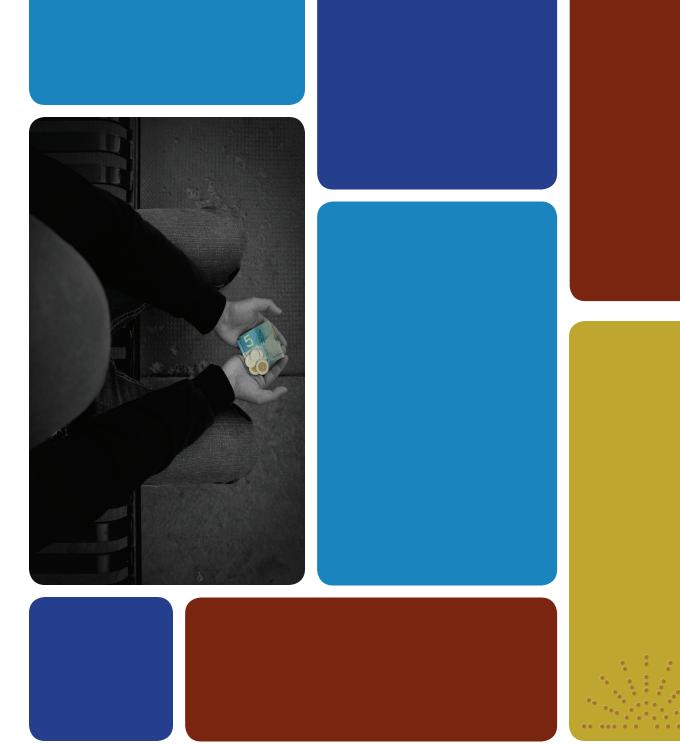
Poverty Costs

AN ECONOMIC CASE FOR A PREVENTATIVE POVERTY REDUCTION STRATEGY IN ALBERTA



Co-Authors: Alexa Briggs and Celia R. Lee

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The opening line of the Alberta *Povety Costs* report is staggering. It says, "Poverty is experienced in 148,000 families in Alberta and by 73,000 children, 34,000 of whom are below the age of 6." It describes how "Deteriorating health and mental health, decreasing trust among citizens, and increased spending on health and justice systems are all measurable outcomes of poverty and growing inequality." The research in this report is solid and reveals truths that Albertans ignore at their peril. In a province that is so wealthy, homeless shelters, food banks and support systems for our most disadvantaged citizens are big business. This report details graphically the current situation and asks piercing questions such as, "Are we succumbing to the myth that poverty is about individual choices rather than the systems we create in our societies?" and the question being asked by many other provinces and those who work at the national level, "How much does it cost to perpetuate poverty in Alberta?"

The section on poverty by numbers should disturb all of us in this province. Looking at child poverty or the Gini Co-efficient, it is clear that the spread between rich and poor is ever widening. Poverty is complex and this report seeks to eliminate the stereotypical attitudes and responses that we so often hear. Who lives in poverty and why?

The Human Rights code was drawn up thoughtfully. It includes people currently living in poverty. We do not have the right to ignore anyone. Proven strategies are available that will reduce the costs of poverty by investing in prevention solutions.

To me, as Chair of the National Council of Welfare (NCW), the most important message of the Alberta report is its focus on solutions. Exploring concepts such as a guaranteed form of income for all can lead us forward. This was done several decades ago for Seniors through the Old Age Security plan. Enabling all marginal sectors of society will improve their wellbeing and society at large. Poverty will not be solved overnight but the solutions are within our grasp. We must act on what we know. Sharing our understanding of the solutions will lead to effective results for all Albertans.

The Alberta report is a major addition to the growing body of work of other provinces, other organizations, including the NCW's recent report, The Dollars and Sense of Solving Poverty, and the authors of many books and articles that address poverty and income inequality. They are the tools we can use to build an Alberta where no one lives in poverty and exclusion. This report details the potential for a healthier Alberta where citizens live with dignity, happiness and wellbeing.

John Rook, PhD Chair The National Council of Welfare



As of 2009, poverty is experienced in 148,000 non-elderly families in Alberta and by 73,000 children, 34,000 of whom are below the age of 6. Even more Albertans are financially vulnerable: Alberta has a higher debt-to-income ratio than the Canadian average, 143% compared with 127% nationally, and is experiencing increasing income disparity, which is associated with growing poverty and growing social costs. Deteriorating health and mental health, decreasing trust among citizens, and increased spending on health and justice systems are all measurable outcomes of poverty and greater inequality.

Indicators show that despite efforts from hard-working individuals in the government and non-profit organizations, the poverty rate in Alberta has not significantly changed in the last five years; in fact, the average gap ratio is increasing, which suggests that low-income Albertans continue to fall further behind. Even though Canada performs well on the world stage economically and socially, we know that Canada does not have the lowest poverty rate in the world; sadly, we rank 17/24 on child poverty among developed nations. We know that there is more each province can do to reduce poverty.

Some argue that reducing the number of people living in poverty is a moral imperative, and that we should therefore accelerate our efforts to address it. Others argue that our assistance programs are more than generous already. Maintaining the status quo is certainly an option – we could choose to declare that the programs and policies we have in place now are the most we are willing to do. If this is the case, it begs the question: What is the financial cost of this decision to our provincial government, to taxpayers, and to those living in poverty? How much does it cost to perpetuate poverty in Alberta?

Our calculations show the following:

\$1.2 billion in health care costs

\$560 million in costs attributable to crime

\$473 million – \$591 million in intergenerational costs

\$4.8 billion – \$7.2 billion in opportunity costs

\$7.1 billion – \$9.5 billion in Total Yearly External Costs of Poverty in Alberta



Certainly not all of the costs of poverty can or should be captured in a dollar figure; however, in the interests of both taxpayers and recipients of social assistance, it is imperative that tax dollars are put to the most effective use possible. As with other provincial studies of this kind, our purpose is not to provide a definitive price tag on the cost of poverty, but to provide economic evidence of the scale of the costs associated with poverty in public services like health care, crime, and in lost economic opportunities for children and people living in poverty.

Our approach is based on methodology that has been used provincially in Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and British Columbia. These provinces found substantial savings to governments, taxpayers, and individuals living in poverty, where the incomes of the bottom earners were increased. The conclusions are clear: investing in poverty prevention would be much less costly in the long run than spending to alleviate poverty in perpetuity. It was this compelling cost-benefit approach to poverty reduction that instigated this report in Alberta.

Before taking further action on poverty in Alberta, we should ask ourselves about our underlying assumptions, and about how effective our strategies have been thus far: Are we basing our efforts on ideology or proven strategies? Are we using a balanced combination of poverty alleviation and poverty prevention approaches? Are we succumbing to the myth that poverty is primarily about individual choices rather than the systems we create in our societies? What is our track record?

By providing economic evidence to help inform the creation of policy, this report encourages decision-makers and all Albertans to consider the financial efficacy of the policies we currently have in place; encourages us to consider alternatives; and will hopefully facilitate consensus among divergent values and opinions in Alberta. Ultimately, this report aims to contribute to an effective, meaningful, and sustainable Poverty Reduction Strategy in Alberta.



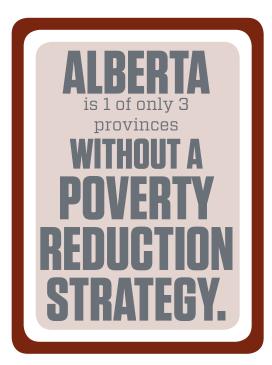
The premise of this report is to provide economic evidence to support and inform existing efforts with respect to policy formation and interventions directed at provincial poverty reduction. Most

other Canadian provinces have adopted Provincial Poverty Reduction Strategies and our conclusions suggest that Alberta could spend less on poverty by investing in a strategy of its own. We will always require spending on programs and interventions that help to support people in times of need. The question we ask in this report is how much are we spending on poverty alleviation costs that could be averted by investing in poverty reduction?

Our calculations are based on established methodology from several other provinces and two municipalities. These economic costs are but one small dimension of the effects of poverty. This report does not consider the social costs that come with poverty, even though we readily acknowledge they are a drain on communities and individuals. These costs are not meant to imply recommendations for any specific policies or interventions but rather are intended to provide economic evidence for investing in poverty reduction, which, over time, will reduce spending on poverty alleviation.

To provide the reader with some background, we discuss poverty in Alberta and Canada: how we measure poverty, the num-

bers of Albertans in poverty and poverty in context. Secondly, we discuss tackling poverty: poverty as a systemic issue, poverty reduction and responsibilities in Alberta for poverty reduction. We then provide our economic analysis of the costs and conclude with a recommendation for an investment in a Provincial Poverty Reduction Strategy.





Measuring Poverty

How does one measure poverty? What factors should be considered? What degree of deprivation makes the cut? Measures and definitions are often quite controversial precisely because they are so subjective. "Choosing a poverty line depends on how high or how low we set our sights for the well-being of the materially disadvantaged in our society" (deGroot-Magetti, 2002, p. 16).



It comes as no surprise, then, that in Canada there is no official poverty line. Instead, there are several different measures that provide slightly different information about those living on low-income, most notably the Low-Income Measure (LIM), the Market Basket Measure (MBM), and the Low-Income Cut-Off (LICO). Unless otherwise specified, LICO is used throughout this document. The measures have different uses, advantages and disadvantages, and as emphasized by Statistics Canada (2011a), the three measures "cumulatively...provide a better understanding of the phenomenon of low income as a whole". When compared side-by-side over time, however, they provide similar trends, thereby bolstering each other's reliability as measures of low-income.

