

The Cost of Poverty in BC

FULL RESEARCH REPORT

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by Igluka Ivanova

JULY 2011

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BC Office



The estimated cost of a comprehensive poverty reduction plan in BC, per year:
\$3 to \$4 billion

The estimated yearly cost of doing nothing:
\$8.1 to \$9.2 billion

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by Igljika Ivanova

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Summary

LIVING IN POVERTY IS HARD. Poverty means hunger and inadequate nutrition. It means substandard and unsafe housing, or no housing at all. It means impossible choices, like whether to pay the rent or feed the kids. It means stress and social isolation. And it takes an enormous toll on the people who experience it.

On this basis alone, most British Columbians believe that our provincial government should take action to dramatically reduce and eventually eliminate poverty. And they are right. But governments often balk at the price tag associated with poverty reduction policies like investing in new social housing, increasing welfare, or implementing universal access to child care. What governments often fail to consider, however, is the large amount of resources that we spend, year after year, paying for the consequences of poverty.

This study finds that the costs of inaction are so large that they far exceed the costs of poverty reduction. Poverty is consistently linked to poor health, lower literacy, poor school performance for children, more crime, and greater stress for family members. It is society as a whole that bears the costs of poverty, through higher public health care costs, increased policing and crime costs, lost productivity, and foregone economic activity. This study quantifies these economic costs.

The bottom line is that poverty in BC represents a direct cost to government alone of \$2.2 to \$2.3 billion annually, or close to 6 per cent of the provincial budget. The cost to society overall is considerably higher—\$8.1 to \$9.2 billion, or between 4.1 per cent and 4.7 per cent of BC's GDP (Gross Domestic Product, or the size of our economy). That is as much as \$2,100 for every man, woman and child in BC, or \$8,400 for a family of four, every year. In contrast, the estimated cost of a comprehensive poverty reduction plan in BC is \$3 to \$4 billion per year.

Governments often balk at the price tag associated with poverty reduction policies like investing in new social housing, increasing welfare, or implementing universal access to child care. What governments often fail to consider, however, is the large amount of resources that we spend, year after year, paying for the consequences of poverty.

Poverty in BC

- 12 per cent of British Columbians — more than half a million people — lived in poverty in 2009 (statistics are not yet available beyond 2009).
- BC has the highest poverty rate in Canada by far, and has had the highest child poverty rate for eight years running.
- Single mothers, Aboriginal people, recent immigrants and refugees, and people with disabilities are especially vulnerable to poverty.

HEALTH CARE: **\$1.2 BILLION** (0.6% OF GDP)

Living in poverty means you are more likely to live in cold, damp or unsafe housing. You are more likely to have a chronic health condition, struggle with addiction, have poor nutrition, and experience high levels of stress.

Research shows that poverty is a fundamental determinant of both physical and mental health. This is not surprising, given that living in poverty means you are more likely to live in cold, damp or unsafe housing. You are more likely to have a chronic health condition, struggle with addiction, have poor nutrition, and experience high levels of stress. You are more likely to be exposed to health hazards in your physical environment at home or at work, such as higher levels of pollution, dangerous manual labour, or living in a higher-crime neighbourhood.

People with low incomes also struggle with the private costs of health care, and most do not have access to supplementary insurance plans through work. Yet services like dental and vision care, prescription drugs, and rehabilitation therapies (such as physiotherapy) can play a vital role in preventative health care, and help people with chronic conditions (who are more likely to be poor) to avoid expensive hospitalizations.

We calculate the health care costs of poverty as follows:

- Research shows that the lower your income, the more likely you are to use public health care resources. BC's poorest 20 per cent, or "quintile," of families use a greater share of health care resources than any other group on the income ladder.

A CLOSER LOOK AT QUINTILES

These five groups (20% each) represent the entire population of BC (100%)



If the health care costs of the poorest 20% of British Columbians were reduced by raising their incomes to the levels of the 2nd quintile, it would save BC's public health care system:

\$1.2 billion per year.

- If poverty reduction initiatives reduced health care use for families in the poorest 20 per cent to that of the next quintile, it would save BC's public health care system 6.7 per cent of total spending each year.
- These potential savings are equivalent to \$1.2 billion in annual provincial health care spending, or 0.6 per cent of BC's GDP.
- These savings represent the costs of our current high poverty rates; in other words, the costs of inaction are \$1.2 billion in health care spending.

CRIME: \$745 MILLION (0.4% GDP)

People living in poverty are vastly overrepresented in Canada's prison population, and they are also more likely to be victims of crime.

It is very important not to overstate the connection between poverty and crime, and assume that all poor people are criminals. However, extreme poverty and financial stress can lead to crimes of desperation and/or living in unsafe situations. Research by the CCPA and Raise the Rates Coalition found that extremely low welfare rates lead people to make harmful "choices." These include staying with abusive partners, resorting to survival sex (trading sex for shelter, for example), panhandling, and stealing.

A recent report on preventing crime among children and youth, from the Vancouver Board of Trade and the Justice Institute of BC, argues that poverty does not lead to crime directly—but it does increase the risk of crime by creating high-stress family environments where parents may not be able to spend quality time with their children, or deal with problem behaviours if they arise.

Growing up poor is also closely linked to low school achievement and lower literacy rates. A number of studies have found that school performance in adolescence is among the strongest predictors of whether a person will get in trouble with the law, whether as a youth or adult. Programs offering high quality parenting supports and early childhood learning for families living in poverty have successfully helped the children who participate to stay out of trouble.

We calculate the crime-related costs of poverty as follows:

- According to Statistics Canada, one of the strongest predictors of being incarcerated is low literacy. In turn, one of the strongest predictors of low literacy is poverty.
- Research published by the federal Department of Justice calculated the total costs of crime in Canada at \$99.6 billion (including direct costs, such as policing and the criminal justice system, as well as intangible costs, such as pain and suffering and loss of life). Based on that report, we estimated the total cost of crime in BC at \$18.6 billion.
- Based on the statistical relationship between literacy, income, and crime, we calculate that the poverty-related costs of crime in BC were \$745 million in 2008.

People living in poverty are vastly overrepresented in Canada's prison population, and they are also more likely to be victims of crime.

LOST ECONOMIC ACTIVITY:

\$6.2 To \$7.3 BILLION (3.2% TO 3.7% GDP)

The largest cost of poverty comes in the form of lost productivity and foregone earnings. Most people living in poverty could have much higher incomes if they weren't dealing with unemployment (not able to find work), underemployment (not able to find enough work), or low wages (not able to find work that pays a decent wage). As a society, we are underutilizing the productive potential of a large portion of the labour force.

The income that the unemployed poor could earn from working, or that the working poor could earn from full-time jobs with decent wages, can be thought of as a loss to the total value of the economy, or the collective wealth of our society. We all stand to benefit from increasing the wages of lower income British Columbians, which would increase economic activity and provide a boost to local economies (where lower income earners are most likely to spend). Wage increases would also generate increased tax revenues for the provincial and federal governments. Reduced unemployment would mean lower costs to government for income supports and other transfers.

The income that the unemployed poor could earn from working, or that the working poor could earn from full-time jobs with decent wages, can be thought of as a loss to the total value of the economy.

We calculate the foregone productivity costs of poverty as follows:

- If poor households were able to escape poverty and raise their after-tax earnings to \$33,500 (the average for the second-lowest quintile on the income ladder), overall incomes (GDP) in BC would increase by \$6.2 billion.
- The bulk of this additional income (\$5.3 billion) would go directly to families in higher after-tax income, while the remainder (\$938 million) would go to the federal and provincial governments in income taxes and savings from reduced spending on social assistance, EI and other income-tested transfers.
- We calculate that the cost of poverty in reduced economic activity, foregone earnings and government savings amounts to between \$6.2 and \$7.3 billion per year.

INACTION VS. POVERTY REDUCTION

The bottom line is that poverty is not just a hardship for those who experience it; it is costly to British Columbians as a whole. We all pay for the negative consequences of poverty.

The estimates we present in this report are conservative—we chose to err on the side of underestimating the costs of poverty. For example, we did not include the costs of providing social services to people living in poverty. We also did not attempt to measure many of its less tangible costs, such as the impacts of high poverty levels on social cohesion or our feelings of safety. Nor did we capture the considerable economic resources funnelled into security-related expenses by those who are better off, such as home insurance or private security.

Our findings suggest that BC is spending between \$8.1 and \$9.2 billion per year to maintain the status quo of poverty. That's more than double the \$3 to \$4 billion needed to implement a comprehensive poverty reduction plan.

Purely on economic grounds, it makes more sense to tackle poverty directly than to continue to pay out year after year for its long-term consequences. The real question is not "Can we afford to reduce poverty?" but "Can we afford not to?"

A POVERTY REDUCTION PLAN FOR BC

It is entirely within the provincial government's power to significantly reduce poverty in BC and, in partnership with the federal government, eliminate it altogether. A commitment to poverty reduction means taking action to:

- End homelessness, and make sure all British Columbians have access to safe, affordable housing;
- Make sure no one in BC goes hungry;
- Improve pay and working conditions for people in low-wage jobs;
- Provide access to high quality, public child care; and
- Make training and education more accessible to low-income earners.

These are among the most immediate solutions to reduce the costs of inaction in BC. For more information see the 2008 CCPA report, *A Poverty Reduction Plan for BC*.

Our findings suggest that BC is spending between \$8.1 and \$9.2 billion per year to maintain the status quo of poverty. That's more than double the \$3 to \$4 billion needed to implement a comprehensive poverty reduction plan.

Introduction

Poverty is consistently linked to poorer health, higher justice system costs, more demands on social and community services, more stress on family members, and diminished school success for children. It is society at large that bears the cost of having to deal with these consequences of poverty.

LIVING IN POVERTY MEANS having to face hunger and inadequate nutrition, living in overcrowded, unsafe or inferior housing, and having few if any opportunities to fully participate in mainstream society. Both the material deprivation and the psychological stress that accompany poverty and economic insecurity take an enormous toll on the people who struggle with low income.

While there are many reports and studies that document the hardships experienced by those living in poverty, it is not hard to see that poverty's negative consequences extend beyond those directly affected. Poverty is consistently linked to poorer health, higher justice system costs, more demands on social and community services, more stress on family members, and diminished school success for children. It is society at large that bears the cost of having to deal with these consequences of poverty through higher public health care costs, increased policing and crime costs, and greater reliance on social services and charitable initiatives. To the extent that poor health and financial barriers to education lead to unemployment or underemployment among the poor, we all share the costs of reduced productivity and economic activity.

Yet the idea of quantifying the costs of poverty to society as a whole is relatively recent and at present the costs of poverty receive little attention from policy-makers. Efforts to reduce poverty tend to focus primarily on the moral case for reducing poverty, and understandably so. Poverty causes harm and suffering; allowing persistent poverty in a wealthy country like Canada—where we have the capacity to improve people's quality of life and prevent unnecessary human suffering—is unacceptable.

