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Taking Action on Poverty

Submission to the Select Standing Committee on Finance and Government
Services, Legislative Assembly of British Columbia

BC Budget 2007 Consultation

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Introduction: Rethinking Priorities

The Canadian Centre for Policy Alternatives welcomes this opportunity to present to the Finance Committee. Rather than address the full scope of budget issues and all major line items (as we do in our annual *BC Solutions Budget*), in this brief we would like to highlight one of the most pressing issues facing the province at this time: poverty. While the government and business leaders have cheered the BC economy in recent years, we argue that an economy cannot be considered successful if so many are being left behind. How economic gains are shared is central to any notion of a good economy, and now stands out as one of the overarching challenges facing the province and policy-makers.

A casual walk through the pages of BC's newspapers suggests a split personality. On the one hand we see many stories heralding low unemployment numbers, the current construction boom and high world market prices for BC's exports. On the other, we increasingly see stories about homelessness, panhandling and addiction in our cities. These problems are not unique to BC, but on many indicators, BC fares among the worst of all Canadian provinces.

For the past few years, our Centre has published numerous studies and commentaries related to the growing problem of poverty amidst plenty in BC, and the role policy changes have played in exacerbating the situation. In addition to research reports, a growing chorus of anti-poverty, community and faith groups has sought to raise the profile of these issues. But all too often, these voices have fallen on deaf ears. This year, the alarm has grown to include prominent members of BC's business community, municipal councils, newspaper columnists and even the influential magazine, *The Economist*.

In the *2007 BC Budget*, the provincial government must tackle poverty and homelessness boldly and comprehensively if we are to see substantial improvement before the province hosts the 2010 Winter Olympics. One report by the Pivot Legal Society, released just last week, estimated that homelessness in Vancouver could triple by the time the 2010 Olympics arrive, and along with it increases in crime, social disorder, drug use and addiction.

In this brief, we outline a multi-pronged approach to fighting poverty. BC is a rich province that has the financial resources to make this strategy a reality. There is no compelling reason why large projected surpluses should be directed towards debt reduction or further tax cuts. First, we review some of the latest statistics on poverty in BC and their relationship to adverse policy changes enacted in recent years. Then we outline steps to significantly reduce poverty in BC.

While this submission is focused on the issue of poverty in BC, the CCPA has engaged in research related to other important aspects of the provincial budget. These ideas are summarized in our 2005 submission to this Committee and in our 2006 BC Solutions Budget, both of which are available on our website: <http://www.policyalternatives.ca>. A number of CCPA reports on the theme of fighting poverty cited in this brief are also available online.

BC's Poverty Problem

To many, it seems there have never been more street people in Vancouver than this year. Those appearances are not deceiving, and more importantly, what is in public view is only the tip of the iceberg.

- A count of the homeless in Greater Vancouver turned up 2,174 homeless people in March 2005, up double from 2002, a large share of whom are long-term homeless. For every homeless person there are many more who are in inadequate housing or who are but a paycheck away from the street.
- More conventional statistics reinforce these findings, though there are lags in the production of data. BC had the highest overall poverty and child poverty rates in Canada in 2004 (last data year for Statistics Canada's Low Income Cut-Off, or LICO). In that year, BC's poverty rate was 14.2% compared to a national average of 11.2%. BC's poverty rate exceeded the national average in every demographic category with the exception of single men under 65.
- The gap between BC and the rest of Canada is most evident in the alarmingly high poverty rates for lone mothers. On a Canada-wide basis, there has been an improvement over the course of a decade (36% of Canada's lone mothers are poor compared to more than 53% in 1996). BC's trend has been in the opposite direction – after progress in the late-1990s, poverty among lone mothers rose an astounding 15.8 percentage points between 2000 and 2004; in Vancouver, it rose a staggering 24 percentage points. BC's poverty rate for lone mothers was 49% in 2004.