The income level represented by the LIM is 50% of the median income in a given geographical area, and is commonly used for international comparisons, with the assumption that "being poor is relative to a nation's standard of living" (Shillington & Stapleton, 2010, p. 7). Its major drawback is that it does not provide an indication of a family's purchasing power – and inferred quality of life – at that income.

The MBM, on the other hand, defines "low-income" precisely by purchasing power. It determines the cost of a basket of goods - the contents of which is determined by Human Resources and Skills Development Canada (HRSDC) – which varies depending on where you live. The cost of the basket of goods is then compared to disposable income to determine low-income figure. The benefit of this measure is that it is geographically sensitive; however, the validity of the goods included in the basket has been criticized. While Statistics Canada and the HRSDC state that the MBM represents "a standard of living that is a compromise between subsistence and social inclusion", Shillington and Stapleton (2010) challenge this. They note, for example, that the MBM includes "five pairs of long underwear, but no computer access" (p. 7). This brings us to the question of what people need to live out of poverty in Canada, which will be addressed in more detail later in the paper. Having a computer, for example, might be deemed crucial to social inclusion, and social inclusion crucial to finding a good job with a decent income.

The Low-Income Cut-Off is the oldest and most established measure of low-income, dating back to 1967. It represents a threshold "below which families devote a larger share of income to the necessities of food, shelter and clothing than the average family would" (Statistics Canada, 2011). The benefit of LICO, on top of its wealth of historical data, is that it is more up-to-date

than the other two measures, using annually released Consumer Price Index data. The MBM and LIM, on the other hand, are typically available 16-18 months after the end of the reference year. LICO has been criticized, however, for its lack of geographic sensitivity, in contrast with the MBM, and for its assumptions around spending patterns – which date back to 1992. Statistics Canada no longer collects the data necessary to update these spending patterns (Shillington & Stapleton, 2010).

Settling on a statistical measure of poverty is challenging. Firstly, measuring poverty as a function of income can be deemed inaccurate or controversial because we know that other factors come into play. For example, university students may not make enough to get by, but

no measure can ever capture the unquantifiable experience of actually living in IS A DRAIN ON DIGN POTENTIAL, AND HOPE

may have good family support systems that prevent them from being vulnerable to stress, hunger, and poor health. On the other hand, single parents making more than the LICO may still struggle to provide for themselves and their children – particularly if they are also caring for an ailing parent, or lending money to a sibling.

Secondly, there is the challenge of consensus around a definition of poverty. Shillington and Stapleton (2010) challenge us to consider who lives in poverty:

- those whose physical existence is endangered?
- those whose income is associated with poor quality of life, including health concerns, mental health, stress, and crime?
- those whose income prevents them from participating in society, including social, civic and democratic life?

Without consensus around a definition of poverty, measures of poverty are subject to much debate. Developing consensus on the depth and scope of the problem of poverty, and ultimately developing policies to address poverty, is hence made that much more difficult. There is merit, however, in including all three criteria provided by Shillington and Stapleton (2010), due in part to the impact that income inequality has on how poverty is experienced, as is explored later in this paper.

Lastly, and most importantly, there is no measure that can ever capture the unquantifiable experience of actually living in poverty, which is a drain on dignity, potential, and hope.



Developing definitions and statistical measures of poverty is challenging, but not impossible if one takes pragmatic aim at the issue. Studies (Ivanova, 2011; MacEwen, 2011; MacEwen & Saulnier, 2011; MacEwen & Saulnier, 2010; Laurie, 2008) have positively correlated low-income indicators with costs to the health and justice systems; thus, we know they may be relied upon as being representative of income levels at which individuals and families experience ill effects at a higher intensity. These measures are not used because they are perfect but because they are useful. When dealing with such a complex problem as poverty, coming up with an exact framework is impossible. Instead, much like Newtonian physics, we use methodology because it successfully explains and predicts

events within a certain margin of error. As such, using measures such as LICO that provide statistically accurate snapshots of demographic groups facing income-related challenges, provides us with consistent, comparable and reliable data.

POVERTY BY THE NUMBERS

Poverty is understood as occurring due to a combination of market conditions, social conditions, intergenerational transfer of poverty and government systems; and poverty is often cyclical – it becomes difficult to solve one problem without exacerbating another:

A rundown apartment can exacerbate a child's asthma, which leads to a call for an ambulance, which generates a medical bill that cannot be paid, which ruins a credit record, which hikes the interest rate on an auto loan, which forces the purchase of an unreliable used car, which jeopardizes a mother's punctuality at work, which limits her promotions and earning capacity, which confines her to poor housing. (Shipler, 2004, p. 11)

The causes of poverty are complex, even more so because poverty's effects are known to interact with its causes and compound them. For some, poverty is short-lived, for others it is entrenched or recurring. Some are born in poverty and struggle to move out of it; others experience unexpected crises such as an acute health problem, job loss or divorce. Many experience poverty because of changing market demand for their skills, and because of inadequate or inaccessible social supports. Changes in market demands can lead to other unexpected issues – for example, when major local employers close up shop. This can lead to plummeting housing values, leaving families unable to afford a move to a more promising marketplace. Many are poor because they are marginalized and alienated from the workforce and society at large for a variety of reasons including prejudice, discrimination and social exclusion. Lack of education, skills, training or connections can keep individuals out of work, and some individuals live with long-term physical or mental disabilities and cannot work. People may live in poverty because they lack physical, emotional and psychological support within their families and communities; and many people continue to live in poverty because between working and family responsibilities, there's not enough time in the day or money in the bank to make ends meet.

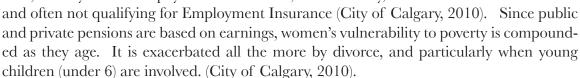
We know that some groups are more likely to experience entrenched poverty than others in Alberta, including Aboriginal people, people with disabilities, recent immigrants, visible minorities, and women.

Aboriginal groups have a long history of intergenerational poverty transfer resulting from perpetual oppression, racism, displacement and political deadlock, which in many cases has interfered with access to employment (including self-employment), good health, education and skills building. Poverty reduction among First Nations thus encompasses a com-

plex array of cultural, political, legal and economic issues.

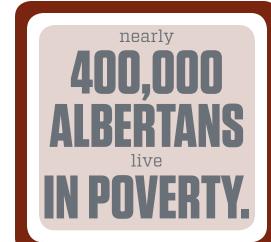
Many persons with disabilities qualify for the Assured Income for the Severely Handicapped (AISH) in Alberta. However, it is worth noting that, the amount granted by AISH still leaves recipients well below LICO and those who do not qualify for AISH earn among the lowest incomes in Alberta, at 51.7% of LICO (National Council of Welfare, 2010). Persons with disabilities also face higher costs associated with assistive equipment, supplies, and medications that are not always covered by public programs.

Women are also more likely to be vulnerable to poverty. Statistically, more women work in "non-standard" work than men, usually for lower pay without benefits, little security,



While many recent immigrants may be highly educated, they routinely face barriers to gainful employment because of the lack of transferability of their credentials, and lack of English language skills. They also suffer because they may not understand the structure and functioning of the local labour market, they may not have the social networks that often help in securing employment, and because of racial and ethnic discrimination.

Common myths mean that the term 'poverty' does not always bring immediate association to people who are employed. A study by Fleury and Fortin (2006) showed, however, that 4.7% of Canadian workers were living in low income, despite having significant paid hours.



The working poor are often overlooked yet face unique challenges in efforts to meet their needs. Faid (2009) explains:

In the province today, jobs may be more available, but as the cost of living rises, working Albertans who do not qualify for health, housing and other subsidies are often worse off than welfare recipients. As a result, the working-poor in Alberta tend to be the first to be hurt and the last to get help. (p. 24)

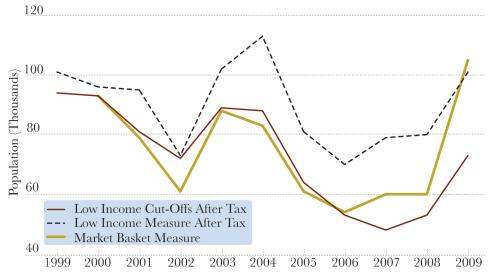
According to Statistics Canada (Graph 1 below), Alberta is failing to make significant shifts in the numbers of Albertans living in poverty no matter the measure. LICO After Tax tells us that nearly 300,000 Albertans are living in low income; while with LICO Before Tax, we would see that number increase to 388,145 (Statistics Canada, 2011b). Which number to use is not always straightforward but to make cautious estimates in our calculations, we use LICO After Tax. In order to get a clearer sense of poverty in Alberta, we would need to look at available measures, including LICO Before Tax, which is a representation of households not earning enough on their own to live above LICO. Many Albertans are also financially vulnerable: Alberta has a higher debt-to-income ratio than the Canadian average, 143% compared with 127% nationally (TD Bank Group, 2011).

Our child poverty numbers (Graph 2) - approaching their highest rate in 5 years - are particularly troubling. There are 73,000 children living in poverty in Alberta, 34,000 of them are under the age of 6 (Kolkman & Ahorro, 2011).

400 Population (Thousands) 200 Low Income Cut-Offs After Tax -·Low Income Measure After Tax Market Basket Measure 0 1999 2000 2001 2002 2003 2004 2005 Source: Statistics Canada. Table 202-0804 - Persons in low income, by economic family type.

Graph 1: Poverty Numbers in Alberta

Graph 2: Child Poverty Numbers in Alberta



Source: Statistics Canada. Table 202-0802 - Persons in low income families, annual.

POVERTY IN CONTEXT

Poverty is often broadly categorized as absolute or relative; however, the difference between absolute poverty and relative poverty is not always straightforward. Generally, absolute poverty is described as a lack of access to basic necessities of life – food, shelter, heat, and sometimes transportation, whereas relative poverty, on the other hand, is described as being less well off compared to the average. Relative poverty might include having less social mobility (ability to improve one's current situation in life); less access to educational and skill-building opportunities; to healthcare; to amenities; to participation in social and civic life, including participation in democratic processes at various levels of society; and less access to positional goods (goods that indicate one's social status in life, such as a cell phone, a car, a suit, etc.).