Evidence from a growing number of jurisdictions shows that poverty is not inevitable and can be significantly reduced through well-designed government policies.¹ This has led a number of community groups and anti-poverty advocates in BC to call on the provincial government to adopt a

¹ International comparisons of poverty in the developed world carried out by the Organization for Economic Cooperation and Development (OECD) reveal that Canada's poverty levels are higher than the average for the rich world. Other affluent countries have reduced their poverty rates and it is possible for Canada to do the same through appropriately targeted public policy interventions. See OECD (2008) for a comparison of poverty statistics and policy lessons for tackling poverty. Concrete examples of successful government-led poverty reduction initiatives in several jurisdictions are described in more detail in the 2008 CCPA report *A Poverty Reduction Plan for BC* (Klein et al., 2008).

comprehensive poverty reduction strategy that would tackle some of the root causes of poverty.² Seven Canadian provinces³ either have such plans or are in the process of developing them.

Poverty is a complex social and economic problem with multiple causes, so a successful strategy must be comprehensive and address the many facets of poverty in our communities. A provincial government-led approach, such as the one advocated by the BC Poverty Reduction Coalition and the 2008 CCPA report *A Poverty Reduction Plan for BC*,⁴ would require a substantial financial commitment. For example, the cost of fully implementing the policy recommendations made in the CCPA report is estimated to be in the order of \$3 to \$4 billion per year.⁵ The size of the investment needed may appear daunting for a provincial government during a period of slow recovery from a deep recession.

While the key elements of successful poverty reduction strategies are well understood and their costs are more or less known, there is very little information on the economic costs of *inaction*. This report sets out to address this knowledge gap by estimating some of the economic and social costs of poverty in BC.

WHAT WE KNOW ABOUT THE COST OF POVERTY

Economists have only recently started to examine the magnitude of social and economic costs of poverty in the rich world.⁶ The emerging evidence indicates that large amounts of resources are currently spent on countering the negative consequences of poverty, resources that could be more productively applied to preventing these consequences from occurring in the first place.

Some of the first Canadian analyses of the societal costs of poverty were done at the city level, commissioned by local charitable organizations or municipal governments. In a 2004 report commissioned by the United Way of Calgary and Area, University of Calgary health economists Alan Shiell and Jenny Zhang find that at a minimum, poverty costs the city of Calgary \$8.25 million per year in higher hospital admissions, increased need for special education funding, and forgone income and tax revenues as a result of poor youth dropping out of high school. Shiell and Zhang estimate that the costs of poverty in Calgary alone could be as high as \$56 million per year if the costs of criminal justice, increased reliance on social services, and socioeconomic deprivation are taken into account.⁷ Despite large gaps in the data required to accurately quantify the full economic costs of poverty, the research points to very high costs to society. Similarly, a 2009 report in the District of Sault Ste. Marie in Ontario, commissioned by its Social Services Administration Board, does not provide an exact estimate, but makes a compelling argument that the impact of poverty is experienced by the whole community, not just the poor.⁸

Some of the early work on estimating the economic costs of poverty at the national level was done in the US. Economists at the Center for American Progress examined the longer term cost of children growing up poor in one of the richest countries in the world and estimated that child

Evidence indicates that large amounts of resources are currently spent on countering the negative consequences of poverty, resources that could be more productively applied to preventing these consequences from occurring in the first place.

2 See www.bcpovertyreduction.ca for more information about the BC Poverty Reduction Coalition and its campaign.

3 These provinces are Quebec, Newfoundland and Labrador, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Manitoba.

4 Klein et al. (2008).

5 Klein et al. (2008), p. 54.

6 See, for example, Holzer et al. (2007) for analysis of child poverty costs in the US, Hirsch (2008) for the UK, and Laurie (2008) for broader poverty costs in Canada.

7 Shiell and Zhang (2004).

8 Community Quality Improvement (2009).

poverty costs the US a minimum of \$500 billion per year, or 4 per cent of the country's gross domestic product (GDP).⁹ Except for these few landmark studies, quantitative assessments of the costs of poverty are very rare. In a recently-compiled, comprehensive bibliography titled *The Cost of Poverty and the Value of Investment*, the National Council of Welfare references over 80 Canadian reports related to one aspect of the negative consequences of poverty or another, only a handful of which make any attempt to provide a quantitative estimate of the costs discussed.¹⁰

Among the first quantitative assessments of the economic and social costs of poverty in Canada was *The Cost of Poverty in Ontario*, prepared by economist Nathan Laurie for the Ontario Association of Food Banks in the fall of 2008.¹¹ The study estimated that poverty costs the province of Ontario between \$32 and \$38 billion every year in higher health care and justice system expenditures, lower economic productivity, and child poverty costs that get passed to future generations. These economic costs are substantial and amount to between 5 and 6 per cent of the entire provincial economy, as measured by GDP.

OVERVIEW

This paper estimates some of the broader social and economic costs of poverty in BC, both to the provincial treasury and to society at large. These costs represent the potential savings and economic gains that could be realized with a major reduction in poverty rates. Our analysis builds an economic case for increased government investment in poverty reduction.

This paper estimates some of the broader social and economic costs of poverty in British Columbia, both to the provincial treasury and to society at large. These costs represent the potential savings and economic gains that could be realized with a major reduction in poverty rates. Our analysis builds an economic case for increased government investment in poverty reduction in addition to the moral arguments.

We begin by briefly summarizing the evidence of poverty in BC to demonstrate that the problem is real and persistent in our communities. In Section 3, we outline our methodological approach to estimating the economic costs of poverty in BC and the data we use. The bulk of the report presents our analysis and estimation of the costs that poverty imposes in terms of health care, crime, and foregone incomes and economic activity.

We focus on two types of costs in particular. First, we quantify the societal resources devoted to tackling poverty's negative consequences. These costing sections follow the same basic structure: first, we review the literature that has established the connection between poverty and a range of negative outcomes that impose costs to governments and to society; next, we discuss the mechanisms or channels through which poverty results in these outcomes and review the evidence of causality in the particular case; and finally we estimate the costs that poverty imposes on society through the particular negative outcomes considered.

Second, we capture the economic value of foregone economic activity and lower productivity that are associated with poverty. These resources represent what economists call "opportunity costs" and they capture the idea that if poverty was significantly reduced or eliminated, these resources would be available to society.

We then briefly address the costs of children growing up poor, though these are not included in the final calculation of poverty costs. The paper concludes by assessing the strength of the evidence for an economic case for poverty reduction in the province, and presents policy recommendations for reducing the high costs of poverty to society.

⁹ See Holzer et al. (2007).

¹⁰ National Council of Welfare (2010).

¹¹ See Laurie (2008).

Poverty in BC

CONSIDERING THE COSTS OF POVERTY TO SOCIETY is particularly important in BC because BC has had one of the highest rates of poverty in Canada over the last few years, regardless of the measure used. The nature and extent of poverty in BC has been well documented in previous reports published by the CCPA and other provincial community organizations.¹² We do not seek to recreate the existing evidence, but to highlight some of the key facts.

Poverty is typically defined as a state of having inadequate financial resources to meet one's needs, and various income thresholds can be used to assess whether a particular individual or family is experiencing poverty. There is no official measure of poverty in Canada, but there seems to be general agreement on using one of two common Statistics Canada measures.

The most commonly used set of income thresholds is Statistics Canada's Low Income Cut-Off After Tax (LICO-AT). The LICO is a hybrid of both an absolute and a relative measure of poverty as it represents an income threshold below which a family spends a considerably larger share of its income (20 per cent more) on basic necessities such as shelter, food and clothing, than the average Canadian family. Such a family is considered to be in "strained circumstances" or low income by Statistics Canada. LICOs vary by family size and community size, but do not capture variations in costs of living across provinces.

The Market Basket Measure (MBM) is a relatively recent absolute measure of poverty in Canada. It is based on the actual costs of a specified basket of goods and services in a particular community. With the MBM, a family is considered to be living in low income if its disposable income cannot cover the costs of the specified basket within their community or a similarly-sized community in the same region. The MBM typically produces higher poverty rates than the LICO. In addition, the MBM is sensitive to provincial differences in costs of living (such as housing), which are particularly high in BC cities.

The MBM was subjected to a comprehensive methodological review in 2010 and a new revised series of MBM thresholds between 1999 and 2008 was published by Statistics Canada, which took over responsibility for calculating the MBM from Human Resources and Skills Development

BC has had one of the highest rates of poverty in Canada over the last few years, regardless of the measure used.

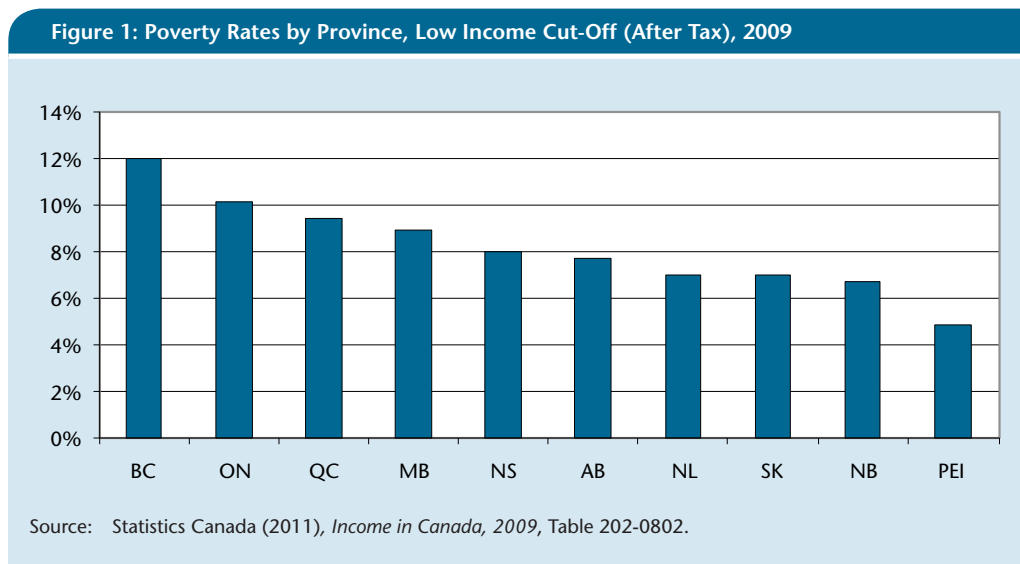
¹² For a comprehensive recent overview of the state of poverty in BC and who is poor, see CCPA's 2008 report, *A Poverty Reduction Plan for BC*. First Call: BC Child and Youth Advocacy Coalition provides a detailed analysis of BC's child poverty rates annually, most recently in its *2010 Child Poverty Report Card* (BC Campaign 2000, 2010).

Canada. However, concerns have been raised about the revisions, in particular that changes in the estimated cost of shelter have severely distorted the housing component of the basket in BC, resulting in unrealistically low shelter cost thresholds.¹³ This is why we have relied on the LICO-AT whenever possible in the analysis that follows.

Regardless of the poverty threshold chosen, it is broadly accepted that poverty is a complex social issue whose pervasive impacts extend far beyond the direct harms caused by material deprivation to cover multiple facets of disadvantage, insecurity and marginalization, all of which impose costs to the different levels of government and to society as a whole.

Over half a million British Columbians—12 per cent of the provincial population—lived in poverty in 2009 according to the LICO-AT. Figure 1 compares the latest available poverty data by province.

