



# FIGHTING POVERTY

THE BEST WAY TO BEAT THE RECESSION



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ONTARIO  
ASSOCIATION OF  
FOOD BANKS

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**Author:** Nathan Laurie (Lead author) and Adam Spence (Supporting author)  
**Design & Photography:** Adam Spence  
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All inquiries regarding this publication should be directed to:  
Ontario Association of Food Banks (OAFB)  
5 Adrian Avenue, Unit 118  
Toronto, ON M6N 5G4  
T: 416.656.4100 F: 416.656.4104  
E: [info@oafb.ca](mailto:info@oafb.ca) W: [www.oafb.ca](http://www.oafb.ca)

## **BIOGRAPHY: NATE LAURIE**

Nathan Laurie has taught, written about and applied economics for over 30 years in Canada as a university professor, federal government advisor, senior researcher, and national newspaper editorial board member. Nathan was Director of Forecasting at the Conference Board of Canada and held the position of Senior Advisor to the Minister of Finance and Prime Minister in the Trudeau government. He was also a member of the Toronto Star's editorial board from 1984 to 2008.

Nathan holds a graduate degree from the University of Michigan. He currently lives in Toronto and enjoys spending time with his grandchildren.

## **SUPPORTER RECOGNITION**

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# Executive Summary

## **Unless we act, poverty will rise significantly by 2010.**

- The after-tax poverty rate in Ontario is projected to grow from 10.3 per cent in 2006 to 13.6 per cent in 2010.
- An additional 474,368 Ontarians will be driven into poverty in the next two years.

## **The cost of poverty will rise alongside the increase in poverty.**

- In total, the public and private cost of poverty was estimated to have a price tag of between \$32 and \$38 billion annually in 2008. Those costs will rise if the government fails to move aggressively on its poverty reduction strategy at the very time that poverty is on the increase.

## **Low-income households spend a great deal more of their total household income compared to other income quintiles. Furthermore, these expenditures are primarily made on local, Canadian goods and services.**

- Expenditures for the lowest income quintile represent 130.9 per cent of total income, compared to 96.3 per cent for the average Canadian household and 86.9 per cent for the highest income quintile.
- The import leakage on expenditures made by the lowest income quintile is very low (10.7 per cent) compared to the average household (15 per cent) and the highest income quintile (23.5 per cent).

## **Income transfers and programs supporting low-income Ontarians stimulate the overall economy, with greater effect than transfers to any other income quintile.**

- American studies on economic stimulus have proved that the cost effectiveness of stimulus directed at the poor (multiplier of 1.73) and infrastructure stimulus (multiplier of 1.59) is much greater than other efforts such as across the board tax cuts (multiplier of 1.03).
- The relative impact on GDP of direct transfer payments for low-income Ontarians is 35 per cent greater than a direct transfer to the wealthiest Ontarians, and 10 per cent greater than a direct transfer to middle income Ontarians.

## **The provincial government can make immediate investments that fight the recession and tackle poverty with a strong stimulative effect.**

- The immediate and full acceleration of the Ontario Child Benefit in the upcoming provincial budget generates a multiplier of 1.60, roughly in line with similar estimates made on the effectiveness of low-income stimulus packages in the United States.
- An investment of \$560 million in affordable housing made by the provincial government would leverage an increase in GDP of almost \$2 billion, an impact 3.5 times the amount the province would have to invest.

## **Summary of Recommendations**

In sum, the recommended measures fight the recession and poverty would include:

- Direct income transfers to low-income households (ie. Ontario Child Benefit acceleration);
- Loosening restrictions on social assistance (ie. raising asset limits);
- Infrastructure improvements (construction and repair of social housing); and
- Skills training, early learning and child care (ie. full day learning).

These recommendations have a proven economic benefit for Ontario, making excellent choices for stimulus investments.



# Introduction

The global recession is hitting Ontario very hard. The newspapers are filled with daily reports of layoffs, cutbacks, stock markets losses, the hemorrhaging in the manufacturing sector, the crisis in the auto industry and growing deficits in the public sector.

The provincial government is under a great deal of pressure to come up with an effective response to these cascading problems within the constraint of limited resources. The choices it ultimately makes will be revealed in an economic stimulus package in the budget that will be introduced on March 26th.

The Ontario package will come on top of the hundreds of billions of dollars in economic stimulus already announced by governments around the world.

In developing its package, Premier Dalton McGuinty's government will concentrate its efforts on two fundamental questions. First, where is the best place to allocate government revenues in order to stimulate short and long-term economic growth? Second, what supports can the government provide to protect its citizens and help get them back to work?

The one area where both of these questions lead to the same answer is in measures that alleviate poverty: besides generating a "big bang for the buck" in driving economic growth, such measures provide protection to Ontario's most vulnerable citizens, and by creating jobs, help them get back to work.

But a significant obstacle to this approach is the very limited media coverage that is being devoted to the effects of this devastating recession on poverty, a result possibly of the mistaken impression that because the poor have to struggle in the best of times, they have little to lose when times turn tough.

