



AN INTRODUCTION TO THE STATE OF POVERTY IN CANADA

Charles Lamnam
Hugh MacIntyre

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Executive summary

Over the last 20 years, the percentage of the Canadian population living in poverty has declined. Specifically, the percentage living in households below the basic needs poverty line has fallen from 6.7 percent in 1996 to 4.8 percent in 2009 (latest year of available data). Meanwhile, the percentage living in households below Statistics Canada's low income cut off (LICO) has also decreased from a height of 15.2 percent in 1996 to 9.7 percent in 2013 (the latest year of available data). The incidence of low income among specific vulnerable groups (children, seniors, and persons in lone-parent families) has also dropped over time.

That said, the annual incidence of poverty and low income is a snapshot that does not distinguish between people who experience short spells of poverty or low income versus those who are stuck there for longer periods (six years or more). The snapshot therefore misses important dynamics over time. The low income population is constantly changing as people enter and leave low income. Indeed, a large share of people in low income in one year is not in low income the following year. For instance, more than a third (36.9 percent) of Canadians with incomes below LICO in 2009 was above LICO in 2010.

For the overwhelming majority of Canadians who experience low income, it is a temporary situation, not a lifelong condition. Young people, for instance, often have relatively low incomes when they are in school or first enter the workforce, but their income typically increases as they gain skills and work experience. In other cases, households may encounter a temporary negative shock to their income, perhaps due to a loss of employment, from which they may be able to recover relatively quickly. According to Statistics Canada data, the average time spent in low income is brief with the average spell being 2.4 years over the 2002 to 2007 period.

Overall, a very small portion of the Canadian population is stuck in low income year after year. Research from Statistics Canada shows that 1.5 percent of Canadians were in persistent low income from 2005 to 2010 (the latest available six-year period). And the percentage of the population in persistent low income has been falling since the 1990s. In the earliest

available six year period (1993 to 1998), the percentage of Canadians in persistent low income (3.6 percent) was considerably higher than it was in the most recent six-year period.

Statistics Canada research also shows that certain characteristics put Canadians at a higher risk of experiencing persistent low income. Some of the at-risk characteristics include having a physical or mental disability, being part of a lone-parent family, and having less than a high school education.

The root causes of poverty among these at-risk groups are complex and varied, meaning the solutions for how best to provide assistance are also likely to differ. Simple proposals, such as increased cash transfers, may not help particular groups and could, in some cases, be detrimental. For instance, cash transfers could be detrimental for someone who is suffering from a drug or alcohol addiction if they use the additional monetary resources to feed and reinforce their addiction. If the addict's problem is maintaining stable employment, the cash transfer does not necessarily help their situation.

This paper serves as a starting point for a broader research agenda that will investigate the root causes of persistent poverty among these at-risk groups with the ultimate goal of providing workable options to assist them.

Introduction

Reducing the incidence of poverty in a given year is a laudable goal and it is heartening to know that there has been great progress in this regard over the last 20 years. However, there is an important distinction between the percentage of Canadians living in a poor household in a given year versus the proportion that is stuck in poverty year in and year out. Fortunately, for the overwhelming majority of Canadians who do experience poverty, their bouts are temporary. For instance, while in school, a young university student's income may temporarily fall below a particular poverty threshold. But her income is likely to rise above that threshold shortly after graduation when she finds full-time work. However, there is a small subset of the population who are unable to escape poverty and remain in such circumstances for longer periods. Research from Statistics Canada shows that certain characteristics put some Canadians at a higher risk of experiencing these longer bouts of low income. If our goal is to help these Canadians, it is important to first understand precisely who they are and why they get stuck in poverty in the first place.

This paper is an overview of poverty in Canada. It serves as a starting point for a broader research agenda that will investigate why people get stuck in poverty so we can ultimately offer workable options to assist them. Section 1 discusses the definitions and measures of poverty and low income. Section 2 analyzes trends in the incidence of poverty and low income over time while section 3 examines the extent of persistent low income and the characteristics of at-risk groups. The final section concludes with a discussion on the next steps for research examining the root causes of poverty in Canada.

1. Defining and measuring poverty

Exactly what is poverty and how is it measured? There are two competing definitions, which this section explains. It also outlines the differences between measures of poverty and low income.

Defining poverty

Poverty can be defined in two broad ways. Absolute poverty is the deprivation of the basic goods and services needed to achieve a minimal but sustainable standard of physical well-being. When a person lives in absolute poverty, their inability to access a minimum standard of food, shelter, and other necessities can present real challenges to their long term health and well-being. Indeed, when most people think about poverty, they are likely thinking of absolute poverty (Sarlo, 2013: 6-7).

Relative poverty is a situation in which someone is relatively worse off than other members of society. Importantly, relative poverty tends to focus on differences in income, and not necessarily on a person's actual living conditions. Relative poverty still exists even in a wealthy society where everyone can comfortably afford much more than the basic necessities simply by virtue of differences in income between segments of the population. Conceptually, as long as some people have relatively fewer resources than others, relative poverty can never be eliminated. But if we are concerned about access to basic necessities rather than unequal incomes, then an absolute measure is the appropriate way to define and think about poverty.¹

¹ For a more complete discussion of absolute versus relative measures of poverty, see Sarlo (2013: 1-8).

Table 1: Basic needs poverty line by household size, 2014 (estimate)

Size of household	Basic needs poverty line
1	\$13,310
2	\$18,824
3	\$23,054
4	\$26,619
5	\$29,762
6	\$32,603

Source: Sarlo, 2013; Statistics Canada, 2015a; calculations by authors.

Note: Sarlo (2013: 20) calculates the basic needs poverty lines for 2009. Following the methodology in Sarlo (2013), the lines for 2014 are estimated by adjusting the 2009 lines for inflation using Statistics Canada's Consumer Price Index.

Measuring poverty

Canada does not have an official poverty line. However, Nipissing University Professor and Fraser Institute Senior Fellow Christopher Sarlo has developed a measure of absolute poverty known as the basic needs poverty line (BNL). This measure is based on the level of resources needed to purchase a family's basic needs, which Sarlo (2008: 3) defines as those items "required for long term physical well-being." Sarlo's BNL basket contains a variety of necessities including, at the core, food, shelter, clothing, and out-of-pocket health care costs.² It is important to note that people make choices about how to spend their income and they may not give first priority to necessities, which themselves are open to individual interpretation and debate. In other words, a household above the BNL has the resources to acquire all of their basic needs, but may choose not to do so.

Table 1 displays the estimated basic needs poverty line in 2014 for households ranging from one to six members. According to the BNL, a

² The calculation of the basic needs poverty line includes the following: "nutritious food purchased at grocery stores; rented accommodation, with the number of bedrooms appropriate to the family size and composition, and the quality at a standard considered 'decent' in Canadian society; new clothing purchased at a major Canadian department store as estimated by a well-known Montreal social agency; all the way down to laundry, phone service, and out-of-pocket health care" (Sarlo, 2013: 10-11). In addition, the basic needs poverty line includes household furnishings, supplies, and hygiene items.

single-person household in Canada needs \$13,310 to afford basic necessities. A four-person household needs \$26,619, while a household of six needs \$32,603. The BNL dollar amount does not increase proportionately with the number of members in the household because of the economies of scale that come from pooling household resources. This means that the cost of sustaining additional members declines with more members, with less money per member being required to keep larger households out of poverty. To be clear, the amounts displayed in table 1 are not enough to allow households to live “comfortably.” They measure the financial resources a household needs to stay out of absolute poverty.