With a very high cost of living (particularly for housing), many British Columbians experience economic insecurity and struggle to make ends meet. Some demographic groups are much more likely to experience poverty than the general population because of particular institutional barriers they face.



With a very high cost of living (particularly for housing), many British Columbians experience economic insecurity and struggle to make ends meet. Some demographic groups are much more likely to experience poverty than the general population because of particular institutional barriers they face. These groups include single mothers with young children, people of Aboriginal ancestry, recent immigrants and refugees, and people with disabilities, mental illness or addictions.¹⁴

Far too many BC children are growing up in poverty. BC has recorded the highest child poverty rate in the country for eight years running—one in eight children lived in a family below the after-tax Low Income Cut-Off in 2009.¹⁵

Figure 2 reveals that from the early 1980s through to the late 1990s, BC's poverty rate was similar to the overall poverty rate for Canada. However, since 1998, BC's poverty rate has diverged substantially, as national poverty levels fell more steadily and rapidly than BC's. Despite years of

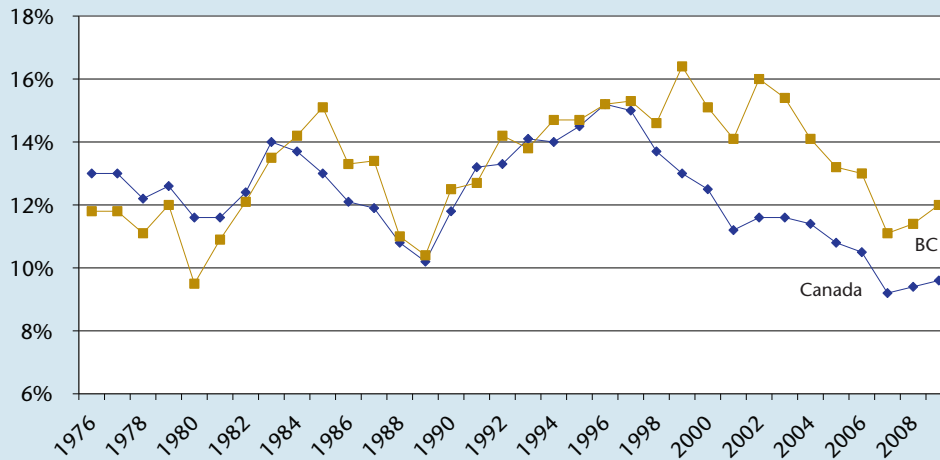
13 For example, the estimate of the cost of shelter in 2007 for a family of two adults and two children in Vancouver was lowered from \$1,033 per month to \$621 per month. See BC Campaign 2000 (2010) for a more detailed discussion of these concerns.

14 For a more in-depth discussion of why these groups are disproportionately affected by poverty, see Klein et al. (2008).

15 BC Campaign 2000 (2010) documents that BC has had the highest child poverty rates for seven years running in 2008 (using LICO-AT). Statistics Canada recently released the data for 2009, which shows that BC has the highest child poverty rate among provinces in 2009 as well, making it eight years running (see Statistics Canada, 2011). The child poverty rate in BC for 2009 was 12 per cent.

strong economic growth and record low unemployment in the mid-2000s, BC entered the recession with a poverty rate 20 per cent higher than the rest of Canada. It seems clear that economic growth alone has not been sufficient to deal with poverty in BC.¹⁶ In 2009, 12 per cent of British Columbians were living on low incomes compared to the national rate of 9.6 per cent.

Figure 2: Poverty Rates, BC and Canada, Low Income Cut-Off (After Tax), 1976–2009



Source: Statistics Canada (2011), *Income in Canada, 2009*, Table 202-0802.

These numbers capture the recent recession, which hit BC and Canada in the fall of 2008 and lasted through 2009. The 2008 recession was the deepest BC has had since the 1980s and while the province is slowly recovering, the unemployment rate is projected to remain well above 7 per cent in 2011, a far cry from the 4.3 per cent of 2007. Figure 2 shows that poverty rates kept increasing for a number of years following the recessions in the early 1980s and the early 1990s. If history is any indication, poverty rates are likely to have risen during the slow recovery of 2010.

Given BC's high poverty rates, the social and economic costs of poverty are likely to be particularly pronounced in this province.

Given BC's high poverty rates, the social and economic costs of poverty are likely to be particularly pronounced in this province.

¹⁶ This is not unique to BC. A recent OECD report devotes a 45-page chapter to the question "Is work the best antidote to poverty?" and confirms that, while employment considerably reduces the risk of poverty, government transfers and supports for vulnerable populations are the key to explaining the large differences in poverty rates across the rich world. OECD (2009) finds that, on average, social transfers reduce the rate of in-work poverty by almost half in the OECD area.

Our Approach to Estimating the Cost of Poverty in BC

We focus on two types of costs in particular: the societal resources devoted to dealing with poverty's negative social consequences and the total economic value of foregone production and reduced economic activity connected to poverty.

TO QUANTIFY THE ECONOMIC COST OF POVERTY IN BC, we adopt a methodology similar to that used by Nathan Laurie in *The Cost of Poverty in Ontario*, published by the Ontario Association of Food Banks. The Ontario project brought together a number of prominent researchers and business economists who collaborated in the development of a systematic way to account for the monetary cost of poverty both in the province and in Canada as a whole. The advisory team included then TD Bank Senior Vice President and Chief Economist Don Drummond, Canadian Policy Research Networks Senior Fellow Judith Maxwell, University of Toronto School of Public Policy and Governance Director Dr. Mark Stabile, and Metcalf Foundation Researcher John Stapleton, among others.

Similar to the Ontario study, we consider the connections between poverty and broader economic and social issues such as health, crime and foregone economic activity, each addressed in a separate section.

Conceptually, our costing approach works as follows. We use the statistical association between poverty and a number of negative outcomes that accompany it, such as reduced earnings, engagement in crime or criminalized activities, and higher use of the health care system (all well documented in the research literature), and combine this information with estimates of the costs these outcomes impose on government finances and on society at large.

In our estimation of the economic costs of poverty in BC, we focus on two types of costs in particular: the societal resources devoted to dealing with poverty's negative social consequences and the total economic value of foregone production and reduced economic activity connected to poverty. These resources represent what economists call "opportunity costs" and they capture the idea that if poverty was significantly reduced or eliminated, these resources would, instead, be freed up and available for society to use for other purposes.

We estimate the costs of poverty to government directly as well as to society as a whole. Costs to government include the extra public expenditures on health care to remedy poorer health associated with poverty; the incremental costs of policing, the justice system and providing victim services as a result of higher crime; and the foregone income tax revenues and higher transfer payments provided to people with low incomes that would no longer be needed if poverty was eliminated. These costs are paid mostly by BC's provincial government, though the federal government would benefit from higher income tax revenues and increased economic activity if poverty were to be significantly reduced or eliminated, and municipal level governments would also see some savings.

Broader societal costs include intangible victim costs of crime, and the costs of foregone productivity and economic activity resulting from poverty. Some of the productivity gains realized through successful poverty reduction will accrue directly to people formerly living in poverty in the form of higher income. However, the focus of our analysis is not on the costs of poverty to those who experience it directly, but on the costs to society at large in terms of reduced overall economic activity.

We do not restrict our analysis to a single measure of poverty, but rather use a number of measures in our calculations of the costs of poverty in BC. This decision is driven mainly by data limitations. Research on the costs and benefits of poverty reduction is still in its early stages and there are large gaps in the data needed to systematically quantify the costs of poverty in BC and Canada.

Despite the gaps in data and the limitations in social scientists' understanding of the exact mechanisms through which poverty leads to a range of negative outcomes, we consider it very important to embark on the exercise of estimating the economic costs of poverty in BC. This exercise advances our collective understanding of the consequences of this complex social issue and starts a conversation about an aspect of poverty that is rarely discussed.

Whenever possible, we use Statistics Canada's Low Income Cut-Offs (LICOs) as thresholds for defining poverty. The LICOs are technically thresholds of low income and not poverty, but they are the closest thing to an official measure of poverty that we have in Canada. For the most part in our calculation, however, we classify people living in poverty to be those in the lowest quintile of the family income distribution; meaning, the 20 per cent of BC families with the lowest incomes. The quintile approach focuses on relative poverty rather than absolute material deprivation. It is particularly useful because it has a much richer base of literature connecting low income with the negative consequences associated with poverty than any of the other common measures of poverty.¹⁷ Because average income levels of families in the bottom quintile are very low (see Tables 2 and 3 later in the report), we consider the experience of families in the bottom quintile to reasonably reflect the experience of people living in poverty.

We estimate the costs of poverty to government directly as well as to society as a whole.

¹⁷ Relative measures of poverty have been criticized by some for being too generous. However, all measures of poverty and low income, even the ones based on costing a specific basket of goods, are by nature relative to the cultural and societal norms prevalent in a particular place at a particular time (because decisions have to be made about what to include in the basket).

Poverty Versus Inequality

Poverty and income inequality are two related but distinct phenomena. Both have been associated with a number of negative social consequences and costs. Both are more prevalent in BC than in the rest of Canada and have been subject to growing concern.^a

The key difference between the two is that poverty is frequently associated with (absolute or relative levels of) actual material deprivation, while income inequality reflects uneven distribution of financial resources among the population that does not have to involve material deprivation. Theoretically, the entire population could be above a certain minimally acceptable standard of living, though in practice this is rarely, if ever, the case.

While inequality and poverty are different, rising inequality can lead to increases in poverty. For example, international research finds that more unequal societies tend to tolerate higher levels of poverty.^b And in very concrete terms, in more unequal societies the rich bid up the cost of basics, such as housing, causing affordability problems for lower-income households.

The focus of this report is poverty and its costs to society. To the extent that income inequality is considered at all, it is at the very bottom of the distribution, where it is closely intertwined with relative definitions of poverty.

It should be noted that rising income inequality is a cause of concern in its own right. It often signals growing inequality in opportunities available to citizens and undermines social cohesion. Inequality itself is correlated with a host of higher societal costs similar to the costs of poverty discussed in this paper. The groundbreaking work of epidemiologists Richard Wilkinson and Kate Pickett, for example, surveys industrialized countries and finds that income inequality is correlated with a great number of social ills, including more addiction and mental health problems, more teenage pregnancy, higher school dropout rates and less educational attainment, more chronic health problems, and more violence and crime. They contend that societies with larger income gaps experience a level of psycho-social stress that in turn worsens these problems, not just for the poor, but right through the income hierarchy. They find that it is not just the poor who experience worse health in more unequal societies, but middle- and upper-income households as well.^c

^a For a discussion of the state of poverty in BC, see Klein et al. (2008). For the state of inequality in BC, see Ivanova (2009).

^b Fortin (2010).

^c Wilkinson and Pickett (2009).

While inequality and poverty are different, rising inequality can lead to increases in poverty. For example, international research finds that more unequal societies tend to tolerate higher levels of poverty.

