

# Perspective

ECONOMIC ANALYSIS REVIEW

Volume 19 / Summer 2009

## POVERTY SPECIAL

Despite the economic boom of the 2000s,  
poverty has not disappeared

Poverty can be beaten



**Desjardins**  
Economic Studies



## DESJARDINS GROUP



### Desjardins Economic Studies

Economic Studies Division

Phone: 418 835-2450 or 1 866 835-8444, ext. 2450

Fax: 418 835-3705

E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

Web site: [www.desjardins.com/economics](http://www.desjardins.com/economics)

Financial Executive Division of  
Desjardins Group

**NOTE TO READERS:** In this text, the symbols **M** and **B** are used respectively to refer to millions and billions of dollars.

**IMPORTANT:** The opinions and forecasts contained herein are, unless otherwise indicated, those of this document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. This publication is based on data available as at **July 6, 2009**.

## MAIN CONTRIBUTORS

### François Dupuis

Vice-President and Chief Economist

514 281-2336

[francois.dupuis@desjardins.com](mailto:francois.dupuis@desjardins.com)

### Yves St-Maurice

Director and Deputy Chief Economist

514 281-7009

[yves.st-maurice@desjardins.com](mailto:yves.st-maurice@desjardins.com)

### Joëlle Noreau

Senior Economist

Document Editor

418 835-8444, ext. 3764

[joelle.noreau@desjardins.com](mailto:joelle.noreau@desjardins.com)

### Hélène Bégin

Senior Economist

418 835-8444, ext. 2850

[helene.begin@desjardins.com](mailto:helene.begin@desjardins.com)

### Benoît P. Durocher

Senior Economist

514 281-2307

[benoit.durocher@desjardins.com](mailto:benoit.durocher@desjardins.com)

### Jean-Michel Goulet

Economist

418 835-8444, ext. 3683

[jean-michel.goulet@desjardins.com](mailto:jean-michel.goulet@desjardins.com)

## OTHER CONTRIBUTORS

### Danielle Proulx

Desktop Publishing Technician

### Versacom

Linguistic Consultation

## CONTENTS

### EDITORIAL

*Poverty: Still no end in sight*

3

### THE SITUATION IN QUÉBEC

*Upcoming return of consumers?*

4

### THE SITUATION IN ONTARIO

*Auto industry pulls reins on production*

6

### POVERTY

*Despite the economic boom of the 2000s, poverty has not disappeared*

7

### POVERTY

*Poverty can be beaten*

13

### INTERPROVINCIAL SHOWCASE

*Emergence of Newfoundland and Labrador*

19

### FORECAST TABLES

*Canada - Québec - Ontario - Regions - Financial Forecasts*

21

## EDITORIAL

### Poverty: Still no end in sight

Considering that Québec enjoyed a fairly long period of prosperity, until 2008, why has the topic of poverty resurfaced? Despite the recent economic boom, there are still poor people in Québec, whose number risks swelling during this recession.

Over the past few years, the number of people unemployed, living below low-income cut-offs or receiving social assistance has dropped. Thanks to the strong economy, more jobs were created and the resulting wealth was distributed to the population. However, an analysis shows that the rich benefited more from this prosperity than the poor. In other words, the gap between rich and poor widened, exacerbating income inequality. Consequently, as far as winning the war on poverty, we have yet to reach the end of the road.

Even in provinces such as Alberta and Newfoundland and Labrador, where per capita income rose nearly 40% between 1997 and 2007 thanks to oil exploration, poverty remains an issue. Food banks across Canada have a tough time keeping up with demand, even in the richest provinces. However, poverty goes beyond money. People who live alone are more vulnerable, which should give us pause since the proportion of single-person households in Québec has climbed from 4.5% in 1951 to 30.7% in 2006.

The greying population adds another dimension to the problem. It is common knowledge that seniors, many of whom live alone, are increasingly poor. While an analysis of Statistics Canada and Canada Revenue data qualifies this statement, the issue of pension funding is still worrisome. Both the labour force participation rate and contributions would have to double to prevent old age from becoming synonymous with indigence. However, the trend to increase the prices for public services in order to bring down the deficit should also be tempered when it comes to low-income people.

Poverty exists as much in the regions as in urban centres. Because there are so many ways of falling into poverty, there is no one way to beat it. Logically, implementing a guaranteed minimum income system appears to be the answer. However, this is unlikely to happen given that the government's priority is deficit elimination and especially since the labour force will shortly begin shrinking. The government will already have its hands full trying to meet its commitments to retirees and to society's most disadvantaged, without taking on an additional expense.

This doesn't mean that we can't put an end to poverty. Government strategies aimed at increasing the number of people in the workforce have already paid off. But there is still much to do. Working to stem the dropout rate would be a less expensive endeavour than back-to-school or work integration programs. And measures facilitating access to the job market, particularly those that do not penalize social assistance recipients for employment earnings, would be an incentive.

While general measures are useful, they must be accompanied by concrete action. The war on poverty must also be waged on the ground. Self-help organizations must receive more support, from the governments, the business community, and individuals. Fighting poverty is everybody's business. At a time when our labour force is about to get smaller, Québec cannot afford to leave anyone on the sidelines.

**François Dupuis**  
*Vice-President and Chief Economist*

# THE SITUATION IN QUÉBEC

## Upcoming return of consumers?

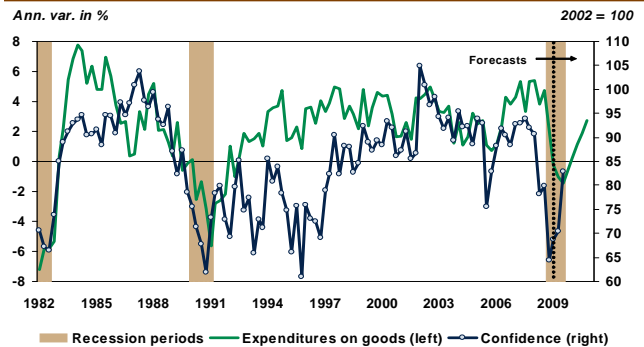
Just a few months ago, none of the statistics were making it possible to detect an upcoming point at which the economy would turn around. Now, a few scattered signs are justifying some renewed optimism. Although the first quarter was more negative than expected, the real GDP forecast for 2009 (-1.7%) is similar to May's forecast (-1.8%) as the outlook is not as bad. The economy will continue to contract until the fall, but at a slower pace, buoyed by some stabilization in consumer spending. The improved outlook will foster a somewhat more sustained recovery throughout 2010. Real GDP growth for next year has been raised to 1.4% from 1.1% last month. The assumption of a slow, gradual recovery still holds, as numerous structural and cyclical factors, such as consumers' precarious financial situation, the Canadian dollar's appreciation and surge in U.S. protectionism will result in reining in renewed economic growth.

Québec, which went into recession at the end of 2008, is doing somewhat better than Ontario and western Canada. It is not very dependent on the auto sector and less focused on raw materials, so the province is holding up better under the deterioration in the global economic situation. The increase in public investment that began well before the recession did is also helping Québec to get through this landmark period. Although the damage is not as bad in Québec as elsewhere, the recession is still fairly severe, as shown by February's 1.1% drop in the real GDP. This is the biggest monthly decrease since January 1991 (excluding the temporary tumble associated with the January 1998 ice storm). To date, this contraction period is similar to the one that occurred at the beginning of the 90s, confirming our projection for this recession's magnitude.

The comeback by consumer confidence is surely the most promising sign that the economy will eventually recover. Consumers' mood improved substantially in April, reaching its highest level since July. Last October's collapse by stock prices had taken confidence sharply down, close to its low point of the 90s. The index is still just below its historic average, 85, which confidence must generally reach before consumption recovers sustainably (Graph 1). If confidence continues to improve, consumer spending could firm up starting this fall.

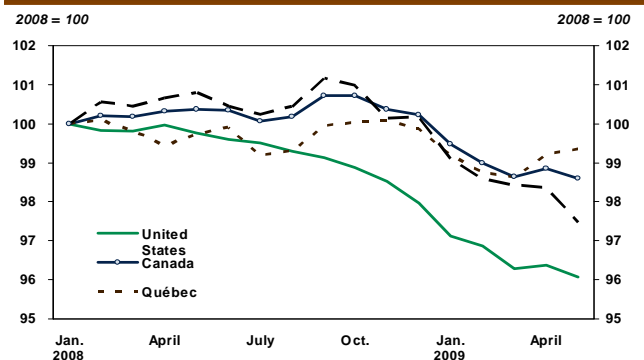
The fact that the damage to employment is limited is another indication that the adverse impacts of the global recession are doing less damage in Québec (Graph 2). The unemployment rate has also not risen as quickly as it has for Québec's major

**Graph 1 – Consumer confidence climbs: Consumer spending could soon do likewise in Québec**



Sources: Institut de la statistique du Québec, Conference Board of Canada and Desjardins, Economic Studies

**Graph 2 – Employment has not deteriorated as much in Québec as it has elsewhere in North America**



Sources: Statistics Canada, Bureau of Labor Statistics and Desjardins, Economic Studies

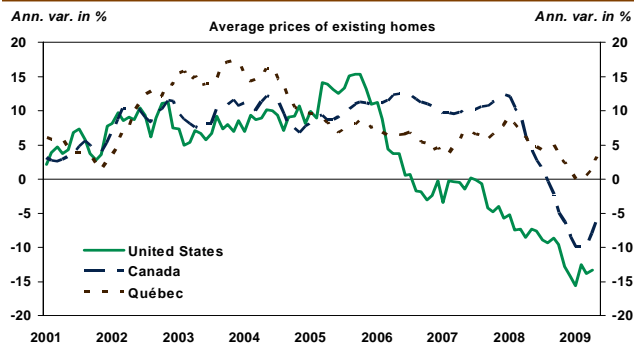
trade partners. From 2008 January's low of 6.8%, it has risen to 8.7% in May. In Ontario, the unemployment rate jumped to 9.4% after reaching a floor of 6.5% last fall. For the first time in 30 years, Québec has a lower unemployment rate than its neighbour.

