

# INFOCUS

## Cost of Poverty in New Brunswick

There has always existed a moral obligation to end poverty, first and foremost for those who are living in poverty. However, we also know that the wide-ranging costs to government and to society as a whole make a strong business case for ending poverty. In this, the third in our series<sup>1</sup> on the cost of poverty in the Maritimes, we see just how much it actually costs New Brunswickers to allow poverty to continue.

For the New Brunswick government, we estimate that the direct cost of poverty is approximately *a half a billion dollars per year* — and that these costs account for *6.5% of the 2009/10 New Brunswick government budget*. This is a significant amount of resources. Health care spending alone amounts to *\$196 million per year, an amount* that could be saved or reallocated if we lifted the poorest 20% of New Brunswickers out of poverty.

For society overall, the cost of poverty is much higher — up to *two billion dollars* a year in New Brunswick. This corresponds to as much as *\$2,700 per person, per year*. Thus, when the direct costs to government are added to broader costs of poverty, this total cost of poverty (\$2 billion) is equivalent to *7% of New Brunswick's GDP* (gross domestic product or size of its economy). This is consistent with the cost of poverty in other Canadian provinces.<sup>2</sup>

This costing exercise underlines the urgency that exists for the New Brunswick government to act now to reduce poverty. A British Columbia study on the costs of poverty estimates that investing in a comprehensive plan to alleviate poverty would cost *half as much* as the quantifiable costs of poverty themselves.<sup>3</sup>

Estimating the economic costs of poverty says little about the toll that poverty takes on those who are living in it and unable to access resources



**TABLE 1 Estimated Economic Costs of Poverty in New Brunswick**

	Costs to society overall	Costs to government
Health Care Costs		\$196 million
Crime Costs	\$73 million	\$15 million
Productivity loss	\$838 million–\$1.48 billion	\$108–\$190 million
Adjustment for government transfers replaced by market income		\$58–\$103 million
<b>Totals</b>	<b>\$911 million–\$1.55 billion</b>	<b>\$377–\$504 million</b>
<b>Total estimated cost of poverty to New Brunswick</b>	<b>\$1.3–\$2.0 billion</b>	

to fulfill their essential needs. The stress and consequences of inadequate nutrition and hunger, and of inadequate shelter cannot be overstated. Overwhelming research demonstrates that poverty is consistently linked to poorer health prospects, lower literacy, more crime, poor school performance for children and greater stress for everyone living in poverty.<sup>4</sup> This research forms the basis for the calculations here, as modeled on the first such exercise published in Canada on the costs of poverty in Ontario.<sup>5</sup>

Clearly, the consequences of living in poverty are costly. New Brunswick cannot afford to underutilize the talents and human potential of people living in poverty in that province. They deserve the opportunity to contribute fully and meaningfully to society and to our economy. Their loss is also our loss.

Table 1 summarizes our estimate of the cost of poverty in New Brunswick. It includes the costs that the government must bear in terms of the extra spending on health care and crime (for policing, the justice system and providing victim services), foregone income tax revenue because of lost economic activity, and as well as higher tax credit and benefit payments to people with low incomes. It also enumerates the broader economic costs borne by society in terms of loss of economic activity and victim costs of crime.

