



# Introduction

When I began a critical examination of poverty measurement 12 years ago, I attempted to deal with poverty in the same manner that economists deal with any other topic. I tried to ask difficult questions about the prevailing approaches and tried to evaluate the adequacy of those approaches in a rigorous way. I was not at all concerned about being politically correct. I did not care whether the outcome of my research would be popular or “acceptable.” As a social scientist, my only concern was that my analysis be carefully done and that I offer a believable and defensible alternative to what I viewed as a badly flawed measure (the Statistics Canada LICO lines).

This latest work is my third in a series of major papers on the measurement of poverty. In this effort, the “basic needs” poverty lines that were presented in *Poverty in Canada* (1992) have undergone a significant revision. I have subjected my lines to the same careful scrutiny and critique that I had applied previously to the LICOs. The result, I believe, is a clearer and more credible measure of poverty. As before, I welcome any critical comments and suggestions from readers.

## Defining poverty

Dictionary definitions reflect common usage and popular understanding of the meaning of words. The latest versions of our most respected dictionaries tell us the term, poverty, means “without or lacking basic necessities”; “being poor, deprived of basic needs”; and “without any luxuries.” This is helpful but it does not tell us specifically how to use “poverty” to make a practical distinction. Where exactly on the continuum of living standards does the state of poverty lie? How deprived does one have to be to be classified legitimately as poor? More generally, is poverty all about the lack of a certain basket of necessary commodities or is it merely a particularly low position in the distribution of income?

Students of poverty have struggled with these and related questions for a long time. The problem is that poverty is not a highly visible nor clearly objective condi-

tion. People do not neatly sort themselves into poor and non-poor. At one time, the label “poor” was pejorative and demeaning. It was a label that people wore very reluctantly and often with shame. More recently, with the advent of a fairly elaborate social safety-net, “poor” has far less stigma attached. Despite a fairly consistent meaning of the word in common use, the condition of poverty is not easy to identify. It is not like the freezing point of water or even like the condition of unemployment.

It may be of some assistance if we look at various material standards of living, beginning with the very lowest. As we do, we may wish to remind ourselves that what we want, presumably, is to identify the condition of poverty and not the standard of living we want for the poor.

### Material standards of living

#### *Non-sustainable subsistence*

Subsistence means barely surviving; just keeping oneself alive, and not covering all the basic necessities of life. It is possible for subsistence to be sustainable or non-sustainable. The latter would imply a standard of living, especially with regard to food consumption, which is unhealthy and will compromise long-term physical well-being. It will lead to illness and an early death. Non-sustainable subsistence implies having food that is just enough to keep one alive (for the time being), likely obtained from charitable sources (e.g., food bank or soup kitchen) and, if purchased, the least expensive foods at grocery stores (bread, rice, potatoes and reduced items). Shelter is likely to be inadequate, unhealthy, or non-existent. People who are intermittently or usually homeless would be in this category. Clothing and any other possessions are likely to be very limited, donated from charitable sources, and often inadequate for wide changes in weather. In short, this standard of living is unhealthy and non-sustainable. Based on my own experience with costs of living, I would estimate the annual cost of this living standard for a single person to be in the range of \$2,000 to \$4,000 (or equivalent in donated goods) in 2000, depending on the amount obtained from charity. (All values, unless otherwise stated, are in Canadian dollars.)

*Sustainable subsistence*

It is possible for subsistence to be sustainable. We can imagine a standard of living where people survive day-to-day in a way that does not compromise their long-term physical health. The food would be nutritious and balanced and fulfil all requirements of healthy eating. Shelter may be spartan, crowded, and inexpensive but not unhealthy. It may be a room in a house or in an institution or it may be accommodation shared with two or more people. Clothing, whether obtained from charitable sources or bought at a store, is just adequate to meet seasonal requirements. People in this circumstance might include ascetics and those in religious orders taking a vow of poverty, some new immigrants to Canada, and, perhaps, some institutionalized people. My estimate of the cost of this standard of living would be about \$5,000 to \$6,000 for a single person.

*Basic needs standard*

A basic needs standard of living would have all of one's basic necessities covered *at a standard of quality considered minimally decent in contemporary society*. Much of my research has focussed attention on this level and much of the rest of this report involves this particular standard. The precise nature of this standard will depend on the list of necessities selected. I have put forward a list of physical needs or items closely connected to those physical needs and have deliberately omitted amenities. My list includes food providing a nutritious diet that satisfies all norms of energy, balance, and palatability and that is purchased at grocery stores using no savings strategies; shelter that consists of apartment accommodation that is not subsidized and is appropriate in size for the family and includes all the usual furnishings and appliances; clothing purchased new at popular department stores; a telephone with local telephone service; all necessary household supplies; household insurance; laundry requirements; public transportation; personal care; any out-of-pocket health-care needs; and a small amount for school supplies and correspondence. The estimated annual cost of this standard of living (precise calculations below) for a single person in 2000 is about \$8,900.

*Comfort level*

A number of budget standards and market baskets (particularly those of Social Planning Councils) have outlined standards of living that they regard as minimally desirable. They most often include a range of items that many consider to be amenities: recreation expenditures, long-

distance telephone, ability to give gifts, travel, tobacco and alcohol, cable television, meals in restaurants, and expenses for pets have been included in such budgets. The important point is that this is a standard of living that extends beyond mere basic necessities and incorporates some measure of "social comfort." The cost of this standard is more difficult to estimate but well-known examples from various Social Planning Councils in Canada range from about \$12,000 to \$16,000 for a single person (excluding students) in 2000.

**Comparing the standards**

Detailing the typical conditions and costs of living for each of the standards should help give us an image or description of some of the labels we use in relation to poverty. There is a fair bit of distance between the categories set out here and it is the case that, while there is virtually no starvation in Canada, there are Canadians living at each level at the present time.

The other important point about these standards is that the first two are hardly connected to the living standards in contemporary society and their costs would barely change over time, if at all. The latter two standards have a clear "relative" component and the costs would change to some extent to reflect changes in overall living standards.

Where you wish to place the poverty line along this continuum of standards is a matter of how you answer two questions: First: What standard of living is it that living below will put people into poverty, as that term is commonly understood? Second: What is the purpose of the poverty line?

The answer to the second question is not obvious. Social scientists might view a poverty line as a way of distinguishing the poor from the non-poor or of allowing us to track the movements of the poverty rate in order to understand what causes poverty. The policy-maker may view the poverty line (and the corresponding poverty rate) as a useful tool in determining what policies tend to alleviate poverty or, perhaps, as a guide to the eligibility for certain programs. The social activist might regard the poverty line as a symbol of our compassion; as a goal that the poor deserve and should achieve.<sup>1</sup> Clearly, the answer to the second question can affect your answer to the first.

I have argued that the poverty line is first and foremost a research tool that social scientists need to identify the extent of an important social problem. Our rates of social assistance and our goals for the poor are separate from the need to have a tool to tell us something useful

about those living in deprived and inadequate circumstances. It would not be inconsistent to want to raise people's standard of living well beyond the poverty line. Indeed, that is a goal shared by all of us.

I have further argued that the basic needs standard of living is the appropriate level to use as a poverty threshold. It is, I believe, most consistent with commonly held notions of poverty. It is also far more useful in making credible comparisons, both over time and internationally. In that regard, the basic needs standard will be a far more useful policy tool for evaluating anti-poverty policies than the more purely "relative" counterparts.

The basic needs poverty line is, however, not "absolute." To be meaningful, a poverty line has to be connected to the society in which people live. The style and manner in which we live changes over time. Many of the goods people consumed 100 years ago are not even available today. At the same time however, there is an aspect of poverty that is timeless. In 1992, I wrote:

The standard distinction in the literature is between absolute and relative definitions of poverty. The former focuses on the lack of basic necessities while the latter emphasizes inadequacy compared to average living standards. There is a sense in which the distinction is artificial. Any operational definition must be relative because what is considered to be a necessity depends to some extent on the conditions in the larger society in which one is a member. Yet at the same time, there seems to be an irreducible core of necessities invariant through time. An individual or family lacking water, food, shelter and clothing would have been poor at the time of Plato, Adam Smith or in the late twentieth century. What is absolute (or nearly so) about the absolute approach is the items included in the list of necessities. What is relative about the absolute approach is the quantity and quality of the items included. (Sarlo 1992: 19)

Again, consistent with the common understanding of the term, poverty has always conveyed a sense of real hardship, of serious deprivation, and of a life without any amenities. A word that is often used by social activists in connection with poverty is "hunger." People living below the poverty line are likely to be hungry or may have to sacrifice other necessities to avoid hunger. Living in poverty, whether now or 200 years ago (or, indeed, 2000 years ago) means much the same thing. It is a life of insuff-

iciency, an existence marked by hunger and the absence of any of life's conveniences. Conceptually, to live at the basic needs poverty line is to live at a threshold where one barely escapes the misery of poverty.

However, the poverty threshold should not be thought of as a precise line that, magically, transforms the quality of one's life. While researchers necessarily use it as such, in reality, the actual decline into poverty is likely to occur in stages as one's standard of living falls. While great care is taken to determine *the* poverty line, it is best to think of it as an approximation that does a reasonable job of serving as a *line* for the population as a whole.

### The basic needs poverty line

The poverty line employed in this study is a basic needs or basic necessities poverty line. Formally, according to this approach, someone is in a state of poverty if he lacks any item required to maintain long-term physical well-being. For able-bodied persons, the list would include a nutritious diet, shelter, clothing, items for personal hygiene, health care, transportation, and a telephone. Shelter would include the full range of furnishings, appliances, implements, and household supplies. Further, the type, quantity, and quality of each item is at a level considered minimally decent in the society in which one lives. This latter aspect gives the basic needs approach its relativity. This definition is precisely the same as that used in 1992 in the first edition of *Poverty in Canada* (Sarlo 1992).

Someone living at the basic needs line would be considerably above the subsistence level yet would have a standard of living without any amenities. Someone living below the line is clearly deprived of one or more necessities. This notion of poverty is consistent with the common understanding of the word, which suggests a lack of the necessities of life and a condition of real deprivation.

This method of defining poverty, however, is not an "absolute" approach. There are no purely absolute approaches, if only because the nature of the goods we consume changes over time (Fisher 1995): the list of necessities (food, shelter, clothing, and health care) stays the same over time but the character and quality of these items will change to reflect acceptable social norms. One hundred years ago, typical shelter in Canada had no indoor plumbing, refrigerator, electricity, central heating, or telephone. Today, shelter that lacked any of these conveniences would be unacceptable and substandard. I would suggest that despite fairly rapid change during the twentieth century,

standards of acceptability do not change so quickly as to require poverty line revisions, say, every decade. I would recommend, however, that the lines be examined every 20 to 25 years for relevance to existing standards.

We should know how many in our society are unable, due to low income, to acquire all of the basic needs. We should *want* to know this. This is the segment in our society that is genuinely deprived. These people are more likely to be hungry, ill-housed, or uncomfortable than people living above the line. Again, it is naïve to suppose that something really dramatic happens as we cross this threshold. At the same time, given the common understanding of the term “poverty,” surely the basic needs line is a useful marker separating adequate from inadequate standards of living. It can also aid analysis of social and income mobility.

Measuring poverty using basic needs as a gauge is consistent not only with common use but also with the answers given when people with low incomes are asked about poverty: in general, they relate the term to basic necessities. *Construction of a Preliminary Market Basket Measure of Poverty* (MBM report, HRDC 1998: 5) makes reference to a study of social-assistance recipients in Australia and what poverty means to them. Almost 70% of respondents chose statements close to a basic-needs definition (which the MBM report erroneously refers to as a “subsistence” definition). That is, they felt that poverty meant either, “not having enough to buy the basics like food and clothing” or “having to struggle to survive each and every day.” Only 1.8% selected an answer (“having a lot less than everyone else”) that related to a purely relative definition.

A case could be made, as well, that the rates at which social-assistance benefits are set reveals, to a large extent, where democratically elected governments believe the poverty line lies. In Canada, social assistance is mandated to provide sufficient income to meet the costs of basic requirements of a single person or family when all other resources have been exhausted. Below, under Policy (page 52), I compare the incomes of social assistance recipients to the basic needs lines in each of the ten provinces for 1997. In general, the basic needs poverty line and the income flowing to welfare recipients are fairly close. Our welfare system does a reasonably good job of covering basic needs as it is statutorily required to do. Thus, if social assistance programs are designed to prevent poverty, then the incomes given to recipients of welfare is a fair guide to the poverty threshold that our elected officials, representing Canadians, have in mind.

In the United States, the measurement of poverty has received much attention during the 1990s. The National Research Council (NRC) embarked on a major study of poverty measurement in the early 1990s, gathering together some of the top poverty scholars and statisticians to examine thoroughly the question: How should the poverty line be determined? A distinguished panel of experts critically evaluated the prevailing research and expert opinion and released a report in 1995 that recommended a new poverty measure for America. While I have some critical comments about the report (more on that presently), it is interesting that the new proposed “official” American measure of poverty “should be a threshold that represents a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation)” (Citro and Michael 1995). This, I would argue, is a basic-needs approach to defining poverty. All that might distinguish this proposed measure from the one I developed in 1992 is the manner in which the costs of these basic needs are determined.

The alternative to a basic-needs approach, it seems to me, is either a purely relative line linked directly to average or median living standards or a budget-based line that includes more than just necessities. In the latter case, we have poverty viewed as a “goal” or as a desirable standard of living rather than as a predicament of real deprivation. In the former case, we have an inequality measure masquerading as a poverty line and, because the line is an arbitrary percentage of the average or median, we have values that have absolutely no connection to the actual costs of living in society. In any case, neither alternative can be very attractive as a measure of poverty, *per se*.

## The American poverty line

Currently, the United States is the one of the few countries in the industrialized world with an “official” poverty line. This line was developed in 1963 by Mollie Orshansky, an economist at the Social Security Administration. She determined this line by finding the cost of a minimum diet for the reference family and then multiplying that cost by three to account for other costs of living. The threshold for a family of four in 1963 was US\$3,100. Since that time, the American poverty line has been updated for price changes only. In 1997, the poverty line for a family of four stood at about US\$16,300.

The National Research Council's Panel on Poverty and Family Assistance evaluated the American poverty threshold and concluded (with one dissenter) that it was no longer appropriate and should be changed. In their report (Citro and Michael 1995), the panel pointed out several serious flaws with the existing measure.

- The current measure does not distinguish between the needs of (employed) workers and non-workers.
- The current measure does not account for significant variations in medical care costs between different persons.
- The thresholds are the same across the nation, although significant price variations across geographic areas exist for such needs as housing.
- Adjustments for family size were found to be inadequate in the light of new research.
- Increases in American living standards since the 1960s have not been reflected in the poverty thresholds. The panel believed that a poverty line or any notion of minimum needs should reflect the standards in the prevailing society.
- Finally, the current measure limits family resources to gross money income. The Panel believed that this concept needed to be broadened to incorporate such things as in-kind benefits and policy changes that have an impact on disposable income.

The NRC Panel proposed a new official poverty measure that would have the following characteristics.

- It would be a budget-based threshold with explicit amounts for food, clothing, shelter, "and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation)." (Citro and Michael 1995)
- A threshold for a reference family type should be developed using actual consumer expenditure data and updated annually to reflect changes in expenditures on food, clothing, and shelter over the previous three years.
- The reference family type should be adjusted to reflect the needs of different family types and to reflect geographic differences in housing costs
- Family resources should be defined as the sum of money from all sources together with the value of near-money benefits (e.g., food stamps) that are available to buy goods and services in the budget, minus expenses that reduce disposable income but are unavoidable. Such expenses include income and payroll taxes, child-care and other work-relat-

ed expenses, payments of child support to another household, and out-of-pocket medical-care costs, including health insurance premiums.

The panel believes that spending on food, clothing and shelter at the poverty level would be equal to a percentage of the median spending on these items (between the thirtieth and thirty-fifth percentile of median spending) and recommended that a multiplier of between 1.15 and 1.25 be applied to the total for food, clothing, and shelter to arrive at the overall poverty threshold. The multiplier accounts for the other necessary spending by the household. Further, they recommend that the poverty threshold be updated annually to reflect changes in consumption of the basic goods and services contained in the budget but that the actual adjustment be based on a rolling three-year average. Finally, the Panel recommends that the determination of the poverty thresholds for families of other sizes be based on an equivalence scale that explicitly accounts for both the smaller consumption by children and the economies of scale in living with larger numbers of persons.

My principal concern with the new proposal for the United States is that actual consumption forms the basis of the poverty line. While linking the poverty measure directly to actual consumption patterns ensures strong relativeity, it in no way guarantees adequacy. In other words, a household spending at the thirtieth or thirty-fifth percentile on three basic needs may or may not be achieving sufficiency in terms of nutrition or housing. Since there is no reference to actual costs of needed items, we have no way of ensuring that an income at that level is adequate. We also have no way of knowing whether the amount is far more than is needed to escape poverty. This is a problem any time we determine poverty lines as a proportion of average (or median) living standards.

Even if the thresholds, by good fortune, were appropriate for use as a poverty measure now, there is no guarantee, given the methodology, that they would continue to be appropriate over time because the thresholds are not connected in any way to actual costs of acquiring the needs that are part of the basket. If, for example, spending inequality increases sharply or if the actual costs of necessities increase sharply, then it is possible that consumption at the fortieth percentile may not be *sufficient*. Some people may still be impoverished even at the forty-fifth percentile. At the same time, we can easily imagine scenarios in which advanced technology makes it possible for people consuming at the twenty-fifth percentile not to be poor.

Connecting a poverty threshold to average or median spending patterns is not an appropriate way to establish the adequacy or sufficiency of a particular basket and if you opt for that sort of pure relativity, you have removed any link to the actual costs that low-income people have to pay for basics. The “poverty” line may be easier to calculate but it will have lost its credibility. A proportion of the amount that people actually spend on basic needs is no guide to sufficiency.

The NRC’s study has not dealt adequately with the fundamental weakness of using income as the primary indicator. While they have made some adjustments (for in-kind benefits and for child-care costs, for example) there are a whole series of problems with income that are left unresolved. We know, for example, that reported incomes understate true resources available to the household if people have hidden all or a portion of their actual income to avoid income taxes. We also know that some of the very low (and even negative) incomes are due to writing off business losses and do not adequately reflect the standard of living enjoyed by the household. We are also well aware that such considerations as part-year families, student loans and mortgage-free home ownership can significantly affect the apparent poverty status of a household using income as an indicator.

In light of these and other weaknesses with income, it is surprising that the study did not consider whether inadequate consumption rather than inadequate income might be a better indicator of poverty. They opted to let income tell the whole story about insufficiency, as most studies do. This is a mistake. While, to their credit, they have an extensive section critically examining their data sources, in a study of this size it is surprising that there is not a reconciliation check (a comparison to other, known, information) to examine the accuracy of the reported data.

## The Canadian debate

It would be fair to say that, since the publication of the first edition of *Poverty in Canada* in 1992, the debate about how to measure poverty has intensified. While, the debate has frequently become highly emotional and adversarial, this is ultimately a healthy and necessary process of re-examining the status quo. To some extent, the Canadian debate has paralleled the American debate in terms of concerns and issues. Ironically, however, in the United States, social activists want a new poverty measure

whereas, in Canada, social activists are vigorously defending the status quo. In Canada, of course, there is no “official” poverty line.

### Statistics Canada’s Low-Income Cut-Offs (LICOs)

In Canada, Statistics Canada’s Low-Income Cut-Offs (LICOs) have been extensively used as “poverty lines” despite Statscan’s frequent disclaimers. The cut-offs were developed during the 1960s by Jenny Poduluk, a statistician with the agency, in order to determine the prevalence of “low income” in the country. The methodology is indirect and complex but, essentially, it was judged that a family would be in “straightened circumstances” if its income was such that it was having to spend 70% or more on the three basics—food, shelter and clothing. The figure of 70% was 20% more than the overall average as determined by a national consumption survey. While this methodology has been criticized as being unwieldy, arbitrary, purely relative, and unrelated to the actual costs of acquiring necessities (some of these criticisms by Statistics Canada itself), the LICO lines have been used by a variety of social activists, journalists, and academics as poverty lines.

Over the years, Statistics Canada has issued a series of increasingly strong disclaimers about the use of the LICO lines. One of the most recent comes from Chief Statistician Ivan Fellegi:

For many years, Statistics Canada has published a set of measures called the low-income cut-offs. We regularly and consistently emphasize that these are quite different from measures of poverty. They reflect a well-defined methodology which identifies those who are substantially worse off than the average. Of course, being significantly worse off than the average does not necessarily mean that one is poor . . . Statistics Canada does not and cannot measure the level of poverty in Canada. (Fellegi 1997)

The most recent LICO lines available at this writing are those for 1998, published by the National Council of Welfare. Updating those lines using the overall CPI, the LICOs for 2000 are presented in table 1.