Household resources can be measured either in terms of income or consumption. In general, analysts commonly use income as a measure because there is a considerable amount of income data available from various sources.³ Yet there are important drawbacks in using income as a measure of well-being. Households may underreport income for a variety of reasons and income may not capture in-kind gifts or in-kind government benefits (such as social housing) that can substantially increase a household’s resources (Brzozowski and Crossley, 2011; Sarlo, 2001: 41-42).⁴ In many ways, consumption better captures a family’s actual standard of living by accounting for the use of past income (savings) and expected future income (borrowings) to finance current consumption.⁵

Measures of low income

While the basic needs poverty line is valuable for measuring absolute poverty in Canada, it has limitations for the possible scope of analysis. For instance, the lack of readily available time-series data means the BNL cannot be used to measure the persistence of poverty for the same individuals over time. Instead, researchers often use measures of low income as a proxy or substitute for a poverty line, even though poverty and low income

³ Research into poverty or low income typically includes cash transfers from government in measures of income.

⁴ A recent study by Dunbar and Fu (2015) using tax data found that underreporting income is prevalent in Canada. In particular, they estimated that nearly two-thirds of households with reported incomes below \$20,000 underreported their income on their 2004 income tax returns.

⁵ Sarlo (2001: 45) argues that consumption may be underreported in survey data partly because respondents may not accurately report their consumption (through sloppiness, forgetfulness, or an unwillingness to disclose some types of consumption). However, the incentive to underreport consumption is not as strong as for income so underreporting is less likely.

Table 2: Measures of and method for calculating low income in Canada

Measure of low income	Method for calculating threshold
Low income measure (LIM)	The threshold is set at half the Canadian median adjusted household income. An adjustment is made for household size by multiplying the household income by the square root of the number of persons in the household.
Market basket measure (MBM)	The threshold is derived from the cost of a basket of goods and services for a household of two adults (age 25-49) and two children. The basket includes the core necessities (food, shelter, clothing) as well as a number of social amenities such as movie tickets and charitable donations.
Low income cut-off (LICO)	The threshold is calculated based on the percentage of income that a household spends on necessities relative to the average. Specifically, a household would be at the threshold if it is expected to spend 20 percentage points more of its household income on necessities than the average household.

Source: Hatfield et al., 2010; Statistics Canada, 2015b.

are separate concepts. Murphy et al (2012: 87) describe a crucial requirement for any measure of poverty that does not apply to measures of low income:

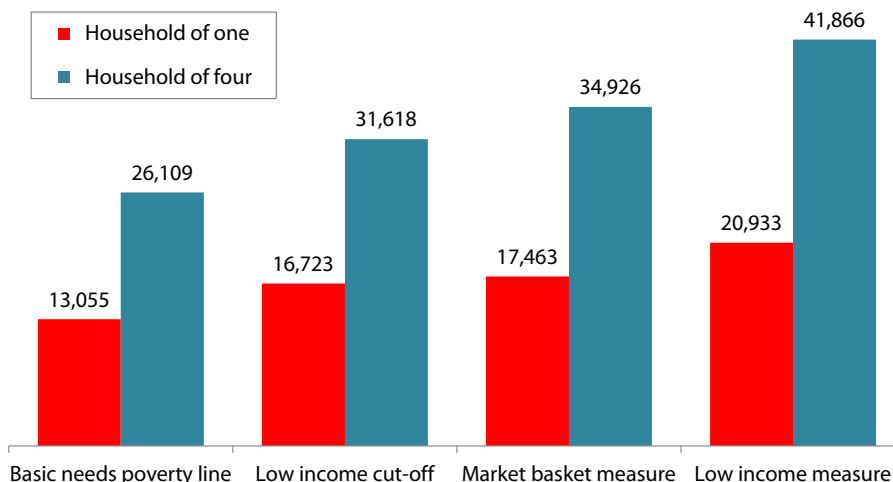
One of the fundamental axioms on poverty is the focus axiom. It states that a poverty index should be independent of the non-poor population. The axiom implies that poverty measures should be about the ‘poor’ only.

The focus axiom means that, in principle, a measure of poverty would be unaffected by changes to income or consumption outside the poor population. That is, the poverty rate would only increase or decrease depending on the proportion of the population entering or exiting poverty. This is precisely why an absolute measure of poverty is so important, as measures of low income violate the focus axiom by capturing relative differences in income within the whole population.

The federal government produces three measures of low income: the Low Income Measure (LIM), Market Basket Measure (MBM), and Low Income Cut-off (LICO). Table 2 briefly describes the method for calculating the threshold of each. Low income rates under LIM and LICO are available as far back as 1976; MBM rates are available only from 2002 onwards.

Figure 1 presents the various thresholds for a household of four and a household of one living in urban Ontario in the year 2013. The three low income measures included in the figure all have thresholds higher than the basic needs poverty line. The largest difference is with LIM, which has a

Figure 1: Poverty and low income thresholds (\$) for a household of one and four living in an urban Ontario community, 2013



Source: Sarlo, 2013; Statistics Canada, 2015a; Statistics Canada 2015b; calculations by authors.

Notes:

- The thresholds for the low income cut-off and low income measure are presented on an after tax basis to be consistent with the basic needs poverty line.
- The basic needs poverty line is presented here is for Canada since a threshold specific to Ontario is not readily available.
- A more general threshold is not readily available for the market basket measure or low income cut-off.
- The thresholds for the market basket measure and low income measure for a family of one were calculated using a commonly used equivalence scale (dividing the family of four threshold by the square-root of four), which approximates the equivalent level of income needed by households of different sizes to achieve the same standard of living. For a discussion on the advantages and disadvantages of equivalence scales, see Sarlo (2013: 16-18).
- The size of the community is based on the census metropolitan area. Urban is defined as a population between 100,000 and 499,999 people.
- Sarlo (2013: 20) calculates the basic needs poverty lines for 2009. Following the methodology in Sarlo (2013), the lines for 2013 are estimated by adjusting the 2009 lines for inflation using Statistics Canada's Consumer Price Index.

threshold of \$41,866 for a family of four—60.4 percent higher than the BNL threshold (\$26,109). At \$31,618, the LICO threshold for a household of four is closest to the basic needs poverty line, but is still 21.1 percent higher.

Despite the fact that the numerical income threshold for LICO is closest to the basic needs poverty line, the LICO threshold results in many more people being counted as “poor” compared to the BNL. Sarlo (2013: 27) points out that there are more households living between the BNL and LICO thresholds than actually living below the basic needs poverty line. For this reason, using LICO or any of the other measures of low income as a substitute for a poverty line risks overstating the extent of poverty in Canada.

That said, LICO differs from the other measures in an important way: unlike other low income measures, the threshold for LICO does not change from year to year beyond adjustments for inflation. The LICO threshold is currently calculated based on the average percentage of household income going to necessities in 1992 (see details in table 2), and all thresholds for previous and subsequent years have been indexed to Statistics Canada’s Consumer Price Index.⁶ This stands in contrast to the Low Income Measure, where the threshold changes each year depending on the annual distribution of income. By indexing the 1992 threshold to inflation instead of recalculating it each year, annual changes in the incidence of low income using LICO are not influenced by changes in the consumption habits⁷ or incomes of the general population.⁸ Partly for this reason, and since LICO is calculated based on a percentage of household income consumed by necessities, researchers sometimes consider LICO to be at least closer to an absolute measure of poverty than the other measures of low income.⁹ It is not, however, properly an absolute measure because, by construction, it is intimately connected to average living standards and this violates the focus axiom.

⁶ In 1992, the average household spent 43 percent of its income on necessities, so under the 1992 fixed LICO, a household is considered to be in low income if it is expected to spend more than 63 percent of its income on necessities (Statistics Canada, 2015a).

⁷ If LICO were to be rebased every year the way LIM is, it would involve calculating the annual share of household income going towards “necessities.” In this scenario, when households shifted consumption away from or towards necessities, it would affect the threshold.

⁸ The threshold under LIM could be made constant by fixing it to a single year. For example, were LIM to be fixed to 1992, then the low income rate in subsequent years would be measured by a threshold that is half the median household income in 1992.

⁹ See Schirle (2013: 522), Sen et al. (2011: 39), Richards (2010: 12), Milligan (2008: 80), and Frenette and Picot (2003: 9).

