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The Cost of Poverty in Nova Scotia

Angella MacEwen
with **Christine Saulnier**



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By Angella MacEwen with Christine Saulnier

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“Anyone who has ever struggled with poverty knows how extremely expensive it is to be poor.”
— *James A. Baldwin*

Introduction

The Nova Scotia Government’s 2009 Poverty Reduction Strategy¹ sets out dual goals of reducing poverty and creating opportunities for prosperity. Inherent in this vision is an understanding that when we help those in need, we make Nova Scotia a better place to live for everyone. As has been so aptly demonstrated by the research of Richard Wilkinson and Kate Pickett in their book *The Spirit Level*², money spent on reducing poverty and inequality is an investment in all of our futures.

For those who argue that we cannot afford to end poverty, this report makes clear that we cannot afford to ignore it. There is obviously a moral imperative to end poverty first and foremost for those living in poverty. But, there also exists a compelling business case to be made for effective poverty reduction strategies because very real costs of poverty are borne by society as a whole. Poverty is linked with higher rates of crime, increased health care needs, higher school drop-out rates, and lost productivity. If additional poverty reduction dollars are invested wisely alongside current poverty alleviation programs, there will be short *and* long-term savings to offset the initial investment.

In this report we use several terms related to poverty reduction, such as poverty alleviation, poverty prevention, and poverty elimination. Poverty alleviation refers to programs that alleviate the symptoms of poverty. Poverty prevention addresses the root causes of poverty, and both are required to reduce the number of people living in poverty or eliminate poverty completely. Not all aspects of effective poverty reduction require new government spending. A shift in attitude towards dealing with the symptoms of poverty or poverty alleviation is a critical component. The current social assistance system has gaps, inconsistencies, and disincentives to exit, and it contributes to the stigmatization of poverty in Nova Scotia. Improvements in regulations and service delivery will lead to better outcomes for individuals and long-term savings for government.

A recent study commissioned by the Ontario Association of Food Banks estimates the private and social costs of poverty in Ontario to be approximately 6% of Ontario’s Gross Domestic Product (GDP), and the social costs to be over 12% of the Ontario government’s budget in 2008.³ Until now, the cost of poverty in Nova Scotia had not been estimated. Using the methodology estab-

lished in the Ontario study, we find that the total cost of poverty in Nova Scotia is at least \$1.5 to \$2.2 billion dollars per year, between 5% - 7% of Nova Scotia's GDP in 2008. The portion of the total cost borne by society (the social cost) is at least \$500 to \$650 million dollars. This corresponds to 6% - 8% of Nova Scotia's 2007/2008 budget, or around \$1,400 to \$1,700 for each Nova Scotian household.

The purpose of this costing exercise is to illustrate the shared economic burden of poverty, and the urgency that exists for the Nova Scotia Government to act to reduce poverty now. Even though we provide evidence of the affordability of poverty reduction, we undertake this exercise believing, as Lars Osberg has previously argued, that putting a price tag on poverty should not be required:

... if one takes seriously the Universal Declaration of Human Rights (to which Canada is a signatory), it makes no more sense to ask

“what are the costs and benefits of preventing poverty?” than to ask “what are the costs and benefits of prohibiting torture?” If individuals have both the right to be free from torture and the right to a standard of living adequate for health and well-being, *then these are simply constraints which all other social and economic decisions must respect.*

— Lars Osberg⁴, emphasis added.

Unfortunately, these constraints have not been effectively or systematically integrated into public policy decision-making, and as a result poverty in our province persists. The goal of this report is twofold: to demonstrate the high costs of continuing to treat only the effects of poverty, and to point out the savings that will accrue if there is a concerted effort to *also* tackle the root causes of poverty via a comprehensive poverty reduction strategy. Regarding the latter, we outline some areas where governments could focus their efforts.

How can you measure the cost of poverty?

There are various well established costs associated with poverty. Ill health, crime, intergenerational transfer of poverty, and productivity losses are good examples of costs that can be estimated. Like the Ontario report, this report is based on a thought experiment — what if the 20% of the Nova Scotians with the lowest income were to have the same income as the second lowest 20%? Wouldn't their health and paid labour productivity improve as well? Wouldn't literacy improve? Wouldn't crime rates fall? Results would depend on the specific strategy employed, of course, but we assume that if the incomes for the bottom two quintiles were the same, the costs that we have identified would be the same too.

Looking at Table 1, you can see that the difference between the lowest and second-lowest income quintiles is quite large in Nova Scotia, so achieving this change is by no means straightforward or simple. However, actions to reduce poverty are affordable, when one considers the personal and collective economic costs of failing to address poverty.

Components of the economic cost of poverty

In the Ontario cost of poverty report, four measurable components of the cost of poverty are identified.⁶ These costs may be private or social,

TABLE 1 Average household income, by adjusted after tax income quintiles, Nova Scotia, 2008

	Total Income	After Tax Income	Total Income Tax
Lowest	\$21,534	\$20,759	\$775
Second	\$42,782	\$39,318	\$3,464
Third	\$60,114	\$52,961	\$7,152
Fourth	\$84,004	\$70,321	\$13,683
Fifth	\$148,956	\$114,489	\$34,468

TABLE 1: Average total income, after-tax income, and federal and provincial income tax for Nova Scotia households in 2008 (adjusted for family size). Total income includes all government transfers.

SOURCE: Statistics Canada.⁵

but they all represent actual economic activity. The costs that we draw attention to here are all costs that could potentially be eliminated, or benefits that could potentially be realized. Private costs are paid by individuals, and for the most part represent unrealized benefits such as lost wages. Social costs are those borne by everyone. The social cost of poverty does not include current social spending on poverty, employment insurance, or social assistance. As we argue later on in this report, there will always be a need for poverty alleviation. Therefore we do not view current social spending as a cost of poverty, but rather the cost of meeting our obligations to each other.

The private and social cost is estimated for each component as follows:

1. Increased health care spending — The cost due to poverty is calculated as the excess 2008 provincial health care costs attributed to the lowest income quintile in Nova Scotia. The health component of the private cost of poverty can be thought of as lost ‘health capital.’⁷ While useful in some circumstances, an estimate of lost health capital does not represent actual economic activity, and so is not included in our final tally.
2. Crime — The components of the cost of crime in Canada include direct expenditures, victim costs, and preventative measures (such as alarm systems). The cost due to poverty in Nova Scotia is estimated by extrapolating from Laurie’s *Cost of Poverty* estimate of the cost of crime in Canada. The cost of crime is designated a social cost of poverty.
3. Inheriting your parent’s financial situation — Sometimes termed the *intergenerational transfer of poverty*. The cost of not being able to break the cycle of poverty is calculated by estimating the number of children that would escape poverty if the intergenerational transfer of poverty

were eliminated, and then estimating the increase in their annual earnings. The social component is the income tax paid on these earnings, and the private cost is the after-tax income.

4. Lost productivity — Productivity is defined in economic terms as the value of output that a worker contributes to the economy. High rates of unemployment, lack of education, unrecognized qualifications, health issues, and discrimination are examples of factors that can limit a person’s productivity, and hence their earned income. Ideally, everyone in Nova Scotia who wants to work would have access to good jobs, and would have the appropriate training and supports to be successful in their paid employment. Our costing exercise calculates the amount of private earnings and income taxes that would be generated if the lowest income quintile earned the same amount as the second lowest income quintile in Nova Scotia. The social component is the income tax paid on these earnings, and the private benefit is the after-tax income.

