Chapter 2

WORKING DEFINITIONS OF POVERTY

Canada – like most countries, but unlike the United States – has no “official” definition of poverty.[1] Different agencies and organizations in Canada measure poverty in different ways, and this chapter describes several working definitions:

- Statistics Canada Low Income Cut-offs (LICO), calculated using both pre- and post-tax income;
- Statistics Canada Low Income Measure (LIM);
- Lines of income inequality developed by the Canadian Council on Social Development (CCSD);
- Market Basket Measure (MBM) under development by the federal, provincial and territorial governments;
- Fraser Institute poverty lines;
- Montreal Diet Dispensary guidelines;
- Social Planning Council of Metropolitan Toronto budget guides;
- The Cost of Living Guidelines developed by the Social Planning Council of B.C.

For a benchmark comparison with the above working definitions, this chapter also provides estimates of: average and median incomes; the basic income levels provided by provincial social assistance rates; and minimum income levels suggested by Gallup public opinion.

None of these definitions of poverty is exhaustive or precise. They are designed as working measures, and as such they are all founded on various simplifying assumptions. Given the immense complexity of the problem – the fact that what constitutes poverty varies from place to place, from decade to decade and even from household to household – it can be argued that the only alternative to an inadequate definition is no definition at all. Nevertheless, some working definitions are more inadequate than others. This chapter describes the various prevailing definitions of poverty, and then explores their shortcomings.

Because poverty is based on the deficit of income compared to essential expenditures, disagreements over how poverty should be defined can be reduced conceptually to two questions. First, how is income defined? Second, what are legitimate necessary expenditures – and necessary for what purpose? Of course, the answers to these questions depend on place, time, and household circumstances.

Measures of Poverty in Canada

The measures developed by Statistics Canada, the CCSD, the federal/provincial/territorial governments (Market Basket Measure) and the Fraser Institute can be considered *national* approaches. Even though the techniques and the values for the lines differ, and some use local living costs, the lines are devised to cover all parts of Canada and are thus capable of providing national poverty estimates. The remaining three measures and the benchmark comparisons have been devised to cover *specific localities or provinces*, but with some work could be applied to all of Canada.

STATISTICS CANADA LOW INCOME CUT-OFFS (LICOs)

Although Canada has no official measure of poverty, the Statistics Canada measure is probably the best known. Virtually all of the statistics used by other national measures of poverty in Canada come from Statistics Canada's annual survey of incomes.[2] Statistics Canada itself does not claim to measure poverty; rather, it defines a set of income cut-offs below which people may be said to live in *straitened circumstances*. Most social policy analysts, politicians and editorial writers treat the cut-offs as poverty lines. That is how they are treated here.

The modern recognition of the extent of poverty in Canada dates from the publication in 1968 of the Economic Council of Canada's *Fifth Annual Review*, which gave currency to a poverty-measuring approach that had been developed at Statistics Canada by Jenny Podoluk.[3] A Statistics Canada survey of family expenditures in 1959 determined that the average Canadian family spent about one-half its income on the three essentials: food, clothing and shelter. Statistics Canada concluded that a family that spent significantly more (i.e., 20 percentage points more) than half its income on essentials was living in straitened circumstances. As a result, it adopted 70 per cent of income as the cut-off point: families that spent more than 70 per cent of their income on essentials would have little or no income left to spend on other essentials such as transportation, health, personal care, education, household operation, recreation or insurance. Applying this measure to 1961 income data, the Economic Council reported in its 1968 *Review* that 27 per cent of the overall non-farm population and 25 per cent of families were living in poverty.

In a 1971 report, Statistics Canada applied the 70 per cent income standard to its surveys of 1965 and 1967 incomes.[4] The report concluded that, in 1965, 25 per cent of all Canadians and 21 per cent of families were poor. In 1967, the respective figures were 24 per cent and 18 per cent.

Since 1971, Statistics Canada has conducted its income survey annually. The agency began to conduct the family expenditure survey annually in 1997; this survey is used for updating the cut-offs. In previous years, the expenditure survey was carried out only every second or fourth year depending on the extent of its coverage. In calculating its low-income standard, Statistics Canada begins by estimating the percentage of gross income spent by the average Canadian family on food, clothing and shelter. It then somewhat arbitrarily marks this percentage up by 20 percentage points. This final percentage corresponds on average to a given household income level, and this level becomes the low income cut-off for that year.

The most recent estimate of the proportion of income spent on essentials is carried forward until a new expenditure survey reveals a different proportion. The 70 per cent standard based on the 1959 expenditure survey was reduced in subsequent years to:

- a 62 per cent standard based on the 1969 survey;
- a 58.5 per cent standard based on the 1978 survey;
- a 56.2 per cent standard based on the 1986 survey;
- the current 54.7 per cent based on the 1992 survey.[5]

Previously, in the years in which Statistics Canada did not undertake an expenditure survey, or if readjustment was not required in the proportion expended on essentials, it updated its low income cut-offs in accordance only with changes in the consumer price index.

Statistics Canada has always varied its cut-off levels with the number of family members, capped by seven or more. Since 1973, it has also distinguished among five different-sized urban and rural communities (a distinction that it has applied retroactively to its data for 1969 through 1972). The larger the community, the higher the low income cut-off for any family size. The accommodation of these two factors – family size and community size – results in 35 separate low income cut-offs.

Statistics Canada frequently updates its poverty lines based on changes in the proportion of average income devoted to essentials, which has fallen as the Canadian standard of living has increased. This implies a commitment to the view that poverty has a relative definition rather than an absolute one.

Survey of Consumer Finances

A few of the Statistics Canada practices should be clarified. In 1997, for example, the agency used a sample of 39,000 households to obtain its data. The results of the survey are intended to cover Canada's entire household population with the exception of residents of the Yukon and Northwest Territories (and by extension, Nunavut), Aboriginal Canadians living on reserves, and inmates of institutions. However, refugees, foreign students and people on work permits are included. The survey, which includes the income of all household members 15 years of age and older, has a very comprehensive measure of income. It includes wages and salaries (before deductions), net income from self-employment, investment income, government transfer payments (such as employment insurance, social assistance, old age pensions, refundable tax credits), training allowances and the like, private pensions, scholarships and alimony payments. The only exclusions from income are gambling gains, lump-sum inheritances, capital gains, loans, and income in kind (such as free meals and food produced on the farm for domestic use).

- The definition of *family* used by Statistics Canada in assessing poverty is the so-called economic family. It includes all occupants of a dwelling unit who are related by blood, marriage or adoption. It also includes couples living together in common-law relationships.[6]
- An *unattached individual* is a person who either lives alone or shares a dwelling unit, but is unrelated to the other occupants by blood, marriage, adoption or common-law relationship.[7]
- In this book, both families and unattached individuals are referred to as *households*.[8]

Table 2.1 presents estimates of the low income cut-offs for the year 2000. Statistics Canada's most recently published 1997 lines have been updated by adjusting for changes in the consumer price index.

TABLE 2.1

STATISTICS CANADA LOW INCOME CUT-OFF, 2000
1992 BASE

Size of household	Size of Area of Residence 500,000 +	100,000-499,999	30,000-99,999	< 30,000 urban	rural
1 person	$18,189	$15,600	$15,491	$14,414	$12,569
2 persons	$22,734	$19,500	$19,364	$18,017	$15,711
3 persons	$28,275	$24,252	$24,082	$22,408	$19,540
4 persons	$34,226	$29,356	$29,152	$27,127	$23,653
5 persons	$38,258	$32,815	$32,588	$30,323	$26,440
6 persons	$42,291	$36,275	$36,022	$33,517	$29,228
7 or more	$46,324	$39,735	$39,457	$36,713	$32,015

Note: The authors have estimated the year 2000 cut-offs by adjusting for changes in the consumer price index.
Source: Statistics Canada, *Income Distributions by Size in Canada, 1997*. Catalogue No. 13-207-XPB, 1999.

STATISTICS CANADA LOW INCOME CUT-OFFS ADJUSTED FOR INCOME TAXES

The expenditure and income surveys as well as the basic technique used for developing this adjusted measure are identical to the low income cut-offs described above, except that federal and provincial/territorial taxes are deducted from gross income *before* this version of a low income cut-off is derived.The lines are developed based on what the average family spends on food, clothing and shelter as a proportion of after-tax, not gross (before-tax) income. After-tax income accords a bit more closely with what many Canadians would consider to be their *take-home* income or disposable income, although obligatory payroll taxes such as Canada and Quebec Pension Plan and Employment Insurance premiums (which also reduce take-home pay) are ignored.