### Canadian Council on Social Development

Prior to 1992, there were several measures, other than the LICOs, that were used as poverty lines. The Canadian Council on Social Development (CCSD) had a purely relative measure, consistent with their view that poverty

**Table 1: Statistics Canada’s Low Income Cut-Offs (1986 base) for 2000**

Size of family	Size of community				
	> 500,000	100,000–499,999	30000–99,999	< 30,000	Rural Areas
1	16,969	14,905	14,561	13,273	11,552
2	23,001	20,205	19,737	17,990	15,661
3	29,237	25,683	25,088	22,868	19,904
4	33,665	29,565	28,885	26,332	22,916
5	36,780	32,303	31,558	28,768	25,040
6	39,924	35,063	34,255	31,225	27,180
7+	42,940	37,716	36,844	33,588	29,233

Source: Estimate in National Council of Welfare 1999a and calculations by author using 2% inflation over the 1999 values.

means being less well-off than most others. Their line was set at half the average income for the reference family of three and then adjusted for other family sizes using equivalence scales.<sup>2</sup> In their frequent reports on poverty, the CCSD used their measure to track relative poverty. The CCSD lines were always somewhat above the LICO lines and, obviously, led to higher poverty counts than did the LICO thresholds. Although the CCSD appears to have discarded their own lines in favour of the LICOs, an estimate of the thresholds using their methodology for 2000 appears below in table 2.

**Montreal Diet Dispensary (MDD)**

Since 1959, the Montreal Diet Dispensary (MDD), has put out a budget-based threshold entitled *Budgeting for Basic Needs*. This measure has often been used as a poverty line or as a gauge of the adequacy of some government benefits. In the introduction to this publication, the MDD asks the perfectly sensible question: “How much income does a family require to meet basic needs?” The development of the MDD basic-needs budget began as a device by a council of social agencies to assist low-income families

with budget planning. They wanted a guide that would reflect the costs of basic needs while upholding the dignity of individuals and families. They began with several budgets being used by local welfare agencies and formulated their own “minimum adequate budget.” Eight items were selected as the “minimum adequate requirements for the maintenance of a family as a unit and the preservation of health and self-respect of the individual.” These are shelter, water tax, food, clothing, personal care, household supplies, utilities, and fuel for heating the home. Besides these basic needs, the MDD selects ten additional items that, in their view, would be needed “to allow for a minimal integration to society” (MDD 1998: 1–2). These items are: transportation, school supplies, religion, replacements (of worn-out items), reading material, recreation, personal allowances, entertainment, telephone, furniture, and repairs. Clearly, the MDD sees the addition of this latter group of items as desirable from a social rather than a physical standpoint. Table 3 below presents the MDD thresholds by family size representing “basic needs” and “minimum adequate living standard,” updated to 2000.

If we look ahead (table 6), we note that the MDD basic-needs thresholds for Montreal are comparable to the Basic Needs Poverty line developed for Canada as a whole. However, several comments about the MDD estimates are in order. First, the use of *average* rents to represent the appropriate costs for low-income people is clearly not realistic, especially for the city of Montreal. Montreal has had persistently high vacancy rates over the years and this means that low-income people looking for an appropriately priced apartment should have no difficulty finding one. Thus, it seems reasonable that low-income people would be paying rents below the average. The same may not be said, however, for Toronto, Vancouver, and several other major centres.

**Table 2: CCSD “Poverty Lines” for 2000**

Size of Household	Income Level
1 Person	15,151
2 Persons	25,151
3 Persons	30,302
4 Persons	35,363
5 Persons	40,423
6 Persons	45,484
7 Persons	50,544

Source: Calculations by author based on CCSD methodology (see CCSD, 1989)

**Table 3: Annual costs (CDN\$) from the Montreal Diet Dispensary's budget for basic needs and for minimum adequate living standard (2000)**

Size of household	Basic needs (\$)	Minimum adequate living standard (\$)
1 Person	8,405	10,234
2 Persons	12,731	16,389
3 Persons	17,341	23,237
4 Persons	21,939	29,602
5 Persons	24,510	33,656
6 Persons	27,081	37,710

Source: MDD 1998 and calculations by author to update values to 2000

The list of clothing items seems badly out of date and has not been updated since 1959. A similar concern exists with household supplies: items listed include camphorated oil, oil of wintergreen, wooden matches (about 3000 per year), a corn broom, laundry starch, and dress snaps. These would not be common items on most household supplies shopping lists at the end of the twentieth century. Omitted, however, are such things as vacuum-cleaner bags, batteries, paper towels, garbage bags, insect repellent, plastic plates and utensils, sandwich bags, and Kleenex. The omission of local telephone service is serious as a telephone can easily be classified as a basic need in that it is the vital connection to a variety of community and emergency services and a basic means of communication since, at least, the 1950s.

The extra items included in the MDDs minimum adequate living standard have a certain "staleness" as well. For personal allowances, entertainment, recreation and religion, the primary estimate was made in 1949, using a Toronto guide to family spending and updated to the present using the Consumer Price Index (CPI). As well, the "replacement" allowance was drawn from a 1953 source. It can be debated whether some of these items ought to be included; if they are included, they should reflect contemporary standards. This is particularly important since the objective of this second threshold is to allow for a minimal integration in society; "social inclusion," in other words. The MDD needs to bring its basket up to date.

#### **Budget guides from Social Planning Councils**

Social Planning Councils in various communities across Canada sometimes publish budget standards designed to reflect a decent or socially acceptable living standard.

The Social Planning Council of Metropolitan Toronto used to put out budgets of this sort. Some social activists have used such budgets as "poverty lines," arguing that people have a basic right to a decent living standard and without one, they are poor in a rich society. These budgets have typically included more than mere necessities. Such items as vacations, gifts, recreation, and alcohol and tobacco were included, and the total amount was usually more than even the LICO lines. While it would be desirable for people to have such items (and more, surely), it is not clear that people are reduced to poverty for lack of them.

#### **Market basket measure**

The most recently proposed measure of poverty in Canada is the market basket measure (MBM), which has been developed in a project headed by the Human Resources Development Canada (HRDC) with the participation of the provinces and territories. The project was prompted by the sharp dissatisfaction of the provinces (in particular) with the LICO measure. Provincial social-services ministers were growing weary of the claim that their rates of social assistance were condemning people to poverty—deep poverty in some cases. The provinces clearly wanted a new measure that was "easy to understand, sensitive to geographic cost differences, related to changes in costs of consumption rather than to changes in income" (HRDC 1998: 1) and useful for measuring the impact of key policy changes on the rate of poverty.

Regrettably, the people steering the MBM project appear to have been looking for a "pragmatic compromise" among the various approaches rather than starting fresh with no preconceptions. They relied on Adam Smith's 1776 definition of "necessities" ("that [which] the custom of the country renders it indecent for creditable people, even of the lowest order, to be without") to guide them to a position somewhere between the basic needs poverty line and the "social inclusion" lines, such as the LICO and CCSD thresholds. So, while they employ a budget or commodity-basket approach, they implicitly include in their basket more than mere necessities. By applying an "add-on" percentage to the costs of food, clothing, and shelter based on budget guides of various social planning councils, the MBM estimates effectively include allowances for such things as recreation, entertainment, and other items. The MBM approach is a positive step but it departs from the common usage of the term "poverty," which has always implied real deprivation. By attempting to find a compromise solution, those

developing the MBM may end up with a measure that is impossible to defend and ultimately satisfies no one.

Based on the preliminary report of the MBM working group, I have estimated the proposed MBM poverty lines for 2000.<sup>3</sup> They are displayed in table 4.

**Basic needs poverty measure**

*Poverty in Canada* (Sarlo 1992, 1996a) set out a clear alternative to prevailing poverty measures in this country. It rejected the strong bias towards “relativity” in such measures as the LICO and CCSD lines and emphasized the connection between real deprivation and poverty. Most importantly, it viewed the exercise of poverty measurement as an uncovering of useful information about Canadians and not as a show of compassion. This critique of the prevailing way of measuring poverty was viewed very negatively within the social-welfare community. In general, people with a social-welfare perspective did their best either to ridicule the approach or to condemn it as an ideological rather than a scholarly work. By the mid-1990s, the basic-needs approach was regarded as a real threat to the status quo and most of the social-welfare community rallied around the LICO lines as never before.

Much of the rest of this report involves an exposition of the construction and use of the newly revised basic needs poverty lines. However, for easy comparison with the other approaches, the basic-needs lines for 2000 are displayed in table 5.

I believe that the development of the basic needs poverty line has had a major and refreshing impact on the debate over how to measure poverty in Canada. The prevailing LICO lines are simply not realistic indicators of poverty. The debate about poverty thresholds is healthy and needs to occur periodically in an open society to ensure that we have a good and credible measures of how we live.

**Table 4: Poverty line based upon the market basket measure (2000)**

Size of Household	MBM Poverty Line
1 Person	11,390
2 Persons	15,945
3 Persons	19,362
4 persons	22,779
5 Persons	26,196
6 Persons	29,613

Source: Calculations by author

*Comparing basic needs approach with purely relative approaches*

A basic needs poverty line determines the cost of a list of necessities of life that would be required for physical maintenance and good health on an ongoing basis. The list includes the four basic necessities of food, shelter, clothing, and health care. These four components should remain the same over time for comparability purposes. The quality and comprehensiveness of each component, however, would reflect the standards of the current society one inhabits. For example, in the Canada of 1900, basic-needs shelter for an urban family of four might have been a flat of two or three rooms with no indoor plumbing, no telephone, no central heat, and little in the way of furnishings. Today, minimal shelter for the same family would consist of a three-bedroom apartment (with a living room and kitchen) having full indoor bathroom facilities, hot and cold running water, central heat, and a telephone—not to mention a full range of household furnishings.

The advantages of the basic needs approach to defining poverty are the following:

- (1) it closely conforms to dictionary definitions of poverty, reflecting common usage;
- (2) it conforms to the understanding that most people living on low incomes have of poverty, as shown in surveys;
- (3) it conforms more closely to journalistic use, as terms like “hunger,” “real deprivation,” and “hardship” are frequently seen describing the poor;
- (4) it incorporates an aspect of “relativity” by setting the type and quality of necessities at the level that is considered minimally decent in contemporary society.

Because it also measures poverty using a budget standard (or market basket), it has the added advantages of being concrete (people know what it is, exactly, that the

**Table 5: Basic needs poverty lines, average for all Canada (2000)**

Size of household	Basic Needs Poverty Lines (CDN\$)
1 Person	8,875
2 Persons	13,926
3 Persons	16,926
4 persons	19,962
5 Persons	22,206
6 Persons	24,602

Source: Calculations by author

poor are deprived of) and of being easily used for comparisons (intertemporal and international).

What are the advantages of purely relative poverty lines? They are intended to reflect more than just material deprivation. Supporters of the relative approach argue that falling behind the mainstream in a material sense raises concerns about “social exclusion.” But, are relative poverty lines really capable of determining social exclusion? As I have pointed out many times in earlier work, particularly Sarlo 1992 and Sarlo 1994, income level may not be a good predictor of social exclusion (which means, presumably, that one does not feel a part of one’s own community). On the one hand, some chronically low-income types (post-secondary students, clergy, and social activists) may be far more “plugged-in” to society than most others and, on the other, many people in business and the professions (although high income) may be too busy to be active in society. Education may be a better predictor of social inclusion than income.

As well, purely relative lines move, in lock-step, with prevailing living standards. If one believes that poverty is a condition of being comparatively less well-off, then there is a clear advantage to having a measure that is directly connected to the average (or median) standard of living. Of course, it works both ways. If overall living standards decline for a period, the poverty line automatically goes down and this may result in less, rather than more, measured poverty in society.

I have outlined a variety of absurdities that can arise when we use purely relative measures of poverty.<sup>4</sup> As well, this approach is of virtually no value in making international comparisons. Relative measures of poverty are no more or less than indicators of inequality. However, even if you prefer a purely relative poverty measure, I would think that you might find a measure of “material” deprivation to be of great interest and want to track it over time.

The debate over absolute and relative approaches has raged over the years. While all poverty lines are relative, “absolute” measures tend to relate to the basic necessities of life and omit, deliberately, items that are widely regarded as non-necessities. The objective for those using a “necessities” approach is clearly to measure the extent of real material deprivation rather than comparative deprivation.

Relativists typically reject the absolute approach as being too stringent and even “mean-spirited.” They often

argue that the absolute method of defining poverty results in lower poverty lines (because of the connection to basic needs) and hence, a lower incidence of poverty than is the case with the relative approach. This, they maintain, leads to a public perception that poverty is not an urgent problem and to less effort by policy-makers to deal with poverty. Some relativists have suggested that the absolute approach is merely an attempt to “define the problem away.”

Supporters of the absolute approach counter that relativists have themselves redefined poverty as “inequality” and this has exaggerated the extent of poverty. They point out that relative poverty will always be around to the extent that some will always do substantially less well than others. Also, it is the case that economic growth alone will not reduce relative poverty. Only redistribution of income will. Further, it has been argued that many jobs in the area of social welfare depend on high poverty counts and on there being a “crisis” of poverty. Thus, it is argued, many supporters of relative poverty have a strong vested interest in high, relative poverty lines.

I find that the effort expended on this debate to be very unproductive and missing the essential point. We want to measure poverty. We want to find out something about the extent of deprivation in our country. And, we want to measure poverty for at least two reasons. First, we want to measure the poor as part of our need to understand how Canadians are living and how (and ultimately, why) some Canadians end up with an “insufficient” standard of living. Second, we want to track poverty over time to see if our economic progress and our policy measures appear to be making any headway in reducing the extent and depth of poverty.

For a long time, I have suggested that we employ two lines. We should have a “poverty line” to track real deprivation and we should have a “social comfort” line (which I have arbitrarily set at twice the poverty line) to permit us to examine “near-poverty.” As well, we should also track changes in the degree of inequality in society. While I attach primary importance to the measure of poverty, *per se*, I have included, and will continue to include, all three measures in my reports on poverty. There is value in looking at each of these measures and the rates they produce. In combination, they should give us a more complete picture of real and relative deprivation than we are used to getting.



## The basic needs poverty line (1997 version)

During the summer of 1999, I made a thorough review of the basic needs poverty line. Everything was examined, from the assumptions upon which the line rests to the completeness and nature of the items included on the list of basic needs. This review was far more comprehensive than the work underlying the original basic needs poverty lines published in 1992. In table 6, the last column summarizes the results of the analysis and displays the new, revised costs of basic needs for a Canadian family of four in 1997. The actual expenditures, by various groupings, as given by the Statistics Canada Family Expenditure (FAMEX) survey are also displayed for comparison.

### Use of equivalence scales

The examination of the costs of basic needs is focussed on the needs of a family of four. Once the costs of this family structure is determined, costs for families of other sizes are calculated using equivalence scales. This is a common practice in studies of this sort but a departure from the approach used in earlier versions of the basic needs poverty lines. Previously, the poverty lines for the various sizes of family (one through six) were determined separately. This was very time consuming and involved considerable redundant calculation. The “equivalence approach” using the family of four as the basic reference seems to be far more efficient.

Probably, the most widely known equivalence scales are those used at the OECD, which are the basis of much research on living standards in western economies. The OECD assumes that the first adult in any household receive a weight of 1.0; that each additional adult receive a weight of 0.7; and that each additional child receive a weight of 0.5. A family of four (assuming two adults and two children) would receive a weight of 2.7 and we determine that each other family size would require its proportionate dollar amount in relation to its weight relative to the family of four.

There are other equivalence scales in use such as the LIM (Statistics Canada’s Low-Income Measure) equiv-

alency, which has somewhat lower weights for both adults and children. Consequently, the LIM equivalency scale leads to somewhat higher poverty lines for smaller households and somewhat lower poverty lines for larger households than the OECD’s scales. As discussed earlier, the US National Research Council (NRC) has recently utilized an equivalence scale for use in their proposed poverty line for the United States. The scale takes into account both the fact that children consume less than adults and, as family size increases, economies of scale reduce the average cost of living for each member.

After careful review of the competing scales, I have used the NRC equivalence scale for this study. They have conducted the most comprehensive analysis of equivalence scales in the recent poverty literature. As well, I have found that the poverty lines obtained using these scales are fairly close to basic needs poverty lines derived independently for each size of family. Additional support for this choice comes from the implicit equivalence scales in social assistance rates. The benefit rates in the various provinces for families of different sizes tends to correspond, broadly, to the relative equivalence in the NRC scale. Finally, FAMEX patterns by family size appear to be more consistent with the NRC equivalence scale.

### Explaining the list of basic needs

#### Food

The determination of the cost of food follows the methodology established in *Poverty in Canada* (Sarlo 1992, 1996a). A simple optimization technique is used to find how to provide good, palatable, and nutritionally balanced food to Canadian families and individuals at the least cost. It follows all of the requirements of Health Canada and the Canada Food Guide in terms of energy and variety. All foods are assumed to have been purchased at grocery stores and prepared at home. It is assumed that families typically shop for groceries once a week, on average, at prices (including occasional sale prices) prevailing

Table 6: Looking at basic needs for Canada (1997); all values for family of four

Basic need	Actual Expenditures: Famex (1996)			Sarlo (1997)
	Average	Bottom Quintile	Bottom Decile	
Food	8,028	5,868	5,436	5,306
Shelter	10,122	7,538	7,471	8,051
Clothing	3,128	1,624	1,333	2,012
Local telephone service	286	263	253	297
Cleaning supplies	339	267	240	159
Household insurance	381	221	198	200
Furniture and equipment	1,735	904	873	299
Laundry	114	81	80	481
Public transportation*	838	678	767	648
Personal care	1,148	757	660	457
Health care (direct costs to household)	833	533	425	846
Miscellaneous				100
Taxes	15,805	2,169	792	0
<b>Total</b>	<b>42,757</b>	<b>20,903</b>	<b>18,528</b>	<b>18,856</b>
<b>Total after taxes</b>	<b>26,952</b>	<b>18,734</b>	<b>17,736</b>	<b>18,856</b>

Source: Calculations by author and FAMEX (1996). Note: \*only for those who use public transportation.

at the time. There is no assumption that families use any savings strategies (such as coupons, stocking up on sale items, buying day-old breads, and so on).

The list of foods used (table 7) in the determination of food costs is clearly familiar to Canadian families and would be among the most popular foods used daily. However, the list is somewhat narrower than has been used in other food baskets. This is done partly for ease of computation and partly in recognition of the fact that most families are relatively small (in 1996, the average household size was only 2.4 persons) and cannot consume a great variety of items given the constraints imposed by the normal size of purchases and the perishability of foodstuffs. However, adding more variety of comparable items will not affect the overall cost, as was demonstrated in earlier work (Sarlo 1992).

A critique of the basic-needs approach by the National Council of Welfare (1999) commented that, according to Sarlo, the poor were not allowed to have coffee or tea. It would be wonderful for me if all critical commentary were this weak: the basic needs poverty lines are not, of course, allowances. As well, it would hardly be a criticism of a nutritious food list that it does not contain coffee or tea. What nutrient value do these items give us? Health Canada's Nutritious Food Basket does not include these beverages on its list, either.

One significant change from the earlier methodology is in the manner of determining provincial food costs. Before 1996, Statistics Canada published the actual average prices of commonly purchased foods for some 25 cities across Canada. These prices were used by the author to construct a food index by province (weighted by the sizes of the included cities) that was converted into actual food costs by province by a comparison to Ontario prices. Since 1996, however, Statistics Canada has not published such detailed price information. They do, however, continue to list provincial food price indexes. So, for this study, these price indexes were used directly to determine provincial food costs for the reference family of four. The prices of the market basket above are for North Bay, Ontario in October of 1996. The cost of a nutritious diet using these foods is first determined for a family of four in Ontario using these prices and an optimization procedure described in detail in Sarlo 1994 and 1996a. Then the food costs were determined for each of the provinces using the index values.

