

Poverty lowers our prosperity potential

THE TASK FORCE has been urging Ontarians to adopt a prosperity enhancing agenda to achieve our economic potential. But many are concerned that, while our agenda would increase prosperity, this benefit would primarily accrue to upper income Ontarians and reduce the economic prospects of lower income households and the working poor.

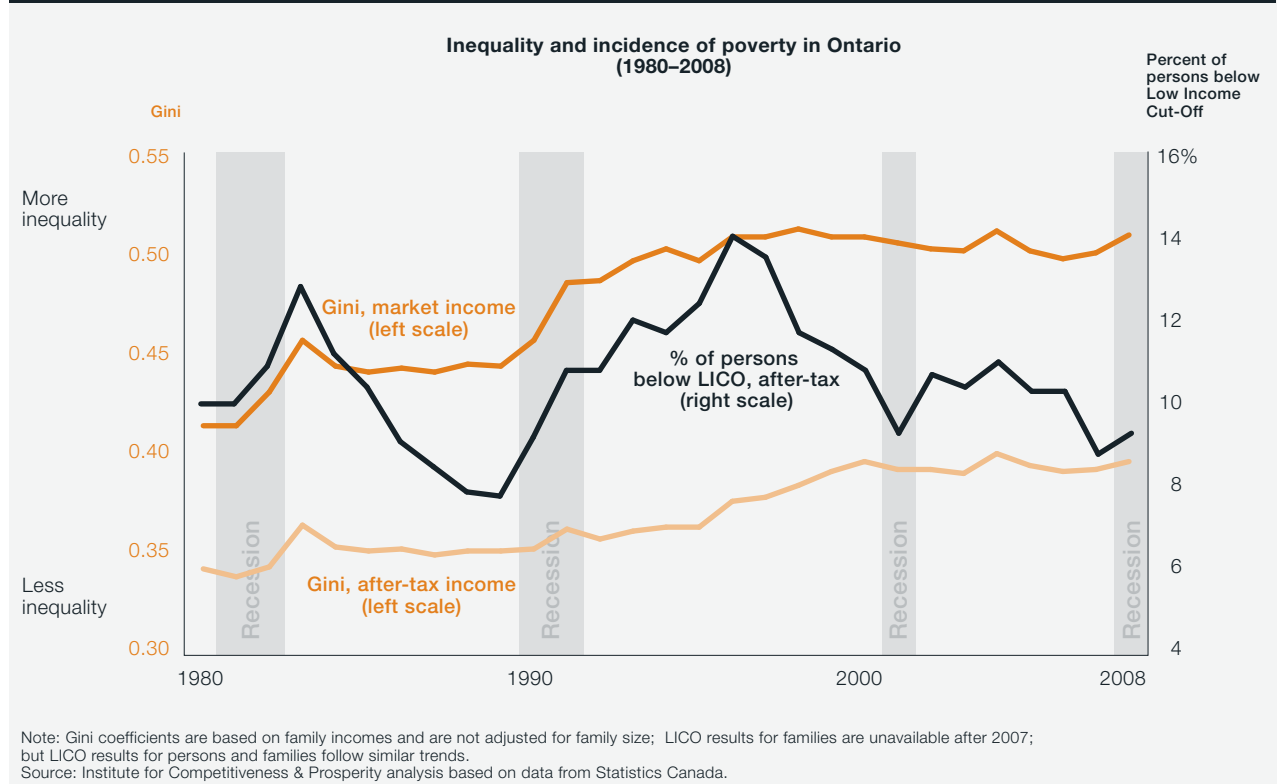
In its 2007 Working Paper, *Prosperity, poverty, and inequality*, the Institute explored the relationship between prosperity and poverty. This past year it updated these findings.

Though the Institute's research found that rising income inequality has been the norm in recent decades across developed economies, including Ontario's, it is incorrect to say that greater prosperity is driving greater inequality

as the two trends are not related. The more important consideration is the incidence of poverty, which is not the same as increased inequality.

In fact, we found that broad-based inequality, as measured by the Gini coefficient has not been closely related to poverty rates, as measured by the percentage of the population whose income falls below after-tax Low Income Cut-Off (LICO). Gini measures income inequality across a group of people. A Gini of 0 means that all people earn exactly the same income, while a measure of 1 means that one person receives all the income. These are extremes that are never found in a country or province; actual measures are typically between 0.3 and 0.5. The higher the Gini, the greater the inequality.^a LICO is a measure of poverty in Canada, defined as the income levels at which

Exhibit B Inequality has remained fairly flat in recent years; low income incidence has changed with economic cycles



^a For more information see Institute for Competitiveness & Prosperity, Working Paper 10, *Prosperity, inequality, and poverty*, September 2007, pp. 18-19.

persons or families spend 20 percentage points or more of their total income on food, shelter, and clothing than the average family of similar size.^b

Inequality gradually trended upward from the 1980s, and has remained relatively flat since around the mid 1990s. By contrast, poverty rates appear to be much more cyclical, increasing in periods of recession and falling during better economic times, especially from the mid-1990s to recent years (*Exhibit B*).

