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Measuring
Poverty
in Canada



Christopher A. Sarlo

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Executive Summary

Since the publication of *Poverty in Canada* in 1992 there has been a renewed debate about the definition and measurement of poverty in this country. It is understandable that some of the discussion has been heated and emotional as this is an important policy issue and there are widely differing perspectives about poverty. Researchers and policy makers are now giving considerable thought and discussion to what appeared to be a settled issue a decade ago. The debate, the controversy, and the rethinking of concepts and positions is a healthy and necessary activity in an open society.

Low-Income Cut-Offs (LICOs)

Canada, unlike the United States, has no official poverty line but many researchers have used Statistics Canada's Low-Income Cut-Offs (LICOs) as poverty thresholds. The use of LICOs as poverty lines has a number of serious flaws.

- At about \$34,000 per year for a family of four in a large urban area, the LICO measure is too high to be believable as a threshold of impoverishment.
- The LICO is a "relative" measure in the sense that it rises with increases in average spending. This "relativism" means that LICO is really measuring inequality and not poverty.
- The LICO measure has no relation to the actual costs that people must face in buying the necessities.
- The LICO measure has no relation to the regional differentials in costs that really matter. The most obvious example here is that Toronto and Montreal, two cities with very different housing costs, have the same LICO values.
- Very few people understand how the LICO measure is constructed and what, precisely, it represents.

It is noteworthy that Statscan itself has been quite consistent in reminding the public that the LICO lines are not poverty lines. The strongest and most recent warning comes from Chief Statistician Ivan Fellegi in 1997:

For many years, Statistics Canada has published a set of measures called the low-income cut-offs. We regularly and consistently emphasize that these are quite different from measures of poverty. They reflect a well-defined methodology which identifies those who are substantially worse off than the average. Of course, being significantly worse off than the average does not necessarily mean that one is poor . . . Statistics Canada does not and cannot measure the level of poverty in Canada.

Despite the flaws with LICOs and the caveats from its producer, a number of researchers and many journalists continue to use the LICO as *poverty lines*.

The basic-needs measure of poverty

In 1992, *Poverty in Canada* proposed an alternative measure of poverty based on the costs of a list of necessities. This approach is founded on the belief that poverty is a serious predicament. It means (and has always meant) insufficiency and discomfort. It conjures up images of hungry children and inadequate housing. Anyone who is concerned about poverty should want to know how many of our fellow Canadians simply cannot afford the basic necessities of life. This is the sole purpose of the basic-needs approach.

The basic-needs approach described in this publication, *Measuring Poverty in Canada*, has undergone a thorough-going review. The approach itself was critically examined in the light of all competing alternatives and new literature in the field. Every item on the original list was scrutinized carefully and reconfigured from scratch in a comprehensive and thorough manner, given available resources. New items were considered for inclusion on the list of basic needs subject to consistency with the underlying intent. The evaluation and use of equivalence scales is an important improvement in the approach. Finally, more resources were devoted to obtaining

complete and accurate data. The result is a “revised” basic-needs poverty line fully consistent with the initial scheme but incorporating new developments in the literature, external critiques of the approach, and better (and more comprehensive) data.

Easily the most important addition to the list of basic needs is out-of-pocket health-care costs. In earlier versions, it was assumed that there were no medical costs to the poor because (1) medicare covered all necessary doctor and hospital costs; (2) local charitable organizations and dentist associations covered out-of-pocket necessary vision care and dental needs of the poor; (3) the extra medical costs of the disabled and those with special needs are rightly treated as “special” cases that go beyond the poverty-line calculations of the “standard” case.

While these are not unreasonable assumptions, there was clearly a gap in the basic-needs approach to health-care costs: most Canadians, including poor Canadians, will have some out-of-pocket health-care costs every year. The amount assigned to this in the basket is the average out-of-pocket costs for Canadian families of four based on the rationale that this is one item on which people will only spend what is essential. As before, however, the disabled and those with special needs continue to be treated separately in terms of their “personal poverty lines.”

Other additions of note include a home insurance policy (\$200 per year) and a miscellaneous amount to cover school and writing supplies, stamps, computer disks, and so on (\$100 per year). Laundry needs have been completely re-calculated, leading to a significantly higher estimate.

Trends in poverty in Canada

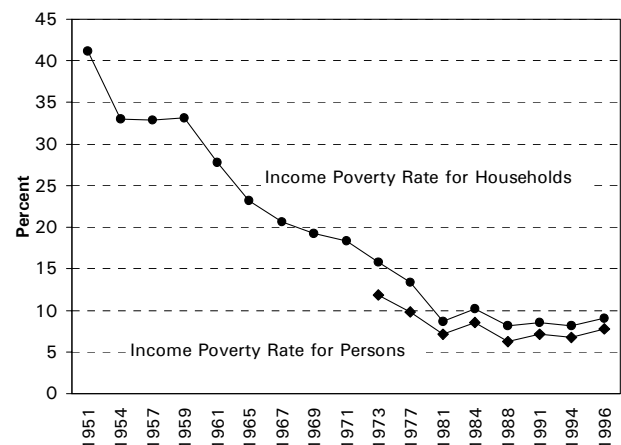
While most estimates of the trend in poverty focus on the past 15 or 20 years, *Measuring Poverty in Canada* gives an estimate of the rate of poverty in Canada from 1951 to 1996, the most recent data available. This longer term trend reveals that the rate of poverty fell solidly from about 40% in 1951 to about 8% in 1981 where it has more or less stayed (see figure ExSum 1). While the decline in the early period is impressive (and is a testament to strong economic growth and a buoyant labour market), the more recent (apparent) stagnation of the rate is a concern. Several hypotheses, including data problems, a different “character” of poverty, and employment disincentives built into our social programs, are discussed by way of explaining the pattern.