The 1992 family expenditure survey estimated that the average Canadian family expended 43.6 per cent of its after-tax income on food, clothing and shelter. When the 20 percentage point mark-up outlined earlier is applied, this means that any family spending more than 63.6 per cent of its after-tax income on these essentials is living in straitened circumstances. Raising the qualifying bar from 54.7 per cent (used for the pre-tax cut-off) to 63.6 per cent means a lowering of the income level used to qualify for low-income status. The use of this measure instead of the traditional before-tax measure reduces the measured rate of poverty for all persons in Canada by between four and five percentage points, depending on the year.[9]

Table 2.2 presents the low income cut-offs based on after-tax income. The most recent lines released by Statistics Canada are for 1997, and an estimate for the year 2000 has been made by adjusting for changes in the consumer price index.

TABLE 2.2
STATISTICS CANADA, AFTER-TAX LOW INCOME CUT-OFF, 2000 1992 BASE

Size of household	Size of Area of Residence 500,000 +	100,000-499,999	30,000-99,999	< 30,000 urban	rural
1 person	$15,020	$12,652	$12,457	$11,382	$9,848
2 persons	$18,327	$15,438	$15,198	$13,889	$12,016
3 persons	$23,179	$19,526	$19,224	$17,567	$15,197
4 persons	$28,870	$24,319	$23,942	$21,879	$18,928
5 persons	$32,268	$27,181	$26,760	$24,453	$21,157
6 persons	$35,666	$30,043	$29,578	$27,028	$23,384
7 or more	$39,062	$32,904	$32,394	$29,602	$25,614

Note: The authors have estimated the year 2000 cut-offs by adjusting for changes in the consumer price index.
Source: Statistics Canada, *Low Income After Tax*, 1997. Catalogue No. 13-592-XPB, 1999.

STATISTICS CANADA LOW INCOME MEASURE (LIM)

In 1989, Statistics Canada began a review of its method for defining low income by circulating a discussion paper[10] and holding meetings with a wide range of interested parties. The results of this review were presented in an appendix to the 1990 version of the annual survey results.[11] The review tentatively proposed to:

- adopt a purely relative approach to poverty based simply on one-half of median gross income;
- continue to adjust for family size but also for whether the household members are children or adults;
- discontinue adjusting for community size.

These alternative lines are called low income measures (LIMs). They are not included in the regular and main annual report on incomes in Canada, but rather are provided in a smaller separate report. In its summary report of this review process, Statistics Canada wrote that the traditional low income cut-offs "would continue for the time being as the main and preferred approach to the measurement of low income in Canada."[12] The agency would evaluate LIM as a replacement. As of early 2000, this situation regarding LIMs had not changed publicly.

Unlike the low income cut-offs, the LIM is not based on the proportion of income spent on food, clothing and shelter, but is based directly on income. The measure is based on one-half of median gross income, where median income is first adjusted for family size and composition. This adjustment is made to reflect the reality, for example, that a one-person household with an income of $60,000 is not equivalent in household purchasing power to a five-person household with the same $60,000 income. Fifty per cent of adjusted median income becomes the basic LIM for one person, and adjustments are made upwards according to the size and composition of the household. Unlike LICOs, no adjustment is made for community size. There is also a set of LIMs based on median after-tax income, but these lines are not reproduced here.[13]

The methodology and rationale of LIMs are quite clear and simple. The basis of what constitutes low income is defined relative to the median income of Canadian households only, and Statistics Canada sets the threshold at 50 per cent. Unfortunately, some of this simplicity is lost by adjusting not only for family size, but also for family composition. An adult is generally granted more income than is a child. Table 2.3 presents the LIMs for 10 family types.[14] Because 1997 is the last year for which LIMs have been calculated by Statistics Canada, the authors have estimated them for the year 2000 by adjusting for increases in the consumer price index.

TABLE 2.3
STATISTICS CANADA LOW INCOME MEASURE, 2000

Family Type	Low Income Measure
One adult	$13,492
One adult, one child	$18,890
Two adults, one child / One adult, two children	$22,937
Two adults, two children / One adult, three children	$26,984
Two adults, three children / One adult, four children	$31,032
Two adults, four children / One adult, five children	$35,079

Note: The authors have estimated the year 2000 low income measure by adjusting for changes in the consumer price index.
Source: Statistics Canada, *Low Income Measures, 1997* Catalogue No. 13-382-XIB, 1999.

Using a LIM approach to counting the number of poor persons in Canada, rather than the LICO, reduces poverty, depending on the year, by between two and three percentage points. However, this reduction is not uniform across provinces. In fact, it increases the poverty rates in the Atlantic provinces and Saskatchewan while lowering them elsewhere.

REVIEWING STATISTICS CANADA'S LOW-INCOME LINES

This section on Statistics Canada's various low-income lines concludes with a brief review of a discussion paper released by the agency in December 1999[15] which deals with two main issues. The first is the matter of rebasing the LICOs for changes in expenditures on food, clothing and shelter. The second is whether pre- or post-tax LICOs should take precedence in its annual report.

REBASING LICO

As already mentioned in the above description of LICOs, they have been periodically rebased for changes in the average expenditure on food, clothing and shelter. The survey for permitting this has been revised and is now conducted on an annual basis and not, as previously, every four years. This raises the possibility of rebasing the LICOs every year instead of periodically. The main issue is not whether the LICOs should be adjusted for changed expenditures regularly, but whether the historical series now using the 1986 and 1992 bases should be abandoned. Statistics Canada is proposing that they maintain the 1992 base for the immediate future and replace it over time by LICO values, using current expenditure figures each year. In effect, LICOs from 1997 and beyond would create a new series not based on any particular base year, but be changed every year.

The existence of a fixed base year that represents many years has never been true to the definition of the LICO, unless expenditures remained unchanged in the intervening years. To maintain its integrity, the LICO should represent the income level, each year, at which a poor household spends 20 per cent more than the average household on basic expenditures. Had it been administratively possible to collect expenditure data annually when the process began, a base year covering many years would not have been needed: each year, in effect, would constitute a fresh base year. The historical series would simply be these constantly rebased values. But because annual expenditure data did not exist, the LICO was periodically adjusted.

Looking to the future, it makes no inherent sense to continue a historical series (for example, based on 1992) that is not true to the definition of the LICO. These historical series fixed on a particular base year are an administrative fabrication necessitated by the lack of continuous expenditure data. It never made sense to push backwards in time a particular base-year LICO if expenditure patterns were changing. Using 1992- or 1997-based LICOs to show poverty rates in 1985 is incorrect. The proper method has always been to use the base year nearest those years that poverty rates are being estimated. For example, if one wants poverty figures for 1985 or 1987, one should use the 1986 base. If one wants poverty numbers for 1991 or 1993, the 1992 base should be used. One would probably use the 1992 base up to 1995 and then move to estimates provided by the 1997 base. These are also estimates, but provide rates truer to the basic definition of the LICO. The CCSD has always applied this method in its *Canadian Fact Book on Poverty* when calculating changes in poverty over time.

However, few people want to construct a more accurate series in this fashion. It is time-consuming, and Statistics Canada has produced historical series using fixed base years. Currently, it is possible to have poverty series based on either 1986 or 1992 expenditure data. But both are fairly gross estimates of the years that are farther away from the actual base year. For example, the poverty rate in 1997 for all persons as published using the 1992 base is 17.5 per cent, but using the new 1997 expenditure data, the rate is 18.9 per cent. This latter figure is the true measure of low income for 1997, not the 1992 estimate. For the next five years or so, until a new series based on currently adjusted data can be built up, it makes sense to use 1997 as a transitional base year for extending a series back in time to say 1995, and using the 1992 base to estimate 1993 and 1994 and back to the late 1980s.[16]

PRE-TAX OR POST-TAX LICOs

The issue presented in Statistics Canada's discussion paper is not so much whether the agency should continue to produce pre- or post-tax LICOs but which one should have prominence in its annual report on incomes. Statistics Canada is proposing that the post-tax LICO take the spotlight and the current traditional pre-tax LICO be reduced in stature. A fuller discussion on the merits of using pre- or post-tax LICOs is presented later in this chapter.

THE CANADIAN COUNCIL ON SOCIAL DEVELOPMENT LOW-INCOME LINES

Like LIMs, the Canadian Council on Social Development (CCSD) low-income guidelines are straightforward and represent a purely relative, or social inclusion approach, to the definition of poverty.