Note that these costs are interrelated — if a person has access to more resources, their health may improve. If their health improves, they may be able to work more hours and be more productive and successful at their jobs. This likely contributes to further improvements in health, and for children, reduces the intergenerational transfer of poverty. For each stage of our ‘prosperity cycle’, governments need to identify barriers to success so that they can be addressed or eliminated as early as possible.

How many people are poor?

Canada does not officially measure poverty, since it is so difficult to define. Instead, Statistics Canada measures ‘low income’ using several

different measures to understand the extent and depth of relative deprivation in our society. The number and demographics of persons estimated to be living in low income varies depending on the measure used. Using Statistics Canada's Low Income Cut Off (LICO), in 2008 75,000 persons in Nova Scotia were estimated to be living in low income after tax and transfers.⁸ Using the Market Basket Measure (MBM), 113,000 Nova Scotians were estimated to be living in low income. According to the Low Income Measure (LIM) after tax, 158,000 people⁹ were estimated to be living in low income — equivalent to three times the population of Colchester.

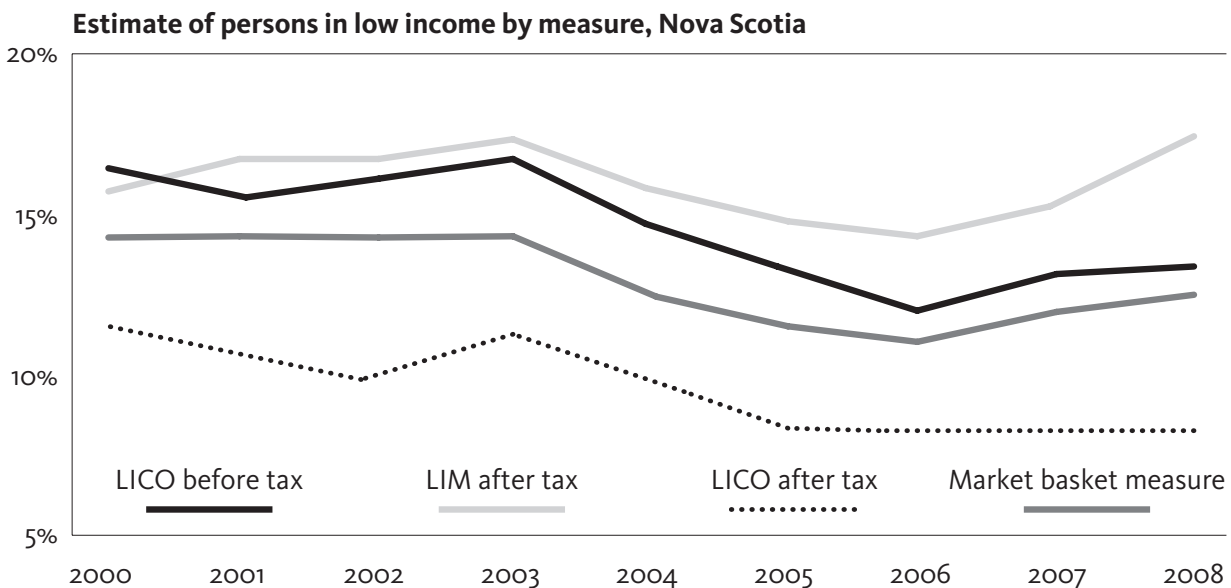
The Market Basket Measure is more sensitive to regional differences and actual child care costs than other poverty measures. For example, the MBM takes into account out-of-pocket child care expenses and the higher cost of transportation in rural areas. This makes it more likely to be a reasonable reflection of the circumstances facing Nova Scotia's families. The LICO may be less reliable at the provincial level, as it is based on national averages rather than baskets specifically

calculated to reflect the cost of living in Nova Scotia (which is how the MBM is compiled).¹⁰

Since measurements of low income are not exact, we provide a range of estimates for the cost of poverty. We also use the number of households, rather than the number of persons, because the income data that we are using for our calculations are average household income, adjusted for household size. For the intergenerational transfer of poverty and lost productivity the lower bound is based on the Market Basket Measure, and the upper bound is based on the number of households in the bottom income quintile (which is approximately equal to the number of households captured by the LIM after tax¹²). Using the Market Basket Measure, 50,120 households in Nova Scotia fall below the low income line, and there are 75,368 households in the bottom income quintile. It is not necessarily the case that the entire bottom income quintile qualifies as low income, but for Nova Scotia in 2008 this is valid.

Later in the report, we show a breakdown of low income rates at the county level. Although

FIGURE 1 Comparison of various low income measures for Nova Scotia, 2000 - 2008



SOURCE: Statistics Canada.⁵

the Market Basket Measure would be preferable, the MBM low income estimates are only published at the provincial level. Estimates of low income at the regional level are available from Statistics Canada long-form census data, and these estimates are based on the LICO before tax and the LICO after tax. We have chosen the LICO before tax since it is closest to the MBM in level and trend, and also is in the middle of the range of provincial low income estimates (see Figure 1).¹³ Although we display sub-provincial low income rates by only one measure — LICO before tax — we can interpolate from the provincial level data that these are mid-range estimates of the incidence of low income. Keep in mind, since the MBM is more geographically sensitive, the LICO before tax may underestimate low income in rural areas.

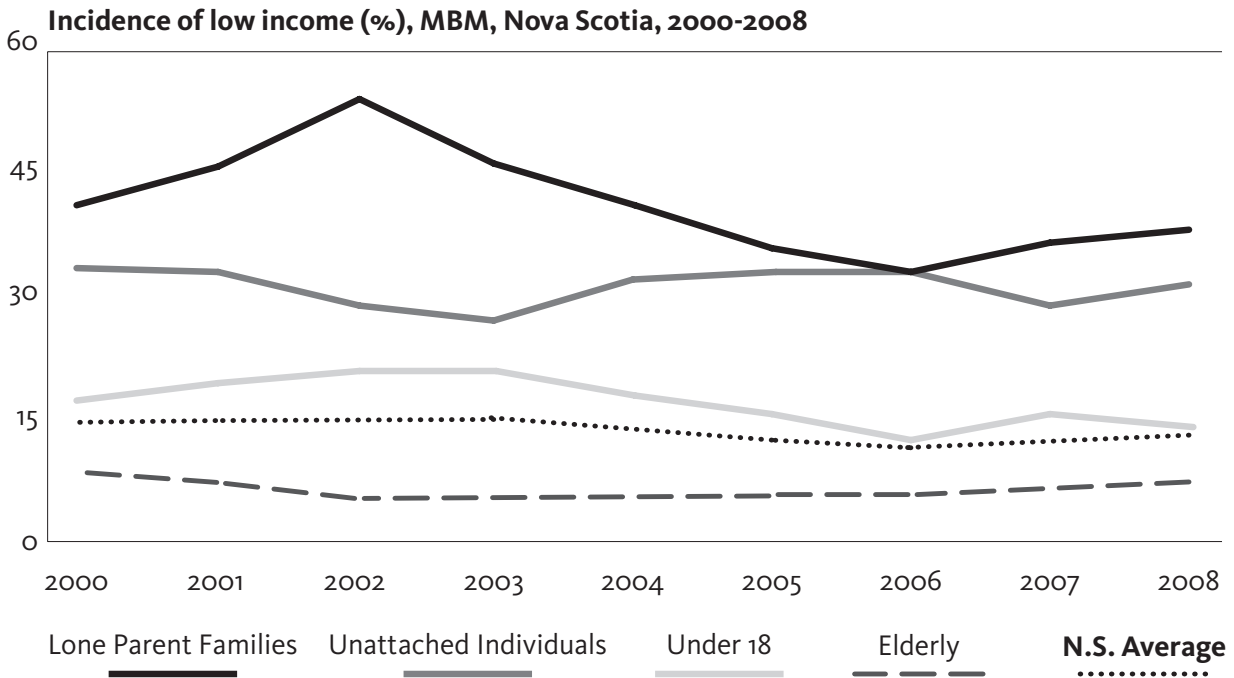
The calculations presented here underline both the costs of continuing to invest minimally in programs that alleviate the symptoms of poverty (such as the social assistance sys-