A number of economists and other social scientists have investigated the exact channels or mechanisms through which poverty leads to the range of negative consequences it is often associated with, and whether relative or absolute poverty is the relevant variable. So far, research has not successfully disentangled the role of income and material deprivation from the social factors and exclusion that are associated with poverty. To the extent that these disadvantages tend to appear together, it is hard to imagine how one could be changed while the others kept constant in real life. This is why it is most practical for policy makers to look at the effects not just of low incomes, but of the entire host of disadvantages associated with poverty.¹⁸

This is why in this report we take a broader view of poverty to extend beyond just the lack of financial resources, and include “a cluster of disadvantages of which economic poverty is a key driver.”¹⁹ This is another reason why we are comfortable adopting a relative measure of poverty (the quintile approach) for our analysis.

We consider observed differences between the lowest and the second lowest quintile to reflect the effects of poverty. While this may sometimes seem to overestimate the effects of poverty on a particular outcome,²⁰ existing data allows us to quantify only a limited subset of the economic costs of poverty to society. Overall, while seeking to arrive at a reasonable estimate of the cost of poverty in BC, we have erred on the side of making conservative assumptions. As a result, the numbers presented likely understate the true economic cost of poverty.

It is most practical for policy makers to look at the effects not just of low incomes, but of the entire host of disadvantages associated with poverty.

18 It logically follows that the potential policy levers that could be used to reduce the disadvantages associated with poverty go beyond increasing family income through direct transfers.

19 This is a definition used by Canada’s Chief Public Health Officer, Dr. David Butler-Jones, in his 2008 Report on the State of Public Health in Canada, p. 17. Chapter 3 and 4 of the report explore the various aspects of poverty and the interconnections between them in more detail (Butler-Jones, 2008).

20 This would be the case if certain personal characteristics independently explained *both* the levels of poverty and the poorer performance on particular health or social indicators. In that case, our methodology may falsely assume that reducing poverty would reduce another cost (such as health costs). For example, if a person ends up in the lowest income quintile because they have a disability that discouraged school success, this same disability could also lead to health problems. In this example, the person’s poor health is not caused by her living in low income and therefore is not a direct cost of poverty (and poverty elimination would not necessarily improve the person’s health).

Health Care

POVERTY AND HIGHER HEALTH CARE COSTS

Regardless of the health measures used, for both physical and mental health, Canadians with lower incomes and those with other socioeconomic disadvantages, such as lower levels of education, tend to do worse than Canadians who enjoy higher socioeconomic status.

Recent Canadian research has documented large inequities in both health status and health care utilization among people at different income levels. Low-income Canadians suffer from higher prevalence of disease and disability, and have shorter life expectancy than higher-income Canadians. Regardless of the health measures used, for both physical and mental health, Canadians with lower incomes and those with other socioeconomic disadvantages, such as lower levels of education, tend to do worse than Canadians who enjoy higher socioeconomic status.²¹

These inequities persist when populations are adjusted for age and sex, so they are not driven by the demographic differences among people in low and high socioeconomic status. Some inequities in health status and use of health care persist even when personal health-related behaviours—like smoking and exercise—are accounted for.²²

If living in poverty makes people sicker, then poverty is costing us all. By tolerating poverty, we end up spending more on treating preventable and avoidable illness.

Research published by the Canadian Institute for Health Information confirms that people living in low socioeconomic status areas—the vast majority of whom are in poverty—are more likely to be hospitalized for conditions where hospitalization can be avoided with adequate preventative care and early disease management.²³ The authors estimate that between 33 and 40 per cent of all hospitalizations for these conditions are excess hospitalizations associated with lower socioeconomic status groups. Half of these excess hospitalizations come from the disparities observed in the bottom socioeconomic quintile.

There does not seem to be a magic threshold of minimum socioeconomic status, or income, after which increasing socioeconomic status and income have no effect on hospitalization rates. Similar patterns have been observed for virtually all health outcomes that have been studied. This is why

21 Significant disparities in health status by income level have been documented worldwide, in rich and poor countries alike. Interestingly, researchers looking at the connections between individual income levels and individual health status find similar results to researchers who have examined the health-income relationship at a neighbourhood or country level. See, for example, the World Health Organization's Commission on Social Determinants of Health report from 2008. For a summary of the Canadian evidence, see Butler-Jones (2008), BC Healthy Living Alliance (2009), Health Officers Council of BC (2008).

22 For example, Fang (2009) finds evidence of poorer health outcomes among the low income population in BC than in the province of Quebec, despite the fact that BC had a lower prevalence of behavioural risk factors.

23 CIHI, 2010a.

the relationship between socioeconomic status and health is frequently described as a “gradient.” The image of a slope illustrates the distribution of health status across the socioeconomic spectrum: at any point of the spectrum, those with higher incomes and education also enjoy better health outcomes than those with lower incomes or education.

However, the poorest health outcomes tend to be concentrated at the bottom of the socioeconomic spectrum, which suggests that significant improvements in health outcomes can be made by focusing attention and resources on those who are living in poverty.

Given the high costs of acute care services provided in hospitals, reducing or eliminating preventable hospitalizations could be an important component of reducing costs in the health care system.

It is important to recognize that these savings would materialize only if the connection between low income and poorer health was causal, which is to say if living in low income leads to poorer health. If, instead, the direct opposite happened and it was people’s poor health that drove them to a life in low income (because it prevented them from getting or maintaining full-time employment, for example), then reducing poverty among working-age adults would not be expected to improve the health of this population or reduce their health care costs.²⁴

While causality almost certainly runs both ways, comprehensive reviews of the health inequities literature find that “most studies reviewed ... conclude that the main direction of influence is *from* poverty to poor(er) health.”²⁵ This is what gives us confidence that reducing poverty, even among adults, would result in direct improvements in their health.

In fact, there is now a consensus among health researchers that income is an important social determinant of health, meaning a factor outside the health care system that affects health outcomes. The disparities in health status and health care utilization are so significant that health researchers have begun to focus on the potential of a social-determinants-of-health approach for improving population health outcomes.

The exact mechanisms through which poverty and low socioeconomic status cause people to suffer poorer health are still a matter of debate among researchers, but there are currently two leading theories: the neo-materialist and the psycho-social.

Neo-materialist theory proposes that low income and socioeconomic status affect health by affecting the availability and quality of material factors that influence health, including nutritious food, adequate shelter and health services.²⁶ This theory makes common sense as poverty shapes the conditions in which people live and work, shaping the spectrum of opportunities and choices available to them, and these conditions in turn can directly impact individual health status. For example, people with lower incomes tend to be exposed to more health hazards in their physical environment at home or at work, including higher levels of pollution, lower air quality and higher crime levels. They may also face financial barriers to making healthy lifestyle choices. For example, they may live in a neighbourhood in which access to fresh produce or regular exercise is physically limited or unaffordable.

There is evidence that income and socioeconomic status can influence access to health care services even under our universal public health care system. About 30 per cent of all health care spending in Canada is privately paid, mostly through private insurance, but some comes directly

The poorest health outcomes tend to be concentrated at the bottom of the socioeconomic spectrum, which suggests that significant improvements in health outcomes can be made by focusing attention and resources on those who are living in poverty.

²⁴ Another reason why poverty reduction may not improve health is if there was another factor that independently led to both poverty and poorer health. An example is provided in note 20.

²⁵ Phipps (2003).

²⁶ For an excellent summary, see Kawachi, Adler and Dow (2010).

out of pocket. A recent Canadian study focused on the health of people with low incomes found higher prevalence of chronic disease among people living in low income in BC than in other provinces, despite better reported health behaviours and no differences in the availability of care. The ability to pay for the private elements of health care, such as prescription drugs, rehabilitation therapy, vision and dental care is documented to negatively impact the health of lower-income British Columbians. Almost a third of the low-income population in BC who had unmet health care needs reported that cost was a factor. In contrast, in Quebec, the Canadian province that had the healthiest low-income population according to the study, only 6 per cent of low-income residents with unmet health needs cited cost as a barrier.²⁷

Almost a third of the low-income population in BC who had unmet health care needs reported that cost was a factor. In contrast, in Quebec, the Canadian province that had the healthiest low-income population according to the study, only 6 per cent of low-income residents with unmet health needs cited cost as a barrier.

The psycho-social theory, on the other hand, proposes that it is not absolute material deprivation but relative inequality that directly worsens the health outcomes of those who live in poverty. The theory maintains that those who are underprivileged in an unequal society suffer a number of negative consequences because of their reduced access to psycho-social resources such as status. One of the landmark studies here is that of Whitehall civil servants in the UK, led by Dr. Michael Marmot at University College London. The research was designed to investigate workplace factors that affect the health of the workforce and involved researchers following a cohort of British civil service employees for 20 years. A large number of research reports have been produced analyzing the data from this study, and the analysis consistently finds that lack of control over one's circumstances and other such psycho-social aspects of one's relative occupational grade/social class are the main driver of both mental and physical health inequalities between people in different types of jobs.²⁸ The findings of the Whitehall Studies are re-enforced by the work of British epidemiologists Richard Wilkinson and Kate Pickett (popularized in their book *The Spirit Level*), which similarly highlights the role of relative, rather than absolute, levels of income in explaining poorer health outcomes.²⁹

Ultimately, it is likely that both absolute and relative income make a difference. However, understanding the exact mechanisms through which poverty leads to poorer health is not necessary for estimating the economic costs of poverty. These channels have important implications for the design of effective strategies to reduce poverty, but they do not affect the economic costs that society pays to deal with the health consequences of poverty.

ESTIMATING THE HEALTH CARE COSTS OF POVERTY

While there is considerable empirical evidence of the links between poverty and poor health, little research has been done to date on quantifying the costs of illness associated with poverty.³⁰

One of the few Canadian studies that investigated the connection between income, increased health system use and associated costs was conducted by a team of health researchers and economists led by Dr. Cameron Mustard.³¹ The researchers were able to link individual health care use records from the Manitoba Health Services Plan with Census data on incomes for a sample of over

27 Fang et al. 2009. Note that the authors compare the chronic disease prevalence among low-income people in each province to the best performing province, Quebec.

28 The Whitehall Studies refer to a large-scale research project conducted through University College London. Two rounds have been completed: Whitehall I, which began in the late 1960s and followed male workers only and Whitehall II, which was undertaken in the mid-1980s and expanded the analysis to female workers as well. For more information on the project, see the UCL website at www.ucl.ac.uk/whitehall

29 Wilkinson and Pickett (2009).

30 This was one of the conclusions of a 421-page report published by GPI Atlantic that reviewed the evidence and methodologies needed to produce an estimate of the health costs of poverty in Canada. See Hayward (2008).

31 Mustard et al. (1998).

16,000 households. The newly created database was used to estimate the share of public health care expenditures that went to serving the health care needs of families in each income decile in 1986 and 1994.

These shares of health care spending can be used to estimate the potential savings to the BC public health care system associated with improving the socioeconomic status of low-income citizens.³² This approach was used to estimate the public health care costs of poverty in Ontario in Nathan Laurie's 2008 report for the Ontario Association of Food Banks.