Ideally, research examining poverty would make use of the basic needs poverty line (or some absolute alternative) because it measures actual deprivation of necessities rather than relative differences in income or consumption. Limitations in the readily available data mean that the BNL cannot currently be used to answer important questions on the dynamics of poverty. While LICO itself is not a measure of absolute poverty, it can nonetheless provide insights into particular issues including the characteristics of people who are at a greater risk of being stuck in low-income for the long term.

2. Trends in static poverty and low income

After having discussed how poverty and low income is defined and measured, we can now answer a fundamental question: has the incidence (or percentage) of the Canadian population living in such circumstances increased or decreased over time? As this section will show, by multiple measures, poverty and low income have been on a downward trend since 1996.

Incidence of poverty and low income

The rate of absolute poverty (based on the basic needs poverty line) is available for select years between 1969 and 2009, allowing for an examination of broad trends in absolute poverty (Sarlo, 2013: 19).¹⁰ Figure 2 shows the percentage of Canadians with household incomes below the basic needs poverty line during the period of readily available data. The incidence of poverty in Canada, measured by the BNL, has generally fallen in recent years. It declined from 6.7 percent in 1996 to 4.8 percent in 2009, representing a drop in the poverty rate of 28.4 percent. More broadly, the rate of poverty is lower in 2009 (4.8 percent) than the rate in the earliest year of available data, 1969, when it was 16.1 percent.¹¹

Figure 3 shows the incidence of absolute poverty in Canada for the general population from 1969 to 2009 using consumption as the measure of household resources. The percentage of households with consumption below the basic needs poverty line has fallen over time, with a considerable drop between 1996 (5.9 percent) and 2009 (3.6 percent). Notably, in

¹⁰ The specific years are 1969, 1974, 1978, 1982, 1986, 1992, 2000, 2005, and 2009.

¹¹ The poverty rate (under BNL) dropped by a factor of four from 1969 to 1974. Sarlo (2013: 22-23) notes that: “there was no change or catalyst that would explain the dramatic fall in poverty rates between 1969 and 1974,” underscoring that there is “concern that this may be a data issue as opposed to a real change in people’s living standards.”

Figure 2: Percent of Canadians living in households with income below the basic needs poverty line, 1969-2009

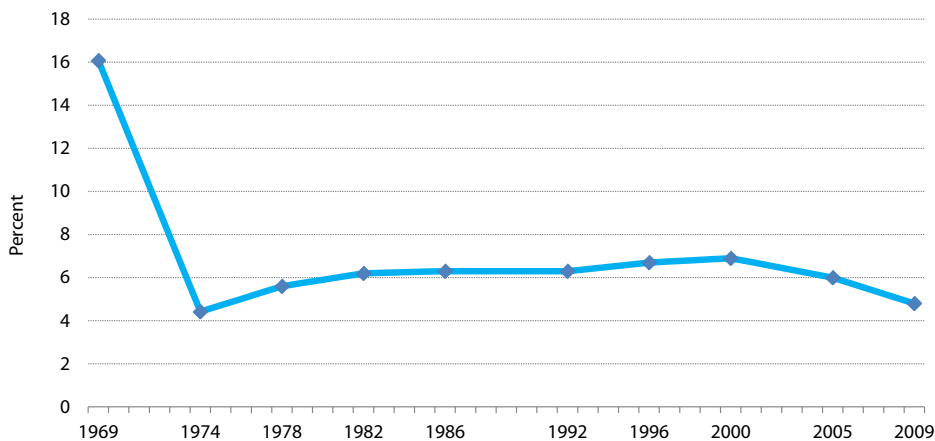
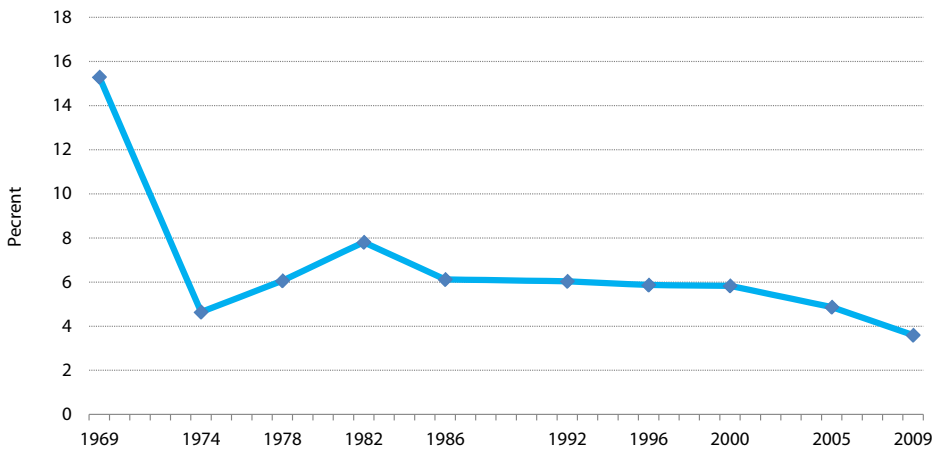


Figure 3: Percent of Canadians living in households with consumption below the basic needs poverty line, 1969-2009

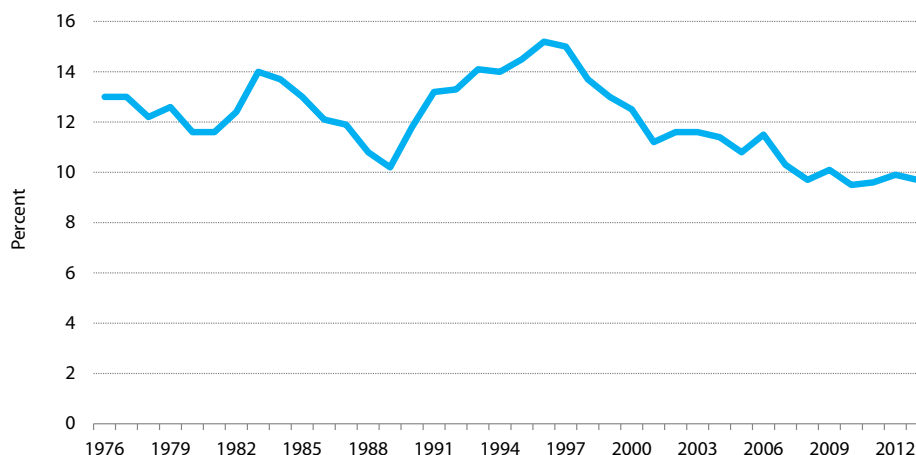


Source (both figures): Sarlo, 2013: 22.

Notes:

- Poverty rates for the basic needs poverty line are only available for the years: 1969, 1974, 1978, 1982, 1986, 1992, 2000, 2005, 2009. A line is drawn between these years to show a general trend.
- See Sarlo (2013: 22-23) for a discussion of the marked drop in the poverty rate between 1969 and 1974.

Figure 4: Percent of Canadians living in households with income below the low income cut-off, 1976-2013



Source: Statistics Canada, 2015c.

Notes:

- Low income cut-off is presented in an after tax basis.
- The percentage of the population in low income in 2013 under the alternative measures of low income are: 13.5 percent by the low income measure and 12.1 percent by the market basket measure.

2009, the latest year of available data, the poverty rate using household consumption is three-quarters of the rate using household income (3.6 percent vs. 4.8 percent).¹²

For comparison, figure 4 presents the percentage of the population with household income below the low income cut-off from 1976 to 2013 (the period in which data are available). The declining trend in the incidence of low income has followed a similar trend to poverty. Specifically, the proportion of Canadians living in low income households fell from 15.2 percent in 1996 to 9.7 percent in 2013.¹³

¹² There are multiple reasons why measures of poverty using income and consumption can show different results. For instance, a household may consume more than its income by using savings or by borrowing. As a result, a household that has an income that puts it below the basic needs poverty line may still be above it in terms of consumption. There can also be differences due to data issues (including underreporting of income). For a discussion on the data issues around income and consumption in Canada, see Brzozowski and Crossley (2011).