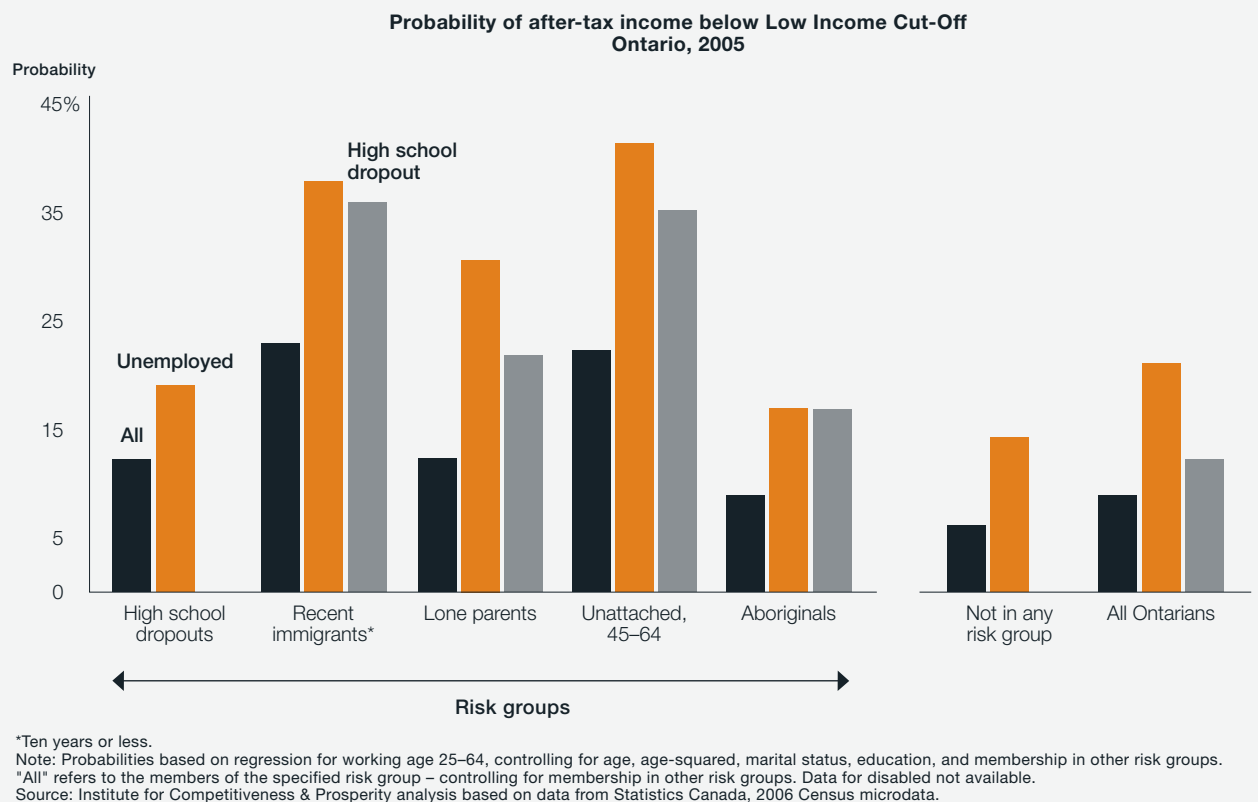
Our research has also revealed that poverty is not distributed randomly throughout society. It falls mainly on six specific high risk groups – high school dropouts, recent immigrants, lone parents, unattached individuals between the ages of 45 and 64, the disabled, and Aboriginals. The likelihood of after-tax income falling below LICO increases significantly for individuals who are in these risk groups. And much of the challenge they face is in achieving greater attachment to the labour force, where the probability of earning income below LICO increases dramatically for each risk group when these individuals are unemployed. The probability also increases when

other risk group members are also high school dropouts (*Exhibit C*).

Most of these poverty groups fall into working and service occupations – jobs that are disproportionately in routine-oriented, rather than in creativity-oriented, occupations. And given that the incidence of poverty has been shown to be driven greatly by business cycles, we must acknowledge that the current transformation of our economy – one that is shifting away from jobs based largely on physical skills and repetitive tasks, to jobs that require analytical and social intelligence skills – can exacerbate the poor economic outcomes of these poverty groups. This is indicative of the fact that in times of recessions, those in physical occupations are most susceptible to becoming unemployed (*Exhibit D*). Thus, education is a key element to lifting those who do not have the skills and opportunities to participate fully in the creative economy.