In what must be considered the gold standard of research, Wilkinson and Pickett (2010) describe how absolute and relative poverty overlap. For example, those on low-income may invest in positional goods in an attempt to become more successful – by trying to project success. For those on low-income, investments on positional goods, such as a suit or a cell phone, might come at the expense of basic needs, such as food, or at the expense of the quality of their basic needs, such as nutritious food. On the other hand, not investing in positional goods could come at the expense of basic needs in the future, if one cannot gain upward mobility. We see in this example that the difference between relative and absolute poverty can be negligible. By virtue of the fact that we must "position" ourselves to succeed, relative poverty can be synonymous with absolute poverty.

Relative poverty is particularly important in a discussion on the costs of poverty. In their recent synthesis of international data, Wilkinson and Pickett (2010) show that income inequality is more correlated to social problems than median income. In other words, how people fare relative to one another is more important than how communities do on average, when it comes to the external costs of poverty. Factors that suffer as a result of income inequality, include mental health and drug abuse, physical health and life expectancy, obesity, educational performance, teenage births, violence, imprisonment and social mobility. Further, they emphasize that income equality should be the goal of poverty-reduction strategies. They demonstrate that several of the ill effects of inequality are prevalent at all income levels in unequal societies – thus we all suffer from income inequality. This extends to the economy as well: research shows a correlation between inequality and low economic and social growth (United Nations Research Institute for Social Development, 2010; Conference Board of Canada, 2009; Perotti, 1996).

For a look at how Canada fares in terms of inequality and poverty, international comparisons tell us that while Canada achieves a high quality of living, we can still aim higher. In the

UNICEF ranks on child material well-being of the world's richest economies.

"Better Life Index" (2011) from the Organisation for Economic Co-operation and Development (OECD), Canada consistently ranks highly on all 11 topics. However, other international comparisons may give us some perspective and some targets to aim for. In the 2011 OECD social indicators of 34 countries, Canada ranks below the OECD average on: income inequality; poverty; exiting low income while on benefits; and social spending. UNICEF (2010) puts Canada at 17 out of 24 of the world's richest countries on child material well-being. The Conference Board of Canada (2009) ranks Canada as 12 out of 17 peer countries on income inequality, achieving just a "C" grade in comparison.

Alberta too, while experiencing low rates of poverty compared to other Canadian provinces, as measured by LICO, can aim higher still on absolute measures of poverty and particularly on measures of inequality.

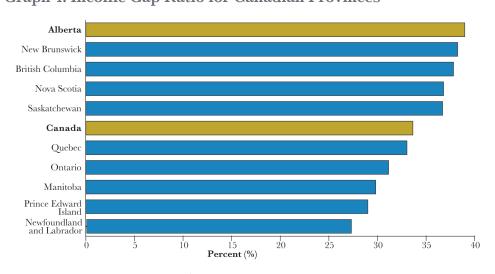
Graph 3, on the following page, shows us that Alberta's Income Inequality, using the Gini co-efficient as a measure, is rising both independently and in relation to the Canadian average. The Gini co-efficient is a measure of income equality across an entire population. A coefficient of "1" denotes a population in which one individual holds all of the resources, and the rest of the population owns nothing. A coefficient of "0", on the other hand, denotes a population in which every individual has an equal share of the total wealth; with such a scale, even a change of .01 is significant (Wilkinson & Pickett, 2010). One study (Cornia & Court, 2001) notes that inequality above a Gini coefficient of 0.40 is correlated with a shrinking of the economy, as is inequality below 0.25. They suggest aiming for the lower end of this range. Take note that in Graph 3: inequality is on the rise and is higher in Alberta than it has been at any point in the last 20 years. In fact, while all provinces are not shown, inequality in Alberta is higher than any other province.

Graph 4 shows us Alberta's income gap ratio – the percentage by which people earning lowincomes are falling short of the LICO after-tax. The smaller the percentage, the closer the family is to the LICO, and the greater the percentage, the further the family is from LICO. In Graph 4, a quick glance will tell you that people living in poverty in Alberta are falling further short of LICO than the Canadian average; in fact, they are falling further behind than in any other Canadian province at nearly 40%. In light of Wilkinson's conclusions about the negative effects of inequality on societies, we should be taking these data very seriously and including them in our discussions about poverty in Alberta.

0.35 0.34 0.33 0.32 0.31 0.30 0.30 0.29 Alberta Canada 0.28 0.27 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Graph 3: Income Inequality in Alberta and Canada

Source: Statistics Canada. Table 202-0709 - Gini coefficients of market, total and after-tax income of individuals, where each individual is represented by their adjusted household income, by economic family type.

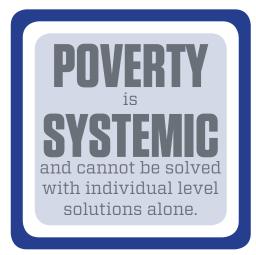


Graph 4: Income Gap Ratio for Canadian Provinces

Source: Statistics Canada. Table 202-0804 - Persons in low-income, by economic family type.



Tackling poverty can seem like a daunting task. Efforts may not yield immediate results and it may take years for any improvements to become apparent. Once progress has been made, there are often setbacks as governments change and markets shift. The long-term nature of poverty, however, gives us all the more reason to take action now in Alberta.



Poverty reduction efforts have been underway in Alberta in all sectors for decades, and we have many achievements to celebrate. However, stagnant poverty rates and growing evidence pointing towards best practices tell us we must renew our efforts and evolve our strategies. They suggest that we can do better by investing in comprehensive poverty prevention and reduction strategies, rather than spending perpetually on alleviation.

In this section, we emphasize the importance of recognizing that poverty is perpetuated by the systems we create, and correspondingly that our systems are where long-term, over-arching solutions will be found. We describe the equal importance of recognizing that poverty alleviation strategies are a key part of poverty reduction but so too are poverty prevention strategies,

which require a view to longer-term outcomes and targeted investments rather than perpetual spending. We discuss the different roles each sector plays in poverty reduction; and lastly, we emphasize that we can reduce poverty, and ultimately, the choice is ours – we can work to end poverty or we can maintain the status quo.

POVERTY AS A SYSTEMIC ISSUE

At the core of attempts to understand poverty is a recognition that poverty is, in fact, a systemic issue. This means that poverty persists regardless of individual behaviours, attitudes, and choices. It means that as a society we have created systems that perpetuate poverty and hence allow poverty to persist. Yet, so often when we look at issues of poverty, our attention hones in on people who are poor. We look for their personal failings or bad choices to perpetuate our own beliefs around what they have done wrong to find themselves poor and what they could be doing better to get themselves out of poverty. Addressing individual circumstances is certainly critical in terms of poverty alleviation, but does little to address prevention. It

does not impact the larger context in which we all operate individually, and in which service providers must operate as they try to help individuals move out of poverty. If we are ever to truly understand poverty, we must acknowledge it as an issue that exists within the systems that we have collectively created; when poverty persists, it is an indictment of those systems.

Our programs and policies must catch up with our knowledge of poverty as a societal issue; the individual approach alone is neither sustainable nor effective in poverty reduction. Furthermore, we know that as we create policies that improve the lives of our most vulnerable, our society as a whole becomes more resilient and healthier. By looking at poverty not solely as a result of individual characteristics but as a result of societal characteristics, we are in a much stronger position to develop solutions that target the best outcomes for societies.

POVERTY REDUCTION

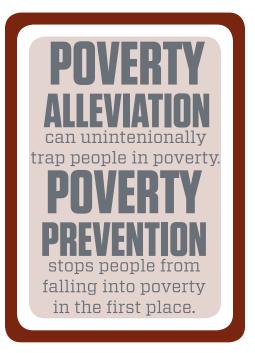
Fulfilling our commitments to the Declaration of Human Rights, which states that all individuals have a right to a standard of living adequate for the health and well-being for oneself and one's family, Canada and Alberta have programs in place aimed at helping our most vulnerable meet their basic needs. We can broadly categorize these programs into poverty alleviation strategies and poverty prevention strategies.

Poverty alleviation strategies aim to enable individuals to meet their most basic needs (such as food, shelter, clothing), which may provide a safety net, but do not provide a springboard to move individuals and families out of poverty. In fact, alleviation efforts can unintentionally trap people in poverty. A poverty alleviation approach asks the questions, "What are the needs we can meet now, and how can we do that within the parameters and rules of our programs?"

Examples of poverty alleviation strategies include measures such as food banks and shelters. They also include current manifestations of income supplementation programs, by virtue of the fact that these are administered as emergency measures. They attempt (but do not always succeed) to ensure individuals can pay for only their most basic needs, namely food and shelter.

Poverty prevention strategies aim to help individuals and families move out of poverty, and in the long-run, prevent them from falling into poverty in the first place. A prevention approach asks the questions, "Why are people unable to meet their needs? How can we help prevent them from being unable to do so in the first place? How can we support them to participate fully in their communities?"

