

CCPA-NOVA SCOTIA INFOCUS

Cost of Poverty in Prince Edward Island (2011)

Angella MacEwen and Christine Saulnier

There is a growing focus on the shared costs that communities must shoulder because of our failure to eliminate poverty.¹ This is an annual update on the cost of poverty in Prince Edward Island (PEI), following our series on the cost of poverty in the Maritimes.²

Using the most recent data (2009), we estimate that the direct cost of poverty for the PEI government is just under **100 million dollars per year** — and that these costs account for **6.7% of the 2009/10 PEI government budget**. A significant component of the cost of poverty is public health care spending, which amounts to **\$40 million per year in savings** if poverty was eliminated for the poorest 20% of Islanders. Much of this spending comes from hospitalizations of acute conditions that could have been prevented.

For society overall, the cost of poverty is much higher — up to **220 million dollars** a year in Prince Edward Island. When we add the direct costs to government to broader costs of poverty including the loss of income for those living in poverty, this total cost of poverty — **\$315 million** — is equivalent to **7.6% of Prince Edward Island's GDP** (gross domestic product or size of its economy). This corresponds to as much as **\$2,700 per person, per year**. This is consistent with the cost of poverty in other Canadian provinces.³

This costing exercise underlines the urgency that exists for Maritime governments to act now to eliminate poverty. Investing in a comprehensive plan to alleviate poverty would cost **half as much** as the quantifiable costs of poverty.⁴



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TABLE 1 Estimated Economic Costs of Poverty in Prince Edward Island, 2009

	Costs to Society at Large	Costs to Government
Health Care Costs		\$40 million
Crime Costs	\$11.5 million	\$2.4 million
Productivity Loss	\$108–\$211 million	\$19–\$37 million
Adjustment For Government Transfers Replaced By Market Income		\$7.2–\$14 million
Totals	\$120–\$222 million	\$70–93 million
Total estimated cost of poverty to PEI	\$190–\$315 million	

Estimating the economic costs of poverty says little about the toll that poverty takes on those who are living in it. The stress and consequences of inadequate nutrition and hunger, of inadequate shelter cannot be overstated. Overwhelming research demonstrates that poverty is consistently linked to poorer health prospects, lower literacy, more crime, poor school performance for children and greater stress for everyone living in poverty.⁵ This research forms the basis for the calculations here, as modeled on the first such exercise published in Canada on the costs of poverty in Ontario.⁶

Clearly, the consequences of living in poverty are costly. No one can afford to underutilize the talents and human potential of people living in poverty in that province. People living in poverty deserve the opportunity to contribute fully and meaningfully to society and to our economy.

Table 1 summarizes our estimate of the cost of poverty in Prince Edward Island. It includes the costs that the government must bear in terms of the extra spending on health care and crime (for policing, the justice system and providing victim services), foregone income tax revenue because of lost economic activity, and as well as higher tax credit and benefit payments to people with low incomes. It also enumerates the broader economic costs borne by society in terms of loss of economic activity and victim costs of crime.

This is not an estimate of what the government spends on poverty. It is an estimate of the quantifiable toll poverty takes on people, com-

