

## POVERTY REDUCTION: POLICY CHOICES OR EMPLOYMENT GROWTH?

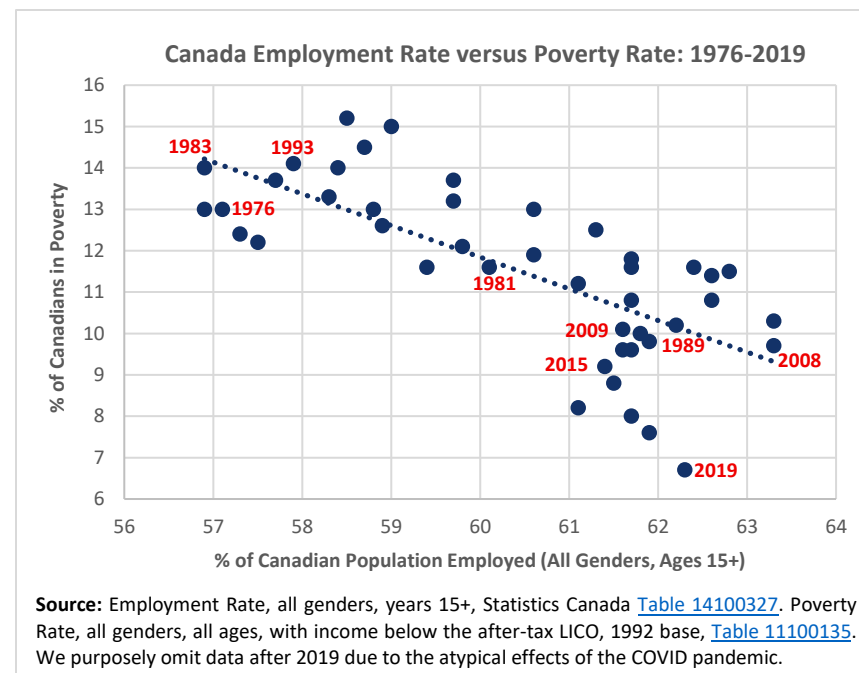
**Between 1976 and 2019, the percentage of Canadians with incomes below the poverty line declined by 56 per cent. To what do we credit this impressive achievement?**

A poverty line identifies a level of income below which a person or household is deemed to be in poverty. The Low-Income Cut-Off (LICO) is one of the oldest poverty lines in use in Canada, providing data back to 1976. This timeframe makes it useful to show long-term trends. Statistics Canada defines a version of the LICO that measures poverty, after accounting for income transfers, to determine the percentage of Canadians experiencing poverty. We call this the poverty rate.

Employment growth generates incomes for individuals as well as governments. A government collects part of that generated income through taxes and uses the revenue to pay for services, including assisting people in need. The employment rate is the percentage of the population that is employed and typically able to succeed without government support. The employment rate tends to increase in times of a stronger economic growth, when businesses are inclined to invest and expand, with more employees being hired to meet a growing demand for goods or services.

**Government public policy initiatives, such as increased child and disability benefits, have been justifiably credited with contributing to reductions in poverty. Employment growth has also played a large role.**

In the figure, each dot identifies the employment rate and the percentage of the population experiencing poverty each year. For example, in 1976 the employment rate was 57.1 per cent and the poverty rate was 13 per cent. By 2019, the employment rate had increased to 62.3 per cent, while the poverty rate fell to 6.7 per cent. Periods of recession saw the employment rate fall; from 1981 to 1983, between 1989 and 1993, and between 2008 and 2009. During the first two of those periods, the poverty rate



rose sharply. The 2008-09 recession had a more modest effect on the poverty rate. Outside of these recessions, the employment rate increased, and the poverty rate gradually decreased.

The line in the graph represents a statistically significant relationship showing that as the employment rate increases, the poverty rate falls. This correlation does not preclude the influence of policy choices, such as increased child benefits and income supports to reduce poverty. Indeed, a sharp decline in poverty between 2015 and 2019 followed significant increases in child benefits and occurred despite slow income growth. While these policies helped lower poverty in Canada, the correlation re-emphasizes that Canadian public policies that fail to promote employment opportunities may most impact individuals at the low end of the income distribution.