Examples of poverty prevention would include: enabling people to maintain assets while receiving social assistance. Many people could avoid becoming destitute and therefore trapped in a cycle of poverty if provided with opportunities to build and maintain



assets. Poverty prevention is also achieved through a full complement of comprehensive services and programs that address the complex and interlocking causes and effects of poverty:

If problems are interlocking then so too solutions must be... a job alone is not enough. Medical insurance alone is not enough. Good housing alone is not enough. Reliable transportation, careful family budgeting, effective parenting, effective schooling are not enough, when each is achieved in isolation from the rest. (Shipler, 2004, p. 11)

We know that the causes and effects of poverty compound each other, and so both alleviation and prevention strategies are an important part of a long-term poverty reduction strategy. It is important, for example, to offer addiction rehabilitation programs, just as it is important to prevent the conditions that typically lead to addiction; it is important to provide housing, just as it is important for people to be able to afford housing. Affordable housing is, in fact, both an alleviation and a prevention strategy. Affordable housing does not necessarily increase one's income, but we know that safe housing, along with transportation and skills-building, can help someone secure a job. In most Canadian provinces, there is not enough emphasis on poverty prevention, which requires a longer-term view and asset-based approaches over punitive ones.

In fact, research in Canada (National Council of Welfare, 2011) is beginning to indicate that taking a spending approach, rather than an investment one, is costing us substantially. Rather than providing a springboard to lift families out of poverty, we provide them with limited support that ultimately results in the perpetual need for costly programs. One example of this is the asset limits we have around administering social assistance:

Most families receiving social assistance across Canada experience the Catch-22 of typical welfare systems: They are forced to give up their financial assets before they go on social assistance and then are limited in how much they may earn once they find work if they're going to stay on assistance. (Cabaj, 2011, p. 5)

In this way, families who find themselves in need of temporary support may wind up unable to work their way out of reliance on supports after relinquishing assets in order to qualify:

Faced with the combination of low asset limits, low earning exemptions, and low welfare rates, they are left in a perpetual state of low income, tangled up in a frayed social safety net when what they need is a trampoline. (Cabaj, 2011, p. 5)

In Alberta as in other provinces, our regulations around assets and income limits when receiving Income Supports can prohibit individuals and families from climbing out of poverty. The regulations are complex because they attempt to respond to a wide variety of different circumstances, and so the impacts of these rules are not always straightforward. A general description of the asset and income limits is given in the text box below. A highlight of these rules is that in Alberta, a person may receive Income Supports even if that individual has as much as \$5,000 in RRSPs. This policy has been praised by Stapleton (2009), who proposes this limit in Ontario for single persons, along with:

- raising general asset limits to \$5,000 for individuals and \$10,000 for families and people with disabilities
- adopting Quebec's exemption in registered savings of \$60,000
- following Newfoundland's lead and making exempt all assets for the first six months
- ceasing asset testing for subsidized housing applicants

ASSET LIMITS ON INCOME SUPPORT IN ALBERTA

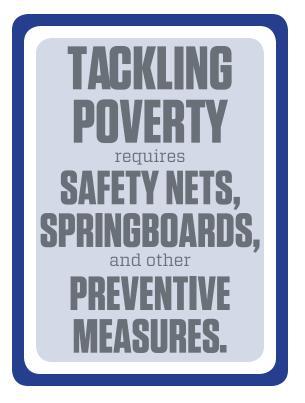
ON INCOME SUPPORT, YOU MAY KEEP: \$5,000 in RRSPs; a house of any value; registered Education Savings Plans and children's assets; up to \$10,000 equity in vehicles (or unlimited if adapted for disability); cash and liquid assets the same value as one to two months of core benefits.

INCOME DEDUCTED FROM INCOME SUPPORTS: employment insurance, workers' compensation or other sickness or accident insurance payments; Canada Pension Plan benefits; child/adult support; and survivor's benefits. There are partial income deductions from people who are working, and for any income from rent or room and board.

NOT DEDUCTED FROM INCOME SUPPORTS: Canada Child Tax Benefit; Universal Child Care Benefits; Goods and Services Tax credits; Alberta Family Employment Tax Credit; Working Income Tax Benefit; and Cash gifts less than \$900. (Government of Alberta, 2011a)

Generally, however, our asset limits, income limits and clawbacks still provide significant barriers for individuals and families to move out of poverty and stop relying on income assistance. This is particularly difficult for those who have barriers to full employment but do not qualify for AISH; they are, as previously stated, among our lowest income earners in Alberta. Alberta's approach to Income Supports still demonstrates the expectation that individuals and families lift themselves out of poverty, which within the given framework is rarely possible. Instead, we should be crafting policies that recognize necessary supports to help lift people out of poverty, and prevent people from falling into poverty in the first place. Scarcity of poverty prevention programs and policies is exacerbated by the lack of flexibility with the rules as formulated and enforced by governments:

More and more, matters of public policy have been stripped of discretion, in favour of hard and fast, zero-tolerance rules...It feels good to be tough and allow no nonsense. It also feels good to create rules that are crystal clear and unambiguous. (Stapleton, 2010, p. 18)



Intuitively, we might be inclined to think that hard line rules and interpretations of policies lead to more fairness when in fact they can have the opposite effect. Equity – where everyone can achieve the same quality of life - is not often or usually achieved through policies of equality:

The problem is that zero-tolerance rules remove the possibility of discretion...public servants go to school and obtain advanced degrees in order to manage ambiguity and exercise discretion where warranted. We pay administrators, auditors, and whole departments large salaries to find better ways. But often, we don't allow them the leeway to act. (Stapleton, 2010, p. 18)

Strategies that do not address poverty systemically and preventively, that do not build flexibility into their models; that attempt to address poverty in a piece-meal fashion rather than comprehensively; that do not rely on the best research and best practices, and that build on myths of individual triumph and individual responsibility are destined to fail. Tackling poverty requires strong safety nets, springboards

and other preventive measures before we can expect success at the level of the individual. As a systemic issue, poverty defies individual level solutions alone.

Who is Responsible for Poverty Reduction in Alberta?

There is a rich history of poverty reduction work in the province and all three levels of government as well as the non-profit sector are to be commended for continuing their efforts. There is also a rich history of charitable giving from major corporations in the province, all of which certainly indicates that we have a province with the will to improve the lives of our most vulnerable. Here we review the roles of the various stakeholders in poverty reduction, and also identify the gaps and opportunities in these roles. As will be elucidated further, we suggest that much of the capacity for leadership in co-ordinating a more effective, resultsbased and comprehensive poverty reduction strategy lies with the provincial government of Alberta. It is the provincial government that has the resources, bureaucracy, capacity, and remit for policy change that will open up opportunities for non-profit, private and community groups in enacting poverty prevention and reduction strategies.

Responsibility for poverty reduction lies with all three levels of government, the non-profit sector, and the for-profit sector. The non-profit sector is particularly well-positioned to carry out the implementation of policy around poverty because it has the flexibility and sensitivity required to respond appropriately to local contexts and individual circumstances. As such, non-profits are also often known for being more innovative than large government bureaucracies, and for piloting, whether purposefully or inadvertently, programs that are eventually taken up by municipal and provincial governments. To effect long-term change, however, non-profit service agencies must be complimented by top-down preventive poverty strategies. Income supplementation programs provided by the province, for example, and low-income transit passes, provided by municipal governments, can ensure that people have the basic resources to support themselves as they work to get back on their feet, rather than fall right back into poverty. Non-profit agencies also need to operate within a context that provides the policies, legislation and funding allowing them to do their work most effectively, which often comes down to provincial, and sometimes municipal, action.

The for-profit sector is a major contributor to the quality of life in societies with its great power to impact economic conditions through initiatives like work training, investment, wages, and corporate giving and citizenship activities by which corporations and employees contribute money, time and expertise toward poverty reduction efforts.

The Federal government acknowledged its responsibility on November 24, 1989 when the House of Commons unanimously resolved to eliminate poverty among Canadian children by the year

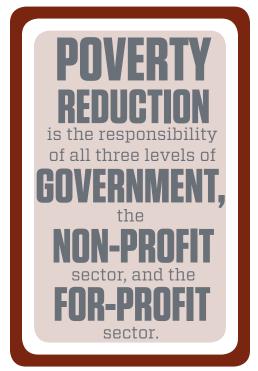
2000 (Collin, 2007). Its jurisdiction, however, tends to be limited. The Federal government is primarily responsible for Aboriginal affairs, and thus addressing Aboriginal poverty. The federal government also participates in poverty reduction through transfer payments to provinces and municipalities, for myriad expenditures from health care to infrastructural improvements.

Municipal governments have a key role to play in terms of providing housing, infrastructure, social inclusion, early childhood development, recreation, education, and skills building to their residents. They can target certain aspects of poverty by putting property aside for affordable housing development, developing infrastructure that increases local access to amenities, and allowing people to access municipal services at lower or more equitable rates and with minimal requirements for proof of need.

Communities also have the capacity to lower vulnerability to poverty on a voluntary basis through affordable housing developments (such as co-operatives), social inclusion, community childcare options, and generally by providing a social safety net for community

members. Communities have an important role to play in poverty reduction at the localized level, but they do not have the capacity to be universal in their approach, nor do they have the capacity to be comprehensive in their approach – they provide a key piece of a much bigger puzzle.

Provincial governments, on the other hand, have a particularly key role in addressing some of the root causes of poverty, such as education, minimum wage legislation and income assistance. Crucially, provincial governments also have the ability to co-ordinate. Provincial



governments are well-equipped to develop a framework, policies and resources to significantly reduce poverty. As stated in Torjman (2008):

Any serious poverty strategy must be composed of a set of core public policies related to affordable housing, early childhood development, education and training, income security, asset creation and social infrastructure. (p. 29)

The majority of these elements lie in the jurisdiction of the province. Toriman (2008) continues however:

But any comprehensive poverty strategy must also recognize and should provide support for the wide range of efforts in communities that are making critical contributions through their collaborative efforts, innovative interventions and policy impact. At the end of the day, a robust poverty strategy combines public policy and place-based interventions to create a powerful combination of government and community in the fight against poverty. (p. 29)

Thus there is a recognition that provincial governments have the responsibility to make the appropriate funding and policy decisions, but also that communities and non-profits, as the front-line respondents to issues surrounding poverty, will have the capacity to adapt and innovate to changing conditions, and are well-positioned to provide critical feedback to the provincial government.

