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**Source: website of Senator Hugh Segal**

**Building Economic Strength by Eliminating Poverty | Niagara Community Foundation | Holiday Inn & Suites, St. Catharines, Ontario**

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My sense of privilege at being here this morning at the Niagara Community Foundation's Business Leadership breakfast is twofold. First, the work of your community foundation here in Niagara is compelling and impressive. And second, the broad understanding of the challenges and economic opportunities associated with reducing poverty has, in Niagara, been well-advanced and broadened by the outstanding work already done in your community through the Niagara Knowledge Exchange, the Living in Niagara 2011 report and the Consequences of Poverty brief co-developed by Niagara Connects and Brock University's Niagara Community Observatory.

In the world of military planning, business strategy and good public policy, contextual awareness – knowing what's beyond the next hill – really matters. And so does a careful understanding of consequences. And quite frankly, the way we deal with poverty at the federal-provincial level is out of date, inefficient, achieving poor results and truthfully, detrimental to economic growth and expansion. The poor get sick faster, stay in hospital longer, drop out of school sooner – all at great loss and economic cost to all of society. The problem of welfare, income security programmes and the present mix of support for non-seniors is that it does not provide the liquidity necessary to help people out of poverty but, like a spider's web, it is strong enough to entangle but not strong enough to lift – which is why what you are doing here is so vitally important.

And when we note that what all provincial welfare programmes pay to poor families is between 18 to 35 per cent beneath the poverty line in their province, and permit only minimum hours of employment which does not allow a recipient to improve their lot through their own hard work, we can see how harmful to liquidity and productivity is our present system.

When a welfare recipient in most provinces tries to earn more money, the clawback rate creates a taxation level of almost 100% on the money earned. How's that for incentive?

And, it costs billions of dollars every year, all while the actual number of those living beneath the poverty line has changed hardly at all.

Contrast that with how enlightened we have been for our seniors. When Premier Bill Davis in Ontario brought in the first Guaranteed Annual Income Supplement in the mid-1970s, the poverty rate among seniors, mostly women whose husbands had passed away without any savings or pension, was in excess of thirty percent. Two years after the income tax-based automatic top up was introduced, the rate had fallen to under three percent. This spread across Canada. This is why Canada is among the top 5 countries listed by the OECD on addressing poverty amongst the older population. The question we need to address is why are we listed at about 20th with respect to working age poverty?

Let's follow the cycle for seniors. Premier Davis' top up gave seniors more money to spend on rent, on clothes, on food, on some recreation and travel, or to help their kids or grandchildren. This produced liquidity, more tax revenue and older folks who lived longer, healthier lives. Thriving economies, involving developers, retail, recreation, and other services have sprung up in communities with large concentrations of senior citizens. This is good for business, for families, for communities and for the economy.

Let's reflect on the numbers for other poor Canadians.

We know that the 9-14 percent of poor Canadians, depending on the region or subgroup, cost our health care system more because they have poor health outcomes, problems with tobacco and alcohol, and other substance abuse, poor nutrition, higher incidences of abuse or family violence and actually end up in hospital sooner and stay longer. This is a huge burden on individual, local and business taxes.

We know that, of the guests of Her Majesty in our expensive prison system, federally and provincially, 90 percent of those incarcerated come from the 10 percent of the population who live under the poverty line. The base cost of being a guest of Her Majesty's provincial or federal corrections services is between 40 to 150 thousand per year, per person, depending on the level of security required.

Over the last 30 years, the percentage of Canadians living under the poverty line has not changed, yet the amount we spend on income security has increased. Based on available data the total government transfer payments to persons for social programmes, excluding health and education, is about \$160 billion annually.

While there have been modest innovations in some areas of social policy, such as the child tax credit in the 1990s, the guaranteed annual income supplement in Ontario for seniors in the 1970s, the working tax benefit incentive introduced by Minister Flaherty and a series of incremental initiatives elsewhere, the truth is that the amount of poor and working poor living beneath the poverty line has not seriously diminished.

While some folks have moved in and out of poverty, for too many Canadians poverty is intergenerational and quasi-permanent. At a time of labour shortages, at a time when we need more people to make it through to higher education, this is a huge productivity drain on Canada's potential, affecting the financial well-being of us all.

In 1971, the Honourable David Croll, as Chair of the Canadian Senate Anti-Poverty Committee, authored The Senate's Report on Poverty and it began with these words: "*Poverty is the great social issue of our time. The poor do not choose poverty. It is at once their affliction and our national shame. No nation can achieve true greatness if it lacks the courage and determination to undertake the surgery necessary to remove the cancer of poverty from its body politic.*" The first recommendation of that report was for a guaranteed annual income. This was 42 years ago.

Call it what you will – a GAI, a basic income.... an anti-poverty refundable tax credit would cost about \$10-15,000 dollars per year per qualified individual. Three million times that would cost, ab initio, about thirty to forty billion annually if done as a federal tax refund for those whose income falls beneath a certain level – just as we now do for seniors. That is about 10 per cent of the federal budget. But think of the savings.