Table 1 shows the patterns of public health care resources use by income quintile in BC based on Mustard et al. Note that people living in families in the poorest income quintile used almost a third of all public health care spending, while those in the second income quintile of families used less than one quarter of resources. Higher up the income spectrum, families used fewer public health care resources. In the Manitoba study, the extra costs of providing services to those in the bottom quintile of the income distribution (compared to costs of services to higher income families) amounted to 6.7 per cent of the public health care system costs. This estimate is very similar to the findings of a 2009 study of Saskatchewan families' health care use by income, published in the Canadian Journal of Public Health, which found that extra costs for people falling under Statistics Canada's Low Income Cut-Off account for 6 per cent of total health care costs in Saskatchewan.³³

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Table 1: Impact of Poverty on Public Health Care Spending

Income quintiles	(1) Share of total public health expenditures by quintiles	Total public health expenditures in 2010 distributed as percentage shares in column (1), in \$ billions	
		(2) Canada	(3) BC
Poorest 20%	30.9%	\$41.7	\$5.3
2nd quintile	24.2%	\$32.7	\$4.2
3rd quintile	16.2%	\$21.9	\$2.8
4th quintile	14.1%	\$19.0	\$2.4
Richest 20%	14.6%	\$19.7	\$2.5
Total		\$135.1	\$17.2
Estimated reduction in total public health expenditures from poverty reduction			
If first quintile spending were reduced to second quintile spending		\$9.1 billion (from \$41.7 to \$32.7)	\$1.2 billion (from \$5.3 to \$4.2)
Note: The totals in each column may not add up exactly due to rounding.			
Source: Author's estimates based on the Ontario Association of Food Banks, 2008, <i>Cost of Poverty</i> and Canadian Institute for Health Information, 2010, <i>National Health Expenditure Trends 1975–2010</i> .			

32 This requires us to make some assumptions. First, we assume that health care utilization patterns by income do not differ across provinces and have remained relatively constant since the time of the Mustard et al. (1998) study. While the shares of health care spending consumed by income quintile remained stable between 1986 and 1994, it should be noted that this was a period of relatively low income inequality. In the 15 years since the mid-1990s, income inequality in Canada has increased substantially, and BC is now one of the most unequal provinces. Income insecurity among low income families has also increased with the rise of low paid and precarious work, the changes in welfare and the relaxing of labour standards. Both of these trends suggest that, if anything, the importance of social determinants of health has increased since the mid-1990s, which makes us confident that our assumptions are not overly generous.

33 Lemstra et al. (2009) also use a linked dataset approach, linking income data from the 2001 Census to health data from the Canadian Health Survey and individual health care records. This study uses more recent data, but it has a much smaller sample size—3,433 households—compared to over 16,000 for Mustard et al. (1998). The fact that both studies produce a very similar estimate of the extra costs of health care due to poverty gives us additional confidence in using the results of Mustard et al. (1998) for our calculation.

If poverty reduction initiatives were able to reduce health care use for families in the bottom income quintile to the levels observed for the second-lowest income quintile, this would save the public health care system about 6.7 per cent of its total spending every year. Using the latest available data on public health care spending in BC from the Canadian Institute of Health Information, we calculate that such a reduction could save the public purse about \$1.2 billion in BC in health care spending.³⁴ This amounts to 0.6 per cent of the provincial gross domestic product (GDP).

Comparing our estimate with other studies that use different methodologies to estimate the health-related costs of poverty confirms that our estimate is likely to underestimate the full health care costs of poverty. A number of studies have arrived at much higher health-related costs of poverty by taking a broader perspective on social costs, for example by including productivity losses as a result of higher morbidity.

If poverty reduction initiatives were able to reduce health care use for families in the bottom income quintile to the levels observed for the second-lowest income quintile, this would save the public health care system about \$1.2 billion in BC.

European researchers estimate that inequality-related losses to health annually account for 20 per cent of the costs of health care systems in the European Union.³⁵ A very similar estimate was produced by the Public Health Agency of Canada, which found that about 20 per cent of total health care spending in Canada is attributable to health inequities.³⁶ Extrapolating this estimate into a dollar value for BC, the Health Officers Council of BC calculates that the health care-related costs in BC are very high, about \$2.6 billion in 2007.³⁷ The BC Healthy Living Alliance estimated that the three major risk factors associated with poverty and health inequities (tobacco use, physical inactivity and overweight/obesity) cost the BC economy about \$3.8 billion annually.³⁸

The actual health care savings from successful reduction of poverty in BC would depend on the specific set of policies implemented. Some of these savings would likely need time before they are fully realized and cannot be expected to occur immediately after reducing poverty. However, our estimate is a useful indicator of the magnitude of the potential savings that would accompany successful poverty reduction over the long run.

While we still need more research to improve our understanding of the causal pathways between low income and poorer health, we are now at a point where we have accumulated sufficient, strong evidence that poverty is a significant driver of costs to the public health care system. As Michael Kelly and his colleagues indicate in a report to the World Health Organization's Commission on the Social Determinants of Health, "enough is known in many areas, and the evidence is good enough, for us to take effective action."³⁹ Poverty reduction measures can play a key part in the long-term effort to develop a less costly, more sustainable health care system while improving health outcomes for all British Columbians.

34 The Mustard et al. paper shows that health care utilization varies by income even after controlling for age and sex. However, the cost estimates it provides do not include age/sex controls.

35 Mackenbach et al. (2007).

36 Public Health Agency of Canada (2004).

37 Health Officers Council of BC (2008), p.9.

38 BC Healthy Living Alliance (2005). Interestingly, this economic estimate was put together before the Alliance put much consideration into health inequities, so the direct connections between low income and chronic disease are not addressed explicitly in this report. However, after the BC Healthy Living Alliance further analyzed the data on the highest risk populations, it concluded that income and socioeconomic status play a key role in explaining differences in chronic disease prevalence among Canadians, which is what makes its cost estimate relevant here.

39 Kelly et al. (2007).

Crime

POVERTY AND HIGHER CRIME COSTS

Criminal activity imposes extremely large costs to society. In 2008, Canada spent over \$15 billion on policing and the criminal judicial system. Victims' services and other direct costs, such as medical costs, lost wages and stolen/damaged property amounted to over \$16 billion, while intangible costs, such as pain and suffering and loss of life are estimated at \$68 billion.⁴⁰ In addition, people who are convicted and incarcerated lose their income from employment, often lose custody of their children (a concern for young women in poverty, in particular) and face reduced future labour market opportunities as a result of having a criminal record.

Poverty has frequently been linked to crime, as people living in poverty are vastly overrepresented in Canada's prison population and they are also more likely to be victimized by crime. While the exact mechanisms that connect poverty and criminal activity are complex, and it is important not to overstate the connections, there is compelling evidence that reducing poverty and providing supports and resources to lower income individuals and families with children to tackle life problems can significantly reduce crime.

To be clear, most poor people do not engage in criminal activity. Nevertheless, there are realities to living in poverty — both with respect to material deprivation and social exclusion — that mean that, statistically speaking, poverty can be correlated with increases in certain criminal activity (although arguably, society pays as much or more for other forms of criminal activity more likely to be perpetrated by higher-income white-collar criminals).

We know that adolescent boys and young men are more likely to commit crimes than any other demographic group, and living in poverty or in a low-income community are two of the commonly identified risk factors for a person's involvement in crime. There are several reasons for this.

Extreme poverty and financial stress can directly lead to crimes of desperation and to criminalized activity such as drug use and prostitution. For example, in the CCPA's *Living on Welfare in BC* report, the authors found that some people who could not make ends meet on income assistance (either because of inadequate benefit rates and/or restrictions on eligibility for assistance) "feel

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⁴⁰ The estimates of the costs of crime in this paragraph are from Zhang (2011).

compelled to resort to panhandling, survival sex, or various other illegal activities.”⁴¹ Researchers observed that welfare recipients who were able to find employment and get out of poverty did not seem to engage in these illegal activities, which suggests that addressing deep poverty will likely have an impact on crime.

There is also the connection between poverty and social exclusion or depression, which in turn is closely linked to addiction and its associated criminalized activities.

A recent report on the prevention of crime among children and youth, published by the Vancouver Board of Trade and the Justice Institute of BC, argues that low incomes and financial deprivation do not lead to crime directly, but that the consequences of parental low socioeconomic status present a risk factor. The report argues that low socioeconomic status makes it more difficult for parents to have the time and resources to spend quality parenting time with their children and, more importantly, to effectively address problem behaviours, should they arise.⁴² Similarly, as the CCPA’s living wage work has noted, working for low wages means that many parents have to work multiple jobs in order to meet their families’ basic budget needs, denying them the time to be with their children.⁴³

Poverty, in turn, contributes to low literacy rates and poor school achievement because it shapes the circumstances in which children and adolescents live and learn.

Research from the National Council of Welfare (2000) suggests a similar pathway between family poverty and youth criminality: “The social status and income of the parents have little or no *direct* effect on the likelihood that children will turn to delinquency, although they may in some cases have *indirect* effects by amplifying life problems that can lead to crime.” These indirect effects are related to poorer education attainment in particular, and a number of studies have found that school performance in adolescence is among the best predictors of both juvenile delinquency and adult criminality.

Research by Statistics Canada confirms this. The Criminal Justice Indicators 2005 report summarizes the state of the evidence on the connection between literacy and criminality to conclude that the levels of literacy among the prison population are considerably lower than those of the general population, and that “poor literacy skills for men and poor numeracy skills for women increase the likelihood of offending and that offenders who improved their literacy and numeracy skills had a lower readmission to prison.”

Poverty, in turn, contributes to low literacy rates and poor school achievement because it shapes the circumstances in which children and adolescents live and learn. Understanding the pathways through which living in poverty increases one’s risk of getting involved in crime is crucial to designing effective poverty reduction initiatives that would reduce societal costs of crime. Evidence shows that high quality parenting support and early childhood learning interventions piloted in the US for families and children in poverty have resulted in large reductions in the incidence of crime among participating children.⁴⁴

41 Klein and Pulkingham (2008).

42 Park (2010).

43 See, for example, Richards et al. (2008).

44 See Belfield et al. (2006) for a review of the Perry Preschool program, or Barnett and Masse (2007) for an evaluation of another successful early childhood intervention program in the US, the Carolina Abecedarian program.

ESTIMATING THE CRIME/JUSTICE SYSTEM COSTS OF POVERTY

Laurie (2008) developed a methodology to estimate the cost of poverty associated with crime based on the links between low income, poorer literacy and crime. Data from the 2003 International Adult Literacy Survey (IALS) on the joint distribution of incomes and literacy is used to calculate income-literacy probabilities, which are the probabilities that a person would be in a particular income quintile and a particular literacy quintile in Canada (data is not available at the provincial level). Table 2 shows these probabilities. It is clear that those with higher incomes are more likely to have higher literacy levels and vice versa.

Table 2: Joint Distribution of Literacy and Income in Canada

Literacy quintile	Income quintile				
	Poorest 20%	2nd	3rd	4th	Richest 20%
1st (least literate 20%)	8.3	5.8	3.4	1.6	0.8
2nd quintile	4.4	5.3	4.4	3.4	2.4
3rd quintile	2.5	3.9	4.8	4.9	4.0
4th quintile	1.9	3.2	4.4	5.2	5.4
5th (most literate 20%)	1.3	2.4	4.2	4.9	7.4

Source: Laurie (2008), Table 2.

