



**END CHILD POVERTY IN CANADA**

## **Reducing Child Poverty to Increase Productivity: A Human Capital Strategy**

Brief to the Standing Committee on Finance  
Pre-Budget Consultation

September, 2005

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### I - Background

#### **Too Many Children in Poverty for Too Long**

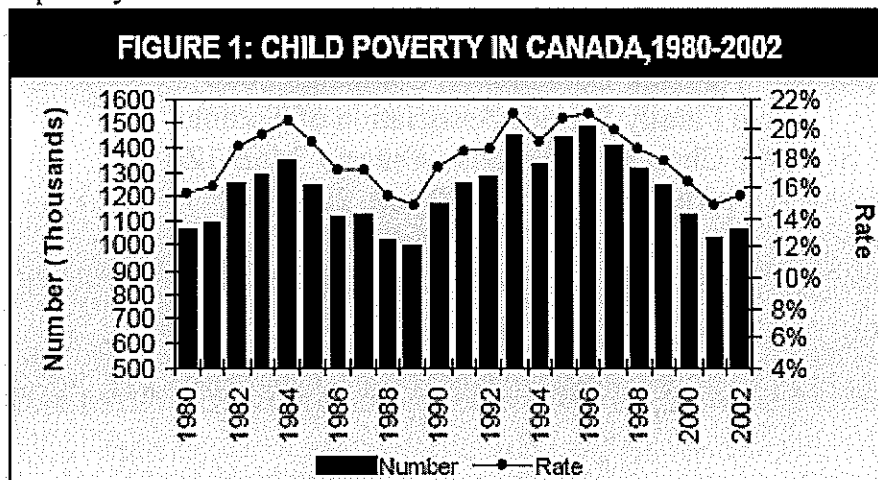
Child and family poverty continues to be a major problem across Canada, despite some important initiatives contained in the 2005 federal budget. The recent figures indicate almost 1 child in 6 lives in poverty - that's just over 1 million children, or 15.6% of all children in Canada (2002 LICO figures from Statistics Canada)

The figures are higher for certain social groups:

Children of recent immigrants ('96-'01):	1 in every 2 children lives in poverty
All immigrant children:	40% live below poverty line
Aboriginal children (off-reserve):	40% "
Aboriginal children on reserve – situation likely worse but is not measured	
Visible minority children:	34% live below the poverty line
Children with disabilities:	28% "

The average low-income two parent family remains \$9,000 **below** the pre-tax low-income cut off (LICO). This reflects the “depth of poverty”, or how far families are actually living below the poverty line. The situation of low-income single mothers worsened in 2002—they would need an additional \$8,800/year to reach the poverty line (Campaign 2000. 2004 Report Card on Child Poverty).

For the past thirty years, Canada's child poverty rate has hovered at 1 in 6 (about 15%). The graph below (from Campaign 2000's *Report Card on Child Poverty, Nov. 2004*) shows the tenacity of child poverty in Canada. Economic growth and social investments combined to drive down child poverty every year since 1996. But by 2002 Canada's progress in reducing child poverty came to a halt. Despite continued economic growth, rising employment and record job creation, child poverty rose to 15.6%.



Source: Statistics Canada's *Income Trends in Canada*. 2002. 13F0022XCB.

### **Sharing the Benefits of a Progressive Productivity Agenda**

Campaign 2000 views the elimination of child and family poverty and the assurance of equal opportunities from birth for all children as key challenges for Canada and challenges that are necessary to ensure a high quality of life for all citizens, and also to provide the opportunity for all children to develop their productive capacities. As Nelson Mandela once said, "Insecurity for one is insecurity for all". As the challenges of productivity are addressed, it is important to ensure that this is a "race to the top productivity agenda," rather than a race to the bottom.

