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Recent Developments in the Low Income Cutoffs

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ABSTRACT

This paper outlines the results of an investigation into three aspects of the low income cutoffs: the behaviour of a proposed "annually updated" low income series, the addition of payroll taxes, and restructuring of the matrix of 35 cutoffs. The research was first presented to Statistics Canada's National Statistics Council in November 2000.


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1. Introduction

This paper outlines the results of an investigation into three aspects of the low income cutoffs. The research was first presented to Statistics Canada's National Statistics Council in November 2000.

A low income cutoff is an income threshold below which a family is likely to spend significantly more of its income on food, shelter and clothing than the average family. Low income cutoffs and their associated rates have been produced by Statistics Canada since the 1960s and provide a well defined methodology for monitoring the number and composition of those who are less well off than the average. Statistics Canada has consistently maintained that these rates are not poverty rates, though some groups choose to use them as such. See Appendix A for a more complete discussion of this question.

2. How low income cutoffs are calculated

The starting point for producing a set of cutoffs is the Family Expenditure Survey (FAMEX), which was redesigned and renamed the Survey of Household Spending (SHS) in 1997. Both surveys produce family expenditures on a wide variety of items, including food, shelter and clothing, which are of interest for LICOs. The relationship between income and the necessities of food, shelter and clothing is at the heart of the low income cutoffs.

Chart 1 uses data from the 1992 FAMEX to illustrate how a LICO is calculated. Each dot in the chart represents the after-tax income and the percentage of after-tax income spent on food, shelter and clothing for a family of four living in an urban area with a population of 30,000 to 99,999.

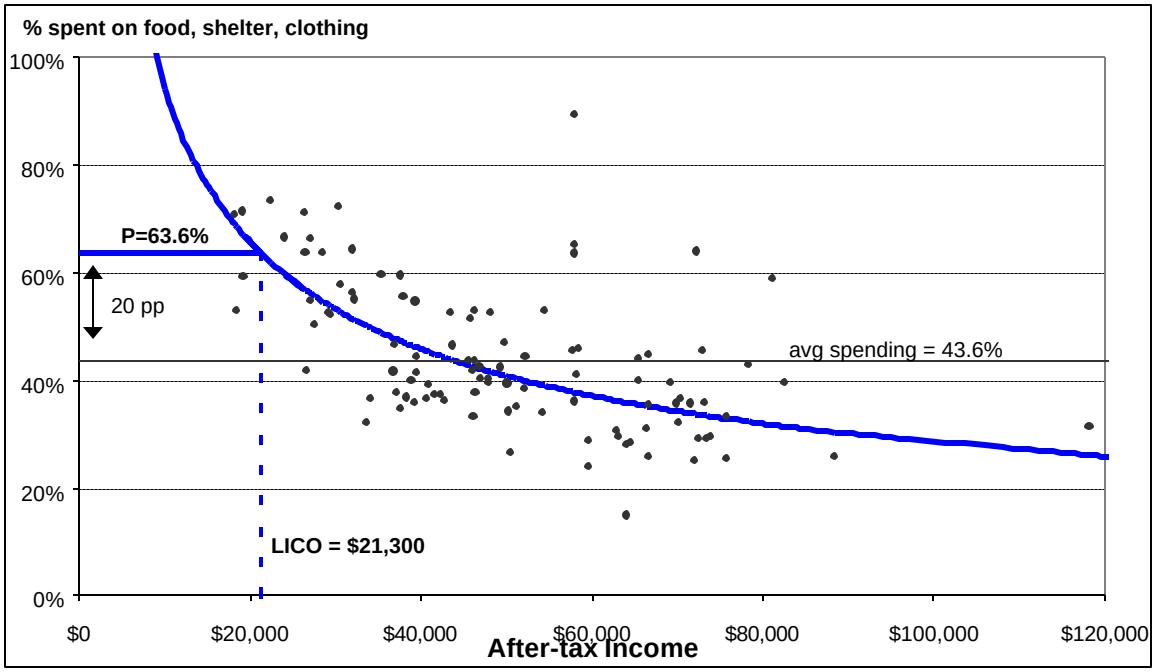
Generally, families with high incomes tend to spend a smaller proportion of their income on the necessities. They spend more dollars than families with lower incomes, but they spend less as a percentage, and have more left over for spending on items that are not necessities. The curved blue line in Chart 1 is a regression line that has been fitted to the distribution to show the typical relationship between income and spending on food, shelter and clothing.

The horizontal line in Chart 1 shows the average spent on food, shelter and clothing by all households. In 1992 this was 43.6% of after-tax income. The LICO methodology then adds 20 percentage points to this average, representing the situation of a family that is spending significantly more than the average on necessities. Therefore, the income at which a family typically spends 63.6% of its after-tax income on the basics is the low income cutoff. This can be seen graphically by following the blue horizontal line across to the regression line and reading off the LICO from the after-tax income axis – about $21,300 in 1992.

A family with an income below the cutoff is counted as being in low income. Note that the relationship between spending and income is used only in the production of the cutoffs, not in the determination of low income status. A family's low income status depends solely on its income, not on its spending. A family spending 90% of a $60,000 income on food, shelter and clothing would not be counted in low income. Even though this family's spending exceeds 63.6%, its low income status depends on its income, which is above the cutoff. Conversely,

a family that spends 50% of a $20,000 income would be considered in low income, even though its spending would put it below the 63.6% line.

Chart 1 Calculation of a Low Income Cutoff



Low income cutoffs are produced for seven family sizes and five sizes of area of residence, forming a set of 35 cutoffs. The whole exercise is also carried out using before-tax income to generate a set of 35 before-tax cutoffs. These two sets are produced independently. There is no simple relationship, such as the average tax paid, which connects the two sets.

There are many published sets of low income cutoffs, so it may be useful to list three characteristics that distinguish one set from another.

1) **Base year** The relationship between families' income and spending is associated with a specific point in time, i.e. the year of the expenditure survey used to derive the cutoffs. That particular year is referred to as the base year for the set of cutoffs. The most recent base year is 1992, though cutoffs also exist for 1986, 1978, 1969 and 1959 base years. At the present, the 1992 base is the most frequently used. Statistics Canada has traditionally maintained cutoffs based on the two most recent bases.