In addition, as recommended in *Ontario in the Creative Age* published by the Martin Prosperity Institute in 2008, Ontario would benefit greatly if we could develop strategies for enhancing creativity and autonomy in

Exhibit C Likelihood of being below LICO is higher for certain risk groups



^b *Ibid.*

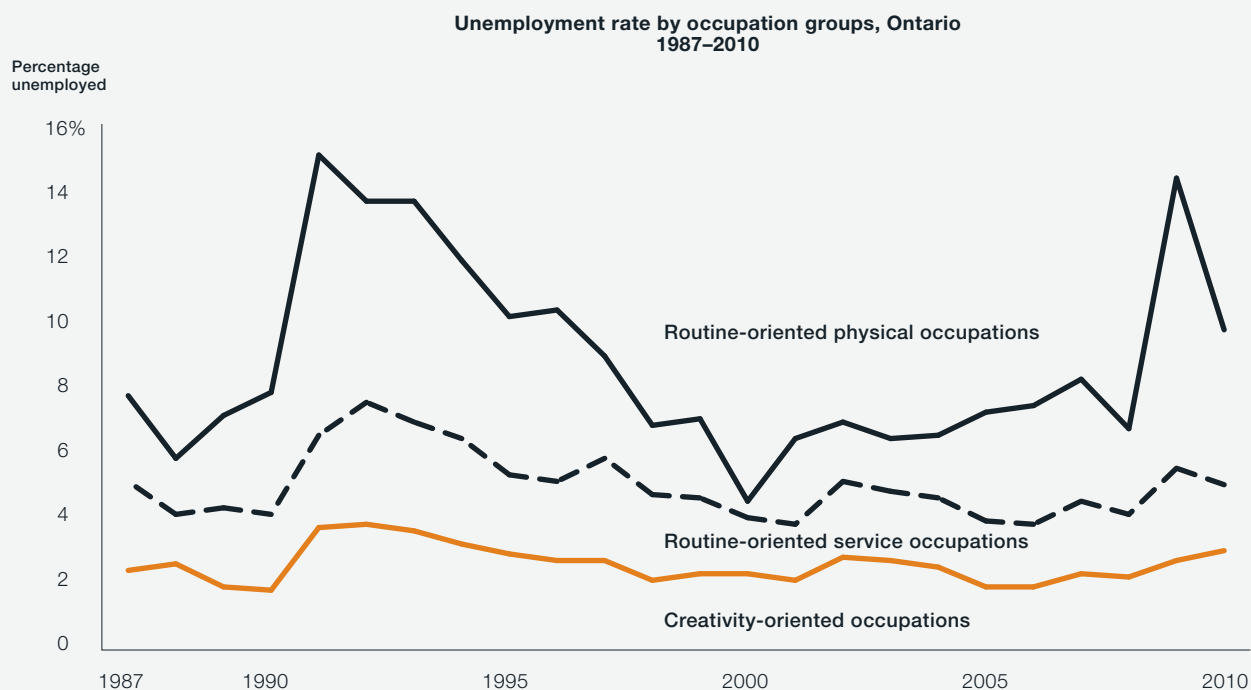
routine-oriented service occupations, so that workers' earnings would increase and employers would have stronger business models.^c

We need prosperity strategies that make real inroads into reducing poverty and increasing prosperity for as many Ontarians as possible. We think that it is more important to focus on public policy that reduces poverty among these high risk groups than to strive for greater equality by holding back opportunities for other Ontarians. And since each of these groups is excluded from Ontario's prosperity for its own reasons, each requires its own tailored solution.

Thus, innovative and highly focused public policies and programs must be established, with education being an important – if not, the most important – solution to reducing poverty. Innovative programs such as the Working Income Tax Benefit and wage insurance can provide encouragement for individuals in high risk groups to find work; and in this case, potentially foster greater job creation conditions.^d We should continue to strive for the best policy initiatives for helping people escape poverty.

If we are not successful in helping individuals in these groups move out of poverty, we are hurting our future prosperity potential. We need the skills and capabilities of all Ontarians to create economic success, and we cannot afford to ignore people in these high risk groups. If Ontario succeeds in realizing its full economic potential by following our Prosperity Agenda and by pursuing focused and innovative solutions for addressing poverty, more Ontarians will contribute to and participate in the rewards of enhanced prosperity.

Exhibit D Routine-oriented physical occupations are the most deeply affected during recessions



Note: The Labour Force Survey produces information of number of unemployed, the unemployment rate and the labour force by industry and occupation. The basis for these categories is industry or occupation of last job for those currently unemployed who have held a job in the previous year. The data are for April of each year and are adjusted for seasonality.

Source: Martin Prosperity Institute and Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada, Labour Force Survey microdata.

^c Martin Prosperity Institute, *Ontario in the Creative Age*, February 2008, pp. 31-32.

^d Institute for Competitiveness & Prosperity and Open Policy Ontario, *Time for a "Made in Ontario" Working Income Tax Benefit*, September 2009.