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# What is Poverty? Providing Clarity for Canada

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## Executive Summary

Poverty may be measured by relative scales, where those with substantially fewer resources than the average are counted as poor, or by absolute measures, which are based on what an individual or family requires to meet their basic needs.

The measurement of basic needs poverty is important, even in developed nations like Canada. Despite their unequivocal rejection of basic needs poverty measurements, and their protestations that the measurement of absolute poverty is “mean-spirited,” many of those in the social welfare community routinely use absolute images to describe the living conditions of Canada’s poor.

Ed Broadbent’s famous November 1989 speech in Parliament in which he called for an end to child poverty by the year 2000 is one of the more striking examples. Broadbent, who used a purely relative line to measure the extent of poverty, described Canada’s poor children thusly: “Mr. Speaker, being a poor kid means trying to read or write on an empty stomach... one quarter of our children are wasting away.” This vision of poor children was based on the 1989 estimate that 25 percent of children lived in households with less than half the average pre-tax income. This measure comes from a group that utterly rejects the need to even determine the rate of absolute poverty.

In 1995, at the World Summit on Social Development in Copenhagen, developed nations (including Canada), committed themselves to “eradicating absolute poverty by a target date specified by each country in its national context.”

This paper provides the latest information about the incidence of basic needs poverty in Canada. It employs two different sets of data (one focused on family spending and the other on labour market information), and two different equivalence scales in the estimation of poverty in Canada. Among the more important results are:

- ▶ While it is clear that poverty rates have declined over the past 36 years, it is less clear what has happened to poverty over the past 31 years. One of the sets of data shows poverty declining sharply after 1996 (after being relatively stagnant over the preceding 22 years) and the other set of data has poverty rates rising slowly from 1974 to 2005.
- ▶ Specifically, using incomes drawn from the spending databases, overall poverty (that is, the poverty rate for everyone, including children, as distinct from the child poverty rate) fell sharply from about 12 percent in 1969 to approximately 3 percent in 1974 and then drifted slowly upwards to about 4.5 percent in 2005. Using incomes drawn from the labor market databases,

overall poverty fluctuated between 8 and 12 percent between 1973 and 1996, and then fell sharply after that to around 5 percent.

- ▶ The estimation of child income poverty closely follows the patterns for overall income poverty.
- ▶ Consumption poverty for all people and for children fell sharply between 1969 and 1974 and has drifted up slowly after that using either equivalence scale.
- ▶ Thus, while poverty is clearly lower than it was 36 years ago, it is not at all clear what has happened to the rate of poverty over the past 31 years. One set of data has it increasing and the other has it decreasing. However, the patterns and levels are so different between the two datasets that questions arise about the quality and consistency of the data.

This study raises additional concerns about data quality related to the issue of underreporting and hidden income. The author concludes with plea to Statistics Canada to examine these data quality concerns.

## Introduction

Since 1992, I have produced poverty measures and estimates of poverty based on the necessities of life. I argued then, and continue to make the case, that the measurement of relative poverty (inequality, really) does not tell us enough about the state of deprivation in Canada. Indeed, it tells us very little. We should want to know how many of our fellow citizens cannot afford all of the basic needs. The measurement of genuine deprivation based on the absence of any basic need is often referred to as “absolute poverty.”

Relative poverty, simply an estimate of the proportion of the population who are “less well off than average,” is largely a function of the degree of inequality in a nation. Using relative poverty measures, it is the case that a very well-off nation with a wide dispersion of incomes will be much “poorer” than a genuinely poor nation with a more compressed distribution of income. In my view, international comparisons purporting to measure poverty that use only relative measures are not credible. As well, tracking poverty over time using relative measures is fraught. Unless the nation becomes more or less unequal over time, there will be no change in relative poverty despite any improvements in real income. A rising living standard, by itself, will do nothing to reduce relative poverty.

In 1995, a world summit on social development in Copenhagen concluded with a declaration that all nations of the world should develop measures of both absolute and relative poverty and should gear national policies to “eradicating absolute poverty by a target date specified by each country in its national context” (Gordon and Townsend, 2000: 35). Most developed nations, including Canada, signed on to the Copenhagen Declaration.

A discussion of absolute poverty must recognize that there is some relativity in any measure of poverty. In my research over the years, I have defined poverty as the following:

The basic needs poverty line is the cost of a list of basic needs required for long-term physical well-being. Those needs include nutritious food purchased at grocery stores fulfilling all Canada Food Guide requirements, rental accommodation, clothing purchased new at major department stores, household furnishings, supplies, personal hygiene items, laundry, insurance, out-of-pocket health costs such as medications, dental, and vision care, and so on.