2) **Income reference year** It has been the practice to update the cutoffs each year by applying the annual Consumer Price Index (CPI). This takes inflation into account, but ignores any changes that might have occurred in the spending pattern of families. For example, a set of 1998 cutoffs (1992 base) takes account of inflation between 1992 and 1998, but reflects the spending pattern of 1992.

3) **After-tax or Before-tax** Any set of cutoffs has been derived from after-tax income or before-tax income, and should be applied to that same income concept. The 1959, 1969 and 1978 based LICOs are available only for pre-tax low income since the Survey of Consumer Finances (SCF) did not at that time collect information on post-tax income.

3. Consultation in January 2000

In January 2000, a round of client consultation was undertaken with the release of the discussion paper, *Should the Low Income Cutoffs be Updated?* by C. Cotton and M. Webber. The discussion paper explained the LICO methodology in detail and gave an account of the history of low income measurement over the past 30 years. One of the important events in this history was the move from the Family Expenditure Survey to the annual Survey of Household Spending. In principle, this made it possible to rebase the LICOs annually. The discussion paper went on to propose three options for updating the base and raised several ancillary questions. Readers were invited to send their comments to the authors.

A broad cross-section of data users offered their views, including officials from federal departments, provincial and territorial governments, research institutes and advocacy groups. Two of Statistics Canada's advisory committees, as well as one federal/provincial/ territorial committee, reviewed the options in conference. The feedback highlighted three issues that needed more research.

- Behaviour of the proposed "annually updated" low income series.
  Most reviewers supported the recommended option for updating the low income cutoffs. However, there was some concern with the stability of the new series. Section 4 of this report describes the behaviour of the annually updated series for 1997 and 1998.

- Payroll taxes
  Some reviewers felt that payroll taxes should be taken into account when calculating LICO thresholds and rates. This is consistent with the reasons for the decision to feature after-tax low income rates rather than before-tax rates. Section 5 presents the results of investigation into this issue.

- Restructuring the LICO matrix
  The discussion paper proposed future research on restructuring the LICO matrix, possibly adding city-specific LICOs for the Census Metropolitan Areas of Toronto, Montreal and Vancouver. To counterbalance this increase, some of the existing categories would be collapsed. Several reviewers expressed interest in this activity. Section 6 gives initial findings on city-specific LICOs.

4. The "annually updated" series

The LICOs were created and maintained in an environment that saw new estimates of spending approximately every four years when a FAMEX survey was conducted. Starting with reference year 1997, the Survey of Household Spending has provided annual data, making it possible to synchronize the base year and the income reference year for a set of cutoffs.

Dealing with this change was the main trigger for the 2000 discussion paper. The recommended approach was to maintain the 1992 based series, and to introduce a series based on annually updated spending data. This new series would begin with 1997 low income rates that were based on 1997 spending data and continue with 1998 rates based on 1998 spending data, 1999 rates based on 1999 spending data, and so on. In contrast to earlier practice, these new bases would not be extended into the past but would be used only for the corresponding income year. Eventually, they would form a series of low income rates based on the expenditure pattern and income of the same year.

This approach gives researchers the continuity of the familiar 1992 based series and also provides low income rates based on the expenditure data of the same reference year. For some purposes users might use the 1992 series to compare two years, keeping the spending on basics constant. For other purposes, users might want to take advantage of the most recent spending patterns as they relate to the most recent income data.

Although the Survey of Household Spending covers total household expenditure, its content was reduced by about one-third compared to FAMEX. This was done because FAMEX interviews were long and demanding for respondents, and because FAMEX's full commodity detail was not required by the Project to Improve Provincial Economic Statistics (PIPES), which funded SHS. As far as LICOs are concerned, this reduction in commodity detail had no impact on food and clothing expenditures, nor did it have an impact on shelter costs of renters. However there was an impact on the level of detail available for shelter costs of home owners because SHS does not separate mortgage payments into principal and interest portions. Up to and including the 1992 based cutoffs, the established LICO methodology considered only the interest portion of mortgage payments, on the grounds that payments on the principal were actually a form of saving. Any set of LICOs based on SHS can no longer make this distinction because the two are collected as a lump sum.

Table 1 shows the average spending on food, shelter and clothing for several FAMEX and SHS surveys. When calculating shelter expenditures the "FAMEX definition" column includes only the interest portion of mortgage payments made by home owners. The "SHS definition" column includes both the interest and principal portions. The SHS definition can be extended back to earlier FAMEX years because both the interest and the principal payments were collected. Based on this constant SHS shelter definition, average percentage of income spent on necessities is fairly stable, and has decreased over time.

Table 1 Average after-tax spending on food, shelter and clothing, FAMEX definition and SHS definition

	Spending on food, shelter and clothing	
	using FAMEX definition of shelter	using SHS definition of shelter
1982	43.2%	45.7%
1986	44.3%	45.6%
1992	43.6%	44.0%
1996	39.9%	43.7%
1997	not available	43.3%
1998	not available	43.2%

What will happen to low income cutoffs in a climate of decreasing spending on food, shelter and clothing? If the base is held constant then such changes will have no direct impact since the CPI is the only source of updating. But the introduction of a new base means that the cutoffs would be completely recalculated and changes in the relationship between spending and income would be reflected in the cutoffs of the new base.

Chart 2 shows the same blue line as appeared in Chart 1, as well as similar lines based on the 1997 SHS (in green) and the 1998 SHS (in gold). The regression line showing the relationship between spending and income has moved to the right in 1997 and 1998, and the average spending on necessities has decreased in both years. The combination of these two changes gives cutoffs that occur at a higher income level. The 1992 LICO (1992 base) for families of four in medium-sized cities remains around $21,300, as was shown in Chart 1. The 1997 LICO (1997 base) for the same families is about $24,300, and the 1998 LICO (1998 base) is about $24,700.