Campaign 2000 contends that a progressive productivity agenda will ensure that the economic gains are widely shared among all segments of society, thereby helping to achieve a social inclusion agenda for Canada. In recent years, healthy economic growth has not resulted in a progressive productivity agenda as evidenced by a growing gap among rich and poor in Canada. A recent report by Statistics Canada showed that the incomes of the richest 20% of families rose by about 10% between 1990 and 2000, while the poorest 20% of families experienced stagnating income. (Garnett Picot and John Myles, *Income Inequality and Low Income in Canada: An International Perspective*. Statistics Canada. February 2005)

Campaign 2000 emphasizes that there is an important human element in the productivity equation that must be encouraged. Merely producing more widgets, for example, is not a constructive strategy to enhance productivity if it also contributes to a deterioration of living or working conditions. In recent years, as the labour market has changed and the growth of short-term, part-time, contingent work has often outpaced the growth of well-paid full-time jobs, work has ceased to be a pathway out of poverty. The facts clearly demonstrate this.

- Nearly half of all children living in poverty – 44.7% or 476,000 – lived in families where parent(s) worked full year but still could not lift themselves out of poverty, often as a result of low wages and lack of success in getting full-time work.
- Even more disturbing is the fact that one in four children living in poverty (26.9% or 286,000 children) lived in families where at least one parent worked full time.  
(Campaign 2000. 2004 Report Card on Child Poverty in Canada, p.5)

Campaign 2000 is encouraged by Finance Minister Goodale's remarks to the Association of Municipalities of Ontario.

*Expecting people to work harder for less money will not, ultimately, lead to real productivity growth. We are not interested in some mindless "race to the bottom"! Instead, Canadians want us to "reach for the top".*

- *Building an increasingly smart and sophisticated economy. . .*
- *Generating not just more jobs, but better jobs. . . .*
- *Higher incomes, broadly based. More purchasing power. Greater economic security. A better standard of living. A stronger quality of life.*

(Notes for Remarks by the Honourable Ralph Goodale, P.C., M.P., Minister of Finance, Canada, to the Association of Municipalities of Ontario. August 15, 2005)

## **Investing in Human Capital is Key to Progressive Productivity and Poverty Reduction**

While the high rate of child and family poverty persists in Canada, other countries have demonstrated that a progressive productivity agenda and poverty reduction can be complementary. Canada ranks a poor 19<sup>th</sup> out of 26 OECD nations in a recent review of child poverty in industrialized countries. Canada's child poverty rate is higher than Norway, Sweden, Switzerland and the Netherlands and below that of the U.S., Mexico and New Zealand. Four of the OECD countries have achieved child poverty rates below 5 per cent. (UNICEF Innocenti Research Centre. *Report Card No. 6. Child Poverty in Rich Countries. 2005*).

It is important to note some of the key findings in this review of child poverty.

- There is a clear association between higher government spending on family and social benefits and lower child poverty rates.
- The variation in government policy is the largest factor accounting for the variation in child poverty levels between OECD countries.
- No OECD country devoting 10 percent or more of GDP to social transfers has a child poverty rate higher than 10 percent. No country devoting less than 5 percent of GDP to such transfers has a child poverty rate of less than 15 percent.

The experience of other industrialized nations demonstrates that child poverty need not be an intractable problem. It is clear, however, that those countries that invest in social programs as means of developing their human capital reap the benefits. At the same time, a country's level of wealth does not determine its level of child poverty. The example of the U.S., which consistently has a high rate of child poverty, shows that healthy economic growth on its own does not necessarily reduce child and family poverty. A progressive productivity agenda needs to insure that the benefits of growth are shared among all groups, especially the most vulnerable, in society.

## **II – Recommendations**

### **Developing Human Capital through a Social Investment Plan**

Campaign 2000 proposes that the government of Canada establish a Social Investment Plan for children and families that will significantly reduce child and family poverty and provide equal opportunity for all children from birth as part of a progressive productivity agenda. This plan should include timelines for implementation, measurable targets and the required funding strategies.