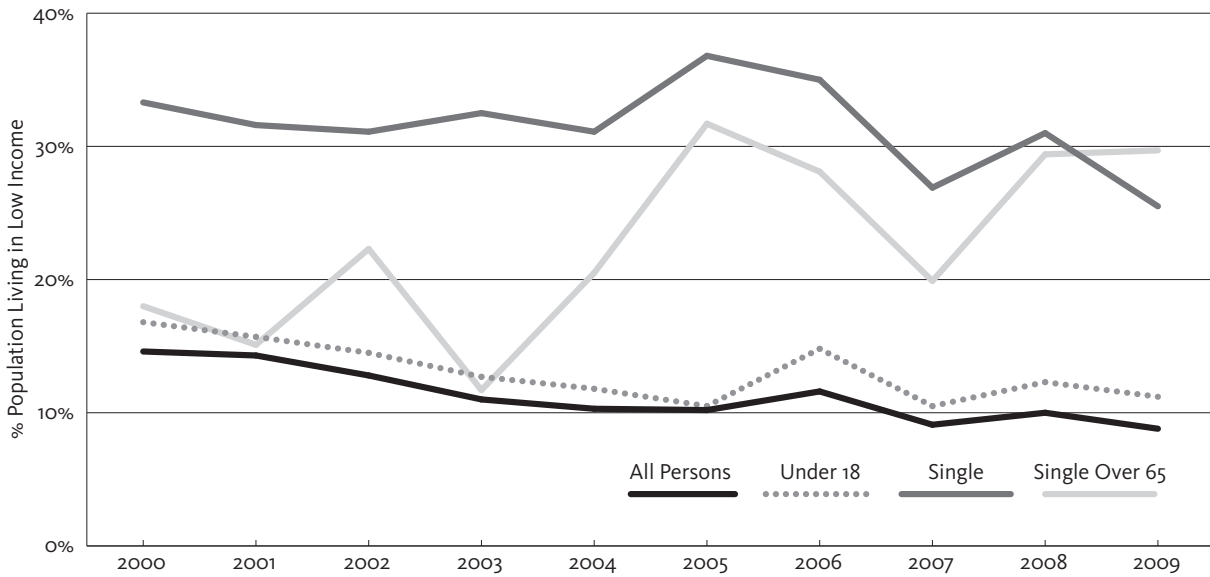
munities, and our economy. As such, our estimate of the economic cost of poverty does not include current spending on social services or poverty, employment insurance, or social assistance.

Our report also does not calculate the savings that the government could realize if it took a different approach to providing services. One example is a ‘housing first’ approach to end homelessness where in affordable, supportive, long-term housing is prioritized, instead of allocating more resources to emergency shelters. The housing first approach is calculated to cost 17%⁷ to 41% less⁸ than the emergency stop-gap, short-term approach. Some of the consequences of poverty, such as polarization and lack of social cohesion, are also not quantifiable, but are no less important.

Too Many People Live in Poverty

It is important to remember that behind these numbers are real people. We therefore must begin the estimation with a snapshot of who lives in poverty in Prince Edward Island. Some groups of people are more vulnerable to poverty including people with health issues, barriers to paid employment or full-time unpaid care (child or elder) responsibilities. Poverty rates are higher for women, seniors on government assistance, and for lone mothers. There is now a working poor who are underemployed, and those on various government assistance programs including social assistance, employment insurance, and workers’

FIGURE 1 MBM Trends For Vulnerable Groups, PEI



compensation live in poverty. Figure 1 shows the 2009 low income rate for selected groups in PEI. Note that data is not available for all vulnerable groups, such as racialized persons, recent immigrants, or persons with a disability. The data also does not capture those not counted such as the homeless.

Prince Edward Island has a relatively low rate of poverty compared to other provinces. Depending on the measure used, however, PEI’s ranking in Canada varies widely. Using the most common measure — Low Income Cut-off after tax — PEI’s low income rate is the lowest in Canada and half the national average at 4.8%. However, using the international standard — Low Income Measure — PEI’s low-income rate is 12% — much closer to the national average of 13%, and higher than the western provinces’ average of 11%.⁹

We have chosen to use the Market Basket Measure (MBM) of low income for our analysis. The MBM takes into account out-of-pocket child-care and medical expenses, and the higher cost of transportation in rural areas. This makes it more likely to be a reasonable reflection of the circum-

stances facing Prince Edward Island’s families. The more commonly used Low Income Cut Off (LICO) may be less reliable at the provincial level than the MBM, as LICO 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). Figure 2 compares the LICO and MBM for PEI and Canada, and shows that the estimated proportion of Islanders living in low income is much closer to the national average using the MBM. (See appendix A for a table of the MBM thresholds for PEI.) Using the MBM, **12,000 individuals or 8.8% of the population** in PEI were estimated to be living in low income in 2009.¹⁰

