We invest in roads; why not people? [1]

Social-service spending is an investment with demonstrable returns

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EXCERPTS

When governments put money in "hard" infrastructure, such as repairing a road, they are confident it will pay for itself. The immediate economic impact of paying for workers and materials is obvious. The longer term payoff in terms of producing economic activity is nevertheless much greater, yet involves a complex web of relationships that cannot be directly observed. While we cannot directly see the cause-effect relationship of efficient transportation systems, experience has taught us that such infrastructure is needed for economic growth.

Yet, when governments invest in people and social services, somehow these direct and indirect benefits fall off the radar. These investments become merely charitable redistribution. Politicians speak about them as if we are simply shovelling money into a hole and covering it over. It is treated as a burden without positive economic impact. We therefore underinvest in social infrastructure, even if it is crucial in creating wealth, pushing high-tax countries like Sweden to the top of world competitiveness rankings. High taxes can be good for growth when wisely invested in developing individual and collective productive capacities.

Two events this Monday, July 4, bring the issue of social investment to the fore. First, Dr. Atif Kubursi, emeritus professor of economics at McMaster, will present his report on the economic impacts of social assistance to city council in the morning. Then, Frances Lankin and Munir Sheikh, the commissioners of the provincial Social Assistance Review, will hold an open public consultation at the Convention Centre starting at 6:30 p.m.

Kubursi's report on the economic impact of social assistance benefits in Hamilton is an eye-opener in making the short-term economic impact clear. Using a Regional Impact model, Economic Research Limited demonstrated that recipients spend their money on goods and services, creating and sustaining jobs: The $368 million spent on benefits creates $ 439.3 million in value added in Ontario ($296.2 million locally) and maintains 5,441 Ontario jobs (3,383 locally).

While social assistance does not pay for itself in the short term, even here 40 per cent of the cost ($144.6 million) is returned to the federal and provincial coffers through taxes.

This impact is not surprising, because social assistance recipients are not in a position to save, so the entire benefit is flowed into the local economy. And once it is there, its impact is multiplied more than benefits for the wealthy, because more of it is spent on local products and services.

Other social investments such as Quebec's $7/day child care program entirely pay for themselves, as the presence of the program enables more parents to work and pay taxes. Indeed, Université de Montréal economist Pierre Fortin found a $1.49 return for every dollar invested in this program.

Kubursi's report focuses on the direct impact of social assistance. But just like a road, social investment has much greater indirect impacts in terms of enabling people to build skills, maintain health, and weather economic dislocation, personal crises, or harm or accident. Just like cars can go so fast precisely because they have brakes, people can take the chances that enrich our society when they know they'll be supported on the off chance they fail.

On this front, we could ask whether social assistance expenditures are as productive as they could be, and indeed whether increasing funding might be a more prudent investment. Submissions to the provincial Social Assistance Review, which stops in Hamilton Monday, underscore the many features that limit the developmental capacities of social assistance. These include the need to spend down all one's assets in order to qualify, the absence of qualifying training geared to long-term labour-force attachment, the lack of child care spaces, and an administrative culture that sometimes treats recipients as if they were children.

But perhaps most fundamentally, levels of benefits for single people on Ontario Works are at about 40 per cent of the poverty line. This pushes recipients into monthly cycles of extreme hunger, that over time lead to physical and mental health problems. It also pushes them into insecure housing, making securing a roof more urgent than securing a job, and indeed denying the stability needed to confidently seek work.

In sum, higher benefits, better training, accessible child care and affordable housing are all areas where making further investments would allow us to achieve the far greater and dynamic economic benefits made possible by our existing investments. Be it the Kubursi report or the story of the child-care system that pays for itself, it is clear that investing in people is like investing in roads. To treat it as money wasted is to ignore the evidence, and to forego our greater prosperity.

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