Because of the change in shelter definition between FAMEX and SHS, the 1992 based cutoff shown in Chart 2 and Chart 3 is not completely comparable to the 1997 and 1998 based cutoffs. (Both the average spending line and the regression line move when the SHS definition is applied to the 1992 data, and the cutoff for a family of four in a mid-sized city rises to about $21,900.) Nevertheless, the published 1992 base cutoff, with the FAMEX shelter definition is shown for reference in the charts because it is better known.

Chart 2 Derivation of annually updated LICOs for 1997 base and 1998 base

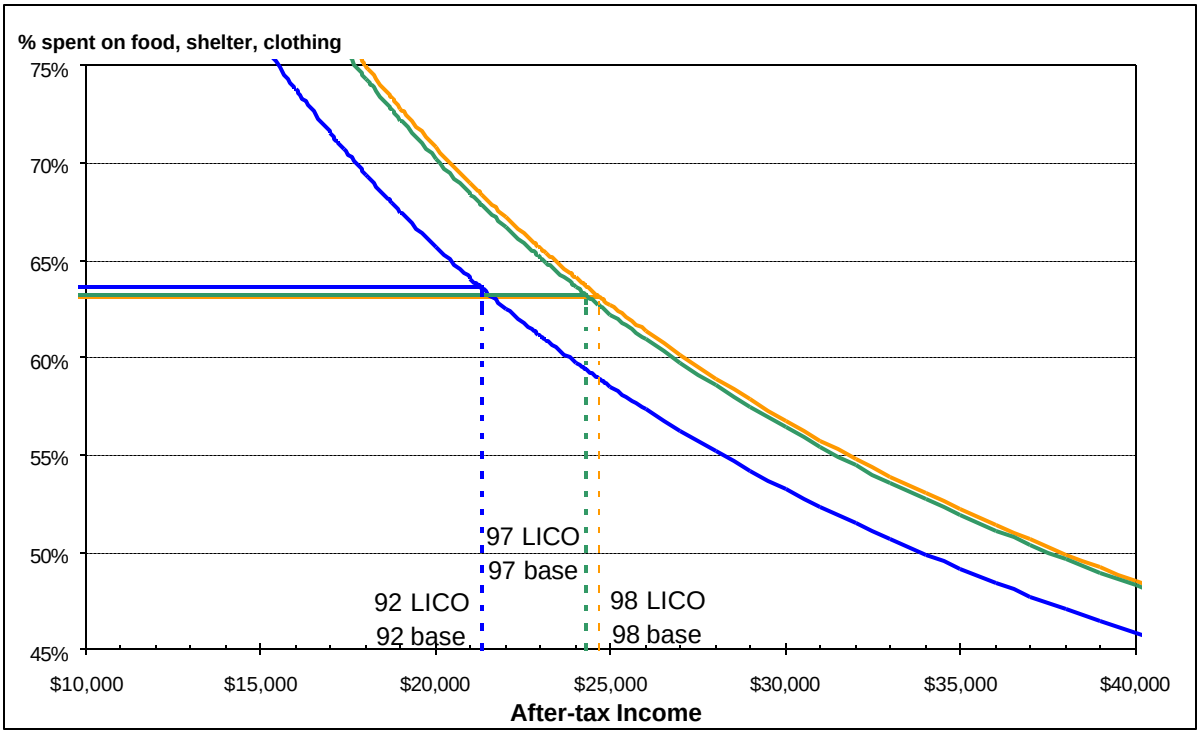
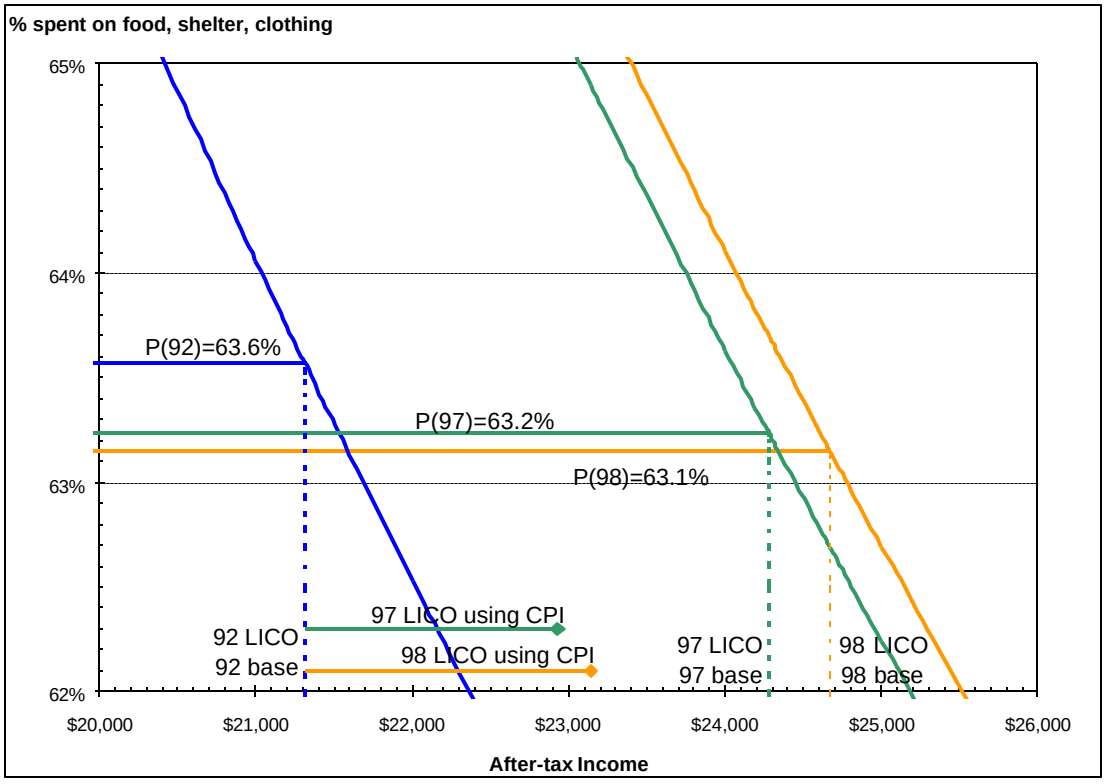


Chart 3 magnifies the area from Chart 2 to make it easier to see the difference between CPI updating and rebasing. The vertical blue line at about $21,300 shows the 1992 LICO (1992 base) for families of four in medium-sized cities. The two horizontal lines near the bottom of the graph illustrate what happens when the CPI is used to update a set of cutoffs. Transforming the 1992 base LICO to 1997 prices results in a cutoff of about $22,900. This is lower than the cutoff that is obtained by using a new 1997 base. In that case, the 1997 average spending plus 20 p.p. (green horizontal line at 63.2%) intersects the typical spending relationship (green regression line) giving a cutoff (green vertical line) of about $24,300. Both of these cutoffs would be applied to 1997 income, but one is based on 1992 spending patterns updated by CPI to 1997 prices, and the other is based on 1997 spending patterns.