More complete detail of the methodology is contained in Sarlo (1996a). Sample menus outlining the sorts of meals that would be generated by the forgoing list of foods is given in Sarlo 1994. A summary detailing the cost of food by size of family for each province as well as the weighted average cost for Canada is shown in table 8. Only the values for a family of four will be utilized in the

Table 7: Food list (1997)

	Item	Size of purchase	Amount per serving edible portion	as purchased	Price (\$)	Cost per serving	Calories per serving	Cost per 100 calories
Dairy	Milk (fresh 2%)	4,000 ml	250	250	4.19	0.2619	128	0.205
	Milk(powdered)	25,000 ml	250	250	14.99	0.1499	90	0.167
	Cheddar Cheese	1,000 g	50	50	12.50	0.6250	201	0.311
	Ice Cream	2,000 ml	125	125	1.89	0.1181	150	0.079
	<i>Averages</i>					0.2887	142	0.190
Meat	Blade Roast	1,000 g	80	195	6.38	1.2441	196	0.635
	Stew Beef	1,000 g	80	116	5.27	0.6113	181	0.338
	Ground Beef (reg.)	1,000 g	80	112	2.84	0.3181	231	0.138
	Liver (Beef)	1,000 g	80	100	2.40	0.2400	174	0.138
	Pork Roast (pic. sh.)	1,000 g	80	220	4.39	0.9658	196	0.493
	Chicken (whole)	1,000 g	80	200	3.73	0.7460	134	0.557
	Tuna (canned)	184g	80	80	2.99	1.3000	157	0.828
	Ham (cooked)	1,000 g	80	80	4.40	0.3520	145	0.243
	Eggs (large)	12	2	2	1.79	0.2983	158	0.189
	Peanut Butter	1,000 g	32	32	2.69	0.0861	190	0.045
<i>Averages</i>					0.6162	176	0.360	
Vegetables	Cabbage	1,000 g	37	37	0.89	0.0329	9	0.366
	Carrots	2,270 g	58	58	0.59	0.0151	25	0.060
	Celery	800 g	64	64	0.79	0.0632	10	0.632
	Lettuce	750 g	30	30	1.19	0.0476	6	0.793
	Onions	2,270 g	85	85	0.59	0.0221	29	0.076
	Potatoes	4,540 g	125	166	1.79	0.0654	137	0.048
	Tomato Juice	1,360 ml	125	125	0.99	0.0910	22	0.414
	<i>Averages</i>					0.0482	34	0.341
Fruit	Bananas	1,000 g	114	114	0.86	0.0980	105	0.093
	Oranges	2,160 g	131	180	4.49	0.3742	62	0.603
	Apples	1,000 g	138	138	2.99	0.4126	81	0.509
	Orange Juice	1,360 ml	125	125	1.09	0.1002	59	0.170
	Apple Juice	1,360 ml	125	125	1.29	0.1186	62	0.191
	<i>Averages</i>					0.2207	74	0.313
Bread / Cereals	Bread (white sliced)	24	1	1	0.95	0.0396	76	0.052
	Pasta	900 g	74	28	1.49	0.0464	82	0.057
	Corn Flakes	675 g	16	16	2.99	0.0709	59	0.120
	Rice (long grain)	1,000 g	85	34	1.50	0.0510	90	0.057
	Oatmeal	1,000 g	60	34	1.59	0.0541	108	0.050
	Hamburg Buns	8	0.5	0.5	1.29	0.0806	90	0.090
	Flour	2,500 g	44	44	2.99	0.0526	161	0.033
	<i>Averages</i>					0.0564	95	0.065
Misc.	Margarine	454 g	5	5	1.99	0.0219	36	0.061
	Salt	1,000 g			0.99	0.0000		
	Sugar	2,000 g	4	4	2.09	0.0042	15	0.028

Source: Calculations by author (based on 1996 prices)

**Table 8: Annual food costs for a family of four, by province (CDN\$ 1997)**

Newfoundland	5,380
New Brunswick	5,247
Prince Edward Island	5,320
Nova Scotia	5,370
Quebec	5,256
Ontario	5,281
Manitoba	5,513
Saskatchewan	5,493
Alberta	5,177
British Columbia	5,448
Canada	5,306

Source: Calculations by Author

further development of a basic needs poverty line. Poverty lines for families of sizes other than four will be determined using equivalency ratios based on the NRC study in the United States.

The annual cost of nutritious food for 1997 for a family of four is calculated to be \$5,306. This works out to \$14.54 per day or \$3.63 per person per day. This is clearly a small amount and may appear, at first glance, to be too low. However, a comparison to the amounts that Canadians actually spend on food (nutritious and otherwise) suggests that this estimate is not at all out of line. In table 6, we note that the average expenditure on food in 1996 by those families of four in the bottom income decile is \$5,436, which includes \$862 spent in restaurants. For families of four in the bottom quintile, the average spending on food was \$5,868, including \$966 in restaurants. Finally, the overall average expenditure on food by all families of four in Canada in 1996 was \$8,028, including \$1,938 in restaurants. If we excluded the restaurant amounts and pro-rated the cost of the excluded meals at the appropriate grocery store rate, the totals would be \$4,725 for the bottom decile, \$5,083 for the bottom quintile, and \$6,557 for the overall average. Since the basic needs estimate for food excludes restaurant meals in any case, the value of \$5,306 would not be unreasonable for low-income families. Indeed, since the basic needs food list includes only nutritious foods and since other foods (cookies, soft drinks, and other “snack” foods) typically cost more than foods on the list, the estimate here seems reasonable.

Again, it is important to emphasize that the basic needs food cost utilizes common Canadian foods, meets

all Health Canada and Canada Food Guide requirements and assumes no savings strategies whatever on the part of the consumer. The implication is that it would not be difficult for a family of four shopping weekly at their local grocery store to achieve the cost estimate determined here. It should also be mentioned that any transportation required by the family to shop is included under transportation, further down the list of basic needs.

### Shelter

Minimally adequate shelter, according to our basic needs definition of poverty, would be apartment accommodation of appropriate size for the family and with a full range of furnishings, a telephone and household insurance. While shelter has always been a basic need for human beings, the quality and scope of the accommodation should be relative to that which is considered to be minimally decent in one’s own society.

Canada Mortgage Housing Corporation (CMHC) has, for many years, published rental accommodation data, including average rents, for all Canadian cities. In past versions of basic needs poverty lines, shelter estimates were based on this average rent information. Specifically, it was assumed that lower-income households would be drawing from the bottom half of the market for rental accommodation. The average cost of this bottom portion was estimated to be about 10% below the overall average, based on an informal examination of CMHC range data for selected cities. Thus, if the average rent for a two bedroom apartment in Halifax is \$600 per month, the estimate for basic needs shelter would be \$545 per month (i.e., \$600/1.1).

For this study, the same methodology is used to determine the rents appropriate to those with low incomes although the rental database is far larger. Previously, only communities with a population at least 50,000 were included and only apartments in privately initiated buildings with six or more rental units were included. This time, the data for our shelter costs were drawn from all cities with a population of at least 10,000 (all urban centres, essentially) and for all apartments in privately initiated buildings with three or more units. This leads to a more representative and reliable estimate of the costs of shelter. Almost 80% of Canadians live in these urban centres and they reflect more than 90% of the rental market.

It was assumed that a three-bedroom apartment was appropriate for a family of four. The populations of each community within a province were used as weights

to determine the average provincial costs for shelter. As well, a Canadian weighted average rent was determined using the provincial populations as weights. The weighted average cost of a three-bedroom apartment in Canada is calculated to be \$737.65 per month. This is about \$8,856 annually. The annual basic needs cost of shelter is therefore about \$8,051, assuming (as we have) that this cost is about 10%t below the overall average. These calculations are summarized in table 9. The complete data analysis for shelter is contained in Appendix 1.

Do these rent values fairly represent the amounts that low-income families of four actually pay for rental accommodation? What about necessary additional expenditures on utilities? In previous work, it was assumed that apartment rents generally included heat and electricity. This is clearly not true in all cases but, regrettably, CMHC does not provide any information regarding the extent to which utilities are included in stated rents. However, other sources of information are helpful here. For example, the survey of household facilities conducted annually by Statistics Canada gathers data about whether utilities are or are not included in cash rent. In 1996, the survey reveals that for all families of four renting, no utilities are included in the rent in only 27% of cases. Further, the average rent paid by families of four in the bottom decile who are renting was \$570 per month when utilities were not included and \$725 when utilities were included. It is noteworthy here that about 25% of these families did receive subsidized rent and paid an average monthly rent of \$368. Finally, the average rent actually paid by renting

families of four who paid lower-than-average rents (that is, the average of the bottom half of paid rents) was about \$517 per month. (The information in this paragraph is drawn from Statistics Canada, Household Facilities microdata file, 1996a.)

In addition to the data from the household facilities survey, the 1996 Family Expenditure survey, now an annual project by Statistics Canada, also lends support to the view that costs for shelter used in this study are not understating the actual shelter costs faced by low-income Canadians. Looking again at table 6, we see that the amount that lower-income families of four report paying (both bottom decile and bottom quintile) is a fair bit lower than the estimated costs of shelter used here. Overall, four-person households spend, on average, just over \$10,000 per year on shelter. If we just examine renters, the *average* annual cost paid by renting families of four in 1996 was \$9,618 (drawn from Famex microdata file, 1996). Our basic needs *poverty* threshold cost of shelter for 1997 is \$8,051.

All of this information suggests that lower-income families of four do pay significantly less than average for rental accommodation. Shelter is known to have a positive income elasticity: as income rises, spending on shelter also rises (although probably not in proportion for most people). This information also suggests that the estimate for basic needs costs for shelter, related to the rental costs in all urban centres for apartments in buildings with at least three units, is not out of line with what lower income people actually do spend on shelter.

**Table 9: Costs of shelter in Canada (1997)**

	Weight	Rent for bachelor	Weight * Rent	One bedroom	Weight * Rent	Rent for two bedroom	Weight * Rent	Rent for three bedroom	Weight * Rent
Newfoundland	0.010	383.71	4.01	456.11	4.76	533.03	5.57	539.86	5.64
Prince Edward Is.	0.003	346.46	1.14	420.82	1.38	526.32	1.73	603.12	1.98
Nova Scotia	0.025	390.58	9.77	459.17	11.48	561.92	14.05	654.36	16.36
New Brunswick	0.017	348.92	5.99	408.06	7.01	489.12	8.40	528.79	9.08
Quebec	0.244	339.72	82.76	411.97	100.36	475.25	115.77	546.86	133.21
Ontario	0.410	483.89	198.53	607.61	249.30	729.34	299.24	860.49	353.05
Manitoba	0.033	331.08	11.02	443.49	14.77	562.60	18.73	651.15	21.68
Saskatchewan	0.025	293.76	7.40	405.02	10.20	493.41	12.43	558.03	14.05
Alberta	0.089	370.62	33.09	464.77	41.50	569.72	50.87	608.06	54.30
British Columbia	0.142	501.19	71.39	600.85	85.58	753.43	107.31	900.69	128.29
<b>Total</b>	<b>1</b>		<b>425.09</b>		<b>526.33</b>		<b>634.10</b>		<b>737.65</b>

Source: CMHC (1997) and Calculations by author

*Role of vacancy rates*

While the estimates of shelter costs used here are reasonable as an overall average, there may be circumstances in which some low-income individuals and families may be unable to rent the favourably priced accommodation in a *timely* manner. This may arise even if the household could reasonably pay the rents determined by the study. One such circumstance is the case of extremely low vacancy rates.

The Canada Mortgage and Housing Corporation (CMHC) regularly reports on vacancy rates in Canadian urban centres. The CMHC considers a vacancy rate of at least 2% to be required “to ensure a competitive market, keep rents down, and allow sufficient choice for households” (CMHC 1989: 6). This implies that in communities with vacancy rates of less than 2%, it would be more difficult to find an appropriately priced unit in a timely manner.

In the fall of 1998, the latest information available for use in this study, vacancy rates fell below 2% in several of Canada’s largest cities, including Toronto, Calgary, Edmonton and Kitchener. In all, some 20 metropolitan areas with a population of at least 10,000 had vacancy rates below 2% in the fall of 1998. However, these urban centres made up just under a third of the total urban population in Canada. People in the other two-thirds of urban communities should generally be able to find appropriately priced accommodation in a timely fashion (CMHC 1999).

It should be pointed out that poverty is somewhat more likely in large urban areas. In Sarlo 1996b, I estimated the (basic needs) poverty rates by major Canadian urban centre and found that poverty rates in our 15 largest cities, in 1993, were about 2% higher than in less urbanized areas. On average, low-vacancy cities, like Toronto, Vancouver, Victoria, London, and Ottawa had modestly higher poverty rates than other large urban centres.

*Role of social housing*

By the mid-1990s, Canada had approximately 600,000 units of social-housing. This means that tenants in those units would pay no more than 25% of their income towards rent. Social housing is built for the most needy individuals and families; the poor who are disabled, elderly or single parents are given priority. Clearly for those who occupy these subsidized units, rental costs will be less than average.

According to the 1996 Statscan household facilities survey (Famex microdata file 1996), there were about 710,000 households in Canada with subsidized rent in April of 1996. The overall average rent in those units was

\$334 per month. The average rent in those units occupied by families of four was \$452. These values are considerably below the estimates of the essential cost of shelter estimated here. The average income of those households occupying subsidized units was \$21,684 and that of subsidized families of four was \$36,775.

In summary, the estimate of the cost of shelter for a family of four would not understate, save in exceptional circumstances, the actual costs that low-income Canadians would have to pay for adequate rental accommodation. The annual amount of \$8,051 works out to about \$671 per month. This, of course, is the (weighted) overall average for Canada. There are significant variations from city to city and from region to region and it would be more difficult to find a lower-priced rental unit in those cities with vacancy rates below 2% (in which about one-third of Canadians reside). However, in the other communities, in which two-thirds of Canadians reside, vacancy rates are conducive to people finding appropriately priced accommodation without too much difficulty. As well, this estimate does exclude any consideration of rental subsidies that benefit some 700,000 households.

The complete list of urban centres included, the corresponding rents and the determination of the weighted average shelter costs is included in Appendix 1.

**Clothing**

As with earlier versions of the basic needs poverty lines, the estimates for clothing used in this revision are based on the determinations of the Montreal Diet Dispensary (MDD). In *Budgeting for Basic Needs* (Montreal Diet Dispensary 1998), MDD uses a comprehensive list of newly purchased clothing appropriate to age, gender, and function and appropriate for all four seasons. Their estimates of the costs are based on the prices for clothing items drawn from the catalogs of the T. Eaton and Sears companies and updated to the present using the CPI clothing index for Quebec. Also added into the final determination is the 7% federal sales tax and the 7.5% provincial sales tax (in Quebec).

In this revision, to determine the relevant cost of clothing for a family of four, the author has used the average cost for an adult male (employed and retired), the average cost of an adult female (employed, retired, and housewife), an 11 year-old boy, and an 11 year-old girl, using 1997 prices. This family composition is consistent with that used in the food calculations for a family of four. The estimated essential annual cost of clothing for a family of four in 1997 is \$2012.

**Other basic needs**

Basic needs other than food and shelter are grouped together in this section. This arrangement does not mean that these items are of less importance or are less worthy of careful scrutiny than food and shelter. Indeed, this category of basic needs has undergone the most thorough review since the original estimates were done.

I have named the sub-categories to match, as far as possible, the Statscan family expenditure (FAMEX) groupings and each will be discussed in detail below. In each case, an estimate of the necessary cost in 1997 was determined.

*Local telephone service*

Some provinces (New Brunswick, Nova Scotia, and Prince Edward Island) have a single, province-wide rate for basic telephone service. In other provinces, rates vary from city to city and so a weighted average (based on city populations) was used to determine the provincial cost. In these cases, communities outside the centres in which data was available were assumed to follow the average determined in the included centres. In the case of Quebec, a lack of data required that the local cost of basic telephone service in Quebec City be used as a proxy for the province. To arrive at the Canadian average, a weighted average using provincial populations (1996 census) was determined. The 1999 values were then “deflated” to 1997 dollars using the full consumer price index. The 1997 annual weighted average value for Canada would be \$296.64. Table 10 displays the costs for local telephone service by province for 1999.

*Cleaning supplies*

This category follows, roughly, Statistics Canada’s Famex grouping “Household Cleaning Supplies.” It includes: laundry detergent and laundry soap, liquid detergent, dish-washing detergent; window cleaner; toilet-bowl and bathtub cleaners; scouring powders; disinfectants; and baking soda. However, it also includes other items normally under “cleaning,” such as paper towels, vacuum bags, cleaning brushes, dustpan and broom, mop, laundry basket, and bug killer, not included by Statistics Canada. Careful estimates were made regarding the expected usage of these items by a family of four and using prices for 1999, the total costs of cleaning supplies (including applicable taxes) determined. The all-items consumer price index (CPI) was employed to find the relevant 1997 cost of \$159.41. A complete list of the cleaning supplies and related costs is in Appendix 2.

*Household insurance*

It can reasonably be argued that a home-insurance policy is a necessity in the same way that health insurance is a necessity. For any family, the loss of one’s shelter and belongings due to fire or other hazard is catastrophic. For the poor, the cost of replacing such a massive loss would be prohibitive. The cost of insuring oneself against such a loss could fairly be regarded as a basic need. While Canadians have typically been generous to assist poor families faced with such losses, this study assumes that no outside assistance or community charity is available since we wish to determine the cost of basic needs as if they were all purchased in the marketplace. While this is clearly unrealistic, it does establish a useful upper limit on costs.

Household insurance was not included in the original study. Indeed, it was classified as an “amenity” in the 1994 revision of the poverty lines. While the omission is relatively small, home insurance is reasonably classified as a necessity and it is inappropriate to exclude it. The cost determined for this item (\$200 in 1997) was an approximate average of several quotes from insurance brokers of the basic policy for a family of four occupying a modest three-bedroom apartment.

*Furniture and equipment*

This category includes all essential household furniture, furnishings and appliances appropriate to the day-to-day needs of a family of four. Again, this grouping is broadly consistent with the Famex category of the same name.

**Table 10: Cost of basic telephone service by province (1999)**

Province	Average Cost ( 1999)
Newfoundland	292.89
Prince Edward Island	312.39
Nova Scotia	345.00
New Brunswick	282.07
Quebec	324.48
Ontario	303.60
Manitoba	252.34
Saskatchewan	261.52
Alberta	271.60
British Columbia	304.72
Canada (weighted average)	303.80

Source: personal contact with each of the provincial telephone utilities.

Clearly, this is an area of household expenditure that has a rather large positive income elasticity. That is, as the household's income rises, spending on furniture and appliances would be expected to rise at least as fast. The quantity and quality of home furnishings and equipment will increase with income pretty much without limit. Yet, the essential furnishings, when purchased on a staggered basis, do not cost all that much.

This category includes such items as beds, bedding, dressers, tables, chairs, desks, kitchen suites, tableware, flatware, glassware, kitchen implements, toaster, kitchen and bathroom towels, fan, clock radio, telephone, living-room suites, lamps, blinds, bookcases, umbrella, candles, flashlight, tool-kit, shopping cart, and stationery. A complete list of the items and prices are given in Appendix 2.

For many of the items here, their useful life extended past the current period. In those cases, estimates were made of the useful life-span of the items and the price of purchase was divided by the duration to obtain the effective annual cost. As well, a number of items (such as towels and bedding) required laundering. In these cases, a pattern of use and laundering was established in order to estimate the useful life-span of the items and hence determine the annual cost. An informal panel of persons familiar with such matters gave useful advice to the researchers.

The estimated annual cost of this category of basic need was \$299 for 1997.

#### *Laundry*

In *Poverty in Canada* (1992), the estimate of laundry costs was clearly inadequate. While the amount allocated for laundry (\$104 annually for a family of four in 1988) was not out of line with the actual spending on this item, it did understate the quantity of laundry to be done and it did understate the apparent costs of the ongoing use of public laundromats.

This study includes a thorough analysis of the full range of laundered items, the household pattern of use of these items, and the average costs of using a public laundromat. It was assumed that our family of four will need to do five loads of laundry per week. These loads comprise the family's clothing, bed linens, towels, and miscellaneous items. Because of the somewhat larger capacity of most laundromat dryers, it was determined that four loads of drying (at approximately 15 minutes per load) would be appropriate. Washers were found to cost, on average, \$1.50 per load and dryers about \$0.25 for 7 minutes. Using these values for 1999, total laundry costs

were determined to be \$494 in 1999 or \$481 in 1997. It should be noted that all laundry detergents, soaps, and other related items are not included here since they have already been accounted for under "cleaning supplies."

One might expect that laundry would be an expenditure item with a very low income elasticity. Indeed, it could be argued that laundry expenditures (ignoring dry cleaning costs for the moment) might well decline as incomes rise because families acquire their own washer and dryer and thereby reduce, rather dramatically, the day-to-day costs of doing the laundry.

It is noteworthy that the average annual cost of "laundry services" (which includes laundry and dry cleaning) according to the 1996 Famex survey was \$114. This value, along with the totals for families of four in the bottom quintile and the bottom decile, is given in table 6. This is quite surprising considering that the estimate for this study is \$481 for 1997. The average annual laundry cost for families of four *who rent* was \$144 (FAMEX, microdata file 1996), still a long way from our estimate. So, it does not appear that there is a significant difference between the actual spending of renters and home owners in this area. Nevertheless, the estimate used here has been carefully determined and is, if anything, fairly conservative. So, the estimate should stand despite its being well above what Canadians in general (and Canadian renters, in particular) actually spend on laundry services.

#### *Public transportation*

In the earlier versions of the basic needs poverty lines, it was assumed that most low-income persons would have to rely on public transportation, largely because they could not afford to purchase and maintain an automobile. While this assumption is quite reasonable for urban centres, where 80% of Canadians live, it may be inappropriate for smaller communities and rural areas. There, a vehicle may be fairly regarded as a basic necessity. Below, under the heading Personal Poverty Lines, this issue is treated in more detail.

This study follows earlier analysis in assuming public transportation is the means by which low-income people access other basic needs such as shopping, medical care, and laundry facilities. A variety of scenarios were considered, with different assumptions about employment status and proximity to basic needs. The approximate average cost coming out of all these various scenarios is \$648 per annum for the family of four in 1997. More detail about the various options and related costs is contained in Appendix 3.