Preliminary results from provincial poverty reduction strategies in Quebec (Ministère de l'Emploi et de la Solidarité sociale, 2009) and Newfoundland/Labrador (Government of Newfoundland and Labrador, 2009) show that they have indeed made progress. Quebec saw a decrease of 7.5% in the low-income rate for children and youth and a decrease of 18.2% in lone parent families between 2000 and 2007. Newfoundland/Labrador has seen a 5.7% decrease in the incidence of low-income households (from 12.2% to 6.5%) over the 2003-2007 year period. Depth of poverty, as measured by the low-income gap, has also decreased to the lowest in the country, from \$5,500 to \$4,900 over the same time period, and the Income Support caseload decreased substantially while basic individual and family benefits increased by an average cumulative 11.6%. Finally, initiatives to remove financial disincentives to work have helped over 4,000 Income Support clients to start new jobs between 2006 and 2008.

Poverty in Alberta is a growing problem, despite concerted efforts by non-profit groups, municipal initiatives, provincial social assurance programs and time and money from forprofit organizations. The responsibility for poverty reduction ultimately rests among all levels of government working together with the non-profit and the for-profit sectors to orchestrate a comprehensive and results-based approach to poverty reduction.



Poverty costs us all in many different ways. It places significant stress on our families and our neighbours, it wears away at the vibrancy of our communities, it reduces the size, resiliency and diversity of our economies, and it burdens our health, justice and social assistance programs. Poverty is linked causally to an increased likelihood of chronic health concerns and of educational and skill-based deficits. Growing up in poverty increases the likelihood of living in poverty as an adult and experiencing those health and educational deficits. As a result, our economies suffer a substantial loss in productivity and tax revenue.

There are those who would argue that poverty in Alberta is not an issue and that we do not need to take any action at all on poverty reduction. Doing nothing more about poverty in Alberta is certainly an option. We could choose to maintain the status quo, and declare that the programs and policies we have in place now are the most we are willing to do. If this is the case, we want to know: what is the economic cost of this decision? How much does it cost to perpetuate poverty in Alberta? To answer these questions, we can look to methodology used in several other provinces. In this theoretical model, the incomes of the lowest income earners are raised to the incomes of Albertans representing the second-lowest incomes, and the expected private and public savings are tallied up – providing a cautious estimate of the yearly cost of perpetuating poverty.

Attempting to quantify these costs can appear to be a daunting and convoluted process, but this paper relies upon the best methods available to provide a valid and replicable estimation of quantifiable costs. The costs of poverty calculated in this paper are:

- costs incurred by health care,
- costs attributable to crime,
- intergenerational costs, and
- opportunity costs.

The data used to calculate these costs come in part from income data in Alberta for the year 2009, for non-elderly families only, seen on the following page in Table 1. Costs to health care and costs associated with crime are calculated by comparing the 1st and 2nd income quintiles. Intergenerational costs are calculated by comparing the average income for Alberta families who fall below the Low-Income Cut-Off with the 2nd quintile. Opportunity costs are calculated by comparing the average income for Alberta families who fall below the Low-Income Cut-Off and the 1st income quintile with the 2nd income quintile. The

premise of these calculations is that by raising incomes of the poorest, the 148,000 families below LICO, and the 264,000 in the poorest quintile, we can demonstrate costs incurred to the province attributable to poverty. Detailed justification and explanation of each cost are found in the sub-sections below.

Table 1: Alberta Income Data, Non-Elderly Families, 2009*

	Average Market Income (\$)	Average Total Income (\$)	Average After-Tax Income (\$)	Number of Families
Families below LICO	8,300	13,300	12,800	148,000
Poorest 20%	14,200	18,600	17,600	264,000
2nd Quintile	40,400	45,700	40,900	264,000
3rd Quintile	68,000	73,200	63,200	264,000
4th Quintile	103,800	108,200	90,100	264,000
Richest 20%	206,800	209,800	164,900	264,000
Total	86,700	91,100	75,400	1,321,000

^{*} Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics. Custom Tabulation.

The estimates this study makes of the economic costs of poverty have been made cautiously. The calculations rely on conservative assumptions to demonstrate the cost of maintaining the current strategy of (predominantly) poverty alleviation programs and policies. The costs of poverty represented in this paper do not consider direct expenditures on poverty. For example, the cost does not include current social spending on poverty, employment insurance or social assistance since "there will always be a need for poverty alleviation. Therefore we do not view current social spending as a cost of poverty, but rather the cost of meeting our obligations to each other" (MacEwen & Saulnier, 2010, p. 8). The Guaranteed Income Supplement for seniors, for example, is an important poverty alleviation program, which has had a dramatic effect in reducing poverty among Canadian seniors and should be extended. "The importance of poverty prevention does not diminish the importance of improving service delivery and de-stigmatizing poverty alleviation (ie social assistance programs)" (MacEwen & Saulnier, 2010, p. 24). In addition, calculations do not consider: the portion of \$1.4 billion in charitable donations in 2010 by Albertans (Statistics Canada, 2010) that go towards poverty-related initiatives and programs; the costs to child protective services; the education system; social costs; or the value of donated goods and services.

There is no question that investments to eliminate poverty are required and this paper is in no way suggesting that we eliminate programs and policies aimed at alleviating poverty. Rather, it encourages us to think about our spending in a different way and to imagine a model that invests in programs and polices that tackle poverty at its roots so that we may not incur the economic costs we demonstrate below. This shift in thinking will mean creating new programs and policies aimed at generating longer-term impacts, and it may mean that eventually, we will not need certain programs, or that they will be used with less intensity.

STRENGTHS AND LIMITATIONS

This methodology gives us an idea of how our costs could change given a different view of poverty reduction, namely one that ensures the lowest-income quintile raises its income sustainably to the 2nd income-quintile. Developing a new poverty reduction approach, however, and helping the lowest-income quintile raise their incomes, will require investment. Thus, when we think of the cost-savings that would be incurred by raising the incomes of our lowest earners, these savings would be tempered in the short-term by initial investments.

We must also consider that income changes may not yield predictable results. While we have used a proven method to establish a best estimate of the external costs of poverty, we fully recognize that poverty is complex and that there are complex and overlapping relationships among contributing factors. We also know that poverty reduction efforts are never perfect. Nevertheless, armed with the knowledge that there are in fact real external costs to poverty, we can create the space for a discussion about interventions that will lead to preventing the costs of poverty.

Another key point to consider in this methodology is that its results will only be as sensitive as the measures we use. The measures used to calculate the external costs of poverty are the Low-Income Cut Off (LICO) for non-elderly families only, as well as the income quintiles. Resulting data thus does not reflect the elderly, and makes assumptions about low-income households based on the income quintiles.

A strength, on the other hand, is that with this methodology, the data will be accurate, relevant and comparable regardless of the measure of poverty used. The methodology provides us with the scale of financial costs incurred by maintaining a defined demographic – the lowest earning quintile – at their current incomes. Regardless of how we define poverty, its results indicate the impact to individuals, the government, the economy and our future citizens when those incomes are increased.

If used periodically over time, this methodology could become an invaluable tool to measure the financial impacts of our policies across income quintiles. The methodology is easily replicable and comparable across regions and over time, and has the potential to provide feedback on how our efforts to increase the incomes of our bottom-earners are affecting our cost structures. Progress over time could be measured in several ways:

- 1. it could track the net savings incurred by the lowest earners over time.
- 2. it could be measured as a function of decreasing disparity over time.

As discussed earlier in this paper, income disparity is highly correlated with social costs to all income levels. As such, this methodology may under-estimate the cost of poverty in Alberta, since it only measures the costs associated with the first quintile.

Costs of Poverty to Health Care

The evidence linking health and income are clear but determining the cost of poverty on the health system is no easy task and is perhaps the most contentious of the calculations in this paper. Many sources find that poverty can be a cause of poor health (Fang et al., 2009; Fortin, 2008; Butler-Jones, 2008; Statistics Canada, 2008; Curtis & MacMinn, 2007; Lasser, 2006; Phipps, 2003; Jolly, 1991) and a source of mental distress (US Government Accountability Office, 2007). The physical and mental health consequences for children in poverty are also numerous (Galobardes et al., 2008; Raphael, 2000; Corak, 1998). While we fully recognize that the causal relationship between income and health runs both ways, in a review of health inequity literature, Phipps (2003) finds "that the main direction of influence is from poverty to poor(er) health" (p. 13). While absolute material deprivation can play a role in health outcomes (Kawachi et al., 2010; Fang et al., 2009), relative levels of poverty can also play a role in health outcomes (Wilkinson & Pickett, 2010).

Income is now recognized as a social determinant of health (Canadian Institute for Health Information, 2010; Butler-Jones, 2008) and as such, can have an impact on the state of individual and community health:

Our health is shaped by how income and wealth is distributed, whether or not we are employed and if so, the working conditions we experience. Our health is also determined by the health and social services we receive, and our ability to obtain quality education, food and housing, among other factors. And contrary to the assumption that Canadians have personal control over these factors, in most cases these living conditions are – for better or worse – imposed upon us by the quality of the communities, housing situations, work settings, health and social service agencies, and educational institutions with which we interact. (Mikkonen & Raphael, 2011, p. 7)

There is no doubt that the correlation between income and health is not a simple matter of cause and effect. However, there is no doubt that poverty has a strong impact on the health system.

