

CCPA-NOVA SCOTIA IN FOCUS

Cost of Poverty in Prince Edward Island

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There is obviously a moral imperative to end poverty, first and foremost for those living in poverty. There also exists a compelling business case for undertaking effective poverty reduction strategies because very real economic costs of poverty are borne by society as a whole.

For PEI, it is estimated that the total cost of poverty is at minimum between \$240 and \$320 million per year, which corresponds to about \$1,720 and \$2,265 per person, per year. In terms of the PEI economy, the cost of poverty is between 5%-7% of GDP, which is consistent with the cost of poverty estimated in other Canadian provinces.¹

In order to calculate the costs of poverty, one must first estimate how many people are living in poverty in the jurisdiction. This is not as straightforward as it would seem. 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 7,000 persons in PEI were estimated to be living in low income after tax and transfers.² Using the Market Basket Measure (MBM), 14,000 individuals in PEI were estimated to be living in low income, and that number rises to 17,000 people according to the Low Income Measure (LIM-50) after tax (see Figure 1).³

The Market Basket Measure is more sensitive to regional differences and costs than other poverty measures. For example, the MBM takes into account out-of-pocket child care expenses and the higher cost of transpor-



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FIGURE 1 Estimate of persons in low income by measure, PEI

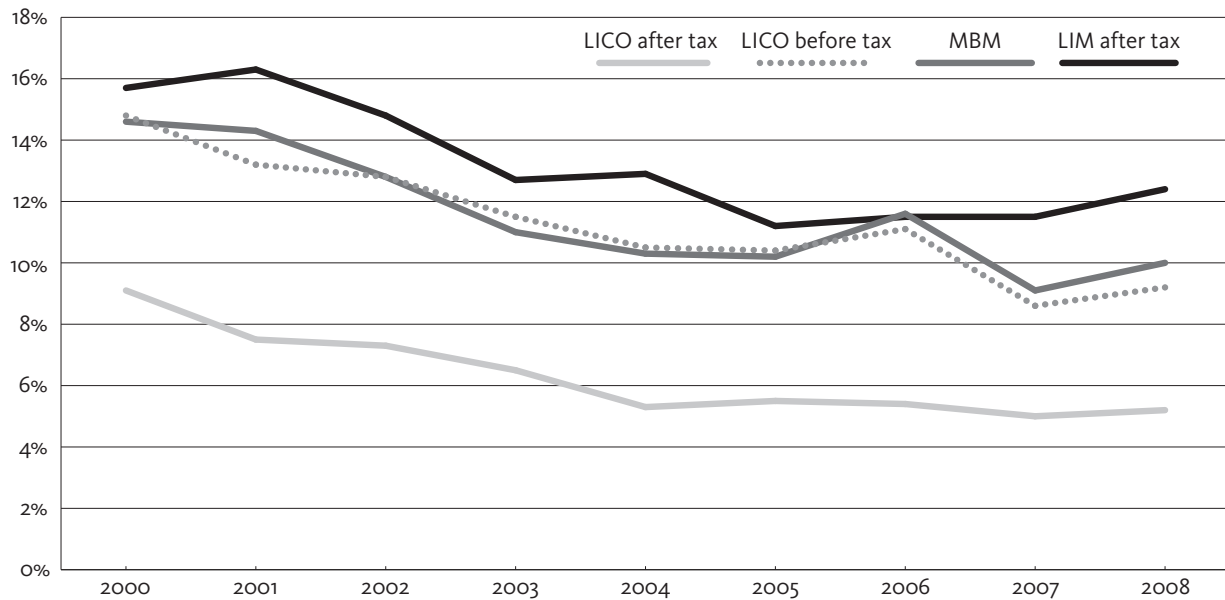
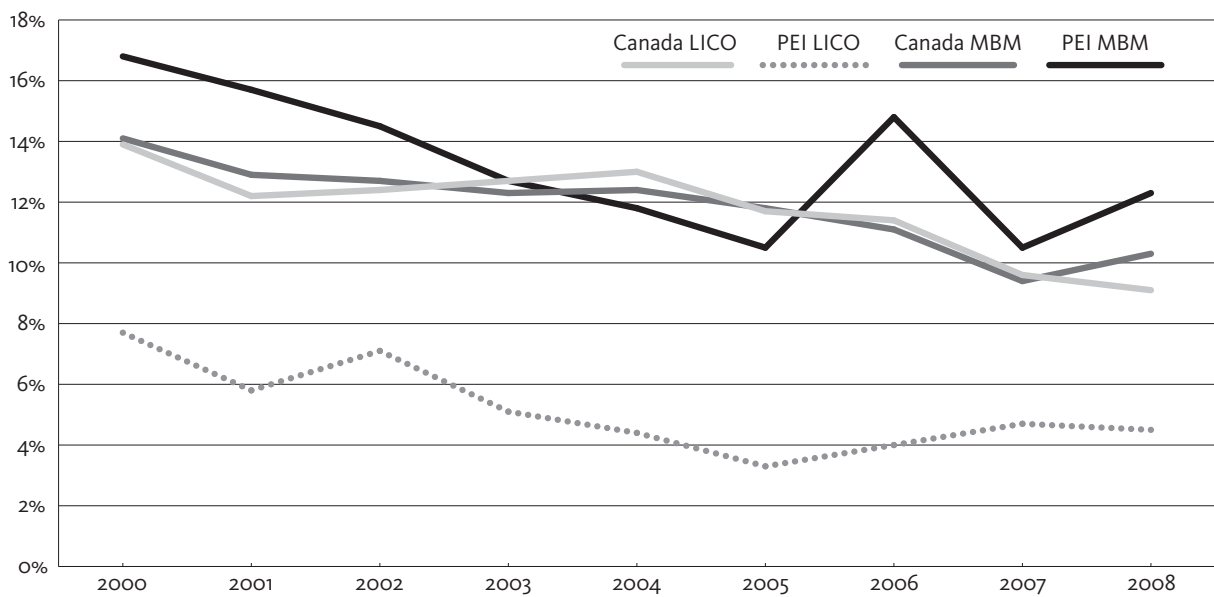