tem), and the savings that can accrue if investments are made to reduce or eliminate poverty. As such, we are arguing for a transformation in the way that both government and society approach poverty and poverty reduction. We also argue that policy makers should consider which groups are more vulnerable to living in poverty, as well as the multiplicity of reasons that people live in poverty in order to develop a poverty reduction strategy that best meets the diversity of needs that exist.

Who lives in poverty?

People experiencing poverty span all age groups, family types, and educational achievements. Some experience poverty briefly, and others see no light at the end of the tunnel. There is no single reason someone experiences poverty, and there is no single solution. But, there are groups who face higher risks, and are therefore more likely to experience periods of poverty.

FIGURE 2 Comparison of various low income measures for Nova Scotia, 2000 - 2008



SOURCE: Statistics Canada.¹⁸

FIGURE 3 Comparison of various low income measures for Nova Scotia, 2000 - 2008

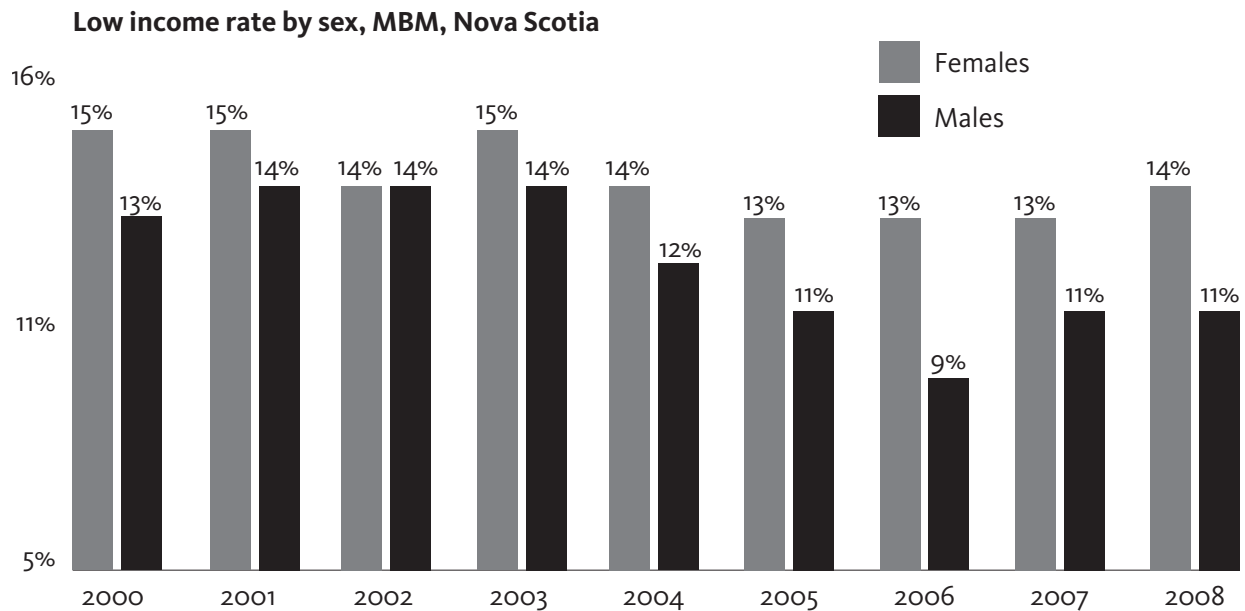


FIGURE 3: The gap between the low income rate of men and women has widened in recent years.

SOURCE: Statistics Canada.¹⁹

Lone parents and their children face a higher risk of poverty, and are more likely to experience persistent poverty. Female lone parent families are more likely to be low income than male lone parent families. While 85% of lone parent families in Nova Scotia were headed by women in 2008, over 95% of low-income lone parent families were headed by women. The rate of low income for male headed lone parent families is high (33% in 2008), but the situation is even worse for female-headed lone parent families (42% in 2008).¹⁴

Unattached individuals, especially those 45-64, those with a work-limiting health condition, recent immigrants, African Nova Scotians, and Aboriginals, also face higher rates of poverty in Nova Scotia.¹⁵ As an example of how multiple risks magnify poverty, consider that **51% of unattached First Nations women, and 57% of unattached African Nova Scotian women** lived below the low income cut off in 2005, compared to 13.8% of the total Nova Scotia population.¹⁶ According to the Aboriginal Children's Survey,

in 2005 **49% of First Nations children under 6 lived in low income**, compared to 18% of non-Aboriginal children.¹⁷

Figure 2 shows a breakdown of low income trends by selected family types. The dashed line represents the percentage of all persons in low income in Nova Scotia. For all groups except children, women are more likely to be in low income than men. Figure 3 shows that the low income gap between men and women in Nova Scotia closed between 2001-2003, but has widened again since 2004. Due to data availability, it is not possible to show similar trends for persons with disabilities, recent immigrants, Aboriginal persons, or African Nova Scotians.

Women in all groups have higher low income rates than their male counterparts, and African Nova Scotian women in particular have a high rate of low income — double the Nova Scotia average for all women. It is important to note that educational attainment does not explain the differences in low income between groups

(see Figure 6).²⁰ The low income rate among First Nations and African Nova Scotians is markedly higher than the average Nova Scotian low income rates. According to the 2006 census data, First Nations and African Nova Scotians are less likely to be unattached, but more likely to be in low income if they are unattached.

Another group that is found to be disproportionately living in low income is people living with disabilities. Overall, the income gap between people with disabilities and those without is significant: the median income of people with disabilities was \$18,231, compared to \$24,959 of those Nova Scotians without disabilities.²¹ The unemployment rate for those with a disability is still higher than the rate

among those without disabilities in Nova Scotia (11.2 per cent compared to 8.0 per cent).²² There is even a larger group outside of the labour force altogether (47.4 per cent), unable to clear what has been called the “disability wall” in the labour market: “discrete but interconnected systemic and attitudinal barriers that remain entrenched to delay, discourage or prevent [those] with disabilities from participating in the labour market to their full potential”.²³ Many who are unable to find secure employment rely on social assistance. In Nova Scotia, people with long-term disabilities made up about 45 per cent of income assistance recipients; another 10 per cent of recipients reported having a short-term disability.²⁴

Adding up the costs

Cost of Poverty:

Increased public health care spending

There is a large and growing body of research demonstrating a relationship between the prevalence of low income and poor health.^{25, 26} This research shows that while illness can lead to poverty, poverty can also lead to illness.²⁷ Controlling for reverse causality, Myriam Fortin finds that persistent poverty and weak labour force attachment increase a Canadian's chances of experiencing a deterioration in health as much as having poor health influences one's income status.^{28, 29}

A 2002 study by GPI Atlantic found the cost of chronic illness in Nova Scotia to be \$1.24 billion in direct medical costs and \$1.79 billion in lost productivity each year.³⁰ The GPI Atlantic study also reported that a significant portion of these costs were attributable to social determinants of health, such as poverty, gaps in education, lack of decent housing, and unemployment.