CALCULATING THE COSTS

Mustard and Roos (1997) and Mustard et al. (1998) provide the foundations for economic analysis of the costs which poverty imposes to health. For this paper, we correlated income data with family practitioner consultations, hospital days, acute hospital use and public health costs. The methodology for economic analysis is found in Shiell and Zhang (2004) with subsequent study by Pateman and Coulter (2009), and in 5 other provinces (Ivanova, 2011; MacEwen, 2011; MacEwen & Saulnier, 2011; MacEwen & Saulnier, 2010; Laurie, 2008;). The health costs we derive from these studies rely on the assumption that increasing incomes of the lowest quintile to that of the second income quintile will eliminate the difference in health service use between the quintiles. Wilkinson and Pickett (2010) suggest that health care costs decrease across income quintiles as societies become more equal; thus, the long-term savings in terms of health care are likely under-estimated in this methodology. Additionally, other costs to health (such as mental health and prescription drug use) are not included in this paper since we do not have data to correlate income with usage.

Mustard and Roos (1997) provide a basis for estimating economic costs stemming from family practitioner consultations and hospital use, which correlates neighbourhood income data with health service use. Following the method from Shiell and Zhang (2004), we make the following assumption:

that the bottom quintile neighbourhoods also contain the bottom quintile of individuals...The assumption is unlikely to hold in practice but it is a conservative assumption... if people who live in poverty do make greater use of health services, then this mixing

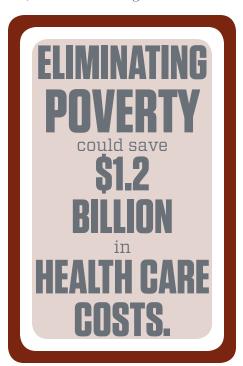
of population by neighbourhood will serve to reduce the differences in utilization between high and low income neighbourhoods and so we probably understate the effect of income on health care costs. (p. 13-14)

Table 2 shows the distribution of family practitioner consultations and days in hospital per resident in Alberta using the findings of the original Mustard and Roos study. Raising incomes of the poorest quintile to the second quintile level could see family practitioner consultations reduced from 4.8 to 4.3 per person or 132,000 fewer consultations total (264,000 X 0.5). In economic terms, this translates to multiplying the total number of consultations avoided (132,000) by the average cost of a visit to a general practitioner in Alberta (\$36: Alberta Health Services, 2011a). Using these calculations, 132,000 X 36, we calculate a savings of \$4,752,000 in consultations.

Similarly, raising incomes of the poorest quintile to the level of the second quintile could see days in hospital reduced to 527 per 1000 residents from 703: a total of 46,464 fewer hospital days (264 X

176). For an economic estimation of the cost of hospital stays of the poorest quintile, we multiply the total number of fewer hospital days by the average cost of a stay in a hospital in Alberta (\$986: the per diem cost for a stay in 74% of general hospitals in Alberta, excluding Intensive Care Units, Alberta Health and Wellness, 2011b). We hence calculate 46,464 X 986 for a further savings of \$45,813,504 in hospital stays

Mustard et al. (1998) provide the basis for our estimate of economic costs to public health and acute hospital costs. Using the method from Shiell and Zhang (2004) rooted in the



Mustard et al study, we can estimate the costs of acute hospital use by income quintile in Alberta, shown in Table 3. Making the same assumption that increasing the incomes of the poorest quintile will reduce the hospital use to that of the second quintile, we calculate the costs of acute hospital use at \$300 million.

Table 2: Health Service Use in Alberta by Income

	Family Practitioner Consultations/Resident*	Days in Hospital per 1000 Residents**
Poorest 20%	4.8	703
2nd Quintile	4.3	527
3rd Quintile	4.2	477
4th Quintile	4.0	426
Richest 20%	3.9	376

*Authors' calculations using total consultations from the National Physician Database 2008/2009. Table B.1.1: Family Medicine

Table 3: Estimated Costs of Acute Hospital Use for Alberta

	Share of Acute Hostpital Costs (%)*	Acute Hospital Costs (\$)**
Poorest 20%	27	1.6 billion
2nd Quintile	22	1.3 billion
3rd Quintile	20	1.2 billion
4th Quintile	15	869 million
Richest 20%	16	927 million
Total	100	5.8 billion

*As shown in Shiell and Zhang (2004)

Using a method from a study in Ontario on the costs of poverty, still based on Mustard et al, we can calculate the share of public health expenditures by income quintile, shown in Table 4. Using these shares, we calculate the cost savings to public health if the incomes of the poorest 20% of Albertans were raised to those in the 2nd quintile and then realized an accompanying reduction in public health spending from \$5.3 to \$4.2 billion.

^{**} Authors' calculations using total hospital days from Alberta Health Services Annual Report 2010 – 11

^{**}Authors' calculation from Alberta Health Services Consolidated Financial Statements 2010 – 2011. Includes: inpatient acute nursing services, emergency and outpatient services, ambulance services, and diagnostic and therapeutic services.

As shown in Table 5, our estimated cost of poverty to public health in Alberta is \$1.2 billion annually. This cost is comparable to British Columbia's cost, but Alberta's true cost may actually be higher since per capita spending is much higher. In fact, Alberta's per capita spending is among the highest in Canada (Canadian Institute for Health Information, 2011). Using a different methodology, the Public Health Agency of Canada (2004) estimates that about 20% of total health care spending is attributable to inequities, which in Alberta correlates to \$3.4 billion. In comparison, our estimate of \$1.2 billion could be considered conservative.

Table 4: Total Public Health Care Costs by Income Quintile

	Share of Total Public Health Expenditures (%)	Total Public Health Expenditures in Canada (\$ billion)*	Total Public Health Expenditures in Alberta (\$ billion)*
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	100.0	135.1	17.3

^{*}Total Public Health Expenditures based on Canadian Institute for Health Information, 2010, National Health Expenditure Trends 1975 – 2010.

Table 5: Estimated Expenditures in Public Health to Poverty *

Reduction of the Poorest Quintile Spending to	\$9.1 billion
2nd Quintile Spending in Canada	(from 41.7 to 32.7)
Reduction of the Poorest Quintile Spending to	\$1.2 billion
2nd Quintile Spending in Alberta	(from 5.3 to 4.2)

^{*}Not exact due to rounding.

Despite making cautious assumptions, this model is not likely an exact representation of the real outcomes. In reality, raised incomes may not have an impact on some in the poorest 20%, particularly in the short-run. However, a Guaranteed Income experiment in Manitoba gives us evidence to suggest that the effects of raised incomes on health outcomes reduce costs to the health care system. Forget (2011) has recently begun analyzing data from a 1970's experiment in Dauphin and has found numerous positive outcomes, including decreases in hospitalizations, emergency visits, and mental health visits as a result of implementing a Guaranteed Annual Income. We can be certain that some poor health is a result of poverty and income disparity. The calculations in this section give us an idea of

what savings in public health spending could result if the health system usage differential between income quintiles was eliminated by income intervention alone.

COSTS OF POVERTY ATTRIBUTABLE TO CRIME

Intuitively we can make the link between poverty and crime rates as we know that living in poverty can make people vulnerable as victims of crime as well as susceptible to engaging in to criminal activities. Some evidence points to neighbourhood income levels and the rates of crime (Ludwig et al., 2001), and further evidence shows that children living in poverty are more likely to experience or witness violence (Evans & English, 2002). Incarcerated women as well are much more likely to have experienced poverty, childhood abuse, violence in their intimate relationships with men, racialized violence and addictions (Pollack 2008; Owen, 1998; Richie, 1996). While there is no evidence to correlate poverty as a causal factor of crime, The National Council of Welfare (2000) does find that there may be indirect causes:

Children with learning disabilities whose parents have little education and whose innercity schools offer inadequate remedial programs may get less help with their problems than similar children with better-educated parents in more affluent neighbourhoods with better schools. This can result in more children from poor backgrounds doing poorly at school, and it has been established that there is a strong association between school failure and the likelihood of becoming a repeat offender to the point where school performance is one of the best predictors of both juvenile delinquency and adult criminality.

There is also evidence of poverty causing crime through the "criminalization" of poverty, wherein laws and bylaws discriminate against those living in poverty. Bylaws that penalize people for sleeping on park benches, urinating in public, or free-riding on public transit can result in people being incarcerated simply because they do not have a home. A vicious circle can result, wherein the criminal records of homeless individuals then affect their right to stay in shelters, causing them to sleep "rough", which can then lead to more fines. Another example of the criminalization of poverty comes from research on women in the justice system. According to Pollack (2008), the majority of women in jail ended up there due to poverty-based crimes, such as shop-lifting, free-riding on public transit and drug possession related to addictions. In fact, women are the fastest-growing prison population worldwide, and particularly women with mental health issues, women living in poverty, and Aboriginal women. Says Pollack (2008):

It is important to understand that the context in which many women are increasingly being criminalized is one of poverty, racism, addiction, lack of supports and violence against women. (p. 14)

Indeed, she points to the experience of incarceration as replicating the negative life experiences of the women, and failing to empower them with opportunities to improve their lives once released – thereby re-inforcing the relationship between poverty and crime. Throughout the body of literature on poverty and crime, however, correlations are primarily qualitative.

Statistics Canada (2005) has compiled research showing that literacy, on the other hand, is a reasonable predictor of involvement in crime. Poor literacy skills for men and poor numeracy skills for women increase the likelihood of offending in the first place and that readmission to prison decreases for offenders who improve their literacy and numeracy skills (Parsons, 2002; Porporino & Robinson, 1992); furthermore, research indicates that literacy levels of incarcerated offenders are significantly lower than those of the general population (Parsons, 2002).

A low literacy level is also a reasonable predictor of poverty, which is expressed numerically by Statistics Canada (2007). This has also been expressed in a variety of other studies linking poverty to a lack of early education, failure to complete high school, low university attendance rates and lack of access to skills building. For example, a person without a high school diploma (which relates to a person's level of literacy) is twice as likely to be poor as someone with a university education (Nares, 2004). As such, literacy can be used as an intermediate in correlating poverty with crime.