The costs also account for families of different sizes and in different geographical locations. While the list of basic needs remains constant over time and between

nations, the nature and quality of the items fulfilling the basic need will be that which is considered acceptable and “decent” in one’s own society. This gives the basic needs approach its relativity (see Sarlo, 2001 for more detail (esp. pp. 17-18)).

Some advocates of relative poverty lines have been vocal and angry in their condemnation of the use of absolute poverty measures in general and the basic needs line in particular. “One calorie short of starvation” said Patrick Johnston in 1992 (Johnston, 1992). Sarlo... “puts the poor on a plane not much higher than the one on which most Canadians would put their pets” wrote the *Toronto Star* (July 26, 2001: A24). A number of commentators have referred to the basic needs measure as “mean-spirited,” perhaps in the belief that poverty lines are “goals for the poor,” rather than useful thresholds providing information about those Canadians who are genuinely deprived.

Leaving the emotional language and hyperbole aside, the fundamental concern appears to be that poverty, at least in developed nations like Canada, is all about being unequal, about being different, and about being excluded from the mainstream. Absolute poverty, critics appear to be arguing, tells us only about those who are likely to be hungry, ill-housed, having inadequate clothing, health care, and so on. Apparently, measuring that sort of poverty is no longer of interest, at least for Canada.

On November 24, 1989, Ed Broadbent, then leader of the NDP, rose in the House of Commons to speak about child poverty. He stated that there were over 1 million poor children (25 percent of all kids) in Canada. He pointed out that this poverty rate had increased since 1973. He described, with great passion, the conditions of Canada’s poor children. He said:

... while the overall sense of well-being for most Canadians has been getting better, that of our children has been getting worse. While the rest of us have been better clothed, there are more kids going without shoes. While the rest of us have improved housing, we have literally thousands of children who are homeless in Canada... Being a poor kid means box lunches from food banks and soup from soup kitchens. Mr Speaker, to be a poor kid means trying to read or write or think on an empty stomach... one quarter of our children are wasting away. This is a national horror. This is a national shame... that we should put an end to. (House of Commons (November 24, 1989): 6173-5)

There is not much ambiguity about Broadbent’s notion of poverty. He said that one quarter of Canada’s children are “wasting away.” He didn’t say that one million children were “less well off” or were possibly “excluded from the mainstream” because they didn’t have all of the things most other kids took for granted. He made specific reference to hunger, to lack of adequate clothing, and even to homelessness. But the “poverty” measure that his numbers were based on is purely

relative and is not at all equipped to reveal information about hunger or any other kind of real deprivation.

The source of Ed Broadbent's information was a report by the Canadian Council on Social Development (CCSD) entitled *Canadian Fact Book on Poverty 1989* (Ross and Shillington, 1989: 37). The measure of poverty used for the study is purely relative, half the average pre-tax income. The CCSD has long made the argument that poverty is really about equity (how much inequality society is prepared to tolerate) and reject, out of hand, the attempt to define poverty in terms of basic necessities (Ross and Shillington, 1989: 4).

So, one might well ask how Broadbent, who holds a PhD, could have erred in using a relative line to measure child poverty and then, without skipping a beat, use the notion of absolute poverty to describe the conditions of children living below that relative line. Regrettably, the error, that of switching definitions of poverty in mid-stream, is not rare.<sup>1</sup> One might be inclined to forgive a Parliamentarian, who, in the course of a speech on a very emotional issue, takes some liberties with language to make his point. However, to mark the 15th anniversary of his 1989 Parliamentary motion to put an end to child poverty, Mr Broadbent wrote an article in the *Globe and Mail* in which he stated, "... every day more than a million of our children get up hungry, go to school hungry, and at night, climb into bed hungry. It's a national disgrace" (Broadbent, November 24, 2004: A27).

It is curious that no journalist or no opposition politician has apparently taken issue with this switching and the obvious confusion it creates. For debate on important public policy issues to be intelligent and honest requires clarity in measurement, and clarity in interpretation. Having said this, it must be acknowledged that poverty is a very complicated issue and reality does not always fit into perfectly neat categories.

I have argued consistently that most people do have an absolute notion in mind when they think or speak about poverty. My belief is grounded in common usage of the term in the popular media, various surveys asking people what their understanding of poverty is (see Sarlo, 2007: 10), and comments (like Ed Broadbent's) by respected and thoughtful leaders. Therefore, despite the protestations of the social welfare community, the measurement of basic needs poverty is interesting and important. The Copenhagen Declaration only serves to reinforce this point.