Lightman, Mitchell, and Wilson³¹ used the 2005 Canadian Community Health Survey to estimate the effect of an increase in income on the health of the poorest 20% of Canadians. They calculated that an increase of \$1,000 in annual

income would lead to nearly 10,000 fewer chronic conditions, and 6,600 fewer disability days every two weeks. Some of this indirect cost of poor health is part of the cost of lost productivity, which is included in our analysis.

The mechanism by which poverty creates ill health is not fully understood, and there are multiple pathways. We know, for example, that food insecurity (limited or uncertain access to sufficient, safe, nutritious food) is associated with chronic illness, obesity, and depression.³² Other research shows that the effects of poverty, such as stress, take a long term toll on our health, and outcomes can depend on factors such as gender. A 16 year longitudinal study in Sweden found that women's health worsened for all health measures with repeated exposure to financial stress.³³ The same effect was not found among men. Another study found financial stress to predict recurrent coronary artery disease among women, independent of age, education, and income.³⁴

Relative deprivation is another critical determinant of poor health.³⁵ A New Zealand study found that the elimination of poverty (where poverty is defined as those people who are living on an income that is 50% - 60% of median

income³⁶) would reduce childhood deaths from unintentional injury by as much as 7%.³⁷ A comparison of OECD countries shows that there is a relationship between higher levels of children's income inequality and higher mortality rates for children under 5. Children who experience periods of poverty are also more likely to have poor health as adults, regardless of their adult income status.³⁸

Heart disease shows a significant socio-economic gradient across rich countries — that is, it is significantly more common among the poor than it is among the non-poor.³⁹ Figure 2 shows the age standardized hospitalization rate for acute myocardial infarction (AMI), or heart attack, by income quintile in Canada and the Atlantic provinces. There is a consistent and significant difference between the lowest income quintile and the top 40%. Note that in Nova Scotia the rate of hospitalization for AMI rises to the 2nd quintile before falling, unlike Canada, PEI, and Newfoundland and Labrador where the second

lowest income quintile is better off than the lowest. Since financial stress and income insecurity influence health outcomes, a secure safety net can provide peace of mind to those 'at risk' of poverty, extending the health benefits beyond those who are the direct recipients of any government programs.

Even though we know that there is a relationship between health and poverty, it can be difficult to quantify the costs of this relationship for governments. Mustard *et al.*⁴⁰ estimate a share of public health spending in Canada by income quintile, shown in Table 2. We consider the savings that would accrue to government if we eliminated poverty for the lowest income quintile, and assume that this action reduces their health care costs to that of the second income quintile. In doing so, we find that the savings would be about 6.7% of the Nova Scotia government's health care budget, or \$241 million in 2008.

Attempts to measure lost 'health capital' due to poverty sometimes use the present discounted

FIGURE 4 Acute MI hospitalization rate by income quintile, 2008

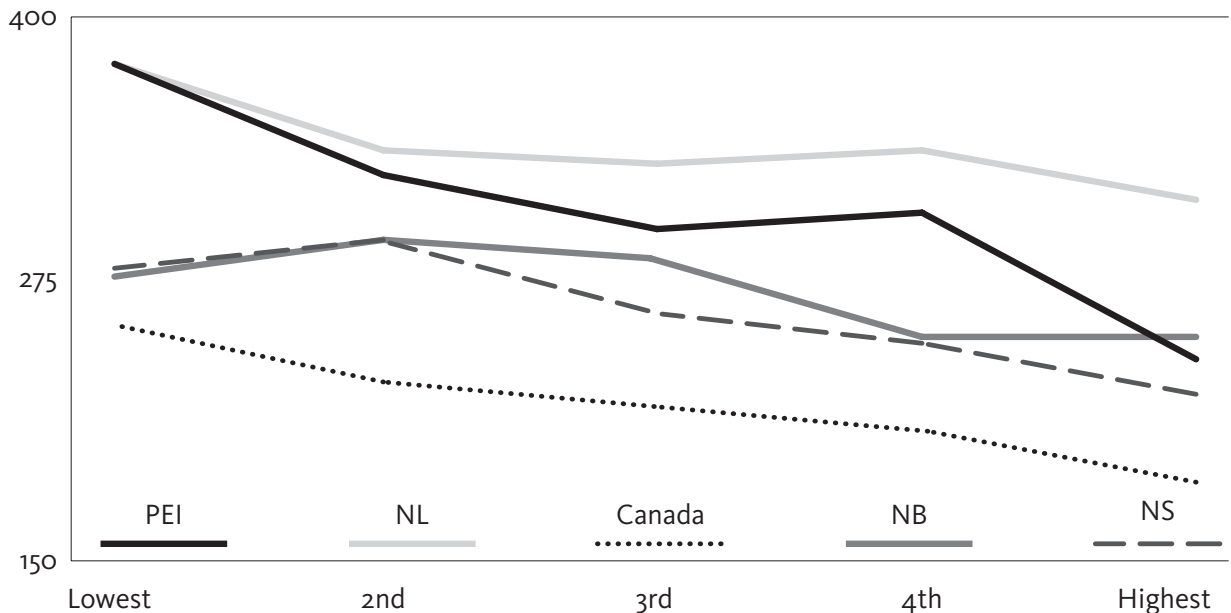


FIGURE 4: An example of the socio-economic health gradient. Source: CIHI. New hospitalizations for acute myocardial infarction (AMI), age standardized rate per 100,000 adults (population over age 20).

TABLE 2 Potential impact of a reduction in poverty on health care spending, Nova Scotia, 2008

	Share of total public health expenditures by quintile	Estimated distribution of Nova Scotia's \$3.3 billion in total government health care spending*
Lowest	30.9%	\$1,112 million
Second	24.2%	\$871 million
Third	16.2%	\$583 million
Fourth	14.1%	\$507 million
Fifth	14.6%	\$525 million
Potential health care savings:		\$1,112 - \$871 = \$241 million (2008)

*SOURCE: Canadian Institute for Health Information, National Health Expenditure Trends.

value of Quality Adjusted Life Years (QALYs).⁴¹ QALYs are commonly used in health economics to determine the benefits of various health interventions. QALYs take into account years of life lost to illness, and quality of life lost to illness. Based on an estimated child poverty rate of 15% in the United States, Holzer *et al.*⁴² estimate the annual cost of lost health capital due to poverty is equivalent to 1.1% of U.S. GDP — six times the cost of direct health spending due to child poverty. The estimate of lost health capital does not represent actual economic activity, and so is not included in our final tally. What this study does demonstrate is that estimates based on direct health care spending will always grossly underestimate the true health burden attributable to poverty.