FIGURE 2 Comparison of child low income rates in Canada and PEI

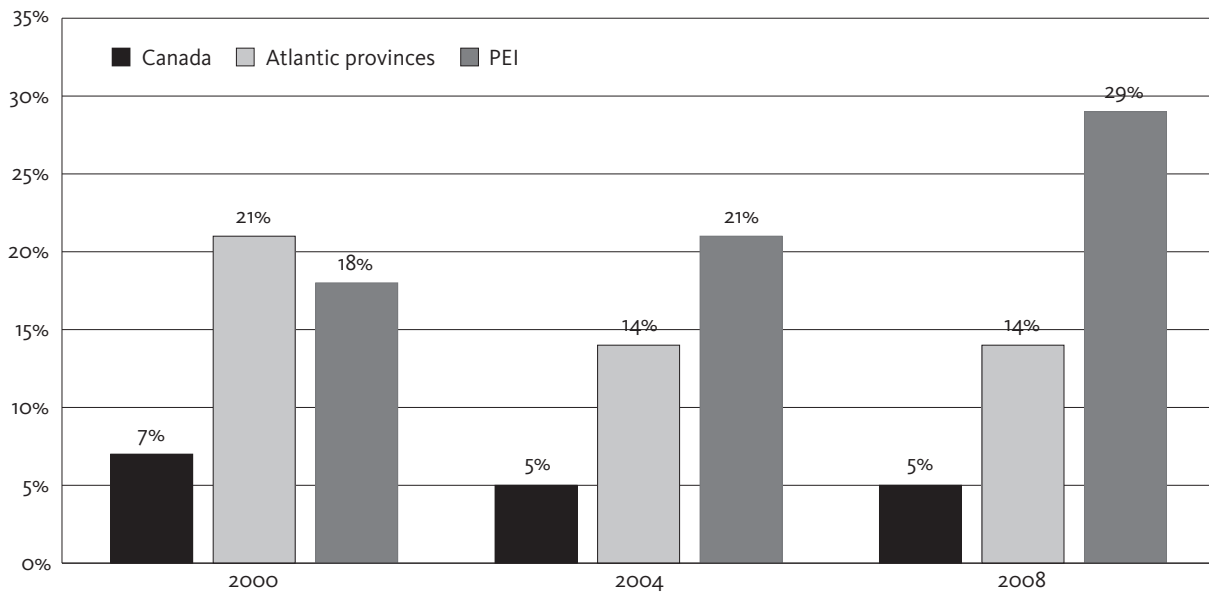


tation in rural areas. This makes it more likely to be a reasonable reflection of the circumstances facing PEI's families. The LICO may be less reliable at the provincial level, as it is based on national averages rather than baskets specifically calculated to reflect the cost of living in PEI

(which is how the MBM is compiled). Note the similarity between the LICO before tax and the MBM for PEI in Figure 1.

Understanding the difference between the LICO and the MBM is especially important when making comparisons between provincial and

FIGURE 3 Percentage of unattached persons over 65 living in low income, MBM



national trends. Take, for example, the percentage of children living in low income in Canada and PEI. At the national level, there is very little difference between the LICO-AT and the MBM child low-income rates. For PEI, however, there is a very big difference. The LICO-AT estimates that the low income rate for children in PEI is half the national average. The more regionally sensitive MBM estimates that the PEI child low income rate is actually higher than the national average (See Figure 2).

Since measurements of low income are not exact, a range of estimates for the cost of poverty are provided in order to measure its cost. Calculations are based on the number of households, rather than the number of persons, because the income data used for the calculations are average household income. For the intergenerational transfer of poverty and lost productivity the lower bound is based on the MBM, and the upper bound is based on the number of households in the bottom income quintile. Using the MBM, 8,000 households in PEI fall below the low income line, and there are 12,370 households in the bottom income quintile.

We also want to note that for most groups of people, PEI's low income rates are lower than those in other Atlantic Canadian provinces, and quite close to the Canadian average. This is not true for unattached individuals. The average poverty rate for unattached individuals in PEI is similar to the Atlantic Canadian average, and higher than the national average. When you look at a breakdown of unattached individuals low income rates, one group stands out – using the MBM, in PEI 29% of unattached men and women over 65 are living in low income, compared to 5% Canada wide, and 14% for Atlantic Canada (see Figure 3).

