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THE PROBLEM OF POVERTY POST-RECESSION

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The Problem Of Poverty Post-Recession

EVERY RECESSION USHERS IN a rising tide of poverty. As jobless and underemployed people struggle to make ends meet, the nouveau poor swell the ranks of the déjà poor.

The most recent statistical update on incomes in Canada was released in June, telling us that in 2008, as the nation headed into a brutal recession, there were just over 3 million Canadians living in poverty in this country using the standard measure, Statistic Canada's after-tax low-income cut-off (LICO).

Statistics on annual income data come in two years after the fact and much has happened in this country since 2008. But if past recessions are any guide, between 750,000 and 1.8 million more Canadians will be counted as poor before recovery is complete. More than one in seven Canadians may have tumbled into poverty before this is over. Many of them will be working.

The greatest increase in poverty will be among working age adults (18 to 64 years of age) and they will pull along hundreds of thousands of children who live with them. For the first time in decades, we may also see a sobering increase in the number of seniors coping with low income, a phenomenon which did not occur in previous recessions but has already reared its head in these new numbers.

Some will argue that this recession was brutal but short, and that Canada has been recovering faster than most other nations, so galloping poverty is not likely to be on the horizon. But Canadians entered this recession more exposed to the economic risks of joblessness than during any other recession since the Second World War, and the types of jobs created since last summer put recovery on shaky ground.

Looking at the past tells us there is reason to worry, notwithstanding the signs of recovery in stock markets, GDP and profit margins. The recession of the 1980s marked an important increase in poverty but the rise and fall of poverty was relatively quick because, despite dramatic job losses, income support mechanisms were in place. The recession of the 1990s generated a much bigger escalation of poverty, both in magnitude and duration, because a protracted period of job loss ran into the scaling back of unemployment insurance and social assistance by federal and provincial governments.

As a consequence of that period, there was next to no cushion to soften the blow of the most shocking wave of job loss in our history during the opening six months of this recession, when almost half a million permanent and full-time jobs vanished. More than half of the jobless went without jobless benefits at the outset of the recession (43%) and despite modest reforms to the Employment Insurance Act — reforms which were introduced with sunset clauses, and scheduled to end soon — less than half of the unemployed remained without jobless benefits at the peak of the recession (48%). Dramatic reductions in asset limits for accessing welfare were put in the mid 1990s, designed to exclude any but the most destitute from income support. The legacy of this "tough love" has meant that many jobless middle class workers face economic free-fall and/or the prospect of grabbing any job, at any wage or hourly schedule, just to survive, often at incomes far inferior to what they had before.

As for the nature of recovery, job creation since last summer has been marked by rapid growth in temporary positions and self-employment, and job expansion has been dominated by the public sector. Government stimulus will end in the coming months, and the more permanent aspects of growth in the public sector — such as health care — will be eyed for constraint as governments deal with budgetary deficits. It is by no means certain that the private sector will fill in for the role the public sector has played in the past year. Even without external triggers like European debt or American oil spills, the end of many time-limited temporary jobs may tip us into a made-in-Canada double-dip recession. That second round of joblessness could hit just as hundreds of thousands of people exhaust their EI benefits.

It is not possible to predict how rapidly poverty will increase, but without question it will rise. So it is instructive to see what has happened to rates of poverty in previous periods of recession. The following bases the discussion of poverty on Statistics Canada's after-tax Low-Income Cut-off.

For adults, poverty rates went up by 26% during recession of the 1980s, peaking in 1983 (see Chart 1). It took until 1989 for them to "recover" to pre-recession levels. During the recession of the 1990s, poverty rates among working age adults grew by 67%, finally peaking in 1997. That year marked the end of reductions in income supports, and the beginning of a strong expansionary phase for the economy. Poverty rates among working age adults steadily declined after 1997 but even by 2007, after a decade of blockbuster economic growth and job creation, poverty rates among adults had not fully recovered to pre-recession levels. By 2008 the poverty rate of working age adults had started to increase, though the recession did not hit until

