

Family Security in Insecure Times: Poverty Reduction as Poverty Prevention

by Laurel Rothman

This Campaign 2000 brief offers recommendations to the federal government for the budget released on January 27, 2009.

As Canada enters into a period of economic insecurity, it is even more crucial for our governments to focus on those individuals, families and communities who are already vulnerable and will feel the greatest impact. Adopting a Poverty Reduction Strategy for Canada, including additional public investments in the social security of Canadian families, is a logical and essential component of fiscal stimulus at this critical time.

Nearly two decades after the unanimous 1989 House of Commons resolution to end child poverty in Canada, 760,000 children and their families – almost 1 child out of every 9¹ – still live in poverty when measured after income taxes. The rate of child and family poverty in Canada was essentially the same in 2006 as it was in 1989 despite an unprecedented period of strong economic growth since 1996. There have been cyclical variations, reflecting recessions and recoveries, but the high rate of child and family poverty has remained tenacious. This figure does not include the shameful situation of First Nations' communities where 1 in every 4 children is growing up in poverty.²

Why move forward on poverty reduction now?

1. *Public investments are needed to prevent and lessen poverty.*

Strong economic growth and prosperity did not, in and of themselves, lift many children and families from poverty. Times of economic crisis will only deepen the hardship, as history illustrates, if there is no aggressive, multi-faceted intervention including income transfers and support for vital community services. Following the early 1990s recession, as unemployment rose and severe cuts to social programs were implemented, the child and family poverty rate went up, reaching a high of nearly 18% (LICO after-tax) – about 1 in 5 children – in 1996. Designated expenditures in the 2009 budget are essential to prevent child and family poverty rates from again spiking high.

Canada currently has a mechanism in place that can quickly be adjusted to prevent further poverty. The Canada Child Tax Benefit (CCTB) including the National Child Benefit (NCB) Supplement, has played a major role in preventing and reducing child and family poverty. This joint federal, provincial and territorial initiative was launched in 1998 and reached its maximum cash transfer of \$3,271 for the first child in 2007. The NCB can take the credit for preventing an estimated 59,000 families with 125,000 children from living in poverty. That's a 12% decrease in the number of families living in poverty during 2004. The NCB also helped to reduce the depth of poverty by 18% among those families who remained in low income.



2. Investments in low income families stabilize communities directly and quickly.

Increased public investments in low and modest income families serve to strengthen local economies and protect families from further hardship. Canadian consumers power 57% of the economy.³ Public investments in low and modest income families are efficient and particularly strategic because they use their money in their local communities to pay rent, purchase food and other necessities such as child care and home care, in contrast to more affluent families that often spend or invest funds outside of Canada. Similarly, community services such as early learning and child care services operate in local neighbourhoods, functioning as a support to families, as consumers of local food and services, and as local employers.

3. Increased income supports are needed to prevent a wider gap between rich and poor.

Most Canadian households enter this recession with a slim, if any, financial cushion. In 2006, 40% of low income children lived in families where at least one parent worked full-time throughout the year yet still lived in poverty. Low income families, in particular, pay high proportions of their income on rent, with very little left over for food, clothing, transportation and child care, let alone savings.

With an alarming 1 in 4 households paying more than 30% of their income on housing, it is not surprising that the financial situation of many Canadian families is a delicate house of cards.⁴ With the average savings rate falling sharply from \$7,300 per year in 1990 to \$1,000 in 2006, families have limited nest eggs to rely on in case of unemployment and/or loss of housing.⁵ At the same time, household debt is at a record high. In 1984, at the peak of double-digit unemployment following the recession of 1981-82, households owed about 70 cents on every dollar of income, on average. By 2007, households owed \$1.27 on every dollar of income.⁶

The fragile economic state of many Canadian families means that loss of a paycheque or loss of housing they can afford may drive them to use up their limited resources quickly. Many may fall into poverty and have no choice but to rely on Employment Insurance or social assistance to attempt to pay the rent and feed the children.