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1 Some of the more recent examples include Ligaya, November 12, 2007; *Times Colonist*, Nov 29, 2007: A14; *Toronto Star* [Ontario Edition], Sept 12, 2007: AA6; Coran, 2007: AA7; *Toronto Star*, January 13, 2007: F6; Monsebraaten, 2007: A1; *Toronto Star*, January 31, 2007: A14; *Toronto Star*, February 4, 2007: A14; Laidlaw, 2007: B1.

## Measuring Basic Needs Poverty

A number of changes have been made in the research for this particular poverty study. The first is that for comparison purposes, I have used two different data files. In the past, basic needs *income* poverty has been estimated using the *Survey of Consumer Finances* (SCF) up to 1996, and the *Survey of Household Spending* (SHS) for more recent estimates. However, even though the latter does survey household incomes, its chief purpose is to provide information about *expenditures*. So, there could be concerns about just how comparable the two files really are. For this paper, the SCF (from 1973 to 1996) combined with its successor, the *Survey of Labour Income and Dynamics* (SLID) (cross section, annual), is used as one of the files to estimate income poverty up to 2005. This set will be referred to as the labor file, simply because, in contrast to the expenditure files, it focuses somewhat on labor market information (labor force status, weeks of employment, detailed occupational codes, etc). The other file uses of the expenditure surveys (*Survey of Family Expenditures* or FAMEX, and its successor, the SHS), to estimate income poverty from 1969 to 2005. This set of data focuses much more on household information, spending, and more recently, household facilities. This set of data is therefore used to estimate both income and consumption poverty over the same period. The two different files enable us to compare the results.

The other major change to the research is the more comprehensive use of equivalence scales in the estimation of poverty in Canada. In the past, poverty lines were calculated for households of different sizes, and those lines were measured against actual (reported) Statistics Canada survey data for households of different sizes. While this paper provides poverty lines for different household sizes, it also calculates an “adult equivalent transformation”<sup>2</sup> on the income data, and makes estimations based on that single value (adult equivalent income). Unless otherwise stated, income is always after tax.

For the estimation of consumption poverty, I use the same methodology as described above for income poverty. Finally, I employ two different equivalence scales, largely to test the sensitivity of the poverty estimation results.

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2 An adult equivalent transformation is simply a way to divide the household’s total (after-tax) income between the various members of the household (adults and children) so as to take account of the economies of scale in living. If, for example, a household of four has an income of \$60,000, and we use an equivalence scale which specifies that this household would have the same standard of living as a single person if it had 2.2 times the income as that single person household, then we divide the household’s income by 2.2 to get its “adult equivalent” income (\$27, 273 in this case).



The first is the “square root equivalence scale” which has been used extensively in the measurement of inequality and poverty. It is determined by dividing total household income (after-tax) by the square root of household size. This gives us that household’s “adult equivalent” income. Recent Canadian studies of income inequality by Heisz (2007), Frenette *et al.* (2004), and Sarlo (2008), as well as many of the reports by the Luxembourg Income Study<sup>3</sup> have used this approach. In her book on poverty measurement, Patricia Ruggles (1990: 77) recommends using the square root rule as an equivalence scale. Comparing that value with the relevant poverty line for one person will determine if that household is poor.

The second, the NRC equivalence scale, published by the US National Research Council, emerged out of an extensive review of equivalence scales conducted by Citro and Michael (1995). I used this equivalence scale as part of my major revision of the basic needs poverty measure in 2001 (Citro and Michael, 1995: 159-182).

As was the case with my previous estimates of poverty, this study uses Statistics Canada microdata for intervals of approximately four years. When measuring poverty over a fairly long time (30 to 35 years in this study), it is not necessary to have the data for every year to examine the overall trend.

### Poverty lines

Table 1 shows the basic needs poverty lines for 2007 by household size. Table 2 gives the basic needs poverty thresholds for a single person from 1969 to 2005, the range of years covered by this study.<sup>4</sup>

## Estimating Poverty in Canada

### Income poverty

The primary indicator of the economic well being of a household has long been its income. Ideally, income represents the resources available to the household to acquire its various needs and wants. If the household’s income is insufficient to acquire all of the necessities, then we draw the conclusion that the household is poor. This approach works if it is, in fact, the case that income represents all of the resources avail-

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3 For example and most recently, working papers by Kenworthy (2008, #471); Giamatteo (2007); and Shroeder and Bonke (2007, #463) all use the square root equivalence scale in transforming income into “adult equivalents.”

4 The revised basic needs poverty lines (2001) were updated to 2007 using the all-items CPI for Canada and the values in table 2 were determined by backdating using the all-items CPI for Canada.