Unfortunately, nothing could be further from the truth. Poverty in Ontario is almost certain to grow both deeper and more widespread until a robust and sustained recovery takes hold, which may not happen for at least two more years. In the meantime, the poverty rate will tend to move in lock step with the unemployment rate, as it always has. Part one of this report will outline the poverty challenge that Ontario will be facing in the next few years.

In its February budget, the federal government did very little to protect vulnerable Ontarians from the income losses many are

likely to experience; as a result, they are looking to the provincial government's forthcoming budget to help them out as their jobs disappear. And with good reason. Having just committed itself to an agenda for reducing poverty in the province, the government of Ontario cannot allow the increase in poverty to go unchallenged.

If poverty reduction is indeed a top priority of this government – a priority driven by the argument that poverty is both an economic drain and an unconscionable social affliction in a relatively wealthy province – it makes no sense to allow the problem to increase in severity while waiting for better times to take action to counter it.

At the very least, the sharp rise in poverty expected to result from Ontario's deteriorating job market demands better measures to alleviate the damage and suffering poverty causes.

But if there is a moral imperative for targeting poverty in the upcoming provincial budget, there are strong economic arguments for doing so as well.

First, the government needs to do everything within its power to contain the high costs of poverty that show up in areas such as poor health, low student achievement, and a rising incidence of crime.<sup>1</sup> If these costs are allowed to increase during this recession, it will be that much harder to reduce poverty after recovery takes hold.

Second, as this paper will show, helping the poor make it through tough times is one of the best approaches a government can take to stimulate domestic spending and increase economic activity. That's because transfers to the poor are not subject to the same kind of leakages as most other forms of stimulus – leakages that divert money away from spending on domestically produced goods, services, and, by extension, jobs.

The final section of this report sets out a number of specific measures the government should consider to keep its poverty reduction agenda moving forward and to provide relief to those who have no other means of support.

The provincial government's financial situation has been seriously constrained due to a projected decline in overall revenues and recent commitments to support struggling industries. However, the government would be able to meet its aims of fighting poverty and the recession if it were to ameliorate the impact of tough times for many Ontarians.

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# The Poverty Challenge

If a healthy, growing economy is a prerequisite for reducing poverty, a recession comes with an ironclad guarantee that poverty will increase. The link between the availability of jobs and the overall poverty rate is strikingly clear in Graph One below, which shows the relationship between the percentage of the population living below the poverty threshold and the unemployment rate.

When unemployment is relatively low or falling, as it was from 1984 to 1989, the proportion of the population below the poverty threshold declines. (Over those years, Ontario's poverty rate fell from 16.6 per cent to 10.8 per cent, dropping by more than a third.) But when the job market dries up – as it did in the recession of the early 1990s – the poverty rate starts moving in the opposite direction. (From 1989 to 1993 Ontario's poverty rate rose steadily. By the time recovery was firmly established, the poverty rate reached 18.6 per cent, surpassing its previous 1983 peak.)

Arguably, persons already living on the edge are also driven deeper into poverty, as job opportunities disappear and supports become constrained.

This time around, as the global recession takes a firm hold on Canada and Ontario, the outlook for jobs appears equally bleak. Just prior to the Statistics Canada release of the dismal job numbers for January – 71,000 jobs

lost in Ontario in a single month – TD Economics predicted that the national unemployment rate would rise to 8.8 per cent in 2010.

Then following the release of the Labour Force Survey, TD Economics said: “if January's labour report is an indication of what's in store, Canadian workers could be in for an even rougher year.” And that is almost certainly the case for Ontario, where, as Graph One shows, the unemployment rate rises sharply this year and next, causing the poverty rate in turn to climb to 17.7 per cent. If the recession turns out to be deeper or longer, the poverty rate will go even higher.

In a recent commentary on the situation in Toronto – a commentary that could apply to a degree to certain communities in the province – TD Economics put it this way: “The region . . . has a high concentration of jobs in support services and retail or wholesale trade. With low wages and unstable employment in these sectors, their workers are particularly vulnerable to this downturn. We expect that marginally-attached workers will be the first to lose employment during the downturn. With unstable employment, these workers will be the least likely to qualify for Employment Insurance . . . Additionally, Toronto is increasingly home to new arrivals to Canada . . . The difficulties

## FACT

### POVERTY RATES: CURRENT & PROJECTED

In 2006, 10.3 per cent of Ontarians were below the poverty line (after tax). It is projected that the poverty rate will rise to 13.8 per cent by 2010, placing almost 500,000 more Ontarians in poverty.

GRAPH ONE: UNEMPLOYMENT RATE AND POVERTY RATE IN ONTARIO, 1976 TO 2010



TABLE ONE: THE OUTLOOK FOR INCREASE IN POVERTY IN ONTARIO

	2006	2010*	RELATIVE INCREASE	INCREASE IN THE NUMBER OF POOR ONTARIANS
	%	%	%	
<b>POVERTY RATE (BEFORE TAX)</b>	13.8	17.7	28	576,366
<b>POVERTY RATE (AFTER TAX)</b>	10.3	13.6	32	474,368

\* Estimated

faced by immigrants in integrating into Canadian labour markets are well documented. In 2006, while Canadian-born workers had a low income rate of 9.7 per cent, immigrants who had arrived within the previous two years faced a rate of 34 per cent. Immigrants will be highly vulnerable to unemployment and will face greater difficulty than their Canadian counterparts in regaining employment.”<sup>2</sup>

Although Graph One is based on Statistics Canada figures for the percentages of the population in low-income before taxes, the outlook for the increase in poverty is basically the same when calculated on an after-tax basis. As Table One shows, the percentage increase in poverty expected by 2010 is just

as high after accounting for existing government tax assistance programs as it is without them.