Similarly, using the 1998 CPI would increase the 1992 base cutoff to about $23,100, while moving to the 1998 base would result in the higher cutoff of about $24,700.

Chart 3 Updating the 1992 base with CPI vs. deriving new 1997 and 1998 bases



Given that the 1997 and 1998 based cutoffs are higher than their 1992 based counterparts, it is no surprise that the corresponding low income rates area also higher. The solid lines in Chart 4 show the standard published 1992 base after-tax low income prevalence rates for all persons and for families from 1992 to 1998. The dotted lines in the same chart show the new annually updated after-tax series, again for all persons and for families. At the time of release of this document, the annually updated series consists of only two points: 1997 low income rates based on 1997 spending patterns, and 1998 rates based on 1998 spending patterns.

Table 2 gives the low income rates for a more detailed list of groups.

It should also be expected that the annually updated series would diverge more and more from the 1992 base rates as time goes on. In fact, the divergence is more pronounced in the rates for seniors. These rates moved away more quickly because senior's incomes were stagnant between 1997 and 1998, and because the distribution of seniors is more concentrated in the area around the cutoffs.

In a climate of decreased average spending on food, shelter and clothing, moving to an annually updated series will increase low income rates, compared to a series with a fixed base. However, this increase should be less than the "jump" that has been observed in the past when moving between bases that are several years apart.

Chart 4 Low income prevalence – 1992 base LICOs and annually updated series

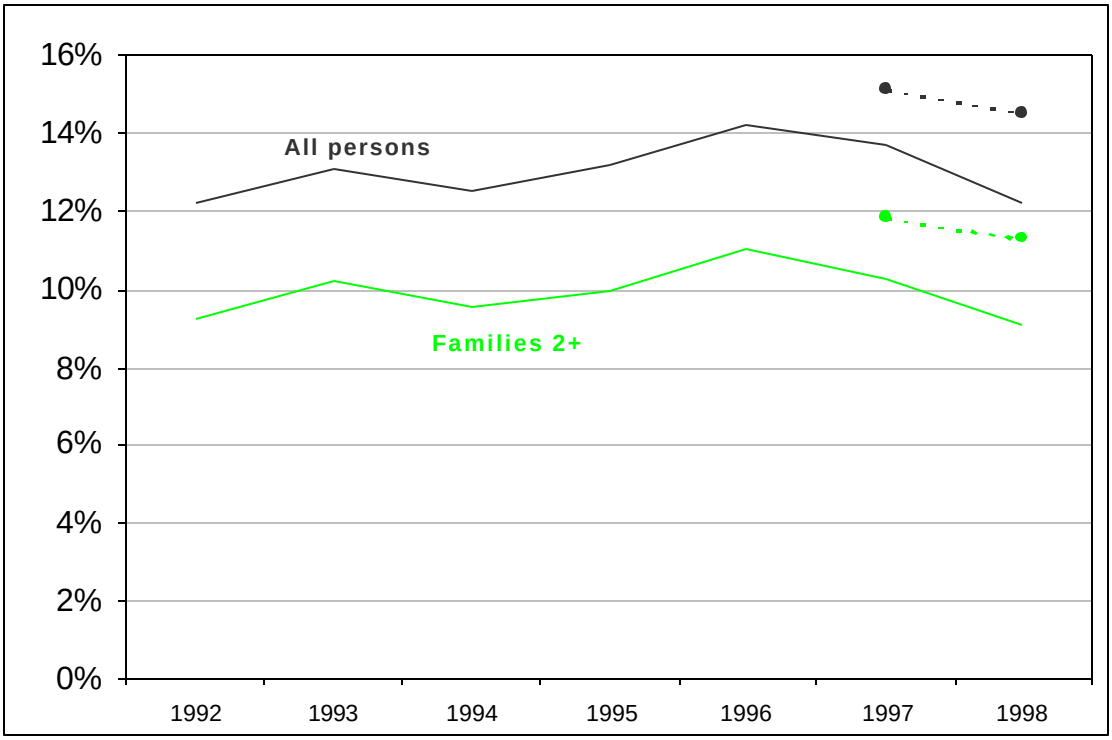


Table 2 Low income prevalence 1992 base vs. annually updated series

	1997 income reference year		1998 income reference year	
	1992 base (published)	1997 base	1992 base (published)	1998 base
All persons	13.7%	15.1%	12.2%	14.5%
Children under 18	16.5%	18.5%	14.2%	16.9%
Persons 18-64	13.5%	14.8%	12.1%	14.1%
Men 65+	5.7%	6.4%	5.7%	7.6%
Women 65+	12.0%	13.0%	11.3%	14.5%
Families 2+	10.3%	11.8%	9.1%	11.3%
2 parents, 1 earner	23.8%	27.1%	17.9%	21.6%
2 parents, 2 earners	5.0%	6.2%	3.7%	6.0%
Lone parents	42.3%	46.8%	38.1%	43.3%
Senior families	3.7%	4.4%	3.6%	5.7%
Unattached individuals	32.0%	33.1%	30.3%	33.1%
Unattached men 65+	16.6%	18.3%	17.4%	21.5%
Unattached women 65+	23.5%	25.4%	22.1%	27.4%
Unattached <65	36.1%	36.8%	33.9%	35.9%

5. Deducting payroll taxes

For many years, low income cutoffs and rates have been calculated using both total income (that is, income after government transfers but before taxes) and after-tax income. In the past, low income rates based on total income were better known, at least partly because the Survey of Consumer Finances (SCF) produced them several months before the corresponding after-tax rates. The SCF was last conducted for reference year 1997.