**Table 1: Poverty Lines by Household Size, Canada, 2007**

Size of Household	Basic Needs Poverty Line
1	10,520
2	16,508
3	20,064
4	23,307
5	26,323
6	29,163

Source: Calculations by author.

**Table 2: Poverty Lines for a One-Person Household (1969-2005)**

Year	BNL	Year	BNL
1969	1,862	1988	6,731
1970	1,919	1989	7,071
1971	1,976	1990	7,412
1972	2,070	1991	7,828
1973	2,231	1992	7,941
1974	2,477	1993	8,092
1975	2,742	1994	8,102
1976	2,940	1995	8,281
1977	3,176	1996	8,404
1978	3,460	1997	8,546
1979	3,781	1998	8,631
1980	4,160	1999	8,782
1981	4,680	2000	9,019
1982	5,190	2001	9,246
1983	5,493	2002	9,454
1984	5,729	2003	9,718
1985	5,956	2004	9,898
1986	6,202	2005	10,115
1987	6,476		

Source: Calculations by author.

able to the household (i.e., there are no significant gifts or free commodities, such as subsidized rent) and if income is accurately reported. In Canada and undoubtedly elsewhere, there are issues related to both of these concerns; I will address them later in the section entitled “Concerns with the data.”

Table 3 displays the income poverty results for the period 1969 to 2005 using the expenditure databases FAMEX and SHS, which do survey income, and for the period 1973 to 2005 using the income drawn from the labor surveys (SCF and SLID). For both sets of data, overall poverty and child poverty are measured using both the square root and NRC equivalence scales.

While the different equivalence scales do produce different results (higher poverty rates with the NRC scale, by about 30 percent, on average), the really significant differences are with the different databases. Using incomes drawn from the spending

**Table 3: Estimation of Income Poverty in Canada**

**A: Using the Expenditure Data Files**

*Square Root Equivalence Scale*

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1969	2,479,142	12.15	988,763	12.52
1974	630,422	3.17	178,630	2.77
1978	843,001	3.80	289,726	4.13
1982	1,067,681	4.60	353,981	5.29
1986	1,033,250	4.26	381,400	5.72
1992	1,025,441	3.97	366,236	5.38
1996	1,231,513	4.35	317,485	5.34
2000	1,477,038	4.93	407,522	6.02
2005	1,484,026	4.72	313,994	4.73

*NRC Equivalence Scale*

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1969	3,189,703	15.63	1,293,848	16.38
1974	824,573	4.15	249,566	3.87
1978	1,126,916	5.09	388,872	5.55
1982	1,308,540	5.63	441,229	6.60
1986	1,391,100	5.74	525,960	7.89
1992	1,484,471	5.74	572,027	8.40
1996	1,778,569	6.29	523,854	8.81
2000	1,697,485	5.66	505,120	7.46
2005	1,721,959	5.47	392,379	5.91

**Table 3: Estimation of Income Poverty in Canada****B: Using the Labour Data Files****Square Root Equivalence Scale**

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1973	2,285,050	10.90	804,380	11.21
1977	1,974,160	8.73	610,840	8.63
1981	2,896,090	11.19	483,523	7.39
1984	3,070,721	11.70	594,593	9.35
1988	2,434,232	8.88	378,778	5.87
1991	2,960,791	10.30	480,540	7.23
1994	2,959,092	9.54	482,349	6.89
1996	3,674,051	11.47	602,458	8.49
2000	1,532,311	5.08	358,617	4.68
2005	1,678,601	5.33	354,948	4.73

**NRC Equivalence Scale**

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1973	2,674,230	12.76	970,560	13.53
1977	2,284,730	10.10	741,070	10.47
1981	3,237,053	12.51	611,061	9.34
1984	3,492,940	13.31	735,776	11.57
1988	2,889,318	10.54	529,357	8.21
1991	3,477,695	12.10	666,221	10.02
1994	3,504,700	11.30	655,670	9.37
1996	4,186,455	13.07	807,762	11.38
2000	1,889,561	6.26	512,808	6.70
2005	1,988,841	6.31	478,551	6.37

Sources: Statistics Canada microdata files: *Survey of Consumer Finances* (1973-1996); *Survey of Labour and Income Dynamics* (2000-2005); *Family Expenditure Survey* (1969-96); *Survey of Household Spending* (2000-2005); and calculations by author.

