



POVERTY IN CANADA



CHRISTOPHER A. SARLO



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Poverty in Canada

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by Christopher A. Sarlo



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Foreword

by Rose Friedman

CHRISTOPHER SARLO'S THOROUGH AND EXHAUSTIVE study of poverty in Canada presents statistics on consumption expenditures for numerous budget items including food, shelter, transportation, and other necessities; profiles the poor in Canada in 1988 by family characteristics including age, education, employment, and gender; and classifies welfare recipients by income and different family types.

These detailed data are preceded by a discussion of the change in the meaning and measurement of poverty over the years. We used to think of people as poor if their income was not sufficient to enable them to purchase basic necessities. As Mr. Sarlo points out, however, there is an increasing tendency to shift from such an absolute standard to a relative standard. People are now characterized as poor if their income is low relative to some average income or some average consumption.

President Johnson proclaimed a War on Poverty in 1964. This made poverty in the United States a major public issue. The study of poverty became a growth industry within both government agencies and the academy. As one of the early participants in this industry, I wrote in 1965: "Periodic examinations of the state of health are as desirable for a society as for an individual. Such examinations are best made when the society is healthy rather than when it is sick. It should then be possible to examine the condition of society unemotionally and in historical

perspective—not to see whether the state of health is perfect, but rather to see how it compares with the condition in preceding examinations, whether it has improved or deteriorated and to what extent.”¹ Such examinations can be useful only if there is a stable measure of the “basic needs” of families of different size. I attempted to provide such a measure for the United States, suggesting, as the most useful criterion, the income level at which consumers in fact purchase a nutritionally adequate diet. Even this criterion is very far from being unambiguous and precise because it is not possible to specify definitively what constitutes nutritional adequacy, as demonstrated by the frequent changes since 1965 in the detailed specifications of the calories, nutrients, vitamins and the like required for an adequate diet.

By any such absolute standard, poverty has declined greatly in most advanced societies in recent decades as all classes have shared in the increase in standards of living. As Mr. Sarlo points out, “It is most certain that less than 2 percent of Canada’s population lives in poverty” i.e., having incomes too low to afford all the basic requirements of living. However, as we have become more affluent, our goals for the disadvantaged among us have understandably become more ambitious. One result has been to view poverty increasingly in “relative” rather than absolute terms. While commendable, such a shift may empty the concept of “progress” of content. If the poverty level is defined, for example, as an income exceeded by three quarters of the units, then one-quarter of the population will by definition be labelled as “poor” and progress in reducing poverty by definition, impossible.

As Mr. Sarlo points out, “There is no problem with developing . . . levels that you would like every citizen to attain as a minimum. However, to ‘sell’ these . . . as poverty lines is simply inappropriate.”

Rose D. Friedman

Hoover Institution,

April 6, 1992

1 Rose Friedman, *Poverty—Definition and Perspective*, (Washington, D.C.: American Enterprise Institute, 1965), p. 2.

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Finally, and most importantly, I am pleased to acknowledge the contribution of my family. I wish to thank my parents, Edward and Lillian Sarlo, whose lives and accomplishments provided some of the inspiration for this book, and most of all, my wife Julie, whose support, patience, understanding and perceptive comments were all of enormous importance to me.

Accreditation

A SUBSTANTIAL PORTION OF THE QUANTITATIVE analysis in this book is based on the Statistics Canada microdata tape (Economic Families—1988 Income) which contains data collected by the 1989 Survey of Consumer Finances. All computations on these microdata were done by the author and he alone bears the responsibility for the use and interpretation of these data.

About the author

CHRIS SARLO TEACHES ECONOMICS AT Nipissing University in North Bay, Ontario. He received his graduate education in economics at Queen's University. He is married and is the father of two children.

Dedication

For Julie.