- Using an alternative approach, Human Resources and Social Development Canada estimated that the poverty rate in BC was even higher, at 22.5% in 2002 (compared to 16.0% as measured by the LICO in that year). But the rate is much higher for certain family types. Over 30% of children were living in poverty, as were 58% of single mothers. For almost every group, BC poverty rates are higher than previous estimates, higher than the national average, and higher than every other province except Newfoundland.
- Another study from Human Resources and Social Development Canada found that in 2001 the working poor made up 10.2% of the total workforce, nearly double the national rate of 5.6%. And while these numbers are somewhat dated, more recently Statistics Canada estimated that 12.4% of workers were considered “low wage” (earning less than \$10 an hour) in 2004.

Beyond the plight of the poorest, there is evidence that people in the middle are not getting ahead either. Median market income for BC families in 2004 was \$53,600; this is a mere \$200 more than in 2001 and is \$300 less than in 2000 (after adjusting for inflation). A similar story holds for unattached individuals.

Little wonder that many feel the only way they can get ahead is through a tax cut, even though this represents a false economy because of the impact on public services. Indeed, BC’s public spending relative to GDP has fallen from 23% in 2001/02 to 20% in 2005/06, and is projected to continue this decline unless changes in government policy are enacted.

The conclusion is inescapable: there is deep poverty in our province, accented by addiction and mental health problems, and linked to Canada’s highest property crime rates. But the experience of other jurisdictions (in particular, Scandinavian countries and Ireland) demonstrates that these outcomes are not inevitable. Policy choices matter.

It is worth emphasizing that certain groups are particularly vulnerable to poverty. These include lone mothers, unattached middle-agers, people with disabilities, recent immigrants, and Aboriginal Canadians.

In the case of lone mothers, poverty rates have increased because of a combination of stagnant market incomes and declining government transfers. During the 2001-2004 period, average government transfers to lone mothers declined by a whopping \$2,300, compared to a national drop of only \$200. The bulk of the transfer cuts in BC occurred in two years – 2002 and 2003 – when the government introduced sweeping changes to an array of social programs, including welfare. Prior to 2002, many single mothers could combine income assistance, paid employment and child support payments in such a way that, in the course of a year, their incomes could reach just above the poverty line. As of 2002, however, welfare benefit cuts and rule changes mean they can no longer do so.

Over the course of a year, a lone mother with one child saw her potential income decline by more than \$3,900 because of these changes:

- Welfare benefit rates were cut by \$43 a month.
- People without a recognized disability are no longer eligible for earnings exemptions (BC is now the only province to not allow welfare recipients to keep any earned income), a rule change that costs many single mothers up to \$200 per month. And,
- The child maintenance exemption of \$100 per month was eliminated.

Together, these changes explain why lone mothers' after tax incomes plummeted and why they were catapulted into poverty in staggering numbers.

Towards an Anti-Poverty Strategy

Having spelled out the facts on poverty in BC, we now turn to solutions. Poverty is the consequence of public policy choices made at many levels. There are solutions, but they require the political will to be bold. Action must span a number of key areas, including income support, minimum wages, child care, education and training, community health care (including mental health and addiction services), and affordable housing.

A comprehensive anti-poverty strategy is needed: a plan with clear targets, performance measures, timelines and dedicated resources. A senior Minister should have the responsibility of coordinating the different elements of the strategy and reporting to Cabinet, the Legislature and the public.

Mostly, we need to stop moralizing about the poorest and whether they are sufficiently deserving of help. The economics of doing the right thing are favourable:

- More money in the hands of the poorest directly improves their quality of life and benefits local merchants.
- We spend more on homeless people right now – through health care, social services and the criminal justice systems – than we would if we were to provide them with homes.
- It makes more sense to pay for addiction services through our taxes than after the fact by replacing broken car windows.

With large budget surpluses this year and into the future – and the Olympics and its global attention around the corner – bold action is possible. How we share the benefits of economic growth speaks directly to our values as a society.

WELFARE RATES AND ELIGIBILITY

Current benefit rates are far too low. They leave people thousands of dollars below the poverty line. And the rising cost of living has steadily eaten away at what were already dismally low assistance levels.