Key recommendations

This section highlights the need to invest in illness prevention and health promotion focused on the social determinants of health including income and social status; social support networks; education and literacy; employment and working conditions; healthy child development; gender; and culture. The Community Coalition to End Poverty's 2007 "Framework for a Poverty Reduction Strategy in Nova Scotia" urged Federal and Provincial Governments to adopt a social determinants of health approach to social programs. Coordinated service delivery for persons at risk of poverty, as well as persons currently in need, is more effective and saves money in the

long run. Public policy needs to make the connection between social, economic, and health components of well-being.

Cost of Poverty: Crime

Following the methodology of the Ontario cost of poverty report, our study assumes that low literacy is the best predictor of involvement in crime.⁴⁴ Research has established a relationship between crime involvement and level of literacy.⁴⁵ To estimate the cost of poverty due to crime, the joint probability of low literacy and low income is combined with the probability that a person with low literacy will be involved in crime.

Calculations in Table 3 are based on the literacy levels found in the 2003 International Adult Literacy Survey for Canada. Data combining literacy and income are not available at the provincial level. Table 3 shows the joint probability of being in a particular income and literacy quintile. We assume that the relationship between literacy and income did not change between 2003 and 2008. The probability of having a low level of literacy is higher for those in the lower income quintiles. Using this method, the Ontario cost of poverty paper⁴⁶ estimates the cost of crime due to poverty in Canada at \$1 - \$2 billion dollars in 2008. Given that Nova Scotia's crime severity index is near the Canadian average, we estimate Nova Scotia's costs as a per capita share of the national cost — between \$30 million and \$60 million.

TABLE 3 Joint probability of income and document literacy, by quintiles

Literacy quintile	Income quintile				
	1st	2nd	3rd	4th	5th
Lowest	8.3	5.8	3.4	1.6	0.8
Second	4.4	5.3	4.4	3.4	2.4
Third	2.5	3.9	4.8	4.9	4
Fourth	1.9	3.2	4.4	5.2	5.4
Fifth	1.3	2.4	4.2	4.9	7.4

SOURCE: Statistics Canada, 2007, "Literacy and the Labour Market: The Generation of Literacy and Its Impact on Earnings for Native-born Canadians", Table 1.

The components of the cost of crime in Canada include direct expenditures, victim costs, and preventative measures (such as alarm systems). Victim costs make up the large majority of the cost of crime in Canada. While most people may associate poverty with those who commit crimes, we are less often aware of the victimization of the poor, the socially marginalized, and racialized persons. In the United States, children from poor families are 2.2 times more likely than non-poor children to experience violent crime, and twice as likely to report being afraid to leave their house.⁴⁷

The effects of the systemic exclusion of racialized persons are evident in the Canadian criminal justice system. Statistics Canada reports that Canada-wide, Aboriginal people were three times more likely than non-Aboriginal people to be victims of violent crime.⁴⁸ As well, Canadian born visible minorities' (racialized persons) rates of violent victimization are three times higher than visible minorities born abroad and twice as high as non-visible minorities in Canada.⁴⁹ Aboriginal people are eight times more likely to be the victim of a homicide, and ten times more likely to be accused of committing a homicide than the average Canadian.⁵⁰

Aboriginal persons and African Nova Scotians are disproportionately represented in the provincial criminal system too. In Nova Scotia, Aboriginal persons constituted 7.3% of persons sentenced to custody in 2003/2004, even though they only represent 1.5% of the population.⁵¹ In

Halifax, black youth accounted for 22% of all young offenders and 26% of all repeat offenders, even though they make up only about 4% of the population.⁵² Research in the United States has shown that racialized youth and adults are treated more harshly than white offenders at every stage of the criminal justice process.⁵³

The criminalization of poverty is also a growing concern in Nova Scotia. Examples of the criminalization of poverty include outlawing 'squeegee kids', or pan-handling in general, and welfare fraud tip-lines. Crocker and Johnson have gathered a volume of research that grew out of a 2004 public colloquium held in Nova Scotia on the topic.⁵⁴ They conclude that "the impact of criminalization is ... widely felt through its operation as a broad and vague set of social constructs". Criminalization is a symptom of a particular view of poverty, one that places blame on individuals, and seeks to isolate the poor 'safely' out of public view. Criminalization plays into already unbalanced power relations between the poor and those who regulate them. This attitude towards poverty must shift if we are to have a successful poverty reduction strategy that gets at the root causes of poverty (and crime, for that matter).

Key recommendations

Poverty prevention policies that will be effective in the reduction of crime are very similar to those we recommend in the other three sections. Obviously, focusing on effective literacy programs and improving education outcomes needs to be a

priority for crime prevention. As Don Clairmont has stated, “we’ve got to have programs in place to provide people with a meaningful way to operate in society.”⁵⁶ Currently, significantly more government money goes toward policing and incarceration or punishment-related expenses than to crime prevention. A 2008 task force on crime in HRM, led by Don Clairmont, “highlighted social development factors such as affordable housing, jobs, and improved race relations as key factors in any thorough attempt to reduce crime

and violence.”⁵⁷ This statement makes the links between social exclusion, poverty, racism, and crime — we urge government to recognize the importance of these connections and incorporate this knowledge into public policy.

Cost of Poverty: Intergenerational transfer of poverty

What is the intergenerational transfer of poverty? It is sometimes discussed in terms of *social*

