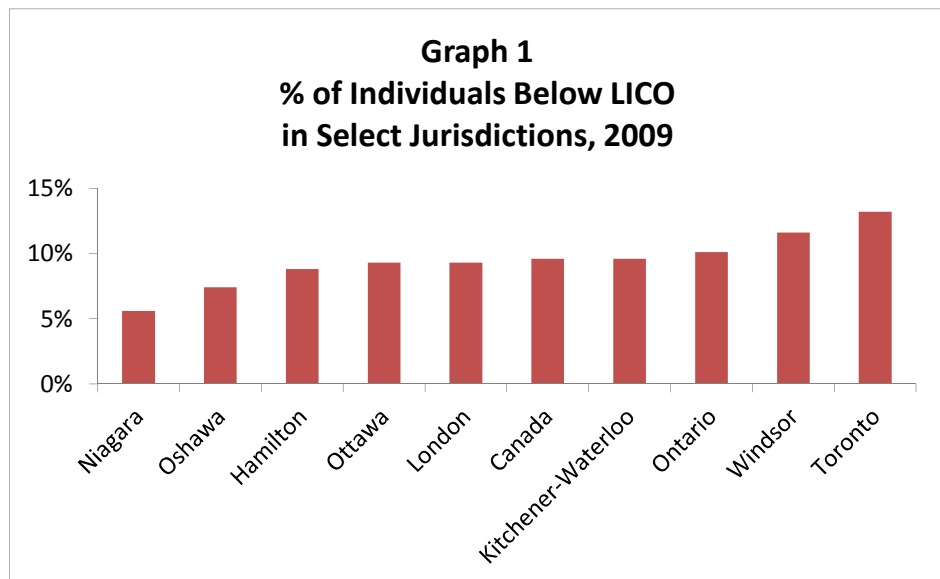


Are the Consequences of Poverty Holding Niagara Back?

“Poverty is costing us too much.” This is a conclusion that many studies have come to. In British Columbia, the cost of investing in a comprehensive poverty reduction plan for the province (\$3 to 4 billion per year) is estimated to be 2 to 3 times less expensive than the cost of doing nothing about poverty (\$8 to 9 billion per year). A 2011 report from Canada’s National Council of Welfare pegs the consequences of poverty as being far more expensive than investing in poverty reduction. In spite of the huge amount of information pointing to this problem, the stark fact is that overall poverty rates in Canada have not changed for more than 25 years. Some of the most important consequences of poverty are seen in health, justice, human rights, human development, child development and lost work and productivity.

An indicator of poverty from *Living in Niagara – 2011*, prepared by the Niagara Research and Planning Council, identified that food bank usage in Niagara has grown by 35.6% from 2006 to 2010. Here in Niagara, the first step toward understanding our local situation is to gather the evidence that describes the true cost of poverty. The purpose of this policy paper is to make a first attempt at identifying some of the costs of the consequences of poverty and to ask what poverty is really costing us in Niagara.

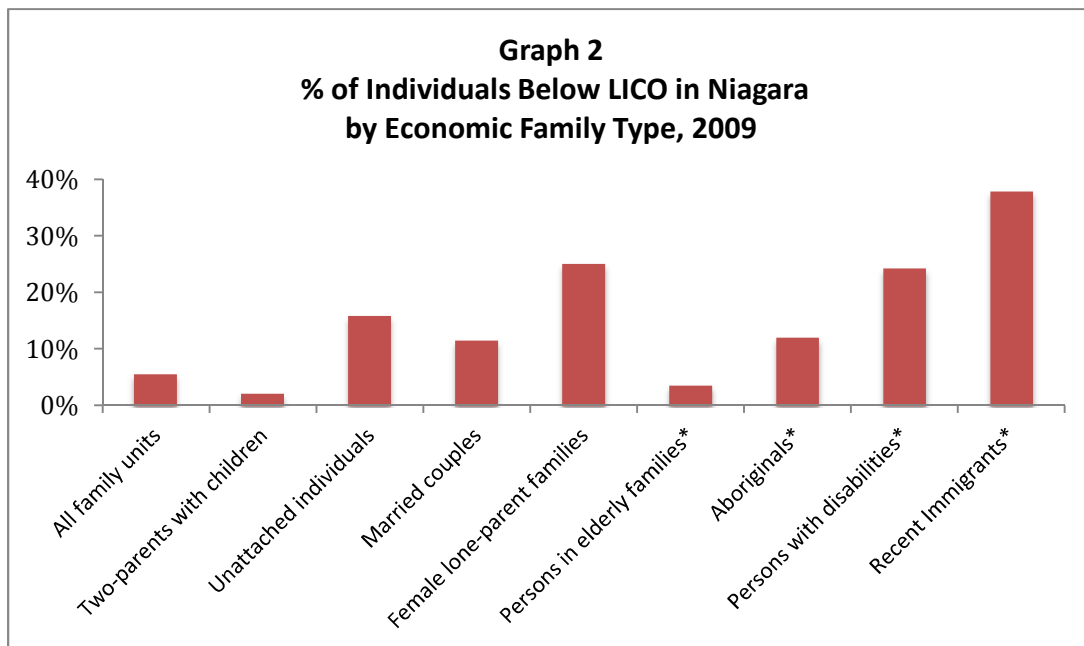
Poverty has no absolute measure due to the differences in the cost of living in communities across Canada and due to the inclusion of a variety of factors that are difficult



