



## FAST FACTS

## The Cost of Poverty in Nova Scotia

here 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.

Poverty is linked with higher rates of crime, increased health care needs, higher school dropout 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 the CCPA-NS report, Cost of Poverty in Nova Scotia, the economic costs of poverty are calculated by considering costs that could potentially be eliminated, or benefits that could potentially be realized (that currently are not). These economic costs include private costs paid by individuals, which for the most part represent unrealized benefits such as lost wages. The social costs are those borne by everyone and consist of the indirect costs associated with poverty. These cost calculations do not include what the government is currently spending to help those who are living in poverty including current social spending on poverty, employment insurance, or social assistance. There will always be a need for some level of social spending therefore excluding these costs provides a conservative estimate of the total economic costs of poverty.

The total cost of poverty in Nova Scotia is at least \$1.5 to \$2.2 billion dollars per year, accounting for 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 estimated economic costs of poverty for 2008 are broken down as follows:

- 1. Health Care Costs: \$241 million or 6.7% of the Nova Scotia government's health care budget. The cost due to poverty is calculated as the excess 2008 provincial health care costs attributed to the lowest income quintile in Nova Scotia.
- 2. Crime Costs: between \$30 and \$60 million represents Nova Scotia's costs as a per capita share of the national cost of crime. The components of the cost of crime include direct expenditures, victim costs, and preventative measures (such as alarm systems).
- Cycle of Poverty or Intergenerational transfer of poverty costs: between \$12 and \$21 million in social costs and \$91 to \$160 million/year after taxes in private costs. This cost is sometimes discussed in terms of social 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. 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 (inheriting your family's financial situation) were eliminated, and then estimating the increase in their annual earnings. The social component is the income tax paid on these earnings (between \$12 and \$21 million), and the private cost is the after-tax income (\$91 to \$160 million/year after taxes).
- 4. Lost productivity \$135 to \$200 million in lost government revenue (the social cost) and \$930 million to \$1.3 billion in lost market income (the private cost). Productivity is defined in economic terms as the value of output that a worker contributes to the economy. This costing exercise calculates the amount of private

earnings and income taxes that would be generated if people in 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 aftertax income.

## Getting at the Roots

This report highlights the need to invest in the root causes of poverty and preventative measures. In order to achieve the savings in health care costs that means investing more 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 report also points to the need to focus on effective literacy programs and improving education outcomes as critical to crime prevention. Currently, significantly more government money goes toward policing and incarceration or punishment-related expenses than to crime prevention. Crime prevention policies and programs must consider the links between social exclusion, poverty, racism, and crime.

The importance of poverty prevention does not diminish the importance of improving service delivery and de-stigmatizing poverty alleviation (i.e. social

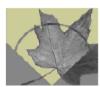
assistance programs), by either significantly reforming or replacing programs, as they exist today. When poverty is understood to be about social exclusion as well as economic exclusion, and when structural and institutional barriers in the labour market are taken into account, it becomes clear that earned income is not the only element of poverty that must be addressed. Racism and other forms of discrimination (based on religion, sex, 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.

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.

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## **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	



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