CHART 1 Poverty Rate of Working Age Adults (Aged 18–64) Canada, 1976 to 2008

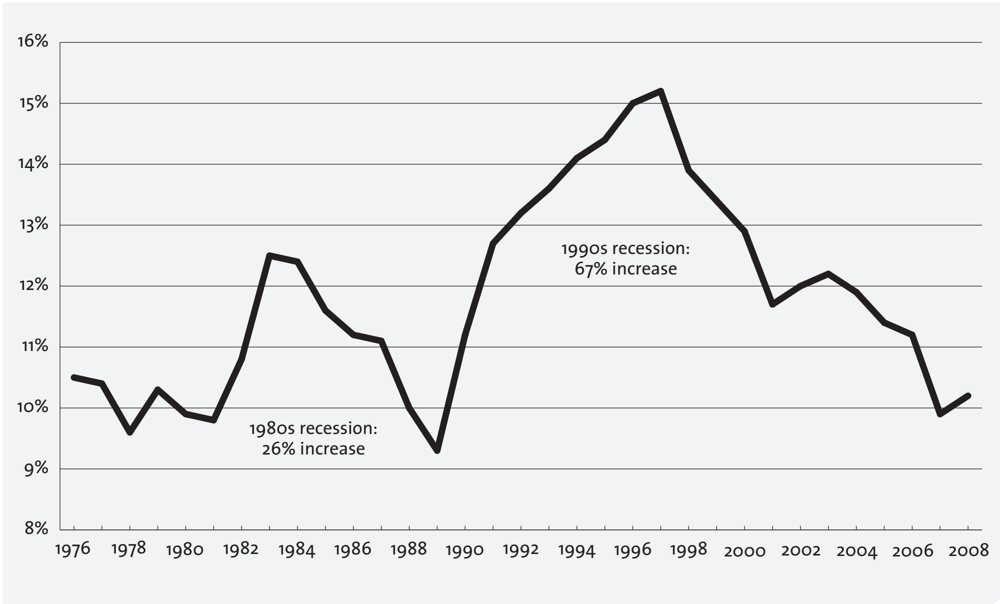
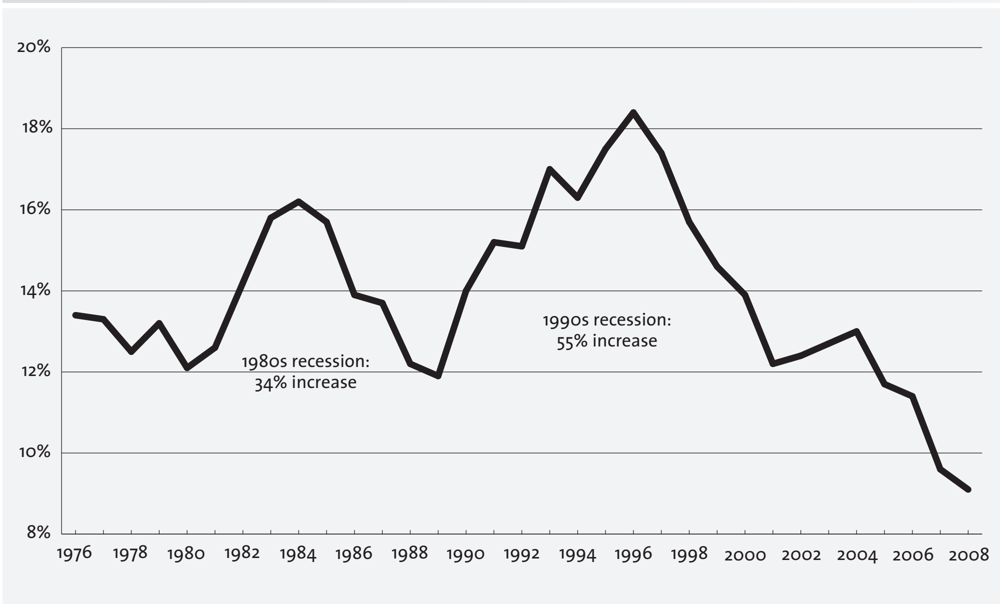


CHART 2 Poverty Rates for Children (Under 18) Canada, 1976 to 2008

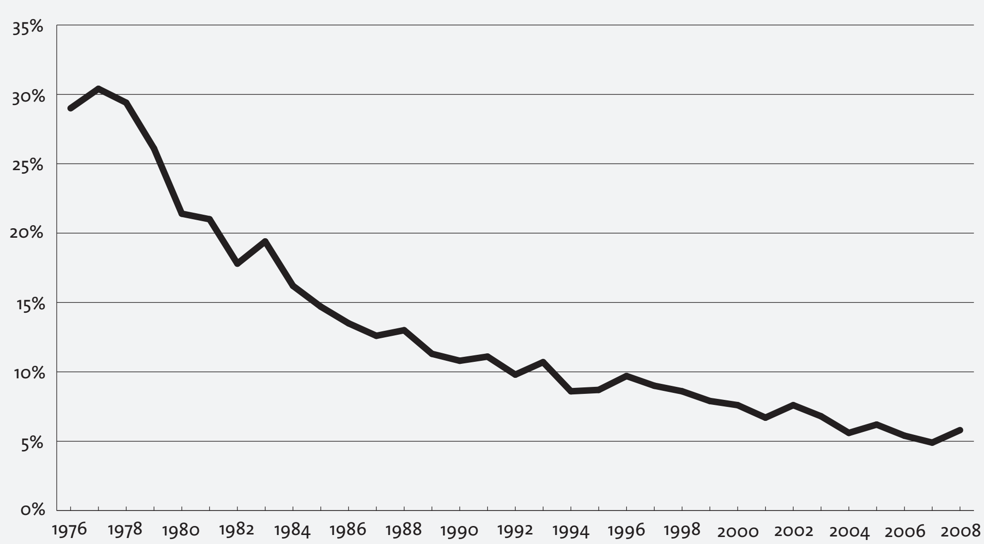


October of that year. There were 2.2 million working age adults living in poverty in Canada in 2008.

