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The Poverty Prism: Causes of Poverty

To use the most basic terms, the cause of poverty in a developed country like Canada is a lack of sufficient income and resources to live a full life.[1] However, behind this simple definition lies a more difficult question: Why do some individuals and families not have the resources necessary to break out of poverty?

Responses to this question vary widely, reflecting different ideologies and perspectives. Some people view poverty as the outcome of personal decisions or choices, such as dropping out of school, having a child at an early age, using and becoming addicted to drugs and/or alcohol, or refusing to relocate for employment. Others see poverty as the result of social forces, such as discrimination on the basis of gender or race, school systems that do not meet the needs of specific groups, or housing markets that have no room for people with lower incomes.

Similarly, analyses differ on the question of whether it is market failure or government failure that underlies poverty. Some would argue that capitalism, the very basis of our economic system, is the root cause by virtue of its reliance on low-wage workers to make the system function. Others would argue that poverty is a product of government programs that are either too generous, leading people to abdicate personal responsibility, or not generous enough, forcing them to reach beyond their means to support themselves and their families.

The middle ground is where individual and social responsibilities coexist, and where market forces and government interventions combine to encourage wealth creation and ensure a just distribution of wealth. Canadian policy responses function in this middle ground, shaped by the premise that the prevalence of poverty is related to the extent to which individuals are expected to and are able to make their own way, and the extent to which governments meet the needs of those who cannot or do not meet their own needs and those of their families.

The lens applied to the following analysis is one that focuses on the source and adequacy of income and its correlation with socially expected and actual self-reliance.

INCOME FROM INVESTMENT

A relatively small percentage of working-age Canadians derive a significant portion of their income from investments, whether in real estate, the stock market, or other financial ventures.

Retired Canadians who have had a long and consistent attachment to the labour force rely on receiving at least some part of their income from pensions to which they (and often their employers) have contributed. However, many older Canadians who are not working require income supplementation from other sources, which are discussed below.

INCOME FROM WORK

Most adult Canadians derive virtually all of their income from paid employment; those who cannot earn enough from employment and do not have investment income are generally poor. In many cases, families require two incomes to sustain themselves, but the fact remains that most households are able to remain above any poverty line with income from employers or clients. This is especially true in a period of economic growth, when jobs are plentiful and workers for almost every kind of job are in short supply, at least in some cities and regions of Canada.

However, even during such periods, Canada's economy has produced "irregular jobs," that is, jobs that are part-time, seasonal, or entirely insecure. Such jobs rarely provide any benefits, including pensions or paid vacations, and earnings are often insufficient to sustain an individual or family. Some Canadians escape poverty by working at several irregular jobs concurrently, but their income may still be inadequate.

Although Canada's "knowledge economy" is generating jobs that require higher skill levels and offer higher earnings than in the past, the service sector continues to rely on workers who receive low wages – often minimum wages as established by provincial governments. Even those with jobs that are full-time and secure (which most service jobs are not) cannot earn enough to sustain a family. There is no community in Canada in which one full-time, minimum-wage income would be sufficient to raise a family of four out of poverty; in many larger communities, two full-time minimum-wage incomes would be required to reach Statistics Canada's low-income cut-off (LICO).[2]

Among those who are excluded from work are people who are incapable of work of any kind, such as people with severe disabilities, and people who are unable to find employment because of cultural or systemic barriers. Such barriers include failure to recognize the foreign credentials of newcomers to Canada; racism; lack of access to affordable child care; lack of literacy or other work-related skills; unwillingness of employers to accommodate disabilities or particular religious or cultural practices; and other forms of discrimination.

INCOME FROM GOVERNMENT TRANSFERS

As is the case in most advanced economies, the federal and provincial/territorial governments in Canada provide incentives (and some unintended disincentives, discussed below) to participate in the labour market, income support for those who are not in the labour market, and other transfers to encourage or support particular behaviours or activities. Whether through direct payments or by means of transfers through the tax system, these public initiatives provide or supplement income for many Canadians.

Social assistance to First Nations people living on reserves is funded by the Department of Indian and Northern Affairs, and matches the general welfare rates of the province or territory in which the reserve is located. In addition, assistance is provided for some resources that are not funded off-reserve, including furniture and other materials needed for well-being. In many cases, the administration of social assistance has been devolved to Aboriginal organizations but is still funded by the federal government.

In all provinces and territories, income support programs for those who are considered capable of participating in the labour force are significantly less generous than transfers to those who are considered exempt from such participation. For example, social assistance programs for people who are designated (generally by a medical practitioner) as disabled and incapable of work provide much higher benefits than programs designated for out-of-work adults who have no other significant source of income and are deemed fit to work.

It is noteworthy, however, that notions of who should or should not be expected to work for pay have changed over time. Even 25 years ago, for example, in most jurisdictions, sole-support parents (usually mothers) who received public assistance received higher levels when their children were young because the parents were not considered employable. At that time, in some jurisdictions, mothers of any child younger than 6 years of age might have been considered exempt from the requirement to work, while in another jurisdiction the youngest child could be 17 years old before benefits were reduced and the mother was considered employable. In general terms, this is no longer true, and single mothers with much younger children are expected to hold jobs.