*Personal care*

Following the FAMEX categories, “Personal Care” includes such items as hair-care products, deodorant, personal soaps, oral hygiene, and shaving products. In addition, under “toilet preparations and other personal care supplies,” personal-care products such as toilet paper, facial tissue, feminine hygiene items, sunscreen and nail clippers were put into this category. However, cosmetics and fragrances were not included. Again, researchers were assisted by an informal panel of persons from both sexes and from different age groups in making judgements about normal patterns of use of the items and their expected durability. Prices were gathered from national chain pharmacies. The estimated annual cost for this category is \$457 in 1997. The complete list of included items and related costs is found in Appendix 4.

*Health care*

In earlier versions of the basic needs poverty lines, it was assumed that low-income Canadians would not have any necessary out-of-pocket expenses for health care except in special circumstances (such as chronic illness, disability, etc.). Dental and optical care was assumed to be covered by charitable organizations and free community clinics. The author noted that dental societies in all urban centres arranged to have free dental care for people (and especially children) who could not afford it and that Lions Clubs throughout the country ensured that eyeglasses and other eye-care expenses would be covered for those who were unable to pay. Needless to say, critics jumped on this particular assumption with some enthusiasm and much of the commentary was negatively framed. For example:

There are no health care items in the basket on the grounds that poor people should be able to get charity dental services from dentists in the community and they should be able to pick up free eyeglasses from the local Lions Club. (National Council on Welfare 1999a: 9).

While such criticism is not without merit, it fails to acknowledge the fact that thousands of low-income Canadians do receive free health-care services every year. Nevertheless, the basic needs approach, to be consistent, must also acknowledge that many Canadians of limited means simply cannot acquire all of their medicinal and health-care needs without some “out-of-pocket” cost to themselves. In some cases, those out-of-pocket expenses can be substantial.

Cases where people have special medical needs and costs that are out of the ordinary should be treated separately. Some discussion of this is included below under the heading “Personal Poverty Lines.” To determine poverty lines relevant to most people, it is appropriate to examine typical patterns of use of the basic needs. The difficulty when it comes to health care is that there are likely to be substantial variations among families depending on age profile, stress factors, and patterns of behaviour. For the purposes of this study, the average spending by families of four (as determined by FAMEX) was used as the basis of the health-care costs to the household.

The alternative would be to estimate a sort of average or typical use of such things as dental care, eyeglasses, medicine (prescription drugs not covered by a plan and over-the-counter drugs), hospital and lab tests, vaccinations, use of health-care practitioners not covered by medicare (such as physical therapists and chiropractors), counselling, weight-control programs, contraception, and any out-of-pocket hospital costs. Clearly, such an exercise would be extremely difficult and time-consuming, and ultimately would amount to little more than guesswork. It seems, in this case, that the average actual spending by Canadian families (of four) would be a reasonable proxy for the typical necessary costs of health care. It can be argued that people are unlikely to spend much more than is necessary on this particular area. Almost 90% of the spending on health care by families of four, on average, is on the three key items: pharmaceuticals, eye-care and dental care.

Table 6 shows the actual expenditures by the average family of four and by lower-income families of four. The average spending, \$833 (adjusted to 1997 dollars), is used here as an estimate of the necessary cost of health care for a family of four.

*Miscellaneous*

There are necessary items of a miscellaneous nature that have not been included. These are relatively small expenses that almost everyone encounters that could be regarded as essential. Such things as postage, school supplies, photocopies of important documents, library cards, and so on, can arguably be included under basic needs but, in total, do not cost all that much. An amount of \$100 annually, for the family of four, is included here to cover these miscellaneous items. While this amount is low, it does assume that most materials for grade-school students are supplied by the schools and that high-school students help defray such costs with their own earnings.

### Income taxes

While sales taxes have been included in the costs of other basic needs, it is important to determine whether income taxes need to be factored into our calculations of the cost of basic necessities. Many of the usual sources of income of lower-income Canadians, such as social assistance, family-support payments, and some supplementary pensions payments are not taxable. However, even if all of the income for 1997 (less, of course the child-tax benefit) required to meet the listed basic needs for our reference family is *earned* (and thus taxable), no income tax would be paid because that level of income is just under the threshold for taxation. Indeed, the family would receive a modest tax rebate, at least in the Province of Ontario, due largely to the property-tax credit. So, income taxes on income required to meet basic needs is not a relevant consideration.

### Poverty lines for provinces and cities (1997 and 2000)

Table 6 showed the various components of the basic needs poverty line for a family of four in 1997. The total amount, \$18,856, is the poverty line. This a broad average for Canada as a whole and each province will have its own poverty line, depending upon the cost of various items (especially shelter) in each province. As well, each urban community will have its own poverty line based upon costs in those communities.

Tables 11 and 12 display the provincial poverty lines by family size for 1997 and 2000, respectively. For these and other poverty lines used in this study, the family of four was used as a basis and the lines for other family sizes determined using the NRC equivalency formula. The lines for 2000 have been determined by updating the 1997 lines using the all-items consumer price index (CPI). Table 13 displays the poverty lines by major Canadian city for 1997. They are determined by establishing the line for each city for the reference family of four. From there, the lines for other family sizes are determined using the NRC's equivalency values. The values for 2000 are determined using the all-items CPI, and are displayed in table 14.

British Columbia and Ontario are clearly the most expensive provinces in which to live. The poverty lines are about 8% higher in those provinces than in Canada, on average. New Brunswick and Quebec are the least expensive provinces in which to live. The costs in those provinces are about 12% lower than the Canadian average.

Remember that the basic needs poverty lines tell us the cost of acquiring a list of basic needs for individuals and families in 1997. They are absolute in the sense that the list of basic needs—essentially food, clothing, shelter, and health care—are the same as they have always been. They are relative in the sense that the quality, breadth, and standard of each of the items has changed as societal standards have changed and the lines are relevant to the “normal” or average household situation. These poverty lines do not (nor could they ever) account for a variety of individual cases in which personal costs of living are different (in some cases significantly different) from the costs listed here.

### Personal poverty lines

In reality, each person has his own, personal poverty line. It represents the costs of basic necessities *to him*. Each person's poverty line will be unique and reflects the necessary costs of day-to-day living based on his own situation. One person, for example, may have to pay higher than average rents for a while because he has moved to a new city with very low vacancy and was unable to search thoroughly for an apartment. While he pays high rents, his personal poverty line will be higher. A disabled person may have special devices or special medications that make his own poverty line higher than that of his able-bodied counterpart. On the other hand, a senior citizen who owns her own home (mortgage free) and who has expenses lower than the average would have a lower poverty line than most others living alone. The person whose parents or partner covers their rent will similarly have a poverty line lower than average. Your personal poverty line is, to summarize, all of the costs of the basic necessities of life *in your current situation*.

The poverty lines determined in this study represent the usual or average case. The fact that Canada has some 30 million individual poverty lines should not discourage students of poverty from attempting measurement. Most individuals and families are reasonably represented by the overall poverty lines displayed here. The special cases should be treated as such. There is no obvious bias in using poverty lines in this way because it is not clear whether the special cases would increase or reduce the incidence of poverty that we arrive at using the standard lines.

Despite this, there are still a variety of poverty lines to be distinguished. First, there are poverty lines by

Table 11: Provincial poverty lines (1997; CDN\$)

	Size of family					
	One	Two	Three	Four	Five	Six
<b>NRC equivalency value</b>	1.0000	1.5692	1.9072	2.2154	2.5021	2.7721
<b>Newfoundland</b>	7,569	11,877	14,436	16,768	18,938	20,982
<b>Prince Edward Island</b>	7,853	12,324	14,978	17,399	19,650	21,771
<b>Nova Scotia</b>	8,128	12,755	15,502	18,007	20,338	22,532
<b>New Brunswick</b>	7,454	11,698	14,217	16,515	18,652	20,665
<b>Quebec</b>	7,548	11,844	14,395	16,721	18,885	20,922
<b>Ontario</b>	9,103	14,285	17,362	20,167	22,777	25,235
<b>Manitoba</b>	8,177	12,831	15,595	18,115	20,460	22,668
<b>Saskatchewan</b>	7,709	12,098	14,704	17,080	19,290	21,372
<b>Alberta</b>	7,813	12,260	14,901	17,309	19,549	21,659
<b>British Columbia</b>	9,377	14,714	17,883	20,773	23,461	25,993
<b>Total (Canada)</b>	8,511	13,356	16,233	18,856	21,296	23,594

Source: calculations by author.

Table 12: Provincial Poverty Lines (2000; CDN\$)

	Size of family					
	One	Two	Three	Four	Five	Six
<b>Newfoundland</b>	7,893	12,385	15,053	17,485	19,748	21,879
<b>Prince Edward Island</b>	8,189	12,850	15,618	18,142	20,490	22,701
<b>Nova Scotia</b>	8,476	13,300	16,165	18,777	21,207	23,496
<b>New Brunswick</b>	7,773	12,198	14,825	17,221	19,449	21,548
<b>Quebec</b>	7,870	12,350	15,010	17,436	19,692	21,817
<b>Ontario</b>	9,492	14,895	18,104	21,029	23,751	26,314
<b>Manitoba</b>	8,527	13,380	16,262	18,890	21,334	23,637
<b>Saskatchewan</b>	8,039	12,615	15,332	17,810	20,115	22,285
<b>Alberta</b>	8,147	12,785	15,538	18,049	20,385	22,585
<b>British Columbia</b>	9,777	15,343	18,647	21,661	24,464	27,104
<b>Total (Canada)</b>	8,875	13,927	16,927	19,662	22,207	24,603

Source: calculations by author.

family size. Even taking into account economies of scale available from living together, the necessities still cost more as the number of persons in the family rises. There are also different poverty lines for different cities, reflecting different costs (especially shelter costs) in the different communities across the country. Then, there are pro-

vincial poverty lines. While it is not clear that the cost of necessities will be markedly different for, say, Nova Scotia and Saskatchewan, each province has jurisdiction over much social policy and a great number of social assistance programs. For comparison purposes, then, provincial poverty lines are desirable.

Table 13: Poverty lines by major city (1997)

	Population	Size of family					
		1	2	3	4	5	6
<b>NRC equivalency values</b>		1.0000	1.5692	1.9072	2.2154	2.5021	2.7721
<b>St. John's</b>	174,051	7,678	12,048	14,644	17,010	19,211	21,284
<b>Charlottetown</b>	57,224	7,986	12,531	15,231	17,692	19,981	22,137
<b>Halifax</b>	332,518	8,580	13,463	16,363	19,007	21,467	23,783
<b>Cape Breton</b>	117,849	7,285	11,431	13,893	16,138	18,227	20,193
<b>Fredericton</b>	78,950	8,125	12,750	15,496	18,001	20,330	22,524
<b>Moncton</b>	113,491	7,539	11,831	14,379	16,702	18,864	20,899
<b>Saint John</b>	125,705	7,214	11,321	13,759	15,982	18,051	19,999
<b>Chicoutimi</b>	160,454	7,105	11,149	13,551	15,740	17,777	19,696
<b>Drummondville</b>	65,119	6,957	10,917	13,269	15,413	17,408	19,286
<b>Granby</b>	58,872	7,090	11,126	13,523	15,708	17,741	19,655
<b>Hull</b>	247,072	7,780	12,208	14,837	17,235	19,465	21,566
<b>Montreal</b>	3,326,510	7,686	12,061	14,659	17,028	19,231	21,307
<b>Quebec</b>	671,889	7,725	12,123	14,734	17,115	19,330	21,416
<b>Saint-Hyacinthe</b>	50,027	7,100	11,141	13,541	15,730	17,765	19,682
<b>Saint-Jean-sur-Richelieu</b>	76,461	7,115	11,165	13,569	15,762	17,802	19,723
<b>Shawinigan</b>	59,851	6,578	10,322	12,546	14,573	16,459	18,235
<b>Sherbrooke</b>	147,384	7,376	11,574	14,067	16,340	18,455	20,447
<b>Trois-Rivieres</b>	139,956	7,041	11,049	13,429	15,599	17,617	19,518
<b>Barrie</b>	118,695	9,125	14,320	17,404	20,216	22,833	25,296
<b>Belleville</b>	93,442	8,298	13,021	15,826	18,384	20,763	23,003
<b>Brantford</b>	100,238	8,209	12,882	15,657	18,187	20,541	22,757
<b>Cornwall</b>	62,183	7,678	12,048	14,643	17,009	19,210	21,283
<b>Guelph</b>	105,420	8,318	13,052	15,864	18,427	20,812	23,058
<b>Hamilton</b>	624,360	8,845	13,879	16,869	19,595	22,130	24,518
<b>Kingston</b>	143,416	8,667	13,601	16,531	19,202	21,687	24,027
<b>Kitchener</b>	382,940	8,515	13,361	16,239	18,864	21,305	23,604
<b>London</b>	398,616	8,766	13,755	16,718	19,420	21,933	24,300
<b>North Bay</b>	64,785	8,101	12,712	15,451	17,947	20,270	22,457
<b>Oshawa</b>	268,773	8,727	13,694	16,643	19,333	21,835	24,191
<b>Ottawa</b>	763,426	9,199	14,435	17,545	20,380	23,017	25,501
<b>Peterborough</b>	100,193	8,451	13,261	16,117	18,722	21,145	23,426
<b>St. Catharines</b>	372,406	8,313	13,045	15,854	18,416	20,800	23,044
<b>Sarnia</b>	86,480	8,889	13,949	16,953	19,693	22,241	24,641
<b>Sault Ste. Marie</b>	83,619	8,219	12,898	15,676	18,209	20,566	22,785
<b>Sudbury</b>	160,488	8,244	12,936	15,723	18,264	20,627	22,853
<b>Thunder Bay</b>	125,562	8,914	13,987	17,000	19,747	22,303	24,709
<b>Toronto</b>	4,263,757	9,672	15,177	18,446	21,427	24,200	26,812
<b>Windsor</b>	278,685	8,323	13,060	15,873	18,438	20,824	23,071

Table 13 continued: Poverty lines by major city (1997)

	Population	Size of family					
		1	2	3	4	5	6
Winnipeg	667,209	8,230	12,915	15,697	18,234	20,593	22,816
Regina	193,652	7,965	12,499	15,192	17,647	19,930	22,081
Saskatoon	219,056	7,729	12,128	14,741	17,123	19,339	21,426
Calgary	821,628	7,921	12,430	15,108	17,549	19,820	21,959
Edmonton	862,597	7,739	12,144	14,760	17,145	19,364	21,453
Lethbridge	63,053	7,690	12,067	14,666	17,036	19,241	21,317
Medicine Hat	56,570	7,468	11,719	14,243	16,545	18,686	20,703
Red Deer	60,075	7,655	12,013	14,600	16,960	19,154	21,221
Abbotsford	136,480	8,664	13,596	16,524	19,194	21,678	24,018
Chilwack	66,254	8,339	13,086	15,904	18,474	20,865	23,117
Kamloops	84,914	8,502	13,341	16,214	18,834	21,272	23,567
Kelowna	136,541	8,418	13,209	16,054	18,649	21,062	23,335
Nanaimo	85,585	8,442	13,248	16,101	18,703	21,124	23,403
Prince George	75,150	7,989	12,537	15,237	17,700	19,990	22,147
Vancouver	1,831,665	10,082	15,821	19,229	22,336	25,227	27,949
Victoria	304,287	9,097	14,276	17,350	20,154	22,762	25,219

Source: Calculations by author; population values drawn from 1996 census for census metropolitan areas (CMAs) and census agglomerations (CAs).

Table 14: Poverty lines by major city (2000)

	Population	Size of family					
		1	2	3	4	5	6
St. John's	174,051	8,006	12,563	15,270	17,737	20,032	22,194
Charlottetown	57,224	8,327	13,067	15,882	18,448	20,835	23,084
Halifax	332,518	8,946	14,039	17,062	19,820	22,385	24,800
Cape Breton	117,849	7,596	11,920	14,487	16,828	19,006	21,057
Fredericton	78,950	8,473	13,295	16,159	18,770	21,199	23,487
Moncton	113,491	7,862	12,336	14,993	17,416	19,670	21,793
Saint John	125,705	7,523	11,805	14,347	16,666	18,822	20,853
Chicoutimi	160,454	7,409	11,626	14,130	16,413	18,537	20,538
Drummondville	65,119	7,255	11,384	13,836	16,072	18,152	20,111
Granby	58,872	7,393	11,602	14,101	16,379	18,499	20,495
Hull	247,072	8,112	12,730	15,472	17,972	20,298	22,488
Montreal	3,326,510	8,015	12,577	15,286	17,756	20,053	22,217
Quebec	671,889	8,056	12,641	15,364	17,847	20,156	22,331
Saint-Hyacinthe	50,027	7,404	11,618	14,120	16,402	18,525	20,524
Saint-Jean-sur-Richelieu	76,461	7,419	11,642	14,150	16,436	18,563	20,566
Shawinigan	59,851	6,859	10,764	13,082	15,196	17,163	19,015
Sherbrooke	147,384	7,691	12,069	14,669	17,039	19,244	21,321

Table 14 continued: Poverty lines by major city (2000)

	Population	Size of family					
		1	2	3	4	5	6
Trois-Rivieres	139,956	7,342	11,521	14,003	16,265	18,370	20,353
Barrie	118,695	9,515	14,932	18,148	21,081	23,809	26,378
Belleville	93,442	8,653	13,578	16,503	19,170	21,650	23,987
Brantford	100,238	8,560	13,433	16,326	18,965	21,419	23,730
Cornwall	62,183	8,006	12,563	15,269	17,736	20,032	22,193
Guelph	105,420	8,673	13,610	16,542	19,215	21,702	24,044
Hamilton	624,360	9,223	14,472	17,590	20,432	23,076	25,567
Kingston	143,416	9,038	14,182	17,237	20,023	22,614	25,054
Kitchener	382,940	8,879	13,933	16,934	19,670	22,216	24,613
London	398,616	9,141	14,344	17,433	20,250	22,871	25,339
North Bay	64,785	8,447	13,256	16,111	18,715	21,136	23,417
Oshawa	268,773	9,100	14,279	17,355	20,159	22,768	25,225
Ottawa	763,426	9,593	15,053	18,295	21,251	24,001	26,591
Peterborough	100,193	8,812	13,828	16,806	19,522	22,049	24,428
St. Catharines	372,406	8,668	13,602	16,532	19,204	21,689	24,029
Sarnia	86,480	9,269	14,545	17,678	20,535	23,192	25,695
Sault Ste. Marie	83,619	8,571	13,449	16,346	18,988	21,445	23,759
Sudbury	160,488	8,596	13,489	16,395	19,044	21,509	23,830
Thunder Bay	125,562	9,295	14,585	17,727	20,591	23,256	25,766
Toronto	4,263,757	10,085	15,826	19,235	22,343	25,235	27,958
Windsor	278,685	8,679	13,618	16,552	19,226	21,715	24,058
Winnipeg	667,209	8,582	13,467	16,368	19,013	21,474	23,791
Regina	193,652	8,306	13,034	15,841	18,401	20,782	23,025
Saskatoon	219,056	8,059	12,647	15,371	17,855	20,166	22,342
Calgary	821,628	8,260	12,962	15,754	18,299	20,667	22,898
Edmonton	862,597	8,070	12,663	15,391	17,878	20,192	22,371
Lethbridge	63,053	8,019	12,583	15,293	17,764	20,063	22,228
Medicine Hat	56,570	7,787	12,220	14,852	17,252	19,485	21,588
Red Deer	60,075	7,983	12,526	15,224	17,685	19,973	22,129
Abbotsford	136,480	9,034	14,177	17,230	20,015	22,605	25,044
Chilwack	66,254	8,696	13,645	16,584	19,264	21,757	24,105
Kamloops	84,914	8,865	13,911	16,907	19,639	22,181	24,575
Kelowna	136,541	8,778	13,774	16,741	19,446	21,963	24,333
Nanaimo	85,585	8,803	13,814	16,790	19,503	22,027	24,404
Prince George	75,150	8,331	13,073	15,889	18,456	20,845	23,094
Vancouver	1,831,665	10,513	16,497	20,051	23,291	26,305	29,144
Victoria	304,287	9,486	14,886	18,092	21,016	23,736	26,297

Source: Calculations by author; population values drawn from 1996 census for census metropolitan areas (CMAs) and census agglomerations (CAs).



## Estimating poverty in Canada—income

Income is by far the most common indicator used in measuring the extent of poverty. It is popular more because of its availability than its usefulness. More and more, the use of income as a reflection of the living standards of the poor is hazardous.

