SOCIAL
POLICY TRENDS

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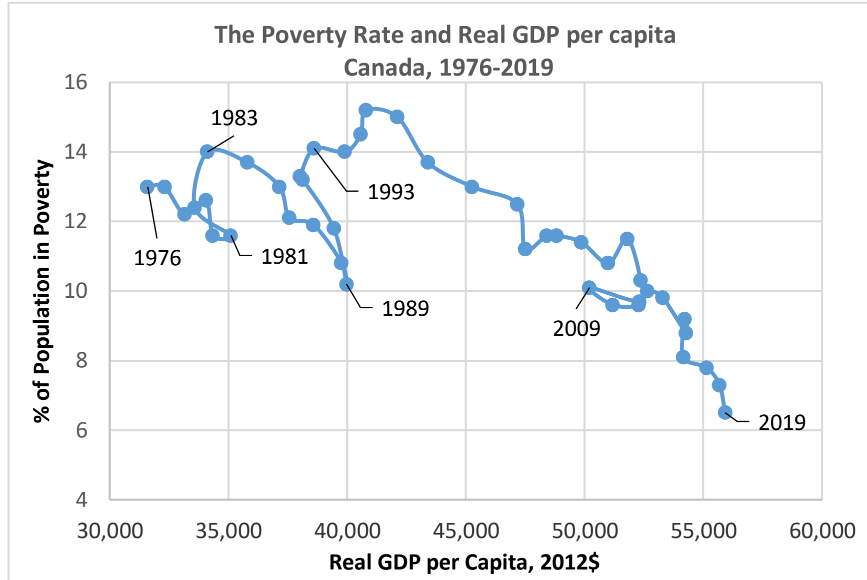
# POVERTY REDUCTION: POLICY INITIATIVES OR ECONOMIC GROWTH?

**The percentage of Canadians with incomes below the poverty line has fallen in half since 1996. To what do we credit this impressive achievement?**

A poverty line defines a level of income below which a person or household with that income is considered to be experiencing poverty. The Low-Income Cut-Off (LICO) is one of the oldest poverty lines in use in Canada, providing us with data back to 1976. This makes it useful for showing long-term trends. Statistics Canada uses a version of the LICO that measures poverty after accounting for income transfers to measure the percentage of Canadians experiencing poverty. I will call this the *poverty rate*.

Economic growth generates an amount of income identified as gross domestic product, or GDP. When divided by population, this income is expressed as GDP per capita and measures the average amount of income available to each Canadian. Adjusting for inflation, it measures how the purchasing power of the average Canadian has changed over time. Real GDP per capita tends to grow over time though there are occasional periods of recession when it shrinks.

**Public policy initiatives such as increased child and pension benefits have been justifiably credited with contributing to the rapid fall in poverty. Economic growth deserves a share of this credit.**




**Source:** Chained GDP, in millions of 2012 dollars, from Statistics Canada Table 36-10-0104-01. Percentage of population with income below the after-tax LICO is from Table 11-10-0135-01. Population, all ages, is from Table 17-10-0005-01.

In the figure, each dot identifies real GDP per capita and the percentage of the population experiencing poverty for a given year. For example, in 1976 real GDP per capita was $31,600 and the poverty rate was 13%. By 2019, real GDP per capita had increased by 77% to nearly $56,000 and the rate of poverty had fallen in half to 6.5%. Periods of recession saw real GDP per capita fall between 1981 to 1983, again between 1989 to 1993 and one last time between 2009 and 2011. During each of the first two of these periods, the poverty rate increased sharply. The 2008-09 recession had a more modest effect on the poverty rate. Outside these periods of recession, real per capita GDP increased, and the poverty rate fell.

The close correlation of falling rates of poverty with rising GDP per capita suggests the importance of economic growth but does not preclude the influence of policy initiatives such as increased child benefits and minimum wages in reducing poverty. Indeed, the sharp fall in poverty since 2015 following significant increases in child benefits, a fall that occurred despite slow income growth, suggests just that. While these policies have likely helped lower poverty in Canada, the correlation re-emphasizes well-known findings about the importance of economic growth in less developed countries. The data in the chart suggest that, just as in less developed countries, Canadian public policies that fail to promote economic growth may impact those at the low end of the income distribution most keenly.

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