

A fork in the road and a better way to save 2.6%

When some colleagues and I published a new report on the Cost of Poverty in Toronto on November 28, 2016, I received an intriguing note from Senator Art Eggleton, a former mayor of the City of Toronto, in which he asked me the following question:

“Concerning the breakdown in Table 5 (the total cost of poverty in Toronto), do you have something similar for the Ontario and national levels? When, generally speaking, it comes to costs of new or expanded programs to reduce poverty, the numbers relate to the draw from the public purse. It is helpful to counter opposition to such programs, with the cost side of poverty to the public purse. Some estimates of the cost of poverty mix both private and public costs. Focusing in on the public purse further helps counter the naysayers.”¹

One way to answer the Senator is to do a simple attribution of shares of the cost of poverty to the share of GDP owned by each sector of the economy. GDP is perhaps the western world’s favourite measure for everything from growth to spending, to predicting recessions and assessing economic cycles.

By this reckoning, the answer back to Senator Eggleton is that:

- The Federal government’s notional share of the cost of poverty in Toronto is approximately \$800 million,
- The province’s is \$1.1 billion and
- **The City of Toronto share is approximately \$285 million.**
- The private sector owns by far the largest share at \$2.7 billion and
- The not for profit sector own \$135 million.

This breakdown might be as good as we can do to answer his basic question.

But these notional shares are just that. There are better ways to assess what a particular sector should be responsible for. The private sector is not going to suddenly develop a policy of full employment and enact it just as the Provincial government is not going to greatly increase payments to low income people in the hope that they become healthier and more prosperous.

Responsibilities for action don’t necessarily accrue to economic sectors in the same measure as their share of GDP. When Mark Carney was Governor of the Bank of Canada back in 2011, he called on the private sector to create more wealth, invest more, and stop sitting on their cash hordes of what he termed at the time: ‘dead money’. He did not tell them to eradicate poverty through full employment or implement a living wage for all.

¹ Quote from email from Senator Art Eggleton – used with permission.

That task falls to all levels of government based on the areas of policy over which they have jurisdiction.

So let's try another tack to zero in on Toronto itself.

The City of Toronto is proud to say that the City's economy is responsible for 10% of the nation's GDP. Actually it's about 9.2 % or approximately \$184 billion, take or leave a few billion. **The City's Budget of \$10.4 Billion is about 5.7% of the city's economy overall.**

As noted above, the cost of poverty attributable to the city's Budget runs to about \$285 million, based on its notional share of GDP.

\$285 million equals 2.7% of Toronto's \$10.4 billion Budget.

What this means is that while the City is trying to save **2.6%** through cuts, it could count on saving **2.7%** over time if it did its share to eliminate poverty.

This means that there is a fork in the road. Toronto can pursue austerity and cuts or realize longer term savings through investment in poverty reduction. The choice is yours.

We also require coordinated policy as poverty has a cost to all sectors.

It is not up to the City government to create full employment but it does have an important role, as do the other levels of government, to create the policies that foster full employment. And as Mark Carney used to tell us: the Private sector has a role as well.

The city also has a role in creating a living wage that would take people out of poverty and turn them into taxpayers. It also has a role in creating a safer city and a healthier city just as others levels of government must play their role.

As our report on the Cost of Poverty in Toronto says, the fiscal drag of the cost of poverty stands at approximately \$5 billion out of the \$184 billion economy that Toronto represents. That is an unnecessary fiscal drag of just over 2.7% caused by the cost of poverty alone.

So perhaps rather than trying to save 2.6% off the City's Budget through cuts, the City's government could more usefully apply itself to reducing the city's own share of the cost of poverty and in time, eventually save the same amount and perhaps a bit more.

And the Toronto we would create would be a much better place for all of us.