Chapter 1

Introduction

HOW MANY PEOPLE IN CANADA are living in poverty? The National Council of Welfare¹, using Statistics Canada's low income cut offs (LICO), reports that in 1988 3.3 million Canadians were poor. The Canadian Council on Social Development² (CCSD), using their own poverty line, claim that about 5 million lived in poverty in that same year. These estimates form the basis of a multitude of media stories telling of the "crisis" of poverty in Canada and the shameful indifference most of us display towards the plight of the poor. How reliable are these

-
- 1 The National Council of Welfare was established by the federal government in 1969 as a citizens advisory body to the Minister of Health and Welfare Canada. Funded by the federal government, the National Council issues reports on a variety of topics related to welfare including annual reports on poverty.
 - 2 The Canadian Council on Social Development is an independent, national, non-profit organization which engages in social research, policy development and advocacy. This organization is entirely funded by its members. It publishes *The Canadian Fact Book on Poverty*, as well as other books and reports on social issues.

2 *Poverty in Canada*

estimates? Should we believe that 3 to 5 million Canadians live in a state of poverty?

I believe that Canadians have serious doubts about claims of widespread poverty in this country. Skepticism is wholly justified. These estimates of the extent of poverty in Canada are grossly exaggerated. The fact is that poverty, as it has been traditionally understood, has been virtually eliminated. It is simply not a major problem in Canada.

To a large degree the overstatement of the extent of poverty is a result of a basic misrepresentation. Both the CCSD and Statistics Canada cut offs are "relative" lines. That is, they are closely connected to average incomes or average consumption patterns. They are not linked in any way to the actual costs of basic necessities and are, in fact, substantially above such costs. They are set high enough to include a number of amenities or non necessities that are typically part of middle income budgets. Effectively, these relative lines are goals. They are levels of income representing a certain standard of living that we wish no individual or family would fall below. Yet they are used almost exclusively as "poverty lines." There is no problem with developing cut offs or levels that you would like every citizen to attain as a minimum. However, to "sell" these cut offs as poverty lines, or even to acquiesce in their use as such, is simply inappropriate.

In this book I develop a set of poverty lines based on the cost of necessities. I will argue that this "basic needs" approach is a more practical, useful and credible way of looking at the problem of poverty than the prevailing alternatives. Table 1-1 below compares my poverty lines, for a family of four, with the LICO and CCSD lines. What stands out is that these prevailing measures, one of which is widely considered to be Canada's "official" poverty line, are about twice as high as the cost of basic needs. More importantly, the poverty rates that these lines give rise to are four to six times higher than the rate using my basic necessities measure. What this means is that at least three-quarters of "poor" families of four have incomes greater than they require to satisfy all their basic needs. We will see that this degree of exaggeration of poverty is quite typical for every other type of household.

Table 1-1
Comparative poverty lines and poverty rates

Family of Four, 1988			
	CCSD	LICO*	Sarlo
Poverty Line (\$ income)	\$26,941	\$22,371	\$13,140
Poverty Rate (%)	15.4%	10.1%	2.5%
Number of Poor Families	262,262	172,115	43,292

* For the purpose of this table, the family is assumed to reside in a community of between 100,000 and 499,999 persons.

The current approaches, LICO and CCSD, seriously misrepresent what it means to be living "in poverty." The impoverished suffer because they lack some basic need. Their resources are insufficient to enable them to acquire all that is essential. Their long term physical health is being jeopardized. Existing definitions, focussing on measuring the relatively less well-off, greatly overstate the extent of "poverty." They result in incorrect conclusions about the adequacy of social programs to meet the needs of those unable to work. They make it impossible to determine the extent to which economic growth and prosperity can reduce poverty. And they make international comparisons of poverty rates illegitimate. A basic needs approach to defining and measuring poverty, such as the one developed here, is not burdened by these deficiencies.

Prevailing "poverty lines" are in fact tools for measuring inequality and tell us nothing about poverty. This clearly reveals that, in the minds of the developers of these lines, inequality is the more important problem. They are more offended by inequality than poverty. The relative approach rests squarely on this ideological bias and any thorough critique must challenge this premise. I am not at all offended by inequality. I have no problem with large variations in income and wealth. I do not regard it as unjust or unfair that Wayne Gretzky earns one hundred times as much as most men of his age. I am however, deeply offended by poverty, by situations in which people are simply not able to acquire

CASE 1: HOW POOR IS THIS STUDENT?