- For people without disabilities, arbitrary benefit cuts made in the mid-1990s and again in 2002 mean that benefit rates today are, in straight dollars, less than they were 12 years ago.
- Factor in inflation, and real welfare rates are between 20–26% lower today than they were in the mid-1990s.
- Even people with disabilities, who saw a \$70 per month increase last year, get less, after inflation, than they did in the year 2000, and 12.5% less than the mid-1990s.
- For most categories, current welfare rates in BC now lag those in Ontario, Quebec and Newfoundland.
- Current rates force people to stay in unsafe housing, or leave them unable to find any housing at all. Even in Vancouver's Downtown Eastside, according to a report from the City, only 19% of rooms rent for \$325 or less (\$325 being the current shelter allowance for single people, including those with a disability).
- According to the Dieticians of BC, people cannot afford to eat a nutritious diet on current support allowances. Thus, people on social assistance are dependent on food banks and other charities, and they are unable to meet the Premier's goal of healthy eating – a reality with implications for the current and future health budgets.
- Often, at current rates, women feel they have no choice but to stay in or return to abusive relationships or resort to survival sex.

Beyond the issue of benefit rates, an important part of the policy story has been restrictive eligibility requirements that systematically discourage, delay and deny people who need help. The process of seeking income assistance is excluding many of the very people most in need of help. Data obtained through Freedom of Information requests shows that the recent drop in the caseload is not the result of more people leaving welfare, but rather, fewer people are entering the system and accessing assistance. Simply put, the caseload reduction is mainly a front-door story.

- Of those who apply, there has been a huge drop in the number who are successful in gaining assistance. In 2001, about 90% of applicants were granted assistance; but by 2004, only 54% were successful in getting help.
- The application system is now so complicated that many people cannot get assistance unless they have the help of an advocate – a knowledgeable person who can navigate the myriad rules and exemptions.

- There is clear evidence of the connection between the new welfare rules and the increase in homelessness in BC.

While the government claims that it is diverting people to employment, the fact is, it does not know (the Ministry has not done any studies that would allow it to make such claims). The improved labour market of the past few years can only explain about half the drop in welfare caseload. One recent CCPA study found others who are, instead, diverted to homelessness, desperation, charities, survival sex, and greater hardship. They are not made “self-sufficient”, but rather are preoccupied with basic survival.

Given the above, we recommend that:

- Welfare rates be increased next year by 50%. This represents a budget increase of approximately \$500 million based on current caseloads.
- Ultimately, welfare rates should be tied to a realistic and reasonable estimate of the basic cost of living. Market-basket measures developed by the Social Planning and Research Council of BC and by Human Resources and Social Development Canada both suggest that welfare rates would need to be about double their current level if they were to meet minimum living costs.
- Rates should be indexed to inflation (the CPI), and adjusted annually. The Newfoundland government announced in its 2006 budget that it would be indexing welfare rates to inflation. It is the first government in Canada to do so. BC should follow its lead.
- The two-year independence test and three-week wait should be discontinued. They have resulted in undue hardship and homelessness. The Ministry’s current attempts to make these rules workable (by increasing the use of Emergency Needs Assessments and funding outreach programs aimed at getting homeless people onto assistance) merely highlight the fact that these rules are fundamentally inappropriate for the vast majority of people in need of assistance.
- Overall, the entire application process for income assistance — which has become unduly complicated and onerous — should be the subject of an independent review by the Auditor General or another arms-length inquiry, and redesigned to assist those in need.
- To address an increase in caseloads arising from changes to eligibility as recommended above, an additional \$200 million should be allocated to the income assistance budget.

MINIMUM WAGES

While it is not a budget item, the role of minimum wages in an anti-poverty strategy deserves a mention. BC has now gone five years since the minimum wage was last increased, an erosion of purchasing power of more than 10%.

Some worry that increasing rates means welfare would pay more than a minimum wage job. But welfare would have to be a lot higher for this to be so (even after a 50% increase in benefits as recommended above). Someone working full time all year at the \$8 minimum wage has an annual income of \$16,600. In contrast, a basic welfare income for a single person is only \$6,456 per year, and for a single parent with one child it is only \$13,948.

We recommend that the government increase the minimum wage to \$10 per hour, and eliminate the so-called “training wage” of \$6 per hour. A \$10 minimum wage would ensure that a single person working full-time and full year would then have pre-tax income of about \$20,800, just above the poverty line (the pre-tax Low Income Cut Off). Like welfare rates, the minimum wage should be indexed to inflation and raised annually.