The second condition required for consumption to stop declining—a lasting stabilization by employment—does not seem to be in place yet. If this situation occurs, against all expectations, spending on goods and services could firm up more quickly, which would both move the recovery up and strengthen its underpinnings. In any event, a strong comeback by consumers is unlikely as households are in a very fragile financial situation. As is the case elsewhere in North America, the personal savings rate had been almost zero in recent years. It was around 10% just before the recession of the 90s, so households had a financial cushion to help them deal with the recession's vagaries. In this cycle, a low propensity to save

and drop in the value of assets is resulting in a surge in personal bankruptcy. Bankruptcies have already risen by more than 15% since the year began. In this context, a recovery by consumption could be rather moderate. This is a critical assumption in our scenario, as it will set the tone for the overall economic recovery. The recovery's strength and speed are largely dependent on the contribution from consumers.

Unlike their neighbours, the deterioration in the housing market has not been shaking Québecers much. This factor could help households to extricate themselves from the recession more easily. This is one less obstacle for the real GDP's upcoming return to positive territory. The drop in home prices that seemed to be underway a few months ago, quickly dissipated, giving way to some stabilization. Although the drop in prices is easing off in Canada and the United States (Graph 3), prices are still about -7% and -30% off their peaks, respectively. This does not mean that Québec is safe from a drop in prices, as home sales could slide further and put the market into a surplus. Prices for existing homes and resales are showing some positive signs, however, which could be the prelude to a potential recovery.

**Graph 3 – Québec's housing market has not seen prices decline**



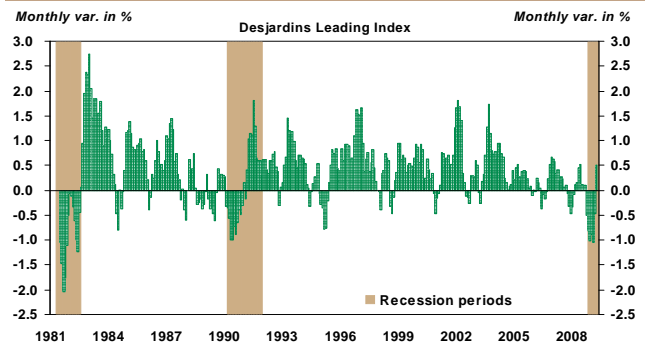
Sources: Census Bureau, Canadian Real Estate Association and Desjardins, Economic Studies

As for business, no signs of stabilization can be seen. Investment, profits and exports are still heading down. According to Export Development Canada (EDC), low demand from the United States, which gets more than 60% of Québec's international exports in the aerospace field, does not point to a turnaround in the near future. Cancellations of current orders should slow the pace even further next year. There is little hope for aluminum and the forest sector, either, the other heavyweights in Québec exports. Demand for lumber will keep slowing until North American housing construction turns around, while newsprint is still being hurt by streamlining

in the publishing industry (newspapers, magazines, etc.). Demand for aluminum, which mainly comes from the U.S. construction and automobile industries, will remain depressed in the near future, too. Overall, Québec's exports will decline by 7.2% in real terms this year and edge up next year. The U.S. economy's slow recovery, skyrocketing loonie, which is already close to US\$0.90, and greater American protectionism will prevent a more sustained recovery before the end of 2010.

In April, the Desjardins Leading Index (DLI) posted its first increase since the fall of 2008 (Graph 4). Its 0.5% gain is not enough to signal an imminent end to Québec's recession, however. If further increases happen this summer, a real recovery could materialize at the turning of 2010, as our forecast scenario calls for. It is too early to tie the DLI's rise to a turning point for the economy. The DLI's improvement still constitutes a ray of hope for an eventual recovery. Despite other positive signs, like the comeback in confidence, temporary turnaround in employment and seeming stabilization in the real estate market, the Québec economy still has a number of weak links. There are many layoff announcements, exports are still heading down and the industrial sector does not seem to be out of the woods yet. The size of the real GDP's decline should fade by the fall. The bottom of the economic cycle would then be reached and a real recovery could begin.

**Graph 4 – The Desjardins Leading Index turned around in April: The end of the recession is in sight for Québec**



Source: Desjardins, Economic Studies

*Hélène Bégin*  
Senior Economist

# THE SITUATION IN ONTARIO

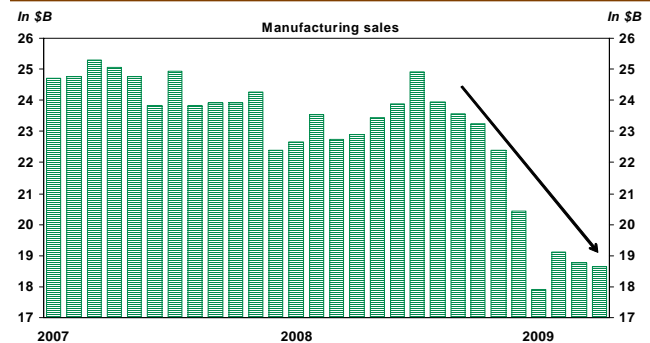
## Auto industry pulls reins on production

Ontario is being pummelled by the recession. The province's real GDP fell 0.4% in 2008, the worst performance in the nation. The contraction is mostly due to a 5.6% drop in real output in the last quarter of 2008, compared to just 3.7% for the country overall during the same period.

Based on the economic indicators, the sharp output drop dragged into the new year. Despite a few fluctuations, housing starts are still trending down and non-residential construction continued to decline over the winter. Real retail sales also slipped, 3.9% on average, in the first quarter of 2009. As such, Ontario has seen 244,900 jobs disappear since October 2008, representing close to 68% of all Canadian job losses during the period. However, given that Ontario accounts for 39% of the Canadian workforce, it is not surprising that its unemployment rate has shot up by 3.1 percentage points since the beginning of 2008. At 9.4% in May 2009, this rate is the highest in 15 years.

Manufacturers are clearly bearing the brunt of these tough times since they are not only affected by the cyclical slowdown caused by the global recession but also by major structural changes. Moreover, the auto industry has been decimated by

**Graph 6 – Manufacturers still in big trouble**

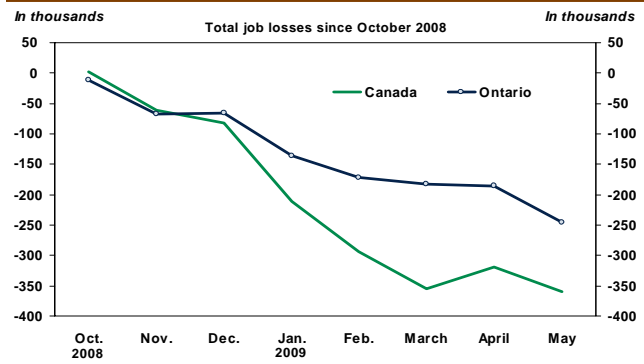


Sources: Statistics Canada and Desjardins, Economic Studies

the restructuring of the big three North American automakers. The loonie's strength last year has also taken a toll, making it tougher for most Ontario manufacturers to compete. The Canadian dollar's recent resurgence will further exacerbate the situation and consequently mitigate the rebound in exports once the recovery begins. And the increase in U.S. protectionism will no doubt have an impact on Ontario's export growth.

In summary, the ongoing global economic contraction, together with the negative effects of the auto industry's restructuring, will keep the recession going in Ontario for a while yet. However, some signs point to it easing in the next few months and to a gradual recovery beginning in the fall. Not only is the U.S. economy expected to rebound in the fourth quarter of 2009, the end of the bankruptcy process will likely help stabilize auto production. Lastly, just as in the rest of the country, the recent resurgence in Ontario household confidence will likely lead to greater consumer spending in the quarters ahead. Ontario's real GDP should therefore close out the year down 3.4%, followed by an increase of 1.3% next year.

**Graph 5 – Almost 68% of the jobs lost in Canada are in Ontario**



Sources: Statistics Canada and Desjardins, Economic Studies

**Benoit P. Durocher**  
Senior Economist

# POVERTY

## Despite the economic boom of the 2000s, poverty has not disappeared

As a topic, poverty is not very popular. It certainly doesn't have the same appeal as new technologies, nor does it allow us to envision promising developments in the near future. Instead, it forces us, policy makers and citizens alike, to look back at the decisions we made about how to share the wealth. It requires us to pause and reflect, a practice that is all too rare in these times where action rules. Yet this issue must be addressed, particularly when we find ourselves in the throes of a recession, as has been the case in Québec since the end of 2008. Should we be worried about the future? Will the aging population lead to a surge in poverty over the next decade?

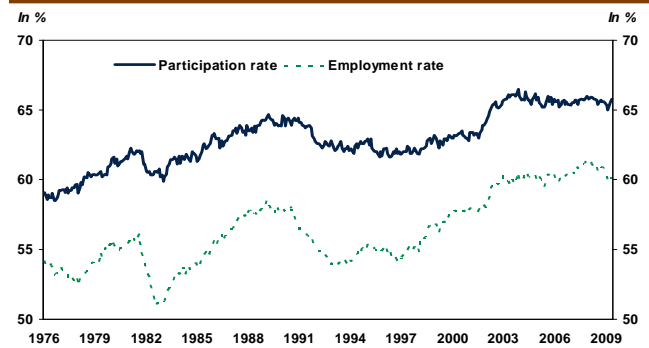
### PROSPERITY FOR ALL?

Excluding the current slump, Québec has not experienced a deep recession since the early 1990s. From 1992 to 2008, Québec's economy went through just a few mild slowdowns (1995, 2001 and 2003). We should therefore consider ourselves fortunate to have enjoyed such a long period of economic growth. From 1997 to 2008, real GDP advanced 2.6% on average while the labour market was particularly robust, creating 750,000 new jobs. The question is whether everyone benefited from this job growth and wealth creation.

Graph 7 shows that the number of unemployed was trending downward until just recently. The sharpest decline began in 1997. Since 2000, the average number of jobless persons has been roughly 328,600, down from 408,600 in the '90s and 368,800 in the '80s.