In brief, if reported incomes are increasingly understated, then our estimates of poverty become increasingly inflated, independent of what is really going on. So estimates of poverty based on reported income may show relative stagnation when that, in fact, is not occurring. As well, it may well be that the people who are poor now may have different problems and barriers to overcome than their counterparts 30 or 40 years ago: low self esteem, low motivation, or personal and psychological problems may make exiting poverty much more difficult. To the extent that this is true, an improving labour market will be less helpful in reducing poverty than it was in the post-war period. More creative and more “custom-made” solutions to poverty are needed in this case. Finally, there is little doubt that the very structure of some of our social programs provides disincentives to work. This, combined with the other effects, may help to explain the apparent stagnation of the poverty rate in recent decades.

Income and consumption as indicators of poverty

Income is an increasingly poor representation of how people, particularly at the lower levels, are doing. Among the problems are the increase in the number of post-secondary students (whose available resources are greatly understated by measured income), the increase in in-kind benefits (especially subsidized housing) and, most importantly, the apparent increase in under-reporting of income (according to the Auditor-General and other

Figure ExSum 1 Income Poverty in Canada (1951–1996)



Source: Statistics Canada, Microdata Files of Economic Families, various and calculations by author.

reports). The net result of the problems is a significant underestimate of the incomes of Canadians, especially those at the lower end. This means, logically, an overestimate of the extent of poverty.

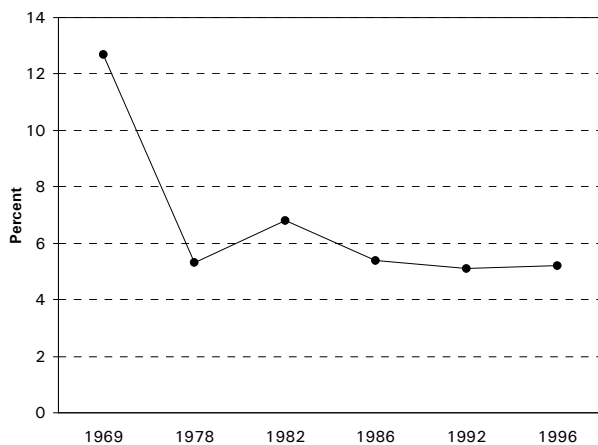
There are two remedies: (1) researchers should consider alternative measures of poverty, including consumption, that eliminate some of the problems with income; and (2) Statistics Canada should take a close look at reported income and consider producing a revised income series taking into account all of the adjustments that would make income more representative of how people were actually faring.

Measuring Poverty in Canada provides an estimate of “consumption” poverty, i.e., the percentage of Canadians whose consumption is below the basic-needs poverty line. While the rate of consumption poverty (see figure ExSum 2) is somewhat lower than that of income poverty, the trend is quite similar; that is, a sharp decline before 1980 and relative stability afterwards.

Inequality

It is often claimed that inequality is growing in Canada. Trends in total income and after-tax income, however, have been stable since the early 1970s. While consumption inequality has risen slightly over the period, there is evidence that inequality in the ownership of household facilities (key appliances) is not increasing and may be decreasing. The evidence simply does not support the

Figure ExSum 2 Consumption poverty (1969–1996): percent of population with consumption below the basic needs poverty line



Source: Statistics Canada, FAMEX microdata files, various years and calculations by author.

hypothesis, repeated over and over as if it were fact, that there is a “growing gap”—that inequality in Canada is increasing—although this is an article of faith within the social welfare community. They are convinced that anything resembling a market economy (even with a healthy government presence) will result in greater polarization of income and wealth. Unable to let go of the “class struggle” perspective, the folks in the “social justice” community look, with increasing desperation, for evidence of growing disparities. The data tell us there is no growing gap.

Adequacy of welfare

When income flowing to recipients of social assistance with dependents is compared to the revised basic-needs poverty lines, the general conclusion is that social assistance continues to fulfil its mandate to provide adequate, last-resort income to people who have no other resources to rely on and who are unable to work. However, for single, employable persons, and, to a lesser extent, two employable parents, welfare is not adequate because of the government’s policy of encouraging work. This is true in virtually every province.

Policy

In Canada, there is a vast array of inefficient and employment-reducing programs and policies with overlapping function and jurisdiction: welfare and minimum wage are two examples. A more efficient alternative might be a guaranteed annual income issued as a universal *demogrant*—a transfer payment to all citizens (or residents) with no conditions on employment, earning, or income.

Conclusion

It is notable that the income estimates of poverty are higher than earlier studies using basic needs. Income poverty in Canada is now in the range of 8% as compared with 5% a few years ago. This does not mean that poverty is increasing; rather it is the result of a revised basic-needs poverty line that attempts to be more thorough and comprehensive in accounting for and costing the basic necessities of life. The approach and intent is the same; the revisions give us a more credible and reliable threshold for poverty.

The estimates of poverty provided here go beyond income. Consumption spending and ownership of household facilities are also used to give us a more complete picture of deprivation in Canada. However, the most disturbing problem is the doubtful validity of income as an indicator of economic well-being. There are serious questions about the quality of the income data used as a basis for the estimates of poverty—questions so serious that, if we base our estimates on income alone, we really cannot credibly conclude anything about either the level or trend of poverty. Any study using Statistics Canada's income data will have this problem. It is important, there-

fore, that researchers use other indicators to help establish the extent of deprivation. Further, Statscan should give serious thought to the problem and to consider making adjustments so that income would reflect how people are doing more accurately.

I am delighted to present this latest study on poverty in Canada to interested readers. While there is considerable treatment of technical measurement issues, I hope that readers from a variety of backgrounds will find it useful and thought provoking. As usual, I invite critical comment on this work.