to quantify (such as access to nutritious food, health care services, and experience of social exclusion). One common systematic measurement of poverty is Statistics Canada’s Low Income Cut-Off (LICO). Canada does not have an agreed-upon poverty line, but the LICO is commonly referred to as the poverty line in Canada. The LICO is an income threshold below which a family will likely devote 20 percentage points or more of its income to the necessities of food, shelter, and clothing than the average family would. For example, the average family devotes 43% of its after-tax income to food, shelter and clothing. Therefore, families that devote 63% or more of their after-tax income to those basic necessities fall below the LICO line. The threshold is calculated for seven different family sizes and community sizes. The 2009 LICO for one person in a municipality with a population of 100,000-499,999 was \$15,579.

Graph 1 shows how Niagara compares to similar areas. At first glance, Niagara appears to fare pretty well in that 5.6% of Niagara families live below LICO compared to the Ontario average of 10.1%. A look behind the totals provides a more disturbing picture of poverty in Niagara.

Graph 2 shows that different groups had varying rates of poverty. Two-parent families and seniors had the lowest poverty rates while recent immigrants, persons with disabilities and single mothers had the highest poverty rates in Niagara. The relatively low rate of poverty among seniors is a reflection of a significant success story. In the past, seniors were one of the most disadvantaged groups, but a number of programs instituted in the second half of the 20th century has changed that, including Old Age Security, the Guaranteed Income Supplement and the Canada Pension Plan. Poverty can be beaten when we make a serious effort.



Source: Statistics Canada, *Survey of Labour and Income Dynamics & Survey of Consumer Finances*, 2009. categories marked with an * are from Statistics Canada, *2006 Community Profiles*.

Calculating the costs

The purpose of this brief is to identify the economic consequences of poverty in Niagara. The data provided here are estimates based on reasonably good, but admittedly not precise, statistical assumptions. To offset our lack of precision, we have deliberately been conservative in our estimates and we have left out some things altogether. For example, it is likely that the presence of students in the school system who are not ready to learn at their grade level due to a lack of family support as a result of financial challenges imposes a cost on the school system. However, we recognize that it would be impossible to isolate these costs. Poverty has some consequences that are difficult to quantify in dollars and cents. The Code Red investigation done by staff of the *Hamilton Spectator* identified a 21-year gap in the average life expectancy in neighbourhoods with different income levels. Areas of the city with lower average life expectancies and higher incidence of cardiovascular emergencies also had higher poverty rates. Similarly, Finkelstein et al found that poorer neighbourhoods in Hamilton and Burlington tended to have higher air pollution and higher mortality rates than higher income neighbourhoods. We have also made no attempt to estimate the very real, but non-quantifiable intangible, personal costs of poverty—the anxiety arising from not knowing if you will have enough money to buy food all month; the fractured self-esteem coming from waiting in long line-ups to obtain handouts at food banks.