A 20 year old student who comes from Goderich, Ontario and goes to university (1990-91) in Waterloo.

The student returns home during the summer (May 1-Sept 1) and lives with parents. Total resources available to the student are: \$3,000 earnings from summer job, a \$4,500 student loan (no grant because parents income, around \$40,000, is too high) and about \$1,500 from parents. The student's major expense is shelter. She shares a \$600/month two bedroom apartment situated within a mile of the university. Although the apartment costs more than the average two bedroom in the Kitchener-Waterloo area, it does have a swimming pool, exercise room and cable T.V. The student furnishes her apartment with her own bedroom items from home as well as "cast-offs" from parents and relatives. So the student's annual shelter costs are \$3,600 excluding, of course, any revenues from summer sublet. Tuition, incidental fees, books and other school supplies come to about \$2,500. The student's grocery bill averages about \$150 per month, including some fast food (burgers, pizzas, etc.). The student attempts to maintain the nutritious diet that she received at home with recommended levels of fruits, vegetables, whole grains, milk and one cooked meal per day (roast, pork chops, chicken, fish, stew, etc.). Occasional departures from good nutrition are not for lack of money. Finally, she spends about \$1700 on other items including clothing, personal care, laundry, travel, phone and entertainment. While she could save about \$1000 if she lived in residence, she feels the privacy, independence and additional amenities of apartment living are worth the extra expense. Overall, her standard of living, by no means extravagant, is perfectly adequate. However, she, and hundreds of thousands of students like her, lives well below the "official" poverty line. Because Statistics Canada does not include loans or gifts as income, her reported income is only \$3000, leaving her with a poverty gap of \$9000.

all the basic necessities of life, by children forced to line up at food banks. Poverty is the problem, not inequality.

In fairness, Statistics Canada makes it clear that "although (LICO) are commonly referred to as official poverty lines, they have no officially recognized status nor does Statistics Canada promote their use as poverty lines."³ If LICO are not poverty lines, what exactly are they? Perhaps the reluctance to call LICO "poverty lines" reveals that researchers at Statistics Canada regard poverty as a harsher and more serious problem

3 Statistics Canada Low Income Cut-Offs, 1986, Technical Paper, 1987, p. 1.

than just having a low income. These and many other issues regarding LICO are examined in detail in Chapter 4.

The CCSD has also issued a qualifier.

The CCSD's income lines, which a national task force developed in 1973, were not originally intended to be measures of poverty as such. Rather they were developed in order to address the problem of severe and persistent income inequality in Canada by defining a minimum standard of income equality for Canadian families. The CCSD considers an appropriate minimum to be not less than one-half of the average family income in the community. Over time, a number of voluntary organizations and a few public agencies have come to regard these lines as poverty lines. Nevertheless, the lines do not measure poverty or need in the sense of providing estimates of the cost of essentials.⁴

In spite of these caveats, both LICO and CCSD lines continue to be used by politicians, the media and in many research reports as poverty lines *without qualification*. Intellectual sloppiness can explain some, and perhaps most of this. However, it is very possible that healthy self interest is also at work here. Those who view the market system and the profit motive as immoral, exploitative and immiserizing will expect their message to be more favorably received if in the society being criticized, the number defined as poor is high. Similarly, those opposition politicians whose job it is to embarrass the government would be assisted by a high poverty count. Finally, some of those in the poverty "business" (administrators, social workers and indirectly, many academics) would like to see poverty defined as generously as possible. More "poor" means more clients, more government funds, and therefore greater status and security. High poverty lines are good business.⁵

4 Ross and Shillington (1989), p. 9.

5 The notion that poverty serves the interest of certain groups is not particularly novel. Herbert Gans, a strong advocate of greater equality in society, has stated. "... poverty also makes possible the existence or expansion of 'respectable' professions and occupations, for example, penology, criminology, social work and public health. More recently, the poor have provided jobs for professional and paraprofessional 'poverty warriors,' as well as for journalists and social scientists, this author included,

CASE 2: IS THIS ELDERLY COUPLE REALLY POOR?