The guidelines are based solely on average family income as reported by Statistics Canada (in 1997, the average was $57,146). The CCSD deems one-half of average income to be the poverty line for a family of three members, which is the Canadian average (to be precise, the average is 3.06 family members). In adjusting the line for household size, the CCSD assigns an individual 50 per cent of the basic three-member-family value, and a family of two, 83 per cent. Families of more than three members are assigned an increment of 16.7 per cent for each additional member; the increment is a rough estimate of the annual living costs of an additional family member.[17]

The CCSD income lines, developed by a national task force in 1973, were not originally intended to be measures of poverty as such. Rather, they were developed to address the problem of severe and persistent income inequality in Canada by defining a minimum standard of income equality for Canadian families. The CCSD considers an appropriate minimum to be not less than one-half of the average family income in the community. Because the relevant community for the CCSD's purposes is Canada, the CCSD does not adjust the lines to take into account the differences in income among regions or between rural and urban households. Over time, a number of voluntary organizations and a few public agencies have come to regard the CCSD lines as poverty lines. Nevertheless, the lines do not measure poverty or need in the sense of providing estimates of the cost of essentials.

The most recent year for which precise CCSD lines are available is 1997, because they depend on estimates of family income provided by Statistics Canada. Year

TABLE 2.4
LINES OF INCOME INEQUALITY DEVELOPED BY THE CANADIAN COUNCIL ON SOCIAL DEVELOPMENT, 2000

Family Size	Income Level
1 person	$14,530
2 persons	$24,119
3 persons	$29,060
4 persons	$33,912
5 persons	$38,765
6 persons	$43,618
7 persons	$48,471

Source: Information provided by the Canadian Council on Social Development.

2000 lines have been estimated by adjusting for changes in the consumer price index, and they are presented in Table 2.4.

FEDERAL/PROVINCIAL/TERRITORIAL MARKET BASKET MEASURE

Although the market basket measure is popularly identified with the particular measure being developed by governments, a *market basket* approach to measuring poverty represents a generic approach, which is used by others as well. Market basket measures (MBM) differ from those presented earlier. The MBM discussed in this section represents only one specific approach still being developed by federal/provincial/territorial officials. The remaining four measures of poverty covered in this chapter are also based on a market basket approach, but the details differ.

The MBM claims to be an absolute, once-and-forever, measure which implies that a given real poverty standard can be developed at any point in time and still be relevant decades later. It develops a basket of necessities, and then prices the basket according to location. So although the content of the basket stays the same, the cost of different items varies, especially the shelter item. But what items are included in the market basket? What is considered a necessity? The governments define necessity with the aid of a statement made by the notable 18th-century Scottish economist Adam Smith: “whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.”[18]

However, the MBM – by claiming to be a measure that only adjusts over time to price changes, and not to “the customs” of the country – means that a family’s standard of living will lag behind that of non-poor families as community incomes rise. If the MBM were to adhere to Adam Smith’s more generous measure of poverty, the MBM would have to be adjusted not only for price changes over time but also for changes in community consumption levels and patterns. As it stands, the governments’ intended absolute measure is a relative measure, but with a time lag.

The MBM’s construction is based on the separate identification of food, clothing and shelter needs, while other *essentials* are addressed only in aggregate as a fixed percentage of the costs of food and clothing. The specific items in the market basket are identical for each geographical location, although the proportions consumed of different items may vary. The major adjustment for geographic difference is made through the different purchasing costs of the necessary items across the country. Poverty lines are estimated for five different community sizes (as with LICOs). This allows the MBM to estimate the incidence and numbers of poor people at the local, provincial and national levels. However, it does not permit a single national poverty line for each community size (as the LICO does), because the lines vary by province. In fact, for one family size alone (the MBM does adjust for family size), 39 different lines must be used to estimate the number of poor people just in that single family-size category. In order to produce an estimate of the national rate of poverty and the number of poor people, this procedure must be repeated many times over for each family size.

Briefly, constructing the MBM occurs in three basic stages:

- The *first stage* is to construct a market basket of necessities. To do this, government officials focus on the needs of a four-member family, consisting of two adults and two children. For food, the MBM uses Agriculture Canada's Nutritious Food Basket, which is then priced for 18 urban centres across Canada. For clothing, the MBM uses 75 per cent of the amount budgeted for by the Social Planning Council of Metropolitan Toronto in 1991, and subsequently updated for cost changes. The shelter standard for the four-member family is a three-bedroom apartment. Shelter costs receive the most adequate and extensive geographical treatment; CMHC is able to provide rental information for all locations in Canada with populations exceeding 10,000 people. The median rent in each location is adopted for the MBM. For other essentials – such as personal care, household needs, furniture, a telephone, public transportation, reading, recreation, entertainment and school supplies – the MBM allocates an amount equal to 60 per cent of the sum recommended for food and clothing. This percentage was determined after examining budget guides developed by social planning agencies in a number of cities.
- The *second stage* is to allow for variation in geographical differences in the cost of purchasing the market basket. This is done with varying diligence in the MBM, largely reflecting the lack of more precise data on local costs. The cost of the food basket is calculated for the largest urban centre in each province and is assumed to reflect the cost of food throughout the province. For the clothing basket, it is assumed that the 1991 cost of the individual clothing items in Toronto applied across the country at the time. Differential cost changes since 1991 were then estimated at the provincial level only, reflecting some geographical differences. For the shelter component, the median rent for each location was adopted but an estimate was made for those areas with less than 10,000 population. For the remaining essentials, no explicit variation is introduced. However, the procedure of setting the allocation at 60 per cent of the total cost of food and clothing – which varies by location – implicitly builds in some variation.

- The *third stage* requires adjusting the amounts determined above for a four-member family to different family sizes and configurations. One of the scales used to adjust for family size is the one used for the construction of LIMs. The choice of an equivalence scale is quite technical and will not be pursued here other than to say that the LIM approach adjusts not only for the number of members in a family, but whether members are under the age of 16 or over.

The values of the market baskets determined by the above procedure are only to be adjusted each year for price changes in the food, clothing and shelter elements. Unlike the four measures previously discussed, the baskets do not adjust for changes in the standard of living (i.e., changes in real incomes). However, the MBM approach does admit that the contents of the basket should be reviewed periodically, without any comment as to how often, except to say that living standards would have to change *enough* to warrant revision.[19] So in the end, the MBM's intended absolute nature is partially transformed into a relative measure, recognizing at least a need for minimum social inclusion, albeit with a time lag.

If one goes beyond the construction of a poverty line to actually count the poor using the MBM, what definition of income is proposed? The MBM starts with the premise that the measure of income must be that available to the household to purchase the market basket. Therefore, it is gross household income minus applicable provincial and federal provincial taxes, as well as any payroll taxes paid into the Employment Insurance and CPP/QPP programs. Household income is also reduced to reflect any child support payments paid out by a non-custodial parent, as well as out-of-pocket child-care expenses. Medical expenses for dental, prescription drugs, vision care and aids for persons with disabilities are also deducted because medical care is not included on the expenditure side of the market basket, but are deemed necessary expenditures.

Table 2.5 displays the poverty lines at the provincial level for a family of two adults with two children, in five different-sized communities. MBM lines have been produced for 1996, and they have been estimated for the year 2000 by using changes in the consumer price index.

What would the adoption of the MBM lines mean for the rate of poverty in Canada? It is estimated that the incidence of poverty would be cut to two-thirds (67 per cent) of the national rate derived by using the traditional pre-tax LICO measure (12 per cent versus 17.8 per cent for all persons, 1996). There are significant differences by province, varying from Newfoundland where poverty is cut to only 86 per cent of the LICO, to Quebec where the rate falls to 51 per cent of the LICO poverty rate.

TABLE 2.5

MARKET BASKET MEASURE LINES, BY PROVINCE AND SIZE OF AREA OF RESIDENCE, 2000*

Province	Size of Area of Residence 500,000 +	100,000 -499,999	30,000 -99,999	< 30,000 urban	rural
Newfoundland	n.a.	$22,671	n.a.	$21,339	$19,981
Prince Edward Island	n.a.	n.a.	$22,752	$21,433	$21,433
Nova Scotia	n.a.	$22,732	$21,246	$22,899	$20,964
New Brunswick	n.a.	$20,532	$22,146	$19,724	$19,199
Quebec	$21,303	$20,368	$20,099	$19,920	$19,100
Ontario	$26,899	$24,772	$24,260	$23,876	$21,749
Manitoba	$23,218	n.a.	$22,513	$21,322	$21,065
Saskatchewan	n.a.	$21,975	$20,489	$21,527	$20,527
Alberta	$21,279	n.a.	$20,805	$21,087	$18,819
British Columbia	$26,901	$25,761	$24,249	$23,634	$21,905

Notes: * Reference family is two adults with two children.
n.a. = not applicable due to the absence of this community size in the province.
The authors have estimated the year 2000 market basket lines by adjusting for changes in the consumer price index.
Source: Federal/Provincial/Territorial Working Group, *Construction of a Preliminary Market Basket Measure of Poverty* (Ottawa: March 1998).