The Survey of Labour and Income Dynamics (SLID), which produces total income and after-tax income simultaneously, is now the main source of low income rates. Both sets of rates are still published, but starting with reference year 1998 the after-tax low income information has been featured in the analysis that accompanied the release. There were two reasons for this.

- Transfers and income taxes are essentially two ways of redistributing income. The after-tax rates take both transfers and taxes into account. The before-tax rates only partially capture the impact of Canada's tax/transfer system, by including the effect of transfers but not the effect of income taxes.

- Since necessities are bought with after-tax dollars, it makes sense to use after-tax income to draw conclusions about the economic well-being of individuals and families.

The recent consultation process prompted a great deal of feedback on this issue. One of the comments was that the LICOs should include taxes other than income taxes. In fact, the current LICO methodology does take into consideration the taxes paid on necessities. Sales taxes are included in expenditures in *both* before-tax and after-tax LICOs. Property taxes are captured directly for home owners and indirectly through the rent of those who do not own homes.

However the current methodology does not capture the effect of payroll taxes, and taking account of such taxes would more closely approximate a measure of disposable income. The situation with payroll taxes is very similar to the before-tax vs. after-tax question. Payments from Employment Insurance (EI) and the Canadian Pension Plan or the Quebec Pension Plan (CPP/QPP) received by individuals are included in income, so the taxes that finance these programs should also be taken into account. And, just as with income tax, income that goes to non-discretionary payments such as CPP/QPP and EI is not available to be spent on basics.

Actual EI premiums were available on SLID files for about 75% of employees. Contributions were imputed for the remainder using published rates for 1997 and 1998. CPP/QPP contributions were imputed using published rates for all respondents between the ages of 18 and 79 who were not registered Indians and who did not receive CPP/QPP as a pension during the year.

Only EI and CPP/QPP contributions were considered in this exercise because they were relatively easy to impute. An obvious future extension to this work would be to include contributions such as union/professional dues, workers' compensation and provincial health insurance premiums which also must be paid if one is to be employed. Of course the increased response burden would have to be balanced against the impact on low income rates, and any additional non-discretionary payments would also have to be available on FAMEX or SHS so that the appropriate lines could be generated.

To study the impact of these non-discretionary payments, a new set of cutoffs was produced, using an income concept defined as:

After-payroll-tax income = after-tax income - C/QPP premiums - EI premiums

After-payroll-tax income must be less than or equal to the corresponding after-tax income. The after-payroll-tax thresholds were based on 1992 FAMEX data and updated to 1997 and 1998 using CPI so that the results could be easily compared to the familiar 1992 base information.

Chart 5 compares the derivation of the familiar after-tax cutoffs (1992 base) and the derivation of the after-payroll-tax cutoffs (1992 base). Chart 6 magnifies the area around the cutoffs. Since the after-payroll-tax income of any family or individual must be less than or equal to the corresponding after-tax income, then the percentage of after-payroll-tax income spent on food, shelter and clothing

must be greater than or equal to the percentage of after-tax income spent on those necessities. The after-payroll-tax regression line (pink curved line) moves up and the after-payroll-taxes average spending line (pink horizontal line) also moves up. This combination results in an after-payroll-tax LICO of about $21,100, compared to the after-tax LICO of about $21,300 for a family of four in a medium-sized city in 1992 dollars. The CPI was then used to convert the 1992 base thresholds to 1997 and 1998 income.