Other signs indicate that Québec's labour market has firmed up considerably since the early 2000s. In addition to job growth, the participation and employment rates have risen

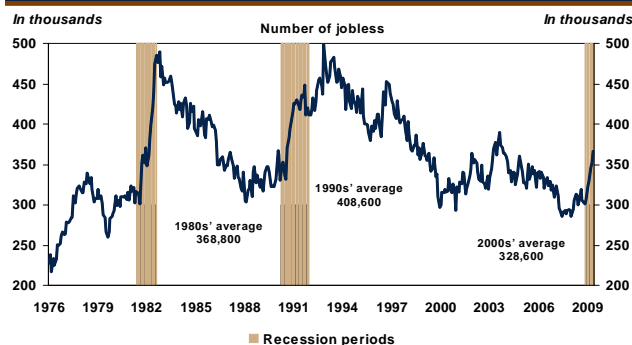
**Graph 8 – Participation and employment rates have levelled off since 2002 and dipped slightly since the end of 2008**



Sources: Statistics Canada and Desjardins, Economic Studies

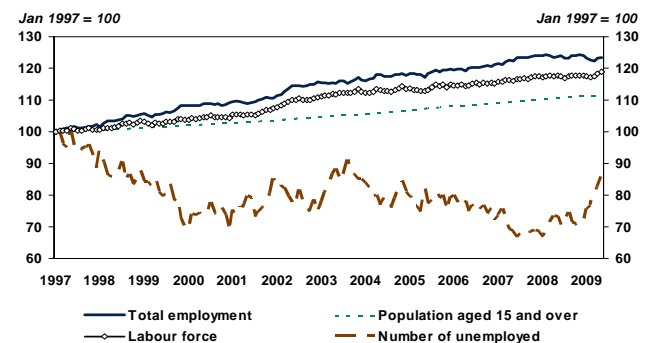
steadily (Graph 8), to a 30-year high. This means that more people are participating in the workforce, (working or looking for work) in relation to the "potential labour pool" (Graph 9).

**Graph 7 – Jobless numbers fall during economic prosperity**



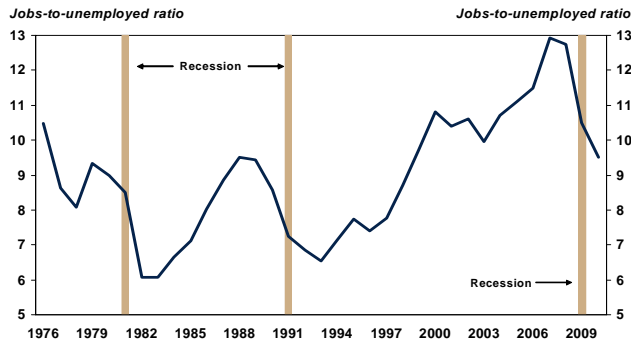
Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 9 – Employment has grown much faster than the population aged 15 and over and the labour force**



Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 10 – The jobs-to-unemployed ratio goes up during economic prosperity**



Sources: Statistics Canada and Desjardins, Economic Studies

Moreover, the jobs-to-unemployed ratio (Graph 10) peaked in 2007. Given the deterioration in the economic situation, this ratio will likely decrease somewhat in 2009 and 2010.

### A LOOK AT SOCIAL ASSISTANCE

Social assistance programs have changed dramatically over the years, making comparisons with previous decades difficult. We therefore only used the figures of the last five years. A quick glance shows a decrease in the number of recipients during this period.

The social assistance rate<sup>1</sup> has also declined since 2004, falling from 8.2% in March 2004 to 7.4% in March 2009. However, in light of the tough economic situation and job losses, the number of recipients and the social assistance rate will both increase this year and next. That said, the labour shortage will temper the increase.

So, since the end of the 1990s, there have been more jobs, fewer unemployed and far fewer social assistance recipients. But does this mean less poverty?

### IS WORKING THE WAY TO ESCAPE POVERTY?

Having a job is not enough to escape poverty. Since the 1990s, the governments and self-help groups have been concentrating on integrating social assistance recipients into the workforce. This effort, combined with a sharp increase in employment, has helped bring down the number of recipients. However, a study commissioned by Human Resources and Social Development Canada (HRSDC)<sup>2</sup> found that having a job is not always enough to escape poverty. The main conclusions of this study merit attention.

The results are surprising and dispel several myths. For example, the claim that “the poor do not work” is arguable. In 2001, there were 653,000 poor persons working in Canada.<sup>3</sup> Including dependents, 1.5 million Canadians “were affected by working poverty.” Those who believe that “the working poor do not work hard” might be surprised to learn that in 2001, poor Canadians worked, on average, as many hours as other workers (around 2,000 hours). Nevertheless, fewer of them worked full time, year-round.

The study debunked another myth: that the working poor are low-paid. The truth is that in 2001, “88% of low-paid salaried workers (i.e. those who earned less than \$10 per hour) were not poor.” The family situation plays a key role, for example, young people living at home or single adults with no dependents.

Some might think that “unstable jobs (occasional, seasonal, part-time, etc.) are the main cause of poverty among workers.” According to the HRSDC study, family characteristics are one of the most important determinants of poverty. And although being low-paid is a significant risk factor, it is not the most important determinant. This last element is critical to tackling the poverty issue in that it shows that poverty cannot be measured using only income as a universal yardstick. The fact is that the family situation plays a key role.

### CAN POVERTY BE MEASURED OR ARE WE TRYING TO SQUARE THE CIRCLE?

Although there is no “poverty rate” in Canada, numerous tools have been developed in an attempt to measure this social reality. Poverty is often defined by income, yet it is so much more than that. It also depends on a person’s state of health, access to the labour market, education, and as we saw earlier, family obligations. It is also tied to isolation and to the ability to rely on a self-help network.

Despite all these aspects of poverty, income is often used as the sole measurement. After consulting six studies published in 2008,<sup>4</sup> we still cannot say with certainty whether poverty has increased or decreased in recent years. There are a number of reasons for this. First, the studies do not all cover the same period of time, and second, the indicators are not the same across the board. Some refer to a definition of low income while others seek to show income inequality, which refers to the way it is distributed.

Statistics Canada produces different income indicators: low-income cut-offs (LICOs), low-income measures (LIMs), and the market basket measure (MBM). The first two are relative in that they are compared to the median income. The last is absolute in that it measures a person's financial ability to purchase food, clothing, shelter and transportation.

The low-income cut-offs (LICOs) are "income thresholds, determined by analyzing family expenditure data, below which families will devote a larger share of income to the necessities of food, shelter and clothing than the average family would." The thresholds are established based on family and community size (big or small). Table 1 illustrates the LICO concept.

### IS POVERTY LOSING GROUND?

A look at income based on the LICO, LIM and MBM indicators shows that poverty fell between the end of the 1990s and the mid-2000s. According to Statistics Canada, the number of low-income individuals (Table 2) has decreased in the last 10 years as has the prevalence of low income. However, other studies that cover longer periods of time (from the 1980s to today) draw different conclusions.

What led to the decline in poverty from the mid-1990s to the mid-2000s? Economic growth creates wealth, and 1997 to 2007 was a boon period for Québec. When the economy does well, the government tends to give more to the less fortunate. Accordingly, a host of measures were implemented during that prosperous period, including a provincial drug plan, \$7-a-day daycare, and work premiums, to name just a few. These measures had a positive impact on families and made the labour market more appealing. However, it was not a panacea.

According to the Centre d'étude sur la pauvreté et l'exclusion (CEPE), the low-income rate varies depending on family and individual characteristics. The CEPE found that "among the different types of family units, single adults, followed by couples without children, are the most likely to fall below the low-income cut-offs."<sup>5</sup> On average, the earnings of families with low income is 30% below the cut-offs. The Centre also mentions that the Montréal area is most vulnerable in this regard.

Looking ahead, this data should give us pause since the number of single-person households in Québec has been on the rise for over 50 years. In 1951, this group accounted for 4.5% of households. In 1996, this figure was 27.3% and by 2006 it had reached 30.7%.

### SELECTIVE ECONOMIC PROSPERITY

Did everyone benefit from the economic boom? At first glance, one would be tempted to say yes. A study conducted by the Institut de la statistique du Québec (ISQ) on the evolution of family income by source between 1980 and 2006 is telling. The results show that total family income, in constant dollars, rose 5.5% in Québec during this period, from an average of \$53,254 to \$56,200. Of particular note is that government transfers (e.g. pensions, social assistance, allowances from the federal and provincial governments) accounted for slightly more than 80% of the increase.

The composition of total family income has changed in the last 27 years (Graph 11). Thus, the portion of earnings from employment decreased from 82.4% to 72.2%. This decrease was partially offset by retirement income (private and public), which amounted to 7.5% of total income in 2007, compared

**Table 1 – Low-income cut-offs (1992 base) after tax (in \$) - Canada**

	Community size				
	Rural areas	Urban areas			
		Less than 30,000*	30,000 to 99,999	100,000 to 499,999	500,000 and over
<b>Size of family unit 2008</b>					
1 person	12,019	13,754	15,344	15,538	18,373
2 persons	14,628	16,741	18,676	18,911	22,361
3 persons	18,215	20,845	23,255	23,548	27,844
4 persons	22,724	26,007	29,013	29,378	34,738
5 persons	25,876	29,614	33,037	33,453	39,556
6 persons	28,698	32,843	36,640	37,100	43,869
7 or more persons	31,519	36,072	40,241	40,747	48,181

\* Includes cities with a population between 15,000 and 30,000 and small urban areas (under 15,000)  
 Source: Statistics Canada

**Table 2 – Persons with low income after tax (1992 LICOs base), showing prevalence and estimated number - Québec**

	<i>Estimated number ('000)</i>									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>All persons</b>	<b>1,212</b>	<b>1,064</b>	<b>1,067</b>	<b>1,000</b>	<b>894</b>	<b>907</b>	<b>849</b>	<b>880</b>	<b>874</b>	<b>812</b>
Under 18 years	301	237	252	226	174	167	168	147	149	142
18 to 64 years	781	716	710	679	613	644	593	630	629	579
65 years and over	130	111	106	94	107	96	88	103	96	90
	<i>Prevalence of low income (%)</i>									
<b>All persons</b>	<b>16.9</b>	<b>14.8</b>	<b>14.8</b>	<b>13.8</b>	<b>12.3</b>	<b>12.3</b>	<b>11.5</b>	<b>11.8</b>	<b>11.6</b>	<b>10.7</b>

Source: Statistics Canada

to just 1.4% in 1980. Should these figures be cause for concern given our aging population? Not necessarily, since the proportion of family units that declared retirement income from a private source (i.e. private pension plans) grew from 7.4% to 20.6% during the same period. The ISQ also notes that the amount received by these families rose from \$10,278 to \$20,608. Interestingly, the 1980 and 1990 recessions did not affect either private or public pension income. That said, the past is not always indicative of the future, and we would do well to remain objective when examining the issue of retirement income. A brief analysis follows later on.