Since measurements of low income are not exact, and because there is such a difference depending on how it is measured, we use a range of estimates to calculate the cost of poverty in PEI. Where applicable, the lower bound of our calculations uses the MBM estimate of low income in PEI (12,000). For the most part, however, our calculations use the number of individuals in the lowest quintile of the income distribution,

FIGURE 2 Comparing MBM and LICO After Tax

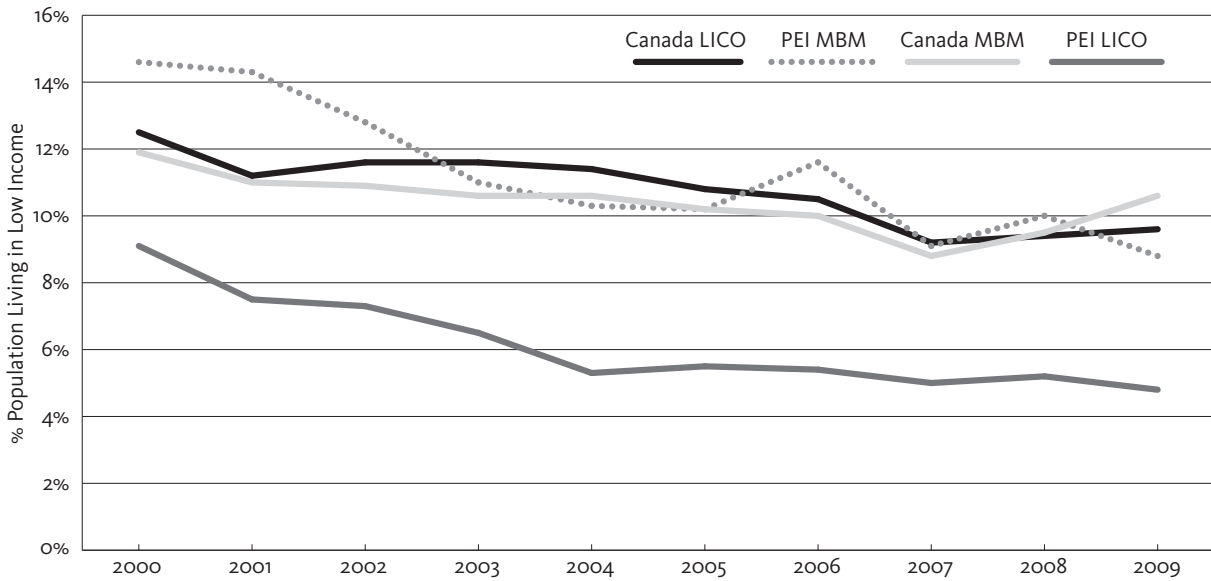
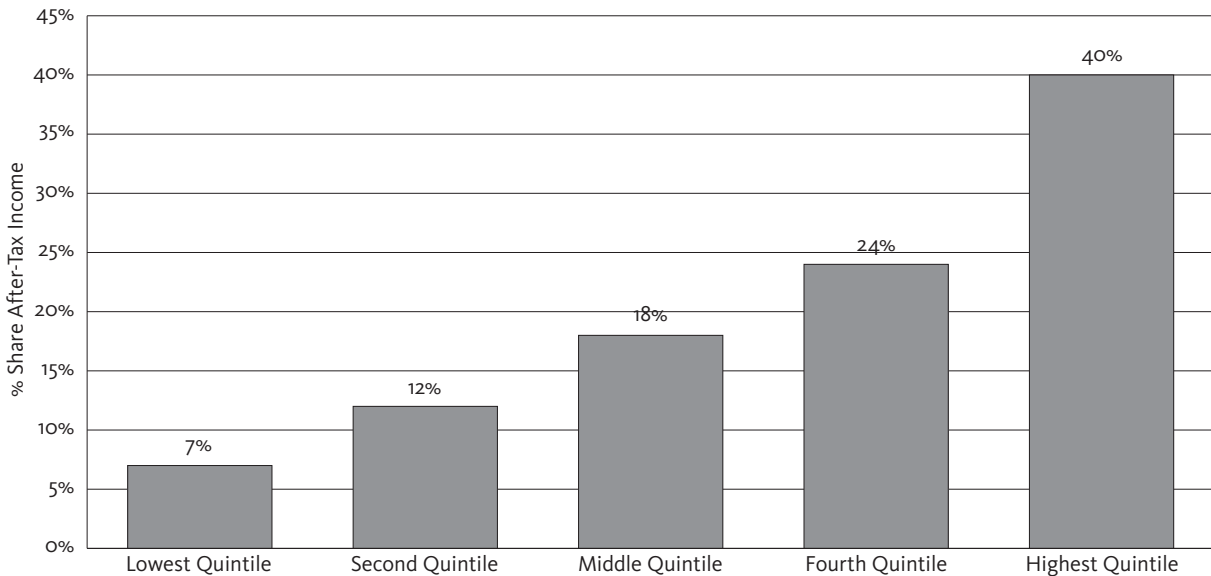