FIGURE 5 Household lowincome rate by county , 2005

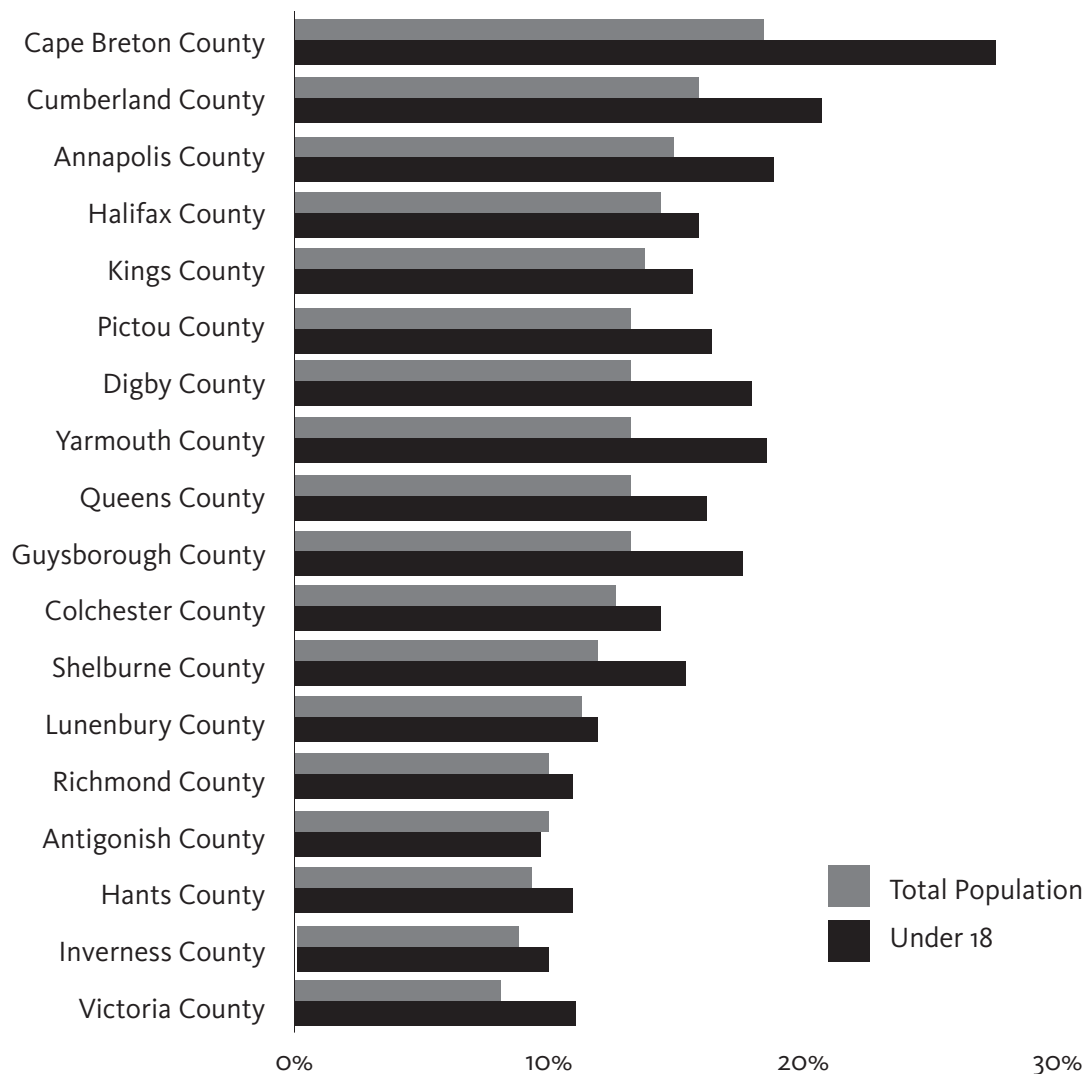


FIGURE 5: Proportion of total population, and those under 18 in low income by county. Low income estimates are based on LICO before tax.

SOURCE: Statistics Canada.

mobility, or equality of opportunity. Ideally, the children of poor parents would have the same social and economic opportunities as children from families that are better off. Unfortunately, this is not the reality for all poor children.

What causes the intergenerational transfer of poverty? Aside from the reality of living in poverty, perceptions — stigma and discrimination — can also have devastating long-term effects on children. *The Spirit Level* collects evidence that shows poverty and inequality influence school drop-out rates and educational performance.⁵⁸ At least some of this is due to a child’s perception of their social standing — they find that educational performance is “profoundly affected by the way we feel we are seen and judged by others”.⁵⁹ Interventions that provide children with the skills and confidence to succeed are a critical component of poverty prevention. This includes addressing systemic discrimination based on class, race, gender, sexuality, etc.

The number of children considered to be living in low income varies dramatically depending on the measure used. For 2008 the after-tax LICO estimates 14,000 children, the MBM estimates 24,000 children, and the LIM after tax estimates 35,000 children. To illustrate the regional distribution of low income, the graph below shows the proportion of Nova Scotians living in low income by county. In 2006, Cape Breton County had an estimated **27.5% low income rate for**

the under 18 population. Statistics Canada does not produce regional estimates from the MBM, so here we rely on the LICO before tax. Recall that the low income rate estimated by the LICO before tax and the MBM were similar for Nova Scotia, and in the middle of the range of estimates shown — see Figure 1. This holds true for Nova Scotians under 18 as well.⁶⁰

The low income rate of the total population is not necessarily a predictor of childhood low income, and thus of intergenerational poverty costs. For example, Yarmouth, Digby, and Guysborough have higher estimated rates of childhood low income than Halifax and Kings, even though the latter have higher total estimated poverty rates. In all cases, the estimated childhood low income rates are higher than estimates for the total population.

According to Laurie’s report on the Cost of Poverty in Ontario⁶¹, Canada’s intergenerational transfer of poverty is between 20% to 25%. This means that close to 1 in 4 children inherit the poverty of their parents. If Nova Scotians were to eliminate the intergenerational transfer of poverty, then an additional 5,000 - 8,750 children would escape poverty as adults. Note that poverty itself must be eliminated in order to ensure that all individuals who experience poverty as children are able to escape it as adults — even if there were no negative consequences to growing up in poverty and one’s chance of experiencing

TABLE 4 Impact of elimination of intergenerational transfer of poverty in Nova Scotia, 2008

	Avg. Total Income	Avg. After-tax income	Avg. Income Tax Payable
Lowest	\$21,534	\$20,759	\$775
Second	\$42,782	\$39,318	\$3,464
Third	\$60,114	\$52,961	\$7,152
Fourth	\$84,004	\$70,321	\$13,683
Fifth	\$148,956	\$114,489	\$34,468
Eliminating Intergenerational Transfer of Poverty			
5,000 children	\$106,239,338	\$92,791,813	\$13,447,525
8,750 children	\$185,918,841	\$162,385,673	\$23,533,168

SOURCE: Calculations in this table are based on data from Statistics Canada, *Income in Canada, 2008*.

poverty were random, some individuals would be poor as both a child and an adult. But there are negative consequences of growing up poor, and protective effects of growing up better off. This is what is measured in the 20-25% intergenerational transfer of poverty.

If we assume that the income of these 5,000 - 8,750 children were lifted even just to the second lowest income quintile⁶², their combined income would increase by \$91 to \$160 million / year after taxes. This private benefit has very obvious social benefits, not the least because of the increase in income taxes that these individuals would pay, between \$12 and \$21 million.

While this estimate is significant, it does not reflect the lifetime health costs that can be attributed to childhood poverty, and so is incomplete. Researchers have estimated the cost of child poverty in the U.S. to be 4.1% of U.S. GDP.⁶³ Future research could develop a credible methodology to assess the full private and social costs of childhood poverty in Nova Scotia. However, given moral arguments about our urgency to address poverty, helping families with children is surely one that requires no further rationale to compel government to act.

Key recommendations

Universal early childhood education programs in at risk neighbourhoods will help children and parents. As Martha Friendly points out, there are many very good reasons to pursue universal childcare programs: “anti-poverty, labour force, economic prosperity, women’s equality, social justice and health promotion.”⁶⁴ Canada has lagged behind other OECD countries in this critical area. Provincial governments need to work with each other and their federal counterparts to develop a Canada-wide early childhood education policy that works for Canadians.

The extent and the impact of child poverty can be addressed through a combination of programs aimed directly at children, and those that provide support to parents. Helping families with

children to get out, and stay out of poverty, is a key component of ensuring children are able to reach their potential as adults. Ensuring all workers receive a living wage for work, extending Child Tax Credits and Working Income Tax Credits, and more supports for lone parents to improve their education are all effective interventions to eliminate the intergenerational transfer of poverty.

Cost of Poverty: Lost productivity

The final step in our economic costing exercise is to estimate the benefits that may be realized if the average income of those households under the low income threshold rose to the average income of the second quintile. As this exercise demonstrates, by doing so, we would not only eliminate poverty, we raise an additional \$135 million in income tax revenue. In our second scenario, if we increase the income of the entire lowest quintile, we could raise an additional \$200 million in income tax revenue. These estimates do not count the additional HST that would be collected when the lowest income quintile increases their purchasing power.