Ideally, income should represent the ability of a household to afford a given standard of living. Income is really purchasing power. However, we know that income does a poorer job of reflecting living standards the further down the distribution of income we go. What do we do, for example, with incomes in the range of \$5,000? We know that people cannot really live on this small amount. Yet, in 1996, there were 239,000 households with positive income at or below \$5,000. What do we do with incomes of zero? What can we assume about the standard of living of households with zero income? There were 13,600 households in 1996 with zero income. Finally, what do we do with negative incomes? What kind of living standard is represented by an income *below* zero? There were 6,900 households with incomes below zero in 1996.

I have elsewhere outlined, in some detail, the problems with income as an indicator of economic well-being, especially at the lower end of the income distribution (see Sarlo 1992: 137; 1998: 7). Some of the main difficulties are these. First, and surely most important, is unreported and under-reported income. The incomes that some people report on their tax forms and to Statistics Canada may be much different from their true income. We know that the amount of hidden income is significant. Reasons for hiding income include tax evasion, preserving personal privacy, sloppiness, and confusion about what counts as income. Statistics Canada reconciliation checks reveal that, while wages and salaries appear to be accurately reported on the whole, government transfers (such as welfare and Employment Insurance benefits) are not (Wolfson and Evans 1990: 26). Studies of the underground economy also suggest that, over time, more and more income earned in the service economy and in the trades has gone unreported.<sup>5</sup>

Other difficulties with income include the omission of subsidized housing and other in-kind benefits; the ben-

eficial impact of mortgage-free home ownership on living standards; the fact that student loans, which are appropriately omitted as income, do contribute significantly to the student's standard of living so that often the student's reported income greatly belies his true living standard; business losses resulting in negative incomes; part-year families; people in institutions; people on native reservations; and people who voluntarily live austere life-styles.

Despite the well-known problems with income, researchers continue to use it almost exclusively in analyzing poverty and living standards. And, indeed, income is used extensively in this study, although I do examine an alternative to income (consumption expenditure) in the next section. While consumption does avoid some of the difficulties plaguing income, it is by no means a perfect indicator. A comparison of the results using income and those using consumption is useful in highlighting the problems inherent in income as a reflection of economic well-being. It seems to me that researchers devote far too little space to the difficulties with the income indicator. In my view, the weakness of income, especially at the bottom end of the distribution, compels us to qualify any results we get and clearly identify any limitations with our data.

### The overall trend

What has happened to the overall income poverty rate during the past 40 or 50 years? Are Canadians more or less likely to be poor now than was the case in the early post-war years? Statistics Canada has sufficient data on incomes going back to 1951 and we can use that to estimate the extent of income poverty over the past several decades. Employing our basic-needs poverty measure (constructed for 1997) and back-dating using the overall CPI, the poverty lines for all the years since 1951 have been determined. They are displayed in table 15.

It is noteworthy that the basic needs poverty lines back-dated to the early post-war period using the CPI are reasonably close to the early LICO lines early LICO lines. Specifically, Jenny Poduluk (1968) suggested that, around

Table 15: Historical poverty lines by family size (based on 1997 basic needs line)

Year	CPI	Size of family					
		One	Two	Three	Four	Five	Six
1951	16.5	1,303	2,045	2,486	2,888	3,261	3,613
1952	16.9	1,334	2,094	2,545	2,956	3,339	3,699
1953	16.7	1,322	2,074	2,521	2,929	3,308	3,665
1954	16.8	1,328	2,084	2,533	2,942	3,323	3,682
1955	16.8	1,328	2,084	2,533	2,942	3,323	3,682
1956	17.0	1,347	2,113	2,568	2,984	3,370	3,733
1957	17.6	1,390	2,181	2,651	3,079	3,478	3,853
1958	18.0	1,427	2,239	2,722	3,161	3,571	3,956
1959	18.3	1,446	2,268	2,757	3,203	3,617	4,007
1960	18.5	1,464	2,297	2,792	3,244	3,663	4,059
1961	18.7	1,476	2,317	2,816	3,271	3,694	4,093
1962	18.9	1,495	2,346	2,851	3,312	3,741	4,144
1963	19.2	1,520	2,385	2,898	3,367	3,802	4,213
1964	19.6	1,551	2,433	2,957	3,435	3,880	4,298
1965	20.1	1,588	2,491	3,028	3,517	3,972	4,401
1966	20.8	1,643	2,578	3,134	3,640	4,112	4,555
1967	21.6	1,705	2,675	3,252	3,777	4,266	4,726
1968	22.4	1,773	2,782	3,381	3,928	4,436	4,915
1969	23.4	1,853	2,908	3,534	4,106	4,637	5,137
1970	24.2	1,915	3,005	3,652	4,243	4,792	5,309
1971	24.9	1,971	3,092	3,758	4,366	4,931	5,463
1972	26.1	2,063	3,238	3,935	4,571	5,163	5,720
1973	28.1	2,224	3,490	4,241	4,927	5,564	6,165
1974	31.2	2,465	3,868	4,701	5,461	6,167	6,833
1975	34.5	2,730	4,285	5,207	6,049	6,832	7,569
1976	37.1	2,934	4,604	5,596	6,501	7,342	8,134
1977	40.1	3,169	4,973	6,044	7,021	7,929	8,785
1978	43.7	3,453	5,419	6,586	7,650	8,640	9,573
1979	47.6	3,768	5,913	7,187	8,348	9,429	10,446
1980	52.5	4,151	6,514	7,917	9,197	10,387	11,508
1981	59.0	4,664	7,319	8,895	10,333	11,670	12,929
1982	65.4	5,171	8,113	9,861	11,455	12,937	14,333
1983	69.1	5,467	8,579	10,427	12,112	13,679	15,155
1984	72.2	5,708	8,957	10,886	12,646	14,282	15,823
1985	75.0	5,930	9,306	11,310	13,138	14,839	16,440
1986	78.1	6,177	9,694	11,781	13,686	15,457	17,125
1987	81.5	6,449	10,120	12,300	14,288	16,137	17,878
1988	84.8	6,709	10,527	12,795	14,863	16,786	18,597
1989	89.0	7,042	11,051	13,431	15,602	17,621	19,522
1990	93.3	7,382	11,584	14,079	16,355	18,471	20,464
1991	98.6	7,796	12,233	14,868	17,272	19,507	21,611

Table 15 continued: Historical poverty lines by family size (based on 1997 basic needs line)

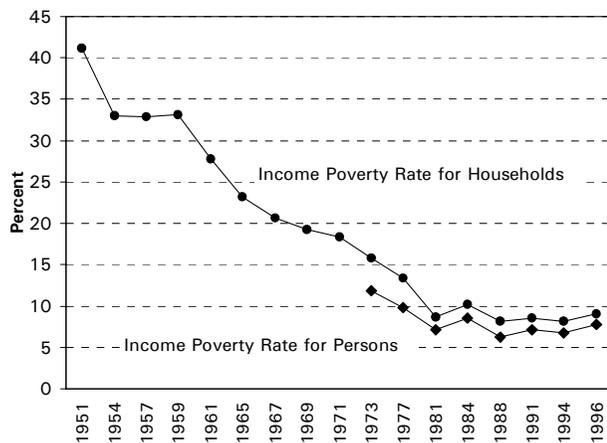
Year	CPI	Size of family					
		One	Two	Three	Four	Five	Six
1992	100.0	7,913	12,417	15,092	17,532	19,800	21,937
1993	101.8	8,055	12,640	15,363	17,846	20,156	22,330
1994	102.1	8,074	12,669	15,398	17,887	20,202	22,382
1995	104.3	8,247	12,941	15,728	18,271	20,635	22,861
1996	105.9	8,377	13,144	15,976	18,558	20,960	23,221
1997	107.6	8,511	13,355	16,232	18,856	21,296	23,594
1998	108.9	8,614	13,517	16,428	19,084	21,553	23,879
1999	110.5	8,741	13,715	16,670	19,364	21,870	24,230
2000	112.2	8,875	13,926	16,926	19,662	22,206	24,602

Source: Calculations by author.

1960, “a single person with an income below \$1,500, a family of two with less than \$2,500, and families of three, four, five, or more with incomes of less than \$3,000, \$3,500, or \$4,000, respectively” were likely to be in “straightened” circumstances. So, what was regarded as “straightened” circumstances in the 1960s was fairly close, in real dollars, to a basic needs threshold today.

Figure 1 displays the trend in the rate of income poverty over the period from 1951 to 1996. These estimates are based on the basic needs poverty lines in table 6 and Statistics Canada databases (microdata files, since 1973) as well as Statistics Canada income distribution tables (from 1951 to 1971). The poverty rates here are defined as the percentage of all households falling at or below the poverty line—i.e., “household” poverty. Determining the poverty rate for persons for the whole period is not possible because microdata files are not available

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



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

before 1973. If the data were available, however, the rate for persons would be below the rate for households because poor households are, on average, smaller than households that are not poor. This results in a lower proportion of persons than households being poor. Since the rate for persons can be determined for the years since 1973, those rates are superimposed in figure 1. As well, poverty rates are not estimated for every year but, rather, intermittently (roughly every 3 years). This is sufficient to determine the overall trend.

The trend in figure 1 reveals two important phenomena. First, it shows a remarkable decline in poverty over the 45-year period represented. We have gone from poverty rates in the range of 40% in the early post-war period to rates of about 8% to 9% now. This is almost a five-fold decrease and it is, for the most part, a testament to the strong economic and employment growth in Canada, particularly during the 1950s and 1960s. Most of the decline occurred prior to the big increases in government social spending. The overall picture regarding poverty in Canada is good news.

The second phenomena that the trend reveals is that the poverty rate has not fallen for about the past 20 years. Despite a huge increase in social spending since the early 1980s, the poverty rate (at least as far as income can tell the story) has apparently settled on a plateau. While it has shown something of a cyclical pattern since the early 1980s, it has not followed the downward trend of the earlier period.

Why has poverty stopped falling? There are two hypotheses. The first has to do with the data. Reported income is used as our indicator of poverty. We know that reported income is subject to a variety of problems, not the least of which is that people do understate their true

income as a means of avoiding taxes. During the late 1970s and the 1980s, personal income-tax rates increased sharply as governments expanded social programs so that people had a stronger incentive to hide income and to understate what they were receiving in order to avoid paying taxes. It is likely that, having understated income on a tax form, respondents to a Statistics Canada survey would be consistent, and under-report their income again. The evidence from Statistics Canada and others on the underground economy suggests that under-reporting of income has increased substantially since the 1970s. So, the first hypothesis is that the poverty rates of the 1980s and 1990s may not be accurate due to an increase in unreported income. Poverty rates may still be in decline but the flawed income data is unable to pick out what is happening. Other indicators, such as consumption, ownership of household facilities (durables), and wealth may help out in determining whether poverty might still be decreasing.

The second hypothesis involves differences in the underlying cause of poverty. From the early post-war period to about the late 1960s, there were many of Canadians who were poor either because their jobs did not pay enough to put them above the poverty line or because they could not find jobs at all. In both cases, the strong economy and the increasingly buoyant labour market of the 1950s and 1960s helped enormously to pull people out of poverty. Real wages rose strongly through this period. A great many Canadian families, especially the hundreds of thousands of recent immigrants, significantly improved their financial situation due to the economic boom. They were able to work their way out of poverty. The overall rate of poverty declined from about 40% in the early 1950s to about 10% by the mid-1970s. I would argue that this decline, at a time when our social programs were still quite minimal, was due to improving economic conditions.

Lowering the poverty rate further is going to be much more difficult because those still poor today have a much different range of problems keeping them in poverty. They may lack self esteem, making it difficult for them to imagine themselves achieving self sufficiency. They may have motivational or attitudinal problems that limit their labour-market attainments. They may also have problems with addiction or mental illness, or engage in antisocial or criminal activities that impede their progress. Add to this the increasing generosity of our social programs after the mid-1970s, which created a disincentive for some at the low end of the income distribution to work, and we have a possible explanation

for stubbornness or “downward stickiness” of the poverty rate. An improving economy and a stronger labour market may be of little help in reducing this, more ingrained, type of poverty.<sup>6</sup>

In summary, I would argue that the inadequacy of our data combined with a different “character” of the remaining poverty help explain the fact that measured income poverty has stopped decreasing. I think that the disincentive to work produced by some of our social programs is also a factor.

I do not believe that the increase in part-time work helps to explain the intransigence of the poverty rate: people generally work part-time because they prefer part-time over full-time work. Most part-time workers are, in fact, spouses of full-time earners.<sup>7</sup> I also do not believe the claim, often made by social activists, that the poverty rate has not come down because people cannot find jobs. Between 1991 and 1997, employment grew by 8% and the unemployment rate fell from 10.4% to 9.2% (Statistics Canada 1998: table 40). Yet, the basic needs poverty rate has increased somewhat during the 1990s. As well, other measures such as the LICO lines show higher rates of low-income in 1997 than in the early 1990s.

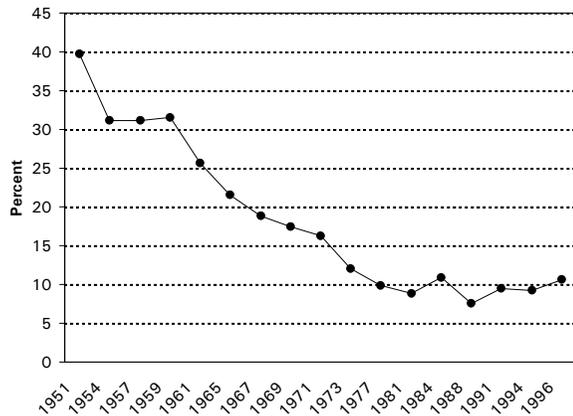
What needs to be emphasized, however, is that despite the apparent resistance to further decline, the poverty rate in Canada fell dramatically in the 30 years between 1951 and 1981. Basic needs poverty is much less prevalent now than it was in the early post-war period. Regrettably, this success story is down-played or ignored completely by many so-called experts who use the disappointing pattern of recent years to proclaim a “crisis” of poverty in Canada. For the most part, the news (in terms of income) is good. Clearly more work (and probably more creative work) remains to be done.

## Poverty among children

The trend in poverty among children mirrors the pattern of overall poverty since the early 1950s. This is to be expected. After all, most of the poor live in families and the fastest growing type of family is the single-parent family—a group at high risk for poverty.

Figure 2 shows the rate of poverty among children over the period from 1951 to 1996. The estimates for the period before 1973 are based on the poverty rates for families, simply because microdata files are not available for that period and because there are no estimates of poverty among children per se from any of the standard

**Figure 2: Rate of Poverty among Children in Canada (1951–1996)**



Source: Calculations by author.

sources. So the values before 1973 should be viewed as a crude approximation. The estimates for 1973 to 1996 are derived from the relevant microdata files.

It is noteworthy that poverty rates among children (really, the rate of poverty of families with children under 18) is higher than the overall rate of poverty. The large number of single parent families and the absence of the elderly (a group with minuscule poverty rates) help explain this. The rate of basic needs income poverty for children has fluctuated around 10% for about two decades. Like the overall rate, the rate of poverty among children has not continued the downward trend of earlier decades.

## Provincial differences in poverty

There are clear regional differences in the lines reflecting, largely, differences in the costs of shelter in the different parts of Canada. It seems that, currently, these regional differences are far more important than the standard “urban size” consideration that shows up prominently in the LICO lines. For example, poverty lines in Montreal are more closely linked to the costs of shelter in the province of Quebec than to the costs of shelter in other major urban centres in Canada. Overall, poverty lines are lowest in the Maritimes (excluding Nova Scotia) and Quebec, and highest in Ontario and British Columbia. The gap between the high and low poverty line areas appears to be about 20%.

Incomes also vary substantially across the country. Average household incomes in 1996, for example, were

highest in Ontario (at just over \$51,000) and lowest in the Maritimes at about \$38,500. Curiously, British Columbia, where costs are high, has an average household income only at about the Canadian average (Statistics Canada microdatafile of economic families 1996c). Broadly, however, there is a fair correlation between the levels of the poverty lines and the levels of average incomes. The estimate of income poverty for each of the provinces for the years 1973, 1984, and 1996 is contained in figure 3.

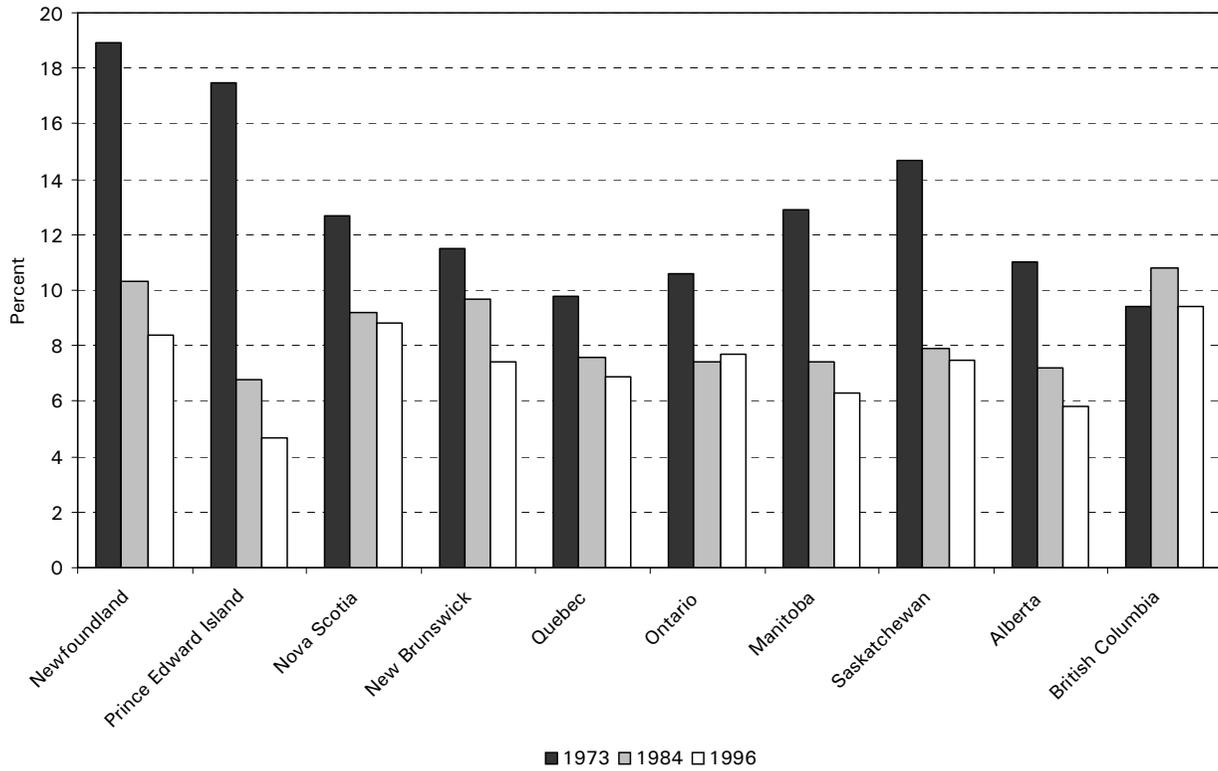
The fact that British Columbia has the highest poverty rate in the country is not a surprise. The high costs of living in the urban areas combined with the relative stagnation in incomes help explain this result. While the general trend in income poverty is downward, the rate in Ontario for 1996 is actually higher than it was in 1984. Social activists will undoubtedly explain this as a result of major cuts in welfare rates in Ontario in 1995 and other reductions by the Ontario government, especially in the area of social housing. However, as we shall see in a subsequent section dealing with welfare rates, in most cases, the incomes of welfare recipients in 1997 (after the cuts) are almost always above the basic needs poverty line.

The apparent lack of progress in reducing income poverty in the province of Ontario is mysterious. It could be that this province’s industries were particularly hard hit by the recession of the early 1990s and it took longer for an adjustment to occur. One might expect that Ontario’s poverty rate will decline after 1996 because of the booming economy and nation-leading unemployment rate. Clearly, Ontario’s predicament is driving the national results. Thus, while nine of the ten provinces have shown very healthy decreases in the poverty rate between 1984 and 1996 (by an average of almost 15%), Ontario, which has more than 40% of the nation’s population, has not. As a result, the national poverty rate has declined only marginally over that period of time.

## Age

Age has always been an important factor in explaining differences in poverty rates. We would expect that the risk of poverty would decline as the age of the head of household increases. The young have had a persistently high risk of being poor. This is because, largely, the young are less settled, less likely to be employed, and generally freer of commitments to others. As well, they are more likely to be attending college or university, which means that their incomes will be lower.

Figure 3: Income poverty in the provinces (1973, 1984, 1996)



Source: Statistics Canada Microdata File (EF), various, and calculations by author.

As people get older, their incomes usually increase due to increased experience, family responsibilities, and a firmer attachment to the labour market and their community. But, what about the elderly? On the one hand, those over 65 have generally stopped working and have little or no employment income. They live on pensions, in large part, that derive from their own savings, from pension plans set up by their employers, and from government sources. On the other hand, seniors typically have more modest needs and are more likely to own a home with no mortgage.

