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Havi Echenberg
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The Poverty Prism: Multiple Views of Poverty

Poverty can be defined, or measured, in widely varying ways. Each method offers a different lens, capturing distinct information for policy makers. While any single approach or definition may enjoy greater or lesser popularity, each sheds light on a different aspect of poverty. The various measures are described below.¹

INCOME MEASURES – ABSOLUTE OR RELATIVE?

In general, in wealthy or developed countries, poverty is defined in either absolute or relative terms. In absolute terms, poverty is experienced by a person or household that does not have the minimum *amount* of resources needed to acquire necessities. In relative terms, poverty is experienced by a person or household that must allocate more than a certain *proportion* of resources to acquiring essentials. Relative poverty measures are not used in poor countries.

A. Low-income Cut-offs (LICOs)

In the absence of an official definition or measure, there appears to be consensus that Statistics Canada's low-income cut-offs (LICOs) provide a useful measure. The LICOs are based upon the average proportion of household income spent for essentials, and are established at 20 percentage points above that calculation. They vary by household size and population, to reflect the different levels of income necessary for each.

The LICOs were relative measures when they were established, and remained relative through periodic recalculations, based on then-current spending patterns. However, the base spending patterns on which the measures were based have not been recalculated since 1992. Since that time, the measures have been adjusted by the increase in the cost of living. Thus, the LICOs are becoming less relative over time. There is no plan to update the calculations.

B. Low-income Measures (LIMs)

Statistics Canada produces a second relative measure, called low-income measures (LIMs), which sets a threshold at 50% of median family income, adjusted for family size. LIMs permit comparison between countries that provide similar measures. It is noteworthy, however, that the European Union has recently begun to measure low income at 60% of the median income, thus setting the bar higher than Canadian LIMs. Like the market basket measure described below, LIMs are a relatively new measure, and they offer no historical data. However, they are the basis for Canada's contribution to the Luxembourg Income Study, an international comparative study, and are therefore more useful for comparative purposes.

C. Absolute Poverty

The minority opinion, proposed by the Fraser Institute alone, established an absolute amount of income necessary to purchase only essentials. Although this measure was first fixed without regard for household or community size, it has since been revised to vary according to household size. It still neglects the population of the community in which the low-income person or family lives.

D. Market Basket Measure

The market basket measure, developed by Human Resources and Skills Development Canada with the assistance of provincial and territorial governments and Statistics Canada, establishes the level of income necessary to meet individual or household needs. Although it establishes a fixed amount of money needed, it differs from the Fraser Institute absolute poverty measure, because it includes the goods and services available to most families, not simply the bare necessities. It is rarely used in analysis, because it is the most recently developed measure (dating back to 1997), and does not permit comparisons before that date.

BEFORE OR AFTER TAXES?

A second debate connected with the definition of poverty centres on whether the income level should be determined before or after taxes and transfers administered as part of the income tax system. This level will affect the LICO.

If the income level is set before taxes, the LICO will be lower than if the level is set after taxes. That is because, while the LICO takes into account income from all sources, including refundable tax credits, it does not reflect the redistributive effects of Canada's income tax system. Under this system, segments of income are taxed at increasing rates as income rises, so that higher income earners lose a greater share of their income to taxes. Because the LICO is set at 20 percentage points above the average percentage of income spent on food, shelter and clothing (as determined in 1992 and increased by the cost-of-living index since then), it will be higher on an after-tax basis, since the amount spent on these essential items is a larger portion of the lower after-tax income.

There is no consensus on which measure to use; analysts usually identify which measure they are using in their analysis, and sometimes use both.

DEPTH OF POVERTY

Another method used to measure poverty seeks to reveal how poor varying groups are; that is, it attempts to identify the gap between the available income and the income needed to move to the poverty line. This refers to the depth of poverty. For example, although many seniors are poor, income supports targeted to seniors (Old Age Security and Guaranteed Income Supplements) ensure that even the minimum income available to this group is close to the relevant LICO, so that their poverty is not very deep. The same would not be true in most jurisdictions in Canada for single people who are out of work but not disabled, who receive much lower levels of social assistance than those considered incapable of work. Their incomes may be less than half of the relevant LICO, making their poverty much deeper than that of many seniors and disabled people.

CONSUMPTION

The approaches discussed so far are all variations of poverty assessed on the basis of income. Some analysts argue that a better measure is consumption –

what an individual or household actually needs or chooses to buy. The distinction can be important, as income level alone may not capture some important factors, including whether a household is required to pay rent or mortgage payments for housing, or whether it is living rent-free or in a fully paid home. Other factors may include the extent to which a household can meet some of its needs through gardening or farming, rather than having to purchase all its food. The data necessary to measure poverty based on consumption have been available only recently; hence, this analysis is less common than some others.

DYNAMICS OF POVERTY

The measures identified so far rely on assessments of income at one point in time, using household surveys, census returns or other administrative data. This type of “snapshot” assessment cannot take dissimilar circumstances into account, differentiating, for example, between a short-term episode of unemployment and intergenerational dependence on social assistance.

An alternative approach to defining and measuring poverty examines the dynamics of poverty – how often an individual or household is poor, and for how long. A dynamic assessment of poverty allows for a longer-term analysis, and can take into account such major transition points as finding a first job and being laid off. Again, the availability of data necessary to evaluate poverty dynamics is recent, so this approach is still relatively rare among analysts.

LIFE COURSE

Finally, another new approach to measuring poverty is life course analysis. This method draws on both administrative data and economic and statistical modelling through a Statistics Canada tool called LifePaths. This measurement anticipates the events that often trigger poverty, ranging from the transition from school to work, to marital breakdown or pregnancy and the birth of a child, and can predict the probability of an episode of poverty and its duration. It also assesses income in terms not just of stock – how much income a person has at any point in time – but also of flow – how money is transferred to and from governments over a lifetime. This measure is of interest to analysts because, rather than constraining them to policy responses that do not take into account the triggers for poverty, their frequency or their duration, it permits the analysts to consider responses to the transition points that lead to poverty.

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¹ Information on other aspects of poverty is found in the following Library of Parliament companion documents:

Collin, Chantal, and Hilary Jensen. *Poverty in Canada: A Statistical Profile*. PRB 09-17E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

Echenberg, Havi. *The Poverty Prism: Causes of Poverty*. PRB 09-14E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.

Echenberg, Havi. *The Poverty Prism: What Has Helped?* PRB 09-15E. Parliamentary Information and Research Service, Library of Parliament, Ottawa, 28 September 2009.