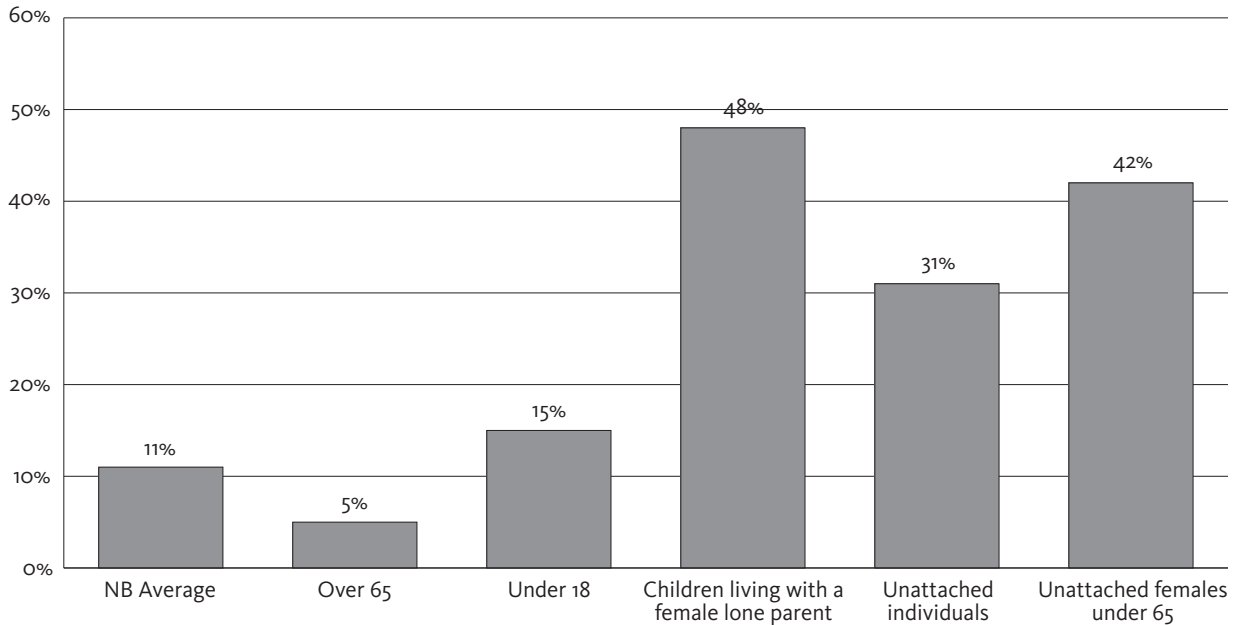
Our estimate of the economic cost of poverty does not include current spending on social services or poverty, employment insurance, or social assistance. It also does not calculate the

savings the government could realize if it took a different approach to providing services. One example of this approach is a ‘housing first’<sup>6</sup> approach to end homelessness that involves putting resources into affordable, supportive, long-term housing instead of allocating more resources to emergency shelters. Some of the consequences of poverty, such as polarization and lack of social cohesion, are also not quantifiable, but are no less important.

### Too Many People Live in Poverty in New Brunswick

It is important to remember that behind this discussion of poverty costs are real people living its reality. We therefore must begin the estimation with a snapshot of who lives in poverty in New Brunswick. Some groups of people are more vulnerable to poverty than others, such as people with health issues, barriers to paid employment or full-time unpaid care (child or elder) responsibilities. Poverty rates are higher for women, seniors on government assistance, and for lone mothers. There is a working poor, and those on various government assistance programs including social assistance, employment insurance, and workers’ compensation live in poverty. Figure 1 shows the 2009 low income rate for selected groups in New Brunswick. Note that data is not available for all vulnerable groups, such as racialized persons, recent immigrants, or per-

FIGURE 1 Low Income Rate of Selected Groups in NB (Percent), MBM, 2009



SOURCE Statistics Canada, Income in Canada, 2009, Ottawa, Ontario, 2011

sons with a disability, and it also does not include those that are not counted such as the homeless.