databases (FAMEX and SHS), the results show that both child and overall poverty rates dropped precipitously from 1969 to 1974 and have drifted up slowly since then. Indeed, the spending databases show that the lowest poverty rates occurred in 1974 and have not reached that low level anytime in the succeeding 30 years. In contrast, income poverty estimates drawn from the labor surveys (SCF and SLID) show no real change in the overall poverty rate from 1973 to 1996, but show a sharp drop after 1996 to about half the former rate. With child poverty, the pattern is somewhat simi-

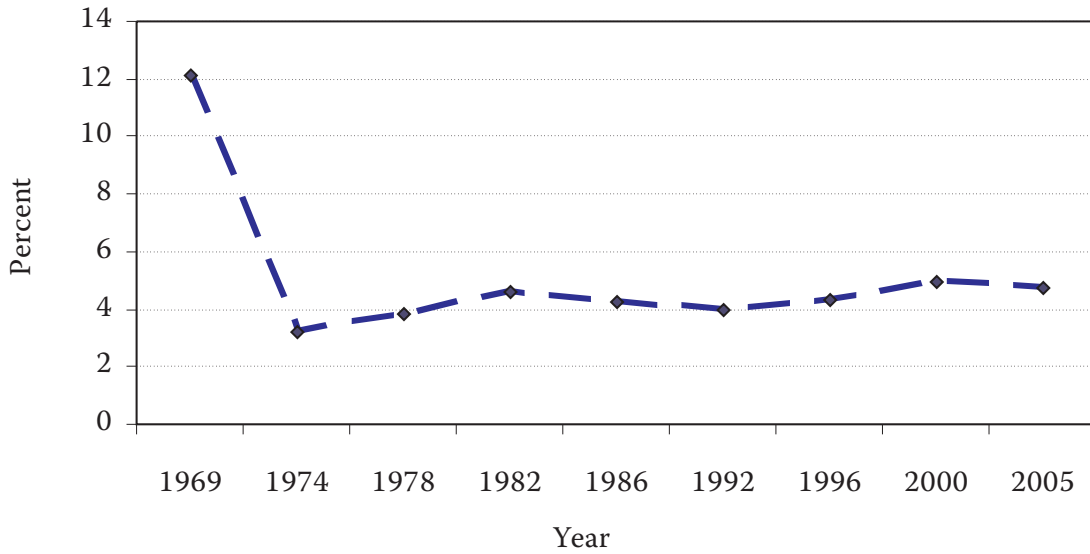
lar with a very modest decline from 1973 to 1996, and then a sharp drop after that. It seems anomalous that the poverty rates using income drawn from the labor surveys for 1996 (a common year for both set of databases) is about 90 percent higher, on average, than those using income drawn from the spending surveys. However, for the years 2000 and 2005, the differential for overall poverty is only 11 percent, on average, and is actually negative for child poverty (in 2000, the income drawn from the labor databases generated lower estimates of child poverty than that from the spending databases).

Figures 1 and 2 are useful images, reflecting the stark differences between the results drawn from the two sets of data. The overall poverty rates using the square root equivalence scale is a typical example of this comparison. Figure 1 displays the income poverty rate using incomes drawn from the spending databases. Figure 2 shows the income poverty rate using the incomes drawn from the labor surveys. If we ignore the 1969 data because it is prior to the beginning of the range for the estimates using the labor survey, the contrast between the two figures is striking. In figure 1, the estimates are all quite close to 4 percent, with a rising trend from 1974 to 2005. In figure 2, the estimate of overall poverty shows much greater fluctuation—around the average of about 10 percent—from 1973 to 1996, and then falls by about 50 percent of the 10 percent trend line.

It is fair to ask why the difference is so great. We know that Statistics Canada takes great care in the design of their surveys and as much care in the collection and editing of the data drawn from these surveys. Yet from approximately 1973 to 1996, one survey (SCF) shows income poverty to be more than twice that of the other survey (FAMEX). There does not appear to be anything obvious in the methodology of the two surveys to explain such a difference.

