

# Summary: From Poverty to Prosperity

## Literacy's Impact on Canada's Economic Success



### Making the Case

To persuade policy makers to tackle poverty prevention through significant investment in literacy development, the authors of this report analyzed the most recent data to illustrate the impact of literacy skills on a micro-, as well as macro-economic level. The statistics clearly show direct links between literacy skill and income level: literacy influences the ability to get a job, job retention and promotion, risk of job loss, length of time of unemployment, and, most importantly, rate of pay. In addition low literacy has been shown to impair individuals' health, access to adult education and training and access to full participation in broader society - all factors that further impair the labour market success of Canada's poor.

Since poverty in Canada is the result of people failing to find and keep good paying jobs, it raises the question of how investments in literacy might serve to reduce poverty.

This report was produced by DataAngel Policy Research Incorporated on behalf of the Canadian Literacy and Learning Network (CLLN).

### Defining Literacy

The International Adult Literacy and Skills Survey (IALSS) summarizes collected data on a 500-point scale and groups that scale into 5 proficiency levels. Sensory and motor skills sit at the bottom of the hierarchy followed by oral fluency, prose literacy, document literacy and numeracy. Levels 1 and 2 are considered "learning to read" whereas levels 3 and above are "reading to learn". Over 8 million Canadians, roughly a quarter of the population, function at literacy levels below three.

### Findings

- ▶ **Impact of literacy on participation rates**  
Individuals with low levels of literacy skill are much less likely to be employed at some point in the course of a year than their more skilled peers; those with extremely low literacy skills are systematically excluded from paid employment.
- ▶ **Impact of literacy on the quantity of labour supplied**  
Individuals with low levels of literacy skill work fewer weeks on average, are more likely to experience periods of unemployment and remain unemployed for much longer periods. The primary effect of skill on labour market success is to exclude the lowest skilled from employment entirely. At the same time more skilled workforces actually work fewer hours than their less skilled peers. Economists interpret this as a sign that more skilled workers are able to take some of the collective productivity benefits that accrue to skill in the form of shorter work hours.
- ▶ **Impact of literacy on wage rates**  
Adults with highest level literacy skills earn roughly 68% more than their Level 1 peers do. A 10% increase in skill yields an average of a 7% increase in annual earnings. Adults with lowest level numeracy skill are 5 times more likely to be in receipt of Social Assistance Benefits.

▶ **Value of increased literacy**

There is a dramatic improvement in the quantity of work that adults are able to find, who move out of lowest level literacy skills . The incidence of employment and, the average number of months both rise. Average hours worked per month fall as skill rises.

There is marked reductions in the proportions of adults drawing benefits from the Employment Insurance and Social Assistance systems.

Significant increases in wage rates.

Overall, annual earnings are projected to rise by \$25B, 17,000 fewer Social Assistance recipients and 384,000 fewer Employment Insurance recipients. These latter reductions translate into savings in the Social Assistance of \$115M and \$3.3B respectively.

The predicted increases in labour market outcomes for Level 2 adults moving to Level 3 translate into large gains in both estimated annual labour earnings and income tax revenues. At the national level labour earnings of the group are predicted to rise \$27.4B per year. Predicted reductions in the number of welfare recipients and employment insurance beneficiaries are expected to yield expenditure reductions of an additional \$427 million and \$1.1B respectively.

▶ **Other economic benefits**

Literacy is an asset that has economic value other than its impact on employment and wage rates. Among other things, literacy influences adults access to adult learning, individual health and levels of community engagement.

▶ **Future rewards to skill**

The economic effects of literacy are a function of skill supply and demand. The demand for literacy skill is projected to grow over the coming decade as jobs become more knowledge and skill intense.

## Conclusions

The combination of rising demand for literacy skill and flat literacy skill supply is almost certain to create even larger literacy skill shortages than currently exist. It is also highly likely that growing literacy skill shortages will lead to much higher levels of skill-based inequality in wage rates.

Most adults in need of literacy skill up grading would require small investments of time and effort to increase their skills to the desired levels. Investments would yield modest increases in worker productivity and wage rates. In contrast, the least skilled adults would require 350-375 hours of focused instruction to raise their skill levels. These investments would yield dramatic increases in both employment and wage rates and would, by extension, precipitate rapid reductions in the number of adults in poverty.

There is reason to believe that investment in literacy would precipitate significant increases in earnings and significant reductions in the numbers of adults receiving Employment Insurance and Social Assistance benefits. Raising every Canadian adult to Level 3 would reduce Social Assistance rolls by 84,000 and generate annual benefits savings of \$542M. Research suggests that it would require an investment of roughly \$18B to eliminate occupational literacy skills shortages in Canada. As high as this amount seems this investment is likely to generate an additional \$100B in annual earnings. Few would turn down an investment that would yield an annual rate of return well in excess of 500%. At a minimum the increased tax revenues associated with the increased earnings precipitated by such an investment would provide fiscal room at a time when government finances will be under great pressure from rising health and pension costs.

Investment on this scale would represent an important departure for Canadian public policy - away from passive income support to active education policy.

With savings of over half a billion dollars and 84,000 fewer (SA) recipients per year, investments in literacy represent a powerful tool that might be deployed in the fight against poverty in Canada.