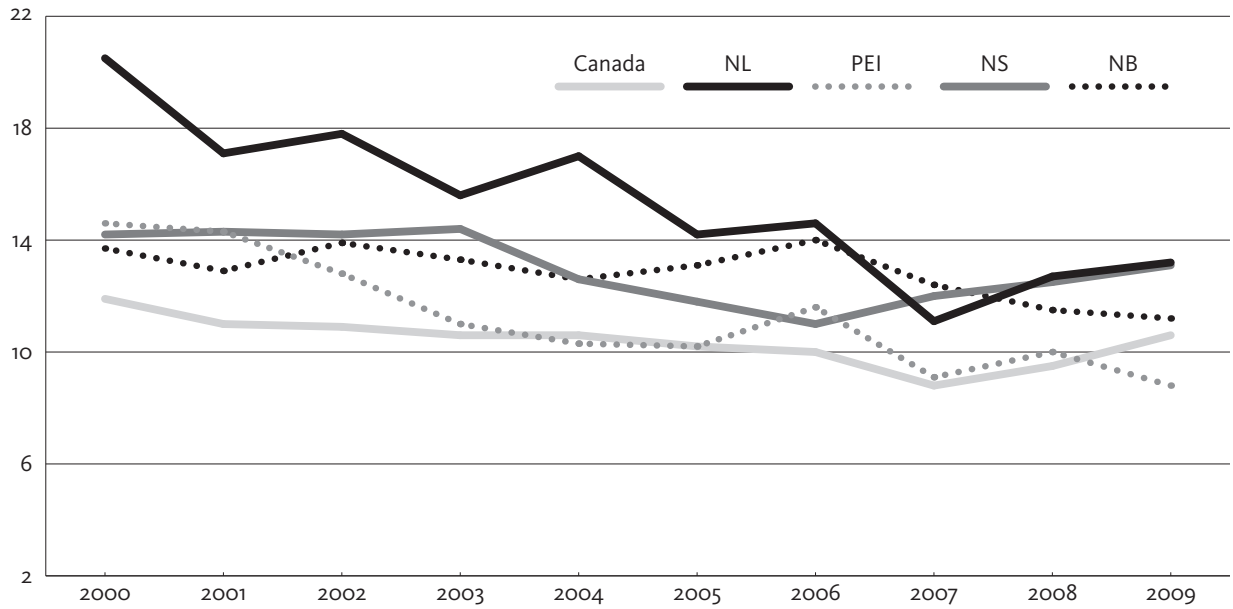
We have chosen to use the Market Basket Measure (MBM) of low income for our analysis. The MBM takes into account out-of-pocket child care and medical expenses, and the higher cost of transportation in rural areas. This makes it more likely to be a reasonable reflection of the circumstances facing New Brunswick's families. The more commonly used Low Income Cut Off (LICO)<sup>7</sup> may be less reliable at the provincial level than the MBM, as LICO is based on national averages rather than baskets specifically calculated to reflect the cost of living in New Brunswick (which is how the MBM is compiled). (See appendix A for a table of the MBM thresholds for New Brunswick.) Using the MBM 82,000 individuals in New Brunswick were estimated to be living in low income in 2009.<sup>8</sup> This includes the nearly 39,000 New Brunswickers receiving social assistance.<sup>9</sup>

Figure 2 presents a comparison of the low-income rate using MBM for provinces in the At-

lantic region as well as Canada as a whole between 2000 and 2009. New Brunswick's rate did show evidence of some decline over that period, but it remains above the national average and unacceptably high.

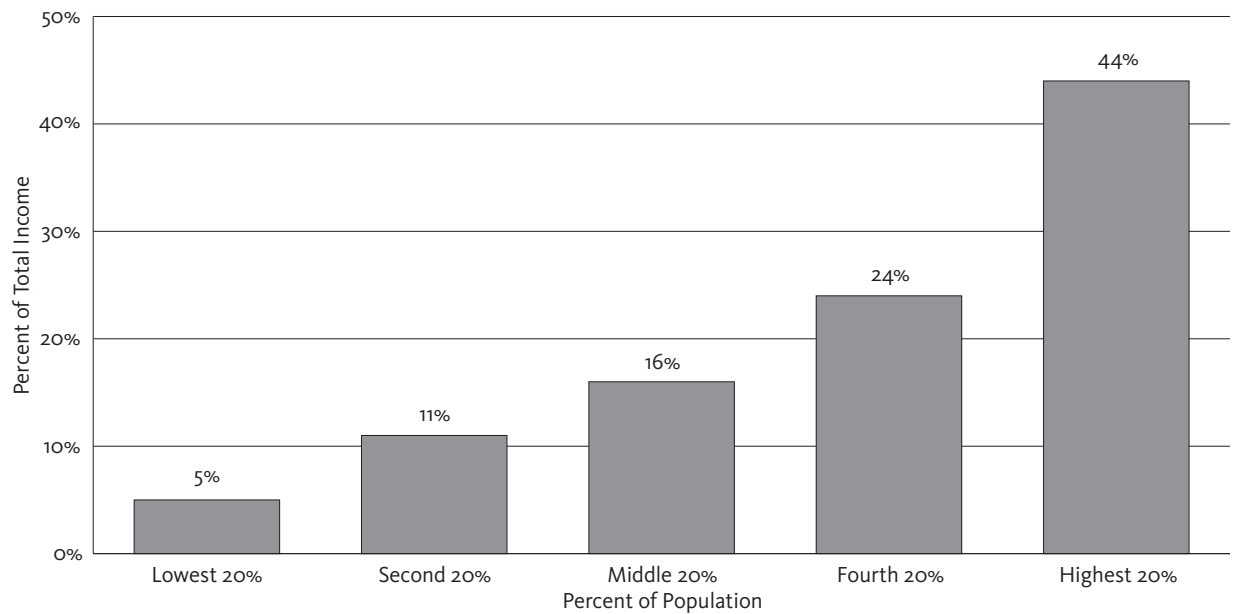
Since measurements of low income are not exact, and because there is such a difference depending on how it is measured, we provide a range of estimates for the cost of poverty. Where applicable, the lower bound is based on the MBM estimate of low income in NB. For the most part, however, our calculations use the number of individuals in the lowest quintile of the income distribution, meaning the 20% of New Brunswickers with the lowest incomes or 146,600 individuals. To illustrate the concept of income quintiles, Figure 3 shows the percentage of NB household income that goes to each 20% of the population. This graph also illustrates the growing gap between the rich and the poor in NB with the poorest 20% of New Brunswick enjoy only a 5.4% share of after-tax income, compared to 41.9% for richest 20%.<sup>10</sup>