This brief follows in the footsteps of similar analyses done nationally, in Calgary, British Columbia, and Ontario, but this is one of the first analyses of its kind in Niagara. The Calgary study provides a good definition of the concept of cost that will be used in this brief. We will focus on incremental or additional costs imposed by poverty. The focus on the incremental costs imposed by poverty excludes some apparent costs that are actually transfers among members of society. For example, in 2010, the actual dollar cost of Employment Insurance, Ontario Works and related supports in Niagara was \$439 million. The costs of social support programs are transfers among residents and not real costs to society in the sense that a cost is a resource consumed rather than a resource redistributed. However, if it were not necessary to provide these support payments, then these funds could either stay in the hands of the original owners of the resources, or they could be used for some other worthwhile purpose. We have chosen to separate private costs, social costs and social transfers in our calculation. Private costs include the cost of poverty experienced by individuals living in poverty, social costs are borne by all members of society because of the consequences of poverty in our midst, and social transfers are the amount of resources redistributed among residents as a result of poverty in society.

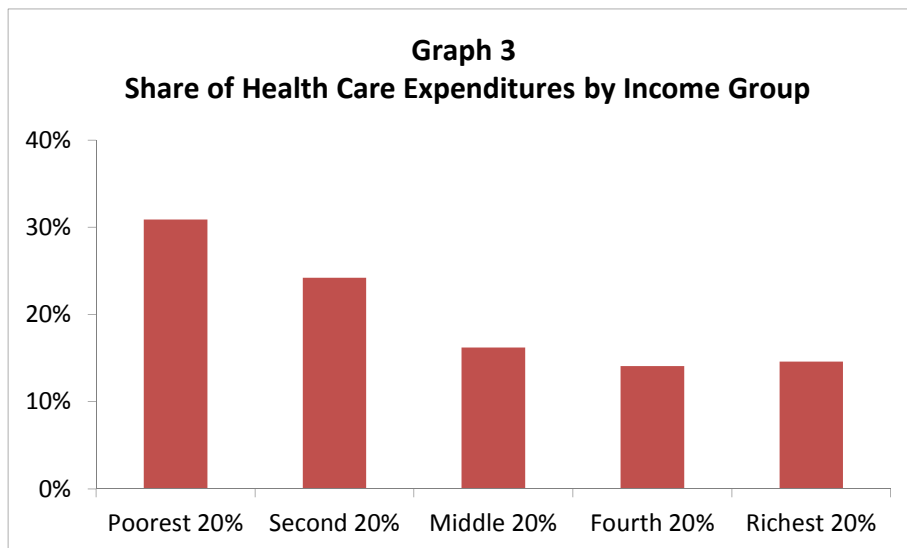
Table 1	
Social Transfers: Costs of Social Support Programs, 2010	
Benefit	Cost per year
Employment Insurance	\$322 million
Ontario Works	115 million
Housing, Hostels & Homelessness	2 million
Total	\$439 million

Sources: *Employment Insurance Monitoring and Assessment Report, 2010*; *2011 Budget Allocation figures*. Regional Municipality of Niagara, 2011.

The Cost of Not Addressing Health Care Concerns Upstream

Research indicates that poverty has a negative impact on health. Individuals living in poverty are nutrition-deprived due to the high costs of healthy eating; they are not able to afford prescriptions and required dental treatment; and they have high levels of stress resulting in an increased likelihood of developing many health conditions such as cancer and heart disease. A Canadian Medical Association report found that the gap between lower and higher income Canadians is increasing. About 46% of Canadians earning less than \$30,000 have said the economic downturn has impacted how they maintain their health compared to 26% for all Canadians. Lower income Canadians are more likely to have had to delay or cancel dental appointments, delay or stop buying prescription drugs, delay or cancel doctors' appointments, buy pre-packaged foods and skip meals as a result of financial concerns. Food insecurity, stress, homelessness and loss of productivity can all lead to significant health care concerns for individuals and families. Thus, an investment in poverty reduction can reduce downstream health care costs.

The Cost of Poverty determined that the poorest 20% of the population consumes 30.9% of all health care expenditures compared to the second lowest 20% income group that consumes 24.2%, and there is a steady reduction in the proportion of health care expenditures as income increases. The richest 20 percent of income earners use approximately half the expenditures used by the poorest 20 percent of income earners.



Source: N. Laurie. *The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario*. 2008.

If the share of health care expenditures consumed by the poorest income group were lowered to the level of the second lowest income group, Niagara would experience a savings of \$94 million per year. This was calculated by estimating Niagara's share (\$1.4 billion) of the total of all federal, provincial, and local health care expenditures (\$42.9 billion) made in Ontario. The total annual cost of health care in Niagara multiplied by the difference in cost between the poorest 20% and second poorest 20% group results in a reduction of \$94 million of health care costs per year.