THE FRASER INSTITUTE POVERTY LINES

The Fraser Institute (a free-enterprise advocacy organization) has published poverty lines developed by economist Christopher Sarlo, most recently for the year 1994.[20] Sarlo defines someone as being in a state of poverty “if he lacks any item required to maintain long-term physical well-being.”[21] The market basket includes shelter, food, clothing, personal hygiene needs, health care, transportation and telephone. All social amenities are completely excluded. For selecting and pricing the goods in the basket, “it is assumed that the quality and type of each item is at least at the minimum acceptable standard within the community in which one resides.”[22]

There is little need here to describe the derivation of these poverty lines in detail, because they follow the basic approach and philosophy used by the Market Basket Measure. Both approaches estimate what they consider to be the cost of a basket of necessary goods and services. However, the Fraser Institute lines are based more closely on the goal of ensuring physical survival, rather than the MBM’s goal of providing those necessities that it is customary to have at lower levels of income (but not necessarily the lowest levels). The construction of the Fraser Institute market basket goes into great detail, but like all market basket measures it makes many arbitrary assumptions as to what is necessary. This exhaustively detailed approach, while projecting an air of objectivity and science, in fact simply and inadvertently draws attention to the subjective (and relative) nature of the poverty lines and how they are derived. An element of relativity and subjectivity is inherently present in the drawing of any measure – whether one approaches it on a relative (social inclusion) or absolute (physical survival) basis.

The Fraser Institute lines are only developed for a number of Canadian cities, but province-wide poverty lines are also prepared, based on weighting the results for the various cities within each province. These lines are reproduced for six family sizes in each province and nationally in Table 2.6. The national line is the result of weighting the provincial lines and taking the average. The latest published results are for 1994, and the authors have estimated them for the year 2000 by adjusting for changes in the consumer price index.

TABLE 2.6
FRASER INSTITUTE POVERTY LINES, 2000

	Family Size					
Province	**1**	**2**	**3**	**4**	**5**	**6**
Newfoundland	$8,201	$11,464	$14,732	$17,618	$20,066	$22,507
Prince Edward Island	$7,167	$10,251	$13,937	$17,181	$19,506	$21,824
Nova Scotia	$7,403	$10,511	$13,899	$17,502	$19,797	$22,085
New Brunswick	$7,190	$10,091	$13,252	$15,995	$18,334	$20,667
Quebec	$6,841	$9,855	$12,699	$15,681	$17,960	$20,229
Ontario	$8,145	$11,529	$15,045	$18,603	$20,805	$23,000
Manitoba	$7,021	$10,495	$14,153	$17,585	$19,846	$22,100
Saskatchewan	$6,422	$9,760	$13,049	$16,098	$18,402	$20,700
Alberta	$6,994	$9,991	$13,216	$16,010	$18,158	$20,300
British Columbia	$8,754	$12,117	$16,203	$19,754	$22,130	$24,500
Canada	$7,625	$10,853	$14,220	$17,502	$19,757	$22,006

Note: The authors have estimated the year 2000 lines by adjusting for changes in the consumer price index.
Source: Christopher Sarlo, *Poverty in Canada*, 2nd edition (Vancouver: Fraser Institute, 1996).

When the Fraser Institute lines are used to measure poverty, extremely low rates are produced. Due to the complications of actually measuring poverty using these lines, and the fact there are no known users of them (other than the Fraser Institute itself), means that the original poverty estimates have not been updated since Sarlo calculated them for 1988. For that year, for a family of four, the rate of poverty was 2.5 per cent compared to the traditional Statistics Canada pre-tax LICO result of 10.1 per cent. Using the Fraser Institute lines cuts Canada's poverty rate by 75 per cent.

For those who want a basic Third World measure of poverty, one that will do little more than provide for the short-term physical survival of a family, these lines are representative of that.

THE MONTREAL DIET DISPENSARY GUIDELINES

The Montreal Diet Dispensary (MDD) is a non-government community organization which reaches out to pregnant women in need, considered to be high-risk pregnancies. The Dispensary provides nutritional supplements, social support and referrals to other helping agencies. In conjunction with a committee of welfare case workers associated with the Montreal Council of Social Agencies, the MDD has long maintained a set of minimum income guidelines that it updates periodically. The Dispensary has developed two lines.[23]

- The first line, designed for short-term periods of assistance only, is a basic needs guide consisting of seven items designed to provide for "the minimum adequate requirements for the maintenance of a family as a unit and the preservation of health and self-respect of the individual."[24] The seven items considered essential to meet basic needs are shelter, food, clothing, personal care, household supplies, utilities, and fuel for home heating.
- The second, slightly higher line – labelled the minimum adequate standard of living line – is designed for longer periods of assistance. It adds 10 more items to the basket "to allow for a minimal integration to society and to ensure the good physical maintenance of the family."[25] The 10 additions to the basic list of seven essentials are: transportation, school supplies, religious expenditures, replacements ("of only minor and absolutely necessary items such as dishes, utensils or linen"[26]), reading material, recreation, personal allowances, entertainment, telephone, and furniture and repairs.

Like all market basket measures, the MDD breaks down expenditures into basic categories and then prices the items in each category. The Dispensary uses standards that have in most cases been established elsewhere, but modifies them to suit its own judgement about what constitutes a minimum in each case. The MDD does not routinely adjust the contents of its categories to reflect changes in living styles and increases in the standard of living, although more changes have been made in the latest edition, compared to earlier editions. Nonetheless, some elements in the basket are rather aged. For example, it uses a basic reference standard for food last updated in 1975 (which basically adopts as its standard the actual food consumption patterns of the bottom 30 per cent of the population), and its clothing standard is based on 1951 guidelines.

TABLE 2.7
MONTREAL DIET DISPENSARY, BUDGET GUIDELINES FOR BASIC NEEDS, 2000

Size of Household	Basic Needs	Minimum Adequate Standard
Single employable	$8,946	$10,972
Mother, two children	$16,236	$18,336
Couple, two children	$19,008	$21,697

Note: The authors have estimated the year 2000 lines by adjusting for changes in the consumer price index.
Source: Montreal Diet Dispensary, *Budgeting for Basic Needs and Budgeting for Minimum Adequate Standard of Living* (Montreal: June 1997).

To reflect changes in the cost of living, both lines used by the Dispensary are updated periodically for changes in the prices of items in the different categories. As a result, the MDD's budget guidelines lean more towards a physical survival, or absolute approach, to the definition of poverty. The most recent year for which the Dispensary has calculated their lines is 1998 and changes in the consumer price index have been used to estimate the values for 2000. It should be noted that these lines describe an income level after any income tax has been paid. As Table 2.7 shows, the values of these guidelines have more in common with the Fraser Institute lines and, as will be noted below, social assistance rates established by the provinces.

THE SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO BUDGET GUIDES

The Social Planning Council of Metropolitan Toronto (SPCMT) budget guides also use a market basket approach, but what they consider as essential to the basket is based on what is required for social inclusion, not just physical survival. In other words, it seeks to identify a selection of goods and services whose cost represents the minimum expenditure necessary for social – rather than merely physical – survival.[27] Many social analysts have a high regard for the SPCMT procedure for determining minimum expenditure. Unfortunately, although the procedure can be used anywhere, the poverty lines (budget guides) that result from the SPCMT's use of it are specific to Toronto. They are not necessarily applicable to other parts of the country.

However, they are presented here because as a market basket measure they stand in sharp contrast to the MBM, the Fraser Institute lines and the Montreal Diet Dispensary guidelines. The SPCMT guides are an example of a market basket approach that considers items from a social inclusion perspective. In defining its budget guides, the SPCMT begins by breaking down expenditure into 13 categories. A panel of experts and non-experts drawn from the community then assigns to each category specific items that in its judgement must be within people's reach if they are to function socially at a minimum level, given the prevailing standards in the community. This approach makes provision for items such as a daily newspaper, dental care, shelter appropriate to the composition of the family and the ages and sexes of the children, recreation provided through institutions such as the YMCA and YWCA, supplies for adequate household maintenance, basic personal care items such as toothpaste and shaving equipment, and a one-week vacation at a nearby rented cottage. The panel assumes that transportation needs can be met entirely by public transit. It revises the contents of the shopping basket from time to time to reflect changes in community standards, although this has not been done since 1992.

The next step is to cost the contents of the shopping basket at prevailing prices. This task is performed by professional buyers, who are trained to acknowledge the realities of shopping on a small budget. For example, the buyers must bear in mind that low-income families are seldom able to cross town to take advantage of one-time shopping specials (due to lack of transportation); nor can such families normally afford to stock up on bargain items (due to lack of funds and/or storage space). The cost of all of the items in the basket represents the appropriate budget guide for a particular type of family, that is, a family of a given size and composition.