**FIGURE 2 Low income rate in Atlantic Canada, 2000–09 (Percent), (MBM)**



**SOURCE** Statistics Canada, Income in Canada, 2009, Ottawa, Ontario, 2011

**FIGURE 3 Distribution of Total Income in New Brunswick by Quintile, 2009**



**SOURCE** Statistics Canada, Income in Canada, 2009, Ottawa, Ontario, 2011

**TABLE 2 Impact of Poverty on Public Health Care Spending (2009)**

	Share of total public health expenditures by quintile	Estimated distribution of New Brunswick's \$2.9 billion in total government health care spending*
Poorest 20%	30.9%	\$904 million
Second 20%	24.2%	\$708 million
Middle 20%	16.2%	\$474 million
Fourth 20%	14.1%	\$412 million
Richest 20%	14.6%	\$427 million
<b>Potential health care savings \$904-\$708=\$196 million (2009)</b>		

\*SOURCE Canadian Institute for Health Information, National Health Expenditure Trends 1975–2010.

### The Components of the Calculated Economic Cost of Poverty

We estimate the economic costs of poverty to government directly as well as to society as a whole. The three components measured here are: (1) the extra public expenditures on health care to remedy poorer health associated with poverty; (2) the additional (incremental) costs of crime, and (3) the foregone tax revenue, while making adjustments for higher transfer payments to people with low income.

#### Health Care: \$196 million

There is significant evidence that shows the lower one's income, the poorer is one's health,<sup>11</sup> and the more likely to utilize public health care resources.<sup>12</sup> There is a large and growing body of research demonstrating a relationship between the prevalence of low income and poor health.<sup>13, 14, 15</sup>

Lower socio-economic status has been found to account for 33–40% of hospitalization rates in Canada.<sup>16</sup> One study estimates that an increase of \$1,000 in annual income would lead to nearly 10,000 fewer chronic conditions, and 6,600 fewer disability days every two weeks.<sup>17</sup>

While we do not fully understand exactly how poverty creates ill health, we know that there are multiple pathways. We know, for example, that food insecurity (limited or uncertain access to sufficient, safe, nutritious food) is associated with

chronic illness, obesity, and depression.<sup>18</sup> Other research shows that the effects of poverty, such as stress, take a long term toll on our health and especially women's health.<sup>19</sup> There is also a proven relationship between higher levels of children's income inequality and higher mortality rates for children under 5. Children who experience periods of poverty are also more likely to have poor health as adults, regardless of their adult income status.<sup>20</sup>

Living in poverty therefore means that you are more likely to have a chronic health condition (such as high blood pressure, heart disease, diabetes, asthma), to have a disability, struggle with addiction, have poor nutrition, experience high levels of stress and live a shorter life than people not living in poverty. These health inequities are more often preventable and avoidable, if you aren't living in poverty. If you are living in poverty, you are more likely to not be able to afford to eat healthy,<sup>21</sup> you are more likely to be exposed to health hazards at home because of living in cold, damp or unsafe housing. It also means being more exposed to causes of ill health at work. Proven preventative care including dental care is often out of reach.

We calculate the health care cost due to poverty by comparing government health care spending for the poorest quintile with the second quintile. We assume that if the earnings of the lowest income quintile were similar to the next highest, then their health care costs would

be comparable. Table 2 shows the approximate share of public health expenditures used by each income quintile, and the results of our calculations. The NB government could realize \$196 million dollars in health care savings. This savings, which represent current costs, amounts to 6.8% of 2009 NB government health spending.