For kids, after-tax poverty rates went up by 34% in the recession of the 1980s, peaking in 1984 (see Chart 2). It took until 1989 for poverty rates for children to "recover", along with the adults. Incidentally, this was the year that Parliamentarians unanimously declared the rate of poverty among the nation's children inexcusably high in a nation as affluent as Canada, and pledged to eliminate child poverty by the year 2000. Within six months, in April of 1990, the next recession hit. It took much longer for the rise in child poverty to peak in the recession of the 1990s and, like the pattern for adults, the incidence of poverty grew more dramatically among children in that recession than in the 1980s. By 1996 children's poverty rates had mushroomed by 55%. Adults saw their income supports cut in this period. Children, too, saw a transformation of income supports, with the elimination of the universal family allowance and introduction of a targeted but modest Child Tax Benefit in 1993. It took until 2005 for children's poverty rates to "recover". The improvement came about because of three factors: 1) there were more jobs as the labour market expanded; 2) many of the massive cohort of baby-boomer parents saw increases in their earnings because of age and experience in their jobs; and 3) the poorest of parents got significant increases in income supports provided through the Canada Child Tax Benefit and National Child Benefit Supplement, particularly after 1998. By 2008 the rate of child poverty had declined to record low levels using this series, which started in 1976. Still the rate of child poverty was almost double that of seniors. There were 610,000 children living in poverty in Canada in 2008.

The rate of poverty among seniors has declined almost continuously over the past 32 years (see Chart 3). Poverty rates among people aged 65 and over, as measured by the after-tax LICO, stood at 30% in the mid 1970s, but were cut in half by the mid 1980s. The recession of the 1980s only registered a small increase in the rate of poverty in 1983, and the recession of the 1990s saw modest reversals in the overall trajectory of change (in 1991, 1993, and 1996); but these were minor setbacks to what is a genuine success story — steady progress to reduce poverty among the aged. From 1996 to 2007, the rate of poverty among seniors was again cut in half, from 9.7% to 4.9%, primarily as a result of rising private pensions. But the rate of improvement

CHART 3 **Poverty Rates of Seniors (65 Plus)** Canada, 1976 to 2008



has slowed and in 2008 seniors saw an 18% increase in the incidence of poverty, the biggest increase measured for any group. It is not clear if this is a sign of things to come, but two facts stand out in the post-2008 reality that may influence the continued success of combating poverty among seniors: 1) private pensions are a primary target for employers trying to whittle the wage bill in the early phase of recovery; and 2) more seniors are working of have returned to work, many to supplement losses in their retirement incomes. Whether these two factors will offset each other over the long run is unclear. There were 250,000 seniors living in poverty in Canada in 2008.

Using these historical facts, it is possible to estimate how many more people might be facing the challenges of poverty in our midst today and in the months to come. Using the example of the 1980s, increases in the rate of poverty would add 205,000 more children and 575,000 more working age adults to the pool of those already poor before the recession began. (While there are always some people who move out of poverty during a recession, it is more difficult to do so in periods of higher unemployment.) Using the example of the 1990s, 1.5 million working age adults and 335,000 children would be added to the mix. In previous recessions, increases in the number of elderly poor were short-lived. This one could prove different. Already the statistics show the number of elderly poor increased by 50,000 between 2007 and 2008.

Despite the relatively short span of the current recession, brutal job losses, tattered safety nets and the tentative nature of the job recovery suggest a rise in poverty may be unfolding that is closer to the pattern of the 1990s than the 1980s. That would mean the body count of Canadians in straightened circumstances might be pushing five million — more than one in seven Canadians trying to get by. That's no way to run a recovery.

The news summed up the latest Statistics Canada data by announcing incomes flatlined in 2008. That yawner feeds into the sense that all is well, and that governments and markets need do nothing more. But "business-as-usual" won't get Canadians out of this hole. Decision-makers in governments across the country have been working on an exit strategy from poverty for years. It's time to put those plans to work. History shows, the hole can deepen quickly. This is no time to lull ourselves to sleep.