TABLE 2.8
SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO, BUDGET GUIDELINES, 2000

Type of Household	Budget Guidelines
Single employable	$20,759
Mother, two children	$37,036
Couple, two children	$44,668

Note: The authors have estimated the guidelines for the year 2000 by adjusting for changes in the consumer price index.
Source: Social Planning Council of Metropolitan Toronto, *Guides for Family Budgeting 1992* (Toronto: 1992).

Because the SPCMT calculates a separate budget guideline for each family type, the total number of guidelines is large. Table 2.8 presents lines for a few selected families, and the most recent SPCMT's estimates for 1992 have been updated to the year 2000 using changes in the cost of living only. The guidelines include an amount necessary to pay all applicable income, social security and consumption taxes. The guidelines make the following assumptions: in each case, the families are renting; there is one adult earner; and the family does not own a car.

THE COST OF LIVING GUIDELINES DEVELOPED BY THE SOCIAL PLANNING AND RESEARCH COUNCIL OF B.C.

Since 1988, the Social Planning and Research Council of B.C. (SPARC) has periodically prepared estimates of the cost of daily living for people under the age of 60 years.[28] To do so, it adopts a market basket approach whose main purpose is to assess the adequacy of provincial social assistance rates. Although these daily living costs are not described as poverty lines, it is clear that the amounts are considered to be the minimum necessary to allow people to participate in community life. These lines are thus aimed at providing a measure of social inclusion, and not just physical survival. Items in the B.C. basket include food, clothing, shelter, utilities, household supplies, personal care and transportation, all of which form the "basic subsistence costs." Other items – such as reading material, meals at a restaurant and admission to events – are then included to go beyond mere subsistence in order to facilitate participation in the community.

The latest figures provided by SPARC are for 1996, and they have been updated to the year 2000 for price increases. Table 2.9 provides these estimates which represent the amounts required after income taxes. The B.C. results fall between those produced for Toronto (which are pre-tax) and Montreal (post-tax), reflecting at least in part the differential costs of living in these three cities.

TABLE 2.9
COST OF LIVING DEVELOPED BY THE SOCIAL PLANNING AND RESEARCH COUNCIL OF B.C., 2000

	Family Type				
	Single adult	**Single parent, child (5 years)**	**Two adults, no children**	**Single parent, child (16 years), child (14 years)**	**Two adults, child (5 years), infant (6 months)**
Monthly	$1,120	$1,638	$1,659	$2,199	$2,426
Yearly	$13,436	$19,661	$19,906	$26,391	$29,111

Note: The authors have estimated figures for the year 2000 by adjusting for changes in the consumer price index.
Source: Social Planning and Research Council of BC, *Widening the Gap, A Comparison Between the Cost of Daily Living and Income Assistance Rates (BC Benefits) in British Columbia* (Vancouver: May 1997).

Benchmark Comparisons

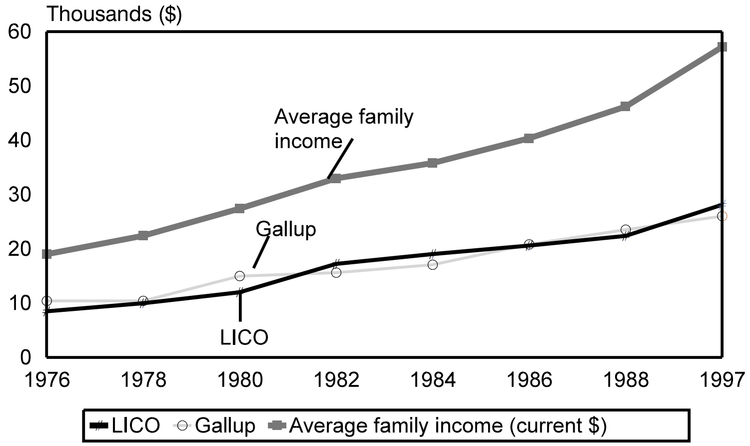
PUBLIC OPINION

Since 1976, the Gallup public polling organization has conducted regular polls that provide a guide to what the general public considers to be poverty. The poll asks the question: “Generally speaking what do you think is the least amount of money a family of four needs each week to get along in this community?” In 1997, the average response was $500 per week, or $26,000 per year. This amount is $2,100 below the Statistics Canada low income cut-off for a four-member family in an average-size community. However, because the Gallup question asks about the “amount of money” and not the amount of income, it is quite likely that most respondents interpret this as after-tax disposable income. The Gallup lines are not clear on this issue, but those analyzing the U.S. Gallup survey have concluded that most survey respondents would interpret the wording of the question as “take home” income, that is, income after tax has been paid.[29] If this were the case, the pre-tax income necessary to generate $26,000 is higher and much closer to the LICO figure, which is pre-tax. Whether respondents to the Gallup poll would in fact be inclined to support their neighbours at this level poses an interesting political question, but, nonetheless, the results provide an indication of what Canadians believe to be the level of income necessary to just get along in society.

In 1998, an Ekos survey asked the question: “In your opinion, what is the minimum amount of yearly income before taxes a family of four living in your community requires to meet its basic needs?”[30] The median response was $40,500.

The evidence from these different sources of public opinion indicates that the public favours a relative or social inclusion approach to the definition of poverty. Figure 2.1 charts three lines: the traditional LICO, the Gallup results and average family income since 1976. There is an extremely close correspondence between public opinion and the LICO, and both of them rise over time in line with average income, or the standard of living.

Figure 2.1
Canadians' Perception of Poverty over Time



Note: The years were selected based on the availability of Gallup data.
Source: Prepared by the Canadian Council on Social Development using Statistics Canada's low income cut-offs and *Income Distributions by Size in Canada*, and selected Gallup polls.

PROVINCIAL SOCIAL ASSISTANCE RATES

Basic provincial social assistance rates are implicit poverty lines. Most recipients of basic social assistance payments have no other income apart from modest federal government child and sales tax credits, and in some cases, provincial supplements of one kind or another. Consequently, one can look on social assistance as the definition of minimum income that has received the sanction of provincial governments.

Prior to 1995, before the advent of the Canada Health and Social Transfer (CHST), assistance to those on welfare was broadly governed by the 1966 legislation that introduced the Canada Assistance Plan (CAP). This legislation specified that the federal government share the cost of provincial assistance payments for food, clothing, fuel, utilities, household supplies, health care, travel and transportation, and personal requirements (the last item encompasses personal care, cleanliness and grooming, and recreation). It was left to the individual provinces to decide how much to allow for each category of expense and hence what the overall level of assistance would be.

Both before and since 1995, none of the provinces worked out an explicit budget (a market basket) to determine the adequacy of the basic assistance levels or sought to ensure that the benefits granted did satisfy the minimum requirements enumerated under CAP. Consequently, one cannot assume that recipients of social assistance have incomes sufficient to cover essentials. Studies by the municipalities of Ottawa and Toronto submitted to the Ontario Social Assistance Review Committee showed that welfare recipients in these cities were routinely paying between 50 and 75 per cent of their total monthly allowances for shelter alone.[31] Given the rising number of homeless and the growing reliance on food banks, this situation is probably substantially the same in the year 2000. When rent absorbs so much of a recipient's allowance, it leaves little for food and clothing, let alone health care, household operation, education, transportation and personal care.

Although it is easy enough to compare basic social assistance rates across the provinces, the task of comparison is not so easy when one tries to account for extras that provinces may provide. A given province may – or may not – provide shelter allowances, free health care, winter clothing and school allowances, special services for people with disabilities, or supplementary assistance that case workers can dispense to clients with some discretion to meet special or emergency situations. Fortunately, the National Council of Welfare regularly calculates an amount for basics and extras in such a way that permits comparisons across the provinces.[32]

The figures in Table 2.10 include the basic provincial rates, special allowances that are generally provided, and the maximum values of shelter subsidies where these subsidies are normally available on a general basis. The figures also include certain other forms of public transfers such as federal child benefits, provincial family allowances and child benefits, and GST and provincial tax credits. Although some small omissions from income are still bound to exist, the figures provide a reasonably accurate impression of the levels of income available to Canadians with little or no other income and few assets.

TABLE 2.10

ANNUAL INCOMES OF HOUSEHOLDS THAT RECEIVE SOCIAL ASSISTANCE, 2000

	Family Type			
Province	**Single, employable**	**Single, disabled**	**Single parent, one child**	**Couple, two children**
Newfoundland	$1,121	$7,102	$11,723	$12,695
Prince Edward Island	$5,498	$7,359	$9,999	$14,965
Nova Scotia	$4,579	$8,861	$10,607	$13,948
New Brunswick	$3,276	$6,925	$9,072	$10,164
Quebec	$6,081	$8,836	$8,002	$10,964
Ontario	$6,453	$11,541	$11,563	$14,543
Manitoba	$5,535	$7,402	$9,652	$14,015
Saskatchewan	$5,469	$7,022	$8,923	$12,741
Alberta	$4,908	$6,602	$9,446	$14,743
British Columbia	$6,253	$9,568	$10,595	$12,820

Note: The authors have estimated the annual income figures for the year 2000 by adjusting for changes in the consumer price index.
Source: National Council of Welfare, *Welfare Incomes 1997 and 1998* (Ottawa: 1999).