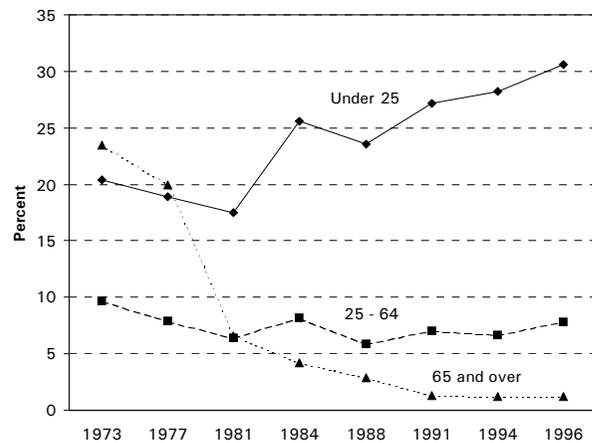
Figure 4 below shows the pattern of income poverty over the period from 1973 to 1996 for three key groups: the young, seniors and those in between. The differences in the poverty rates are striking.

The rate of income poverty for seniors has fallen dramatically. It fell very sharply during the 1970s but has continued to decline to the point where the current poverty rate for those over age 65 can be fairly described as “microscopic.” The fall in the rate of poverty among seniors is often attributed solely to the improvements in government programs for seniors during the 1970s. However, improved living standards over the past 30 years

and improvements in private pension plans have played an important role in providing more income for seniors.

What is of concern is the apparent increasing poverty rate among youth. Insofar as this trend genuinely reflects diminishing prospects in the labour market for young people, this is clearly a concern. Law and Milhar

Figure 4: Poverty rates by age



Source: Statistics Canada Microdata File (EF), various, and calculations by author.

(1998) note, however, that youth unemployment is currently not high by historical standards and point out that the rise in youth unemployment during the early 1990s matches the rise in the adult rate quite closely. As well, the decline in youth employment over the past decade has coincided with an increasing proportion of youth choosing to remain in school, with consequent impact on their reported incomes. Currently, a significant percentage of Canadians over 18 but under the age of 25 are enrolled in post-secondary institutions; among household heads under 25, fully 32% were still in school, either full-time or part-time, in 1996 (compared to only 19% in 1978) (Statistics Canada microdatafile of economic families 1996c). More statistical analysis is needed here to uncover other possible sources of rising youth poverty.

The rate of income poverty for the majority of Canadians residing in households headed by someone between 25 and 64 has declined very marginally over the period from 1973 to 1996 and has not decreased at all since 1977.

### Type of household

We expect that households with certain characteristics might do worse, on average, than households with different characteristics. For example, households headed by single parents are at a clear disadvantage and are likely to be at higher risk of poverty. They are more likely to be headed by a young person, itself a risk factor. They are also more likely to be headed by a woman and this, as well, increases the likelihood that the household will have lower income. In addition, single parents are typically less well educated than household heads in general. Finally, and arguably most important, they are less likely to be employed full-time and are more likely to be receiving social assistance than are other households.

Households consisting of one person have also been at a higher risk of poverty mainly because they are often either very young or seniors. The great improvement in the living standards of seniors suggests that poverty rates among single, unattached individuals (many of them seniors) may be declining. Couples and two-parent families with single (unmarried) children make up the vast majority of households in Canada and, while they account for a sizeable portion of the poor, have not been considered as high-risk groups. Figure 5 displays poverty rates over the period from 1973 to 1996 for four different household types.

The most notable change in figure 5 is the sharp decline in the poverty rate for single persons during the 1970s. Undoubtedly, this reflects the improving prospects of seniors living alone. This component clearly outweighs the rising poverty rate among youth, many of whom live alone.

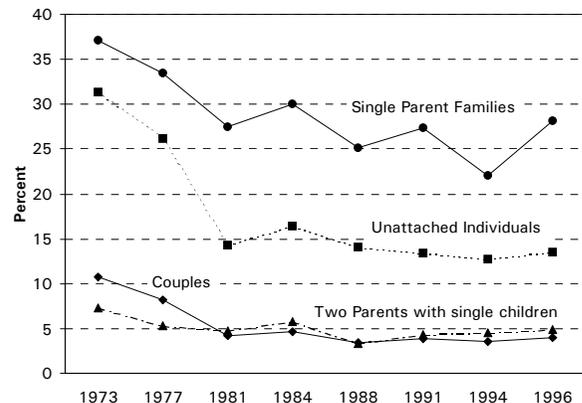
The poverty rate for single parents moved lower, with a clear cyclical pattern, until about 1994. The rise in 1996 is puzzling and, if it continues into the current period, will be a troubling development.

### The social comfort line

If the poverty line is a threshold below which real deprivation is likely to occur, then a “social comfort line” would be a threshold at which the household enjoys a reasonable measure of the “amenities” available in contemporary society, as the name suggests. This concept could be useful as another benchmark of achievement on the road to higher living standards. It is not a substitute, however, for a poverty line. Despite the fact that all of us want everyone in society to achieve a social comfort level (or better), we should not redefine poverty as a threshold of social comfort.

In my discussion of the idea of social comfort (in Sarlo 1992, 1996 and, especially, 1994), I have suggested (quite arbitrarily) that a social comfort line might be set at twice the poverty line. Those who live above the poverty line but fall below the social comfort line might be referred to as the “near poor.” They have the necessities covered but lack a number of the common amenities that most people enjoy.

**Figure 5: Poverty rates by household type (1973–1996)**



Source: Statistics Canada Microdata File (EF), various, and calculations by author.

In 2000, for example, the social comfort line for a family of four in Canada would be about \$40,000. This level would vary somewhat depending on the area. Beyond the basic needs, a family living at or near the social comfort line would be able to afford some of the following amenities:

- colour television
- cable television
- video-cassette recorder (VCR)
- automobile
- restaurant meals
- some spending on recreation and leisure activities (concerts, sports events, etc.)
- some spending on alcohol, tobacco, games of chance
- a modest annual vacation
- more spending than is necessary on clothing, housing, and personal care.

In addition, a family of four in 1997, with an income of \$40,000 (assuming a single earner) would pay income taxes (assuming all of the income is earnings) of about \$8,500. They would receive however, certain money benefits from the government including about \$1,775 in child tax benefit.

Clearly, living at or near the social comfort line is much different than living at or near the poverty line. There is not the sense of being on the edge of real deprivation nor of having to budget very carefully to make ends meet. Above the social comfort line, a family would be genuinely middle class.

### Other income thresholds

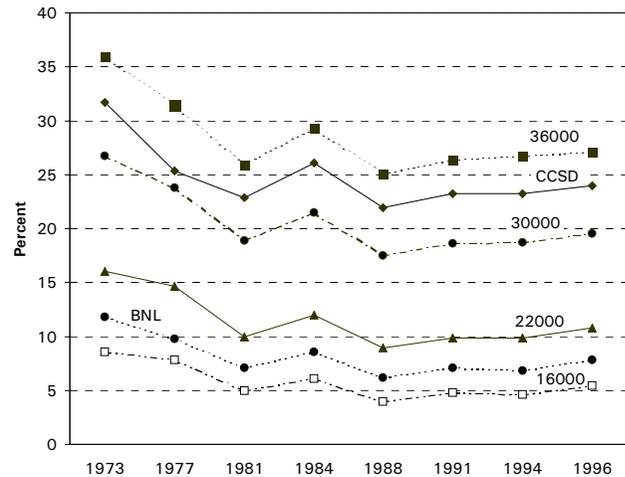
Changes in the distribution of incomes in Canada over the years means that the trend in poverty or “low-income” rates will be quite different depending on the threshold used. For comparison purposes, I have selected several income thresholds and calculated the trend in the “rate” or percentage of the population falling below these respective thresholds over the period from 1973 to 1996. Figure 6 below shows the results of the comparison.

Using given values in round numbers for the “family-of-four” threshold (i.e., \$16,000, \$22,000, \$30,000, \$36,000), the appropriate values for other family sizes were determined using our NCR equivalencies. From there, poverty rates were determined using the Statistics Canada data files on family incomes for the various years used in the study.

The Basic Needs Poverty Lines (BNL) and the CCSD lines are also included as reference points. While the pattern of movement of the various rates is very similar, with a notable “cyclical” spike in 1984, the levels of “poverty” change dramatically, depending on the threshold chosen. For example, the trend line labelled “36,000” (representing the family of four) is approximately twice the value for the basic needs poverty line for a family of four in 1996. It would be very close to the social comfort line for that year. Yet, the *rate* of “poverty” using that line is about 3.5 times that using the BNL. Similarly, the CCSD line is not quite twice the basic needs lines but the rate of “poverty” using the CCSD line is fully three times the basic needs rate.

Overall, regardless of the “poverty” line used, we have a sharp downward trend to 1981 and then no progress after that. Indeed, in all cases, the 1996 rate is somewhat higher than the 1981 rate. So, whatever threshold we use, income poverty is clearly not declining over the period since 1981. Many recent studies of poverty and inequality (using purely relative lines) have used 1989 as a baseline and have shown increasing rates since that time. While this data confirms that trend, it also demonstrates that any trend is very sensitive to the starting and ending points: all lines, even the purely relative CCSD lines, show a clear decrease in the rates of “poverty” to 1981 and no further decrease (or very slight increase) after that.

**Figure 6: Rates using various income thresholds (1973–1996)**



Source: Statistics Canada Microdata File (EF), Economic Families, various.

## Income a poor indicator of economic well-being

Pre-tax income has been used as the primary indicator in this study. It has been pointed out earlier that, in all cases, households at or below the basic needs poverty level do not pay income taxes. In many cases, this is just barely true. So, the distinction between pre-tax income and post-tax income is not relevant here. Income is the standard indicator in studies of this type, largely because it is readily available and because there is a feeling that, despite its flaws, it at least roughly represents a household's standard of living.

Reported income is a poor indicator of living standards *at the lower end of the spectrum*, however, and, I would argue, it has become increasingly poorer over time. Ultimately, we really do not have a good idea of how many people are poor regardless of the definition of poverty we use or how the poor live. We desperately need more and better data.

First, there is the huge problem of unreported and under-reported income. The fact is that many Canadians do not report some or all of the income they receive and this problem is particularly notable at the lower end of the distribution. The chief motivation for under-reporting is tax evasion. People who have understated their incomes on tax forms are likely to do the same on all other government-related forms. The assurance by Statistics Canada that they do not share information with any other government agency is unlikely to change this.

While tax avoidance is surely the main reason for under-reporting of income, there are other explanations. Sloppiness in keeping records of income from the previous year or simple laziness in responding to the questionnaire are undoubtedly part of the story. Respondents may well feel that the inquiry about their income is intrusive and time-consuming and may be very cavalier in answering. In principle, sloppy or lazy answers to a Statistics Canada survey could lead to either under-reporting or over-reporting. However, the survey questionnaire does require an itemization of income by source and so, the higher one's reported income, the more effort is needed to break that income into its component parts. A consistently lazy or sloppy approach would be to err on the low side, thereby avoiding a need for further detail or clarification. Indeed, the large number of households with zero income (13,600 in 1996) may be explained partly by this motivation.

The evidence that is available suggests that there is substantial under-reporting of income and that the problem is more significant at the lower end of the distribution of income. I noted in Sarlo 1996 and 1998 that certain types of transfer income, employment insurance benefits and social assistance benefits, are substantially under-reported, according to Statistics Canada reconciliation checks.

We also know that the "underground economy" has increased over the years and continues to increase as a share of GDP. The underground economy means any activity that results in income that has been earned but not reported for tax evasion purposes. The activities that generate the earned income may be legal or illegal. Some of the more obvious examples of potential under-reporting of income would be: cash transactions in the construction, renovation, and repair trades; tips paid in return for service in the hospitality industry; cash paid to producers and performers in the entertainment industry; money paid to prostitutes, escorts, and others in the sex trade; illegal activities such as gambling, drug dealing, and fencing stolen property.

There has been sufficient concern about the magnitude and the growth of the underground economy that, in 1993, Revenue Canada announced a new initiative to increase staff in order to combat hidden income by targeting non-filers, small businesses, and self-employed persons. According to the 1999 Auditor General's report, the results of this new program have been modest: "The actual tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit activities is much less than the \$500 million reported" (Auditor General of Canada 1999).

The 1999 Auditor General's report estimated that the *legal* portion of the underground economy was about 4.5% of GDP in 1997, or about \$38 billion. This amounted to a loss of tax revenues of about \$12 billion. The report suggests that this loss will increase over time due to "new trends such as the recent growth in self employment and the introduction of electronic commerce [which] will create more opportunities to hide income from the tax authorities" (Auditor General of Canada 1999: ch. 2, ¶ 2.15).

The report also notes that the willingness of Canadians to participate in the underground economy is apparently increasing. "In December 1994, a CTV Television Network poll indicated that 58% of Canadians would accept an offer to evade taxes when buying goods and services. In March 1997, a Gallup poll found that 73% of

respondents said they would do so” (Auditor General of Canada 1999: ch. 2, ¶ 2.30)

In addition to income unreported or under-reported to Statistics Canada, there are a number of other considerations that tend to over-state measured poverty by under-stating the “true” income or living standard of some Canadians.

- *Business losses* In 1996, there were almost 7,000 households comprising 17,000 persons living with reported income below zero. Most of these households had declared large business losses against other income, leaving them with negative income. Although it is quite legal to declare business losses in excess of other income, the deep poverty suggested by negative incomes may be a misrepresentation. (See Sarlo 1995.)
- *Student loans* Loans are appropriately excluded from income. Many post-secondary students in Canada live independently and have incomes that are well below the poverty line. However, because student loans represent money with which to cover basic necessities, the student’s true standard of living is belied by their reported income, which often consists of earnings from summer and part-time work and scholarships. In 1996, the roughly 143,000 unattached individuals under age 25 and going to school full-time had an average reported income of only \$8,968. Again, this misrepresents the true standard of living of those in this situation.
- *In-kind income* Many Canadians receive gifts, benefits, and other “in-kind” resources that can boost their living standards significantly. An important example of this would be subsidized housing. In 1996, 710,000 households lived in subsidized housing units and paid an average annual rent of \$4,008 compared with an average of \$8,364 paid by those not living in subsidized housing. This is a substantial amount and effectively means that the “true” income is much higher than reported income. Other examples of in-kind benefits that result in an understatement of the households true living standard are medical, dental, and drug benefits under certain social programs; gifts and financial assistance from family and friends; and free meals provided to those who work in restaurants as an implicit part of the employment contract but not reported as part of income.
- *Part-year families* For a variety of reasons (marriage breakup, immigration, “de-institutionalization,”<sup>8</sup> a

number of Canadian households are reporting income for only a portion of the calendar year. This happens every year and, given the high divorce rates and our dynamic society, is not a small problem. The household’s true income is understated because of their “part-year” status. Perhaps, an additional question on the survey, relating to the household’s current *rate* of pay (monthly), could provide information about such households and allow reasonable corrections to be made.<sup>9</sup>

- *Other* Several other minor considerations that either tend to understate or overstate the household’s true standard of living are discussed at some length in Sarlo (1998).

It is notable that the study for the US NRC (Citro and Michael 1995) recommended that in-kind benefits (such as subsidized housing) and other gifts and resources be added to income for the purposes of poverty measurement. The study also recommended that such things as income taxes, some child-care costs, work-related transportation, and child-support payments be subtracted from income to obtain more realistic estimates of poverty.

In Canada, it seems that similar adjustments will be required to obtain credible estimates of the extent of poverty. Currently, given the existing data, we really do not have a clue about the true level of poverty in Canada. The following section, drawing from income as well as other data sources, suggests that a healthy skepticism would be appropriate with regard to *any* current poverty estimate based on income.

## A closer look at income poverty

In 1996, the overall average basic-needs poverty lines, by family size, were:

One person	=	\$8,377
Two persons	=	\$13,144
Three persons	=	\$15,976
Four persons	=	\$18,558
Five or more	=	\$22,090

The poverty estimate, using these lines and based strictly on reported income, for 1996, is

1,113,864 poor households comprising  
2,305,350 poor persons;  
an overall poverty rate of 7.8%.

Of those classified as poor, fully 215,000 were full-time or part-time students. This means that about 19.3% of the poor were engaged in the acquisition of valuable human

capital. This is noteworthy partly because student loans do not count as income yet account for the majority of resources available to students for their day-to-day needs and partly because most of these people, once graduated, will have earnings well above the Canadian average. While that does not positively prevent them from living in poverty now, it suggests that whatever deprivation they encounter (keeping in mind the total of all resources they have) will be relatively short-lived.

Further, over 104,000 heads of poor households, about 9% of the total, already have a university education. Households headed by persons with university degrees have the highest average incomes (\$68,814 in 1996) and the lowest average unemployment rates (4.1% in 1996) of any group in Canadian society. Again, there is nothing to prevent a university graduate from being in poverty; however, we clearly need more information about these households before we are able credibly to classify them as poor.

Overall, the poor are quite well-educated. Fully 374,528 heads of poor households have either a university degree or another post-secondary certificate or diploma. In other words, over one-third of poor households were headed by a person with a post-secondary education. On average, households whose heads had these qualifications had incomes of \$55,757 in 1996.

Almost 10% of poor households were headed by someone who was self-employed and 45% of those had less than post-secondary educational qualifications. As pointed out above, the true standard of living of the self-employed is difficult to determine.

Over 250,000 heads of poor households owned their own homes; more than half (54%) had no mortgages. Again, mortgage-free home ownership is no guarantee of avoiding poverty. It does suggest, however, that whatever poverty there is, once all resources are fully considered, may not be permanent.

The majority of those who are poor from the point of view of income, 61%, listed government transfers as the major source of income in 1996. Of those 680,558 households, only 33,450 were households headed by someone aged 65 or over. But, there should not be any poor elderly households in Canada in 1996. In Sarlo 1992, I established that programs in existence at that time ensured that *no* elderly individual or family would be living below the basic needs poverty line. That continues to be the case. So, more information is needed to explain why the more than 33,000 senior-led households find themselves below the poverty line. Further, only 42% of poor households with government transfers as their major source of

income were single-person households in 1996. The rest were households of two or more persons. Again, our existing government last-resort program, social assistance, lifts virtually all but single employable recipients above the basic-needs poverty line in every province. The total income of almost all families on social assistance exceeds the poverty line (see the section below on social policy), so this group of transfer recipients, fully 35% of the poor, is clearly a puzzle.

As these data reveal, income does not tell us the full story. At the end of our inquiry, we are left with serious questions about the credibility of the estimate that 2.3 million Canadians (7.8% of the population) are poor. There are good reasons why many of them, the majority indeed, should not be poor. Whether under-reporting of income, business losses, student loans, and part-year families are capable of explaining the puzzle is unclear. However, we surely have questionable data and it is crucial that Statistics Canada provide some guidance for users on the matter. As it stands, we regrettably remain unclear about how many of our fellow citizens are deprived of basic needs.

Information about consumption, drawn from the Family Expenditure survey (FAMEX) periodically conducted by Statistics Canada over the years, simply raises more questions about the reliability of estimates of the poor.

According to the latest FAMEX survey, in 1996 almost 44,000 households had pre-tax income of less than \$15,000, yet enjoyed consumption levels in excess of \$30,000. These 44,000 households were poor or near-poor according to their income but decidedly middle class in their consumption. What do we make, for example, of the more than 1,000 households with pre-tax income in 1996 of about \$800, consumption of over \$80,000, and living in houses worth more than \$800,000? According to their income, these folks are desperately poor, living far below anyone's income poverty line.

Similarly, in 1996, there were just over 1,000 households with *million-dollar* houses yet having incomes below the Statistics Canada low-income cut-off (which is referred to as a poverty line by many in the social welfare community). Their consumption, however, was solidly middle-class and their accommodation well above that.

Even more bizarre, there were another 3400 households in 1996 with average reported income of about \$3,000, average reported consumption of \$97,000, living in homes valued at over \$320,000, and consisting of an average of five persons. Curiously, these households did not reduce their savings but, rather, actually increased

their net worth over the year. Although any measure of income poverty would classify these households as profoundly destitute, they clearly are not!

When we sum up all the strange cases in which apparently low incomes wildly misrepresent the household's true economic status, we are not talking about a small number of persons. Taking just one aggregate, there were almost 22,000 households comprising over 91,000 persons in 1996 (according to Statscan's FAMEX) with an average pre-tax income of \$8,618, an average consumption of \$58,676, and a house with an average value of \$439,059. Further, there were a total of 364,000 persons living in households with incomes below the basic needs poverty line but having consumption levels above the Canadian average. If we consider that there were about 2.3 million Canadians overall living in households with reported incomes below the basic needs poverty line, the overestimate of poverty here is clearly substantial.