¹³ The incidence of low income under the market basket measure has also fallen—from 13.0 percent in 2002 to 12.1 percent in 2013 (the earliest and latest years for

While the percentage of the overall population living in low income has been declining, it is also important to look at specific segments of the population. Here we focus on three vulnerable groups: seniors aged 65 and over, children under 18, and lone-parent families. Each of these groups has experienced a marked decline in their rate of low income.¹⁴

Figure 5 displays the percentage of children living in households with income below the BNL for select years from 1969 to 2009. As with the general population, the poverty rate for children has been on a downward trend since 1996. From 1996 to 2009, the percentage of children living in poor households (as defined by BNL) fell from 9.1 percent to 5.5 percent. Similarly, the percentage of children living in households with consumption levels below the BNL fell from 7.5 percent in 1996 to 3.2 percent in 2009 (see figure 6). Figure 7 reinforces the point that the incidence of poverty has been declining. It shows that the percentage of children in low income households (as defined by LICO) fell by more than half—from 18.4 percent in 1996 to 8.7 percent in 2010. The rate increased to 11.2 percent by 2013, which is still considerably below the 1996 rate of 18.4 percent. Overall, the trend in figure 7 has been downward since 1996.

According to figure 8, the proportion of Canadian seniors living in low income households declined precipitously from 1976 to 2013 (the rate of poverty among seniors aged 65 and over is only available for 2009 based on the BNL). The percentage of seniors in low income fell dramatically from 29.0 percent in 1976 to 3.7 percent in 2013. Interestingly, the rate of low income among seniors has gone from being well above that of the general population to below it. Seniors are now less prone to be living in low income than the general population. Seniors are also now less prone to *poverty*: in 2009, the BNL poverty rate for seniors aged 65 to 74 (2.5 percent) and the rate for those over age 74 (3.8 percent) was lower than the rate in the overall population (4.8 percent) (Sarlo, 2013: 25).¹⁵

which data were available) (Statistics Canada 2015c). The incidence under the low income measure increased slightly from 12.7 percent in 1996 to 13.5 percent in 2013. However, if the LIM threshold is fixed to 1992, low income rates show a general decline since the mid-1990s (Zhang, 2014: 8). In other words, low income rates are falling under measures with fixed thresholds.

¹⁴ The incidence of low income for children and lone-parent families under the market basket measure also declined from 2002 to 2013 (the earliest and latest years for which data were available) (Statistics Canada 2015c). Under the low income measure, the incidence of low income for lone-parent families and the elderly is lower in 2013 than in 1976.

¹⁵ Sarlo (2001: 37-38) found that there was a similar drop in poverty rates among seniors from 1973 to 1996. This earlier study makes use of Statistics Canada's *Survey of Consumer Finances*, while in the more recent study, Sarlo (2013) draws from the

Figure 5: Percent of children living in households with income below the basic needs poverty line, 1969-2009

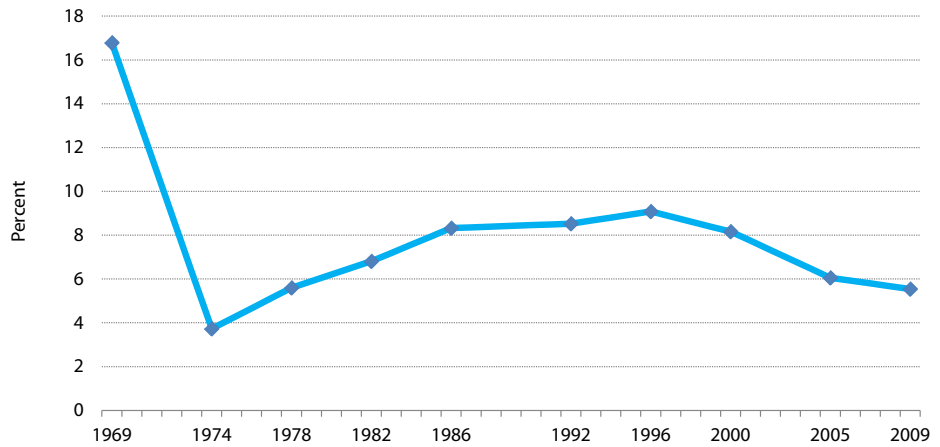
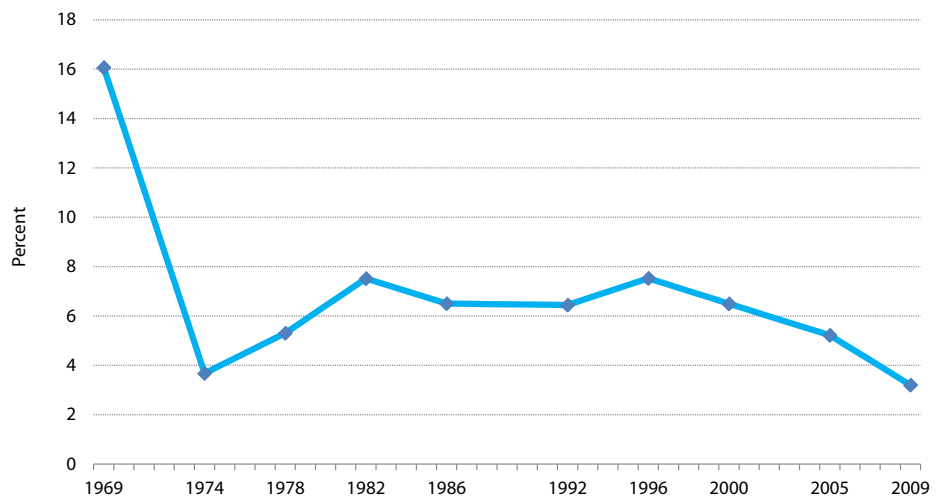


Figure 6: Percent of children living in households with consumption below the basic needs poverty line, 1969-2009

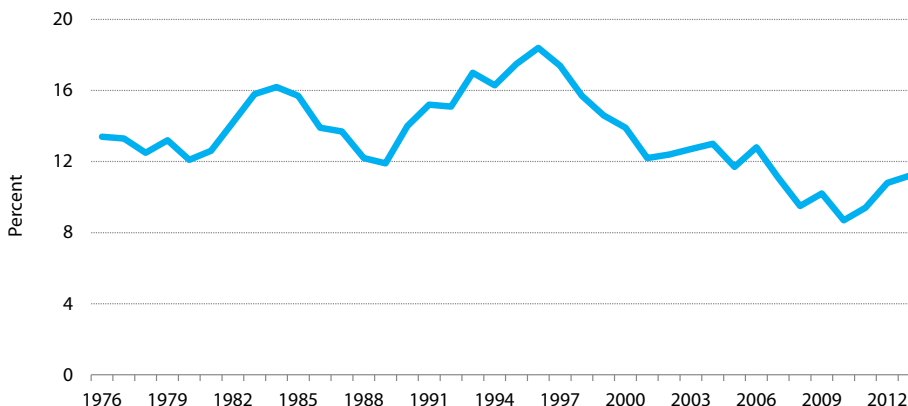


Source (both figures): Sarlo (2013: 22).

Notes:

- Children are defined as being under the age of 18. Due to data limitations, the 1996 BNL child poverty rate is for children under the age of 15 (Sarlo, 2013: 20).
- Poverty rates for the basic needs poverty line are only available for the years: 1969, 1974, 1978, 1982, 1986, 1992, 2000, 2005, 2009. A line is drawn between these years to show a general trend.
- See Sarlo (2013: 22-23) for a discussion of the marked drop in the poverty rate between 1969 and 1974.

