

## A new measure of poverty

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Social policy researchers have long been criticised for exaggerating the extent of poverty in Canada. Statistics Canada Low-income Cutoff (LICO) (which most people use as Canada's unofficial poverty line), they charged, exaggerated the number of poor people because it was a relative measure. On top of that, calculating the LICO requires a complicated statistical formula. A better approach, said critics, was to compute the cost of a basket of goods and services, which, if a family could not purchase they would be considered poor. A clear basket of goods and services based on a more absolute definition and not constructed relative to average living standards, some argued would be clearer and correspond more to Canadians notions about what poverty is. Critics of relative poverty measures like the Fraser Institute constructed subsistence baskets and claimed that the number of poor people in Canada was far less than poverty analysts claimed.

This was what the Federal/Provincial and Territorial Ministers of Social Services were expecting when they directed Human Resources Development Canada (HRDC) to devise a new measure of poverty based on a market basket approach as a part of the evaluation framework for the new national child benefit. A market basket approach to poverty, it was hoped, would show the child benefit having a greater impact on poverty than would be case using LICO. HRDC was directed to construct a basket that was more generous than the subsistence levels calculated by the Fraser Institute, but which fell short of the LICO, which reflected social inclusion.

The Market Basket Measure (MBM) was officially released on May 27, 2003, and the results were surprising. Instead of dramatically lowering the estimates of poverty in Canada, the MBM has increased the incidence of poverty from 10.9 percent (using the after-tax LICO) to 13.1 percent nationally.<sup>1</sup> For a reference family of two adults and two children under age 16 the MBM for Toronto in 2000 was \$27,343. For a single parent with one child it was \$19,140 and for a single person it was \$13,672.<sup>2</sup> In Ontario the incidence of poverty rose from 9

	<b>MBM Values - Ontario 2000</b>			
	Reference family of four	Single Parent, one child	Unattached individual	
Toronto CMA	\$ 27,343	\$ 19,140	\$ 13,672	
Ottawa CMA	\$ 26,503	\$ 18,552	\$ 13,252	
Hamilton CMA	\$ 23,745	\$ 16,622	\$ 11,873	
100,000 - 499,999	\$ 24,539	\$ 17,177	\$ 12,270	
30,000 - 99,999	\$ 23,059	\$ 16,141	\$ 11,530	
<30,000	\$ 25,091	\$ 17,564	\$ 12,546	
Rural	\$ 25,117	\$ 17,582	\$ 12,559	
Estimated full time minimum wage earnings (after-tax)	\$ 24,934	\$ 12,467	\$ 12,467	
Welfare Income	\$ 15,583	\$ 11,625	\$ 6,941	

Source: Human Resources Development Canada (2003), *Understanding the 2000 Low Income Statistics Based on the Market Basket Measure*, Working Paper SP-569-03-03E, May, National Council of Welfare (2003), *Welfare Incomes 2002*, Ottawa: National Council of Welfare.

<sup>1</sup> The before tax LICOs are more commonly used in public discussion, but Statistics Canada urges the use of after-tax LICOs so that low-income statistics also take into account the impact of the tax system on redistributing income. The incidence of poverty comparing MBMs pre-tax LICOs reduces poverty from 14.7 percent (pre-tax LICO) to 13.1 percent (MBM).

<sup>2</sup> The MBM figures cannot be compared directly to poverty lines such as the LICO as the MBM is based on income minus payroll taxes and mandatory contributions, child support and alimony payments, child care costs and out-of-pocket spending on health care recommended by a health professional.

percent (based on the after-tax LICO) to 11 percent.

This newest poverty measure introduces some anomalies. For example, in Ontario the poverty rate for unattached elderly women varies from 10%, to 16% and 38% depend on your measure. The differences in Quebec, from 5% to 65%, are even more dramatic. Understanding the methodological quirks behind this pattern will require time and study.

Officials are quickly backing away from this new measure. What was to have been an official measure of poverty, with the endorsement of federal and provincial politicians, is now just another measure of “low income” to be used alongside the LICO and the Low Income Measure (LIM), yet another approach to estimating poverty.

Officials assert the MBM isn't a poverty measure despite their intent to use it to track the ‘anti-poverty’ impact of the CTB.