The forthcoming budget surpluses provide a strong starting point from which to make these investments in human capital that will contribute to a "race to the top" productivity agenda. With projected surpluses as high as \$9.5 billion for 2005/06 (Canadian Centre for Policy Alternatives, Federal Fiscal Forecasting Round 3: Report to the House of Commons Standing Committee of Finance, August 2005), there are significant resources this year to build on existing social investments and commit to a long-range plan.

## Priority Investments

### *(i) An Enhanced Child Benefit System linked to More Good Jobs*

Canada has made some effective investments in child benefits through the National Child Benefit (NCB) since its initiation in 1998. (Expenditures projected to reach \$6.4 billion in 2004-05.) A recent federal report, *Impact of the National Child Benefit (NCB) on the Incomes of Families with Children: A Simulation Analysis*, demonstrated that progress was made on preventing children and their families from falling into poverty and reduced the depth of poverty for those families who remained in low income during the year 2001. Specifically, the statistics show that there were 8% - or 94,000 - fewer families living in low income as a result of the NCB and that of those still living in low income, families received more than a 5% increase in disposable income.

This is important validation that the NCB is beginning to have an impact. However, Campaign 2000 must emphasize that the incidence of child poverty (over 1,000,000 children), the persistence of high rates (hovering around 15% for most of the past three decades), and the average depth of child poverty (low income families living on average \$9,000 below the poverty line) are overwhelming. It is important to note that many children in families that must rely on social assistance are not benefiting directly from the NCB because in most of the provinces the National Child Benefit Supplement is deducted or clawed back from families on social assistance (these funds are then expected to be invested in programs and services for low income families).

Getting a job is not necessarily a pathway out of poverty. One-third of all jobs are contract, temporary, part-time or self employed. One in every 6 full-time Canadian workers earn very low wages – below \$10/hour (CPRN study, “Lifting the Boats: Policies to Make Work Pay”, June 2005). Canada stands out as a low-wage country, second only to the U.S. among industrialized countries. Low wages are part of the reason why children remain poor, despite the fact that their parents are working.

Campaign 2000 calls on the federal government to update the Canada Labour Code (a review is currently underway), and introduce a federal minimum wage of \$10/hour, indexed to the growth of the average hourly wage. Federal action would set a precedent for other governments. A legislated federal minimum wage would affect about 12% of the labour force and should apply to all federal contractors. The federal government should play a leadership role and encourage provinces to match this rate. Employers should be expected to pay at least enough to keep a single full-time worker out of poverty.

Ten dollars an hour is roughly the amount needed to reach the poverty line for a single person working full-time in a large urban centre. CPRN recently called for a quick but staged move to \$9/hour minimum wage to help make work pay and improve incentives to move from welfare to work. Their review of the experience in European countries indicates the benefits of increasing the minimum wage include: direct benefits to low-paid workers, provides incentive to move from welfare to work; has little or no impact on job loss for adults; and it may increase productivity. [CPRN, “Lifting the Boats: Policies to Make Work Pay”, June 2005]

The NCB remains a critical policy instrument for addressing child poverty in conjunction with increased wages. Even with an improved labour market, families with children need a child

benefit because wages do not reflect family size. **In order to prevent and reduce low income among families with children, the following steps must be taken:**

- **Show federal leadership by re-instating a federal minimum wage and setting it at \$10/hour, indexed to the growth of the average hourly wage;**
- **Raise the child benefit to a maximum of \$4,900 (\$2005) per child, and consolidate the current child benefits into a single program in the first year of the Social Investment Fund.**

These steps would mean, for example, that a lone mother with one child where the mother works full-time at \$10.00 per hour (annually \$18,000) with a child benefit of \$4,900 per year would be living at approximately the low income cut off line.

We have made some important progress toward this goal. The NCB will reach \$3,243 by 2007, which is 64% of what is required. However, there is no explicit federal government commitment beyond 2007.