**SHARING THE WEALTH**

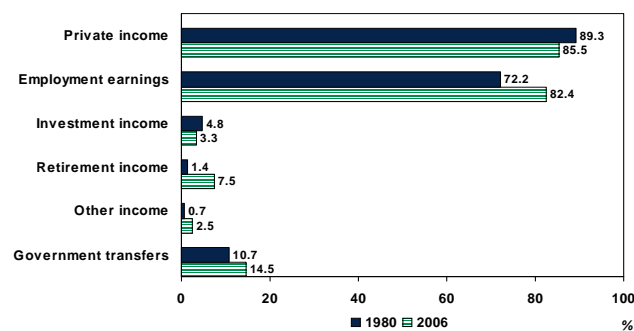
The answer is somewhat different if you look at poverty from the perspective of wealth sharing. When viewed from this angle, we find income inequality, which can be measured using a wide range of indicators. In fall 2008, the Organization for Economic Co-operation and Development (OECD) published the findings of a study that looked at 20 years, from the mid-1980s to the mid-2000s. While it acknowledges that the situation of the poor improved, it also found that the rich

got richer during this period, leading it to state that the gap between rich and poor widened in three countries, including Canada. It also found that this inequality has increased at a particularly rapid pace since the 2000s and that the gap largely owes to the fact that the rich got richer.

For its part, the ISQ analyzed the issue using four widely used indicators to measure income inequality: average income quintiles, the Gini coefficient, the Wolfson polarization index, and the index of concentration around the median. The institute’s conclusions were very similar to the OECD’s. For the period between 1979 and 2005, inequality decreased between 1979 and 1989 but increased between 1989 and 2005.

A look at wealth data provides a clearer picture. The ISQ, through another study published in October 2008, sought to find out who benefited from the economic prosperity between 1999 and 2005. To this end, it estimated the median wealth, i.e. the point where Québec households can be divided into two groups. The first group comprises family units whose net worth was less than the average (estimated at \$110,100 in 2005) while the second includes those whose net worth was more than the average. The first observation was that median wealth rose 21% during the period under study. The rich (the second, wealthier group) were even richer in 2005 than in 1999. It bears mentioning that the stock markets and real estate performed exceptionally well during this time, and since wealthier people are more likely to own a home and stocks, they benefited from this boom. The second observation was that the group comprising the 40% of less wealthy family units saw their net worth shrink. However, a qualification is in order: family units whose after-tax income was less than \$20,000 nevertheless managed to increase their net worth by 61%. Still, they only hold 8% of the total wealth.

**Graph 11 – Total income of family units by source, Québec, 1980 and 2006**



Sources: Statistics Canada, Institut de la statistique du Québec, and Desjardins, Economic Studies

There therefore seems to be greater consensus as regards income inequality, i.e. that it increased from the end of the 1980s until the mid-2000s.

### THE MINIMUM WAGE DEBATE

Not everyone agrees on the effect of minimum wages on poverty. After dissecting 54 studies, the OECD concluded that the impact on the unemployment rate is negligible. Can this conclusion be extrapolated to poverty? Not necessarily. Free market economists and many SMEs are generally opposed to raising the minimum wage, claiming it could drive up unemployment. The reasoning is that the increase will hurt the bottom line, which in turn will lead to layoffs.

However, other economists, including UQAM’s Pierre Fortin, believe that hiking the minimum wage is a good thing in some cases. It all depends on how much it is raised. The increases must be tempered; otherwise, the additional cost will be too heavy for businesses and thus limit job creation. An average of the minimum wage, which represents roughly 46% (average of the last 10 years) of the average salary, seems to be a better way of calculating the amount than the percentage used at the end of the 1970s (60% of the average wage) (Table 3). Make no mistake. Raising the minimum wage will not eliminate poverty. It will take much more than that. Still, for a single person, the increase could make a difference. Earlier, we mentioned that most social assistance recipients are single adults. While some have employment constraints, an increase in the minimum wage for those who don’t and who succeed in finding a job could be the way out of poverty.

Minimum wage primarily, but not exclusively, affects young people. According to Statistics Canada, roughly one half of all Canadian minimum wage earners in 2003 were between the ages of 15 and 19. The 20 to 24 age group accounted for 15%. In the 15 to 19 age bracket, more than 75% were full-time students.

**Table 3 – Living conditions**

	2001	2006	2007
<b>Minimum wage rate (\$/hour)</b>	<b>7.00</b>	<b>7.75</b>	<b>8.00</b>
Employees earning minimum wage (n)	209,322	136,776	177,845
In proportion to total number of employees (%)	7.0	4.2	5.4

Source: Institut de la statistique du Québec, *Québec Handy Numbers*, 2009 Edition

Hiking the minimum wage is not a cure-all for poverty, but in some cases, when combined with support measures such as the GST and QST tax credits, the property tax refund and the work premium, to name just a few, can make the difference between dependence and independence.

### POVERTY AND THE GREYING OF THE POPULATION

One of the challenges facing Québec is the aging population. This trend is irreversible in the short and medium terms even if the birth and immigration rates were to quickly rise. First, the labour pool, i.e. the 15 to 64 age group will begin to shrink in the next four years as the baby boomers begin their exodus from the workforce. Unemployment will go down and workers will be harder to come by. Will our society become progressively poorer, unable to provide its elderly citizens a decent pension? Will we find ourselves with even more poor people than we have today?

Is it true that a growing number of seniors are living near or below the low-income cut-off? It has been suggested that the old age pension indexing by the Régie des rentes du Québec is not enough to offset rate hikes and the cost of medication. Today, the 65 and over group makes up roughly 15% of the Québec population. In 15 years, that figure will be 25%.

Many recommendations are being made to the population: work longer, save more, and don’t rely on public pension plans. They all make sense in the aftermath of the stock market collapse that left countless future retirees reeling from financial losses. They are also relevant given that there will be fewer workers to finance public and private pension plans, not to mention public assistance programs. A longer life expectancy may also mean people will work longer.

One way to preserve the safety net in a context of an aging population and labour shortage is to have more people participate in the workforce. And this is precisely where governments and community groups have been directing their efforts of late, i.e. integrating social assistance recipients into the workforce and keeping older workers on the job longer.

### OLD AND POOR?

Will the elderly swell the ranks of the poor? As we have seen, the greatest revenue increases have been in retirement income. In this regard, investment products have multiplied and private pension plans have come to play a growing role over the last 40 years, according to the Régie des rentes du Québec.

According to our 2008 estimates, 1.6 million Québécois contribute an average of \$4,357 to a registered retirement pension plan (RRSP). The year before that, half of them invested over \$2,500. Twenty-six percent of taxpayers are enrolled in an RRSP, while 87% of Québec's 6 million taxpayers have contribution room. This means that some taxpayers are building an extra cushion for retirement. However, 74% do not contribute. Some are under 25, others are over 65 and cannot contribute unless they have employment or business income, while others simply cannot afford to do so.

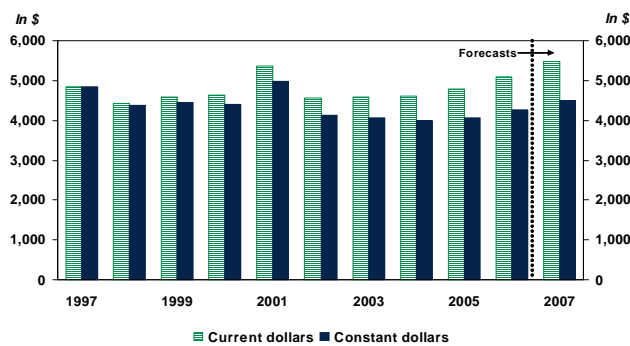
There are other factors to temper the fear of broad-based impoverishment. First, 2.1 million Québec taxpayers declared investment income in 2007. The 65 and over group collected average annual investment income of around \$4,367 (in 1997 dollars) from 1997 to 2007 (graph 12). Should we question

these statistics? The fact is, according to Statistics Canada, 97% of people aged 65 and over filed an income tax return in 2006. And while \$4,367 in interest is not a fortune, it does imply that assets are being kept in financial institutions. Moreover, the median total assets (including real estate and other) per family unit were \$320,654 in 2005 for the 65 plus group and \$215,000 for the 65 and under segment. The assets-to-debt ratio was therefore 25.1 for the 65 plus group and just 4.3 for the under 65 age group. Although these few statistics obviously do not tell the whole story, the picture is nevertheless brighter than it appears on the surface.

### WHAT LIES AHEAD

Although the number of low-income people (the poor) has decreased in recent years, there is still much to do to reduce inequality and still more to combat poverty. One of the solutions is to increase participation in the workforce. In this respect, work and social integration measures are relevant, particularly since not far down the road, there will be fewer and fewer people of working age available to take part in the collective effort to create and distribute wealth. To avoid poverty and to make sure retirement is not synonymous with hardship, people will need more money. Although many taxpayers are preparing for their golden years, they are not the majority. We will have to provide for society's most destitute without increasing poverty. To this end, we must take action now. More on this in the next *Perspective* article.

**Graph 12 – Annual average investment income of people aged 65 and over**



Sources: Statistics Canada and Desjardins, Economic Studies

**Joëlle Noreau**  
Senior Economist

<sup>1</sup> Social assistance rate: proportion of the population that benefits from social assistance programs (Social Assistance Program, Social Solidarity Program, and the Alternative jeunesse program). Source: MESS, *Rapport statistique sur la clientèle des programmes d'assistance sociale*. March 2009.

<sup>2</sup> Fleury, Dominique and Fortin, Myriam, *When Working Is Not Enough to Escape Poverty: An Analysis of Canada's Working Poor*, August 2006, Study commissioned by Human Resources and Social Development Canada, 206 pages.

<sup>3</sup> Working poor: Individual aged 18 to 24 who worked for pay a minimum of 910 hours in the reference year and whose family income falls below the market basket measure threshold (p. 9).

<sup>4</sup> Cousineau, Jean-Michel, Presentation to the ASDEQ, fall 2008. Centre d'étude sur la pauvreté et l'exclusion, *Le faible revenu au Québec : un état de situation*. 2008, 31 pages. Crespo, Stéphane, "Bref regard sur l'évolution de quelques indicateurs d'inégalité et de revenu et de faible revenu," ISQ, *Données socio-démographiques en bref*, vol. 12, no. 3, June 2008. Fortin, Pierre, "La pauvreté a diminué de 40 % au Québec depuis 10 ans," La Presse, 2008. Jean, Sylvie, "Qui a profité de l'augmentation de la richesse entre 1999 et 2005 au Québec?," ISQ, *Données socio-démographiques en bref*, vol. 13, no. 1, September 2008. OECD, *Growing Unequal?*, October 2008.