Those topped up in this way would no longer be eligible for provincial welfare, saving every province many millions of dollars to invest in early childhood education, chronic care for seniors, enhanced skills training or even tax cuts and infrastructure all good for economic growth and business. The incentive for all Canadians to file their taxes on time, even low income Canadians,

would be enhanced. And purposefully filing a fraudulent tax return is a serious offence.

In Dauphin Manitoba, in the mid-1970's, a MINCOME pilot project programme was implemented by the federal and provincial governments. It assured everyone in this farming community a top-up at year's end should crop prices fall or yields be insufficient. The cynics assumed that very little would get done since the government was "giving something for nothing". However, as recent analysis has shown – and it has taken 25 years for the analysis to happen - participation in the work force did not go down, it remained stable. What did go down however, were arrests, car accidents and hospital admissions. The only population segment that removed itself from the workforce were young high school students who stayed in school and completed their high school education in larger numbers than before because they needn't leave school to help on the farm.

Friends, there are some global truths we need to take into account.

In my time in business, both in the advertising sector and on Bay St., I learned and believed that efficiency counts. So, how we deal with poverty matters. What we do now is inefficient, wasteful and, in many ways, unproductive. We help people live within poverty rather than give them the tools to get out of poverty and become productive players in the economic mainstream. It was that great conservative economist from the University of Chicago, Milton Friedman, who stood in support of the Guaranteed Annual Income. He said at the time: "If you put the US federal government in charge of the Sahara Desert, in three years there would be a shortage of sand". It was David Croll who said: "If the social welfare business of Canada had been in the private sector, it would have long ago been declared bankrupt. The reasons are not hard to find. Resistance to change, a stubborn refusal to modernize its thinking, a failure to understand the root causes of poverty, inadequate research and the bureaucracy digging in to preserve itself and the status quo are some of the basic causes of the dilemma in which we find ourselves today." In last week's November 17<sup>th</sup> New York Times economic reporter, Anne Lowry put it this way in the "It's the Economy" section: "The case from the right is one of expediency and efficacy. Let's say that Congress decided to provide a basic income through the Tax Code..... Such a system might work better and be fairer than the current patchwork of programmes, including welfare, food stamps and housing vouchers." She then went on to highlight the research done by Dr. Evelyn Forget on the MINCOME experiment in Dauphin that I referenced earlier.

In The Economist Magazine of October 26<sup>th</sup> of this year, the International section focuses on programs of direct liquidity assistance to break people out of poverty in places like Kenya, Vietnam, Uganda, Brazil, Mexico, Ghana and Malawi.

The Swiss, of all people, have a referendum scheduled on November 24<sup>th</sup> on the issue of a guaranteed basic income for all residents. The Swiss, who exemplify family values, hard work, frugality and the work ethic are at least prepared to contemplate a transformative change. Why are we in Canada, federally and provincially, in the mainline parties, in our finance departments, so afraid of change? A newly commissioned Environics Public Opinion Institute poll to be released this Sunday indicates a 46% support level for a Guaranteed Annual Income. And that's without a serious national discussion. The Conference Board's chief economist also supports the option. So why is there so much resistance to the option?

There are two reasons I think. The theory of "path dependency" is important here. It says that it is easier for bureaucrats and politicians to go back and forth in the same furrow – sometimes tilting left, sometimes tilting right, perhaps changing speed but staying on the same path, than to summon up the energy and courage to jump out of that furrow and start a new path. The other problem is that civil servants do not like policies that are automatic. They prefer micro-designed policies that require civil servants to run and manage – which gives the bureaucracy more control. There nothing evil here – they believe that managing public funds is their job and they do it honourably and honestly the vast majority of the time. But in this case, they are taking control of people's lives to a serious extent.

An anti-poverty refundable tax credit administered through negative income tax, like the GST tax credit, would be automatic upon filing their income taxes. The gap between living above the poverty line with self-respect and dignity and anybody's "beneath the poverty line income" would be deposited by the Canada Revenue Agency automatically in people's accounts, just like the GST tax credit is deposited now. Incentives to file would go up. Privacy of recipients would be guaranteed by the act and protected by law. Integrity of filings would be underlined by the existing fraud penalties in the tax act. They are serious ones. Ottawa would administer the program easily through the Canada Revenue Agency, with agreement from the provinces, as it now collects taxes for nine provinces and three territories.

Poverty is not a moral failure, as many narrow and moralistic 17th century and 18th century social prejudices held. Poverty has many causes, not all of which are within our ability or purview to solve. However, poverty is about not having enough on which to live with self-respect, with dignity and with hope that we can solve.

Eradicating poverty is equivalent to investing in the infrastructure of opportunity; and we all know how important to the economy infrastructure is. I am not much interested in equality of outcomes. I leave that option to our socialist friends. But I do really believe in equality of opportunity as the centre of a dynamic free enterprise, mixed-market and growing economy.

Choosing efficiency over waste, respect over condescension and making room at the family table for all Canadians is never wrong.

I appreciate the chance to share my thoughts with you this morning.