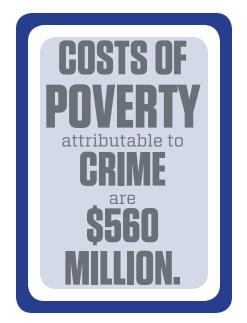
Why would low literacy be correlated with poverty? For several reasons: it may prevent individuals from securing higher-paying, stable jobs, it may prevent them from finding employment at all, and perhaps most importantly, it can lead to significant social exclusion (Literacy BC, 2004). Children from poor households are much more likely to exhibit low literacy (Literacy BC, 2004) later in life, particularly in unequal societies (Siddiqi et al., 2007). Individuals living in poverty certainly also have less access to education and skill-building opportunities. Youth from families with annual incomes of \$100,000 are twice as likely to go to university than youth from families making \$25,000. They're also more likely to finish high school (Terra, 2009). Rising tuition costs provide further barriers to education; university tuition rose by almost



300% in Alberta between 1993 and 2003 (Council of Alberta University Students, 2009).

Interestingly, the link between lack of education and poverty is diminished if other services—such as affordable childcare and adequate income—are more readily accessible, thereby demonstrating the multi-variate nature of poverty (Mikkonen & Raphael, 2010). Literacy BC (2004) provides some rationale behind this, stating that only 5% of eligible adults take advantage of available literacy programs and cite their barriers as: "lack of child care, transportation, attendant care… long working hours, family care, poor health, discouragement and lack of confidence".

Thus, those living in poverty have lower rates of literacy than the rest of the population, and have less access to the very education, which could improve their literacy. Those with low literacy are more likely to be involved in crime – either as an aggressor or victim – than the rest of the population. By using literacy as an intermediate, we can calculate the costs of crime attributable to poverty, as will be shown in the next section.



CALCULATING THE COSTS

Replicating the method from the Ontario cost of poverty research (Laurie, 2008), we calculate the estimated costs of crime associated with poverty in Alberta, seen below in Table 6. Literacy is used as an indirect link between poverty and crime by taking the joint probability of income and literacy across quintiles combined with the probability of crime across literacy quintiles to arrive at the probabilities that people in each income quintile will be involved in crime. Ontario's estimate yields a 4% total cost reduction in crime if the literacy levels of the bottom 20% are raised to the levels of the 2nd quintile.

Zhang (2011) estimates that the total cost of crime in Canada is \$99.6 billion. Shown below in Table 6, Alberta's share of this crime cost is \$14 billion (about 14% of the national cost). By reducing this amount by the 4% estimate of crime that can be attributed to poverty, we find that a total of \$560 million of Alberta's crime is

attributable to poverty (\$14 billion X 4% = \$560 million). Zhang (2011) also provides a split between costs to government (such as policing, the criminal justice system, and victim services) and costs to society (such as stolen and damaged property, lost productivity, pain and suffering, and loss of life), which are shown in Table 6.

Table 6: Total Costs of Crime and Share of Costs Attributable to Poverty

	Costs of Crime in Canada (\$)*	Costs of Crime in Alberta (\$)**	Costs of Crime Attributable to Poverty in Alberta (4% of Total Alberta Crime)(\$)
Costs to Government	17.4 billion	2.4 billion	96 million
Cost to Society at Large	82.1 billion	11.6 billion	464 million
Total Costs	99.6 billion	14 billion	560 million

*From Zhang (2011)

The most interesting insight into this cost is that in order to lessen the cost of crime attributable to poverty, we would need to invest in literacy and other early childhood development initiatives. Butler-Jones (2008) makes reference to research on the return on investment in early childhood, which shows that for every \$1, we save between \$3 and \$9 in justice, health, and social assistance (Grunewald & Rolnick, 2005).

^{**}Authors' calculations based on Statistics Canada Table "Crimes, by type of violation, and by province and territory", 2010. Accessed October 17, 2011.

Intergenerational Costs of Poverty

We now turn our attention to the economic costs of poverty incurred because of intergenerational transfer – in other words, the costs that are incurred when children who grow up in poverty are unable to escape it. We know that children who live in poverty face challenges; nutritional deficiencies that make learning more difficult, lack of assistance with homework at home, and lack of opportunity to pursue post-secondary education. Children living in poverty are also more likely to experience or witness violence (Evans & English, 2002).

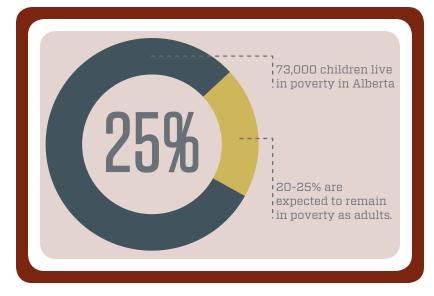
Evidence from many countries consistently finds that children raised in poverty, even for short periods of time, are more likely to experience significant challenges, ranging from poor health, to learning difficulties, to underachievement at school, to lower income levels in their adult years. Youth who are from lower-income and less stable homes have a lower probability of completing high school (Alberta Education, 2009). Further research indicates that youth from lower income backgrounds are less likely to pursue post-secondary education (Palameta & Voyer, 2010). On average, children growing up in poverty are likely to be at "a decided and demonstrable disadvantage" compared to their peers who are not raised in poverty. (Duncan, et al., 1994).

Poverty, quite predictably, influences drop-out rates and educational performance (Wilkinson & Pickett, 2010) and there is a demonstrated link between low literacy and poverty (Maxwell & Teplova, 2007). Chief Public Health Officer, David Butler-Jones (2009) has noted that 80% of

factors that have an impact on child development see improvement when family income increases.

CALCULATING THE COSTS

We can calculate an estimate for the cost of transferring poverty to children (intergenerational transfer) by using our knowledge of intergenerational income mobility, or in other words, the likelihood that children in poverty will experience poverty in adulthood. Canadian studies estimate that the percentage of children who are likely to remain in poverty at 20-25% of those



who grew up in poverty (Corak & Heisz, 1998; Fortin & Lefebvre, 1998). In addition, we know that there are 73,000 children in Alberta living in poverty (refer to Graph 2). Therefore, we estimate that between 14,600 and 18,250 children in poverty in Alberta will not escape poverty as adults. By using the income data shown in Table 7, we can calculate the costs of intergenerational poverty as reflected in lost income and tax revenue.

By raising the average market income (\$8300) of our lower estimate of the 14,600 (20%) children who will remain in poverty to the average market income of the 2nd quintile (\$40,400), we find that lost income accounts for \$410 million and lost tax revenue accounts for \$63 million. By raising the average market income (\$8300) of the slightly higher estimate of the 18,250 (25%) children who will remain in poverty to the average market income of the 2nd quintile (\$40,400), we find that lost income accounts for \$513 million and lost tax revenue accounts for \$78 million. Table 8 below shows our figures representing the lost income and tax revenue for the 20 - 25% of children in poverty in Alberta who will remain in poverty as adults, as a result of intergenerational transfer.

Table 7: Alberta Income Data, Non-Elderly Families, 2009*

	Average Market Income (\$)	Average After-Tax Income (\$)	Average Income Tax Payable (\$)**
Families with incomes below LICO After-Tax (i.e. Households in Poverty)	8,300	12,800	500
Poorest 20%	14,200	17,600	1,000
2nd Quintile	40,400	40,900	4,800
3rd Quintile	68,000	63,200	10,000
4th Quintile	103,800	90,100	18,100
Richest 20%	206,800	164,900	44,900

^{*}Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics. Custom Tabulation. **Calculated from Table 1.

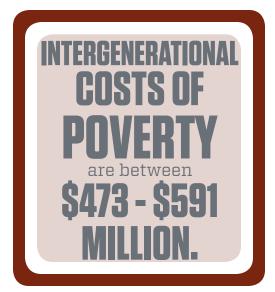
Table 8: Estimated Cost of Intergenerational Poverty to Alberta

Number of Children Remaining in Poverty as Adults	Cost to Market Income (\$)	Cost to After-Tax Income (\$)	Cost to Average Income Tax Payable (\$)
14,600 (20% of Children in Poverty in Alberta)	469 million	410 million	63 million
18,250 (25% of Children in Poverty in Alberta)	586 million	513 million	78 million

Child poverty in Alberta is a moral issue but also an economic issue. We lose annual economic revenue and taxes by allowing 73,000 Albertan children to live in poverty. Again, we have assumed that policy interventions have moved children otherwise in poverty to just the 2nd quintile while in reality, the distribution across quintiles is not possible to predict and successful early childhood interventions could lead to outcomes for children in poverty across the quintiles. Public policy does play a role in child outcomes, as evidenced by a study comparing income mobility in the US and Canada, which concludes that different national outcomes can be attributed to resources available for children (Corak et al., 2010). A Canadian study summarizes the returns from investing not only in early childhood but also in pregnant women and their young children (McCain, Mustard & McCuaig, 2011). We must start by asking ourselves what factors put children in poverty at a disadvantage and make policy changes that address those factors.

OPPORTUNITY COSTS OF POVERTY

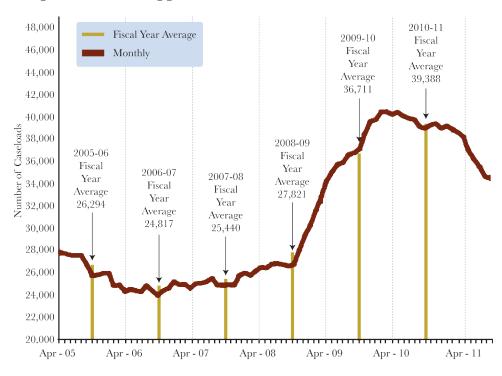
The opportunity costs of poverty refer to the costs associated with the lost private revenue when individuals are un- or under-employed, as well as the lost tax revenue from those who are un- or under-employed. This estimate is the most straightforward of all the costs. The major assumption that requires support in this section is that people who live in poverty will work, work more, or earn more given the chance. There are



two parts to this assumption: firstly that those living in poverty are able to work more or earn more, and secondly that they are likely to do so if they are able.