While there can be little doubt that the poverty rate is heading for a significant increase as recession works its way through the Ontario economy, the analysis by TD Economics cited above suggests that poverty can also be expected to deepen substantially as recession robs vulnerable working-poor Ontarians of their primary means of support.

This trend makes it even more necessary for the government to come up with a strong response, as increased poverty will also have an increased moral and economic cost for Ontario.

## The Provincial Government Must Act

As these vulnerable Ontarians and their families were all but forgotten in the recent federal budget, responsibility for their welfare inevitably falls to the Government of Ontario.

It is a challenge the government must readily accept in light of view it expressed in its recently released poverty reduction strategy, *Breaking the Cycle*: “The moral imperative to reduce poverty is a clear one. We all agree that children should have the opportunity to succeed in life, and that people facing challenges should be supported. These notions lie at the heart of what it means to be a strong, caring society, and would in and of themselves constitute a sufficient rationale for this Poverty Reduction Strategy.”<sup>3</sup>

Beyond the moral argument, the government presented an equally compelling economic argument for reducing poverty.

“As a society, we can’t afford it. An educated, healthy and employable workforce is critical to the economic future of this province. Our economy is changing before our eyes and we need everyone to be ready to contribute to our future prosperity. Economists agree that investments in reducing poverty would close the prosperity gap, benefiting individual Ontarians and their families, but also Ontario as a whole.”

The government’s poverty reduction strategy also recognized “the enormous costs of poverty” that were enumerated late last year in a study by the OAFB.<sup>4</sup> In total the public and private cost of poverty was estimated to have a price tag of between \$32 and \$38 billion annually.

Summing up these costs in its poverty reduction strategy, the government said: “Poverty costs this province in more than just lost potential. It costs us in our health care system, our justice system, our child protection system, and social assistance system. It costs our economy and our society as a whole suffers.”

Those costs will rise if the government fails to move aggressively on its poverty reduction strategy at the very time that poverty is on the increase. Just as there is no better time than recession to put Ontarians to work building badly needed infrastructure, there is no better time to provide the poor with the skills and tools they will need to “be ready to contribute to future prosperity.”

But there is an even more pragmatic and powerful argument for targeting funds on low-income households in tough times like these. As the next section will show, helping the poor is a highly effective form of government economic stimulus.

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# Fighting Poverty is Strong Economic Stimulus

## PUTTING MONEY IN THE HANDS OF THE POOR IS A POWERFUL ECONOMIC STIMULUS

Study after study on the appropriate stimulus package for the United States have argued that the best way to quickly inject new spending into the economy is to “focus on households that will spend, rather than save, the added income that the stimulus measures provide.”<sup>5</sup> And low-income households are consistently identified as the ideal targets for stimulus to get new spending going.

That shouldn’t come as a surprise because a few extra dollars can make a huge difference for families accustomed to the constant struggle to make ends meet, which is the case for so many poor Ontarians.

As one study by the Washington-based Center on Budget and Policy Priorities put it, “Because low- and moderate-income households often have difficulty paying ongoing household costs, they are likely to spend quickly any additional income they receive.

Wealthier individuals, in contrast, are more inclined to save a substantial share of additional income they receive, because they do not need it to meet their immediate needs.”<sup>6</sup> That the poor are more likely to spend a windfall than people with higher incomes was borne out in a study of how Americans used the rebates they received last summer from the Bush Administration’s 2008 stimulus package.<sup>7</sup>

The study by Christian Broda of the University of Chicago Graduate School of Business and Jonathan Parker of the Kellogg School of Management at Northwestern University found that “households with annual income less than \$15,000 increased their non-durable consumption on average by more than six per cent per week when their rebates arrived, almost twice the response of

the typical household.”

A study by Moody’s Economy.com found that a temporary increase in food stamps – an U.S. program for assisting the poor – was the most cost effective form of stimulus, where cost effectiveness was defined as the “one-year dollar change in real GDP for a given dollar reduction in tax revenue or increase in spending.” The study found the cost effectiveness of such stimulus directed at the poor to be 1.73, compared to, for example, 1.03 for an across-the-board tax cut, and 1.59 for increased infrastructure spending.

The reasons why an increase in food stamps have such a powerful stimulative effect on GDP are twofold: In addition to the fact that they are not saved, food stamps are spent mainly on U.S.-made foodstuffs, and thus do not have a significant import leakage, which means that almost all the income generated from this type of spending stays in the United States.