Figure 7: Percent of children living in households with income below the low income cut-off, 1976-2013

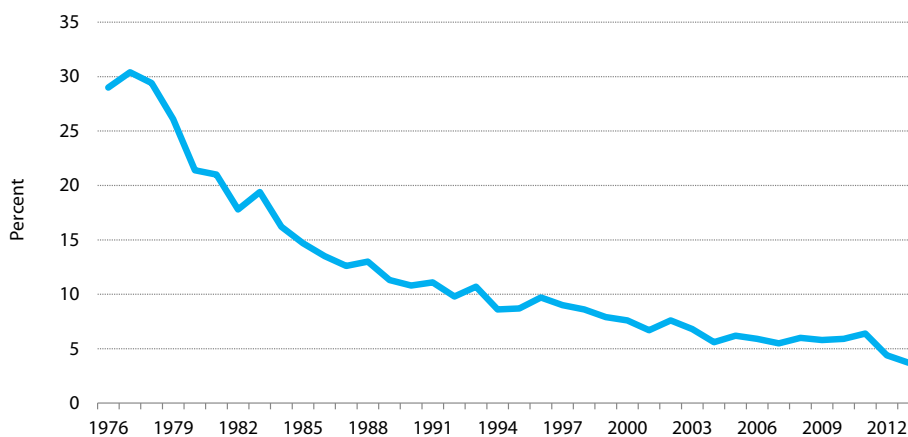


Source: Statistics Canada, 2015d.

Notes:

- Children are defined as being under the age of 18.
- Low income cut-off is presented in an after tax basis.
- The percentage of children in low income in 2013 under the alternative measures of low income are: 16.5 percent by the low income measure and 14.7 percent by the market basket measure.

Figure 8: Percent of seniors living in households with income below the low income cut-off, 1976-2013

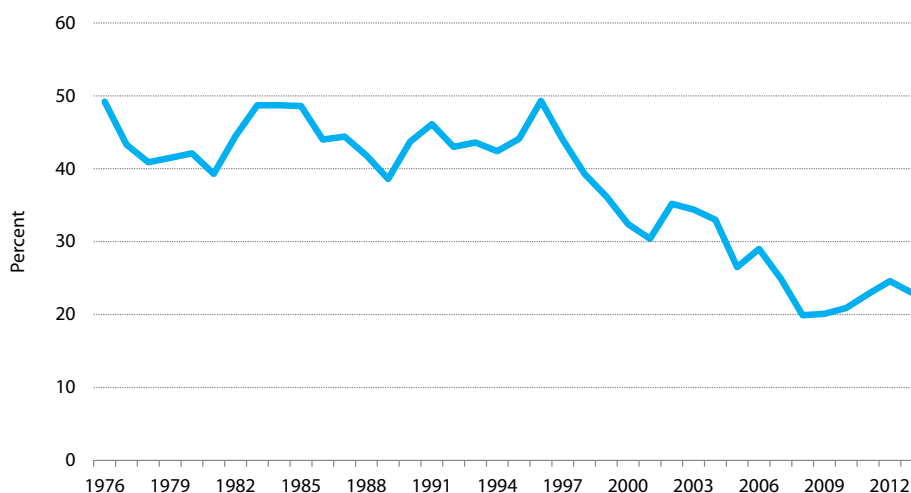


Source: Statistics Canada, 2015d.

Notes:

- Seniors are defined as aged 65 and older.
- Low income cut-off is presented in an after tax basis.
- The percentage of seniors in low income in 2013 under the alternative measures of low income are: 11.1 percent by the low income measure and 4.2 percent by the market basket measure.

Figure 9: Percent of persons in lone-parent families living in households with income below the low income cut-off, 1976-2013



Source: Statistics Canada, 2015c.

Notes:

- Low income cut-off is presented in an after tax basis.
- The percentage of persons in lone-parent families in low income in 2013 under the alternative measures of low income are: 34.4 percent by the low income measure and 33.2 percent by the market basket measure.

Finally, the percentage of people living in lone-parent households with low income has also fallen. (The poverty rate for lone-parent households is only available for 2009 based on the BNL.) Figure 9 displays the percentage from 1976 to 2013; it peaked in 1996 at 49.3 percent and then dropped by over half to 23.0 percent in 2013.¹⁶ Still, approximately one in eight (12.3 percent) lone-parent households had income below the basic needs poverty line in 2009. Lone-parent households are at a sharply higher risk of living in poverty than the general population (Sarlo, 2013: 25-26).

Survey of Household Spending. Sarlo (2008: 9-13) noted important differences in the results depending upon which survey was used.

¹⁶ Interestingly, from 1996 to 2007, the average level of government transfers to lone-parents fell while inflation-adjusted market income increased by about 77 percent (Richards, 2010: 2).

3. Persistent low income: Incidence and at-risk groups

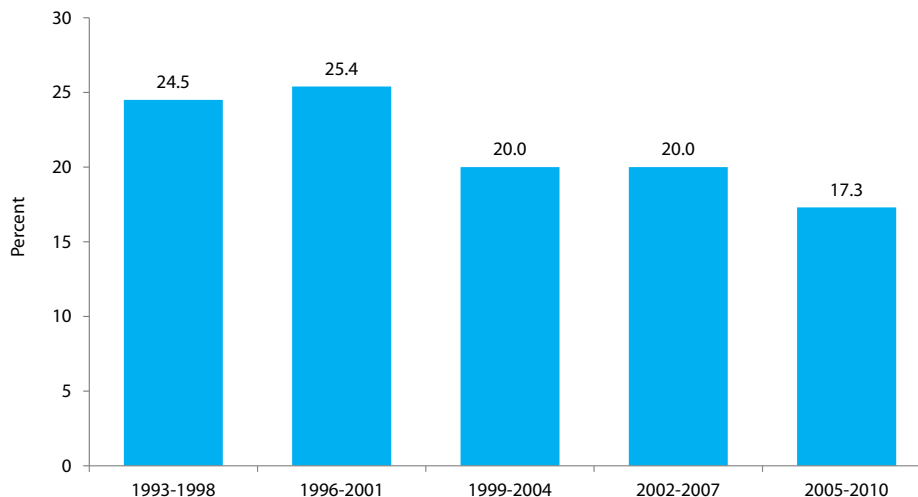
The data presented thus far points to a drop in the incidence of poverty and low income over time.¹⁷ However, the data only capture a snapshot in time and therefore miss important dynamics of low income, such as the fact that the low income population is constantly changing as people enter and leave this situation. Indeed, someone who experiences low income one year may not be in the same position the year after. Temporary spells in low income have dramatically different implications for someone's well-being than were they to be in that situation for a longer period (or persistently). A similar statement can be made about the social policies we employ.

For most Canadians, being in low income is a temporary situation, not a lifelong condition. Young people, for instance, often have relatively low incomes when they are in school or first enter the workforce, but their income typically increases as they gain skills and work experience.¹⁸

¹⁷ Explaining the factors behind why the rate of poverty and low income is falling is beyond the scope of this paper. However, Richards (2007) argues that social assistance reforms in the 1990s and early 2000s were key factors because they were designed to decrease the percentage of the population on social assistance and encourage participation in the labour market. These reforms played an important role (along with improving economic conditions) in reducing the percentage of the population on social assistance (Kneebone and White, 2009; Finnie and Irvine, 2008). It is interesting to note that the period of social assistance reform and the decline in the percentage of the population on social assistance coincides with the recent period of declining low income. For more information on the decline of social assistance rates, see Kneebone and White (2014). For more discussion on the specific reforms, see Schafer and Clemens (2002) and Schafer et al. (2001). As for factors behind the drop among specific groups, Schirle (2013) finds that increased government transfers along with demographic changes likely played a role in the decline in the low income rate of seniors.

¹⁸ The evidence bears this out. A recent study by Lamman et al. (2012: 24-26) found that after 10 years (1990 to 2000), 83 percent of those initially in the bottom 20 percent of income earners moved to a higher income group. After 19 years (1990 to 2009), 87 percent moved up, with 21 percent of those initially in the bottom income group reaching the very top income group.