This prospect of a hollowed-out middle class is already apparent in the gap between rich and poor in this country. Strikingly, inequality between the rich and poor

in Canada has grown more than in any OECD country during the last decade, with the exception of Germany.⁷ Consider that the average income for the poorest 10% of Canadian families has increased by just less than \$5,000 over the past decade, while the average income of the richest 10% of Canadians increased by over \$50,000 between 1996 and 2006. For every dollar the average family in the lowest 10% of the population has, the family in the highest tenth of the population had \$11.59. Clearly, the wealth generated during good economic times was not distributed equitably.

4. Public investment in social infrastructure contributes to sustainable communities and stable, self-supporting families.

Infrastructure in communities is not limited to bridges and roads; social infrastructure, including early childhood education and care services and social housing, are key components in poverty reduction and are central to vibrant communities. Early childhood education and care (ECEC) programs are about more than poverty reduction, but poverty reduction requires ECEC programs. Improved access to child care facilitates poverty reduction. With access to high quality child care, female lone parents – who often are unable to pay steep child care user fees – are better able to seek further education, train for work, get decent jobs and accept job promotions. Two parent families have a better chance to improve economic stability and income in a time of insecure employment. Informetrica Ltd has calculated that spending \$1 billion in child care would create 46,000 jobs and boost GDP by double compared to that same investment made in municipal infrastructure which would create only 11,000 jobs.

5. The cost of poverty is too great in both the short-term and the long-term.

The cost of poverty is great; poverty prevention and poverty reduction will benefit all Canadians. A recent analysis estimates the cost of poverty at \$38 billion for Canada when it calculates the value of lost output due to high unemployment, along with increased costs of health and social services, policing and criminal justice systems.⁸

Public investment in poverty reduction is smart economics. Repeating the “belt-tightening” methods of the 1990s will not only deepen inequalities within Canada but will cost taxpayers more in the future through increased health care costs and emergency housing resources in addition to more services.

Recommendations

Based on the knowledge we have about the likelihood of increased poverty in recessionary conditions; about the cost of poverty in both human and financial terms; and about the emerging success in the jurisdictions (Quebec, Newfoundland & Labrador and the UK) that are actively pursuing poverty reduction, Campaign 2000 urges that the following be included in the 2009 federal budget as part of a Poverty Reduction Strategy:

1. *Increased and improved funding to the income support and replacement programs that directly benefit families.*

Specifically,

- Increase the National Child Benefit to a maximum of \$5,200 (2009 \$) over the next two budget years. Closing the child benefit gap is essential to ensure that parents working full-time, full-year can lift their families out of poverty. In 2007, Campaign 2000 commissioned a simulation on the impact of this increased NCB that estimated a 31% decline in the child poverty rate at an additional cost of (est.) \$5 billion.
- Expand eligibility for Employment Insurance and improve benefit levels to provide support for unemployed workers. Current eligibility criteria allow only 40% of unemployed male workers and 32% of unemployed female workers to qualify.⁹ Eligibility requirements should be restored to 360 hours, with benefit levels based on the best 12 weeks of earnings at 60% of earnings as a minimum. The estimated \$50 billion accumulated surplus in the EI fund can be used for these expenditures.
- Improve the Working Income Tax Benefit (WITB) by increasing the income level of eligibility and increasing the credit to up to \$2,400 per year while also encouraging increases to minimum wages. The WITB needs to be enhanced for low income workers; the maximum payment for lone parents and couples should be increased to \$2,400 and eligibility should be broadened. Also, a method to administer the credit quarterly needs to be instituted, so workers can receive the benefit of the credit more immediately rather than waiting until the following tax year.

2. *Designate new federal transfer funds for Early Childhood Education and Care services.*

- Specify funds in the next two federal budgets for ECEC operating costs (\$500 million in 2009 and \$1 billion in 2010) and for capital expenses including

expansion and quality improvement. These capital costs are part of social infrastructure designed for short-term economic stimulus. ECEC services must be improved and strengthened – as UNICEF noted in its recent report identifying Canada as last among 25 developed countries on benchmarks for access and quality – if they are to contribute effectively to poverty reduction and the overall well-being of young children and their families. Two-year funding will allow time to develop a longer-term policy framework with provinces/territories and local governments. In the interim, federal funds should be spent according to broad principles previously agreed upon by the federal, provincial and territorial governments.