Components of the economic cost of poverty

Using the methodology established in the Ontario Cost of Poverty study, and replicated to estimate the Cost of Poverty in Nova Scotia, four components are measured. These costs may be private or social, but they all represent actual economic activity. Private costs are paid by individuals, and for the most part represent un-

TABLE 1 Economic Cost of Poverty in PEI, 2008 (thousands of dollars)

	<i>Low Range of Estimate</i>		<i>Upper Range of Estimate</i>	
	Private	Social	Private	Social
Health Costs		34,000		34,000
Crime Costs		4,200		8,400
Intergenerational costs	14,960	2,560	26,648	4,560
Productivity losses	149,600	25,600	231,319	39,584
Adjustment for government transfers replaced by market income		10,270		15,760
Totals:	164,560	76,630	257,967	102,304
Total Private and Social Costs		\$241,190		\$360,271

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

	Share of total public health expenditures by quintile	Estimated distribution of PEI's \$510 million in total government health care spending*
Lowest	30.9%	\$157.74
Second	24.2%	\$123.54
Third	16.2%	\$82.70
Fourth	14.1%	\$71.98
Fifth	14.6%	\$74.53
Potential health care savings:		\$158-\$124 = \$34 million (2008)

* Canadian Institute for Health Information, National Health Expenditure Trends

realized 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. The costs are those that could potentially be eliminated, or benefits that could potentially be realized if we were to eliminate poverty for the 20% of the PEI population living in the lowest-income.

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

1. Health Care Costs: \$34 million or 6.7% of the provincial health care budget, is the cost due to poverty calculated as the excess 2008 provincial health care costs attributed to the lowest income quintile in PEI. (see Table 2)
2. Crime Costs: between \$4.2 and 8.4 million is the estimated cost of crime designated as a so-

cial cost of poverty. The components of the cost of crime in Canada include direct expenditures, victim costs, and preventative measures (such as alarm systems).⁴

3. Intergenerational Transfer of Poverty Costs: Inheriting your parent's financial situation is the cost of not being able to break the cycle of poverty. It has both estimated private costs (between \$14.96 million and \$26.65 million) and social costs (between \$2.6 and \$4.6 million). It 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. (See Table 3)

TABLE 3 Impact of elimination of intergenerational transfer of poverty in PEI, 2008

	Avg. Total Income	Avg. After-tax income	Avg. Income Tax Payable
Lowest	\$26,100	\$25,100	\$1,000
Second	\$48,000	\$43,800	\$4,200
Third	\$61,800	\$54,600	\$7,200
Fourth	\$85,900	\$72,700	\$13,200
Fifth	\$138,200	\$107,900	\$30,300
<i>Eliminating Intergenerational Transfer of Poverty</i>			
800 children	\$17,520,000	\$14,960,000	\$2,560,000
1,425 children	\$31,207,500	\$26,647,500	\$4,560,000

TABLE 4 Cost of lost productivity, PEI, 2008

	Total Income	After-tax income	Income Tax Payable
Lowest	\$26,100	\$25,100	\$1,000
Second	\$48,000	\$43,800	\$4,200
Third	\$61,800	\$54,600	\$7,200
Fourth	\$85,900	\$72,700	\$13,200
Fifth	\$138,200	\$107,900	\$30,300
<i>Scenario 1: If the income of 8,000 households in low income by MBM increased to second quintile levels</i>			
Total Increase	\$175,200,000	\$149,600,000	\$25,600,000
<i>Scenario 2: If the income of 12,370 households in lowest quintile increased to second quintile levels</i>			
Total Increase	\$270,903,000	\$231,319,000	\$39,584,000

4. Lost productivity Costs: 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 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 PEI. The social component is the income tax paid on these earnings (this loss is between \$25.6 million and \$39.6 million), and the private benefit is the after-tax income (this loss

amounts to between \$150 million and \$231 million). (See Table 4)

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.

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 system), and the savings that can accrue if investments are

made to reduce or eliminate poverty. As such, both government and society need to transform the way they think about poverty and poverty reduction. This cost analysis 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. We need public policy interventions for specific at-risk groups in particular. However, all Prince Edward Islanders need and indeed, 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. Clearly, money spent on reducing poverty is an investment in all of our futures.

Notes

¹ Ontario: Laurie, N. (2008). *The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario*. Ontario Association of Food Banks: Toronto, ON. www.oafb.ca/assets/pdfs/CostofPoverty.pdf

Nova Scotia: MacEwen, A. and C. Saulnier. (2010). *The Cost of Poverty in Nova Scotia*. Canadian Centre for Policy Alternatives — Nova Scotia: Halifax, NS.

² Statistics Canada. (2010). *Income in Canada — 2008*. Ottawa, ON. www.statcan.gc.ca/pub/75-202-x/75-202-x2008000-eng.htm

³ Ibid

⁴ The cost due to poverty in PEI is estimated by extrapolating from Laurie's *Cost of Poverty* estimate of the cost of crime in Canada.

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