Figure 10: Percent of the population experiencing low income for at least one year during various 6-year periods



Source: Statistics Canada, 2013a; calculations by authors.

Note:

- Low income is measured by the after tax low income cut-off. The percentage of the population that experienced low income for at least one year during the period 2005-2010 under the alternative measures of low income are: 22.8 percent by the low income measure and 20.9 percent by the market basket measure.

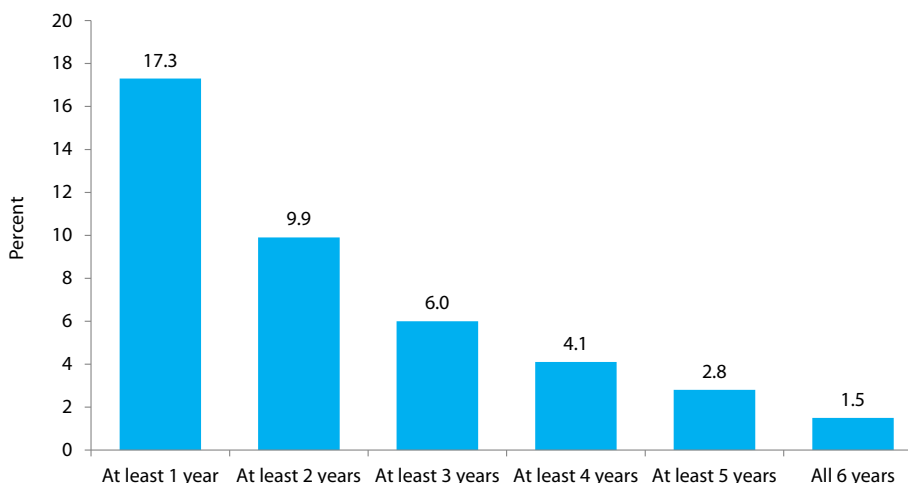
In other cases, households may encounter a temporary negative shock to their income, perhaps due to a loss of employment, from which they may be able to recover relatively quickly.

Still, there are some who find themselves persistently stuck in low income. This section draws from Statistics Canada research to identify the extent of persistent low income and the characteristics of people who are at higher risk of being in this unfortunate situation.

Prevalence of persistent low income

To measure the dynamics of low income, it is important to have data following the same people or households over time. Statistics Canada's *Survey of Labour and Income Dynamics* (SLID), which was discontinued in 2013, tracked respondents for various six-year periods and provided important information on who experienced low income and for how many years over the period. Although SLID has been terminated, five overlap-

Figure 11: Percent of the population in low income by number of years, 2005-2010



Source: Statistics Canada, 2013a; calculations by authors.

Notes:

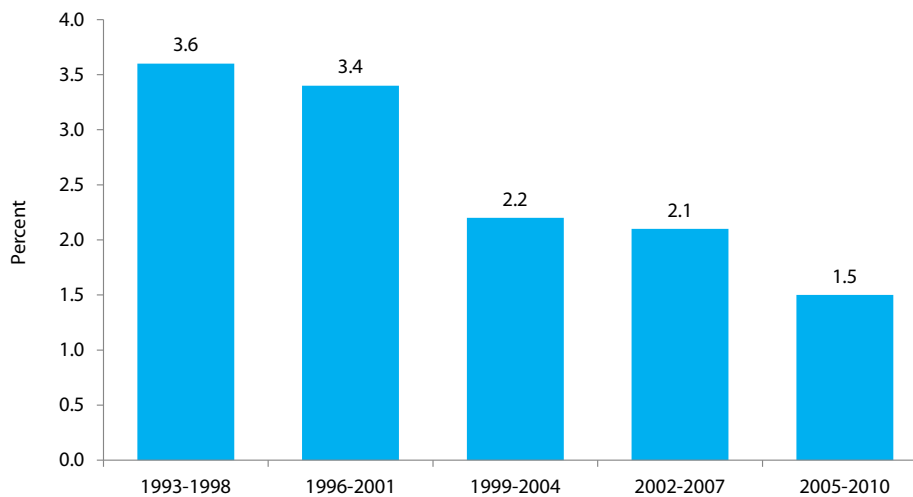
- Low income is measured by the after tax low income cut-off. The percentage of the population in low income for all 6 years during the period 2005-2010 under the alternative measures of low income are: 3.0 percent by the low income measure and 2.0 percent by the market basket measure.

ping six-year periods are available (1993-1998, 1996-2001, 1999-2004, 2002-2007, 2005-2010).¹⁹

One insight gained from SLID is that an ever smaller percentage of Canadians experience *any* spells of low income. Figure 10 shows the percentage of the population (based on the survey sample) that was below LICO for at least one year during the various six-year periods. The figure illustrates a key message: the percentage of Canadians experiencing low income for at least one year over the various six-year periods is decreasing. During the 1993 to 1998 period, nearly one in four Canadians (24.5 percent) experienced low income for at least one year. This rate fell to nearly one in six (17.3 percent) during the latest available period, 2005 to 2010. Put differently, the vast majority of Canadians did not experience any spells of low income during the various six-year periods: a full 82.7 percent of them in the latest 2005-2010 period.

¹⁹ A notable limitation of SLID is that it tracked respondents for only six years. As a result, we are unable to decipher whether respondents were in low income before and/or after the time period, which means that the respondent's total number of years in low income is not known. A measure of persistent low income for a period longer than six years is unavailable under SLID.

Figure 12: Percent of the population in persistent low income during various 6-year periods



Source: Statistics Canada, 2013a.

Notes:

- Low income is measured by the after tax low income cut-off. The percentage of the population in low income for all 6 years during the period 2005-2010 under the alternative measures of low income are: 3.0 percent by the low income measure and 2.0 percent by the market basket measure.

For those who do experience low income in a given year, a large proportion of them are not in that situation the next year. For instance, more than a third (36.9 percent) of the people with incomes below LICO in 2009 were above LICO the following year in 2010 (Statistics Canada, 2013b).

The results from SLID consistently point to a stark difference between the percentage of the population experiencing at least one year of low income and the share experiencing low income for all six years. Figure 11 shows that over the 2005 to 2010 period, 17.3 percent of the population was in low income for at least one year. By comparison, 9.9 percent of the population was in low income for a minimum of two years. And just 1.5 percent of the population was in low income for all six years. This reinforces the notion that most people who fall into low income do not stay there for long. In fact, Murphy et al. (2012: 9) calculated that the average spell of low income was 2.4 years for those experiencing low income during the SLID survey period 2002 to 2007.

Most critically, the percentage of the population stuck in persistent low income (all six years) has been falling over time. Figure 12 compares the percentage of the population with incomes below LICO for all six years

during the five available periods. During the 1993 to 1998 period, 3.6 percent of the population experienced persistent low income. That percentage dropped by more than half (to 1.5 percent) for the most recent 2005 to 2010 period. Not only is the percentage of the population in low income falling, but persistent low income is also becoming increasingly rare. Moreover, the percentage of the population in persistent *absolute poverty* is likely even smaller due to the lower income threshold relative to LICO.

At-risk groups for persistent low income

Early research into the characteristics of Canadians experiencing low income found that groups with certain characteristics are at a higher risk of being in persistent low income than the general population. These groups include people with activity limitations (physical or mental disability), singles (unattached individuals), persons in lone-parent families, people with less than high school education, and visible minorities who are immigrants (Morissette and Zhang, 2001). Drawing from this research, table 3 shows the probability of members in each at-risk group being in persistent low income for the 1993 to 1998 period compared to a baseline characteristic.

Having one of the at-risk characteristics substantially increases the probability of being in persistent low income. For example, the probability that a person in a lone-parent family lives in a condition of persistent low income (10.6 percent) is more than seven and a half times the probability for a similar person who is part of a couple with children (1.4 percent). Out of the at-risk groups, people with the highest probability of being in low income are those who are single, while those with less than high school education have the lowest probability.