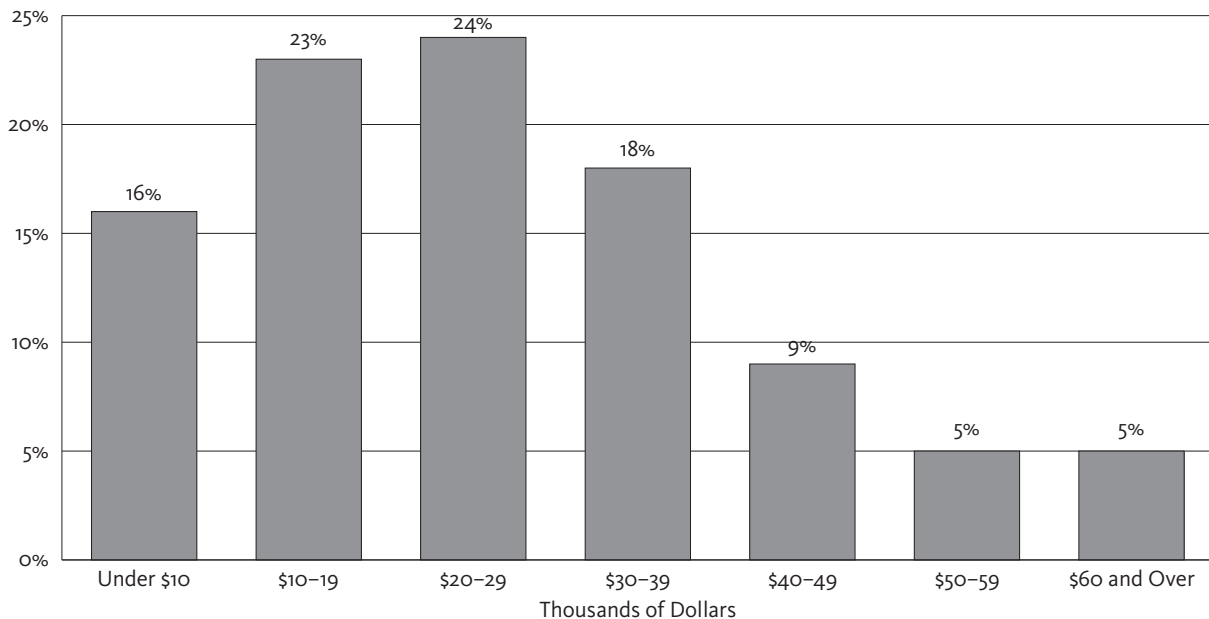
FIGURE 3 Income Share of Each 20% of PEI's Population, 2009



meaning the 20% of Islanders with the lowest incomes or **23,400 individuals**. To illustrate the concept of income quintiles, Figure 3 shows the percentage of PEI household income that goes

to each 20% of the population. This graph also illustrates **the gap between the rich and the poor**, as the poorest 20% of Islanders enjoy only

FIGURE 4 Distribution of After-Tax Income, PEI 2009



a 7% share of after-tax income, compared to 40% for the richest 20%.¹¹

Figure 4 shows the distribution of annual after-tax income among individual Islanders. Startlingly, 39% of the population makes less than \$20,000/year, and only 10% of Islanders make more than \$50,000/year. This graph speaks to income inequality in Prince Edward Island. It also indicates that there are likely many Island households at risk of poverty, struggling to make ends meet.

