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# IN BRIEF

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## The Poverty Prism: What Has Helped?

Increased resources, usually from increased incomes or declining expenses, are the best antidote to poverty.<sup>1</sup> These may derive from higher income from work, reduced costs through subsidies, or more generous transfers from governments. The most successful programs and private-sector initiatives have struck the appropriate balance among these.

### **PUBLIC POLICIES AND PROGRAMS TO INCREASE INCOMES**

Incomes can be increased through higher work-related earnings, through increased returns on investments, through moving from reliance on public transfers to work (although this does not always result in increased income), and from changes in public transfers or programs that increase income through regulation or tax changes.

Because the return on investments relies almost exclusively on market forces, public policy and individuals can have only a very small impact. Market forces are not discussed here.

#### **A. Tearing Down the “Welfare Wall”**

Efforts to move people from social assistance to paid employment have been a part of social assistance programs in Canada for more than 10 years. In some provinces, these efforts have been through mandatory participation in training or employment programs as a condition of receipt of assistance; in other jurisdictions, additional supports, including child care subsidies and reimbursement for training and job-seeking costs, have been available to social assistance recipients who choose to seek additional training or employment.

At the same time, virtually all provinces have been working toward removing “the welfare wall,” that is, disincentives to entry or re-entry into the workforce created by the combined effects of taxation rates, work-related expenses and the design of social

assistance programs. Because an individual may lose such services as housing subsidies and coverage of dental and prescription drug care by moving into the labour market, living expenses may increase dramatically, a change which may not be matched by a comparable increase in income.

To lessen negative impacts on income brought about by entering the job market, a number of modifications to income assistance and related programs have been undertaken in most jurisdictions. These include income supports that diminish but do not disappear as income increases when an individual moves into full-time work. Another such effort is the provision of catastrophic drug coverage in most jurisdictions, which is available to all residents, regardless of their source of income. This coverage is provided to anyone whose prescription drug expenses rise above a set percentage of their income, removing the need to obtain social assistance when faced with very high drug bills.

Similarly, the shift of some services from the social assistance program to a more universal program removes disincentives to work. For example, in some jurisdictions, dental care is provided for all children up to a certain age, or child care subsidies are available to all under a certain income, not only to those on social assistance.

#### **B. Making Work Pay**

A variation on this theme is to increase income for people in low-income jobs through government intervention. This may include increasing the minimum wage, since in most communities more than two full-time minimum wage incomes are necessary to bring a family above the poverty line; it may also comprise other forms of wage subsidies. While minimum wage increases are helpful to low-income earners, economists argue that “inflating” the minimum wage can contribute to job losses through

the closure of marginally profitable businesses. They suggest that the effective minimum wage is often higher than the legislated minimum in any case, particularly in a period of high employment and labour shortages.

Wage subsidies are another possibility that may distort the labour market. Paid to private-sector employers, they can subsidize an otherwise unprofitable business that may not provide additional social benefits, thereby using public funds to contribute to private profits. Paid to not-for-profit organizations and their social enterprises, they provide earnings without contributing to profits.

If wage subsidies are paid directly to individuals who are working, they may effectively increase earned incomes, which would contribute to alleviating poverty, and would reduce reliance on social assistance. Such subsidies are usually delivered through tax credits available only to those with earned income, and with an established threshold, above which benefits are reduced proportional to income.

### **C. Alleviating Child Poverty**

Efforts have been made in recent years to “take children off welfare,” which reduces barriers to the labour market for parents, especially sole-support parents, and creates instruments which are geared to children specifically. The instruments have generally been tax credits, all of which are available to those whose income is high enough to generate tax owing. Some are “refundable,” which means that they benefit even people with very low incomes who pay no tax at all, unlike non-refundable credits, which can help alleviate poverty for those with higher incomes as well.

As noted above, when child-related services are provided to all parents, and not just to those on social assistance, the costs families pay for those services are reduced, effectively raising the incomes of all parents who qualify for the services.

### **D. Alleviating Poverty Among Canada’s Seniors**

People who have retired, or whose advanced age makes employment impossible, rely on a mix of income sources: private pensions, private (but usually subsidized) retirement savings, Canada Pension Plan benefits, Old Age Security and the Guaranteed Income Supplement.

Of these, only the last two are not dependent on the length of time and level of income in the labour market over a lifetime. Many low-income working-aged adults are therefore likely to become low-income retired seniors as well.