<sup>5</sup> CEPE, *Le faible revenu au Québec : un état de situation*, 2008, 31 pages.

# POVERTY

## Poverty can be beaten

*Poverty has many faces. According to Statistics Canada, Québec had 812,000 people living below the low-income cut-offs in 2007. This means more than 800,000 different faces, none of which is better known than social assistance, the Number One tool used to combat, or at the very least, lessen the impact of poverty. While social assistance has the advantage of being easily countable in terms of dollars spent, it cannot by itself eradicate poverty. Society has been trying to put an end to this scourge for a very long time. Many organizations and researchers have ideas on how this can be achieved, ranging from guaranteed minimum income to integration into the workplace. What follows is an overview of possible solutions.*

### SOCIAL ASSISTANCE: THE MOST IDENTIFIABLE PART

As of March 2009, 335,284 Québec households were receiving government assistance under what has been termed the “last-resort assistance and support program.” Briefly, this refers to social assistance programs for individuals with no severe employment handicaps and social solidarity programs for individuals facing severe employment barriers. Within these two broad categories are a number of initiatives aimed at employment integration or active social participation. Recipients who take part in these special programs receive additional monthly benefits.

In March 2009, 486,282 people were receiving social assistance, the equivalent of a city the size of Québec (491,142 people according to Statistics Canada’s 2006 census). Similar to the 2008 total, this figure includes 371,846 adults and 114,436 children. Since March 2004, which is used as a reference point since that is when the changes were made to the programs, the number of recipients has decreased steadily (Table 4). The social assistance rate for the 0 to 64 age group has also declined. However, due to extensive layoffs in the last year, the number of people admitted into the last-resort program is expected to increase in the months ahead since, by April, its number had already swelled by 200 households.

Québec employment peaked in November 2008 (3,891,700 jobs). In the six months that followed, some 28,000 jobs were lost. It is safe to assume that some of the newly unemployed

will not be eligible for unemployment benefits (employment insurance) and will therefore apply for social assistance. Then, those who will receive benefits but who will be unable to find employment will resort to social assistance at the end of the benefit period.

In March, the average assistance granted under the last-resort programs was \$715.16 per household (\$699.27 in 2008). With rent in Québec averaging \$611 in 2008 (all categories combined), it is easy to understand how recipients would have trouble making ends meet (Table 5). This explains why less than 5% of recipient households own their homes (Table 6), compared to the provincial average of about 60%. Most recipient households (57.8% in March 2009) live in apartments or affordable housing. Slightly more than one third (35.8%) live in a room or in a boarding house, which may appear high but in fact is not so surprising given that 75.9% of recipient households were made up of single people. For their part, one-parent families made up 13% (Table 7, page 15).

### A PREDICTABLE REGIONAL PROFILE

The island of Montréal has the largest number of last-resort assistance recipients: 33.4% of all recipient households in Québec, representing nearly 112,000 family units (Table 8) or 126,377 adults and nearly 50,000 children. The latter accounted for 28.2% of all recipients. The highest social assistance rate for the 0 to 64 age group was 11.1% in March 2009 in Montréal, versus the provincial average of 7.3%. Some areas

**Table 4 – Evolution of social assistance program clientele**

Assistance period	Number of households	Number of adults	Number of children	Total	Total social assistance (0-64 years)
March 2004	354,625	398,040	134,119	532,159	8.2%
March 2005	348,698	390,090	128,098	518,188	7.9%
March 2006	343,337	382,857	123,683	506,540	7.7%
March 2007	341,538	379,694	119,939	499,633	7.6%
March 2008	338,599	375,423	116,181	491,604	7.4%
March 2009	335,284	371,846	114,436	486,282	7.4%

Source: Ministère de l'Emploi et de la Solidarité sociale, Direction de la statistique et du soutien aux expérimentations, May 2009

**Table 5 – Average monthly rent by administrative region (in \$)**

	<b>2008</b>
Québec	611
Bas-Saint-Laurent	505
Saguenay–Lac-Saint-Jean	477
Capitale-Nationale	636
Mauricie	463
Estrie	525
Montréal	647
Outaouais	654
Abitibi-Témiscamingue	457
Côte-Nord	521
Gaspésie–Îles-de-la-Madeleine	489
Chaudière-Appalaches	538
Laval	630
Lanaudière	578
Laurentides	575
Montérégie	582
Centre-du-Québec	496

Sources: Canada Mortgage and Housing Corporation, and Desjardins, Economic Studies

are especially hard hit. Greater Montréal suffers from the same fate as North America's other large cities, whose drawing power attracts investors, job seekers and the poor alike. Offering a vast selection of housing and services, the city also guarantees a certain degree of anonymity.

The recipients are found pretty much across the province. Gaspésie and Îles-de-la-Madeleine had a social assistance rate of 10.4% in March, the same as Mauricie. The first two regions had 5,521 recipient households on record, i.e. 6,444 adults and 1,501 children, while Mauricie had 15,929 households, comprising 17,452 adults and 4,391 children. The percentage of children was 18.9% and 20.1%, respectively.

The first two regions have been hard hit by the collapse of the forestry industry over the last five years, which has not only affected forestry activities but lumber mills and large pulp and paper companies as well. In Gaspésie, the fisheries sector has been in decline for two decades, and the region just recently began to recover thanks to the mining and wind industries.

The most densely populated regions are those with the greatest number of recipient households. Accordingly, Montérégie ranks second (45,375), broken down into 49,854 adults and 15,541 children. The under 18 group makes up 23.8% of the total. The Capitale-Nationale region was in third place with 23,547 recipient households, including 25,391 adults and 5,171 children. The latter only accounted for 16.9% of the regional total.

At 16.2%, the lowest proportion of youths is found in Bas-St-Laurent. The regions of Bas-St-Laurent, Capitale-Nationale, Chaudière-Appalaches (17%) and Saguenay–Lac-Saint-Jean (17.8%) have the lowest percentage of children among the recipients, and their average age is also higher than the provincial average. While none of this comes as a surprise, it does make us aware that the regions with a high proportion of recipients under age 18 are facing serious challenges (Nord-du-Québec, Île-de-Montréal, Laval, Outaouais and Montérégie). What can we do to make sure these children do not become tomorrow's adult recipients?

#### HUNGER: A PROBLEM OF THE 21ST CENTURY

In the fight against poverty, we encounter hunger. Surprisingly, despite Québec's economic boom from 1997 to 2007, the province still has 20 "Moisson" member food banks and over 1,000 food assistance agencies. Banques alimentaires Québec, the organization that oversees Québec's food banks, estimates that it helped roughly 155,000 people each month last year, including 55,000 children.

**Table 6 – Clientele breakdown for last-resort social assistance programs by type of residence**

<i>In March 2009</i> Type of residence	Number of households	Proportion	Number of adults	Number of children	Number of recipients
Apartment and affordable housing	193,850	57.8%	223,792	98,581	322,373
Room and boarding house	120,084	35.8%	121,754	9,923	131,677
Temporarily without an address	2,334	0.7%	2,337	11	2,348
Owner	15,807	4.7%	20,754	5,921	26,675
In a shelter	3,209	1.0%	3,209	0	3,209

Source: Ministère de l'Emploi et de la Solidarité sociale, Direction de la statistique et du soutien aux expérimentations, May 2009

**Table 7 – Clientele breakdown for last-resort social assistance programs by family situation**

<i>In March 2009</i> <i>Family situation</i>	<i>Number of households</i>	<i>Proportion</i>	<i>Number of adults</i>	<i>Number of children</i>	<i>Number of recipients</i>
One-person household	254,381	75.9%	254,381	0	254,381
Couple without children	15,595	4.7%	31,190	0	31,190
One-parent family	43,537	13.0%	43,537	70,006	113,543
Couple with children	20,967	6.3%	41,934	44,430	86,364
Spouse of student	804	0.2%	804	0	804

Source: Ministère de l'Emploi et de la Solidarité sociale, Direction de la statistique et du soutien aux expérimentations, May 2009

In 2008, the economic downturn made the situation even tougher for food banks. Higher gas prices in the first half of the year increased the cost of pick-up and delivery, resulting in a decrease in shipments to the banks. Moreover, tighter inventory management by food importers, distributors and retailers reduced the surplus usually donated to charitable organizations. The situation is not expected to improve, since in uncertain times people tend to give less.

#### POOR AMONG THE POOR: THE HOMELESS

There is no definition for the term homeless. However, the homeless all share certain characteristics: exclusion, instability, and a combination of health problems. Homelessness tends to

be divided into three types, depending on its duration and frequency: temporary, cyclical or chronic. Chronic homelessness has been on the rise for a few years now, increasingly affecting women, youths, individuals from cultural communities, and compulsive gamblers.

The most recent figures date back to 1998 when 28,000 and 11,000 people, respectively, turned to shelters in Montréal and Québec City. The average age of shelter users at the time was 55. Today, it is closer to 37. As well, homelessness is growing in mid-sized cities, suburbs, outlying neighbourhoods and the regions.

**Table 8 – Clientele breakdown for last-resort social assistance programs by region**

<i>In March 2009</i> <i>Region</i>	<i>Number of households</i>	<i>Proportion</i>	<i>Number of adults</i>	<i>Number of children</i>	<i>Number of recipients</i>
Bas-Saint-Laurent	9,207	2.7%	10,402	2,012	12,414
Saguenay–Lac-Saint-Jean	12,238	3.7%	13,491	2,919	16,410
Capitale-Nationale	23,547	7.0%	25,391	5,171	30,562
Mauricie	15,929	4.8%	17,452	4,391	21,843
Estrie	14,448	4.3%	16,024	4,692	20,716
Île-de-Montréal	111,857	33.4%	126,377	49,723	176,100
Outaouais	13,667	4.1%	15,190	5,000	20,190
Abitibi-Témiscamingue	5,957	1.8%	6,590	1,609	8,199
Côte-Nord	3,133	0.9%	3,430	884	4,314
Nord-du-Québec	990	0.3%	1,095	598	1,693
KRG*	430	0.1%	485	323	808
Gaspésie–Îles-de-la-Madeleine	5,521	1.6%	6,444	1,501	7,945
Chaudière-Appalaches	11,385	3.4%	12,445	2,547	14,992
Laval	9,972	3.0%	11,211	4,066	15,277
Lanaudière	15,285	4.6%	16,918	5,264	22,182
Laurentides	17,838	5.3%	19,507	5,312	24,819
Montérégie	45,375	13.5%	49,854	15,541	65,395
Centre-du-Québec	10,322	3.1%	11,362	3,188	14,550
Central**	8,613	2.6%	8,663	18	8,681

\*: Kativik Regional Government

\*\* : Administered centrally for various reasons.