The government should not be concerned that such a move would be a “job killer.” Numerous studies contradict the claim that increasing the minimum wage would lead to employment losses for low-income workers. And given BC’s current low unemployment rate, now is the perfect time to raise the minimum wage. There is no reason to believe that this would pose difficulties and it would increase the total income of the working poor.

EDUCATION AND TRAINING

The linkages between expanding education and reducing poverty are self-evident. More employment support programs are needed, and they should be individualized and nurturing, offering one-on-one assistance to people that addresses their personal barriers to employment. The welfare system should no longer be punitive, intrusive and humiliating, but a springboard to help improve the lives of women and men and children, and by extension, the economic and social well-being of the province.

Meaningful, long-term training and education must be offered and supported, so that low-income women and men can access stable, well-paying jobs. This would require rescinding rules that prevent people on social assistance from being post-secondary students. This approach costs more in the short-term and takes longer than the “fastest route to a job” approach now in operation, but it represents the difference between being stuck in the low-wage economy versus finding decent-paying work that is stable and self-sustaining. It also trains people for the higher-skill jobs increasingly needed in a modern economy.

The additional financial cost of this measure is difficult to estimate. Because there is excess capacity in the college system, new students could be absorbed at a relatively low additional cost.

If we assume that a 10% increase in the budget allocation for colleges, university colleges and institutes would be sufficient for these purposes, the extra cost would be \$76 million.

CHILD CARE

The connection between a high quality child care program and poverty is twofold. First, there are important benefits to children in terms of their long-run brain development. Research suggests that the establishment of a high-quality, publicly-funded system for pre-schoolers would have immense benefits for their development prospects in key areas such as social interaction with other children, language and cognitive development, physical development, and establishing relationships with adults that are not immediate family. While children from all socioeconomic backgrounds would benefit, such a system would make a huge difference in the lives of children from disadvantaged backgrounds.

A second benefit relates to the well-being of mothers. Adequate public child care is essential to women. As the primary unpaid caregivers for children, they have a strong interest in the opportunities that are available to support their children's care and development. Their access to labour market participation is also dependent on the availability of safe, affordable, high quality, stable child care.

An Early Learning and Child Care (ELCC) program would enable more mothers to enter the labour market and could enable those currently working part-time to work full-time (if they choose), and would alleviate the stress that women experience when they are dependent on uncertain, even unsafe, child care arrangements. This would mean higher incomes for women, stronger family resilience to economic shocks, and greater financial independence and social inclusion of women. It also facilitates enhanced promotion and career-development prospects, and increased job experience, over the course of a woman's career.

The expansion of ELCC in BC was assisted by new federal funding of \$150 million in 2005/06. The new federal Conservative government has said it will cancel that funding in 2007/08 and subsequent years, although funding will be maintained in 2006/07. If the Conservatives get their way, BC will be on its own in expanding ELCC. While that would be unfortunate, it should not be an excuse for inaction at the provincial level.

The federal Conservative government's new Child Care Allowance will do little to build the child care system that we need. If you need a bridge, the answer is not to give money to drivers. The provincial government should still aim for a significant increase in spaces, lower fees, and higher wages for early childhood educators. BC needs a coherent publicly-funded system (delivered through not-for-profit organizations that provide accountability to parents), not new incremental funds to the existing patchwork. Quebec moved unilaterally in this direction many years ago and has had great success.

To implement an ELCC program in BC for children age two to five, and a before-and-after-school program up to age 12, the additional cost to the operating budget would be \$1.5 billion, a

number that includes pay increases for early childhood educators. As this would be phased in over a few fiscal years, we recommend an increase of \$500 million in 2007/08. Additional capital costs of \$600 million per year over three years would be required.

AFFORDABLE HOUSING

The current BC government is no longer supporting the development of new social housing for low-income people, instead using new federal funds to build assisted living units for seniors as part of the health care system (as a substitute for long-term care facilities). In spite of a boom in high-end residential construction, there has been little increase in affordable housing. And rents have been rising, placing more people in insecure housing situations.

The provincial government needs to expand the stock of affordable housing, working with municipalities and the federal government where possible. The provincial government should aim to create of 2,000 new units of social housing per year, focusing on areas where vacancy rates are low, and thus the pressures most acute. This amounts to a capital cost of approximately \$200 million per year, and incremental operating costs of \$10 million per year.