Similarly, income support for people over the age of 65 (or even as young as 55, in some cases) is relatively generous; this is because the relevant programs were developed in an era when there was a mandatory retirement age of 65 and there was no need to encourage older workers to participate in the labour market. In fact, these programs generally created substantial barriers to work for older Canadians, whose benefits would be reduced by half of the amount earned, to a maximum of $3,500 a year, or would even be withdrawn entirely in the face of significant earnings. In an era of labour shortages, and of longer and healthier life expectancies, the design and level of these benefits are being reconsidered.

Labour market participation may be encouraged or discouraged by the design of benefits delivered through the income tax system. For example, the Universal Child Care Benefit was recently introduced, in part, to assist mothers of young children who stay home, rather than going out to work and placing their children in the care of others.

On the other hand, the Working Income Tax Benefit, introduced for the 2007 tax year, is intended to encourage low-income Canadians to seek employment by providing a refundable tax credit to individuals who earn between $3,000 and approximately $20,000 annually (except in Nunavut, where the amount is higher). The maximum benefit ranges from a low of $438 for an individual in Nunavut to a high of $1,442 for a family in British Columbia.

Similarly, changes in Employment Insurance can be seen to encourage employment. The program is funded by employers and employees (through premiums paid by both) and was administered by the federal government until 2009, when financial administration of the fund was been transferred to a new Crown corporation, the Canada Employment Insurance Financing Board.

The intent of the program is to replace a percentage of earnings (to a relatively low maximum) during periods of unemployment for those who have contributed through their premiums, and to provide training to recipients to help them find new employment. While the restrictions on eligibility and benefits for claimants of Employment Insurance, introduced in 1996–97, had reduced eligibility in recent years to fewer than half of employees who paid premiums, the economic downturn has resulted in increased unemployment among those with a long work history, and who are therefore eligible for benefits. Even so, the most recent Statistics Canada data, for 2008, show that almost one in five unemployed persons is not eligible for EI benefits.

In general terms, income transferred to individuals from governments creates two categories of beneficiaries. Benefits to those who are strongly encouraged, or even required, to participate in the labour market generally yield incomes well below the poverty line, while those for people deemed to be excluded from the labour market are closer to the LICO or even above it.

NON-MONETARY BENEFITS

In many cases, Canadians with full-time, relatively secure employment receive benefits that reduce the costs of resources that they or their families may require, including prescription drugs and dental care. The Quebec government's initiative to provide more affordable child care spaces increases families' access to resources, effectively increasing their standards of living without increasing their incomes.

Similar benefits are often provided for people on social assistance, giving them access to greater resources than their income levels might have allowed. Again, in general terms, the benefits to those in the labour market are more generous, and are designed to encourage labour force participation, while those provided to people below the LICO are more basic, and only occasionally make the difference between being poor and not.

Subsidies given indirectly, such as through social housing providers, can also make a difference between poverty and sufficiency. In fact, housing subsidies often make the difference between deprivation below poverty levels and a more adequate income.

Some non-cash benefits, of course, are provided by charitable organizations; these include recycled affordable used clothing, shelters, soup kitchens and food banks. The efforts of these organizations can alleviate and, on rare occasions, even prevent poverty. Although most charitable organizations enjoy the benefits of preferential tax treatment of private and corporate donations, they are not necessarily subsidized by public funds.

CONCLUSION

In general terms, those whose income from strictly private sources (whether investment or employment earnings) is sufficient are not poor. Most Canadians fall into this group. For 2007, for example, Statistics Canada reported that fewer than 10% of all Canadian households had incomes below the after-tax LICO.

For those who are in the labour force but do not earn enough to access all the resources that they and their families require, some combination of earnings and government transfers may well keep poverty at bay. For those deemed to be unemployable because of age or disability, public or private pensions or insurance benefits and other transfers are more generous, but not necessarily sufficient to bring them to or above the poverty line.

For those who are judged able to work and who are not employed, income and other supports are available but are not generally sufficient to raise the recipient above the poverty line.

Particular groups are more likely to be poor, generally because of lack of access to full-time, well-paid and secure employment, inability to work, or insufficient skills. These include women escaping violence, newcomers to Canada, individuals from visible minority groups, Aboriginal people, people with mental health or addiction problems, sole-support parents, people with low literacy skills, older Canadians (especially unattached seniors), single adults, and individuals with disabilities.

It should be noted that child poverty has not been addressed here, on the assumption that resources are shared among family members, and that children who are poor have poor parents.

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1 Information on other aspects of poverty is found in the following Library of Parliament companion documents:

Collin, Chantal, and Hilary Jensen. *Poverty in Canada: A Statistical Profile*. PRB 09-17E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

Echenberg, Havi. *The Poverty Prism: Multiple Views of Poverty*. PRB 09-13E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

Echenberg, Havi. *The Poverty Prism: What Has Helped?* PRB 09-15E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

2 In the absence of an official definition or measure, there appears to be consensus that Statistics Canada's low-income cut-offs (LICOs) provide a useful measure. The LICOs are based upon the average proportion of household income spent for essentials, and are established at 20 percentage points above that calculation. They vary by household size and population, to reflect the different levels of income necessary for each.