### **1. Old Age Security**

Old Age Security (OAS) is available to all applicants over the age of 65 who have lived in Canada for at least 10 years, regardless of level of income or other sources of income. Full benefits are available to those who have been resident in Canada for 40 years; benefits are pro-rated for those who lived in Canada for periods shorter than this. OAS benefits are taxable.

### **2. The Guaranteed Income Supplement**

The Guaranteed Income Supplement (GIS) is a supplemental allowance paid to those who receive OAS, but have no or little other income. Eligibility is based on the income of a single person or the joint income of a couple, with the amount being reduced by one dollar for every two dollars above that income threshold. After an initial application process, continuing eligibility is based on the information in annual tax returns. GIS benefits are not taxable. The rules also define eligibility based on marital status, duration of residence in Canada, and sponsorship status of newcomers to Canada at the time of application.

The combination of OAS and GIS benefits, assuming maximum benefits, provides an income below Statistics Canada’s low-income cut-off.<sup>2</sup> If the prevalence of poverty among seniors were reduced, the GIS would be a more targeted benefit, and would be less costly to the government.

### **NON-INCOME PUBLICLY FUNDED RESOURCES**

Other initiatives alleviate poverty by reducing the outlay required to purchase certain goods and services. In a general sense, lower admission prices to cultural events or lower public transit fares for seniors are examples.

A second pertinent example is social housing, whose construction and operations are subsidized by governments, making housing units available to eligible individuals and families at significantly reduced rents. Some programs actually gear the rent to a percentage of income, often 25%. Given how greatly

the price of housing affects people's poverty levels, social housing is an important ingredient in alleviating poverty among all groups of poor Canadians.

A third example is subsidized child care, when the subsidy is paid by governments to providers of child care, rather than to individuals or families. The net cost to families is reduced, possibly reducing poverty itself and contributing to increased earnings from work for some families. An example of this type of subsidization is the \$7 per day child care program in Quebec.

## PRIVATE-SECTOR INITIATIVES

Private insurance provides some income support to persons who become disabled while holding an insurance policy against such a possibility. Also, the private sector is involved not only in investing tax-protected retirement and home-ownership savings, but also in developing new instruments, such as a "reverse mortgage," which provides an income to seniors from loans against the equity in their homes, with a guarantee that they will not be required to pay the loans back until they vacate their homes. All of these initiatives increase the incomes of those who might otherwise be in poverty.

An additional promising practice originating from the private sector is the development of "disability management." Under this practice, an individual who is disabled while employed is contacted within the first six weeks of the disabling event to begin to plan reintegration into the workplace. Researchers have found that such an intervention greatly increases the chances of reintegration compared to a later intervention or no intervention at all. Disability management is also being incorporated into public programs.

## CHARITABLE AND VOLUNTARY-SECTOR CONTRIBUTIONS

Charitable donations are privileged in their tax treatment, offering a tax benefit to those contributing to charities. Since many voluntary organizations substantially contribute to poverty reduction, and poverty reduction is one of the purposes that is recognized as "charitable," some benefit from charitable status, which may encourage partnerships between foundations, non-government organizations and the private sector to develop, finance, and implement poverty-reduction initiatives.

Some organizations or groupings support increases in income to low-income individuals and families, particularly on a pilot-project basis, to test new

programs; vouchers or cash subsidies may be offered to clients of a particular organization. Others provide services at little or no cost, thereby reducing the expenses a family must incur to live in the community. These services include soup kitchens, food banks and clothing banks, all of which continue to see heavy demand, especially from the working poor. Still others provide short-term interest-free or low-interest loans, through such mechanisms as rent banks.

Some organizations contribute tangible goods that most poor Canadians would otherwise be unable to afford. Examples are book publishers that provide books to low-income children, or computer manufacturers that offer free or heavily subsidized home computers to individuals and families, or even houses through organizations like Habitat for Humanity.

Although the size of the contribution of these groups to poverty reduction has not been measured, it has provided important benefits that have helped to alleviate poverty.

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Service Canada. "Overview of the Old Age Security Program." <http://www.hrsdc.gc.ca/en/isp/oas/oasoverview.shtml>.

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<sup>1</sup> 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: Causes of Poverty*. PRB 09-14E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

<sup>2</sup> 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.