With regard to the former, we know that just over half (53.8%) of Income Support clients were identified as Albertans who were expected to work (ETW) in November 2011 (Government of Alberta, 2011b). Of this 53.8%, only 16% were working, so we know that a significant portion of those on Income Support will be able to work more in the near future (Government of Alberta, 2011b). Of course, Albertans receiving income supports only represent a portion of those living in poverty who are un- or under-employed. There are 148,000 families living in poverty and roughly 40,000 income support caseloads in Alberta (Graph 5), hence we can safely assume that the ETW population is only a fraction of those who could work or earn more in the future.

With regard to willingness or likelihood of working/earning more, preliminary evidence in Newfoundland and Labrador shows that their poverty reduction strategy, which included doing away with disincentives to work such as clawbacks, has reduced the number of Income Support Caseloads by just over 5,000 in 5 years and increased the number of jobs held by 4,000 in 2 years (Government of Newfoundland and Labrador, 2009). These findings clearly indicate that given the opportunity and the financial viability, people on Income Supports will work more. In Alberta, where we have seen a sharp spike in our Income Support caseloads in the last 2 years (Graph 5), such an approach represents an opportunity to decrease our caseloads and increase the number of people working.



Graph 5: Income Support Caseload, Alberta

Source: Alberta Human Services, Internal Information System Government of Alberta, Office of Statistics and Information

CALCULATING THE COSTS

Using the data in Table 9, we calculate the opportunity costs of poverty in Alberta. We present two scenarios in Table 10; the economic effect of raising incomes of the families below LICO to the 2nd quintile and the economic effect of raising incomes of the poorest 20% to the 2nd quintile. By raising the average income (\$8300) of the 148,000 families living below LICO to the average income (\$40,400) of the 2nd quintile, we find that the estimated lost income is \$4.2 billion and that the lost income tax revenue is \$636 million. By raising the average income (\$14,200) of the poorest 20% to the average income of the 2nd quintile (\$40,400), we find that the estimated lost income is \$6.2 billion and that the lost income tax revenue is \$1 billion.

Table 9: Alberta Income Data, Non-Elderly Families, 2009*

	Average Market Income (\$)	Average After-Tax Income (\$)	Average Income Tax Payable (\$)**
Families with incomes below LICO After-Tax (i.e. Households in Poverty)	8,300	12,800	500
Poorest 20%	14,200	17,600	1,000
2nd Quintile	40,400	40,900	4,800
3rd Quintile	68,000	63,200	10,000
4th Quintile	103,800	90,100	18,100
Richest 20%	206,800	164,900	44,900

^{*} Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics. Custom Tabulation.

**Calculated from Table 1.

Table 10: Opportunity Costs of Poverty in Alberta

Scenario One: Raising Incomes of 148,000 Families Below LICO to the 2nd Quintile				
	Cost to Market Cost to After-Tax Cost to Average Income (\$) Income (\$) Income Tax Payable (\$)			
Total Costs	4.8 billion	4.2 billion	636 million	
Scen	Scenario Two: Raising Incomes of 264,000 Families in the Poorest 20% to the 2nd Quintile			
	Cost to Market Cost to After-Tax Cost to Average Income (\$) Income (\$) Income Tax Payable (\$			
Total Costs	7 billion	6.2 billion	l billion	

Of the costs of poverty, the opportunity costs perhaps more directly demonstrate not just the loss of economic activity but of lost dignity, choice, and possibility for those living in poverty. As with the calculations in intergenerational poverty, we have assumed that policy interventions have moved people to the 1st or 2nd quintile. Once given opportunity to succeed, distribution across all quintiles is much more likely.

TOTAL EXTERNAL COSTS OF POVERTY

Table 11: The Estimated Economic Cost of Poverty in Alberta

	Costs to Government (\$)	Costs to Society at Large (\$)
Health Care	1.2 billion	
Crime	96 million	464 million
Intergenerational	63 - 78 million	410 - 513 million
Opportunity	636 million - 1 billion	4.2 - 6.2 billion
Total	2.0 - 2.4 billion	5.1 - 7.2 billion
Grand Total	7.1 billion - 9.5 billion	



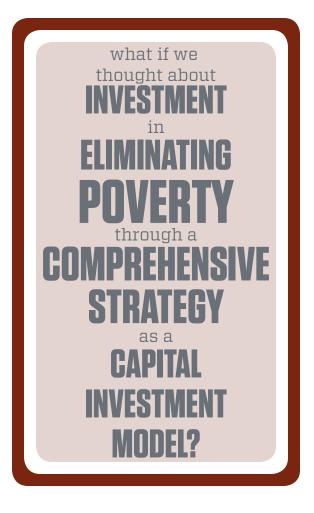
This report shows that the yearly costs of poverty in Alberta are both measurable and substantial – health system costs, justice system costs, opportunity costs, and intergenerational costs. The \$9.5 billion generated in this study represents approximately 4% of Alberta's GDP in 2009¹, and may even under-represent the financial costs of poverty. Alongside largely unchanging or growing rates of poverty in Canada and the U.S, this begs the question of whether we should accept the magnitude of these costs or whether we should be considering alternative strategies. For example, raising the incomes of families in poverty to the 2nd quintile would cost \$4.8 billion, in contrast to the cautious estimate of \$7.1 – \$9.5 billion that poverty annually costs Alberta. Certainly reducing poverty is a moral issue that should not be boiled down to cost but if our strategies are both expensive and ineffective, then it is incumbent upon us to analyze afresh.

1. Alberta's GDP was \$247.2 billion in 2009 (http://albertacanada.com/documents/SP-EH_AlbertaEconomicQuickFacts.pdf)

Investing in a Poverty Reduction Strategy

Other provinces that have conducted similar studies, make the distinction between spending to alleviate poverty – attempting to ensure the most basic needs are met - and investing to reduce poverty by helping spring people out of the cycle of poverty. This investment language got us wondering - what if we thought about investment in eliminating poverty through a comprehensive strategy as a capital investment model? This is a model used frequently to determine the value in an up-front investment to realize longterm returns. As we have shown in this paper, not only will this kind of approach to poverty reduction be likely to yield significant economic returns but also social returns. As such, we recommend taking an approach of putting capital investments towards a new system for poverty reduction that would reduce spending disproportionately on alleviation in perpetuity.

Alberta is well-armed to invest in a Provincial Poverty Reduction Strategy. We have targets we can aim for – using LICO, the average gap ratio, and income inequality as base measures for our progress. As we have emphasized, poverty is much more nuanced than income but these few measures do give us a measurable way to assess our progress against not only absolute income but also against relative measures. As the outcomes improve on these measures, we would also expect to see social, economic, and health system improvements.



Alberta also has the lessons from other provinces to learn from. To-date, Quebec, New-foundland and Labrador, Manitoba, New Brunswick, Nova Scotia and Ontario have implemented poverty reduction plans, all of which focus on preventive strategies to varying de-

grees (Mendell, 2009). Even though prevention is key to seeing poverty eliminated, there will always be a need for poverty alleviation strategies since the interlocking social, health-related and asset-related root causes of poverty interact with the effects of poverty.

Crucial to an investment strategy is recognizing the systemic nature of poverty: that poverty has social and political roots, and that to make a significant reduction in the number of people living in poverty, social policies must be addressed. To devise the policy-driven components of a comprehensive strategy, Torjman (2008) gives us a base to start from with ten areas where the province can create, or enhance existing polices with a view to prevention. These would be: affordable housing; early childhood development (including childcare); education and literacy; demand-driven training; income supplementation; income replacement; disability income; asset creation; social infrastructure; and place-based initiatives.

Within each of these policy areas, we emphasize the importance of considering specific populations. As we know, populations that are more likely to experience poverty may need specific consideration to stop the perpetual cycle. Quebec's strategy to reduce poverty among Aboriginal peoples, for example, is described by Noel and Larocque as seeking to promote "bilateral, nation-to-nation relationships with Aboriginal peoples" – an approach that "delighted" Ghislain Picard, the Chief of the Assembly of First Nations of Quebec and Labrador (Noel & Larocque, 2009). Quebec's experience may provide some valuable insight into overcoming centuries of conflict, displacement and power struggles.

Poverty and income inequality hurt the bottom line for all of us – economically and socially. Recent research in Canada suggests that we are taking the more expensive route by focusing disproportionately on poverty alleviation at the expense of poverty prevention, whereas both are critical to reducing the number of people in poverty in the long-run. The Ontario Cost of Poverty report goes as far as to suggest that a comprehensive poverty reduction strategy could pay for itself – if we invested in poverty reduction, rather than spending perpetually on alleviation. The Cost of Poverty in BC report found that the costs of poverty in the province are more than double the cost of enacting a provincial poverty reduction strategy.

Countless non-profit agencies, private enterprises, and volunteers give their time and money daily to try and combat poverty. Several Alberta municipalities are currently working towards Municipal Poverty Reduction Strategies, including The City of Calgary, which has recently partnered with the United Way of Calgary to develop a plan for a strategy. We hope that the commitment from the municipalities, non-profit agencies, private enterprises, and dedicated Albertans, combined with the economic evidence provided in this report, will bolster the political will to rethink our current strategies, and build momentum towards a comprehensive Provincial Poverty Reduction Strategy.



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