The figures in Table 2.10 represent the rates of social assistance that prevailed in 1998. They have been updated for changes in the cost of living only, in order to provide estimates for the year 2000. A comparison of the figures in Table 2.10 with those in previous tables makes it clear that social assistance authorities tend to adopt an absolute, or physical survival, approach to the definition of poverty.

AVERAGE AND MEDIAN INCOMES

The figures in Table 2.11 represent the prevailing average and median incomes for Canadian households. The purpose of including these benchmarks is to show how the various poverty lines measure up against the average Canadian income. All of the lines fall far short of the average, and most are less than one-half of the average. The most recent data available are for 1997; and this book's estimates for the year 2000 are based on adjustments for changes in the cost of living only. The definition of income used is the broad definition described earlier in the section on Statistics Canada's low income cut-offs. It represents before-tax income.

TABLE 2.11
AVERAGE AND MEDIAN INCOMES, CANADA, 2000

Household Type	Average Income	Median Income
Families	$61,014	$53,650
Unattached Individuals	$26,697	$20,071
All Households	$49,707	$40,466

Note: The authors have estimated income figures for the year 2000 by adjusting for changes in the consumer price index.
Source: Statistics Canada, *Income Distributions by Size in Canada*, 1997. Catalogue No. 13-207-XPB, 1999.

Poverty Line Issues

In closing out this chapter, it is useful to look at a number of issues associated with the development of poverty lines.

SIMPLICITY

Ideally, the measurement of poverty would reflect the relationship between the real income and the needs of each Canadian household. The realization of this ideal would, however, result in approximately 10 million separate values. Real incomes and needs vary, and seldom according to categories that would be easily measured in a survey. For example:

- People with severe disabilities generally have greater income needs than do others.
- People who live on farms may have slightly smaller income needs because they can produce some food for themselves more cheaply than city dwellers can buy it.
- Some households reduce their need for cash income by participating in local informal economy networks whose members exchange goods and services.

- Residents of some provinces receive free or subsidized services that residents in other provinces may pay for in full.
- Urban households face higher shelter costs than do rural households; on the other hand, rural households face considerably higher transportation costs than do urban households and often have little access to many services that are readily available in cities.

Although the definition of 10 million values is out of the question, it is possible to design poverty measures that take most of the factors just mentioned into account in a more or less general way. Disability, income in kind, access to subsidized services and locational differences in the cost of living are all matters that a well-conceived set of poverty measures can consider. Indeed, some of the poverty measures outlined above do accommodate a wide range of variables.

On the other hand, it is possible to argue that measures of poverty should be fairly simple, especially if they are going to be used to count the number of poor. One objection to the fine-tuning of poverty lines is unwieldiness: for example, the Statistics Canada LICOs, by taking just two variables into account (family size, and urban-rural expenditure differences), yields 35 separate lines. Elaborate categorization of the poor can also lead to perceptions of unfairness – especially if the resulting lines are used as the basis of government programs (see "Poverty Lines and Anti-poverty Policies" later in this chapter).

DEPTH OF POVERTY

All measures of poverty have one feature in common: they generate estimates of the rate, or incidence, of poverty only. However, two other important statistical dimensions – depth and duration – round out an understanding of poverty. Depth means how far below the poverty line a family's income is, or in other words, how much money is required to bring a poor family's income up to the poverty line. The difference is known as the *poverty gap* – and results can be generated for individual families, for segments of the population (such as lone-parent families) or for Canada's entire poor household population.

An example can best illustrate the importance of the depth of poverty. Imagine that two provinces have identical poverty rates of 15 per cent, so on the surface the picture of poverty appears identical. However, in one province the typical poor family is $8,000 below the line, while in the other province the average depth is only $1,500 per family. Clearly, the state of poverty is worse in the first province.

Both the rate and depth of poverty must be known for policy purposes, and the CCSD was one of the first organizations to highlight and develop estimates on the depth of poverty.[33] A variety of efforts are underway to merge the two dimensions of poverty into one combined measure,[34] although Statistics Canada has made no attempt to combine the two. Chapter 6 pursues this issue of linking these two poverty dimensions in greater detail, building on an experimental measure published by the CCSD in 1997.[35]

DURATION OF POVERTY

The third important dimension required to round out the picture of poverty is the length of time, or duration, that households exist in a state of poverty. After the rate of poverty has been calculated, the added dimensions of depth and duration paint a more complete picture of the severity of poverty. Chapter 7 explores the issue of poverty duration in more detail.

BEFORE-TAX OR AFTER-TAX INCOME?

The measures of poverty described above take different approaches to measuring income, and hence poverty. The CCSD line and versions of Statistics Canada LICOs and LIMs use before-tax income. It is expected that the resulting poverty line incomes are subject to tax. The Social Planning Council of Metropolitan Toronto Budget Guides provide both pre- and post-tax lines.

On the other hand, all of the market basket measures of poverty define poverty line income net of a variety of taxes, that is, after-tax income. The MBM even recognizes payroll taxes such as Employment Insurance and CPP/QPP premiums. Market basket lines are generally designed to allow for the purchase of a basic basket of goods and services including applicable consumption taxes.

In theory, there should be little to choose between the two approaches because only net (after-tax) income is relevant to a poor household. If before-tax income is used, it is assumed to be higher by an amount equal to the family's expected income tax bill. In either case, the amounts should generate a disposable income designed to purchase identical levels of goods and services. The resulting lines will be different but only because one set (pre-tax) assumes that income taxes must be paid out of the given level, while the other set (post-tax) assumes no income taxes are to be paid out of this income. In reality, there will be a basis on which to choose between the lines if low-income people are required to pay income taxes when it is assumed by the after-tax approaches that they don't pay taxes.

However, there is a more serious measurement issue concerning taxes, and this relates to how Statistics Canada calculates its LICOs. In its 1999 discussion paper, discussed in an earlier section, Statistics Canada is proposing to highlight the post-tax LICO and downgrade the existing pre-tax LICO. Such a change would reduce the 1997 rate of low income (poverty) for all persons from 17.5 per cent to 13.3 per cent; for children, from 19.8 per cent to 15.8 per cent; and for seniors, from 18.7 per cent to 8.1 per cent. For people living in large metropolitan cities, the actual value of the LICO would fall by $3,000 for a single person and $4,900 for a family of three. Consequently, the proposed change is not cosmetic but substantial. With one computer keystroke, poverty is significantly reduced.

The discussion paper demonstrates why the post-tax approach reduces poverty. Because the LICO is a relative measure, incomes in Canada on a post-tax basis are more equally distributed due to the relatively progressive nature of income taxes. Consequently, a low-income family is now relatively closer to a middle-income family after taxes than before – in effect, middle-income families are now "poorer." As a result, a poor family's income must drop in order to maintain the same relative distance between poor and middle that existed before taxes. This drop is reflected in a lower LICO, and subsequently lower poverty rates.

The logic so far is unassailable if one decides to use post-tax income and follows the usual method of calculating the LICO based on average expenditure.

Unfortunately, the analysis ignores an important consideration: post-tax LICOs only adjust incomes for federal and provincial income taxes. These taxes currently account for only 38 per cent of total government revenues.[36] The remaining 62 per cent is collected through more regressive taxes such as EI and CPP premiums, GST and provincial sales taxes, property taxes and so on. If Statistics Canada is going to adjust incomes for taxes paid, it should go beyond the only tax that does redistribute income and include those that work in the opposite direction. The agency's technical analysis of how far a poor family falls below a middle-income family after taxes would then be quite different.

The lack of progressivity in the overall tax system has been corroborated over the years by Professor Irwin Gillespie, most recently in 1994. His work shows that when the incidence of all taxes are accounted for, Canada really has a flat tax that varies between 30 and 34 per cent of income across the entire income range.[37] Consequently, low-income Canadians would feel just as poor relative to middle-income families either before or after all taxes are levied.[38]

Aside from the technical details, the major question is: Why is this decision being taken? After all, it has been an arbitrary decision to use pre-tax income from the beginning, just as it was an arbitrary decision to use average expenditure on essentials and add 20 per cent to it. If Statistics Canada were now proposing to lower the "mark-up" to 10 per cent, or to use, not average expenditure, but say one-half average expenditure, the public would expect a strong rationale for this change. One would also expect the same for an arbitrary change from pre- to post-tax.