***Campaign 2000 recommends that the Government of Canada:***

- *develop a plan to consolidate the child benefits;*
- *commit to a defined plan beyond 2007, beginning with*

***(ii) Enhancing Early Learning and Child Care to Create a National System***

Campaign 2000 notes that important progress has been made toward the development of a cross-Canada system of early learning and child care services (ELCC). We are pleased with Recommendation 27 of your Committee's report last year that "the federal government, along with interested provincial/territorial governments, at the earliest opportunity, announce initiatives to reduce child poverty. These initiatives

should include national, accessible, affordable, high-quality, publicly funded, publicly regulated, not-for profit child care system." This supports the recommendations of Campaign 2000 and many other groups including our partner the Child Care Advocacy Association of Canada (CCAAC). The 2005 federal budget commitment of up to \$5 billion and the numerous bi-lateral agreements are important foundations for a national system.

Campaign 2000 recognizes that a mature, universal system will require at least a decade to implement. The cost of a universal system of ELCC has been estimated at \$10-12 billion. Current commitments are important and need to be strengthened and extended beyond 2009. In five years, the current goal is to reach \$4.5 billion in annual child care funding to provinces and territories. Using \$925 million as the current baseline, annual incremental federal funding increases of almost \$900 million are required in each of the next four years. The resulting 2006 federal funding to provinces and territories for investment in regulated early learning and child care would be \$1.825 billion.

Campaign 2000 supports the following recommendations developed by CCAAC for federal government action:

- ***Develop legislation that ensures all***

***(iii) Investment and Action on Affordable Housing***

The reduction in social housing units built since 1996 means that more than 68% of poor families with children live in unaffordable housing. Expansion of affordable housing is key to ending adult and family homelessness. Affordable housing protects the family budget for food expenditures. We expect a new housing framework to support community-based social housing which builds healthy community environments, locates families close to supports, services and work, and improves health.

Campaign 2000 urges the federal government to allocate before the end of the 2005/06 fiscal year the \$1.6 billion promised in the 2005 Budget for federal affordable housing because the need is immediate.

Campaign 2000  
recommendations:

- *A federal commitment to multi year funding for a national housing and homelessness strategy which will*

*(iv) Post Secondary Education*

Research has shown that the high cost of tuition is the most frequent reason why low-income students do not participate in post-secondary education. Campaign 2000 calls on the federal government to build on the \$1.5 million for tuition relief included in the 2005 federal budget amendment. The federal government should increase funding for post secondary education and tie the increases to provincial commitments to freeze and lower tuition fees. We urge the federal government to improve access to post-secondary education by increasing the student financial aid package and allocating a higher proportion of aid to needs based grants.

### III – Conclusion

The fact that 15% of our youngest citizens are growing up in poverty does not bode well for Canada's future productivity performance, which is the focus of the 2005 Pre-Budget Consultations. Broad based investment in our human capital is essential for a productivity agenda.

Canada's Fiscal Outlook projects surpluses of almost \$30 billion over the next five years. With consecutive multi-billion dollar budget surpluses, Canada has the resources to make substantial progress. We call on the federal government to commit a portion of these surpluses to invest in children, as they have committed portions for healthcare and equalization payments.

Canada can do better – we have significantly reduced poverty among seniors and we can do the same for children and families. We call on the federal government to put in place a Social Investment Plan which makes commitments in a number of key areas:

- A plan to increase the National Child Benefit beginning with additional investment of at least \$3 billion in 2006/07 to consolidate child benefits and increase the maximum to \$4,900 per child;
- Establish a federal minimum wage of \$10/hour, indexed to the growth of the average hourly wage;

- Accelerate federal funding for regulated early learning and child care with additional commitments of \$900 million in 2006/07;
- Commit to a national housing and homelessness strategy which would cost about \$2 billion/year to create 25,000 affordable housing units built annually;
- Increase funding for post secondary education and tie the increases to provincial commitments to freeze and lower tuition fees.