Subsequent research has generally continued to identify the same five groups as being at high risk for persistent low income (Ren and Xu, 2011; Murphy et al., 2012). Recent immigrants, off-reserve aboriginals, and young people have also been identified as being at risk, but for shorter periods of low income.²⁰ For the at-risk group of visible minorities, the literature draws an important distinction between members of visible min-

²⁰ Morissette and Zhang (2001: 10) found that recent immigrants had a high risk of being in low income for at least four years, but there was no statistically significant difference between the probability of recent immigrants and someone born in Canada being in low income for the whole six-year period. Using administrative data, Picot et al. (2007: 8) found that 16.5 percent of immigrants entering Canada between 1992 and 1994 were below a fixed-LIM threshold for seven out of the first 10 years in Canada. However, a later study did not find a significant difference in the risk of being below LICO for six years between those who are immigrants and Canadian-born, after controlling for other characteristics (Ren and Xu, 2011: 31, 34).

Table 3: Probability of being in persistent low income by characteristic, 1993-1998

At-risk characteristic	Probability of persistent low income (%)	Reference characteristic	Probability of persistent low income (%)
Less than high school education	2.6	At least some postsecondary	0.5
Work limitations	3.7	No work limitations	0.6
Visible minority	5.4	Not a visible minority	0.8
Lone parent family	10.6	Couple with children	1.4
Single	11.7	Couple with children	1.4

Source: Morissette and Zhang, 2001: 10.

- This table is partly replicated from table 4 in Morissette and Zhang (2001: 10).
- All differences from the reference characteristic are significant at the five percent level.

orities who are immigrants and those who were born in Canada. Researchers have found a statistically significant²¹ higher risk for immigrant visible minorities to experience low income that isn't the case for Canadian-born visible minorities (Morissette and Zhang, 2001: 8; Palameta, 2004: 14).²²

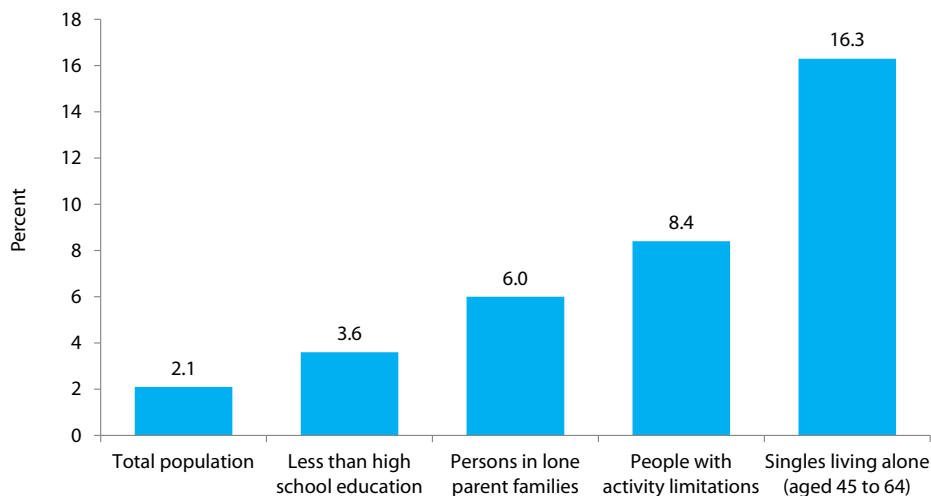
Figure 13 shows the incidence of persistent low income for the general Canadian population and four at-risk groups for the 2002 to 2007 period (visible minorities are excluded because of a lack of readily available data).²³ The highest incidence of persistent low income is among singles living alone and aged 45 to 64, with nearly one in six in low income for the entire period. Again, it is important to reiterate that being single in this age range does not mean one is predetermined for low income; just that research suggests the risk is higher. Also importantly, an individual prone to persistent low income may have more than just one at-risk character-

²¹ Morissette and Zhang (2001: 10) report statistical significance at the five percent level. Palameta (2004) does not report the confidence level.

²² Ren and Xu (2011: 34) found that, after controlling for other characteristics such as immigration status, the probability of visible minorities being below the low income cut-off for the entire period from 2002 to 2007 was not statistically different from a person who is not a member of a visible minority. Ren and Xu (2011: 31) did find that Canadian-born visible minorities were at a statistically significant higher risk of being in persistent low income for the 1999 to 2004 period. However, this result was significant at only the 10 percent level.

²³ The data in figure 13 measures a different concept than the data presented in table 3.

Figure 13: Percent of at-risk groups persistently in low income, 2002-2007



Source: Murphy et al., 2012: 70-71; Statistics Canada, 2013a.

Notes:

- Low income is measured by the after tax low income cut-off. Under LIM, the percentage of lone parent family members in persistent low income (17.2 percent) is the same as singles living alone (17.2 percent) and is higher than people with activity limits (10.9 percent) (Murphy et al., 2012). As measured by LIM, the percentage of people with less than high school education in persistent low income is 5.1 percent (Statistics Canada, 2013a).
- The incidence of persistent low income for less than high school education comes from Statistics Canada (2013a). All other data come from Murphy et al. (2012: 70-71).
- The population with less than high school education includes people who are under 16 years of age.
- Visible minorities are not included because of a lack of comparable data for the 2002 to 2007 period.

istic. Approximately a quarter of the singles aged 45 to 64 suffered from disabilities over the period 2000 to 2009 (Murphy et al., 2012: 34-35). Someone with a work-limiting disability and without another household member's income to fall back on may have a particularly difficult time getting out of low income. Having multiple income earners in of itself is not necessarily required to avoid persistent low income, but in general, a household with multiple potential earners may be better positioned to absorb income shocks (such as being laid off).

The group with the second largest proportion of members living with persistently low incomes is people with activity limitations

8.4 percent). People with activity limitations are defined as those who report difficulty with daily activities or who have physical or mental conditions that reduce the activities they can do at home, school, or work (Murphy et al., 2012: 40). Research finds that people who had work limitations for only part of the six-year period were less likely to be in low income for the whole period (Morissette and Zhang 2001: 8; Ren and Xu, 2011: 31-36). This suggests that those living with permanent conditions have a higher risk of living with a persistently low income.

In addition, people with more severe disabilities are less likely to be employed and thus will find it more difficult to escape low income. According to Statistics Canada, the employment rate for Canadians (aged 25 to 64) in 2011 with a “mild” disability was 68 percent compared to 26 percent for those with a “very severe” disability.²⁴ The employment rate for the non-disabled population was 79 percent (Turcotte, 2014: 1).

The group with the next highest incidence of persistent low income is people living in lone-parent families (see figure 13). Although the incidence of low income in this group (6.0 percent) is nearly three times that of the general population (2.1 percent), the current rate is much lower than it was in the 1990s. From 1993 to 1998, 20.9 percent of people in lone-parent households were in low income for the entire six-year period (Murphy et al., 2012: 70). That is nearly three-and-a-half times higher than the comparable figure for the 2002 to 2007 period (6.0 percent).

Finally, people with less than high school education are also at risk of persistent low income. A high school diploma can lead to other opportunities, including access to post-secondary education, which can provide higher income earning potential. But even without further education, there are advantages to completing high school that can help to avoid persistent low income. A high school graduate with no post-secondary education generally earns more than someone who did not complete high school and (in the case of women) enjoys one to two more years of employment over a 20-year period (Frenete, 2014).

The characteristics of these groups are not mutually exclusive; someone could have more than one characteristic that puts them at a higher risk for persistent low income. For instance, a person could be a single parent without a high school diploma. Such people are likely to be at even greater risk of persistent low income than someone with just one at-risk characteristic.