Components of the Calculated Economic Cost of Poverty

We estimate the economic costs of poverty to government directly as well as to society as a whole. The three components measured here are: (1) the extra public expenditures on health care to remedy poorer health associated with poverty, (2) the additional (incremental) costs of crime, and, (3) the foregone tax revenue, while

making adjustments for higher transfer payments to people with low income.

Health Care: \$40 million

There is significant evidence that shows the lower one's income, the poorer is one's health, and the more likely to utilize public health care resources.¹² There is a large and growing body of research demonstrating a relationship between the prevalence of low income and poor health.^{13,14} This research shows that while illness can lead to poverty, poverty can also lead to illness.¹⁵ Controlling for reverse causality, Myriam Fortin finds that persistent poverty and weak labour force attachment increase a Canadian's chances of experiencing deterioration in health as much as having poor health influences one's income status.^{16,17}

Lower socio-economic status has been found to account for 33–40% of hospitalization rates in Canada.¹⁸ One study estimates that an increase of \$1,000 in annual income would lead to nearly

TABLE 2 Impact of Poverty on Public Health Care Spending (2009)

	Share of total public health expenditures by quintile	Estimated distribution of PEI's \$588 million in total government health care spending*
Poorest 20%	30.9%	\$182 million
Second 20%	24.2%	\$142 million
Middle 20%	16.2%	\$95 million
Fourth 20%	14.1%	\$83 million
Richest 20%	14.6%	\$86 million
Potential health care savings	\$182-\$142=\$40 million (2009)	

* Canadian Institute for Health Information, National Health Expenditure Trends

10,000 fewer chronic conditions, and 6,600 fewer disability days every two weeks.¹⁹

While we do not fully understand exactly how poverty creates ill health, we know that 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.²⁰ Other research shows that the effects of poverty, such as stress, take a long-term toll on our health and especially women's health.²¹ There is also a proven relationship between higher levels of children's income inequality and higher mortality rates for children under five. Children who experience periods of poverty are also more likely to have poor health as adults, regardless of their adult income status.²²

Living in poverty therefore means that you are more likely to have a chronic health condition (such as high blood pressure, heart disease, diabetes, asthma), to have a disability, struggle with addiction, have poor nutrition, experience high levels of stress and live a shorter life than people not living in poverty. These health inequities are more often preventable and avoidable, if you are not living in poverty. If you are living in poverty, you are less likely to afford to eat healthy, and you are more likely to be exposed to health hazards at home because of living in cold, damp or unsafe housing. It also means being more exposed to causes of ill health at work.

Proven preventative care including dental care is often out of reach.

We calculate the health care cost due to poverty by comparing government health care spending for the poorest quintile with the second quintile. We assume that if the earnings of the lowest income quintile were similar to the next highest, then their health care costs would be comparable. Table 2 shows the approximate share of public health expenditures used by each income quintile, and the results of our calculations. The results of this calculation show that the PEI government could realize **\$40 million** dollars in health care savings if it was to eradicate poverty for this group of individuals. This savings, which represent current costs, amounts to **6.8% of 2009 PEI government health spending**.

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.