It is understandable that many of the poor may possess certain facilities and appliances that we normally associate with households in the middle class. Because of the dynamic nature of poverty and the fact that most poverty is relatively short term in duration (according to longitudinal studies such as Bane and Ellwood 1986 and Statistics Canada 1997), it is quite possible for those living in poverty to have items (such as colour televisions, automatic dishwashers, and home computers) that were acquired at a time when they were not poor. However, it

would be surprising for households living below the basic needs poverty line in a given year to spend significant amounts on non-necessities *in the same year*. It would be inconsistent with our understanding of what it means to lack even the basic necessities of life. It is, therefore, surprising that, of those households with incomes below the basic needs poverty line in 1996:

- 10.4% spent more than \$1,000 on restaurants
- 12.1% spent more than \$500 on long-distance telephone charges
- 5.9% spent more than \$500 on cable television
- 51.7% spent more than \$500 on recreation services
- 24.4% spent more than \$1,000 on recreation
- 9.8% spent more than \$500 on alcohol
- 26.2% spent more than \$500 on tobacco
- 13.5% spent more than \$1,000 on tobacco
- 3.5% spent more than \$500 on games of chance (including lottery tickets and bingo).

Again, it is important to emphasize that it would be desirable if all families, including the poor, were able to consume these and other non-necessities. However, expenditures on any of these items belies their poverty. Clearly, some of these households may not be poor at all, once all the relevant evidence has been collected and it is clear that far more information is needed to classify households properly as poor or not poor. Income is clearly inadequate as an indicator; consumption may or may not be an improvement.



## Estimating poverty in Canada—consumption

Consumption is more directly connected to the actual living standard of a household than is income. The commodities that a person buys (and, we must assume, consumes) effectively define that person's material standard of living. As well, consumption gives us a more realistic assessment than income of the standard of living enjoyed by students and others who borrow money from future earnings to help finance their current lifestyle. For those reasons, consumption may well be superior to income as an indicator to determine a household's poverty status.

There are some problems with consumption, however, that render it less than ideal. In Canada, Statistics Canada has conducted a Family Expenditure (FAMEX) survey only occasionally during the past 50 years. There was the initial survey in 1949; however, the sample was relatively small and there is no database for researchers to use. The major national surveys were done in 1969, 1978, 1982, 1986, 1992, and 1996. Since 1996, Statistics Canada has been conducting an annual national survey. So, historically, the data is sparse. Nevertheless, I regard this to be a minor consideration since there is enough consumption data to detect broad trends.

A more compelling critique of consumption data is that it is likely that consumption is under-reported for some of the same reasons as income. Indeed, the data required of respondents is more extensive than that asked by other surveys. In 1996, for example, almost 14,500 households reported total consumption of less than \$5,000. While it is possible for people to live if their incomes are less than \$5,000 (if they borrow money or spend their savings), it seems to be impossible to imagine an individual or family actually surviving on less than \$5,000. The average household had about 2.6 persons in 1996 and, so, \$5,000 would not even cover the cost of shelter. What about the remaining living costs? More bizarre is that a small number of households actually reported negative consumption in 1996.

Part of the explanation for absurdly low levels of consumption is in-kind gifts, although it cannot account

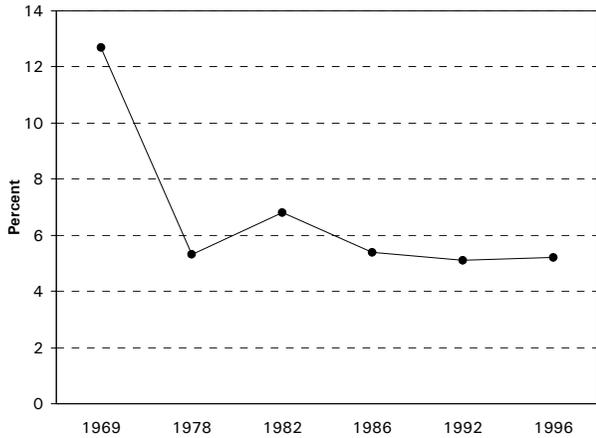
for all of it. The major in-kind benefit to low-income households is subsidized rent. In 1996, 56% of households with consumption below \$5,000 received rent-free accommodation, according to the FAMEX survey. As well, the Household Facilities survey reveals that the roughly 25,000 households with less than \$5,000 in income in 1996 paid a modest \$269 per month, on average, in rent due to subsidies. The existence of such in-kind benefits means that reported consumption does understate the true standard of living of the household. Overall, subsidized rents bestowed a real benefit on recipients estimated to be about \$200 million in 1996, flowing mainly, one would hope, to poor households.

As well, consumption cannot deal with the issue of part-year households because the consumption estimates are all for a given calendar year. Again, as was suggested with income, it would be desirable for our statisticians to request and report current *rates of consumption* as well as the annual data.

Finally, even if the total consumption of a household is sufficient to meet the basic-needs poverty line, we cannot be sure that the household, in fact, has covered its basic needs. As pointed out above, a significant proportion of poor families may well be spending money on non-necessities (cable television, cellular telephone service, alcohol, tobacco, restaurants, long-distance telephone calls, etc.) while they are, apparently, lacking some basic needs. Unless we can obtain more information about those particular households, it is difficult to know how to classify them.

While unadjusted consumption is not an ideal indicator, it does provide additional information allowing us to check the reliability of our income estimates. For comparison purposes, the poverty rate using data on consumption is displayed in figure 7. The poverty lines used in this estimation are the same basic needs poverty lines used for the income estimates (see table 8). The microdata files for six different years between 1969 and 1996 are sufficient to allow a rough tracking of poverty over the period.

**Figure 7: Consumption poverty (1969–1996): percent of population with consumption below the basic needs poverty line**



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

The first important result is that consumption poverty is consistently lower (by roughly 2 to 3 percentage points) than income poverty over the same time period. This is not surprising. It conforms to our theoretical expectations, given the life-cycle hypothesis,<sup>10</sup> and is consistent with the view that consumption expenditures may be somewhat less likely to be understated than is income.

Another important result is that despite the gap between the two types of poverty, the trends are very similar. Compare figure 7 and figure 1; there is a sharp decline to about the late 1970s, followed by an “up-tick” during the recession of 1982 through 1984 and relatively little improvement after that.

Until we get better data or, at least, useful adjustments to the existing data, it is probably wise for researchers to use both income and consumption information in any study of poverty or living standards. In tandem, they are far more revealing than each is alone.

# Inequality

Within the social-welfare community, it is an article of faith that inequality in Canada is increasing. They are convinced that anything resembling a market economy (even one with a strong government presence) will result in greater polarization of income and wealth. Marx, of course, predicted this in his historical analysis of the pathologies of capitalism. Unable to let go of the class-struggle perspective, the folks in the social-justice community look, with increasing desperation, for evidence of growing disparities.

In recent years, the best example of a brave attempt to find data to prove the thesis of increasing polarization is the report by Armine Yalnizian entitled *The Growing Gap*. She points to the increase in polarization in earnings, especially among males, but fails to decompose that trend. Once we account for the increase in part-time and contract work (most of which is, happily, voluntary) and the increase in the number of people with no earnings at all (elderly, those on social programs, etc.) there is little evidence of a polarization in earnings. Yalnizian also points to the fact that there is greater inequality among families with children but does not zero in on the key explanation: the massive increase in single-parent families. Taking a selective income range for comparison, she further claims that the middle class is shrinking and ignores the overwhelming evidence of economists (among them, Beach and Slotsve 1997), who maintain that the middle class is not shrinking.

One of the claims made in *The Growing Gap* is that, without government programs in place, there would be far more and far deeper poverty in Canada. This is a familiar assertion and is true only for the immediate period. If someone has no resources to live on, then a transfer program that provides sufficient money to live on does indeed prevent poverty *at that point in time*. However, we also know that programs can promote dependency, making it more difficult for many recipients to break free and become self-supporting. We really do not know what would have happened over time to people if there had been no government program to rely on. Many might well have been better off for having found their own way to self-sufficiency.

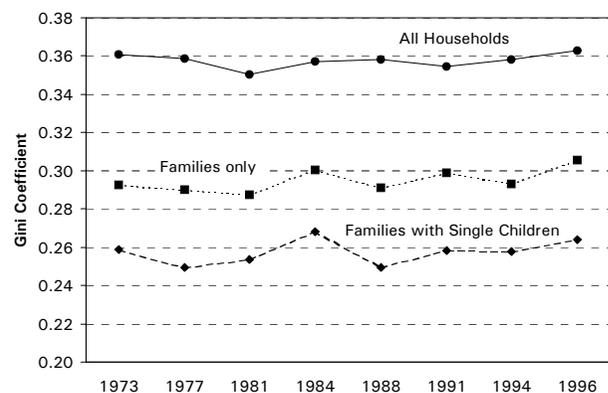
Ultimately, the political philosophy espoused by many in the social-justice community has a more far-reaching aim—to change society radically by making a decent standard of living an entitlement independent of work effort or personal behaviour and to penalize the rich and successful who (in their view) acquire wealth at the expense of others. A good way to do this, they reckon, is to discredit market activity and try to show that it leads to bad outcomes.

## No growing gap Income

Using the Gini coefficient, a popular measure of inequality, we find that the trend in inequality of total income and total after-tax income has been remarkably stable since 1973 (Sarlo 1998). Figure 8 shows the inequality trend for households, for families only, and for those families with single (unmarried) children. In all cases, there is no trend in either direction. There is no evidence whatever of increasing inequality of either total income or after-tax income.

Many factors can affect income inequality. Demographics can change the extent of income inequality. More young people in society, for example, can increase income

**Figure 8: Gini Coefficients—after-tax income inequality (1973–1996)**



Source: Statistics Canada, Microdata Files, various years, and calculations by author.

inequality by increasing the lower-income tail of the distribution, as young people have substantially lower income than any other group. Years ago, more elderly would have similarly increased the degree of income inequality. Today, however, our elderly are becoming better off and it is entirely possible that, as the proportion of elderly increases, we may end up with more people in the middle class, hence reducing the degree of income inequality.

The increased rate of divorce and separation should have the effect of increasing inequality to the extent that divorce often pushes one or both former spouses lower down the income distribution, often into the bottom quintile. Finally, an increase in the proportion of post-secondary students (living independently) should tend to increase measured income inequality.

What this suggests is that just looking at the trend in measured inequality is simplistic because Gini coefficients (and other measures of inequality) can change for a whole variety of reasons. It is important for researchers to go farther than just the raw trend. We know, for example, that most of the increase in income polarization since the mid-1970s is due both to more households with no earnings and more households with part-time earnings. Without that information, we have no idea whether we are seeing a manifestation of dual labour markets or something as simple as a change in preferences and choices of workers.

Overall, the disparities in total income (from all sources) have been remarkably stable over the years in Canada. Appendix 4 shows the quintile shares of total income for all households. It reveals that, for roughly the past 45 years, the top 20% of households have received about 40% of the total income and the bottom 20% have received about 4%. This pattern, so familiar to students of income distribution, is often referred to as the 4/40 rule. The top quintile receives about 10 times the amount of income received by the bottom quintile.

While the degree of inequality has remained stable, it still seems rather high. Why should it be that there is that great a gap between the typical top-quintile household and the typical bottom-quintile household? Is that not evidence of massive unfairness in our market economy? Why should the people in the top quintile have roughly ten times the income of people in the bottom quintile?

A closer look at the quintile shares reveals that age and skill explain much of the observed income inequality. For example, the bottom quintile is dominated by either

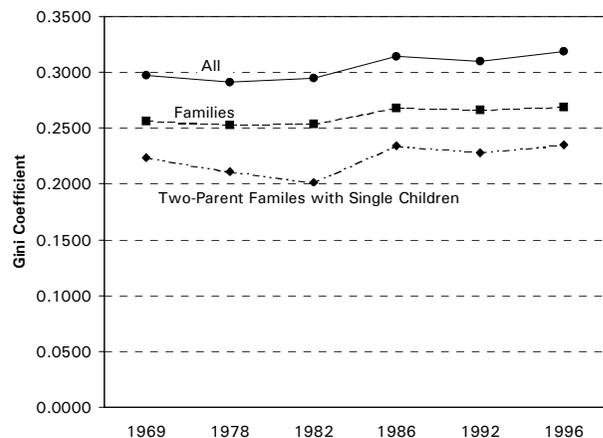
very young people (many of whom are either not employed because they are in school or are working part time or in entry-level jobs) or very old people who are living on modest pensions. The top quintile is dominated by people in middle age who are at the peak of their earning ability. As well, earnings differentials among people in the same age groupings, as a result of skill or educational differences, help explain some of the remaining income inequality. Over a lifetime, most people are in every one of the quintiles at some stage.

### Consumption

We might expect that consumption would be more equally distributed than income. This conjecture arises out of the life-cycle hypothesis and the nature of our social “safety net” (programs like social assistance, employment insurance, various pensions, and supplementary plans for seniors, and so on). More interesting is the trend in inequality of consumption over time. Has consumption become more unequal?

Figure 9 shows the trend in consumption for the same groupings used in figure 8 (which looked at the trend in inequality of after-tax incomes): two-parent families with single children, all families, and all households. While there appears to be a very slight drift upwards in the measures of inequality, it would be hard to make much of a case on this basis that consumption is becoming increasingly polarized. Indeed, we notice a modest cyclical pattern in the data and it may be that that is all we have. In any case, the changes are so slight that any conclusion about trend is clearly premature.

**Figure 9: Consumption inequality (1969–1996)**



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

Again, we can take it as a given that inequality (of income or consumption) will change over time. It would be surprising if our measures showed complete stability for very long because of the complex and dynamic nature of our society. As was pointed out earlier, changes in demography and the incentives built into our social programs will have an impact on these measures. As well, and not least, changes in the extent to which information is accurately reported can have a profound impact on measured inequality.

*Household facilities*

Statistics Canada has, since the 1960s, reported on the ownership of key household appliances and facilities as part of their detailed description of the way in which Canadians live. This information is provided by income level and by quintile. The ownership of selected key facilities by quintile for 1997 is displayed in table 16.

While there are obvious differences between the quintiles, the disparities are certainly not huge and not nearly as large as the income inequality (implied by the 4-40 rule) would suggest. It would be hard to argue, on the basis of these data, that people in the bottom quintile live fundamentally different lives than those in the middle class. They have fewer facilities (especially laundry and

home computer equipment) than their middle-class counterparts but that may be due more to age than anything else. The poor are disproportionately young and the young also have fewer facilities.

In Sarlo 1998, I noted that there appeared to be less inequality in the ownership of key household facilities over time. However, it can be argued that new facilities will always come onto the market and be acquired by middle-income and upper-income (and, necessarily, older) households first. Over time, these facilities find their way into lower-income homes as mass production allows the price to fall into the reach of people with limited means. The market penetration of items like colour televisions, video-cassette recorders (VCRs) and cable television is such that they are common, even in low-income households. The same will undoubtedly be true of home computers and internet service in the near future. At the same time, the ownership of important household facilities is a good indicator of the household's real living standard. Tracking the extent of facilities ownership over time demonstrates the progress the poor have made in recent years, in contrast to the message relayed by income data. In the United States, this point has been made impressively by Cox and Alm (1995).

**Table 16: Inequality of selected household facilities by income quintiles (1997)**

	Lowest	Second	Middle	Fourth	Highest	Total
<b>Washing Machine</b>	54.3	72.6	80.7	89.4	94.7	78.3
<b>Clothes Dryer</b>	51.9	70.6	79.3	88.2	93.6	76.7
<b>Dishwashers</b>	21.2	36.5	48.7	60.5	75.7	48.5
<b>Freezers</b>	35.4	50.3	57.8	65.9	70.2	55.9
<b>Air Conditioning</b>	17.9	23.9	27.0	33.6	43.1	29.1
<b>Cable TV</b>	64.1	70.3	74.1	77.6	82.4	73.7
<b>Colour TV</b>	97.3	98.5	99.0	99.3	99.5	98.7
<b>VCR</b>	63.6	79.9	89.7	93.8	96.5	84.7
<b>Home Computer</b>	15.4	22.5	33.7	46.0	62.2	36.0

Source: Statistics Canada; Household Facilities by Income, 1997: Cat.#13-208



## Other studies of poverty

In recent years, there have been a large number of studies purporting to examine poverty. They are, in large part, examinations of inequality. Any study utilizing purely relative lines, such as the CCSD line (half the average) or Statistics Canada's Low Income Measure (LIM) (half the median) or Statistics Canada's Low-Income Cut-Offs (LICOs) are, really, studies of income inequality. Most of the international studies and, in particular, the Luxembourg Income Study (LIS) conducted by a research team headed by Timothy Smeeding, are also studies of income inequality. While the findings from such studies are of interest to any student of the distribution of income, they do not advance our understanding of poverty and its measurement.

Most recently, for example, Townson (2000) and the Lee (2000) have released studies about aspects of poverty in Canada that are based exclusively upon LICOs, which they use as if they were poverty lines. Townson, in a study published by the Canadian Centre for Policy Alternatives, uses the LICOs as a measure of poverty despite noting that "they (LICO) have no officially recognized status, nor does Statistics Canada promote their use as poverty lines." Nevertheless, she finds that female poverty is increasing and is now higher than any time in the last two decades.

She makes the claim that more and more women are working part-time, temporary and contract jobs *because they cannot find full-time jobs*. While it is the case that involuntary part-time work appears to be increasing, at least to the mid-1990s, it is still the case that the majority of part-time workers prefer to work part-time.<sup>11</sup> Based on the belief that women are forced by the market increasingly to work part-time, she insists that the appropriate measure of women's inequality in the labour market is the ratio of all women's earnings to all men's earnings rather than just the ratio of the earnings of women working full-time, all year, to the earnings of men also working full-time, all year.

Finally, she claims that certain researchers connected to "corporate-sponsored" think tanks have redefined poverty and in doing so have "defined it away." What she conveniently ignores is that

- there has never been an official definition of poverty to change or "redefine"
- the LICOs are seriously flawed, with or without criticism from "corporate-sponsored" think tanks
- the United States, which has an official poverty line, is having the same sort of debate currently about the appropriate definition and measure of poverty
- evaluation of important policy indicators, such as the poverty line, is necessary in an open society and that everyone has a right to participate in the process, regardless of affiliation or perspective.

In the Spring of 2000, Kevin Lee, a researcher at the Canadian Council on Social Development, released a study entitled *Urban Poverty in Canada: A Statistical Profile* in which he claimed that Montreal was Canada's poorest major city in 1996. The study, which received considerable attention from the media (albeit in the usual superficial manner) uses the LICOs as a poverty measure.

Lee repeats an often-used justification for using the LICO lines: "They are a good indicator of the public's perception of poverty as determined by the Gallup poll that annually asks people across Canada: 'What is the least amount of money a family of four needs to get along in this community?'"<sup>12</sup>

Regrettably, Lee does not deal adequately with the serious problems with the LICO lines. He does not question the level of the LICOs as poverty lines nor does he question its indirect methodology. He does acknowledge that the LICO values do not account for differences in costs (especially shelter costs) in different cities, giving the example of Montreal and Toronto, which have sharply different shelter costs yet have the same LICO value. Curiously, he goes on to argue that because, according to census data, poor households spend about the same percentage of their income on shelter in both cities, the shelter-cost differential does not matter. If both incomes and shelter costs are lower in Montreal than they are in Toronto (and that is, indeed, the case), then we should not be surprised that the ratio of shelter costs to income for "poor" households is similar in both cities. But, Montreal and Toronto should not have the same poverty line. It is

absurd to suggest that we should use the same line for both cities while the average three-bedroom apartment in one costs \$5,000 per year more than in the other.

Perhaps of more concern is that he does not question of the validity of the data. Do the researchers really believe that the income census data they use is completely accurate? Do they believe, despite the evidence from reconciliation checks, that certain types of income (generally at the lower end) are not under-reported? And, do they believe that the hundreds of thousands of student-led households, part-year families, and households declaring significant business losses do not matter to the measurement of poverty? Researchers who persist in using LICOs despite the disclaimers from Statistics Canada and despite the clear weaknesses of the measure will find their position increasingly hard to defend. Those researchers who are using other measures and, often, several measures within the same study (for sensitivity analysis) are clearly more averse to risk.

Several other recent studies are worthy of note. Phipps (1991) examines the sensitivity of relative poverty rates to the equivalency scale used. While incorporating notions of poverty intensity (even explicitly “Rawlsian” notions that put most or all of the weight on the least advantaged) into our measures is an interesting exercise, particularly intriguing is the discussion of the problems with the FAMEX database and subsequent adjustments (see Rawls 1971; Phipps 1991: 169). The issues of part-year families and negative incomes (treated in detail earlier) are very important in any study of poverty.

Hanratty and Blank (1992) compare American and Canadian poverty rates over time (from 1960 to 1990), us-

ing both the American poverty measure and Statistics Canada’s LICO lines. Comparisons of this sort are very useful if great care is taken to select a credible poverty line. The authors determine that economic growth was instrumental in reducing poverty in both countries to about the mid-1970s; after that, the improvement in transfer payments in Canada was, in their view, responsible for a poverty rate in Canada lower than that of the United States.

With the development of longitudinal databases, interesting work is being done to examine the duration of spells of poverty and the impacts of changes in employment and family structure on the risk of poverty. The study by Picot, Zyblock and Pyper (1999) is one of several recent papers along these lines. This, and most, studies utilize purely relative poverty measures to examine “poverty” over time. It would be interesting to see if the early results are confirmed when market-basket and other (less purely relative) measures are used.