Laurie combines the statistical relationships between literacy and income in Canada with the probabilities of engaging in crime in each literacy quintile to estimate the probabilities of a person engaging in crime given their position on the income ladder.⁴⁵ Using this method, Laurie estimates that raising the literacy level of those in the bottom income quintile to the literacy levels of the second income quintile would potentially save about 4 per cent of the total cost of crime.

In dollar terms, Laurie calculates that these poverty-related costs of crime are between \$1 and \$2 billion for Canada, using an estimate of the total costs of crime in Canada from a 2004 report by the federal Department of Justice. A more recent study of the costs of crime in Canada, published by the Department of Justice in February 2011, arrives at a much higher estimate for the total costs of crime.

Researcher Ting Zhang uses “improvements of costing methodology and data sources” to re-estimate both the tangible and intangible costs of crime in Canada.⁴⁶ Using a conservative methodology, Zhang finds that the total tangible social and economic costs of Criminal Code offences in Canada were approximately \$31.4 billion in 2008, including costs of the criminal judicial system, policing, and direct costs of crime to victims (e.g. medical costs, lost wages and stolen/damaged property). When the intangible costs of crime to victims were considered—costs such as pain and suffering and loss of life—the costs of crime increase to \$99.6 billion.

Zhang’s report allows us to break down the total costs of crime in Canada into the costs borne by government and the private costs borne by victims of crime and society as a whole. The cost of crime to the government, including costs of policing, criminal courts, prisons, crime prevention as well as victims’ services and health care, is estimated at \$17.4 billion in 2008. Private costs

⁴⁵ Laurie assumes that the probabilities for engaging in crime vary by literacy quintile, but within each literacy quintile they are the same for all income groups. He also assumes that the probability of engaging in crime is reduced by half in each move up a step in literacy quintiles.

⁴⁶ Zhang (2011).

to society, which include the value of stolen or damaged property, lost productivity, pain and suffering and the loss of life as a result of crime, amount to \$82.1 billion.

Table 3 presents the breakdown of the total costs of crime to government and to society in BC and Canada. Costs of crime in BC are estimated to be 18.7 per cent of the costs of crime in Canada, as that is the share of all crimes committed in BC.⁴⁷ Costs of crime attributable to poverty are set at 4 per cent of the total costs of crime, following the methodology proposed by Laurie (2008).

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

	Cost of crime in Canada	Cost of crime in BC	Cost of crime attributable to poverty in BC
Costs to government (policing, criminal justice system, health care for victims, victim services)	\$17.4 billion	\$3.3 billion	\$131 million
Costs to society at large (stolen and damaged property, lost productivity, pain and suffering, loss of life)	\$82.1 billion	\$15.4 billion	\$614 million
Total costs	\$99.6 billion	\$18.6 billion	\$745 million
Sources: Costs of crime in Canada are from Zhang (2011). Costs of crime in BC and the costs of crime attributable to poverty in BC are author's calculations.			

Using the most recent estimates of the total costs of crime in Canada, we calculate that the poverty costs of crime in BC were \$745 million in 2008.

Using the most recent estimates of the total costs of crime in Canada, we calculate that the poverty costs of crime in BC were \$745 million in 2008. This represents the potential savings in crime-related costs from reducing poverty and improving literacy rates among the lowest income British Columbians over the long term. As with the poverty-related costs of health care, these savings may take some time before they are fully realized.

⁴⁷ Latest numbers are for 2009 from Statistics Canada, Tables, "Crimes, by type of violation, and by province and territory" available at www40.statcan.gc.ca/l01/cst01/legal50c-eng.htm Accessed March 1, 2011.

Lost Productivity/ Economic Activity and Foregone Earnings

WORKERS WITH LOW LEVELS OF EDUCATION, those who do not have many marketable skills or whose skills and training are rendered obsolete by technological or industrial developments, often face poverty. It is obvious that poverty imposes an enormous cost on the poor in terms of foregone earnings. People who are living in poverty, whether because of job loss or because they are working in low-paid casual or precarious jobs that do not provide enough paid hours, often could be earning more if they had access to skills or opportunities to fully participate in the labour market.

In addition to the issue that some people lack the skills and opportunities to gain paid or better employment, it is important to note that some of BC's poverty problems arise from the fact that we have a large low-wage sector. Over a quarter million workers, or about 13 per cent of the BC workforce, earned less than \$10 per hour in 2008.⁴⁸ While paying low wages may make sense to the bottom line of some individual businesses, the same does not hold true for the overall economy or the public treasury, especially if low wages keep individuals or families stuck in poverty. Workers who earn higher incomes will spend more money in the local economy, boosting sales for a great number of BC businesses. They will also be paying more taxes, and using fewer government-provided social services and income supports, generating potential savings for all levels of government.

Unemployment and underemployment impose costs on society as a whole. The income that the poor might have earned from working, or that the working poor could have earned if their jobs paid better wages, can be thought of as a loss to the aggregate value of the economy or the collective wealth of our society. While this loss is not necessarily caused by poverty itself, it always accompanies poverty. Investments in reducing poverty through improving both basic education and specific skills training, better matching of workers with jobs locally, as well as strengthening

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⁴⁸ This number is from a special tabulation from Statistics Canada's Labour Force Survey.

labour standards and ensuring that jobs provide economic security to all workers, would result in better utilizing the productive potential of a portion of the labour force that is currently unemployed or underemployed. Such investments would potentially generate returns over time in the form of increased productivity and higher economic activity (or GDP).

A large portion of these returns would be realized by the poor people themselves, who would be able to escape poverty and earn higher incomes in better jobs. Other returns associated with the increased levels of economic activity would extend broadly to society at large.⁴⁹

Is it reasonable to expect that those living under the poverty line or within the bottom quintile of incomes could be more active in the labour market? There is a minority of people living in poverty who cannot be self-sufficient through paid employment. This group includes many people living with disabilities, seniors, mothers of very young children, and people being treated for or recovering from certain medical conditions that prevent them from working (full time or at all). Social assistance statistics suggest that these groups comprise only about 3 per cent of the population.⁵⁰ The vast majority of the remainder of the bottom 20 per cent of people living in non-elderly families could be earning more, if properly supported.

Three of the groups who tend to be overrepresented among the poor in BC—recent immigrants, Aboriginal people and single mothers with young children—are particularly good examples of groups that can (and should) be better integrated in the labour market. It is well known that for recent immigrants, some of the biggest barriers to getting well-paying, secure jobs lie in poor English language skills, lack of knowledge about local labour market conditions, and lack of recognition of immigrants' foreign credentials. It is easy to see that appropriately targeted policy interventions can help immigrants get access to better jobs and increase both productivity and economic activity in the province.

Aboriginal people, another group that also struggles with persistent poverty, have higher high school dropout rates than most other groups in Canada. Though their problems are a lot more complex than merely access to financial resources for education, a more focused approach to improving both their education and living conditions is likely to contribute to better integration of this typically marginalized group in the labour market. This would make our economy stronger and more productive.

Single mothers with young children need both support for skills training and education, and access to quality, affordable child care if they are to fully participate in the labour market. For many single mothers, lack of access to affordable child care remains a barrier to full-time work. The existing BC child care subsidy program provides some support for lower income families, but it does not cover the full costs of child care even among the most needy and the subsidy is phased out at relatively low incomes. Moreover, there is a serious shortage of child care spaces in the province and many child care providers have long waitlists.

It seems clear that policy initiatives exist that would enable many poor and low-income British Columbians to fully develop their potential, work in better jobs, and make a bigger contribution to the BC economy.

49 Note that in order to realize these gains, governments will have to invest up-front in poverty reduction. We include the value of these investments in the costs of a comprehensive poverty reduction plan, which is why it is not necessary to net them out in this estimate of the costs of poverty.

50 For example, the number of adult British Columbians on welfare who could not conceivably be expected to support themselves through paid work (including all people with disabilities, those temporarily not expected to work for medical reasons and those with multiple barriers to work) are only about 2.6 per cent of the population over 15 and 4.1 per cent of the BC labour force in 2010. Author's calculation using data from the BC Ministry of Social Development BC Employment and Assistance Current Month Statistics www.mhr.gov.bc.ca/research

Three of the groups who tend to be overrepresented among the poor in BC—recent immigrants, Aboriginal people and single mothers with young children—are particularly good examples of groups that can (and should) be better integrated in the labour market.

While we can conceivably improve the skills and education of those living in poverty, these interventions would yield economic benefits only if the labour market could create enough job opportunities to absorb these extra workers. Current unemployment rates well over 7 per cent may suggest there is a lack of jobs, but as recently as 2008 public discussion about the labour market was focused almost exclusively on impending skill shortages in trades and other skilled work. BC businesses bring in a large number of temporary foreign workers each year to fill positions that employers find difficult to fill domestically. Our economy can accommodate more workers, both skilled and unskilled, if they have the appropriate support to participate fully in the workforce.

This is particularly true now, when the BC population is aging, the generation of baby boomers is starting to transition to retirement, and we are facing the prospect of a smaller share of workers having to care for a larger share of dependents. It is becoming more important than ever for us to be using our human resources to their full potential. We cannot afford to lose people's potential through poverty.

How much does poverty cost BC in terms of wasted potential and reduced productivity? One way to estimate these costs is to look at the extra income those British Columbians in the bottom quintile could earn if their earnings were at the same level as those in the second income quintile.⁵¹ We consider only non-elderly families in this calculation as they are the ones who can be expected to participate actively in the labour market and, therefore, it is their lack of access to training or job opportunities that reduces the productive capacity of our economy, and their lack of access to reasonably paid jobs that reduces societal income.

Table 4 provides an estimate of the foregone productivity or opportunity costs of poverty.

Table 4: Income Distribution for Non-elderly Families in BC and Opportunity Costs of Poverty, 2008			
	Average market income for families	Average after-tax family income	Average income tax
Non-elderly families with incomes below the LICO-AT (poverty)			
Average incomes	\$6,900	\$12,000	\$600
All non-elderly economic families in BC			
Poorest 20%	\$9,000	\$13,100	\$700
2nd quintile	\$32,200	\$33,500	\$2,800
3rd quintile	\$57,400	\$54,900	\$7,100
4th quintile	\$86,900	\$80,000	\$12,600
Richest 20%	\$170,700	\$140,900	\$35,200
Scenario 1: If the income of the 247,000 families in poverty increased to second quintile levels			
Total increase	\$6,249.1 million	\$5,310.5 million	\$543.4 million
Scenario 2: If the income of the 307,000 families in the bottom quintile increased to second quintile levels			
Total increase	\$7,122.4 million	\$6,262.8 million	\$644.7 million
Source: Statistics Canada, custom tabulation based on <i>Income in Canada, 2008</i> .			

In 2008, the average market income of those British Columbians who lived in poverty was \$6,900 (before income taxes or government transfers) and their income after taxes and transfers was, on average, \$12,000.

⁵¹ This method of quantifying the productivity losses associated with poverty is adapted from Nathan Laurie's 2008 *Cost of Poverty in Ontario* report.