Lost Economic Activity/Productivity Losses: \$127 million to \$248 million

The most significant cost of poverty is that attributed to lost economic activity or productivity losses. Productivity is defined in economic terms as the value of output that a worker contributes to the economy. High rates of unemployment,

TABLE 4 PEI 2009 Average Income by Quintile, and the Costs of Lost Productivity, 2009

	Total Income	After-Tax Income	Income Tax Payable
Lowest	\$16,800	\$16,300	\$500
Second	\$27,400	\$25,300	\$2,100
Third	\$36,300	\$32,500	\$3,800
Fourth	\$48,900	\$42,300	\$6,600
Fifth	\$79,700	\$64,000	\$15,700
Scenario 1: If the income of 12,000 individuals in low income by MBM increased to second quintile levels			
Total Increase	\$127,200,000	\$108,000,000	\$19,200,000
Scenario 2: If the income of 23,400 individuals in lowest quintile increased to second quintile levels			
Total Increase	\$248,040,000	\$210,600,000	\$37,440,000

underemployment (not enough work or work overqualified for), lack of education, unrecognized qualifications, 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 (full-time, decent wages with benefits and security), and would have the appropriate training and supports to be successful in their paid employment.

When our economy falls short of its potential, there are fewer good jobs for workers. Our costing exercise calculates the amount of private earnings and income taxes generated if the lowest income quintile earned the same amount as the second lowest income quintile in PEI. This lost potential is considered a cost of not addressing the root causes of poverty, and which enabling more people to reach their potential. The bulk of this lost economic potential is a loss of after-tax income to PEI families — **between \$108 million and \$210 million per year**. The remainder is the approximately **\$20–\$37 million** in federal and provincial government income tax that would be payable on those additional earnings.

The total loss of productivity is between \$127 million and \$248 million — or 3%–6% of PEI's annual economic output, as measured by GDP. Table 4 illustrates these calculations.

We all stand to benefit if the working poor could earn more by accessing more full-time jobs with decent wages. Working Islanders who earn minimum wage, or even minimum wage plus 10%, are still below the low-income thresholds. 3,100 Island workers earn the minimum wage and 4,600 (13% of working Islanders) earn just above it (at or above by 10%).²³ The working poor are increasingly squeezed for time and money. A job is not a guarantee of avoiding poverty.

Government Tax Credits and Benefits Replaced By Market Income:

\$7.2–\$14 million.

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 potential market income. In this case, market income would replace some amount of 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. Using the online Canadian Revenue Agency calculator and the average incomes for individuals in the 1st and 2nd quintiles, **we make a conservative estimate that on average, market income**

TABLE 3 Total Costs of Crime and Share of Costs Attributable to Poverty, 2008

	Cost of Crime in Canada	Cost of Crime in PEI (0.35% of Canada)	Cost of Crime Attributable to Poverty in PEI (4% of total cost of crime)
Costs to government (policing, criminal justice system, health care for victims, victim services)	\$17.4 billion	\$61 million	\$2.4 million
Costs to society at large (stolen and damaged property, lost productivity, pain and suffering, loss of life)	\$82.1 billion	\$287 million	\$11.5 million
Total cost	\$99.6 billion	\$384 million	\$13.9 million

SOURCE Costs of crime in Canada are from Zhang (2011). Costs of crime in PEI and the costs of crime attributable to poverty in PEI are author's calculations.

would replace \$600 of annual tax credits and benefits per individual. This amount is much higher for families who are eligible for the Child Tax Credit, and much lower for unattached individuals or families without children who are only eligible for the Working Income Tax Benefit. There was no appreciable difference in the amount of the GST credit that was due families or individuals in the bottom two quintiles.

Cost of Poverty to Future Generations: Immeasurable

Our previous reports on the cost of poverty have included estimates of the *intergenerational transfer of poverty*. Further thinking on this has revealed that it is more difficult to estimate this cost. The cost of allowing children to live in poverty now will not be realized until they are adults. However, some portion of our current cost of poverty can be attributed to the intergenerational transfer of poverty. Therefore, we do not include this category in our current estimate, as the past costs are captured in the lost productivity category, and future costs are too complex to calculate.