As well, data from the Survey of Labour and Income Dynamics may miss some high-risk characteristics. For instance, SLID does not cover

²⁴ Government policy aimed at assisting people with disabilities can, through perverse incentives, discourage recipients from working. For details specific to the Ontario Disability Support Program and related programs, see Sheikh (2015).

people living on First Nations reserves and therefore does not determine whether they are at higher risk of persistent low income. Neither does SLID cover those suffering from addiction to drugs and/or alcohol, another characteristic that is likely to put people at risk of persistent low income.

4. Next steps for research

While Statistics Canada research has identified some of the characteristics of people at a higher risk for persistent low income, that by itself does not necessarily explain why some people find themselves stuck while others (often with the same characteristics) do not. It is important, then, to understand the various root causes of poverty before developing policies for helping the persistently poor. An approach that may be helpful in one case may not be in another, and in some cases could actually be detrimental.

For instance, it is possible that a cash transfer could provide some assistance to someone with a severe long-term physical disability and who is unable to work. However, for someone with a less severe short-term disability and the potential to work, a cash transfer may discourage them from seeking gainful employment, leading to long-term dependency on government programs. In addition, cash transfers could be detrimental for someone who is suffering from a drug or alcohol addiction if they use the additional monetary resources to feed and reinforce their addiction. If the addict's problem is maintaining stable employment, the cash transfer does not necessarily help their situation. This is not to say that cash transfers should never be part of a plan to help the poor; only that the source of the poverty matters and should influence the proposed solution. With this in mind, the next step for research is to try to better understand the root causes of persistent poverty.

A framework for understanding the root causes of persistent poverty

To help guide future research, it is useful to develop a framework for thinking about the complex root causes of persistent poverty. As a starting point, the causes of poverty can be generally thought of as the result of either bad luck (broadly defined as events that adversely affect a person's life and which are outside of their direct control), unwise decisions, or perverse government policies that discourage people from getting out of poverty—or some combination of these.²⁵

²⁵ To clarify, “unwise decision” is not meant to be a moral judgment about one’s

One example of bad luck that can lead someone to be in persistent poverty is being afflicted by a severe disability. Bad luck of this sort can strike anyone, but some people may be more vulnerable than others, or less able to recover. As noted, the degree to which someone is disabled varies. Someone with a more severe disability is less able to work, making it more difficult for him or her to escape poverty.

Within the framework outlined above, the root causes of poverty can be multifaceted, meaning the three sources of persistent poverty are not mutually exclusive and can reinforce each other. To illustrate, consider the case where someone does not complete high school. This is a generally unwise decision that can lead to persistent low income in which bad luck can be a contributing factor. Morissette and Zhang (2001: 10) found that from 1993 to 1998, a person who had not completed high school had a 2.6 percent probability of being in persistent low income. That compared to a 1.5 percent probability for someone who had a high school diploma but no post-secondary education. So simply finishing high school improved a person's prospects for avoiding long term poverty. Similarly, a recent study by Frenette (2014) found that high school graduates (even those with no post-secondary education) had significantly higher earnings than those who did not graduate from high school.

The family's circumstance—over which high school students have little control (good or bad luck)—can play an important role in his or her decision to leave school. A high school student who drops out is more likely to live with only one parent or have parents who did not complete high school themselves (Bushnik, 2003: 29). A student attending high school and working more than 30 hours a week is more likely to leave school than a student who works fewer hours. If a student is part of a low-income household and needs to contribute financially, this may be part of the motivation to drop out. To put it in terms of the proposed framework, bad luck related to family circumstances can contribute to an unwise decision to leave high school before completion. This is not to suggest that people are irresponsible for making such decisions; only that the context matters and bad luck can play a role.

Perverse government policies can exacerbate someone's attempt to escape poverty, whether the initial cause was bad luck or unwise decision-making. One way in which government programs meant to help the

decisions or behaviour; it is merely an acknowledgement that certain decisions can lead to persistent poverty. It should also be acknowledged that for some individuals under specific circumstances, a decision that is generally unwise may be perceived to be a sound option for that person.

poor may be harmful is by reducing the marginal reward for working.²⁶ Someone's willingness to do more work depends in part on the level of remuneration they will receive for that additional work. Some programs (social assistance, for example) decrease the value of cash transfers and tax credits to individuals as their income rises and in doing so reduce the recipient's net income gained from working. This can discourage someone from working more—or at all. If a program reduces transfers by a rate of 50 percent of the recipient's income, then the recipient's net income will only rise by 50 cents for every extra dollar earned. The cumulative impact of the reduction in transfers (both cash and in-kind) from the assortment of government programs can be large.

For example, someone receiving transfers from Ontario Works (the province's main social assistance program) faces a transfer reduction rate of 50 percent, though there is an exemption for the first \$200 per month earned (Tweddle et al., 2014: 6). At the same time, social housing in Ontario increases rent payments by 30 percent of every dollar earned (Stapleton, 2007: 29). As a result, an Ontario Works recipient living in social housing could lose 80 percent of every extra dollar earned, and that does not include the transfer reductions in all the other transfer programs that they may be receiving. In some cases, the cumulative reduction rate can add up to more than 100 percent (Stapleton, 2007: 29-30). At this point, the various government programs do not just discourage recipients from earning income, but actually punish them for doing so. By discouraging recipients from earning more income, government programs can perversely make it more difficult for someone to escape from poverty.

In addition to government programs, Canada's tax system can also discourage people from working more (Murphy et al., 2013). Marginal tax rates and transfer reduction rates together make up the marginal *effective* tax rate. Although the specific marginal effective tax rate depends on a person's circumstances, Canada's marginal effective tax rates are generally higher than the OECD average (OECD, 2014).

The next step for a research agenda on poverty in Canada is to start exploring the extent to which bad luck, unwise decisions, and government policies (including transfer and tax policies) contribute to at-risk groups being stuck in persistent poverty. It is only after the root causes of poverty are more fully understood that strategies for ways to help the poor can better address the problem. Our hope is that the framework presented above will help towards that end.

²⁶ For more discussion on how government programs discourage recipients from working, see Lammam and MacIntyre (2015: 47-57).

Conclusion

Over the last two decades, the share of Canadians living in poverty and low income in a given year has steadily declined. In particular, the proportion of children, seniors, and persons in lone-parent households living in such circumstances is generally smaller than in 1996. Moreover, the incidence of Canadians stuck in persistent low income year after year has fallen by more than half since the 1990s and a smaller percentage of the population is experiencing low income even for a very short period.

But there are still groups of Canadians with certain characteristics that find themselves at higher risk of being stuck in persistent low income than the rest of the population. Specifically, Statistics Canada research has identified people with physical and mental disabilities, single people (unattached individuals), lone-parent families, those with less than a high school education, and visible minorities who are immigrants. Importantly, not all characteristics are captured by Statistics Canada's data including whether someone suffering from drug or alcohol addiction may be at higher risk for persistent low income. Ultimately, to improve the lives of people who are stuck in persistent low income or poverty, more research is needed to better understand why they get stuck in the first place. This paper is the first step in a multi-year research program that will focus on the reasons why specific groups get stuck in low income so we can ultimately offer workable policy options to assist them.

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About the authors

Charles Lammam

Charles Lammam is Director of Fiscal Studies at the Fraser Institute. He has published over 60 studies and 230 original articles on a wide range of economic policy issues including taxation, government finances, pensions, investment, income mobility, labour, entrepreneurship, public-private partnerships, and charitable giving. His articles have appeared in every major national and regional newspaper in Canada as well as prominent US-based publications. He holds an MA in public policy and a BA in economics with a minor in business administration from Simon Fraser University.

Hugh MacIntyre

Hugh MacIntyre is a Policy Analyst at the Fraser Institute. He has co-authored numerous studies on topics such as government finances and government performance. His commentaries have appeared in various media outlets including the National Post and the American Enterprise Institute's prestigious magazine, *The American*. Mr. MacIntyre holds an MSc in Political Science from the University of Edinburgh and an Honours B.A. from the University of Toronto.

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