The same two factors would come into play for a small increase in transfer payments to the 20 per cent of Canadian households with the lowest incomes. As Table Three shows, low-income households taken together do not save; in fact, many are forced to live beyond their means and dissave, a hardly surprising result given that these households must spend 62 per cent of their incomes just to put food on the table and keep a roof over their heads. This savings trend is supported across the academic literature, which has demonstrated the individuals in the lowest income quintile in Canada have a limited ability to save.<sup>10,11</sup>

But not all households in the low-income quintile dissave: The high rate of dissavings for the quintile as a whole is accounted for primarily by low-income seniors running down their retirement nest eggs to maintain their modest standard of living; by house-

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TABLE TWO: COST EFFECTIVENESS OF POTENTIAL STIMULUS INITIATIVES IN THE U.S. (2008), ONE YEAR CHANGE IN REAL GDP FOR A GIVEN REDUCTION IN FEDERAL TAX REVENUE OR INCREASE IN SPENDING

ITEM	CHANGE IN REAL GDP PER DOLLAR INVESTED
Stimulus directed at poor (i.e. temporary increase in food stamps) <sup>8</sup>	1.73
Increased infrastructure spending	1.59
Refundable lump sum tax rebate	1.26
Across the board tax cut for individuals	1.03
Cut in corporate tax rate	0.30

Source: As reported by the Brookings Institution<sup>9</sup>

TABLE THREE: SPENDING PATTERNS FOR AVERAGE CANADIAN HOUSEHOLD AND LOWEST INCOME QUINTILE, 2007

	AVERAGE HOUSEHOLD	WEALTHIEST HOUSEHOLDS	LOWEST INCOME HOUSEHOLDS	SHARE ACCOUNTED BY IMPORTS
Average Income	\$72,654	\$165,024	\$17,064	
Total expenditure as a % of Income	96.3	86.9	130.9	
	<b>PERCENTAGE OF TOTAL CONSUMPTION</b>			
Food	14.7	12.7	18.2	MEDIUM
Shelter	27.4	26	32.8	LOW
Household Operation	6.6	6.6	7.1	LOW
Household Furnishings and Equipment	3.9	4.5	3.1	HIGH
Clothing	5.9	6.9	4.5	HIGH
Transportation	18.9	19.5	12.9	LOW TO MED.
Health Care	3.9	3.2	4.4	MEDIUM
Personal Care	2.3	2.3	2.3	EST.
Recreation	8	9.5	5.2	EST.
Reading Material	0.5	0.5	0.6	EST.
Education	2	2.5	2.8	LOW
Tobacco and Alcoholic Beverages	3.1	2.7	3.4	LOW
Games of Chance	0.5	0.4	0.9	LOW
Miscellaneous Expenditure	2.2	1.2	1.8	EST.
Total Current Consumption	100	100	100	
	<b>PERCENTAGE OF INCOME</b>			
Personal Taxes	19.9	25.4	3.4	
Personal Insurance and Pension Contributions	5.4	5.3	2.4	
Gifts of Money and Contributions	2.5	2.3	3.6	
Discretionary Savings	3.7	13.1	-30.9	

holds that have lost an adult earner to illness or death during the year; by households that have lost a job during the year; and by a statistical quirk resulting from the fact that Statistics Canada does not count the subsidy built into subsidized housing as income.

But even if the high rate of dissavings for the lowest income quintile as a whole can be explained away by these special factors, the large proportion of income needed to provide the basic necessities of life suggests that very few households in the bottom income quintile can afford to save. Indeed, given the heavy reliance of low-income households on food banks to get by, they cannot even afford to meet their basic needs on the incomes that average just over \$17,000 a year.

Precise estimates of import leakages associated with spending by low-income households unfortunately are unavailable as the necessary underlying data does not appear to exist. Accordingly, we were forced to take a more conjectural approach based on what is known about the spending patterns of low-income households and the breakdown that exists for imports by spending category.

The last column of Table Three provides a qualitative assessment of the import content of the goods and services purchased by households in the low-income quintile. A

full description of the determination of import penetration in expenditure categories can be found in Appendix One.

Together our estimates, as outlined in the appendix, suggest that the import leakage from spending by low-income households is a relatively low 10.7 per cent. Carrying out a similar process for the average Canadian household yields a rate of import leakage of 15 per cent.

This difference in import leakage rates suggests that increases in income from the \$17,064 average for the bottom quintile would cause imports to grow slightly faster than current consumption. For a small increase in income, in the order of say five (5) per cent, imports would grow less than one per cent faster, and thus, 89 per cent of a modest increase in transfer payments to the average low-income Canadian household would, in the first instance, end up being spent on Canadian-made goods and services.

By contrast, only 82 per cent of an identical transfer to an average household would, in the first instance, wind up being spent on Canadian goods and services. And for the average household in the highest income quintile only 66 per cent of the same transfer payment would, in the first instance, be spent on domestic goods and services. These impact differences imply that the overall increase

## FACT

### EXPENDITURE PATTERNS

**Low-income households spend more of their income and buy local**

The import leakage from spending by households in the lowest income quintile is a relatively low 10.7 per cent.

**Wealthy households spend less of their income and buy fewer local goods and services**

The import leakage from spending by households in the highest income quintile is over twice the rate of the lowest income quintile at 23.5 per cent.