An elderly couple in Montreal, both age 68.

The husband worked fairly steadily over the years, but was laid off at age 60 and decided to take early retirement. He had no company pension, no RRSPs and no significant saving set aside for retirement. Raising four children and paying off the mortgage on their modest 3-bedroom home made it difficult to save much. They always regarded their home, now valued at about \$180,000, as a retirement nest egg. Three sources, the Old Age Security (OAS) program, the Guaranteed Income Supplement (GIS) program and the Quebec Pension Plan (QPP), provide income totalling approximately \$14,500 for 1990. Their main expenses, all expressed in annual terms, consist of: shelter costs (maintenance, insurance, property tax, water, heat, electricity) of about \$4,000 (including property tax refund); food costs of \$4,500, including a take out or restaurant meal about once a week; clothing, personal care, household supplies, gifts and misc. of about \$2,000; maintenance, gas and licences for 5 year old car of about \$1,000; and new home furnishings or appliances of about \$1,000. This leaves them with \$2,000 plus income tax credits of approximately \$150. They pay zero income tax. They have been in the habit of taking one major vacation every two years (Florida, Las Vegas, France, Caribbean cruise etc.) and several shorter trips each year, mainly visiting friends and relatives. They have a color T.V., V.C.R., two bathrooms and drink wine with most meals. Their lifestyle is eminently middle class. Yet they are "officially" poor, falling about \$2,000 below the poverty line. If this couple were informed of their destitute status, they would be incredulous and highly insulted. They are not alone! In 1988 roughly 550,000 households headed by someone 65 years old or more were considered "poor." Of those almost half (250,000) owned a home, 90 percent mortgage free.⁶

who have supplied the information demanded since public curiosity about the poor developed in the 1960s.

"Clearly, then, poverty and the poor serve a number of functions for affluent groups—households, professions, institutions, corporations and classes, among others—thus contributing to the persistence of these groups, which in turn encourages the persistence of poverty in dialectical fashion." Herbert J. Gans, *More Equality*, Pantheon Books, New York, 1973, p. 105-6.

6 Statistics Canada: Household Facilities by Income and Other Characteristics, 1989: cat. # 13-218, p. 104.

The fact is, however, that relative lines or estimates using them tell us absolutely nothing about poverty. They are simply not credible ways of identifying and measuring the poor.

Credibility Gap

Table 1-2 presents both the Statistics Canada (LICO) and the CCSD poverty lines for 1988, 1989, 1990, and 1991. While Statistics Canada adjusts its lines according to the size of the community, CCSD does not. Both, however, adjust their lines for family size reflecting the economies of scale of people living together. Are these poverty lines credible? Is it obvious that people with incomes below these values will be impoverished?

For example, is the family of four in a large Canadian city with 1991 income of \$25,000, fully \$2,000 below the low income cut off (LICO), necessarily living in poverty? Are there not cases in which a family could purchase adequate housing, nutritious food, clothing, personal, household and health care items without exhausting this income? What about the single mother of two in an average sized Canadian community? Is it reasonable that this family's income must be over \$20,000 in 1991 to escape poverty? Is it possible that some of these below-the-line single parent families, especially those in rent-subsidized housing, might not regard themselves as poverty stricken?⁷ And what of more than 500,000 college and university students who live on their own during the school year? Is it appropriate to include them among Canada's poor in 1991 if

-
7. On July 27, 1991, Global Television Network news did a story about a Toronto area single mother of four, Linda Grimm, who didn't think it was right that she should live so well without having to work for it. On social assistance and living in a rent-subsidized townhouse, the family's clothing, furniture, food and other amenities gave all the appearances of a middle class standard of living. Ms. Grimm pointed out that, if she worked, she would have to earn \$35,000 to \$40,000 to maintain her current lifestyle. Her reason for coming forward was her concern for the taxpayers and concern about the deficit. It is easy to dismiss such reports as the result of feelings of guilt about being on welfare. Nevertheless, the fact remains that there are several hundred thousand families in Canada in much the same circumstance.

