

## Press Releases

September 10th, 2007

### Institute releases Tenth Working Paper

Prosperity growth is best way for reducing poverty in Ontario

*The Institute for Competitiveness & Prosperity releases new findings on the relationship between Ontario's prosperity, inequality of income distribution, and the incidence of poverty.*

**Toronto** – While Ontario has one of the most prosperous in the world, inequality of income distribution in the province has also been increasing. But the same is true for Canada and for most developed economies. The factors that are driving this growing inequality – technological change and the importance of knowledge and skills – are also important factors for prosperity growth. But it is incorrect to say that greater prosperity is driving greater inequality. And a more important consideration is the incidence of poverty, which is not the same as increased inequality. Poverty is concentrated among six high risk groups – high school dropouts, recent immigrants, lone parents, unattached individuals between the ages of 45 and 64, the disabled, and Aboriginals. Individuals in these groups are much more likely to be at the bottom end of Ontario's income distribution and are more likely to be in poverty. To help these people, we need greater investments in their skills and capabilities and these can be funded more easily if Ontario achieves its prosperity potential. And in a virtuous circle, if we more Ontarians participate in its economic development, our prosperity will grow even further. These are some of the key conclusions of Working Paper 10, *Prosperity, inequality, and poverty* released today by the Institute for Competitiveness & Prosperity.

“We have been urging Ontarians for five years to pursue a prosperity enhancing agenda because we are concerned that we are not living up to our full potential and this means less opportunity for individuals and for governments to pursue worthwhile social and investment spending”, said Roger Martin, chairman of the Institute and Dean of the Joseph L. Rotman School of Management at the University of Toronto. “But we sometimes hear the objection that increasing prosperity will only benefit the rich and turn Ontario into a Darwinian-type economy where more people will wind up in poverty.” The purpose of the working paper was to explore the relationship between prosperity, income distribution, and poverty.

The working paper did find that income is being distributed less equally than it was 25 years ago – income earned by those at the top has outpaced income earned in the middle and the bottom. This is a phenomenon that is occurring in many developed economies including like Sweden, Norway, Australia, and the United States. Researchers who have studied this phenomenon are not in complete agreement about the driving forces behind this inequality, but one consensus that is emerging is that knowledge, skills, and technological capability are more important with advancing globalization. Those with fewer skills will find their income potential is reduced. Government redistributive policies through progressive income taxes and transfer payments have reduced inequality of income distribution, but not enough to overcome market forces. And there is some evidence that inequality has not been increasing in the past few years.

While inequality growth appears related to long-term global factors, the incidence of poverty seems to follow local economic trends. “We find that the proportion of Ontarians below a low-income threshold increases during recessions and falls during better economic times”, said Martin. “And poverty is focused on specific high risk groups – high school dropouts, recent immigrants, lone parents, the disabled, unattached individuals between ages 45 and 64, and Aboriginals. Individuals in these groups are 3.7 times more likely to be below Statistics Canada’s Low-Income Cut Off.”

Since each of these groups is excluded from Ontario’s prosperity for its own reasons, each requires its own solution. To the extent 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 in creating economic success, and we cannot afford to exclude people in these high risk groups.

The Institute concludes that if Ontario succeeds in realizing its full economic potential by following an agenda for prosperity and by pursuing focused and innovative solutions for addressing poverty, more Ontarians will contribute to and participate in the fruits of enhanced prosperity.

#### **About the Institute**

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario’s Task Force on Competitiveness, Productivity and Economic Progress. The Institute is supported through the Ontario Ministry of Economic Development and Trade. Reports published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity. Visit the Institute’s Web site [www.competeprosper.ca](http://www.competeprosper.ca) for more information.

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