...low-income households spend more of their total income, and their expenditures are more likely to be made on Canadian goods and services. If the government wants to stimulate domestic economic activity, it would be wise to direct government transfers to low-income households.

in GDP resulting from such an increase in transfer payments to the poor would be considerably larger than if it were spread over all income groups.

In sum, low-income households spend more of their total income, and their expenditures are more likely to be made on Canadian goods and services. If the government wants to stimulate domestic economic activity, it would be wise to direct government transfers to low-income households.

**TARGETED ECONOMIC STIMULUS CAN ALSO BE ACHIEVED THROUGH PUBLIC HOUSING INFRASTRUCTURE IMPROVEMENTS, SKILLS TRAINING & EARLY LEARNING**

It is widely accepted that infrastructure investments are a powerful tool for stimulus in tough economic times. Whether increased transfers to low-income Ontarians represent more cost-effective stimulus than government spending on infrastructure depends primarily on the size of the import leakages associated with infrastructure spending, which could be higher or lower than the 10.8 per cent marginal rate of import leakage for

a small transfer to the poor, depending ultimately on the type of infrastructure projects that are built.

Arguably, that stimulus would be considerable for housing because spending on housing, like transfers to the poor, involves very low import leakages. The forecasting firm, Informetrica estimates that every dollar spent on public infrastructure like affordable housing generates \$1.76 in GDP.<sup>12</sup> In Ontario, it has been estimated that 1,000 newly constructed co-op homes generates 2,210 person-years of employment and \$45 million in tax revenues.<sup>13</sup>

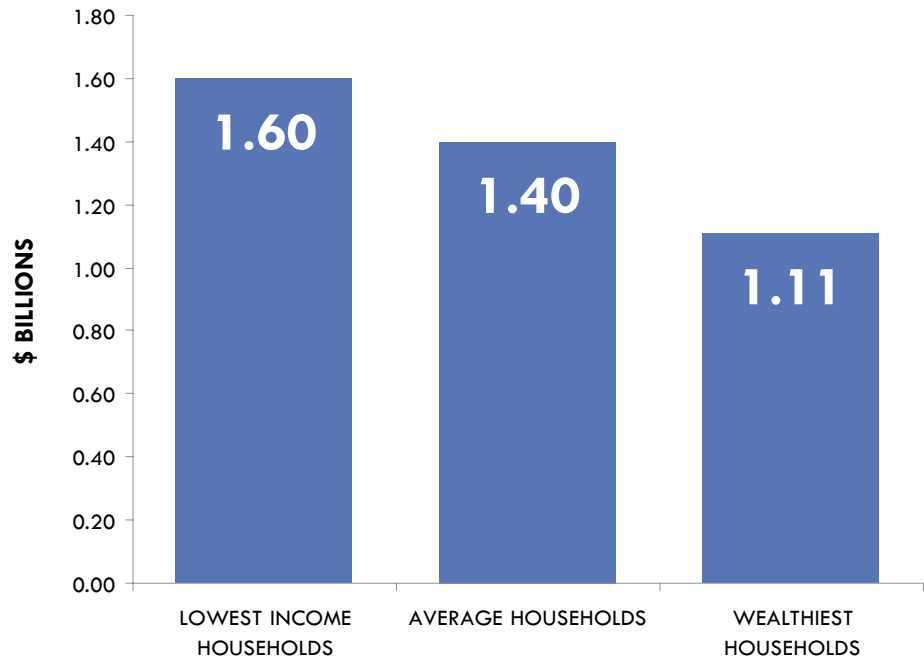
But beyond this question of “bang for the buck,” transfers to the poor have two important advantages over spending on infrastructure: they work much more quickly in stimulating economic activity, and they provide immediate relief to the most desperate and vulnerable group of Ontarians.

From the perspective of the government’s poverty agenda, there are in fact good reasons for doing both. Low-income Canadians spend, on average, a phenomenal 40 per cent of their modest incomes on shelter, which is one of the principal reasons why they are so

TABLE FOUR: ESTIMATED LEAKAGES FROM AN INCREASE IN INCOME FOR CANADIAN HOUSEHOLDS AT VARIOUS INCOME LEVELS, 2007

HOUSEHOLD INCOME CATEGORY	PERCENTAGE LEAKAGE FROM CURRENT EXPENDITURES		
	SAVINGS	IMPORTS	TOTAL
LOWEST INCOME QUINTILE	0	10.7	10.7
AVERAGE HOUSEHOLD	3.7	15	18.7
HIGHEST INCOME QUINTILE	13.1	23.5	36.6

GRAPH TWO: INCREASE IN GDP FROM A \$1 BILLION INCREASE IN TRANSFER PAYMENTS TO LOW, MIDDLE AND HIGH INCOME GROUPS



strapped. Public housing in Ontario is also in desperate need of upgrading and repair. In the City of Toronto alone, the backlog of repairs is estimated at \$300 million.<sup>14</sup>

These numbers alone speak to the pressing need for improved affordable housing in Ontario, and justify a major investment in this critical area.

Beyond income and infrastructure, there is significant evidence that long-term economic growth can be sustained through stimulus investments in early learning and skills training.