The generation of baby boomers is starting to transition to retirement, and we are facing the prospect of a smaller share of workers having to care for a larger share of dependents. It is becoming more important than ever for us to be using our human resources to their full potential. We cannot afford to lose people's potential through poverty.

If the poor households in BC were able to escape poverty and earn the equivalent of the average incomes in the second income quintile (market incomes were \$32,200), they would have an extra \$25,300 per household. When this amount is multiplied by the number of poor households in BC (247,000), we calculate that the overall market incomes in BC would increase by \$6.2 billion. Table 4 on page 31 shows that this additional income would be divided between the formerly poor families seeing a direct increase of \$5.3 billion in after-tax incomes, and governments, which would realize an additional \$543 million in income tax (combined federal and provincial). This is an estimate of the potential benefit of reduced unemployment and underemployment that would be realized with investments in education and training, and improved pay and working conditions. Note that these potential savings may not be realized immediately as some forms of education and training take a few years to complete.

If the market incomes of the entire first quintile of BC families were to rise to the average incomes in the second quintile, we'd see a \$7.1 billion increase in market income in BC (thus, in our GDP), including \$645 million that would be spent on higher income taxes.

Because social assistance and EI make up a considerable portion of family incomes in the bottom quintile, as households move towards better integration in the labour market and better jobs, there would be a net reduction in the costs of welfare and employment insurance that would translate into savings for the provincial and federal governments.

The average government transfer to a non-elderly BC family below the poverty line in 2008 was \$5,700, while families in the second quintile received on average \$4,100. Therefore, one can estimate that eliminating poverty would save an average \$1,600 (the difference between the two) in government transfers per household for 247,000 poor households in BC, or about \$395 million per year.

This analysis suggests that poverty is very expensive to our society in terms of foregone income and economic activity. It is also costing the provincial and federal treasuries over half a billion dollars per year in foregone income tax revenues and another \$395 million in social assistance, Employment Insurance and other income-tested benefits.

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The Cost of Poverty to Future Generations

THE PREVIOUS DISCUSSION FOCUSED on the current costs of poverty — the costs that we bear today as a society because of today’s levels of poverty. However, today’s poverty also imposes costs on future generations because the children who grow up in poverty suffer negative consequences that can persist in their adult lives. Lower family incomes for children have been linked to worse cognitive and behavioural outcomes and worse school performance, which reduces these children’s future earning potential. In his 2009 *Report on the State of Public Health in Canada*, Chief Public Health Officer David Butler-Jones noted that “of 27 factors identified as having an impact on child development, up to 80 per cent were seen to improve as family income increases.”⁵² As adults, children growing up in poverty tend to experience higher rates of unemployment, work in lower-paying jobs, experience poorer health, and are more likely to be arrested for crime.⁵³

About 12 per cent of all children in BC — 100,000 children — lived in poverty in 2009, according to Statistics Canada’s Low Income Cut-Off After Tax. For the eighth year in a row, BC had the highest child poverty rate among all Canadian provinces. If a significant share of children from poor families have limited opportunity to improve their economic status later in life, then tolerating any child poverty today is imposing costs on our society in the future that would likely be very difficult and much more costly to amend.

In economic terms, the cost to society of allowing children to grow up in poverty is the loss of their future adult productivity, which reduces their contribution to our province’s economy. These costs occur often more than 15 to 20 years after the children begin to experience poverty, which means that they reduce our economic output (GDP) 15 to 20 years from now, not today. Because this happens in the future, we cannot simply add this cost to today’s costs of poverty.⁵⁴ This is why we do not include this cost in the overall calculations presented in part 8 of this report. Yet,

If a significant share of children from poor families have limited opportunity to improve their economic status later in life, then tolerating any child poverty today is imposing costs on our society in the future that would likely be very difficult and much more costly to amend.

52 The quote is from Butler-Jones (2009) p. 30, referring to a study by Ross and Roberts. Ross and Roberts (1999) and Phipps and Lethbridge (2006) provide excellent summaries of the evidence of the connections between family income and children’s outcomes in Canada. Both studies found that the risks of negative child outcomes increase noticeably for children in lower income families for the majority of child development indicators examined. More importantly, Ross and Roberts (1999) observe that in order to provide reasonable opportunities for their children’s development, families need a level of income considerably higher than the standard Statistics Canada LICO. They suggest a child poverty line in the range of \$30,000 to \$40,000 for a family of four in 1999.

53 See, for example, Duncan et al. (2010) and Case et al. (2005).

54 For these future costs to be added to the calculation, they need to be discounted to their present value, which is beyond the scope of this study.

these are real costs that we will have to face in the future, so they need to be incorporated in a comprehensive cost-benefit analysis of poverty.

These costs are likely driven by the home, school and neighbourhood environments in which poorer children grow up. Family incomes matter to children because they affect the material resources available to the child as well as family psycho-social resources such as emotional well-being, and access to social networks that can set children up for success later in life. In a recent study comparing income mobility in the US and Canada, Corak et al. (2010) conclude that the large differences found between the two countries are the result of actual resources available to children in the two countries, suggesting that public policy plays a pivotal role in reducing the longer-term costs of poverty.

Poverty is a dynamic process and it matters how long spells of poverty last. It is likely that the duration of poverty would have an impact on societal costs, with longer time spent in poverty associated with worse outcomes than shorter periods. Canadian research suggests that a sizeable group, about half of those living in poverty every year, experience long-term poverty.⁵⁵

Research on these poverty dynamics is still in its early stages, but recent advances show clearly that early childhood is a period that is particularly sensitive to environmental influences and that experiences of poverty in early life can have particularly long-lasting consequences.⁵⁶ Recent US evidence from the Panel Study of Income Dynamics suggests that some of the negative effects of low income in early childhood (before age 6) in terms of adult achievement, health and behavioural outcomes persist in adulthood (measured up to age 37), even if the child's family was able to escape poverty in middle childhood and adolescence.⁵⁷ This is why it is important to consider poverty within a life-cycle framework when designing poverty reduction measures.

Economists have tried to quantify the adulthood impacts of growing up poor by examining the direct relationship between the incomes of adults and those of their fathers.⁵⁸ These studies show that the likelihood that children who grow up in poverty will inherit the economic status of their parents varies considerably among countries, with the United States being a relatively rigid society where growing up poor is linked to poverty in adulthood, and Northern European countries showing relatively little relationship between family income in childhood and adult income. It is not an accident that societies with more generous social programs, adequate social safety nets, and less inequality experience less inter-generational poverty.

These types of studies show that Canadian children growing up in poorer families have a 20 to 25 per cent likelihood of experiencing poverty when they grow up, closer to levels observed in Europe than to those in the US.⁵⁹ However, research by Queens' University economics professor Charles Beach shows that intergenerational mobility in Canada has declined over the last two decades.⁶⁰

55 See Finnie and Sweetman (2003). Note that this research is based on data from income tax files and therefore focuses on adults who file taxes, omitting children from the analysis.

56 The connection between early childhood poverty and persistent adult impacts has been a subject of considerable research in economics, psychology, and epidemiology. Empirically, the connection is well established and there are various theories of the mechanisms through which poverty in early childhood leads to lasting consequences. Duncan et al. (2010) include a brief summary of the relevant literature.

57 Duncan et al. (2010).

58 Another approach taken by economists documenting the impacts of child poverty in adulthood is to compare the average adult educational attainment, incomes, and other characteristics of children who grew up poor to their peers who did not. This type of research reveals that there is a connection between growing up in poverty and lower adult achievement overall, not just for the 20 to 25 per cent of children who remain poor in adulthood, but also for those who manage to move up the income ladder somewhat.

59 Corak and Heisz (1999) and Corak (2006).

60 Beach (2006) examines changes in earnings mobility in the 1980s and 1990s and finds that mobility has declined for both men and women over the period.

The cost to society of allowing children to grow up in poverty is the loss of their future adult productivity, which reduces their contribution to our province's economy. While we do not include these costs in our overall calculations, they need to be incorporated in a comprehensive cost-benefit analysis of poverty.

We use the fact that 20 to 25 per cent of children growing up in poverty would not be able to escape poverty in adulthood to estimate the economic costs of tolerating child poverty in BC. There were 87,000 poor children in BC in 2008 (whose family incomes fell under the LICO-AT).⁶¹ If 20 to 25 per cent of them could expect to be in low income as adults, absent a concerted public policy effort to ensure otherwise, then between 17,400 and 21,750 of them would have low incomes as adults. If their market incomes were lifted from the average income of families below the LICO to the average for the second lowest income quintile (\$25,300 difference), their combined income will rise by \$440 to \$550 million per year.

If children growing up in poverty had the proper resources and supports, their education levels and earning profiles might better resemble the earnings profile of the entire population, and they could be earning on average more than those in the second quintile.

Table 5: Income Distribution of Families in BC and the Costs of Growing Up Poor, 2008

	Average market income for families	Average after-tax family income	Average income tax
Non-elderly families with incomes below the LICO-AT (poverty)			
Average incomes	\$6,900	\$12,000	\$600
All non-elderly economic families in BC			
Poorest 20%	\$9,000	\$13,100	\$700
2nd quintile	\$32,200	\$33,500	\$2,800
3rd quintile	\$57,400	\$54,900	\$7,100
4th quintile	\$86,900	\$80,000	\$12,600
Richest 20%	\$170,700	\$140,900	\$35,200
Estimated costs of children growing up in poverty remaining poor as adults			
17,400 children	\$440.2 million	\$374.1 million	\$38.3 million
21,750 children	\$550.3 million	\$467.6 million	\$47.9 million
Source: Statistics Canada, custom tabulation based on <i>Income in Canada, 2008</i> .			

In terms of extra income taxes, our estimates show that the provincial and federal governments could collect an extra \$38.3 to \$47.9 million per year. And as outlined elsewhere in this report, under this scenario, governments would also save greatly in future health and criminal justice costs.

In fact, “raising” the incomes of those under the LICO threshold to the second quintile average would be an underestimate of the true effects of poverty reduction initiatives focused on childhood poverty. If children growing up in poverty had the proper resources and supports, their education levels and earning profiles might better resemble the earnings profile of the entire population, and they could be earning on average more than those in the second quintile. This is why using the average earnings of the second quintile for the calculation can be thought of as a lower-bound estimate of the cost of child poverty in the future.

Note that this calculation is based on the income distribution in 2008. If the increase in income inequality continues, as it has over the last two decades, today’s child poverty is likely to be even more costly in the future.

⁶¹ We use 2008 data to calculate the future costs of child poverty to be consistent with the 2008 data on family incomes that we have available. Statistics Canada released data on poverty rates in 2009 a few weeks before publication; there was not enough time to obtain a special tabulation of comparable income data in 2009.

Total Economic Costs of Poverty

We estimate that poverty in BC cost us approximately \$8.1 to \$9.2 billion in 2008.

This was about 4.1 to 4.7 per cent of BC's GDP in 2008, or \$1,900 to \$2,100 annually for every man, woman and child living in the province.