<b>Incidence of Poverty using MBM versus LICO</b>			
<b>Ontario 2000</b>			
Family type	MBM	LICO after-tax	LICO (before-tax)
All persons	11%	9%	12%
Under age 18	15%	11%	15%
Age 65 +	4.9%	5.4%	12.6%
Males	10.3%	8.1%	10.7%
Age 65+	4.0%	3.2%	8.1%
Females	11.7%	9.9%	13.4%
Age 65+	5.6%	7.1%	16.1%
Economic Families	8.7%	6.5%	8.9%
Elderly families	4.2%	...	5.9%
Non-Elderly families	9.5%	7.0%	9.3%
Two parents with children	9.2%	6.9%	8.7%
Female lone-parents	33.6%	29.8%	38.8%
Unattached individuals	23.7%	24.8%	33.1%
Male	23.8%	23.5%	29.0%
Female	23.7%	26.0%	36.7%
Elderly male	...	...	32.5%
Elderly female	9.9%	15.5%	37.5%

Source: Human Resources Development Canada (2003), *Understanding the 2000 Low Income Statistics Based on the Market Basket Measure*, Working Paper SP-569-03-03E, May.

### **Poverty figures confirm traditional approaches to poverty**

Perhaps most important of all, the results of the MBM project confirm that traditional approaches to measuring poverty have been sound, and perhaps may have underestimated it. The MBM results discredit the notion that social policy groups exaggerate the extent of poverty, and do so for their own benefit.

Secondly, by opting for a standard that exceeds the subsistence standards advocated by the Fraser Institute the MBM firmly rejects the idea that Canadian notions about poverty are based on subsistence.

Other policy implications quickly become apparent. The MBM results clearly expose the woeful inadequacy of provincial welfare benefits. In Toronto a social assistance income will provide only about 57 percent of the income needed to meet the MBM standard for the four-person reference family. And remember, the MBM is set lower than the income required for full social inclusion. This is important – how we choose to measure a social phenomenon like poverty helps to shape if and how we will respond to it. When we establish the bar lower than inclusion we are setting limits on our expectations for policy.

Minimum wages also fall short of what is needed to meet the minimally acceptable standard established by the MBM. A four-person reference family would require nearly 4,000 hours of work – about 2.2 full-time earners - at the minimum wage to earn their way out of poverty. Single parents and single persons earning a full time minimum wage would find themselves below the MBM almost everywhere in Ontario (even after taxes and transfers which are not accounted for here).

### **Methodological issues**

All measures that we use to discuss social reality are at best crude indicators, proxies for measuring living conditions. We gauge a family's resources solely on income, its easy to measure, although we know that the poor's capacity to participate in society also depends significantly on family assets, community and family supports and significantly social programs. All 'poverty' indicators have methodological problems. So it is with the MBM.

Officials decided to use, not gross income, but income after income-taxes, payroll deductions, non-insured health spending and child-care costs. Consequently, the MBM poverty line will be difficult to visualize unless people automatically know their annual take-home pay, after the cost of dental, drug and child-care costs. This approach to income should perhaps be reconsidered both because of equity problems but also because it precludes using the MBM with the Census.

It is not clear that the MBM has achieved the simplicity and transparency that was desired. Traditional poverty measures rely on a few judgements and decisions to create poverty lines. Constructing a comprehensive market basket, as the Community Social Planning Council and its predecessor the Social Planning Council of Metropolitan Toronto did for nearly 60 years, requires hundreds of judgements, not all of which are apparent to users. What market baskets do is trade a relatively few judgements for numerous arbitrary, if not capricious judgements.

HRDC saved themselves a great deal of this trouble by costing only food, clothing, shelter and transportation. Every thing else is lumped into an "other" category, and a dollar figure arrived at by applying a fraction of the expenditures on food and clothing.<sup>3</sup> Whatever the merits of this approach (including avoiding having to make many of those hundreds of decisions), it departs from a market basket approach, and doesn't contribute to the transparency to the final result.

In the long run, the method for updating the MBM is more important than its initial value. No clear process has been established by the Federal, Provincial and Territorial Ministers of Social Services for updating contents of the basket. Updating the LIM and LICO is simplicity itself, you recalculate the formula. Basket changes will be dictated by officials perhaps subject to the approval of politicians, who will not have an interest in revisions that suggest an increase in the number of poor people. Consistent with an absolute measure, the MBM will be up-dated to prices only which when combined with arbitrary basket adjustments suggests an MBM measure that, over time, falls further and further behind Canadian standards.

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<sup>3</sup> A fraction derived by examining spending patterns in the second decile for all Canadian families.

Transparency of the standard also includes the process for updating it. This can be resolved by conducting regular revisions to the contents of the basket to take account of changes in living standards, according to clear rules. Updating the contents and not just the prices is necessary as there is no way to avoid relativities to normal living standards. What was uncommon can quickly become an absolute necessity. Take for example a computer. A decade ago home computers were far from universal. Today a child in school is seriously disadvantaged without one.