Estimates for productivity in this exercise assume that the majority of persons in low income would prefer (and are able) to have full-time, full-year, better-paying jobs. Thus the majority of the cost of lost productivity is really potential market income. In this case, market income would replace current government transfers for the majority of persons in low income. It is difficult to provide an accurate estimate of this amount, as there are many kinds of government transfers, and not all are directed at low income Canadians. In fact, unattached individuals in the lowest income quintile receive the lowest average amount of government transfers (see the Appendix). We make a conservative estimate that on average, \$1,500 of government transfers per household are replaced by market income in each of our scenarios (this does not include reduced social assistance, or employment insurance transfers).

TABLE 5 Cost of lost productivity, Nova Scotia, 2008

	Total Income	After-tax income	Income Tax Payable
Lowest	\$21,534	\$20,759	\$775
Second	\$42,782	\$39,318	\$3,464
Third	\$60,114	\$52,961	\$7,152
Fourth	\$84,004	\$70,321	\$13,683
Fifth	\$148,956	\$114,489	\$34,468
Scenario 1: If the income of 50,120 households in low income by MBM increased to second quintile levels			
Total Increase	\$1,064,943,121	\$930,145,133	\$134,797,988
Scenario 2: If the income of 75,368 households in lowest quintile increased to second quintile levels			
Total Increase	\$1,601,409,281	\$1,398,706,672	\$202,702,609

SOURCE: Calculations in this table are based on data from Statistics Canada, *Income in Canada, 2008*.

Key recommendations

One way to increase productivity involves investments that improve literacy, which includes investing in programs that help children improve their learning starting in early childhood, and those that improve high school completion rates. A full range of supports for improving skills and training is required. Providing language services for new immigrants, and ensuring that foreign skills are assessed in a fair and expedient manner can improve economic outcomes for individuals, and improve our economy's competitiveness. It is critical that programs and policies allow for adequate supports and incentives for those who are transitioning into the labour market.

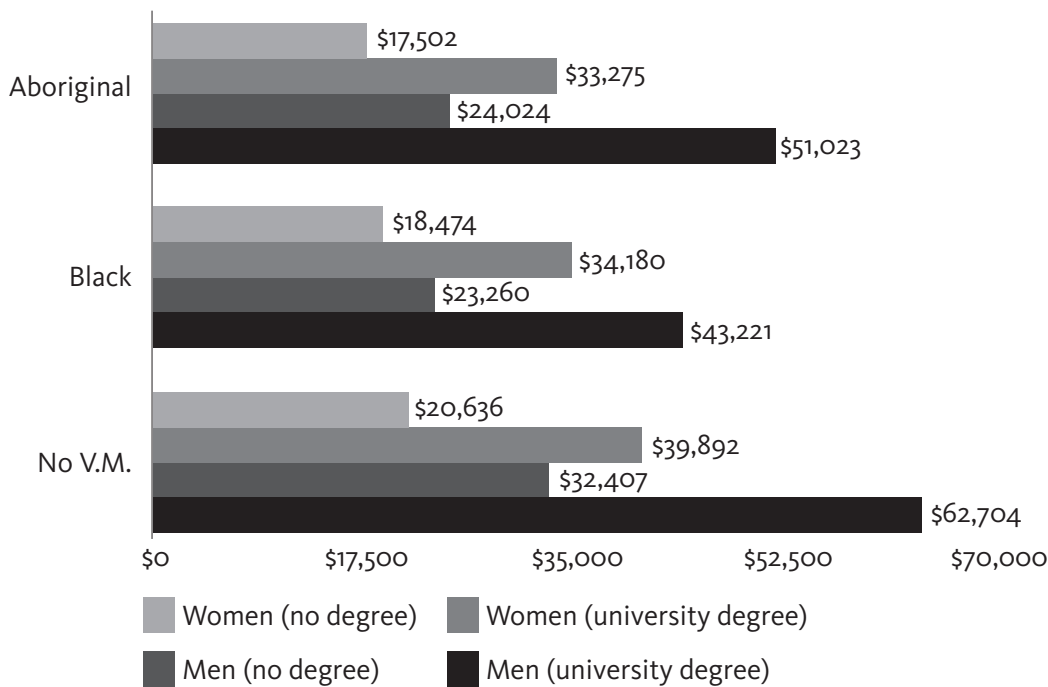
While there is a case to be made about the cost of lost productivity and the value of paid work, we urge the government to ensure that a poverty reduction strategy does not replicate the problems that have been inherent in a workfare approach. Rather, we advocate an approach that considers the barriers that prevent people from entering the labour market or/and from staying in the labour market. Still we must not assume that any job is better than no job, or that paid employment is necessarily the best solution. Moreover, as Monica Townson argues with regards to women living in poverty: "The roots of women's poverty can be found both in the way

they are treated when they are in paid employment and the situation in which they find themselves if they are outside paid employment."⁶⁵

Any poverty reduction strategy must approach women's poverty with a specific gender lens that considers the differential impact policies and programs have on women versus men because of women's vulnerability to poverty. Therefore, making changes in the labour market such as increasing the minimum wage would have more of a positive impact on women, because more of them work at lower wages. For the same reason, there needs to be a concerted effort to develop strategies that address non-standard work issues. Pay equity and employment equity measures should be strengthened. There also needs to be a continued focus on skills and training for women, which allow them to seek employment in 'nontraditional' female occupations.

Undoubtedly, a key strategy that enables women to enter the labour force is a child care strategy that provides quality, accessible and affordable child care. There currently isn't enough regulated, quality, child care available for all these women to join the labour force. In fact, the labour market needs to be entirely more family-friendly in order to make this transition workable for those who want to (re)enter the labour force. There need to be more jobs that offer a

FIGURE 6 Average annual income for persons with and without a university degree, Nova Scotia, 2005



SOURCE: Statistics Canada, 2006 Census 'Not V.M.' stands for "Not a visible minority". Statistics Canada includes Aboriginal persons in the "Not a visible minority" category.

liveable wage, decent hours, good vacations, and other benefits aimed at assisting those workers with dependent children (and those undertaking elder care).

Finally, strategies to address the poverty of women who are outside the labour market, must not assume that all these women should necessarily be brought into the labour market. Paid work may not be the best answer for single parents living in poverty, most of whom are women. Research examining single mothers living in poverty has concluded that while more of them have entered the workforce, there may not be clear economic gains once additional expenses are considered. In addition, their 'time poverty' has increased, with single mothers found to be the most highly time-stressed demographic group.⁶⁶ As was concluded in another study examining women living in poverty in Nova Scotia, "working poor women are juggling too little income, too many bills, too much responsibility

and too little time".⁶⁷ Forcing these women into the labour force more often means significant trade-offs — whether in parenting time or an increase in stress. Moreover, we must not undervalue the unpaid caregiving work that these women — and some men — provide.