Chart 5 Derivation of after-tax LICOs and after-payroll-tax LICOs

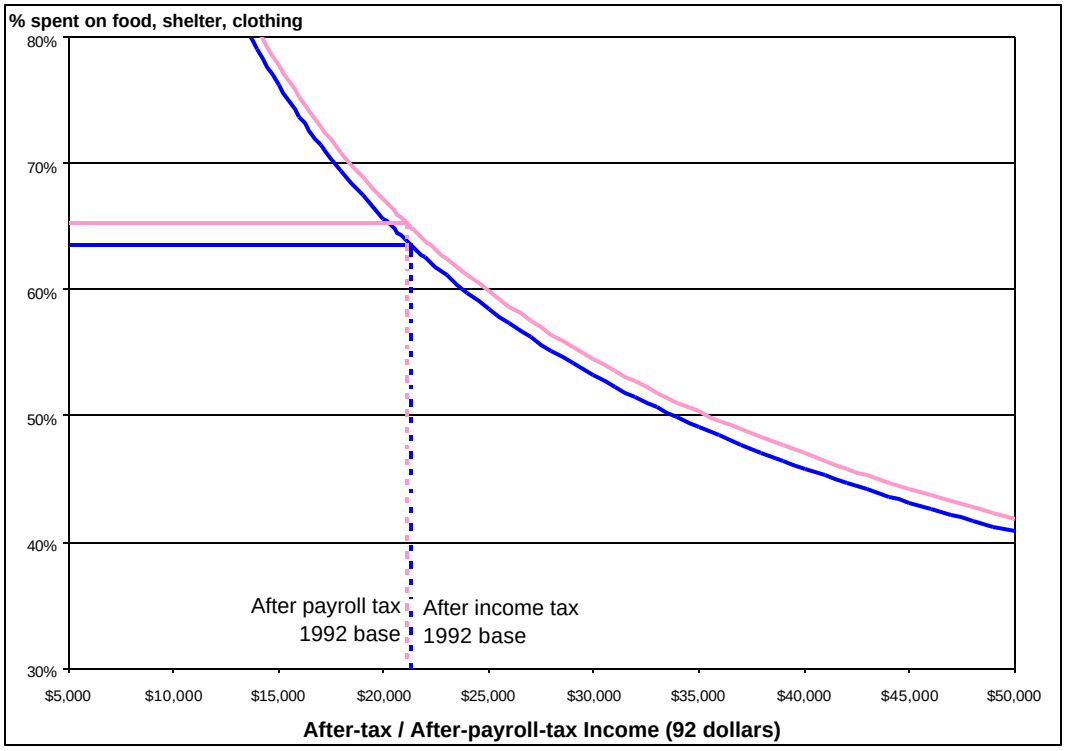


Chart 6 Comparison of after-tax LICOs and after-payroll-tax LICOs

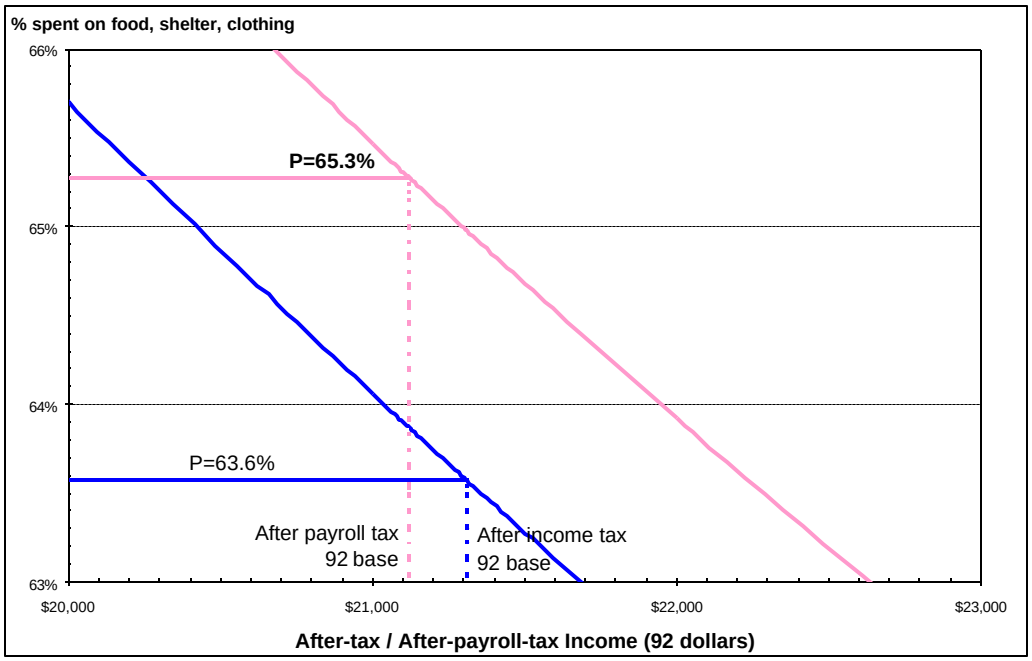


Table 3 gives the after-tax and after-payroll-tax low income prevalence rates for several family types for 1997 and 1998. Using after-payroll-tax LICOs and income instead of after-tax LICOs and income results in an increase in the all persons low income rate of 0.1 percentage points in 1997 and 0.3 percentage points in 1998.

The after-payroll-tax low income rate did not behave in the same way for all types of families. Generally, if a group tends to have earnings, its after-payroll-tax low income rate was higher than its after-tax rate. Families in such groups have less money after payroll taxes are deducted and their income is "reduced" a bit more than the thresholds have been "reduced". A few more families fall below the cutoff and are counted as being in low income. Examples of this situation are non-elderly families, two parent families and unattached individuals with earnings.

On the other hand, the after-payroll-tax low income rate was lower for groups that don't have much earnings. Families in these groups have the same, or nearly the same, income after payroll taxes are deducted as they did after only income taxes are deducted. The after-payroll-tax thresholds have fallen a bit, so a few more families find themselves above the new cutoff. Examples are elderly families, lone parent families and unattached men and women 65+.

Table 3 Low income rates – after-tax versus after-payroll-tax

	1997 income			1998 income		
	after income tax (92 base)	after payroll tax (92 base)	diff	after income tax (92 base)	after payroll tax (92 base)	diff
All persons	13.7%	13.8%	+ 0.1 pp	12.2%	12.5%	+ 0.3 pp
Children under 18	16.5%	16.9%	+ 0.4 pp	14.2%	14.8%	+ 0.6 pp
Persons 18-64	13.5%	13.6%	+ 0.1 pp	12.1%	12.4%	+ 0.3 pp
Men 65+	5.7%	5.5%	- 0.2 pp	5.7%	5.5%	- 0.2 pp
Women 65+	12.0%	10.8%	- 1.2 pp	11.3%	10.2%	- 1.1 pp
Families 2+	10.3%	10.5%	+ 0.2 pp	9.1%	9.3%	+ 0.2 pp
Elderly families	3.7%	3.5%	- 0.2 pp	3.6%	3.5%	- 0.1 pp
Non-elderly families	11.4%	11.6%	+ 0.2 pp	9.9%	10.2%	+ 0.3 pp
2 parents, 1 earner	23.8%	24.8%	+ 1.0 pp	17.9%	19.1%	+ 1.2 pp
2 parents, 2 earners	5.0%	5.6%	+ 0.6 pp	3.7%	4.5%	+ 0.8 pp
Lone parents	42.3%	41.7%	- 0.6 pp	38.1%	37.6%	- 0.5 pp
Unattached indiv's	32.0%	31.2%	- 0.8 pp	30.3%	29.8%	- 0.5 pp
Unattached men 65+	16.6%	14.9%	- 1.7 pp	17.4%	16.4%	- 1.0 pp
Unatt'd women 65+	23.5%	20.4%	- 3.1 pp	22.1%	19.4%	- 2.7 pp
Unattached <65	36.1%	36.0%	- 0.1 pp	33.9%	34.0%	+ 0.1 pp

6. Restructuring the LICO matrix

Low income cutoffs are produced for seven family sizes (1 to 7+) and for five community sizes (rural to cities of more than 500,000). Since 1969, average family size has decreased and urbanization has increased, causing the distribution of Canadians to become more concentrated in a few of the 35 combinations. About 46% of Canadians live in five of these groups, i.e. in families of one to five persons in cities of more than 500,000.