Unfortunately, the discussion paper provides only a weak and unconvincing rationale: “the focus will shift from before-tax to after-tax low income rates because *we now have the capacity* to do this” [emphasis added].[39] But the capacity has been there since at least 1980 as the paper notes.[40] Why has it taken almost 20 years to propose a change that could have been instituted in 1980?

Many anti-poverty advocates, and poor Canadians in general, will wonder if the sudden arbitrary proposal to lower low income cut-offs is politically motivated. The discussion paper does note that “the commitment of governments to address child poverty, has led to intense public scrutiny of LICOs and their appropriateness for evaluating the effectiveness of poverty-reduction policies and programs. Some have called for a public debate on how poverty should be measured.”[41] Critics will also note that the proposed post-tax LICOs are much more in line with the federal, provincial and territorial governments’ Market Basket Measure which is also considered to be politically motivated and a compromise between the current LICO and the Fraser Institute lines.

Without a stronger and clearer rationale as to why a change to a post-tax LICO is being proposed, one wonders why the agency stuck with the pre-tax measure for over 30 years? It is hard to believe that all of a sudden, for unstated technical reasons, Statistics Canada recognizes that it has been using the wrong line for all these years.

In conclusion, it is important to note that the overwhelming reason why the current LICOs have been around so long and are the most authoritative, widely quoted and accepted lines is not because of their superior methodology, but because they give sensible results that resonate with Canadians. Since 1976 when Gallup has asked the question as to what is the minimum amount a family needs to get by on, the answers have been remarkably similar to the LICO numbers, and both have closely tracked changes in average family income levels as seen in Figure 2.1.

MARKET POVERTY

The CSSD began developing a complementary definition of household income to be used in measuring poverty in its 1989 edition of *The Canadian Fact Book on Poverty*, which was further elaborated in its 1997 report, *Left Poor By the Market*.[42] In order to count the number of poor Canadian households, traditional estimates of the extent and depth of poverty, use a household’s *total income* (either before- or after-tax) when comparing it to any given poverty line. Total income is a household’s combined income received from governments, plus all private receipts such as earnings, returns from investments (including RRSPs), alimony and company pensions. These private receipts are known as *market* *income* because they are based on non-government income flowing primarily from the marketplace. Of all market receipts, by far the largest element is earnings, and earnings are sometimes used synonymously with the term “market income.”

A measure of poverty that focuses on market income is prompted by the shift that has been occurring in governing philosophy beginning in the late 1970s, and gathering force in the 1980s and 1990s (in many western countries), away from the collective provision of support for poor people towards an emphasis on self-reliance. This shifting of responsibility means that low-income households no longer can reliably count on minimum supports from governments; instead, people are expected to make greater efforts to improve their economic security through enhanced labour market activity. The remaining government support programs are being continuously transformed into programs to provide people with the means and incentives to improve their situation in the labour market.

Historically, earnings have always provided the bedrock of a household’s economic security, and households today derive around 78 per cent of their total income from earnings. Given the importance of earnings, it is insightful to develop a measure that provides an estimate of how well the strategy of increased self-reliance is working for those at the bottom of the earnings ladder. One way is to estimate the rate of poverty using the LICO, but substituting market income for total income as a measure of a household’s income. This procedure provides an approximation of what the rate and depth of poverty would be in the absence of government transfers. The word “approximation” is used because if government transfers were eliminated in reality, it is not certain how people would react and how the earnings picture would change. But a market measure of poverty provides a picture over time of how well earnings alone are capable of keeping people out of poverty. Chapter 5 presents estimates of market poverty.

Poverty Lines, Public Policy and Politics

WHY DO WE HAVE POVERTY LINES?

Poverty lines are needed for several reasons:

- Society needs a statistical indicator that tracks national and provincial estimates of the number and composition of households with low incomes. This indicator is essential for determining the size of the poor population and its composition – how many are lone-parent mothers, children, Aboriginal peoples and persons with disabilities? The measurement of a societal condition is a fundamental prerequisite to taking corrective policy action. Moreover, it seems that in modern societies, unless a societal condition has some statistical visibility it is deemed not to exist.

- International comparisons are needed to see how Canada measures up against other developed countries.
- Measuring the impact on poverty of policy initiatives – such as Old Age Security, Employment Insurance, or the National Child Benefit, or of major cutbacks in government spending – is important.
- Frequently, local governments, school boards and community organizations need an income guideline to assist them in establishing eligibility for income-targeted services such as transportation and housing assistance, school lunches, pre-natal care, and subsidized child care.

Which of the poverty lines discussed above is favoured in usage will depend on the purpose for which it is used. If assessing the state of income inequality across the country is the objective, a consistent line based on income, and not on the cost of local living conditions is required. The CCSD line or the LIMs are suitable for this job. If the objective is addressing income inequality across the country, but with at least some recognition of geographic variations in living costs, the LICO (before- or after-tax) represents a good choice.

For international comparisons, a poverty line that introduces variation beyond family size is unwieldy if not practically impossible given the difficulties of gathering consistent data. International comparisons need a relatively simple poverty standard that can be easily applied across many countries. For this, either the CCSD measure or the LIM will be most appropriate. However, if the goal is setting income benchmarks in specific communities for the purpose of providing either income or service assistance to targeted households, then lines based on local living costs are highly relevant. National or international consistency is not important for this purpose. The choice is between the low support levels of the Fraser Institute lines, the intermediate-level lines of the MBM and SPARC of B.C., or the higher support offered by the Social Planning Council of Metropolitan Toronto. Which one is chosen will depend on the ultimate goal of providing assistance – short-term survival or longer-term social inclusion and well-being.

POVERTY LINES AND ANTI-POVERTY POLICIES

To what extent has Canada's "unofficial" poverty line (the LICO) influenced policy decisions? At the national level there is scant evidence that governments pay much attention to them in establishing the benefit levels for federal programs. There was a time in the early 1970s – during the height of social activism – when the LICOs were recognized in some political circles as a desirable benchmark for guiding the benefit levels of the benefit programs for seniors. Although there was no official adherence to the LICOs, government officials referred to them in discussions, and perhaps the fact that the poverty rate among elderly families fell from 39 per cent in 1967 to seven per cent in 1997 suggests that the LICOs may have had some influence. At the provincial level, there is no evidence that the LICOs have any influence. Social assistance rates accord more closely with the lower levels proposed by market basket approaches designed to provide for short-term physical survival.

However, poverty lines may influence policy beyond benefit levels in other ways. The LICO provides estimates of the rate of poverty in Canada on an annual basis, and when this rate increases it can create pressure on governments to take action. For example, in 1989, the House of Commons unanimously passed a resolution to eliminate child poverty by the year 2000. By 1997, the rate had climbed from 15 per cent to 20 per cent. Child poverty advocacy groups such as Campaign 2000 have not let the federal government forget this resolution and it has proven to be somewhat of an embarrassment and prod to action. The constant reminding of this record can likely take some credit for both provincial and federal governments working on a "national children's agenda," to improve the well-being of children across the country, including those who are poor. This story is reminiscent of the high poverty rates among the elderly in the 1960s, which also played a part in goading governments into ameliorative action.

If poverty lines were used for guiding the benefits of national programs such as CPP/QPP, OAS/GIS/SpA, Employment Insurance, Veteran's Benefits, National Child Benefit, and cut-offs for other tax programs such as the GST sales tax credit, then a line based on the LIM or CCSD approach would have to be used. Variable market basket measures, or even the minor geographical adjustments in the LICO, would likely be inappropriate. A lively response would ensue if the lines were used to actually determine the value of federal government benefits. If the lines came to affect people's lives directly, then any distinctions in treatment on the basis of locality would be noted and questioned. If the federal government were to use distinctions between rural and urban households for determining the value of benefits under federal benefit programs, a political storm would ensue.

In addition to the political problem, an administrative one would emerge. Program administrators would find it difficult to delineate and segregate the population according to the five residency requirements used by Statistics Canada. Neighbours who lived across the road from one another, or within a few miles of each other, would find themselves treated differently, not on the basis of income but on the basis of imperceptible geographical variances.

The lack of any regional or cost-of-living adjustments in the CCSD lines is defensible given the line's original purpose. They were designed in 1973 to provide income guidelines for a national guaranteed income scheme. In other words, they were designed to assure all Canadians the same level of minimum income support wherever they lived. The reference group was all Canadians, not just those in a given geographical vicinity.

The rationale for using a national reference group is that people in rural Newfoundland, downtown Toronto and suburban Vancouver all judge their own living standards by what they see and hear of the living standards experienced by other Canadians. Modern communications ensure that Canadians everywhere are aware of the conditions of life for Canadians everywhere else. If an income line is to be adopted as the basis for guiding national benefits, it must be politically acceptable, and variable lines are not politically acceptable for a national project. In this respect, a CCSD task force observed that for the purpose of establishing a floor income for national income policies "to accept and adjust poverty lines downward for lower incomes in the Atlantic provinces and in rural areas seems only to institutionalize these low incomes."[43]

WHICH LINE DO WE USE?