Many studies have shown a very high rate of return for investments in targeted

child care for low-income populations, ranging from \$4 to \$16 for every dollar invested.<sup>15</sup>

Moreover, the private return for a single mother receiving post-secondary education is also substantial, as the rate of poverty declines as educational attainment increases. In 2001, 75 per cent of those without a high school diploma lived in poverty compared to 54 per cent for those with non-university postsecondary education.<sup>16</sup> Average earnings for a lone parent mother with some form of post-secondary education are 103 per cent greater than for a lone parent mother without a high school diploma.<sup>17</sup>

## Budget Measures to Fight Recession and Poverty

In order to fight the recession and tackle poverty, the provincial government must quickly place money in the hands of all low-income Ontarians, allocate funding for affordable housing infrastructure improvements, and invest in initiatives that both target the root causes of poverty and provide Ontarians with the skills and supports necessary to achieve their full potential. Investments in these areas will drive short and long-term economic growth, protect Ontarians, and help get them back to work.

Specific proposals that the government must implement as it develops the upcoming provincial budget include: increasing direct income supports to low-income households by measures such as accelerating increases to the Ontario Child Benefit, loosening eligibility restrictions on social assistance, investing in the repair and construction of affordable housing, and moving forward on all fronts on the government's poverty agenda. We believe that these recommendations represent vital short-term stimulus and recession-fighters, as well as long-term investments that will create a robust economy and avoid further costs in the future.

### **INCREASE DIRECT INCOME SUPPORTS TO ALL LOW INCOME HOUSEHOLDS BY MEASURES SUCH AS ACCELERATING THE PROPOSED INCREASES TO THE ONTARIO CHILD BENEFIT**

Because current levels of social assistance benefits leave recipients so far below the poverty line – 30 per cent to 40 per cent below Statistics Canada's low-income cutoffs

in most cases – many anti-poverty activists argue that benefits also need to be raised. On the other side of the argument are those who fear that higher benefits would discourage recipients from moving off social assistance when they have the chance, and instead favour greater income support for low-income Ontarians outside the social assistance system. They point to the Working Income Tax Benefit (WITB), the new Ontario Child Benefit (OCB) and the proposed Ontario Housing Benefit as appropriate models for assisting the poor without creating a disincentive to work.

In these extremely challenging times when there are far fewer jobs than there are people who are desperate for work, strong arguments can be made for both approaches.

As part of its poverty reduction strategy, the government announced that it would undertake a thorough review of social assistance to ensure, among other things, that government assistance “meet(s) their objective to support people during the time that they need help.” With its extremely low benefit structure, social assistance hardly can be said to provide adequate help to those who need it at the present time. Accordingly, a case can certainly be made for an increase in general and disability benefits while the government carries out its social assistance review. The government could also consider introducing the housing benefit to all low-income households as a means of targeting assistance outside of the current welfare system. Whatever method the government

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## FACT

### ECONOMIC IMPACT OF INCOME TRANSFERS TO LOW-INCOME ONTARIANS

Every dollar spent by the poor on Canadian goods and services would lead to an increase in GDP as much as 1.60 times as large, a benefit that is greater than other forms of economic stimulus.

chooses, the end result must be an overall increase in income supports for all low-income households.

Beyond benefit increases for all households through social assistance or the housing benefit, perhaps the most effective path to move forward is to accelerate existing plans for investments in the Ontario Child Benefit. Under the plan set out in the government's poverty reduction strategy, the Ontario Child Benefit will not reach maturity until this devastating recession has passed. The current down payment made in the last budget of \$250 per child is slated to reach the target level \$1,310 per child only in 2011-2012.

An increase in benefits to low-income households would have at least three distinct advantages over other types of stimulus.

First, it would put badly needed cash directly in the hands of poor Ontarians, who need all the help they can get during this recession. Many of these families have to rely on food banks to get by, and food banks are feeling the effects of recession, just like everyone else: demand at food banks is increasing sharply but important donations by food producers and distributors are down. As a result, food banks will have a hard time providing the same kind of generous support that they were able to provide in better times. And the same goes for other non-governmental organizations that help the poor.

Second, as we have demonstrated, an extra \$1 billion in the hands of the poor would provide a quick and powerful stimulus to the economy, creating badly needed jobs and helping to keep many Ontarians employed. For each extra dollar the poor would have to spend, 89 cents would show up in the incomes of other Canadians, who would then have reason to increase their spending and raise the incomes of yet other Canadians.

In this way a dollar spent by the poor would lead to an increase in GDP as much as 1.60 times as large, an estimate that turns out to be quite close to the income multiplier calculated by Moody's Economy.com for an increase in food stamps in the U.S.

And third, this approach would send a powerful signal to the public that the Ontario government remains fully committed to its poverty reduction strategy, despite the pronounced setback this recession will cause.

### LOOSEN SOCIAL ASSISTANCE ELIGIBILITY RESTRICTIONS

With rising unemployment and the low eligibility rate for Employment Insurance in

Ontario – only 30 per cent of unemployed Ontarians qualify for EI – an increasing number of Ontarians will inevitably be forced to turn to social assistance to survive the recession.<sup>18</sup> In Toronto, which accounts for almost 40 per cent of the social assistance caseload in Ontario, TD Economics predicts an increase in the caseload of almost 30 per cent. With the spate of bad economic news that has come to light since TD Economics made that prediction, it is likely that the caseloads will increase even more.