Source: Ministère de l'Emploi et de la Solidarité sociale, Direction de la statistique et du soutien aux expérimentations, May 2009

In fall 2008, the Québec government set up a parliamentary commission on homelessness whose work was extended last spring. One would hope that despite receiving very little media attention, its work in the field is effective and relevant.

With so many organizations working to combat poverty, hunger and homelessness, there is no shortage of solutions. However, regardless of their merit, the programs will not be effective unless they are used by the people who need them. This means they must take hold in schools and communities. The emergence of the social economy, particularly since the mid-1990s, is a testament to the efforts made to reorganize economic activity in such a way as to also fulfill a mission of social assistance and workplace integration.

The battle to end poverty takes place both at the political and grassroots levels. On the political level, great strides have been made in Québec in recent years to help individuals and families. The universal drug plan, \$7-a-day daycare and improved parental leaves, to name just a few, have eased the financial burden of poor people and of the population as a whole. However, the trend to increase the prices for public services in order to bring down the deficit should be tempered when it comes to low-income people. There are other ways to fight against poverty, as we shall now see.

#### **GUARANTEED MINIMUM INCOME: GOOD OR BAD?**

One very controversial way the governments can fight poverty is guaranteed minimum income (GMI). Decried by some and lauded by others, GMI can take several forms. The simplest is to grant everyone the same basic income. This measure is sometimes called “citizen’s income.”

The opponents of guaranteed minimum income fear that such generosity would create dependence, while others wonder whether the chunk taken out of higher income earners to fund the GMI will have a disincentive effect because the high tax rate will not make it worthwhile to earn more. Should this happen, the total income earned by the population as a whole would decrease. Avoiding these negative consequences is one of the challenges of implementing such a regime.

Clearly, such a plan would have to be carefully thought out, taking into account many parameters such as the targeted age and type of household. Policymakers would have to figure out to what extent a GMI plan would hinder labour market participation, whether it would lead to a reduction in the number of hours worked, and whether it would encourage tax evasion. They would also have to determine whether it would lead to an exodus of investment and workers, who would feel they were being cheated out of their earnings. However, eligibility could be conditional on pursuing an education or

vocational training. The conditions could vary depending on age, sex, type of household, the presence of children under age six in the household, income level, and work skills. To add to the complexity of the plan, the benefits could be short or long term. Naturally, the economic situation would also affect the amount of the assistance. These observations were drawn from the experiences of various North American states and provinces over the last 40 years. In Alaska, for example, a permanent fund was set up with the revenues generated by the oiling operations in Prudhoe Bay. A portion of the revenues is distributed to all residents, regardless of their financial situation. In Brazil, a guaranteed income program (Bolsa Escola) is available to poor families who send their children to school.

There are various ways to approach the GMI concept. The government can guarantee a minimum income selectively or make the plan universal. Although a number of studies have been published in Québec on this topic since the 1970s, no government has yet made a commitment in this regard. The current strategy is to provide assistance via programs (employment insurance, employment assistance, work premium, child assistance, GST and PST credits, guaranteed income supplement, rent supplement, etc.). This strategy is targeted and not integrated. A guaranteed minimum income could replace the universal allowance.

Implementing a GMI system requires major harmonization of the assistance programs by both levels of government. This would be a challenge. Moreover, variations or options, such as the full-time work premiums, can be included to compensate for some of the negative effects. Adopting such a system entails certain obligations, namely, that the public purse be in order and that there be consensus among the population on how to distribute the wealth, neither of which can be taken for granted.

GMI opponents believe that such a regime could transform temporary poverty into a permanent situation, going so far as to suggest that some people might change their behaviour just to qualify for basic income. They also fear that poverty could be perpetuated from one generation of recipients to the next.

It’s hard to say who’s right. According to some researchers, GMI “is a simple, clear and effective mechanism for redistributing income.” However, measuring the cost is in itself a challenge. The question is whether we have the means to support GMI given Québec’s precarious finances. In all likelihood, this type of measure would be difficult to implement.

## OTHER TOOLS TO FIGHT POVERTY

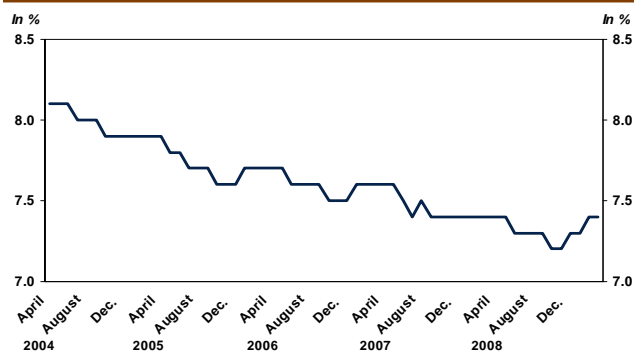
The fight against poverty is multi-faceted. Some organizations work in the field (food banks, Société Saint-Vincent-de-Paul, shelters, soup kitchens, etc.) while others take the form of advocacy groups that make sure the issue is part of the public debate. There is also a growing number of researchers who study poverty in an effort to define all its aspects in order to fight it more effectively.

In fact, in 2002, Québec adopted the *Act to combat poverty and social exclusion*. This legislation calls for creating an advisory committee on the prevention of poverty and social exclusion and an observatory on poverty and social exclusion. Both are tasked with attaining the objectives of the government's national strategy, which is "intended to progressively make Québec, by 2013, one of the industrialized nations having the least number of persons living in poverty, according to recognized methods for making international comparisons." The Act also established the Fonds québécois d'initiatives sociales.

The Centre d'étude sur la pauvreté et l'exclusion (CEPE) was created in the spirit of the Act in 2005 under the aegis of the Ministère de l'Emploi et de la Solidarité sociale (MESS). Its purpose is to disseminate and analyze statistical data on poverty and social exclusion, as well as to conduct research in these areas. The Centre recently issued opinions on persistent poverty and on how to increase income. According to the CEPE, minimal financial support is but a first step to which other income enhancing measures can be added. In this regard, refundable tax credits (e.g. affordable housing, home insurance, income allowing access to public daycare, etc.) are one avenue. The CEPE also recommends looking into increasing the income of people with disabilities by compensating them for their costs in this regard. As regards the labour market, the CEPE suggests reviewing taxation and "making it worthwhile to work" to prevent situations where the smallest gain from employment income puts an end to any assistance conferred by the status of social assistance recipient.

Some of the measures recommended by the Centre are aimed at society's most vulnerable and persistently poor citizens. In this specific case, the agencies consulted agree that the most effective ways to both combat and prevent poverty in the most at-risk groups are to increase income, review the organization, and expand the range of employment and social integration services. They also recommend backing community efforts and involving more stakeholders.

**Graph 13 – Social assistance has dropped in the last five years (0-64 years) in Québec**



Sources: Ministère de l'Emploi et de la Solidarité sociale, Direction de la statistique et du soutien aux expérimentations, May 2009, and Desjardins, Economic Studies

## FIGHTING POVERTY IS EVERYONE'S BUSINESS

The recommendations most frequently made to combat poverty are workplace integration and going back to school. These strategies have a long-term effect and are recommended by the OECD as well. According to the organization, public taxation and income redistribution policies are not enough to fight against inequality. They must be combined with broader education and employment policies. The OECD even suggests implementing mechanisms whereby low labour income can be supplemented by employment benefits since, in some cases, remunerated work is not enough to overcome poverty.

For example, the work of Bernard Fortin and other researchers has revealed that the effective marginal tax rates (EMTR) are high in Québec. EMTR is the combination of increases in taxes and decreases in transfers for each additional dollar of labour income. In other words, it is the benefits lost and additional taxes due when a person begins to earn money because the latter decided to go out and work. Given these high marginal rates, there is no incentive to give up public assistance and go work for low wages considering all the penalties associated with labour income, as small as it may be.

For its part, the National Council of Welfare (NCW) is a Canadian organization that believes that poverty can be solved and that is a matter of political will. In a report published in winter 2008, the Council recognizes that poverty cannot be eradicated in the near term. It recommends creating a national anti-poverty strategy with targets and timelines, including developing a coordinated plan of action, ensuring accountability and establishing poverty indicators. It also suggests cutting the administrative red tape required to obtain social assistance.

Some cities have decided to take action on their own. One such case is New York City, which two years ago developed a plan to combat poverty. Implemented at an annual cost of \$150 million, the plan called for, among other things, creating a new municipal agency that operates much like a venture capital firm. The budget of the Center for Economic Opportunity (CEO) is \$100 million, which is allocated to experimental programs. One quarter of the CEO's budget must come from the private sector (donations, foundations, etc.) and 5% must be allocated to measuring performance. To date, four Financial Empowerment Centers have been opened in the Bronx, Brooklyn, Manhattan and Queens. These centres offer low-income residents budgeting, financial planning, credit and debt counselling support for dealing with creditors, etc.

A number of observations can be made based on these recommendations, opinions and experiments. In general, we need to be more generous towards those who are more vulnerable. The CEPE notes in one of its opinions that only 11% of individuals with disabilities are born this way and therefore rightfully concludes that this can happen to anyone. As well, there is consensus on stepping up social and work integration efforts. It was also pointed out that the assistance must be tailored to needs based on age, family situation, origin and handicap.