Given that Canada has no official poverty line, which of the many lines discussed above represent poverty? The answer depends on the objective. If simple short-term physical survival is the objective, then the lower-level lines – Fraser Institute, Montreal Diet Dispensary, and those implied by provincial social assistance rates – will suffice. If the objective is to provide for social inclusion and cohesion, and the long-term well-being of family members, then the higher support levels provided by Statistics Canada, the CCSD, the Social Planning Council of Metropolitan Toronto and public opinion are required. The lines that fall in-between – SPARC of B.C., and MBM – will meet the first objective, but are unlikely to fully meet the second.

The basis for this assertion stems from the examples cited in Chapter 1 illustrating some of the associations between family income and child and adult outcomes.[44] From the standpoint of both adult and child well-being, it is clear that families with incomes below $30,000 are much more likely to have riskier living conditions and higher risk outcomes. This level of income seems to be required if the objective of poverty lines is to: set a floor below which family incomes should not fall; lower the risk of poor outcomes; and provide even a vaguely level "playing field" for children and adults. It may be more appropriate to refer to this floor as a line of "unacceptable" income inequality.

Summary

By far, the most accepted and used definition of poverty is the Statistics Canada before-tax LICO. It has been the reigning champion for over 30 years. Whether one agrees with the basic assumptions behind the LICO and the mechanics for developing it, it does provide a level of support that accords with public opinion and with the empirical evidence supporting adult and child well-being. The remainder of this book will use the before-tax LICO in describing the portrait of poverty in Canada.

Endnotes

[1] The official poverty line in the United States is based on the cost of purchasing the food required for a minimum adequate diet. When the line was developed in 1964, it was estimated that a family would require an income three times greater than the amount needed to buy food in order to buy other essentials and stay out of poverty. Since 1964, the lines have been adjusted for changes in the cost – but not the standard – of living. Consequently, they are much lower than the national lines developed in Canada by various agencies. In 1998, the U.S. line for a family of four was $16,450, compared to the estimated Statistics Canada low income cut-off of $33,400. For a good discussion of the U.S. poverty line and attempts to revise it, see Institute for Research on Poverty, University of Wisconsin, *Focus*, Spring 1998.

[2] The results of this survey are published annually in Statistics Canada, *Income Distributions by Size in Canada* (Ottawa), Catalogue No. 13-207.

[3] For her own detailed account of this work, see Jenny R. Podoluk, *Incomes of Canadians* (Ottawa: Statistics Canada, 1968). See also Statistics Canada, *Statistics On Low Income in Canada, 1967* (Ottawa: 1971).

[4] *Ibid*., Statistics Canada, *Statistics on Low Income in Canada, 1967*.

[5] The Family Expenditure Survey (FAMEX) was replaced in 1997 by the annual Survey of Household Spending which reported that this standard had fallen to 54.3 per cent in 1997. This would necessitate an increase in the LICO. However, this new standard was not used in calculating the rates of poverty published in Statistics Canada's 1997 report on incomes. The 1992 standard was maintained.

[6] Statistics Canada, Income Statistics Division, *Income Distributions by Size in Canada*, 1997 (Ottawa: Ministry of Industry, April 1999), Catalogue No. 13-207-XPB, p. 43.

[7] *Ibid.*

[8] For the most part, this book concentrates on the rate of poverty among families and unattached individuals. Individual-level data are available, but there are certain problems in interpreting these data that stem from the ways in which income data are collected and organized. Most income studies organize data around the family unit. All individuals within the family are identified by their relationship to the head, defined in most instances as the male breadwinner. Surveys, including the Survey of Consumer Finances, assume that all members of a household pool their income, and in turn, have equal access to family economic resources. This assumption is problematic to say the least, as it systematically hides the distribution of income within families. Moreover, it is difficult to conclusively determine the incidence of poverty or average incomes of specific individuals within the household. As a result, poverty data tend to be broken down by household unit – families and unattached individuals – instead of by individual characteristics. When individual-level data are produced, the incidence of poverty among men and women in couple households, for instance, is assumed to be equal. While acknowledging these problems, the authors have chosen to attribute poverty status to each member of the household based on family income, as is standard practice.

[9] See Statistics Canada, *Low Income After Tax, 199*5 (Ottawa: 1997), Catalogue No. 13-592-XPB.

[10] Michael Wolfson and John Evans, “Statistics Canada’s Low Income Cut-offs Methodological Concerns and Possibilities: A Discussion Paper” (Ottawa: Statistics Canada, December 1989).

[11] Statistics Canada, *Income Distributions by Size in Canada, 1991* (Ottawa: 1992), Catalogue No. 13-207.

[12] Cited in Statistics Canada, *Low Income After Tax, 1997* (Ottawa: 1999), Catalogue No. 13-592-XPB, p. 11.

[13] For more information on these lines, see Statistics Canada, *Low Income After Tax* (Ottawa), Catalogue No. 13-592, annual.

[14] For more information on LIMS, see Statistics Canada, *Low Income Measures* (Ottawa), Catalogue No. 13-582, annual.

[15] C. Cotton, M. Webber and Y. Saint-Pierre, *Should the Low Income Cut-offs be Updated? A Discussion Paper* (Ottawa: Statistics Canada, December 1999).

[16] *Ibid*., p. 30.

[17] For more detail, see Canadian Council on Social Development, *Social Security in Canada, 1973* (Ottawa: 1973); and *Not Enough: The Meaning and Measurement of Poverty in Canada* (Ottawa: Canadian Council on Social Development, 1984).

[18] Quoted in *Construction of a Preliminary Market Basket Measure of Poverty*, a report by the Federal/Provincial/Territorial Working Group on Social Development Research and Information, March 1998.

[19] *Ibid*., p. 16.

[20] Christopher Sarlo, *Poverty in Canada*, 2nd Edition (Vancouver: The Fraser Institute, 1996).

[21] *Ibid*., p. 49.

[22] *Ibid*., p. 49.

[23] Montreal Diet Dispensary, *Budgeting for Basic Needs and Budgeting for Minimum Adequate Standard of Living* (Montreal: June 1998).

[24] *Ibid*., p. 2.

[25] *Ibid*., p. 2.

[26] *Ibid*., p. 40.

[27] Social Planning Council of Metropolitan Toronto, *Guides for Family Budgeting 1992* (Toronto: 1992).

[28] Social Planning and Research Council of B.C., *Widening the Gap* (Vancouver: May 1997).

[29] Denton Vaughan, “Exploring the Use of the Public’s Views to Set Income Poverty Thresholds,” *Social Security Bulletin*, Summer 1993 (Washington: Social Security Administration, 1993), p. 25.

30 Ekos Research Associates, *Rethinking Government V, Compendium Report* (Ottawa: September 1999).

31 Social Assistance Review Committee, *Transitions* (Toronto: Queen's Printer for Ontario, 1988).

32 National Council of Welfare, *Welfare Incomes 1997 and 1998* (Ottawa: 1999).

33 David Ross and Richard Shillington, *The Canadian Fact Book on Poverty 1989* (Ottawa: Canadian Council on Social Development, 1989).

34 See Chapter 6, endnote 2.

35 Grant Schellenberg and David Ross, *Left Poor By the Market: A Look at Family Poverty and Earnings* (Ottawa: Canadian Council on Social Development, 1997).

36 Canada, Department of Finance, *Fiscal Reference Tables* (Ottawa: September 1999), p. 39.

37 I. Gillespie and W. Vermaeten, "Tax Incidence in Canada," *Canadian Tax Journal*, Vol. 42, No. 2, 1994.

38 C. Cotton, M. Webber and Y. Saint-Pierre, *Should the Low Income Cut-offs be Updated? A Discussion Paper* (Ottawa: Statistics Canada, December 1999), p. 22.

39 *Ibid*., p. 34.

40 *Ibid*., p. 24.

41 *Ibid*., p. 25.

42 David Ross and Richard Shillington, *The Canadian Fact Book on Poverty, 1989* (Ottawa: Canadian Council on Social Development, 1989); and Grant Schellenberg and David Ross, *Left Poor By the Market* (Ottawa: Canadian Council on Social Development, 1997).

43 *Not Enough: The Meaning and Measurement of Poverty in Canada* (Ottawa: Canadian Council on Social Development, 1984), p. 35.

44 David Ross and Paul Roberts, *Income and Child Well-being: A new perspective on the poverty debate* (Ottawa: Canadian Council on Social Development, 1999).