The Relationship Between Poverty and Crime

One of the most difficult areas to discuss is the relationship between crime and poverty. No one income group has a monopoly on crime. Some of the most devastating and costly crimes to society have been committed by very wealthy white-collar criminals who engage in various forms of fraud and tax evasion. Some people with lower incomes are drawn by desperation or exclusion into various forms of crime. This is not to say that all wealthy people are criminals; nor are all low-income people engaging in crime.

While it is difficult to establish a direct causal link between poverty and criminal behaviour, other analyses have argued that there is a relationship between poverty and low levels of literacy, and low levels of literacy are in turn related to increased criminal behaviour. These other studies have suggested that increasing the level of literacy of those in the lowest 20% of income to the literacy level of those in the next 20% would reduce crime by 4%. Admittedly, there are some unclear links in deriving that number. However, very few people would argue that there is absolutely no linkage between poverty and crime. The evidence would indicate that reducing poverty would likely have an impact on reducing crime.

According to a recent study, the total social and economic cost of crime in Canada in 2008 was \$31.4 billion. This includes costs of the criminal judicial system, policing, and direct costs of crime to victims (e.g. medical costs, lost wages and stolen/damaged property). When the intangible costs of crime to victims were considered — costs such as pain and suffering and loss of life — the costs of crime increase to \$99.6 billion. This same report allows us to break down the total costs of crime in Canada into the costs borne by governments and the private costs borne by victims of crime and society as a whole.

Table 2 Criminal Justice Costs in Canada and Niagara		
Criminal Justice System Costs	Cost of Crime in Canada	Cost of Crime in Niagara
Total Crime System Cost	\$15,009 million	\$191 million
Total Victim Costs	\$14,320 million	\$183 million
Total Third Party Costs	\$2,091 million	\$27 million
Total Tangible Costs	\$31,420 million	\$401 million
Total Intangible Costs	\$68,155 million	\$869 million
TOTAL COSTS:	\$99,575 million	\$1,271 million
Niagara figures were calculated by adjusting the Canada figures for the population of Niagara.		

Source: T. Zhang. *Cost of Crime in Canada*. Department of Justice, 2008.

The total cost of crime in Niagara attributed to poverty can be calculated by multiplying the 4% figure mentioned above by the total cost of crime in Niagara to obtain a total cost of crime attributed to poverty of \$51 million.

Lost earnings and productivity

Those living under the LICO figure are more likely to be underemployed or unemployed, leading to costs for Ontario as a whole. The *Cost of Poverty in BC* report suggests that:

[I]ncome that the poor might have earned from working, or that the working poor could have earned if their jobs paid better wages, can be thought of as a loss to the aggregate value of the economy or the collective wealth of our society. While this loss is not necessarily caused by poverty itself, it always accompanies poverty. Investments in reducing poverty through improving both basic education and specific skills training, better matching of workers with jobs locally, as well as strengthening labour standards and ensuring that jobs provide economic security to all workers, would result in better utilizing the productive potential of a portion of the labour force that is currently unemployed or underemployed.

A comprehensive report by the Institute for Competiveness and Prosperity, *Prosperity, Inequality, and Poverty*, argued that lost productivity can be the result of lower skills training and lower basic education levels or a mismatch between skills and opportunities, as in the case of newcomers who lack Canadian job credentials, or people who are not able to find employment in their field of training, but have to take a job because that is all that is available to them. The 2011 *Living in Niagara* report cites the importance of creating a comprehensive mapping of adult literacy rates in Niagara.

Generally, individuals living in poverty have lower levels of education and skills training than those with higher levels of income. Lost productivity includes the lost wages as a result of low productivity and the social cost due to lost federal and provincial tax revenues. In order to calculate the cost, an Ontario study took the after-tax income of the lowest 20% of households and estimated the potential increase in private income and public tax revenues that would be generated by moving those individuals to the second-lowest income group. Our calculation is more conservative than that because we did not include the estimated potential savings in government transfer programs as a result of the transition from the lowest income segment to the second income segment. Instead, we have presented separately the total real expense of the social transfer programs that are primarily targeted to individuals in poverty.