- Reform and revise the Universal Child Care Benefit to ensure that some of the funds are used for ECEC services and that the remaining funds are directed to the increased child benefit which is a progressive income transfer to families, administering more funds to families who need it the most.

3. *Earmark specific funds for affordable housing which are a key part of poverty reduction and an essential social infrastructure program.*

- Double the current five-year investment commitment in affordable housing and homelessness (as announced on Sept. 19, 2008) to \$780 million annually. This infusion of funds will stimulate the economy, help to stabilize households, and address pent-up need for affordable housing.
- Commit to reinvest all funds saved, as long-term federal social housing mortgages expire, back into the maintenance, modernization and expansion of Canada's affordable housing supply. No budget increase is needed.
- Enhance the federal home energy retrofit program with an additional \$250 million annual investment for five years to target low income households with limited capacity for home energy audits and retrofits.

Poverty reduction makes sense in the short-, medium-, and long-term

Increased public expenditures are needed to prevent further child and family poverty and to stem an even wider gap between rich and poor as Canada enters a recession. The cost of poverty is high for all Canadians. There is good evidence that as a society we either share the collective responsibility to prevent and reduce child and family poverty, or we face rising costs in health care services,

criminal justice and education, and reduced output due to high unemployment. The majority of Canadians agree; in a recent study, an overwhelming majority (92%) say that if other nations like the UK and Sweden can reduce poverty, so can Canada.

Our choice is clear – we can pay now or we can pay later. Campaign 2000 believes that paying now to improve life chances and provide more opportunities for independence and success makes good sense.

Endnotes

- 1 Latest available child poverty data is for 2006. Data prepared by Statistics Canada using the *Survey of Labour and Income Dynamics (SLID) masterfile (1993-2006)* and by the Social Planning and Research Council of British Columbia (SPARCBC) using Statistics Canada's *Income Trends in Canada*. These data exclude those on First Nations reserves, in the Yukon, Northwest Territories and Nunavut and children living in institutions. A child is defined as a person under 18 years living with parent(s) or guardian(s). Children in poverty are those living below the Low Income Cut Off (LICO) as defined by Statistics Canada. LICOs vary by the size of the family and of the community. For example, the after-tax LICO for a lone parent with one child in a large urban centre (pop. over 500,000) was \$21,384 in 2006.
- 2 Assembly of First Nations (2006). *Make Poverty History for First Nations*. Ottawa; First Nations Centre, National Aboriginal Health Organization (2005). *First Nations Regional Longitudinal Health Survey (2002-2003)*. Ottawa: National Aboriginal Health Organization.
- 3 Yalnizyan, A. Presentation to 25 in 5 Poverty Reduction Forum, Toronto, October 28, 2008.
- 4 Shapcott, M. (2008). *The State of the Nation's Housing*. Toronto: Wellesley Institute.
- 5 Vanier Institute. *State of the Family 2007*.
- 6 Statistics Canada. *CanSim. Series 378-0003*.
- 7 Organisation for Economic Co-operation and Development (2008). *Growing Unequal? Income Distribution and Poverty in OECD Countries*. Paris.
- 8 Ontario Association of Food Banks (2008). *The Cost of Poverty*. Toronto.
- 9 Townson, M., & Hayes, K. (2007). *Women and the Employment Insurance Program*. Ottawa: Canadian Centre for Policy Alternatives.

Laurel Rothman is the National Coordinator of Campaign 2000, a non-partisan, cross-Canada network of over 120 national, provincial and community organizations committed to working together to end child and family poverty in Canada. The Canadian Teachers' Federation is a Campaign 2000 partner.

**THE
DETECTIVE
LOST HIS
HOMEWORK.**

The future. It's why teachers teach.



The Alberta
Teachers' Association