Policies to prevent or reduce poverty must acknowledge the systemic social and economic exclusion experienced by specific groups because of their sex, their race or/and their disability. We know, for example, Aboriginal and African Nova Scotians often face multiple barriers to economic and social inclusion. The income gap for Aboriginal and African Nova Scotian men and women with a university degree is an indication of systemic social exclusion (see Figure 6). Gender interacts with racial inequality, creating disproportionately high levels of poverty for African Nova Scotian and Aboriginal women. Programs must consider the realities faced by those with multiple barriers, and avoid us-

ing blunt policy instruments that too often have counter-productive results.⁶⁸

Including Aboriginal and African Nova Scotian leaders in government planning is a critical part of ensuring that changes to government policy takes their situation and perspectives into account. The extension of Child Tax Credits and Working Income Tax Credits, and more supports for parents to improve their education are also critical to closing the poverty and exclusion

gap for Aboriginal and African Nova Scotians, just as they are for all families living in poverty.

Finally, interventions need to consider the complexity of barriers that prevent some people from being able to work, as well as consider that there are groups of Nova Scotians who are not employable and deserve to be extended opportunities for full and meaningful participation in society no matter the cost including people with disabilities.

Total Estimated Economic Cost of Poverty in Nova Scotia

Economic Cost of Poverty in Nova Scotia, 2008 (thousands of dollars)				
	Low Range of Estimate		Upper Range of Estimate	
	Private	Social	Private	Social
Health Costs		241,130		241,130
Crime Costs		30,000		60,000
Intergenerational costs	92,792	13,448	162,386	23,533
Productivity losses	930,145	134,798	1,398,707	202,703
Adjustment for government transfers replaced by market income		84,500		124,700
Totals:	1,022,937	503,876	1,561,093	652,066
Total Private and Social Costs	\$1.5 billion		\$2.2 billion	

We find that the total cost of poverty in Nova Scotia is at least \$1.5 to \$2.2 billion dollars per year (5% - 7% of provincial GDP in 2008). The estimated social cost of poverty — not including current government social spending — is at least \$500 to \$650 million dollars (6% - 8% of Nova Scotia's 2007/2008 budget).

What is missing?

These estimates are not a full accounting of the cost of poverty, and underestimate the true economic, individual, and social costs. For example, we do not include an analysis of the cost unpaid

labour or lost health capital, and the kinds of interventions that we recommend likely have benefits far beyond those persons who are living in low income. Recent research indicates that societies with less inequality are better off in almost every way.⁶⁹ This exercise is not meant to arrive at an exact figure for the annual cost of poverty. Instead, it provides further evidence of the types of costs that stem from poverty, and their scale, to inform the public and policy makers.

The estimate of lost productivity is probably the most contentious aspect of this methodology. It assumes that the majority of persons in low income would prefer — and are able — to have a

full-time, full-year, better-paying job. However, we know that this is not true — around 5% of Nova Scotians receive ESIA (social assistance), with close to half of ESIA recipients having a long-term work limiting disability, and 10% having a short-term work limiting disability. Therefore, even if we eliminate poverty, there will still be people who need a range of social and economic supports.

There is a difference between poverty alleviation and poverty prevention. There will always be a need for poverty alleviation. The Guaranteed Income Supplement for seniors is a poverty al-

leviation program, based on the recognition that the most vulnerable in our society need our support. This guarantee should be extended. Even though there *are* economic returns to poverty alleviation, in improved health and well-being, these returns are not as large as those for poverty prevention. The importance of poverty prevention does not diminish the importance of improving service delivery and de-stigmatizing poverty alleviation (*i.e.* social assistance programs), by either significantly reforming or replacing programs as they exist today.

“The transformation of our society is a project in which we all have a shared interest”
— *Richard Wilkinson and Kate Pickett*⁷⁰

Conclusion & Recommendations

This report highlights long term costs that need to be considered when designing and delivering a poverty reduction strategy. A full employment policy focuses on the broad conditions required for full participation in the workforce, and includes monetary and fiscal policy, education policy, labour policy, and transportation policy. This is very different from the kind of welfare reform known as workfare. Workfare has a narrow short term focus on reducing welfare cases and getting people into any job, ignoring its appropriateness and stability. It is an example of an all too common approach to poverty reduction that may save money in the short term, but is ineffective, inefficient, and costly in the long term. Thorough consideration of the costs pointed out in this report will lead to more effective poverty reduction policies. The importance of incorporating long term considerations into a clear and coordinated poverty reduction strategy cannot be overstated.

We repeat here the appeal for all levels of government to adopt a social determinants of health approach to public policy. Rising health

care costs dominate political debate, and too often the health impact of poverty, inequality, decent housing, and decent jobs are left out.

When poverty is understood to be not only about economic exclusion but social exclusion, and when structural and institutional barriers in the labour market are taken into account, it becomes clear that earned income is not the only element of poverty that must be addressed. Racism and other forms of discrimination (based on religion, gender identity, and disabilities, for example) have detrimental economic and social consequences. Systemic discrimination limits opportunities and places some groups at greater risk of social exclusion and poverty.

We have produced a conservative estimate of the cost of poverty in Nova Scotia, which is one more reason that all levels of government should act now to address poverty prevention in a serious manner. The analysis we have presented demonstrates the importance of acting in ways that do not just attempt to address the symptoms of poverty. Action must address the root causes of poverty. All Nova Scotians need

— and all Nova Scotians benefit from — accessible, affordable housing, early childhood education programs, and public transportation, as well as public education tailored to the diverse needs of our students. We need public policy

interventions for specific at-risk groups including accessible literacy training and recognition of prior qualifications for recent immigrants. Clearly, money spent on reducing poverty is an investment in all of our futures.

Other Resources

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Appendix: Government transfers by after-tax income quintiles, 2006 and 2007

Government transfers by after tax income quintiles				
	2007		2006	
	Averages	Implicit transfer rates	Averages	Implicit transfer rates
Total	\$8,500	14.6%	\$8,300	14.5%
Lowest	\$7,500	55.2%	\$7,100	57.2%
Second	\$10,500	35.9%	\$11,300	37.9%
Third	\$9,400	19.9%	\$8,800	18.8%
Fourth	\$8,200	11.7%	\$7,900	11.4%
Fifth	\$6,900	5.3%	\$6,500	5.0%
Two persons or more	\$9,400	12.8%	\$9,500	13.1%
Lowest	\$12,600	51.7%	\$13,800	53.3%
Second	\$11,400	25.7%	\$10,700	24.5%
Third	\$9,400	15.0%	\$9,400	15.3%
Fourth	\$7,900	9.4%	\$8,100	9.7%
Fifth	\$5,700	3.8%	\$5,600	3.8%
Unattached individuals	\$6,800	22.9%	\$6,000	21.7%
Lowest	\$4,100	52.7%	\$2,600	47.1%
Second	\$10,300	65.0%	\$8,800	61.3%
Third	\$7,800	33.4%	\$9,300	42.7%
Fourth	\$5,800	16.1%	\$5,500	15.6%
Fifth	\$5,900	9.0%	\$3,600	5.9%

SOURCE: Statistics Canada. (2009). *Income in Canada - 2007*, Ottawa, ON.

NOTE: Government transfers include all direct payments from Federal, Provincial, and Municipal Governments to individuals. This includes Child Tax Benefits, Old Age Security and Guaranteed Income Supplement, GST/HST rebates, CPP/QPP payments, EI, Social Assistance, Worker's Compensation, provincial and territorial credits, and in 2007, the Workers Income Tax Benefit (WITC).

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