TABLE 6 SUMMARIZES OUR CALCULATION of the economic cost of poverty in BC. Our estimate includes the costs that poverty imposes on government budgets (the extra expenditures on health care and crime, and foregone income tax revenues) as well as the economic costs to society at large in terms of foregone economic activity and victims' costs of crime. We estimate that poverty in British Columbia cost us approximately \$8.1 to \$9.2 billion in 2008. This was about 4.1 to 4.7 per cent of BC's GDP in 2008, or \$1,900 to \$2,100 annually for every man, woman and child living in the province. These costs are calculated for 2008, but they are annual costs that we pay year after year.

Note that while the majority of the costs of poverty are borne by individuals and families, the costs to the public purse are very large as well. Government costs of poverty make up over a third of the costs to society and amount to \$2.2 to \$2.3 billion in 2008 or approximately 5.6 to 5.8 per cent of the \$40 billion provincial budget.

Table 6: Estimated Cost of Poverty in BC, 2008

	Costs to society at large	Costs to government
Health care costs		\$1,152.4 million
Crime costs	\$614.3 million	\$130.5 million
Lost productivity	\$5,310.5 to \$6,262.8 million	\$543.4 to \$644.7 million
—Adjustment for government transfers replaced by market income		\$395.2 million
Totals	\$5,924.8 to \$6,877.1 million	\$2,221.5 to \$2,322.8 million
Total costs of poverty to society and government	\$8,146.3 to \$9,199.9 million, or 4.1% to 4.7% of BC's GDP	

We have estimated some of the tangible costs that poverty imposes on our society in terms of foregone income/economic activity and shifting our resources away from other productive uses to dealing with the consequences of poverty. However, these estimates do not capture all of the costs of poverty. For example, the costs of providing social services to those living in poverty are not included.

We know that the cost of servicing certain high-need groups living in extreme poverty, such as the homeless, is very high and far greater than the cost of providing supportive housing and adequate incomes. A recent study from SFU's Centre for Applied Research in Mental Health and Addictions estimated that there are 11,750 people in BC with severe addictions and/or mental illness who are "absolutely homeless," and that this group costs the public treasury \$644 million (or \$55,000 per person) in health care, correctional and social services each year.⁶²

Other, no less important but more difficult to quantify, societal costs of poverty are also missing from our estimate. For example, a highly stratified society with visible street-level poverty increases polarization and reduces social cohesion. This affects not only the people living in poverty, but their better-off neighbours as well. Quality of life is greatly reduced, and considerable economic resources spent when better-off families feel threatened by those who are less fortunate and settle in gated communities and/or heavily invest in security-related items like alarm systems, heavier doors, home insurance or private security. These costs are not captured in our calculation.

This is only the beginning of a comprehensive assessment of the costs of poverty. Much more work remains to be done if we are to truly understand the long-term costs of tolerating an embarrassingly high level of poverty in a rich society. The economic costs of poverty that we were able to quantify, limited though they are, clearly indicate that poverty in British Columbia imposes large costs to both government and society.

While we have estimated some of the tangible costs that poverty imposes in terms of foregone income/economic activity, these estimates do not capture all of the costs of poverty. For example, the costs of providing social services to those living in poverty are not included.

62 Patterson et al. (2008).

The Economic Case for Reducing Poverty

To avoid the high costs of the consequences of poverty, we must address the conditions that give rise to poverty and its systemic causes, not just the symptoms of poverty.

DEALING WITH THE NEGATIVE longer-term consequences of poverty is undoubtedly very expensive. The costs outlined above represent the ballpark magnitude of potential savings we could realize from drastically reducing and eventually eliminating poverty. To avoid the high costs of the consequences of poverty, we must address the conditions that give rise to poverty and its systemic causes, not just symptoms of poverty, such as a lack of financial resources. It is also important to recognize that while these are the costs of poverty today, they are not costs that would be eliminated immediately by implementing poverty reduction initiatives.

Some poverty reduction policies would have immediate effects on the costs of poverty. For example, a recent five-year study conducted through McMaster University found that providing single mothers on social assistance with a broad range of supportive services successfully reduced social assistance payouts within two years—so much so that the intervention paid for itself. Additional benefits included an almost immediate reduction in depression rates and improvement in the mental health of mothers, which would immediately reduce health care costs, and result in increases in child competence levels.⁶³ However, with many of the initiatives that are needed to effectively tackle poverty, there will be a considerable lag between when the money is spent and when the savings materialize. The lag could be as long as 15 to 20 years for investments in early childhood education — the length of time it would take for participating children to enter the workforce.

Many of the policies needed to avert the high costs of poverty should be thought of as investments because they involve an upfront cost but generate returns over the lifetime of the people lifted out of poverty. Evidence suggests that the earlier in life these investments are targeted, the higher the potential returns, partially because of the longer time period over which the benefits of interventions can accrue.

Other poverty reduction measures would have to be maintained on an ongoing basis to have an effect. For example, adequate social assistance benefit levels and housing supports are needed

⁶³ Browne et al. (2001).

on a permanent basis for people living with severe disabilities or mental illness who cannot be expected to support themselves through paid work. Similarly, the need to invest in non-market housing and child care will not end with the elimination of poverty; these should be considered ongoing annual investments needed to prevent poverty and homelessness, and to maximize future productivity.

One way to perform a cost-benefit calculation for poverty reduction is to begin from a set of specific policy proposals, and estimate their expected costs and their likely payoffs—taking into account whether these benefits are immediate and if not, when exactly they are projected to occur and how long they are projected to last. The present value of the concrete policies under consideration can then be compared to their costs to assess the strength of the economic case for reducing poverty with these particular measures.

In this report, we take a more general approach, as we do not prescribe a particular set of poverty reduction measures. This is because we believe that the exact policies adopted in BC should be determined after a broad-based, province-wide consultation project, as recommended by Klein et al. (2008) in their CCPA report, *A Poverty Reduction Plan for BC*:

An official government strategy should be the product of a meaningful province-wide consultation process—which hears in particular from those most affected by poverty—and ongoing public engagement is needed as the plan evolves. While this process should be thorough, it must be conducted in a timely manner. Ideally, the plan emanating from these consultations would be drafted by an expert and well-respected team, and would receive all-party endorsement.⁶⁴

There are a number of possible policy interventions that can help reduce poverty in BC, as outlined by Klein et al. in *A Poverty Reduction Plan for BC*. That report recommends seven specific priority areas for action and puts forward a number of policy measures that can be used to address each of them.

The costs of such a comprehensive poverty reduction plan, when fully implemented, are estimated to be between \$3 and \$4 billion per year.⁶⁵ This is not an exact calculation, but rather a preliminary estimate that indicates the order of magnitude of the costs that will be required to sustain such a program once fully implemented. In comparison, we estimate that British Columbia (society-at-large plus government) is currently paying more than double that—\$8.1 to \$9.2 billion per year—in extra costs and foregone earnings and economic activity resulting from the consequences of poverty.

There is a strong case for increased government investment in poverty reduction on purely economic grounds. It simply makes more sense to pay to address poverty directly than to wait for its longer-term consequences to arise and pay to deal with them then.

The story of poverty and economic insecurity in BC is one of inadequate and inaccessible income support (primarily welfare benefits), inadequate earnings and benefit provision from the low-wage job market (due to the rise of precarious and casual work, low minimum wages, and weak employment standards), and insufficient public services and supports, such as social housing, child care, and accessible post-secondary education.

⁶⁴ Klein et al. (2008).

⁶⁵ Note that some of the proposed initiatives will have one-time set-up costs, which are not included in the calculation. This is useful for our analysis, because the costs of poverty estimated in this report are also better thought of as potential savings that would be generated over the long term and not necessarily in the year that a poverty reduction plan is implemented.

There is a strong case for increased government investment in poverty reduction on purely economic grounds. It simply makes more sense to pay to address poverty directly than to wait for its longer-term consequences to arise and pay to deal with them then.

A meaningful poverty reduction initiative would do more than just provide additional income to those who are in poverty. Nevertheless, it is instructive to consider the size of the “poverty gap” or the total amount of money needed to bring all British Columbians’ incomes to Statistics Canada’s after-tax LICO (also known as the depth of poverty). Statistics Canada estimates that the poverty gap in BC is \$2.1 billion,⁶⁶ which represents a mere 1.1 per cent of the overall provincial economy (BC GDP in 2007 was \$192 billion). Closing the poverty gap is well within the means of our province.

A comprehensive approach to poverty reduction will need to boost the incomes of those living in poverty, but also build the social infrastructure, public services and assets that are vital to providing a path out of poverty. As an added advantage, providing high quality public services and programs for all citizens will increase social cohesion and improve quality of life for all British Columbians.

Many programs and policies have already been shown to be effective in other jurisdictions. The specific package of poverty reduction measures chosen in BC must address each of the following seven priority areas, identified by Klein et al. (2008):

1. Provide adequate and accessible income support for the non-employed.
2. Improve the earnings and working conditions of those in the low-wage workforce.
3. Improve food security for low-income individuals and families.
4. Address homelessness and adopt a comprehensive affordable housing and supportive housing plan.
5. Provide universal, publicly-funded child care.
6. Enhance support for training and education for low-income people.
7. Enhance community mental health and home support services, and expand integrated approaches to prevention and health promotion services.

Not all the interventions that will be necessary to reduce and eventually eliminate poverty involve direct financial costs to governments. The private sector must be an active partner in a successful poverty reduction plan. Businesses have an important role to play as employers to ensure that the new jobs they create allow employees to support themselves and their families. We have seen a disturbing increase in the low-wage job market in BC, and a growth in part-time, casual, temporary, and other forms of precarious employment that do not provide sufficient income and leave many BC families stuck in poverty. Reversing these trends is a challenge that government, business and labour must address collaboratively to ensure that there are no “working poor” in our province.

⁶⁶ The poverty gap estimate is as of 2007, the latest year for which data is available (the statistic is no longer produced as of 2008). Source: CANSIM Table 202-0805, Statistics Canada.

Not all the interventions that will be necessary to reduce and eventually eliminate poverty involve direct financial costs to governments. The private sector must be an active partner in a successful poverty reduction plan.

Conclusion

THIS REPORT REPRESENTS a first step in quantifying the full social and economic costs of poverty. The evidence we have gathered so far suggests that poverty warrants more attention from policymakers in the province because of its high costs to society. Our estimate of the total economic costs of poverty in BC indicates that we are currently paying between \$8.1 and \$9.2 billion per year as a result of the consequences of poverty in terms of health care, crime and foregone earnings and economic activity.

These costs represent the ballpark magnitude of potential savings we could realize from reducing and eventually eliminating poverty through successful policy changes. These costs are more than double the \$3 to \$4 billion required for implementing a comprehensive poverty reduction strategy in BC, as calculated in the CCPA's 2008 report *A Poverty Reduction Plan for BC*. Documenting such a high cost of poverty in our province makes a strong case for increased government investment in poverty reduction on purely economic grounds and exposes the false economy in tolerating poverty.

It is entirely within the power of the provincial government to significantly reduce and eventually, in partnership with the federal government, eliminate poverty in BC. What is needed is a commitment to make poverty reduction an explicit and clearly formulated priority for the BC government. The most transparent and accountable way to do this is for the provincial government to adopt a comprehensive poverty reduction plan with legislated, concrete targets and timelines to reduce income inequality and protect British Columbia's most vulnerable families.

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