This section highlights the need to invest in illness prevention and health promotion focused on the social determinants of health including income and social status; social support networks; education and literacy; employment and working conditions; healthy child development; gender; and culture.

### Lost Economic Activity/Productivity

Losses: \$950 million to \$1.67 billion

The most significant cost of poverty is that attributed to lost economic activity or productivity losses. Productivity is defined in economic terms as the value of output that a worker contributes to the economy. High rates of unemployment, underemployment (not enough work or work overqualified for), lack of education, unrecognized qualifications, and discrimination are examples of factors that can limit a person's productivity, and hence their earned income. Ideally, everyone who wants to work would have access to good jobs (full-time, decent wages with benefits and security), and would have the appropriate training and supports to be successful in their paid employment. We all stand to benefit if the working poor could earn more by accessing more full-time jobs with decent wages. Statistics Canada finds that 5% of NB workers worked for minimum wage in 2009. The number that worked for just over minimum wage (minimum wage + 10%) rises to 11% of NB workers.<sup>22</sup> New Brunswick can ill afford underutilizing all of the productive potential of its citizens and increasing the income of lowest income earners would benefit.

When our economy falls short of its potential, there are fewer good jobs for workers. Our costing exercise calculates the amount of private earnings and income taxes generated if the lowest income quintile earned the same amount as the second lowest income quintile in New Brunswick. In this exercise it means increasing the gross income of all those in the lowest quintile by an average of \$11,400/year. This lost potential is a cost of not addressing the root causes of poverty, and which could be achieved by enabling more people to reach their potential. This lost economic potential is calculated as the amount of after-tax income that the poorest 20% of New Brunswickers have lost over one year — *between \$800 million and \$1.5 billion per year*. This loss of income is also a loss of tax revenue (the income tax payable on these lost earnings) for federal and provincial governments in the amount of approximately \$108–\$190 million.

*The total loss of productivity is between \$950 million and \$1.67 billion — or 3.5%–6% of New Brunswick's annual economic output, as measured by GDP.* Table 3 illustrates these calculations.

### Government Tax Credits and Benefits Replaced by Market Income: \$58 million to \$102 million

Estimates for productivity in this exercise assume that the majority of persons in low income would prefer (and are able) to have full-time, full-year, better-paying jobs. Thus, the majority of the cost of lost productivity is potential market income. In this case, market income would replace some amount of current government transfers for the majority of persons in low income. It is difficult to provide an accurate estimate of this amount, as there are many kinds of government transfers, and not all are directed at low income Canadians. Using the online Canadian Revenue Agency calculator<sup>23</sup> and the average incomes for individuals in the 1<sup>st</sup> and 2<sup>nd</sup> quintiles, *we make a conservative estimate that on average, \$700*

TABLE 3 NB 2009 Average Income by Quintile, and the Costs of Lost Productivity, 2009

	Total Income	After-tax income	Income Tax Payable
Lowest	\$14,500	\$14,300	\$200
Second	\$25,900	\$24,400	\$1,500
Third	\$37,000	\$32,900	\$4,100
Fourth	\$51,300	\$43,400	\$7,900
Fifth	\$83,300	\$66,800	\$16,500
<i>Scenario 1: If the income of 82,000 individuals in low income measured by MBM were increased to second quintile levels</i>			
Total Increase	\$946,200,000	\$838,300,000	\$107,900,000
<i>Scenario 2: If the income of 146,600 individuals in the lowest quintile were increased to second quintile levels</i>			
Total Increase	\$1,671,240,000	\$1,480,660,000	\$190,580,000

of annual tax credits and benefits per individual would be replaced by market income. This amount is much higher for families who are eligible for the Child Tax Credit, and much lower for unattached individuals or families without children who are only eligible for the Working Income Tax Benefit. There was no appreciable difference in the amount of the GST credit that was due to NB families or individuals in the bottom two quintiles.

#### Cost of Poverty to Future Generations: *Immeasurable*

Our previous reports on the cost of poverty have included estimates of the *intergenerational transfer of poverty*. Further thinking on this has revealed that it is more difficult to estimate this cost. The cost of allowing children to live in poverty now will not be realized until they are adults. But, some portion of our current cost of poverty can be attributed to the intergenerational transfer of poverty. Therefore, we do not include this category in our current estimate, as the past costs are captured in the lost productivity category, and future costs are too complex to calculate.