There is good reason to believe that building more affordable housing will save the provincial government money over the medium-term. A study conducted for the former Ministry of Social Development and Economic Security in 2001, *Homelessness — Causes and Effects: The Costs of Homelessness in BC*, found that it costs the public more to provide services, including health care, criminal justice and social services, to the homeless than to those who are housed, even if one includes the costs of providing social housing. They conclude that a prevention approach based on supportive housing is more cost efficient for the public purse than living with the costs of homelessness.

OTHER PIECES OF THE PUZZLE

A comprehensive anti-poverty strategy must also consider elements such as:

- A major expansion of community health care services in the areas of mental health and addictions. This is strongly related to the need for supportive housing mentioned above;
- Support women by providing funding for women's centres and other support programs, including restoring funding for poverty and family law legal aid, through a 15% increase in funds for protection of persons and property;
- Increased funding for the Ministry of Children and Family Development must include more money for family supports, so that poor and Aboriginal women can see a reduction of the apprehension of their children.

We recommend that an additional budget increase of \$1 billion be allocated to these priorities.

Can We Afford It?

The simple answer is yes. We can afford to substantially reduce poverty in the short term and eradicate it over the long term. But we must choose to make it so. Tax cuts cannot solve our poverty problem. They will not build more affordable housing. They cannot help vulnerable children. Tax cuts only widen the gap between rich and poor.

As mentioned above, Newfoundland has also registered among the highest poverty rates in Canada. But unlike the BC government, the Danny Williams government does not deny the problem. Instead, it has made poverty reduction one of its overarching goals. Its Action Plan has a long-term focus – including measures aimed at the labour market, income support, and education – and is grounded in consultations at the community level.

BC would do well to engage in a similar approach. BC just finished the last fiscal year with a record \$3.1 billion surplus. This tops the 2004/05 surplus of \$2.6 billion. These surpluses go towards paying down provincial debt, but our debt is already quite low – relative to GDP, BC's debt is the lowest among the provinces (except for oil-rich Alberta).

Over the past four budgets, surpluses have been under-stated (or deficits over-stated) by a total of \$8 billion. That is unhealthy for democratic debate in BC, and should be a concern to everyone, regardless of political orientation.

The most recent quarterly report put the 2006/07 budget surplus at \$1.8 billion if we add in the forecast allowance. Other budgeted contingencies and exceptionally low estimates of revenues mean that the true underlying surplus will likely exceed \$3 billion by fiscal year's end. As revenues grow in line with the economy, surpluses for subsequent years could swell to more than \$4 billion by 2007/08 (barring a North American or worldwide recession) and more for years beyond that (numbers are based on 2005/06 actual revenues, as stated in the First Quarterly Report, increasing by 5% per year).

The anti-poverty recommendations above would cost an additional \$2.3 billion in annual operating expenditures, plus an increase in capital expenditures of \$800 million. While we have not added recommendations for increases in other important areas of the budget, it is worth noting that the anti-poverty strategy represents just over half of the projected surplus for 2007/08. Thus there is additional room for other priorities.

There is no excuse for poverty in a province as wealthy as BC (projected GDP in 2007 will be approximately \$187 billion). There is nothing inevitable about our unacceptably high poverty rates, our growing inequality and our rising homelessness. These facts result from poor policy choices, and jurisdictions that choose to prioritize these issues have been very successful in substantially reducing poverty.

BC Government Fiscal Plan vs CCPA Estimates

	2005/06	2006/07	2007/08	2008/09
	actual	update	updated plan	
	millions of dollars			
BC Government: First Quarterly Report				
Revenues	35,947	36,386	37,053	37,723
Expenditures	32,177	34,346	35,203	35,898
Surplus before forecast allowance	3,060	1,750	1,850	1,825
CCPA estimates				
Re-estimated revenues	35,947	37,744	39,632	41,613
Status quo expenditures	32,177	34,346	35,203	35,898
Available surplus	3,060	3,398	4,429	5,715
CCPA recommendations				
Anti-poverty plan			2,276	2,915
Remaining surplus for other priorities			2,153	2,800