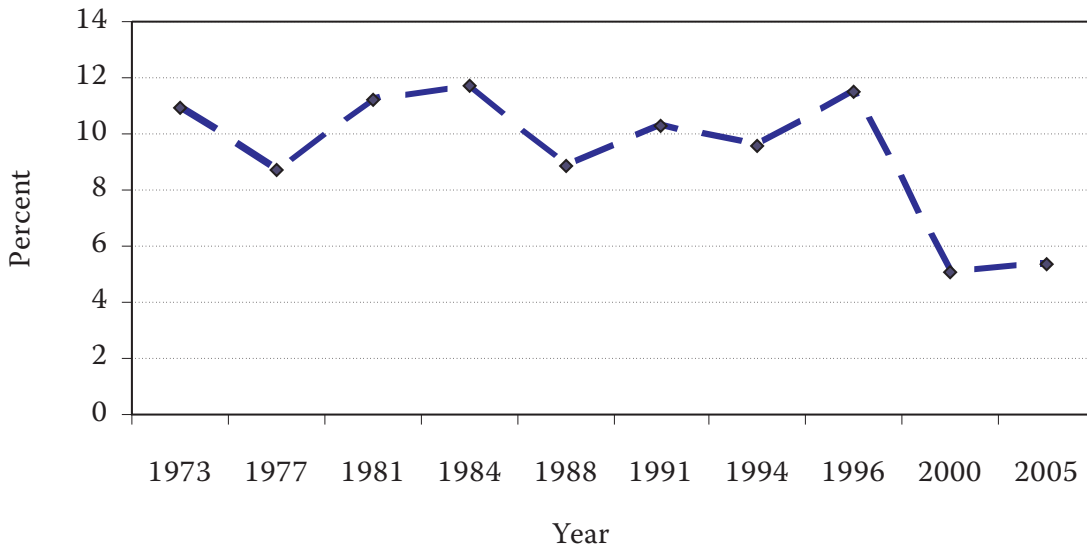
The income poverty rate results differ not only from each other, but from the results contained in the last update (2006). As mentioned earlier in this paper, the previous update used income data drawn from the SHS for those years after the SCF had ended. While the beginning and ending values are almost exactly the same, the pattern between 1981 and 2000 is different. The chief reason for this is the use of the “equivalent adult” transformation on incomes (which wasn’t used last time) and, to a lesser extent, the mixing of the two different surveys. This difference, however, is modest compared to the different trends in income poverty rates that result from using the two different surveys throughout. The difference in the trend and level of poverty is so stark between the two sets of data that I took a closer look at a common year (1996) and made some comparisons. Appendix A summarizes the comparison. It appears that much of the difference between the two surveys, at least for 1996, lies at the bottom end of the income distribution. There is only a 9.5 percent difference between the average after tax adult equivalent income from the two surveys. Yet the

**Figure 1: Overall Poverty Rates— Income from Spending Databases**



Sources: Statistics Canada microdata files: *Survey of Consumer Finances* (1973-1996); *Survey of Labour and Income Dynamics* (2000-2005); *Family Expenditure Survey* (1969-96); *Survey of Household Spending* (2000-2005); and calculations by author.

**Figure 2: Overall Poverty Rates— Income from Labor Databases**



Sources: Statistics Canada microdata files: *Survey of Consumer Finances* (1973-1996); *Survey of Labour and Income Dynamics* (2000-2005); *Family Expenditure Survey* (1969-96); *Survey of Household Spending* (2000-2005); and calculations by author.

poverty rate using the SCF (11.47 percent) is 164 percent higher than that for the FAMEX (4.35 percent).

However, the estimate of consumption poverty over the period 1969 to 2005 is entirely consistent with the results I obtained in 2006.

What, then, can we conclude about the trend of income poverty in Canada? Over the 31 years from 1974 to 2005, the overall poverty rate has either increased (by 49 percent or 32 percent, depending on the equivalence scale chosen) or it has decreased by about 51 percent using either equivalence scale). Certainly the results may change if we select different periods. Since both 1974 and 2005 were years of fairly low unemployment (in the 6 to 7 percent range), the three-decade span should have been enough time for clear trends to emerge, regardless of cyclical changes. The point is that in essentially the same stretch of time, there are much different results depending on the survey chosen.

### **Consumption poverty**

The estimation of consumption poverty draws only from the spending surveys, i.e., FAMEX (1969 to 1996) and SHS (2000 to 2005). Table 4 displays the results of the estimation of consumption poverty, both overall and for children and using the two different equivalence scales over the period 1969 to 2005.

Here we get a result very similar to the income poverty estimates drawn from the spending surveys. There is fairly high level of poverty, both for people generally and for children specifically in 1969. The poverty rate then drops precipitously (to roughly a quarter of its 1969 value) and stays near that fairly low level, but still rising, for the next 31 years. What conclusion can we draw from this data? While consumption poverty has been fairly low for the past 31 years, in the 2 to 4 percent range for both people generally and for children using the square root equivalence scale, and in the 4 to 6 percent range using the NRC equivalence scale, rates have drifted up over that period, modestly for overall poverty and more significantly for child poverty. To the extent that these data are reliable, it is troubling that child poverty based on consumption is now between 40 percent and 52 percent higher (depending on the equivalence scale) than it was 31 years ago. This is a real concern despite the fact that child poverty rates are now only about one-quarter of their rate 36 years ago, and despite the fact that the current rate is in the range of only 3.4 to 5.1 percent, depending on the equivalence scale used. Clearly, more investigation is warranted, particularly since the trend based on the spending surveys (using both incomes and consumption) contrasts starkly with the trend using incomes drawn from the labor surveys.