To calculate the cost of lost productivity, the following method was used: The poorest 20 percent of the population in Niagara has an upper annual income limit of \$12,000; the next 20 percent has an upper limit of \$22,000. The difference in income (\$10,000) was multiplied by the number of individuals in the lowest income group (66,202) to get a total of \$662 million. When calculating the public costs, the difference in tax payable for individuals at \$12,000 versus \$22,000 was calculated to be \$2,005 per individual. That figure was then multiplied by the number of individuals in the lowest 20 percent income group (66,202) to get a total of \$132.7 million. The costs attributed to the loss of earnings and productivity in Niagara was calculated to be a total of \$794.7 million per year.

Summary of the Cost of Consequences of Poverty in Niagara

	Private Costs	Social Costs	Social Transfers
Health Care		\$94 million	
Crime		\$51 million	
Lost Productivity	\$662 million	\$132.7 million	
Employment Insurance			\$322 million
Ontario Works			\$115 million
Housing, Hostels & Homelessness			\$2 million
Total	\$662.0 million	\$277.7 million	\$439 million

The total social transfer, private cost, and social cost of the consequences of poverty in Niagara is approximately \$1.38 billion per year. The cost considers the amount of social transfers, health care, crime, and lost productivity expenditures and the reduction in costs that would be attributed to raising the proportion of expenditures for the lowest 20% of income earners in Niagara to the level of the second-lowest income earners. Because social transfers are not real additional costs to society in the sense that they are redistributed funds rather than additional resources consumed, this report focuses on the total social costs imposed by poverty on all of Niagara residents.

The social cost to Niagara is approximately \$277.7 million dollars per year. To put this figure into perspective, if Niagara were not spending this amount on poverty, we could afford to provide any of the services listed below:

- Fund the cost of constructing a new hospital every two years
- Build 1,200 new houses
- Buy 648 public transit busses
- Build 17 new retirement homes
- At a salary of \$55,000/annum, employ 5,000 people per year

What do we need to do?

This policy brief illustrates that the consequences of poverty in Niagara affect everyone. Poverty is not only a serious personal tragedy for those who endure it; it costs all of us in wasted human resources as well as lost tax revenue. Focusing on an investment strategy that emphasizes the development of human capacity can reduce the cost of the consequences of poverty in Niagara. This approach has been validated in other jurisdictions, generating a net positive return on investment.

Components of an investment approach in Niagara have already been initiated, beginning in 2002 with the inception of Opportunities Niagara. In 2006, our political leaders directed Niagara Region Community Services and Public Health staff to provide a framework for understanding and action to tackle poverty in Niagara. In 2007 the *Legacy of Poverty* report informed the development of the Niagara Prosperity Initiative (NPI) [<http://www.niagararegion.ca/social-services/niagara-prosperity-initiatives.aspx>]. The NPI is an investment in neighbourhoods requiring attention by focusing on developing programs and activities that address poverty in the areas with the most severe impact of poverty.

Our community leaders are organized to move forward collaboratively on an investment model. They are working together as the Niagara Prosperity Community Committee (NPCC), the Niagara Roundtable on Poverty, and the Social Assistance Reform Network of Niagara (SARNN).

What does a Poverty Reduction Investment Strategy for Niagara Look Like?

The *Legacy of Poverty* and its sequel, *Building a New Legacy*, outline four components of a Poverty Reduction Action Plan for Niagara, providing a potential framework for a “Made in Niagara Investment Strategy”. The four components are:

1. Decrease poverty through advocacy;
2. Provide appropriate and flexible supports which address the broader determinants of health for adults living in poverty;
3. Mitigate the negative effects of low income on children and youth through programs and services; and,
4. Monitor our progress.

The Economic Development, Poverty and Prosperity section of the *Living in Niagara – 2011* report (<http://www.livinginniagarareport.com>) includes ten “Suggested Action Steps” that emerged from the data in the report, and discussions with community expert opinion leaders.

Much of the evidence that we need to build our strategy exists: it is organized, well-researched, analyzed and ready to go. To further inform the strategy, the business sector in Niagara could help to design the investment plan in collaboration with community partners.

The roots of the consequences of poverty are multi-faceted and complex. Thus, the investment strategy that we undertake in Niagara will require acknowledgement that it, too, will be multi-faceted and complex. It will require Niagara-wide cooperation, leadership and innovation to achieve our collective return on investment.

**version with references available from <http://www.brocku.ca/niagara-community-observatory>*