The increase would be even higher were it not for the significant reduction in benefits and the restrictive eligibility requirements, which were brought in after the last recession in the early 1990s. As many social policy analysts have long argued, the onerous eligibility requirements – the asset test, in particular – are not only unfair; they are counterproductive to reducing poverty. Under current asset limits, a single parent with one dependent, for example, cannot have more than \$1,630 in non-exempt assets to qualify for social assistance. For a single individual with no dependents, the limit is only \$572.

As the economists at TD Economics argue, "The asset limit provides a perverse incentive against recipients accumulating any meaningful cash reserves. This limits their geographic mobility to seek work and inhibits their departure from Ontario Works (the current name for social assistance). We believe that current asset limits considerably heighten the persistence of any increases in the OW caseload.

Moreover, the asset limits encourage recently laid-off individuals to transfer any liquid assets into exempt forms in order to qualify for social assistance. The low asset limit will likely deny eligibility to certain potential beneficiaries, but we suspect that they will choose to shift or deplete assets in order to qualify. These asset limits are then likely a greater barrier to moving from social assistance than to qualifying for social assistance."<sup>19</sup>

To prevent the cyclical increase in poverty from becoming entrenched over the medium term and working against its poverty reduction strategy, the government clearly ought to raise the asset limits for social assistance eligibility in the budget later this month. Not only would such a move align social assistance with the thrust of the government's poverty reduction strategy, it would give those who have lost their incomes to recession somewhat more latitude in meeting their needs in the face of extremely low social assistance benefits.

## INVEST IN THE REPAIR AND CONSTRUCTION OF AFFORDABLE HOUSING

In its January budget, the federal government committed \$1.5 billion to energy retrofits and renovation of up to 200,000 social housing units and the construction of affordable housing for low-income seniors and persons with disabilities. To access their share of these funds, the provinces have to match Ottawa's contribution – in Ontario's case, a provincial investment of approximately \$560 million would generate \$1.1 billion in improvements and an expansion in affordable housing for the poor.

The provincial government should take up every federal dollar available to it for this investment in affordable housing – for every dollar the Ontario government puts up, it will get \$2 of badly needed housing, and in terms of stimulus, double the bang for its buck.

Given the federal investment and the previously stated Informetrica multiplier, an investment of \$560 million by the provincial government would leverage an increase in GDP of almost \$2 billion, an impact 3.5 times the amount the province would have to put up.

As important as its stimulative impact, this investment is also vital to the government's poverty reduction strategy. There are currently 124,000 Ontario households on the waiting list for affordable housing, and until they are able to reduce the large percentage of income they are required to allocate to housing – 40 per cent on average – they will continue to struggle just to survive.

## KEEP MOVING ON ALL OTHER FRONTS OF THE POVERTY AGENDA

Much of the government's poverty reduction strategy is built on improving the skills and education of poor Ontarians to give them the qualifications they need to get stable, decently paying jobs. In this regard, one of the most important places to start is with a continued expansion of affordable, licensed day care spaces, which not only give poor children a head start on their education to ensure that they will prosper when they grow up, but also enables their parents the chance to upgrade their own skills and to find work.

As the government's poverty reduction strategy acknowledges, "Investing in the early years will give us the highest possible return on our investment. The evidence in the area of human development ... demonstrates how important it is that our children get off to the very best possible start. When kids

get the right kind of experiences at an early age, they arrive at school ready to learn, and are more likely to keep up with their school work throughout their education."

Yet, despite the government's efforts to date, there are still 23,000 children in low-income families on the waiting list for subsidized child care.

From the size of that waiting list, it is evident that quality child care is beyond the means of low-income parents. And those who have to pay for it out of their own pockets are left with very little of their earnings to improve their families' lot in life. The high cost of quality care thus creates a disincentive to work, and the result is that parent, child and society as a whole lose out.

Subsidized, high quality day care, by contrast, leaves everyone better off: The child gets the head start on learning that he or she needs; the parent has a financial incentive to work; and despite the fact that society foots a part of the bill, it too comes out ahead, considering what the child will contribute later in life and the increased productivity of the working parent.

An investment in an early learning and child care system has the added advantage that all the money is spent in Ontario, and adds dollar for dollar to GDP. There is probably no stimulus more powerful in giving the provincial economy a boost.

## SUMMARY OF MEASURES

In sum, the recommended measures fight the recession and poverty would include:

- Direct income transfers (ie. Ontario Child Benefit acceleration) for \$1 – 1.25 billion;<sup>20,21</sup>
- Loosening restrictions on social assistance (ie. raising asset limits) for \$40 million;
- Infrastructure improvements (construction and repair of social housing) for \$560 million; and
- Skills training, early learning and child care (ie. full day learning) for \$400 million.