Schechter and Paquet (1999), despite their use of LICOs to examine some Canadian poverty trends, make several very important points in their study. They stress the distinction between poverty and inequality, arguing quite forcefully that they are not the same. They review critically several important longitudinal studies of poverty, some from France and Quebec, and, in doing so, question the notion of “exclusion” and its purported cumulative impact on the poor. They also stress the importance of marital status and family structure as key factors in the poverty equation. This paper is refreshingly defiant of much of the conventional sociological wisdom about poverty.



## Policy

In Canada, there are several programs particularly important to the poor. Old Age Security (OAS) is a universal demogrant<sup>13</sup> (with claw-backs at higher incomes) for seniors regardless of their employment history. This means that even those with intermittent or no employment over the years have, at least, some source of basic income. As well, there are means-tested programs for seniors such as Guaranteed Income Supplement (GIS) and Spouses Allowance (SPA), which provide monies for seniors with low income. While it is impossible to determine how retired persons might have fared in the absence of these programs, it is the case that poverty is now almost non-existent among seniors. Indeed, in an earlier study (Sarlo 1996), I showed that no senior citizen residing in Canada falls below the basic needs poverty line *under any circumstances*.

Employment Insurance (formerly Unemployment Insurance) provides income replacement for a specified time period (40 weeks) for those who lose their jobs. Various changes have been made over the years to this program, either liberalizing it (as in the 1970s) or making it somewhat more restrictive (in the 1990s). In July 2000, there were approximately 400,000 recipients of employment insurance (regular benefits), down 12% from the previous July; they received \$809 million, up 3.6% over the previous July (Statistics Canada 2000). Again, it is impossible to know how these people would have fared in the absence of Employment Insurance, though the program is viewed as a buttress against a free-fall into poverty by the unemployed.

Social assistance is Canada's program of "last resort." It was designed to provide "income to meet the cost of basic requirements of a single person or family when all other resources have been exhausted" (HRDC 1988: 43). The purpose of social assistance bears emphasis: it will provide recipients with enough money to cover basic necessities. It does not, nor was it ever intended to, provide a "social-comfort" standard of living. Nor does it aim to afford recipients with amenities commonly found in the budgets of various Social Planning Councils. Both federal and provincial governments, presumably reflect-

ing the views of Canadians, clearly stated their intention in the Canada Assistance Act.

It is, then, an interesting question how well the mandate of covering the basic necessities of welfare recipients is fulfilled by the provinces (because, while costs are shared, social assistance is within provincial jurisdiction). It would appear that the basic needs poverty line is ideally suited to helping to answer this question.

In *Poverty in Canada* (Sarlo 1992), I examined the adequacy of social assistance in 1988 by comparing the total income flowing to welfare recipients with the basic-needs poverty lines for 1988. The comparison was made for six types of households (single employable person, employable couple with two children, unemployable couple, single parent with one child, single parent with two children, and single parent with three children). The result was that, except for employable singles, the incomes of the recipients of social assistance was generally sufficient to cover (and often, more than cover) the basic needs poverty line. In other words, it was found that welfare recipients (excluding employable single persons) did not live in poverty; they had sufficient income to avoid poverty. This conclusion was in stunning contrast to the prevailing view within the social welfare community and in the popular media that those on welfare were mired in deep poverty.

The exercise of comparing the income of social assistance recipients and the poverty line was repeated in 1992 and in 1994 for the same six household types. The results were the same, with two very modest exceptions. Indeed, it was noted that the margin of income over the poverty line (referred to as a positive poverty "gap") had increased in most cases and that the province of Ontario had, by far, the highest rate of social assistance in the country.

Since those comparisons were done, a number of provinces have adjusted their rates of social assistance, Ontario most markedly. As well, the basic needs poverty lines have now been fundamentally revised in order to reflect more accurately the entire breadth of necessities (and their costs) in the late 1990s. Table 17 displays the results of the up-dated comparison (employing only five household types, reflecting the availability of data.

Table 17: Social assistance and the poverty gap (1997; CDN\$)

	Social assistance	Child tax benefit	Other benefits and credits	Total income	Poverty line	Poverty gap
<b>(1) Single employable</b>						
Newfoundland	4,326		1,616	5,942	7,569	-1,627
Prince Edward Is.	5,316		544	5,860	7,853	-1,993
Nova Scotia	4,428		544	4,972	8,128	-3,156
New Brunswick	3,168		544	3,712	7,454	-3,742
Quebec	5,910		648	6,558	7,548	-990
Ontario	6,240		929	7,169	9,103	-1,934
Manitoba	5,352		544	5,896	8,177	-2,281
Saskatchewan	5,760		544	6,304	7,709	-1,405
Alberta	4,764		544	5,308	7,813	-2,505
British Columbia	6,046		579	6,625	9,377	-2,752
<b>(2) Single disabled (unemployable)</b>						
Newfoundland	6,810		2,108	8,918	7,569	1,349
Prince Edward Is.	7,836		1,671	9,507	7,853	1,654
Nova Scotia	8,568		802	9,370	8,128	1,242
New Brunswick	6,663		549	7,212	7,454	-242
Quebec	8,388		610	8,998	7,548	1,450
Ontario	11,160		988	12,148	9,103	3,045
Manitoba	6,478		2,094	8,572	8,177	395
Saskatchewan	7,500		1,591	9,091	7,709	1,382
Alberta	9,768		615	10,383	7,813	2,570
British Columbia	9,252		686	9,938	9,377	561
<b>(3) Employable couple with two children</b>						
Newfoundland	12,186	2,040	2,185	16,411	16,768	-357
Prince Edward Is.	14,976	2,040	1,328	18,344	17,399	945
Nova Scotia	13,992	2,040	1,153	17,185	18,007	-822
New Brunswick	9,828	2,040	2,653	14,521	16,515	-1,994
Quebec	11,976	1,972	2,146	16,094	16,721	-627
Ontario	14,568	2,040	2,019	18,627	20,167	-1,540
Manitoba	14,232	2,040	1,283	17,555	18,115	-560
Saskatchewan	14,643	2,040	1,368	18,051	17,080	971
Alberta	14,612	2,133	1,303	18,048	17,309	739
British Columbia	12,996	2,040	4,005	19,041	20,773	-1,732
<b>(4) Single parent with one child</b>						
Newfoundland	11,262	1,020	1,545	13,827	11,877	1,950
Prince Edward Is.	9,972	1,020	1,045	12,037	12,324	-287
Nova Scotia	9,372	1,020	1,045	11,437	12,755	-1,318
New Brunswick	8,772	1,020	2,245	12,037	11,698	339
Quebec	10,188	869	1,795	12,852	11,844	1008

Table 17 (continued): Social assistance and the poverty gap (1997; CDN\$)

	Social assistance	Child tax benefit	Other benefits and credits	Total income	Poverty line	Poverty gap
Ontario	11,484	1,020	1,455	13,959	14,285	-326
Manitoba	8,777	1,020	1,904	11,701	12,831	-1,130
Saskatchewan	10,381	1,020	1,095	12,496	12,098	398
Alberta	9,324	1,148	1,195	11,667	12,260	-593
British Columbia	10,548	1,020	2,361	13,929	14,714	-785
<b>(5) Single parent with two children</b>						
Newfoundland	10,788	2,466	3,029	16,283	14,436	1,847
Prince Edward Is.	12,552	2,466	1,153	16,171	14,978	1,193
Nova Scotia	12,360	2,466	1,369	16,195	15,502	693
New Brunswick	9,300	2,466	2,523	14,289	14,217	72
Quebec	10,002	2,295	3,276	15,573	14,395	1,178
Ontario	13,032	2,466	1,882	17,380	17,362	18
Manitoba	10,620	2,466	2,012	15,098	15,595	-497
Saskatchewan	11,473	2,466	1,148	15,087	14,704	383
Alberta	11,854	2,292	1,153	15,299	14,901	398
British Columbia	11,628	2,466	3,763	17,857	17,883	-26

Source: CCSD 1998; Emes and Kreptul 1999; and calculations by author. Note: all rates are maximum.

## Analysis

Except in the province of Newfoundland, the relative position of welfare recipients in Canada has worsened between 1994 and 1997. Thus, in general, it is the case that the “poverty gap” in 1997 is narrower (which is to say that welfare recipients are worse off in relation to the poverty line) than was true in 1994. However, on average, about 90% of the narrowing of the real poverty gap is due to the upward adjustment in the basic needs poverty line—that is, to revised values that are more comprehensive and realistic in representing the costs of basic necessities in contemporary Canadian society—and only about 10% is due to a decline in the real value of income flowing to recipients.

The “deficit” situation or “negative poverty gap” of the single employable welfare recipient has worsened. This is the category that has seen the sharpest decline in the nominal rates. Overall, the rates (on an unweighted basis) for single employable persons have fallen by 5% between 1994 and 1997. The largest declines were in Nova Scotia (20%), Ontario (19%), Alberta (19%), and Manitoba (14%). It still remains true, however, that for almost all welfare recipients classified as “unemployable” (namely

single parents and disabled persons), income is sufficient to cover basic needs. This, of course, is precisely what the Canada Assistance Act was designed to do. What does not exist now is the sort of modest “surplus” over basic needs that was the case in earlier periods. For most recipients, welfare covers necessities but just barely so. Emes and Kreptul (1999) employing essentially the same methodology, found very similar results for 1998.

## Welfare and the minimum wage

Related to the issue of the adequacy of welfare benefits is the question of whether the minimum wage represents a reasonable incentive to work, compared to the alternative on social assistance. Table 18 shows, by province, and for both 1988 and 1997, the gross annual earnings of someone working for minimum wage (assuming a 40-hour week and 52-week year) as well as the income that would flow to a single employable recipient of welfare. The ratio of the two values tells us the extent to which the income from a job at minimum wage exceeds income on welfare. This can be thought of as a crude measure of the incentive to work.

Table 18: Minimum wage and welfare income (1988,1997)

	1988			1997		
	(A) Minimum Wage Annual Income (\$)	(B) Welfare Income: Single Employable Person* (\$)	Ratio A/B	(A) Minimum Wage Annual Income (\$)	(B) Welfare Income: Single Employable Person* (\$)	Ratio A/B
Newfoundland	8,840	3,718	2.38	10,920	5,942	1.84
Prince Edward Is.	8,320	7,558	1.10	10,712	5,860	1.83
Nova Scotia	8,320	5,014	1.66	11,440	4,972	2.30
New Brunswick	8,320	5,098	1.63	11,440	3,712	3.08
Quebec	9,464	2,726	3.47	13,936	6,558	2.13
Ontario	9,464	6,017	1.57	14,248	7,169	1.99
Manitoba	9,776	6,207	1.57	11,232	5,896	1.91
Saskatchewan	9,360	4,930	1.90	11,648	6,304	1.85
Alberta	7,904	5,110	1.55	10,400	5,308	1.96
British Columbia	8,840	5,230	1.69	14,560	6,625	2.20

Source: Sarlo 1996, 2000 and Canadian Restaurant and Foodservice Association (2000)

Note: \* includes any other government credits and cash benefits.

In all provinces in both years, a job at minimum wage paid more than a single person received on welfare. In all provinces except Prince Edward island, the ratio was above 1.5 in 1988. In 1997, most provinces were in the range of 2, suggesting that, financially, one would be about twice as well off working as being on welfare. It must be noted, however, that the table ignores the income taxes paid by workers at minimum wage, so those ratios will come down a bit after-tax. It also ignores, on the positive side, any tax credits or other benefits that the workers may be entitled to. There is still a clear, positive incentive to work, even at the minimum wage, for a single person. The conclusion would be different for larger households living on a single minimum wage.

## Poverty insurance

Everyone needs poverty insurance. Regardless of how successful one is, there is always a chance of losing everything because of some major reversal. No one can predict when misfortune might happen to them. So, poverty insurance would be attractive to almost everyone. Currently, in Canada, most people insure themselves; that is, they use their accumulated assets, their private insurance policies, and their family as sources of income in case the worst happens. For all Canadians and, in particular, for the poor who may lack the much ability to insure themselves, the state has a program of last resort in place—social assistance.

The difficulties with social assistance are widely known. It may represent a disincentive to work for some, particularly single parents with few marketable skills. It is a “trap” which, once in, makes it difficult for people to leave. It is connected with a lifestyle and an attitude that is considered to be detrimental to the healthy development of children. Politicians and policy-makers struggle to reform welfare to make it work better. Many others look for alternatives that act as poverty insurance but without the negative side effects.

There is no perfect solution to the problem. Human life is messy and complex and does not neatly conform to program requirements. The objective, presumably, is for everyone to have insurance against financial catastrophe but without the adverse effects that often come with insurance. It would seem that we need a scheme that would always make work (which is to say, paid work) pay. You should always be better off working and earning than on some sort of assistance.

## Guaranteed annual income

It may be that the best we can do, at this point in history, is to have a guaranteed annual income. One version of this would be a universal demogrant to all Canadian citizens (whatever their age) that would replace the assortment of existing government programs (social assistance, EI, OAS, and supplementary pensions, student grants, housing subsidies, child tax benefit, and so on). The advantages of such a plan would be that people would always be better

off working because any earnings would be on top of the demogrant and would only be subject to the marginal rates of taxation normally applying to the income level. The guaranteed annual income would also, very likely, stimulate private charitable giving to supplement the inevitable inadequacies that would arise (with non-Canadians, for example, or in some cases of disability). While there are never any guarantees with voluntary giving, Canadians have routinely demonstrated great generosity towards the truly needy.

The universality of the guaranteed annual income can be criticized. Why should all Canadians, most of whom are doing fine, get the grant? There are three reasons. First, it eliminates any stigma attached to being a recipient because everyone gets the grant. Second, the grant is taxed at each person's marginal rate so that well-off Canadians would not keep all of it. Currently, with some middle-class marginal tax rates at 50%, half of the grant would flow back to the state as tax revenues. Finally, it would tend to spark private charitable giving, which would, undoubtedly, be targeted to the most needy cases.

It is likely that such a program would be far more efficient, partly because it is just a single program and not a series of overlapping schemes and partly because there is unlikely to be any fraud since all Canadians would receive it in any case. Canadians would apply for it each year, giving brief but important demographic information about themselves. This information (appropriately coded to protect anonymity) could eventually be a very valuable longitudinal data base for researchers. The cost of the program would likely be in the range of \$50 billion to \$100 billion annually, roughly the current cost of the various programs it would be designed to replace. However, some of those payments would be "clawed back" as tax revenues. As well, since it replaces all of the existing programs related in any way to alleviating poverty or to income replacement and is likely to be operated with

greater efficiency, the net cost to the taxpayers may well be less than the current burden.

The amount of the guaranteed annual income would have to strike a balance between "adequate" income assistance and an incentive to work. If we put more emphasis on the latter, then a grant in the order of \$3,000 to \$4,000 per year per citizen might be appropriate. This amount would put the guaranteed annual income (alone) well below the basic needs poverty line except for groupings of six or more people. Because this amount is, by itself, inadequate to live on, it would represent a strong incentive to work.

It would seem that even more important than the reform of the existing welfare system is the rejuvenation of private charitable giving. Many in the social welfare community ridicule the very idea of "private" giving. Their view, presumably, is that poorer Canadians are entitled to a decent standard of living independent of anything they might do to help themselves. They insist, presumably, that the state remove the needed amounts from employed Canadians through taxes rather than having Canadians give voluntarily to worthy causes.

Demographic changes are likely to boost charitable giving in Canadian society greatly in the near future. The baby boom generation, most of whom are now in their prime earning years, will form the richest, best educated, and most generous cohort of retirees ever within a decade or so. They will be living, most of them, well into their eighties and will have the time and resources to "give back" to the communities that nourished them over the years. These people can be expected to be the backbone of community service in the near future. They have the expertise and the numbers to be able to work closely with the most needy in the community to assist them on the way to financial and social independence. This will be a very important resource in communities across the country and it would be shameful if anything were done to discourage or denigrate this valuable contribution.



## Concluding remarks

A basic needs poverty line is not a compromise. It is an approach to defining poverty that insists that poverty is different from inequality. It maintains that poverty is *real* deprivation and not the condition of being less well-off than most others in society. Poverty is largely an “absolute” condition. It is the lack of the necessities of life that has always been identified with poverty. Our dictionary definitions, reflecting common usage, continue to define poverty in this way. However, while poverty is largely a condition of absolute deprivation, the nature and quality of the goods viewed as necessities of life will change as our economy and society changes. This aspect has been fully incorporated into the basic needs poverty lines from the beginning. What is crucial, however, is that poverty is not confused with inequality.

Amartya Sen, Professor of Economics and Philosophy at Cambridge University and the 1998 Nobel Prize winner in economics, has reflected deeply on the meaning of poverty. While he sees some merit in the purely relative approach, he argues that its fundamental flaw is that of confusing poverty with inequality. In a famous and controversial article, Sen makes the case that “ultimately, poverty must be seen to be primarily an absolute notion” (1983: 326). However, he rejects the simplistic “old fashioned” approach to absolutism, especially in regards to the complete fixity of the bundle of needs over time. I would argue that the basic needs approach, as developed here (absolutist at the core but with an important relativity in so far as the nature and quality of the broad needs are concerned) is consistent with Sen’s perspective.

Sen’s critique of the purely relative view is devastating. He points out, correctly, that relativism, in richer countries, depends on a growing economy to avoid absurd results: if the economy in Britain or Canada were to fall into hard times, to the point of real hunger for many more people, the relative approach might well show no worsening of poverty “if the relative distribution is unchanged” (1983: 330). This he regards, quite rightly, as absurd. Any adequate concept of poverty “should be able to deal with a wide variety of counter-factual circumstances.” In other words, it must not be applicable only if the

economy is growing. Sen also ridicules the notion that a poverty line should be synonymous with the benefit levels we give (or desire to give) the poor. This is referred to in America as a “policy definition of poverty.”

He demonstrates the perversity of this approach by using a simple illustration. If the state decides to increase the benefit levels to welfare recipients (to improve their living standards) then the poverty line is also higher and we could end up actually increasing rather than reducing the measured level of poverty. Thus, argues Sen, the most effective strategy for a government wishing to reduce the number of poor would be to lower, rather than raise, welfare benefits. But, he argues, “This can scarcely be right” (1983: 331). Poverty lines should not be seen as something that the society feels a responsibility or a desire to provide to the poor. Benefit levels reflect a variety of considerations including feasibility, political pressures, and societal views about the poor. If the removal of all hunger in a particular society is not feasible, it does not change the fact that there exists hunger. As Sen points out, inescapable poverty is still poverty (1983: 332).

Amartya Sen critically evaluates the approaches to poverty definition with stunning clarity in this paper. He rejects the purely relative approach and offers, in its place, an absolute approach that focuses on the capabilities of people to avoid poverty combined with relative commodity requirements. This article, by a distinguished economist and philosopher, is essential reading for anyone wishing to be informed about the poverty definition debate.

The basic-needs approach to defining and measuring poverty is not completely objective or scientific. Since we are trying to measure a condition that is very personal, we can only set out approximate indicators capable of having relevance to the average or the general case. As well, a list of necessities is posited, the absence of which constitutes poverty. Students of poverty might well differ on the exact components of the list, even though they might agree on the general approach. There are some who would undoubtedly prefer to include social needs on the list of necessities. My preference has always been to

limit the list to physical necessities mainly because of the urgency connected to fulfilling those needs but also, partly, because, once we go beyond physical needs, we have a real practical difficulty identifying anything concrete that would be universally accepted as a social need. In any case, the basic-needs approach cannot claim objectivity. Its primary defense rests on its reasonableness.

The major concern, however, is not with the approach but with the data. I believe I have included sufficient evidence of problems with the data, especially at the low end of the distribution, that all researchers should pause to ask whether we can conclude anything about the level or the trend in poverty in Canada *regardless of the poverty line we use*. When we are given a database that tells us that 260,000 Canadian households (22% of them families) lived on less than \$5,000 in 1996, how can we be sure that is accurate? We know that individuals and families cannot live on less than \$5,000. We know that social assistance, a last resort program available to all, provides more than \$5,000 to individuals and families that have no other source of money to live on. We also know

that a large proportion of those with less than \$5,000 income have middle-class levels of consumption. What do we do with this data?

I have to conclude, at this point, that we really cannot make any reliable statements about poverty in Canada until the data issue is dealt with. I simply have no confidence in my estimate that 8% of households were poor in 1996, according to the basic-needs approach. Unless we can come up with a database that has made adjustments for such things as under-reported income, in-kind gifts, part-year families, student loans, and business losses, we are just guessing. If these considerations were fairly stable over time, we could at least comment intelligently on the trends. But, they are not stable. Evidence presented here strongly suggests that under-reporting of income is a growing problem. There are more students in our colleges and universities than ever before. And, the rate of family breakdown may well be increasing, making the part-year issue a concern as well. If it does anything, I hope that this report highlights the need for better data regarding poverty.