We do want to point out that **eliminating the intergenerational cost of poverty now would affect the lifetime welfare of youth**. Our report attempts to quantify an annual cost of poverty, but we want to stress the importance of considering poverty from a life course perspective. Re-

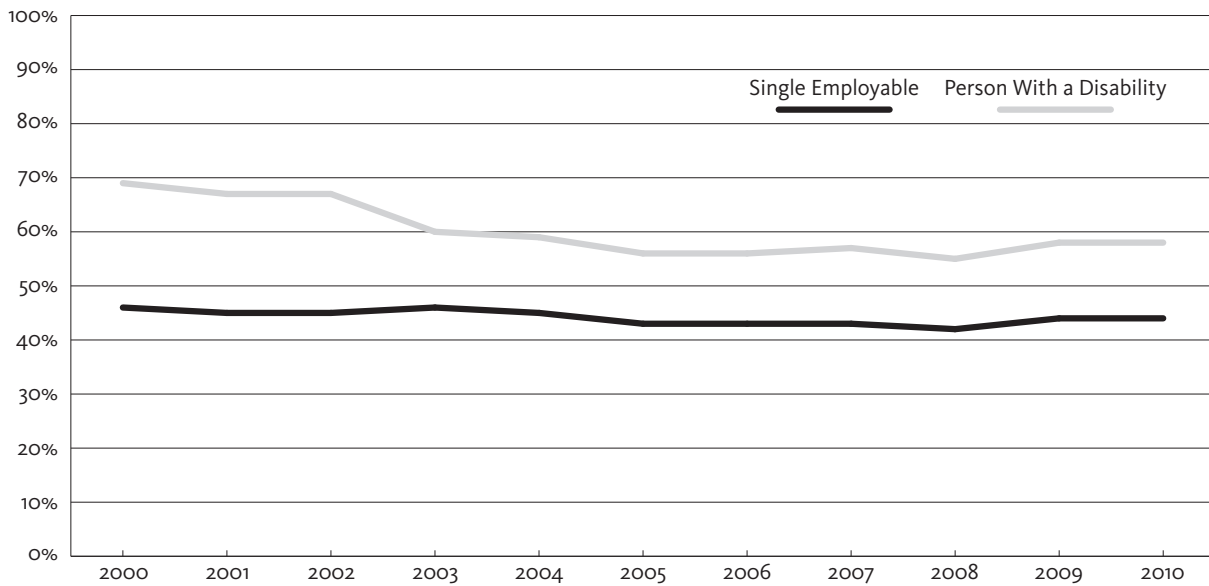
cent research finds that even temporary periods of poverty in early childhood can have lifelong consequences — in terms of a child's health and wellness, educational outcomes, and earning potential as an adult.²⁴ Any plan to reduce or eliminate poverty must consider the implications of the intergenerational transfer of poverty, and the lifelong impact of living in poverty as a child.

Outside of Quebec, Canada has fallen well behind other industrialized countries in our investment in children and their families. A recent report called *A New Deal for Families* coming out of British Columbia²⁵ proposes a concrete plan to improve the lives of Canadian families, and eliminate poverty for families with children under the age of 18 months. They estimate the cost of implementing this plan in PEI to be **\$65 million** in the first year. They further estimate that for every \$1 invested in this plan, there will be a **\$6 return** over the working life of children who are in kindergarten today.

Crime: \$13.9 million

The smallest component of the cost of poverty in our calculations is attributed to crime. The costs of crime used in our calculation of the cost of poverty in PEI include direct expenditures, victim costs, and preventative measures (such as alarm systems). As previous studies have reminded us, it is important that we do not overstate the connection between crime and poverty.

FIGURE 5 Adequacy of PEI Welfare Incomes



A relatively small percentage of the cost crime can be eliminated by addressing specific aspects of poverty, such as supports for at-risk youth and their parents. It is also important to remember that those who live in low income are the most vulnerable to becoming victims of crime.