These recommendations would require a total investment of approximately \$2 – 2.25 billion. This represents a small percentage of the overall GDP at 0.4 per cent. Even when combined with existing or proposed stimulus commitments such as renewable energy projects and the auto industry assistance package, this total figure (1.6 per cent) falls below the OECD and IMF recommendations for the proposed portion of GDP that governments should invest in stimulus.<sup>22</sup>

## FACT

### ECONOMIC IMPACT OF INVESTMENTS IN PUBLIC HOUSING

An investment of \$560 million by the provincial government would leverage an increase in GDP of almost \$2 billion, an impact 3.5 times the amount the province would have to put up.

The majority of these recommendations are in line with the proposals that have already been laid out by the provincial government in its recently released poverty reduction strategy. Given our current cir-

cumstances, we believe that now is precisely the right time for the government to act quickly with those initiatives resulting in double dividend of both economic stimulus and the reduction of poverty.

## Conclusion

This recession provides a true litmus test for the government's commitment to the poverty reduction strategy it unveiled just a few months ago. By driving almost 500,000 more Ontarians into poverty, the recession adds to the urgency of the poverty reduction strategy, as well as to the moral imperative to help those who cannot support themselves and their children because of a shrinking number of jobs.

Beyond the moral obligation to help those with the greatest need, as this paper has shown, providing relief to low-income Ontarians makes good economic sense. Virtually everything the government could do to alleviate poverty – be it in the form of increased social assistance benefits, accelerated payments under the Ontario Child Benefit program, the construction and renovation of affordable housing, an increase on subsidized child care spaces or an investment in skills

upgrading – would provide more powerful stimulus to the economy than directing the same money to other areas. Because investments in the poor entail small leakages from spending within Canada, they have relatively large impact multipliers, which make them some of the very best ways to boost GDP.

Easing the plight of the poor and providing them with the job skills and child care they will need when recovery finally does take hold would also help to prevent the high deadweight social costs of poverty – costs that show up in poor health, low student achievement and increased crime – from increasing over time. Taking the appropriate actions now will ensure that the rise in poverty does not become permanent and that the poverty rate drops off sharply when the economy starts to pick up steam.

Fighting poverty is the best way to beat the recession.

Taking the appropriate actions now will ensure that the rise in poverty does not become permanent and that the poverty rate drops off sharply when the economy starts to pick up steam.

Fighting poverty is the best way to beat recession.

# APPENDIX ONE: ESTIMATED AND ACTUAL IMPORT PENETRATION IN HOUSEHOLD EXPENDITURE CATEGORIES IN CANADA

**Food** takes up the second largest percentage of income for the bottom quintile (22.2 per cent) and 18.2 per cent of current consumption. While imports accounted for 21 per cent of total consumer spending on food in 2004,<sup>22</sup> the largest category of imports (27.5 per cent) was fruits and vegetables, which appear to be beyond the budget of many low-income Canadians.<sup>23</sup> As one study by Sharon Kirkpatrick and Valerie Tarasuk of the Department of Nutritional Sciences at the University of Toronto, points out, “Access to fruits and vegetables may be constrained in the context of low incomes.”<sup>24</sup> Another study by the Foods Standards Agency in the U.K. found that the poor tend to eat “more processed meats, whole milk and sugar.”<sup>25</sup> While the import penetration in Canada for sugar and confectionary products is high (41 per cent), it is relatively low for processed meat and dairy products (12.1 per cent and 5.7 per cent respectively.) These observations, together with the relatively low import rates for most other foodstuffs suggest that imports probably account for no more than 18 per cent of the food that low-income Canadians consume.

**Shelter**, the largest spending category (32.8 per cent) consists of rented living quarters, owned living quarters, water, fuel and electricity – all of which have a negligible import component.

The category **household operation** (7.1 per cent of current consumption) consists mainly of communications, child care expenses and pet expenses, which for the most part are all Canadian-produced.

**Household furnishings and equipment:** Both electronic goods and appliances have a very high import component,<sup>26</sup> while the goods that make up the remainder of household furnishings and equipment (3.1 per cent of current consumption) depend on imports to a more moderate extent. In total, imports make up as much as 60 per cent of furnishings and equipment.<sup>27</sup>

**Clothing** is the one area where low-income Canadians, like other Canadians, rely fairly heavily on imported goods. The per cent of clothing accounted for by imports is close to 62 per cent.<sup>28</sup>

**Transportation:** Because the urban poor rely heavily on mass transit, and are less likely than other Canadians to travel abroad, their expenditures on transportation are likely to have a small import component. Indeed, the annual cost of a transit pass for three in Toronto exceeds the average annual expenditure for transportation by low-income Canadian households (\$2680) by roughly 20 per cent. Overall, we estimate the import content of transportation by low-income Canadians at 5 per cent.

**Health care** consists primarily of professional services by dentists and other health care providers and prescription drugs. While the former has almost no import content, imports represent a fairly high proportion of prescription drugs. For household spending on health care as a whole, imports account for no more than 25 per cent.

While the import content of **personal care, recreation and reading materials** are more difficult to pin down, spending by low-income Canadians on the remaining categories – **education, tobacco and alcoholic beverages** and **games of chance** – for the most part is on Canadian made goods and services.

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