**Table 4: Estimation of Consumption Poverty in Canada****Square Root Equivalence Scale**

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1969	2,099,290	10.29	1,081,342	13.69
1974	571,763	2.87	142,406	2.21
1978	833,968	3.76	214,740	3.06
1982	1,083,775	4.66	302,700	4.53
1986	860,630	3.55	257,650	3.87
1992	829,929	3.21	240,965	3.54
1996	932,397	3.3	234,057	3.94
2000	1,100,806	3.67	270,053	3.99
2005	1,031,818	3.28	224,098	3.37

**NRC Equivalence Scale**

Year	Number of Poor Persons	Poverty Rate (persons)	Number of Poor Children	Poverty Rate (children)
1969	3,031,322	14.85	1,260,510	15.96
1974	825,728	4.15	237,847	3.68
1978	1,202,101	5.43	340,991	4.87
1982	1,621,008	6.98	486,907	7.28
1986	1,297,440	5.35	421,800	6.33
1992	1,370,862	5.3	433,880	6.37
1996	1,455,789	5.15	420,320	7.07
2000	1,565,293	5.22	431,161	6.37
2005	1,367,252	4.35	340,222	5.12

Sources: Statistics Canada microdata files: *Survey of Consumer Finances* (1973-1996); *Family Expenditure Survey* (1969-96); *Survey of Household Spending* (2000-2005); and calculations by author.

**Concerns with the data**

Whatever definition of poverty we use, accurate data on incomes (and consumption) are critical in order to provide reliable estimates of the poverty rate. First, the indicator must be a fair and complete reflection of the household's ability to acquire what it needs. Income, which is most often used to indicate economic well-being in studies of poverty, is flawed to the extent that some households receive in-kind gifts (such as money, food, furnishings, subsidized rent, etc). To the extent that these gifts are part



of the resources that a number of poor households rely on, an examination of only the household's income will tend to overstate the poverty rate. A look at the shelter costs of the poor illustrates the point. In 2005 in Canada there were about 816,000 poor households (using spending data and the square root equivalence scale). Of those, fully 80 percent were renters. Of those poor households renting their accommodation, the rent for 23 percent of them was reduced due to government subsidized housing (they paid an average rent of \$2,763 for the year) and the rent for another 6 percent was reduced for other reasons, such as services to the landlord or company housing (they paid an average rent of only \$263 for the year). So, for almost 30 percent of the poor, actual rental payments were substantially below that assumed implicitly (\$4,349 for a single person, higher for larger households) in the basic needs poverty measure.<sup>5</sup> While it is likely that reduced rent is the largest of the "gifts" received by some households, there are other types of gifts (food, money, etc.) for which there is little hard data, but which might be significant for some poor households. The point is that income is not a complete indicator of the economic welfare of the household, especially among poor households.

Just as the omission of gifts can understate a household's actual living standard, underreporting of true income also understates how a household is doing. All of the income data collected by Statistics Canada is "reported income" to the extent that it relies on people giving accurate information about their incomes for the previous year. This problem is inherent in all of the surveys, including the census, and with the taxfiler data<sup>6</sup> used in some poverty and inequality studies. In all of the work I have done on poverty measurement, I have expressed concern about income

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- 5 Canada currently has about 650,000 to 700,000 social housing units (rent geared to income) (see Vandyk, 1995: 2; and the Wellesley National Housing Report Card, 2008: 6). Of that stock, poor households (using the basic needs definition of poverty and using income drawn from the *Survey of Household Spending*) occupied only 150,000 of those units. So, about 18 percent of poor households received social housing. It would not be unreasonable to expect that the poorest households would have the highest priority when it comes to allocating social housing. However, there may be some explanation for the apparent mismatch between need and available social housing. For instance, some households may have received their social housing when they were worse off (living in real poverty) and have now improved their situation, but not enough to be forced to give up their rent-geared-to-income units. As well, for whatever reason, many poor households may not apply for social housing. Finally, there may be an underreporting issue. According to the 2005 *Survey of Household Spending*, 478,000 households reported that their rent was reduced because they received government-subsidized housing. However, this accounts for only about 70 percent of all social housing in Canada
- 6 By the mid-1990s, there were sufficient concerns about unreporting of income by taxfilers (and non-filers) that Revenue Canada embarked on an initiative to reduce the tax losses. The 1999 *Report of the Auditor General* points out that the initiative had a very modest success and that at least \$38 billion of income was hidden, which cost the government about \$12 billion annually in lost tax revenues.

underreporting and the impact it might have on the reliability of poverty estimates. I refer the interested reader to Sarlo (2001: 41-44) for a fairly extensive discussion of this issue.