Underlying the LICO methodology is the assumption that families of the same size in the same size of area of residence can achieve a similar standard of living with the same income. But what happens when the costs vary considerably across a category? In particular, the cost of shelter in Montreal is quite different from the cost of shelter in Toronto and Vancouver, yet the same cutoffs are applied to residents of these three cities, along with residents of Ottawa-Hull, Edmonton, Calgary, Hamilton, Winnipeg and Quebec City.

Feedback from the client consultation process showed that users were interested in further investigation into this issue. Users also felt that combining some categories would be an acceptable tradeoff to obtain more city detail in the LICOs.

City-specific cutoffs were produced for Toronto, Montreal and Vancouver using 1992 FAMEX data. Then the CPI was applied to update the thresholds to 1997 and 1998. Adding these cities for seven family sizes would result in a matrix of 56 cutoffs. In order to keep the number of cutoffs to a reasonable level, two of the existing geographical areas were combined, and two of the family sizes were combined.

- Urban areas of 30,000 to 99,999 were combined with urban areas of 100,000 to 499,999 to give the broader category of urban areas from 30,000 to 499,999. These two groups were chosen because their cutoffs are quite similar (within 1.6% after-tax, and 0.7% before-tax). The cutoffs for the new group are in between the two existing sets.
- Families six were combined with families of seven and greater. The resulting LICOs for families of six or more are between the corresponding cutoffs for families of six and families of seven plus.

Combining these groups made little difference to the cutoffs or to the low income rates, so the information presented in this paper will include both of the changes described above.

Chart 7 shows the regression lines and resulting cutoffs based on 1992 FAMEX data for a family of four in the three largest cities and the new residual group of six cities with a population between 500,000 and 1.5 million. The familiar 1992 cutoff for the group of nine cities over 500,000 is also shown as a diamond on the income axis.

The cutoffs illustrated in Chart 7 are obtained by comparing the city-specific spending patterns, represented by the curved regression lines, to the average spending of all families in Canada. This is consistent with the current LICO methodology: the overall average national spending is used to derive cutoffs for all family sizes and for all community sizes.

Chart 7 Derivation of cutoffs (1992 base) for Toronto, Montreal, Vancouver and other cities with more than 500,000 population

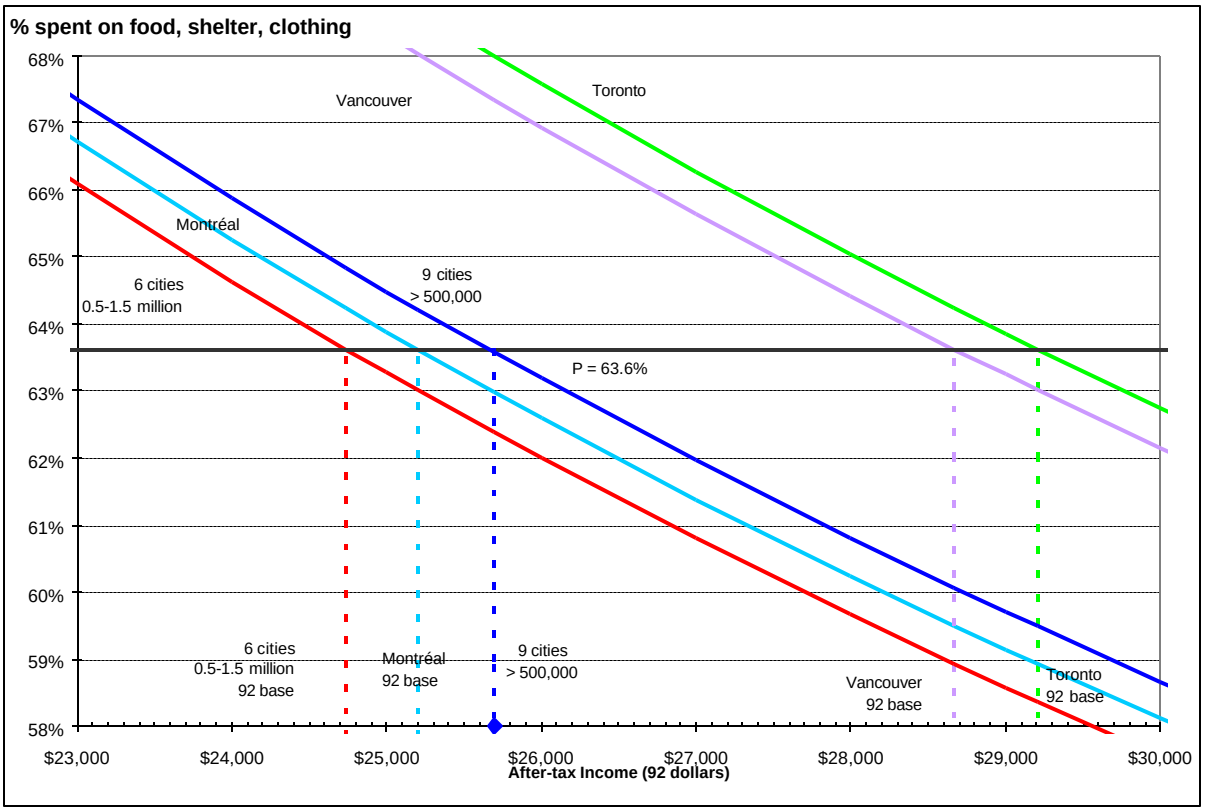


Table 4 gives the actual cutoffs, updated to 1998 dollars. The first column contains the 1998 (1992 base) cutoff for a family of four living in any of the nine cities of 500,000 and above. According to current practice, the same cutoff is applied to all nine cities. The second column shows the results of generating separate lines for the three largest cities and for the residual group of six cities. The thresholds for Toronto and Vancouver increase by more than $3,000 for a family of four. Montreal's line decreases by $500 compared to the traditional overall cutoff, but is higher than the new cutoff for the group of six cities. This new cutoff for Ottawa-Hull, Edmonton, Calgary, Hamilton, Winnipeg and Quebec City is about $1,000 lower than the previous line.