We do want to point out that *eliminating the intergenerational cost of poverty now would impact the lives of between 5,500 and 7,000 New Brunswick youth*. Our report attempts to quan-

tify an annual cost of poverty, but we want to stress the importance of considering poverty from a life course perspective. Recent research finds that even temporary periods of poverty in early childhood can have lifelong consequences — in terms of a child’s health and wellness, educational outcomes, and earning potential as an adult.<sup>24</sup> Any plan to reduce or eliminate poverty must consider the implications of the intergenerational transfer of poverty, and the lifelong impact of living in poverty as a child.

#### Crime: \$88 million

The smallest component of the cost of poverty in our calculations is attributed to crime. The costs of crime used in our calculation of the cost of poverty in NB include direct expenditures, victim costs, and preventative measures (such as alarm systems). As previous studies have reminded us, it is important that we do not overstate the connection between crime and poverty. A relatively small percentage of the cost crime can be eliminated by addressing specific aspects of poverty, such as supports for at-risk youth and their parents. It is also important to remember that those who live in low income are the most vulnerable to becoming victims of crime.

Using the link between illiteracy and crime, and illiteracy and poverty, previous studies have

TABLE 4 Total Costs of Crime and Share of Costs Attributable to Poverty, 2008

	Cost of Crime in Canada	Cost of Crime in NB (2.2% of Canada)	Cost of Crime Attributable to Poverty in NB (4% of total cost of crime)
Costs to government (policing, criminal justice system, health care for victims, victim services)	\$17.4 billion	\$390 million	\$15 million
Costs to society at large (stolen and damaged property, lost productivity, pain and suffering, loss of life)	\$82.1 billion	\$1.82 billion	\$73 million
Total cost	\$99.6 billion	\$2.2 billion	\$88 million

**SOURCE** Costs of crime in Canada are from Zhang (2011). Costs of crime in NB and the costs of crime attributable to poverty in NB are author's calculations.

estimated that 4% of the cost of crime in Canada can be attributed to poverty.<sup>25</sup> Following from the *Cost of Poverty in BC* report, we use the estimate of the cost of crime in Canada for 2008 (the most recent year available) as published by the Canadian Department of Justice.<sup>26</sup> New Brunswick's cost of crime is determined on a per capita basis as 2.2% of the Canadian total. Table 4 presents the results of the costs of crime attributable to poverty, which is \$88 million or 1.3% of the NB government budget.

### Concluding Remarks and Policy Implications

The calculations presented here underline both the costs of continuing to invest minimally in programs that alleviate the symptoms of poverty, and the savings that can accrue if investments are made to reduce or eliminate poverty. As such, we are arguing for a transformation in the way that both government and society think about poverty and poverty reduction. Policy makers should carefully consider which groups are more vulnerable to living in poverty, as well as the multiplicity of reasons that people live in poverty.

This report assumes that policies directed to address income and material deprivation or economic factors will reduce poverty. The complexity of poverty and the interconnections between its causes as well as consequences requires a multi-pronged approach. The costs (and savings)

would depend on the approach taken. This costing exercise assumes a scenario where increased income would 'eliminate' or reduce poverty. We do want to acknowledge that an increase in income from paid work or otherwise will never eliminate poverty — but it must be central to any poverty reduction plan. The government must always ensure that there are sufficient resources to reduce and eliminate poverty for the minority of people who cannot be self-sufficient through paid employment — including many people living with disabilities, seniors, unpaid caretakers of very young children or other unpaid caregivers, and people being treated for or recovering from certain medical conditions.

The NB government cannot eliminate poverty on its own, but it can take steps to reduce it significantly by investing in a plan to do so and by working in partnership with the federal government with a goal to eliminate poverty.