## Conclusions

In several past studies of the incidence of poverty in Canada (Sarlo, 2001; Sarlo, 2006; Sarlo, 2007), I have presented evidence for an approximately five-decade period beginning in 1951. Using that time frame, I was able to show that real deprivation (based on reported incomes) has declined from approximately 40 percent to about 5 percent. In this current study, I have focussed only on the last 30 to 35 years, a period for which there is accessible microdata from Statistics Canada. The empirical research presented here leads to the following conclusions:

1. The microdata from the labor surveys (SCF and SLID) suggest that overall poverty has declined, but only since 1996, albeit quite sharply, by more than 50 percent. Child poverty has fallen more gradually over the years but by 2005 was less than half of the level it was in 1973.
2. The microdata from the spending surveys (FAMEX and SHS) show that both overall and child poverty fell very sharply from 1969 to 1974, and then slowly increased over the next 31 years. Nevertheless, the rate of poverty in 2005 was substantially lower than it was in 1969.
3. The estimation of income poverty is somewhat sensitive to the equivalence scale selected. Specifically, the use of the NRC equivalence scale results in consistently higher poverty rates (by about 30 percent, on average) than the use of the square root equivalence scale.
4. The estimation of income poverty is very sensitive to the type of survey from which the income data is drawn (see points 1 and 2 above)
5. Consumption poverty largely follows the pattern of income poverty using the expenditure surveys, i.e., it falls very sharply between 1969 and 1974, and then drifts up (especially in the case of child poverty) after that.
6. Arguably overriding the confusing picture relating to trends in poverty, it is the case that the income poverty rate in 2005 appears to be in the range of 5 to 6 percent, depending on the equivalence scale. This is assuming, of course, that income is a reliable indicator of economic well-being, as discussed earlier in this paper. As well, assuming that consumption levels are reliable, it appears that, by 2005, consumption poverty is in the range of 4 to 5 percent, depending on the equivalence scale selected. This is good

news because estimates of poverty provided by Canada's social welfare community are much higher, usually more than double these rates.

While Canadians can be pleased that income poverty appears to be a lot lower than it was 50 years ago (Sarlo, 2001: 35-37), and that income poverty is lower than it was 36 years ago, we should be concerned that one of the two sets of data used shows poverty on the increase over the last 30 years. This concern, of course, has to be tempered by the fact that another dataset (the one most often used in studies of poverty and inequality) shows the opposite, although only more recently.

There is no obvious reason why incomes drawn from one survey are so different from those drawn from another survey. The differences lead to substantially different calculations about the levels of poverty for much of the period, and to quite different conclusions about trend.

The measurement of poverty in Canada is considerably hampered by the apparent sensitivity to the type of survey that income is drawn from, and by real concerns about data quality, specifically possible omissions and underreporting. Clearly, only Statistics Canada is in a position to examine these considerations and this author has long urged them to investigate issues related to data quality.

Determination of the extent of basic needs poverty is of interest and appears to be the primary concern of many Canadians when they reflect on poverty. Despite emphatic denials by those who see themselves as part of the social welfare community, they also want to know about absolute poverty. Their descriptions of the predicament of the poor makes this clear. It is regrettably, though, that we cannot be more definitive about the incidence or the trend of poverty over the past several decades due to concerns about data quality and inconsistencies across sets of data.

## Appendix A

### Appendix A: Database Comparisons, 1996

Category	"Labor" data set (SCF)	Spending data set (FAMEX)
Income poverty rate (using the square-root equivalency scale)	11.47	4.35
Average after-tax income	\$36,946	\$40,850
Average after-tax adult-equivalent (AE) income	\$21,802	\$23,880
Percent of after-tax income below \$20,000	28.36	23.38
Percent of after-tax income below \$10,000	7.62	4.97
Percent of AE after-tax income below \$20,000	52.72	47.39
Percent of AE after-tax income below \$10,000	15.6	10.89
Total number of households in the survey	12,261,050	10,922,242

Sources: Statistics Canada microdata files: Survey of Consumer Finances (1973-1996), and Survey of Labour and Income Dynamics (2000-2005); Family Expenditure survey (1969-96), Survey of Household Spending (2000-2005), and calculations by author.

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