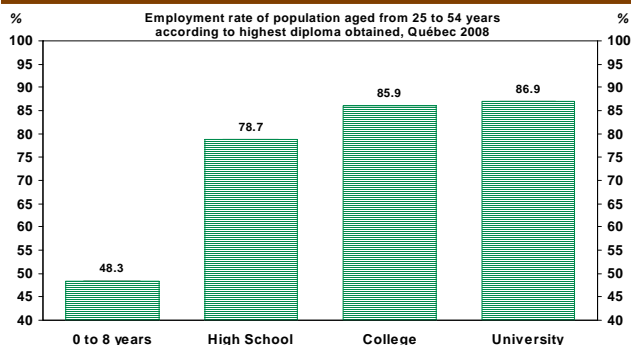
Here, as elsewhere, an ounce of prevention is worth a pound of cure, which is why measures to fight the dropout problem as well as those dedicated to school support and retention make sense. Currently, one out of three Québec students quits high school before graduating. Dropping out of school leads to a marginal existence. A high-school dropout earns an average of \$15,000 per year less than a high-school graduate. The present value cost of dropping out and going back to school is \$1.9 billion for Québec, by dropout cohort, according to the report of the Groupe d'action sur la persévérance et la réussite scolaires. Moreover, the employment rate rises sharply for those with a high-school diploma (Graph 14). By all accounts, it looks like there is pressing work to do on this front.

**THERE'S NO HOW-TO MANUAL  
WHEN IT COMES TO ERADICATING POVERTY**

Poverty stems from multiple causes and gives rise to various problems: there is more than one way to be poor. This is why piecemeal solutions will not work. First, there must be a desire to solve the problem or, at the very least, reduce its prevalence. This will lead to general measures by policymakers. However, the provincial governments are not the only parties that can take action: regional, school and municipal bodies can also act on their respective territories. We also need adapted or "neighbourhood" measures that will reach the poor where they are. As well, we must recognize that there are people who are unable to earn their keep, sometimes temporarily, sometimes permanently. Others can attain a better standard of living if given the chance.

Integration into the workplace and society, and the fight against the dropout problem require additional efforts, which will have to be funded in one way or another. What costs more: allowing an adolescent to finish high school within a reasonable time with a support program or funding a social assistance program for people capable of working? These questions have been raised repeatedly over time. Are we finally ready to answer them?

**Graph 14 – Education improves employability**



Sources: Statistics Canada, LFS and Desjardins, Economic Studies

*Joëlle Noreau*  
Senior Economist

# INTERPROVINCIAL SHOWCASE

## Emergence of Newfoundland and Labrador

*Thanks to increased natural resource development, both Alberta and Newfoundland and Labrador have seen their economies thrive in the last few years. This has had a ripple effect on those most in need, with the number of low-income people falling sharply. In this respect, Québec still ranks second to last in the country, just ahead of British Columbia.*

### THE SITUATION IS IMPROVING

At the national level, the proportion of low-income people was 9.2% in 2007 (table 9). Only three provinces, British Columbia, Québec and Manitoba, had low-income prevalence rates above the average, i.e. 11.1%, 10.7% and 9.8%, respectively. For their part, Prince Edward Island, Newfoundland and Labrador, and Alberta were under 7%.

**Table 9 – Prevalence of low income (%)**

	2000	2007
Newfoundland and Labrador	13.2	6.5
Prince Edward Island	9.1	5.0
Nova Scotia	11.6	8.2
New Brunswick	9.2	8.2
Québec	14.8	10.7
Ontario	10.8	8.8
Manitoba	13.4	9.8
Saskatchewan	10.9	7.3
Alberta	11.1	6.1
British Columbia	15.1	11.1
Canada	12.5	9.2

Source: Statistics Canada, *Income in Canada*, June 2009

From 2000 to 2007, the low-income rates fell across all the provinces, bringing the Canadian average down 3.3 percentage points. The biggest drops were in Alberta and Newfoundland and Labrador, with decreases of 5 and 6.7 percentage points, respectively. Although Québec and British Columbia still have the greatest number of low-income people, their rates have moved closer to the Canadian average in recent years. It bears mentioning that since 2000, 39.4% of the decline in the low-income rate took place between 2006 and 2007.

**Table 10 – Real personal disposable income per capita (\$)**

	1999	2007
Newfoundland and Labrador	16,447	22,891
Prince Edward Island	17,858	20,176
Nova Scotia	19,231	21,955
New Brunswick	18,633	21,647
Québec	18,880	22,706
Ontario	22,476	25,828
Manitoba	19,657	23,072
Saskatchewan	18,503	23,169
Alberta	22,445	31,920
British Columbia	20,443	24,878
Canada	20,796	25,179

Source: Institut de la statistique du Québec, Tableau statistique canadien, Vol. 7, No. 1

### GROWTH STRONGEST IN ALBERTA AND NEWFOUNDLAND AND LABRADOR

In 2007, Canadian real per capita disposable personal income (DPI) was \$25,179 (table 10). Well above the average, the corresponding figure for Alberta was \$31,920, while Ontario and British Columbia, at \$25,828 and \$24,878 respectively, were closer to the average. At \$22,706, Québec is one of the seven provinces with real per capita DPI below \$24,000. Although income is lower in Québec, it should be noted that according to the Mercer 2008 Cost of Living Survey,<sup>1</sup> which analyzed the cost of living in 143 cities on six continents, Toronto was the 54th most expensive place to live, while Vancouver, Calgary and Montréal came in 64th, 66th and 72nd place, respectively.

Not surprisingly, from 1999 to 2007, Alberta recorded the sharpest increase in real per capita DPI, up 42.2%, followed by Newfoundland and Labrador at 39.2%. The latter, which ranked dead last in Canada for many years, is now in sixth place. At 20.3%, Québec's increase in real per capita DPI was close to the Canadian average of 21.1%. The corresponding figure for Ontario was 14.9% while Prince Edward Island came in last at 13.0%.

**Table 11 – Food bank use**

	<b>Total assisted, March 2008</b>	<b>Share of Canadian total (%)</b>
Newfoundland and Labrador	27,260	1.5
Prince Edward Island	2,892	0.4
Nova Scotia	16,915	2.8
New Brunswick	15,638	2.3
Québec	156,215	23.3
Ontario	314,258	38.8
Manitoba	40,464	3.6
Saskatchewan	17,751	3.0
Alberta	33,580	10.6
British Columbia	78,101	13.3
Territories	1,340	0.1
Canada	704,414	100.0

 Source: Food Banks Canada, *HungerCount 2008*

### FOOD BANKS STILL USED

Despite the recent economic boom, food bank use in Canada has persistently remained above 700,000 people per month since 1997<sup>2</sup> (Table 11). The composition of households resorting to food banks is far from standard. In 2008, 38.5% of recipients were single adults (Table 12). This situation is the same across the country except in Alberta, Prince Edward Island and Newfoundland and Labrador, where single-parent families accounted for 33.5%, 28.8% and 35.9% of food bank use, compared with 27.3% for the other provinces. The lowest use by single-parent families was found in Saskatchewan, New Brunswick and Québec, with respective rates of 21.6%, 21.2% and 25.9%. In Canada, two-parent families represented 23.0% of households while couples without children accounted for 11.3%.

Social assistance was the main source of income for 50.8% of food bank recipients. This percentage was lower than the Canadian average in three provinces: Alberta, Ontario and Prince Edward Island, where the proportion of people with employment as their main source of income was higher than the Canadian average (14.5%), i.e. 28.3%, 17.1% and 19.5%,

respectively. Alberta has one of the lowest levels of social assistance in the country. From 2002 to 2008, the proportion of Canadians with employment as their main source of income rose from 11.9% to 14.5%, which goes to show that working does not necessarily provide an escape from poverty. From May 2008 to May 2009, food prices went up 6.4%<sup>3</sup> in the country. Fresh vegetable prices climbed 16.4% while fresh fruits increased 13.9%. Housing and gas prices fell 0.2% and 25.1%, respectively. During the same period, four of the ten provinces experienced deflation: Prince Edward Island, Nova Scotia, New Brunswick and Alberta.

In Canada, disability pension was the main source of income for 12.7% of food bank users. This profile fit 22.5% of the users in British Columbia and 21.3% in Ontario but only 2.1% in Québec. In Alberta, 11.5% of recipients had no income, compared with 5.2% nationally. Newfoundland and Labrador, and Prince Edward Island had three times as many people collecting employment insurance than the rest of the country, with respective rates of 14.2% and 16.3%, compared with 4.8% for Canada as a whole. The unemployment rate in these two provinces is typically above 10%.

Although there are many food banks across the country, access is regulated. Recipients must wait a certain amount of time between visits, a condition that varies from one food bank to another. In 2008, in 56.9% of provincial food banks, access was only permitted once a month. The situation was quite different in Manitoba, where 53.5% of food banks were accessible every 10 to 21 days.

### CONCLUSION

In the past few years, energy resources have created a boom in some parts of the country. In terms of real per capita disposable personal income, Newfoundland and Labrador has not been the poorest province since 2006. In this province, as in other Canadian provinces, the next few years will be decisive as we will have to make sure everyone benefits from the wealth generated by economic growth.

**Jean-Michel Goulet**  
 Economist

**Table 12 – Household composition of food bank clients (%), 2008**

	<b>Nfld.</b>	<b>P.E.I.</b>	<b>N.S.</b>	<b>N.B.</b>	<b>QC</b>	<b>Ont.</b>	<b>Man.</b>	<b>Sask.</b>	<b>Alb.</b>	<b>B.C.</b>	<b>Can.</b>
<b>One-parent families</b>	<b>35.9</b>	<b>28.8</b>	<b>26.4</b>	<b>21.2</b>	<b>25.9</b>	<b>27.0</b>	<b>27.9</b>	<b>21.6</b>	<b>33.5</b>	<b>28.2</b>	<b>27.3</b>
Two-parent families	27.1	26.5	19.9	24.3	23.5	22.4	26.2	18.3	26.8	19.1	23.0
Couples, no children	11.8	17.2	13.9	15.0	11.0	10.6	13.1	15.2	8.0	11.3	11.3
Single people	25.2	27.5	39.8	39.5	39.6	40.0	32.7	44.9	31.7	41.4	38.5

 Source: Food Banks Canada, *HungerCount 2008*
<sup>1</sup> Mercer, *Cost of Living Survey*, 2008.

<sup>2</sup> Food Banks Canada, *HungerCount 2008*.

<sup>3</sup> Statistics Canada, Consumer Price Index, 2009.