We recognize that some work is underway in the province. However, there are grave concerns about the development and implementation of the *New Brunswick Economic and Social Inclusion Plan*.<sup>27</sup> Examining the current government's actions since it came to power in 2010 gives further reason for concern. There is a serious lack of government resources directed to initiatives to reduce income inequality (and other forms of inequalities that exist including gender, race, geographic, and cultural). Social Assistance remains woefully inadequate leaving recipients well

below any poverty measure.<sup>28</sup> Moreover, several government decisions actually exacerbate existing inequalities: such as closing down the New Brunswick Advisory Council on the Status of Women,<sup>29</sup> postponing pay equity adjustments,<sup>30</sup> implementing tax cuts for the rich,<sup>31</sup> and delaying minimum wage increase.<sup>32</sup>

The numbers presented here are conservative estimates of the costs of poverty in New Brunswick. They do not capture the every-day real

life implications poverty has on the people living in it or on the society that allows it to exist. Poverty, the growing gap between the rich and the poor, and the continued marginalization of groups of people in our communities, eat away at the fabric of our society in insidious ways that have consequences for everyone. Inaction (or delayed action) is not an option and cannot be justified either morally or economically.

**APPENDIX A Market Basket Measure Threshold and Components, New Brunswick, 2009**

	Total threshold	Food	Clothing	Transportation	Shelter	Other expenses
Rural areas	\$30,638	\$10,237	\$2,586	\$4,335	\$3,965	\$9,515
Population under 30,000	\$32,005	\$10,237	\$2,586	\$4,335	\$5,332	\$9,515
30,000–99,999	\$31,518	\$10,237	\$2,586	\$4,335	\$4,845	\$9,515
Fredericton	\$31,752	\$10,177	\$2,586	\$2,306	\$7,213	\$9,470
Saint John	\$30,512	\$10,108	\$2,586	\$2,366	\$6,033	\$9,419
Moncton	\$30,425	\$9,667	\$2,586	\$2,186	\$6,894	\$9,092

## Notes

- 1 Angella MacEwen, and Christine Saulnier, *The Cost of Poverty in Nova Scotia* (Halifax: Canadian Centre for Policy Alternatives-Nova Scotia, 2010). Angella MacEwen, *The Cost of Poverty in Prince Edward Island* (Halifax: CCPA-NS, 2011).
- 2 *IBID* and Nathan Laurie, *The Cost of Poverty: An Analysis of the Economic Cost of Poverty in Ontario* (Ontario Association of Food Banks: Toronto, ON, 2008). [www.oafb.ca/assets/pdfs/CostofPoverty.pdf](http://www.oafb.ca/assets/pdfs/CostofPoverty.pdf); Iglia Ivanova, *The Cost of Poverty in British Columbia*, (Vancouver: CCPA-BC Office, the Public Health Association of BC, and the Social Planning and Research Council of BC, 2011).
- 3 We can assume this based on evidence presented in the Cost of Poverty in BC report, where in author Ivanova estimates that a comprehensive poverty reduction plan would cost less than half of what poverty costs in BC per year right now.
- 4 For a full discussion of the research, see the original cost of poverty report in Ontario: [www.oafb.ca/assets/pdfs/CostofPoverty.pdf](http://www.oafb.ca/assets/pdfs/CostofPoverty.pdf)
- 5 *IBID*, Laurie, 2008. We have also made some modifications Ivanova made to the methodology in her report (*IBID*).
- 6 The “housing first” approach has been shown to have an 88% success rate in housing the chronically homeless and costs 17% less than current programs according to Bri Trypuc and Jeffrey Robinson, *Homeless in Canada: A Funder’s Primer in Understanding the Tragedy on Canada’s Streets*, October 2009.
- 7 For information purposes, the number of New Brunswick living in low income using the LICO before tax is 9.7% or 71,000 individuals and using the LICO after tax it is 6.7% or 49,000 individuals.
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- 27 The Common Front for Social Justice Inc, *Reading between the lines of "Overcoming Poverty Together—The New Brunswick Economic and Social Inclusion Plan"* Moncton, NB: CFSJ, March 2010. <http://www.frontnb.ca/Document/Poverty%20Plan%20Analysis-2010-03.pdf>
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- 29 Beth Lyons, on the council and its closure, April 2011 <http://www.feminisms.org/2299/abolition-of-the-new-brunswick-advisory-council-on-the-status-of-women-on-the-council-and-its-closure/>;
- 30 Johanne Perron, Pay equity advocates in New Brunswick say pay equity adjustments long overdue, NB Media Co-op, June 6, 2011.
- 31 For a full analysis of the tax reform agenda, see Joe Ruggeri and Jean-Philippe Bourgeois, *The Fiscal and Economic Implications of Tax Reform in New Brunswick* (Halifax, NS: CCPA-NS, January 2010).
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du Nouveau-Brunswick

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