Table 4 1998 (1992 base) after-tax cutoffs for a family of four

	Existing configuration of 35 cells	Separate lines for Toronto, Montreal, Vancouver	difference
Toronto	27,890	31,710	+ 3,820
Vancouver	27,890	31,130	+ 3,240
Montreal	27,890	27,370	- 520
over 500,000	27,890	26,870	- 1,020

The movement of the cutoffs has a predictable effect on the corresponding low income rates. Table 5 shows that using the city-specific lines resulted in an increase of 0.8 pp in the national rate. Toronto and Vancouver saw increases of 4.6 pp and 2.0 pp, and of course the overall rates in Ontario and British Columbia increased as well. Montreal's rate decreased very slightly. Rates for Manitoba and Alberta decreased because Winnipeg, Edmonton and Calgary are in the group of six cities between 500,000 and 1.5 million. The cutoff for this group decreased and the provincial rates reflect this movement.

Table 5 1998 (1992 base) after-tax low income rates for all persons

		Existing configuration of 35 cells	Separate lines for Toronto, Vancouver, Montreal	difference
All persons	Toronto	11.2%	15.8%	+ 4.6 pp
	Vancouver	13.6%	15.6%	+ 2.0 pp
	Montreal	23.1%	22.9%	- 0.2 pp
	Canada	12.2%	13.0%	+ 0.8 pp
	Quebec	16.4%	16.3%	- 0.1 pp
	Ontario	10.1%	11.8%	+ 1.7 pp
	Manitoba	14.1%	13.5%	- 0.6 pp
	Alberta	11.9%	11.5%	- 0.4 pp
	British Columbia	11.1%	12.2%	+ 1.1 pp

7. Future Work

Members of the National Statistics Council felt that it made sense to continue the three areas of research that have been described in this paper. There was interest in extending the city-specific LICOs to as many cities as possible, though it was recognized that sample sizes might not support this extension.

Income Statistics Division will continue research on these issues, and will add rates to these series when the data are available.

It is worth pointing out that work is being done on a revision of SLID and SCF sample weights. Three adjustments are planned: update population counts to the 1996 Census estimates, control and stabilize the count of families and unattached individuals, and make the survey income distribution correspond better to tax data. Such changes will have an impact on survey estimates, including low income rates and the low income cutoffs themselves. At the present, the 2000 reference year is the target for implementation of these adjustments

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Appendix A On Poverty and Low Income

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Recently the news media have provided increasing coverage of Statistics Canada's low income cutoffs and their relationship to the measurement of poverty. At the heart of the debate is the use of the low income cutoffs as poverty lines, even though Statistics Canada has clearly stated, since their publication began over 25 years ago, that they are not. The high profile recently given to this issue has presented Statistics Canada with a welcome opportunity to restate its position on these issues.

Many individuals and organizations both in Canada and abroad understandably want to know how many people and families live in "poverty", and how these levels change. Reflecting this need, different groups have at different times developed various measures which purported to divide the population into those who were poor and those who were not.

In spite of these efforts, there is still no internationally-accepted definition of poverty - unlike measures such as employment, unemployment, gross domestic product, consumer prices, international trade and so on. This is not surprising, perhaps, given the absence of an international consensus on what poverty is and how it should be measured. Such consensus preceded the development of all other international standards.

The lack of an internationally-accepted definition has also reflected indecision as to whether an international standard definition should allow comparisons of well-being across countries compared to some international norm, or whether poverty lines should be established according to the norms within each country.

The proposed poverty lines have included, among others, relative measures (you are poor if your means are small compared to others in your population) and absolute measures (you are poor if you lack the means to buy a specified basket of goods and services designated as essential). Both approaches involve judgmental and, hence, ultimately arbitrary choices.

In the case of the relative approach, the fundamental decision is what fraction of the overall average or median income constitutes poverty. Is it one-half, one-third, or some other proportion? In the case of the absolute approach, the number of individual judgements required to arrive at a poverty line is far larger. Before anyone can calculate the minimum income needed to purchase the "necessities" of life, they must decide what constitutes a "necessity" in food, clothing, shelter and a multitude of other purchases, from transportation to reading material.

The underlying difficulty is due to the fact that poverty is intrinsically a question of social consensus, at a given point in time and in the context of a given country. Someone acceptably well off in terms of the standards in a developing country might well be considered desperately poor in Canada. And even within the same country, the outlook changes over time. A standard of living considered as acceptable in the previous century might well be viewed with abhorrence today.

It is through the political process that democratic societies achieve social consensus in domains that are intrinsically judgmental. The exercise of such value judgements is certainly not the proper role of Canada's national statistical

agency which prides itself on its objectivity, and whose credibility depends on the exercise of that objectivity.

In Canada, the Federal/Provincial/Territorial Working Group on Social Development Research and Information was established to create a method of defining and measuring poverty. This group, created by Human Resources Development Canada and social services ministers in the various jurisdictions, has proposed a preliminary market basket measure of poverty - a basket of market-priced goods and services. The poverty line would be based on the income needed to purchase the items in the basket.

Once governments establish a definition, Statistics Canada will endeavour to estimate the number of people who are poor according to that definition. Certainly that is a task in line with its mandate and its objective approach. In the meantime, Statistics Canada does not and cannot measure the level of "poverty" in Canada.

For many years, Statistics Canada has published a set of measures called the low income cutoffs. 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.

Nevertheless, in the absence of an accepted definition of poverty, these statistics have been used by many analysts to study the characteristics of the relatively worst off families in Canada. These measures have enabled us to report important trends, such as the changing composition of this group over time. For example, 20 to 30 years ago the elderly were by far the largest group within the "low income" category, while more recently lone-parent families headed by women have grown in significance.

Many people both inside and outside government have found these and other insights to be useful. As a result, when Statistics Canada carried out a wide-ranging public consultation a decade ago, we were almost unanimously urged to continue to publish our low income analyses. Furthermore, in the absence of a generally accepted alternative methodology, the majority of those consulted urged us to continue to use our present definitions.

In the absence of politically-sanctioned social consensus on who should be regarded as "poor", some people and groups have been using the Statistics Canada low income lines as a de facto definition of poverty. As long as that represents their own considered opinion of how poverty should be defined in Canada, we have no quarrel with them: all of us are free to have our own views. But they certainly do not represent Statistics Canada's views about how poverty should be defined.