## FORECAST TABLES

**Table 13**  
**Canada: Major economic indicators**

	2006	2007	2008	2009f	2010f
Annual average in % (except if indicated)					
<b>Real gross domestic product*</b>	2.9	2.5	0.4	-2.6	1.7
Personal consumption expenditures	4.1	4.6	3.0	-0.9	0.9
Residential construction	2.0	2.9	-2.7	-12.0	0.3
Business fixed investment	10.0	3.7	0.2	-12.0	-0.1
Inventory change (\$B)	12.1	15.0	12.2	-14.4	-13.5
Public expenditures	3.3	3.7	4.8	3.4	6.5
Exports	0.8	1.1	-4.7	-14.6	-0.4
Imports	4.7	5.8	0.8	-17.5	0.5
Final domestic demand	4.5	4.1	2.6	-2.2	1.9
<b>Other indicators</b>					
Real disposable personal income	5.8	3.6	4.2	0.1	-0.1
Weekly earnings	2.5	4.3	0.8	3.3	0.7
Employment	1.9	2.3	1.5	-2.2	-0.7
Unemployment rate (in %)	6.3	6.0	6.1	8.7	9.3
Housing starts (in thousands)	227.4	228.3	211.1	124.3	132.7
Corporate profits** (1)	5.1	4.1	5.7	-35.3	12.3
Personal savings rate (in %)	3.5	2.5	3.7	5.8	5.7
Total inflation rate (1)	2.0	2.2	2.3	0.0	1.8
Core inflation rate*** (1)	1.9	2.1	1.7	1.6	1.0
Federal gov't balance (\$B) (2)	11.2	15.2	2.7	-39.6	-36.3
Current account balance (\$B)	20.3	15.6	8.1	-29.8	-8.5

f: forecasts

\* 2002 \$ \*\* Before taxes \*\*\* Excluding food and energy (1) Annual change (2) National accounts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

**Table 14**  
**Québec and Ontario: National accounts**

	2006	2007	2008	2009f	2010f
Annual average in % (except if indicated)					
<b>Québec</b>					
Real gross domestic product	1.7	2.6	1.0	-1.7	1.4
Personal consumption expenditures	3.2	4.3	3.1	-0.6	1.2
Residential construction	-0.7	5.7	-0.7	2.2	0.9
Business fixed investment	6.1	7.6	4.7	-10.7	1.0
Inventory change (\$M 2002)	1,749	2,117	658	-1,025	25
Public expenditures	2.7	4.4	4.5	3.2	3.6
Exports	1.5	0.6	-2.5	-7.2	0.6
Imports	2.6	4.6	1.4	-5.0	2.2
Final domestic demand	3.0	3.0	3.0	3.0	3.0
<b>Ontario</b>					
Real gross domestic product	2.6	2.3	-0.4	-3.4	1.3
Personal consumption expenditures	3.5	3.8	2.6	-1.2	0.6
Residential construction	0.9	2.0	-2.5	-14.0	-1.0
Business fixed investment	9.3	9.2	-0.3	-14.7	-0.6
Inventory change (\$M 2002)	2,826	3,932	2,483	-5,838	-5,063
Public expenditures	3.9	2.9	2.1	3.3	6.4
Exports	0.6	0.9	-5.3	-14.0	-0.8
Imports	2.9	3.8	-2.0	-15.8	0.0
Final domestic demand	4.0	4.0	1.8	-2.5	1.6

f: forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

**Table 15**  
**The regions: GDP growth in current dollars**

	2006	2007	2008f	2009f	2010f
Annual average in %					
Bas-Saint-Laurent	3.2	5.4	2.0	0.0	2.0
Saguenay–Lac-Saint-Jean	6.5	5.0	1.1	-3.3	1.9
Capitale-Nationale	4.3	5.6	4.0	0.3	2.6
Mauricie	7.9	5.2	2.6	0.1	2.4
Estrie	0.6	5.1	1.8	-3.0	2.0
Montréal	2.5	5.5	2.5	-3.1	2.8
Outaouais	2.9	5.3	3.0	0.3	3.0
Abitibi-Témiscamingue	1.7	7.7	6.0	0.2	4.7
Côte-Nord	7.6	7.2	2.0	-3.1	4.8
Nord-du-Québec	15.8	10.4	5.0	0.8	5.1
Gaspésie–Îles-de-la-Madeleine	-2.3	6.0	2.0	0.2	2.0
Chaudière-Appalaches	3.3	5.3	2.0	-3.0	2.2
Laval	9.3	6.3	3.2	0.2	3.0
Lanaudière	7.5	6.4	2.9	-2.9	2.8
Laurentides	4.1	6.5	2.8	-3.6	3.1
Montérégie	6.8	6.1	3.4	0.0	3.0
Centre-du-Québec	2.6	5.8	1.9	-3.2	2.2
<b>Total Québec</b>	<b>4.2</b>	<b>5.8</b>	<b>2.8</b>	<b>-2.0</b>	<b>3.0</b>

Note: Data for 2008 will not be available until Fall 2009

f: forecasts

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

**Table 16**  
**Canada: Major financial indicators**

End of period in %	2008				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key rates</b>												
Overnight funds	3.50	3.00	3.00	1.50	0.50	0.25	0.25	0.25	0.25	0.25	0.50	1.00
<b>Prime rate</b>	5.25	4.75	4.75	3.50	2.50	2.25	2.50	2.50	2.50	2.50	2.50	2.75
<b>Mortgage rates</b>												
1-year	7.00	6.30	6.25	5.45	4.45	3.75	4.10	4.10	4.20	4.35	4.35	4.45
5-year	7.15	7.10	7.20	6.75	5.55	5.85	5.40	5.40	5.55	5.75	5.80	6.00
<b>Treasury bills</b>												
3-month	1.88	2.50	1.90	0.89	0.40	0.25	0.30	0.30	0.35	0.45	0.80	1.30
<b>Federal bonds</b>												
5-year	2.91	3.46	3.17	1.70	1.75	2.46	2.55	2.60	2.90	3.40	3.65	3.75
10-year	3.43	3.74	3.76	2.69	2.78	3.36	3.30	3.50	3.70	4.00	4.20	4.30
<b>Canadian dollar</b>												
American dollar (CAD/USD)	1.0258	1.0207	1.0630	1.2189	1.2630	1.1628	1.1364	1.1111	1.0753	1.0526	1.0000	1.0000
<b>Canada</b>												
S&P/TSX index	Result: 8,988 (-35.0%)				Target: 10,800 (+20.2%) (range: from 9,700 to 11,600)				Target: 12,000 (+11.1%) (range: from 11,100 to 12,800)			

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

**Table 17**  
**Canada: Major economic indicators by provinces**

	2006	2007	2008	2009f	2010f
Annual average in % (except if indicated)					
<b>Real GDP growth*</b>	<b>2.9</b>	<b>2.5</b>	<b>0.4</b>	<b>-2.6</b>	<b>1.7</b>
Atlantic	2.0	3.6	0.8	-1.9	1.8
Québec	1.7	2.6	1.0	-1.7	1.4
Ontario	2.6	2.3	-0.4	-3.4	1.3
Manitoba	4.0	3.3	2.4	-2.0	1.5
Saskatchewan	-0.3	2.5	4.4	-2.5	2.0
Alberta	6.1	3.1	-0.2	-2.8	2.5
British Columbia	4.4	3.0	-0.3	-2.5	3.0
<b>Inflation rate*</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>0.0</b>	<b>1.8</b>
Atlantic	1.9	1.8	2.6	-0.5	1.7
Québec	1.7	1.6	2.1	0.1	1.7
Ontario	1.8	1.8	2.3	0.0	1.5
Manitoba	2.0	2.0	2.3	0.3	1.8
Saskatchewan	2.1	2.8	3.3	0.5	1.8
Alberta	3.9	5.0	3.1	-0.7	2.0
British Columbia	1.7	1.8	2.1	0.0	2.2
<b>Employment growth*</b>	<b>1.9</b>	<b>2.3</b>	<b>1.5</b>	<b>-2.2</b>	<b>-0.7</b>
Atlantic	0.5	1.4	1.2	-1.9	-1.0
Québec	1.3	2.3	0.8	-1.2	-0.1
Ontario	1.5	1.6	1.4	-3.5	-1.2
Manitoba	1.2	1.6	1.7	-0.2	-0.7
Saskatchewan	1.7	2.1	2.2	1.0	-0.9
Alberta	4.8	4.7	2.8	-1.0	-0.5
British Columbia	3.1	3.2	2.1	-3.0	-0.5
<b>Unemployment rate*</b>	<b>6.3</b>	<b>6.0</b>	<b>6.1</b>	<b>8.7</b>	<b>9.3</b>
Atlantic	9.8	9.1	9.3	11.0	12.0
Québec	8.0	7.2	7.2	8.7	9.1
Ontario	6.3	6.4	6.5	9.7	10.4
Manitoba	4.3	4.4	4.2	5.5	6.2
Saskatchewan	4.7	4.2	4.1	5.5	6.2
Alberta	3.4	3.5	3.6	6.7	7.1
British Columbia	4.8	4.2	4.6	7.8	8.2
<b>Retail sales growth*</b>	<b>6.4</b>	<b>5.8</b>	<b>3.4</b>	<b>-5.4</b>	<b>2.2</b>
Atlantic	5.4	6.0	5.6	-3.1	1.7
Québec	5.1	4.6	5.1	-3.2	2.9
Ontario	4.1	3.9	3.5	-5.1	1.5
Manitoba	3.9	8.8	7.2	-4.5	1.8
Saskatchewan	6.5	13.0	10.6	-3.0	2.1
Alberta	15.4	9.3	-0.1	-9.0	2.6
British Columbia	7.2	6.7	0.3	-8.5	3.2
<b>Housing starts*</b> (thousands of units)	<b>227.4</b>	<b>228.3</b>	<b>211.1</b>	<b>124.3</b>	<b>132.7</b>
Atlantic	12.0	12.4	12.2	10.0	10.5
Québec	47.9	48.6	47.9	40.0	42.0
Ontario	73.4	68.1	75.1	44.5	46.9
Manitoba	5.0	5.7	5.5	3.0	3.2
Saskatchewan	3.7	6.0	6.8	3.7	3.9
Alberta	49.0	48.3	29.2	11.9	13.7
British Columbia	36.4	39.2	34.3	11.2	12.5

f: forecasts

\* Data for Canada.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies



**Desjardins**  
**Economic Studies**

[www.desjardins.com/economics](http://www.desjardins.com/economics)