Using the link between literacy and crime, and literacy and poverty, previous studies have estimated that 4% of the cost of crime in Canada can be attributed to poverty.²⁶ Following from the *Cost of Poverty in BC* report, we use the estimate of the cost of crime in Canada for 2008 (the most recent year available) as published by the Canadian Department of Justice.²⁷ PEI's cost of crime is determined on a per capita basis as 0.35% of the Canadian total. Table 3 presents the results of the costs of crime attributable to poverty, which is **\$13.9 million**.

Beyond These Quantifiable Costs

The costing of poverty in this report is not an estimate of what the government spends on poverty. It is an estimate of the quantifiable

toll poverty takes on people, communities, and our economy. As such, our estimate of the economic cost of poverty does not include current spending on social services or poverty, employment insurance, or social assistance. However, a cursory examination of even the most obvious direct spending on poverty tells us that the current government spent **at least \$84 million** in 2009.²⁸ The amount of direct assistance provided by government to individuals and families unable to make ends meet is definitely not sufficient. The poverty gap experienced by those living on government assistance ranges from 55% of the MBM threshold for single persons who are deemed employable, to 23% for a couple with children.²⁹ The poverty gap is how much a person's income falls short of the MBM threshold. So if the MBM threshold is \$1, government assistance is only \$0.45–\$0.78. Figure 5 shows the poverty gap for single employable persons and persons with a disability over the past ten years.

Concluding Remarks and Policy Implications

A quantitative analysis of poverty is limited in its ability to further our understanding of poverty. For example, we need to know how official low-income rates can be falling, while food bank use and food insecurity are on the rise.³⁰ If the PEI government truly wants to address the root causes of poverty, they need to listen to the voices of those who live in poverty, and those who advocate for them. A series of public consultations would advance government's understanding of what needs to be done, and the urgency required.

The calculations presented here underline both the costs of continuing to invest minimally in programs that alleviate the symptoms of poverty, and the savings that can accrue if investments are made to eliminate poverty.

There needs to be a transformation in the way that both government and society think about poverty and anti-poverty policies. Policy makers should carefully consider which groups are more vulnerable to living in poverty, as well as the multiplicity of reasons that people live in poverty.

This report assumes that policies directed to address income and material deprivation or economic factors will reduce poverty. The complexity of poverty and the interconnections between its causes as well as consequences requires a

multi-pronged approach. The costs (and savings) would depend on the approach taken. This costing exercise assumes a scenario where increased income would 'eliminate' poverty. We do want to acknowledge that an increase in income from paid work will never eliminate poverty — but it must be central to any poverty reduction plan. The government must always ensure that there are sufficient resources to eliminate poverty for the minority of people who cannot be self-sufficient through paid employment — including many people living with disabilities, seniors, unpaid caretakers of very young children or other unpaid caregivers, and people being treated for, or recovering from, certain medical conditions.

We recommend a series of concrete goals, and a mechanism for evaluating progress towards the elimination of poverty in PEI. Examples include a housing strategy — clear plans to improve housing for renters, given that 28% of PEI's 13,000 tenant households are in need of core housing and there is a lack of rental housing in rural areas.³¹ PEI needs a full early learning and childcare strategy that provides quality, accessible, affordable and developmentally appropriate care to meet the needs of PEI parents and families. Provincial governments need to work together to pressure the federal government to contribute its fair share to pan-Canadian housing and childcare strategies.

Appendix A

TABLE 5 Market Basket Measure Threshold and Components, PEI, 2009, Calculated For a Family of Four

	Total threshold	Food	Clothing	Transportation	Shelter	Other expenses
Rural	\$30,391	\$10,154	\$2,341	\$3,929	\$4,695	\$9,271
Under 30,000	\$32,353	\$10,154	\$2,341	\$3,929	\$6,657	\$9,271
Charlottetown	\$31,470	\$10,154	\$2,341	\$2,198	\$7,505	\$9,271

Notes

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5 For a full discussion of the research, see the original cost of poverty report in Ontario: www.oafb.ca/assets/pdfs/CostofPoverty.pdf

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