TABLE 1-2**Canadian "Poverty Lines" 1988, 1989, 1990 and 1991**

Family Size	Statistics Canada (LICO) (1978 base) Population of Area of Residence					CCSD
	500,000 and over	100,000 - 499,999	30,000 - 99,999	Less than 30,000	Rural	Poverty lines

1988

1	\$11,574	\$10,992	\$10,312	\$ 9,533	\$ 8,559	\$11,546
2	15,270	14,494	13,523	12,546	11,187	19,244
3	20,428	19,357	18,092	16,829	14,979	23,093
4	23,539	22,371	20,913	19,453	17,316	26,941
5	27,429	25,972	24,220	22,567	20,136	30,790
6	29,959	28,305	26,458	24,608	21,983	34,639
7+	32,975	31,224	29,181	27,138	24,220	38,488

1989

1	12,037	11,432	10,725	9,915	8,901	12,170
2	15,881	15,074	14,063	13,048	11,634	20,283
3	21,245	20,132	18,815	17,502	15,578	24,339
4	24,481	23,266	21,749	20,231	18,009	28,396
5	28,526	27,011	25,189	23,469	20,942	32,453
6	31,157	29,437	27,516	25,593	22,862	36,509
7+	34,294	32,473	30,349	28,223	25,189	40,566

TABLE 1-2 (continued)
Canadian "Poverty Lines" 1988, 1989, 1990 and 1991

Family Size	Statistics Canada (LICO) (1978 base) Population of Area of Residence					CCSD
	500,000 and over	100,000 - 499,999	30,000 - 99,999	Less than 30,000	Rural	Poverty lines
1990						
1	12,639	12,004	11,261	10,411	9,346	12,778
2	16,675	15,828	14,766	13,700	12,216	21,297
3	22,307	21,139	19,756	18,377	16,357	25,556
4	25,705	24,429	22,836	21,243	18,909	29,816
5	29,952	28,362	26,448	24,642	21,989	34,075
6	32,715	30,909	28,892	26,873	24,005	38,335
7+	36,009	34,097	31,866	29,634	26,448	42,594
1991						
1	13,271	12,604	11,824	10,932	9,813	13,417
2	17,509	16,619	15,504	14,385	12,827	22,362
3	23,422	22,196	20,744	19,296	17,175	26,834
4	26,990	25,650	23,836	22,305	19,854	31,307
5	31,450	29,780	27,770	25,874	23,088	35,779
6	34,351	32,454	30,337	28,217	25,205	40,252
7+	37,809	35,802	33,460	31,116	27,770	44,757

Sources: LICO—National Council of Welfare, 1989 Poverty Lines, April, 1989. LICO lines for 1990 & 1991 are estimated using 5 percent rate of increase; CCSD, [Canadian Council on Social Development] by phone.

CASE 3: CAN WE CALL THIS PART-TIME ACTOR "POOR"?

Actor/Waiter living in Vancouver.

This 25 year old is your typical "starving" actor. His job at a restaurant does not pay well but allows him great flexibility to go to auditions and take extended periods off. He earns \$5 per hour plus tips and averages about 25 hours per week—mainly on weekends. His tips for 1990 are about \$5,000 but he underreports this amount by half. In addition to his restaurant earnings, he made about \$2,000 from acting during the year. His total reported income for 1990 then is approximately \$11,000, leaving him \$1,500 below the poverty line. He lives in a rather humble bachelor apartment above the restaurant where he works. It costs him \$400/month including utilities. He spends about \$1,000 on food. It would probably be double that if he didn't get free meals where he works. He spends nothing on furniture because what he now has is intact and will be serviceable for years to come. He has no car but does spend about \$1,000 on transportation, mainly public transit, cab fares and car rentals. As an actor, he considers his appearance to be very important. Consequently, he spends roughly \$2,700 on clothing, grooming and personal care items. He spends about \$1,500 on entertainment and another \$1,000 on a variety of smaller items such as telephone, gifts, alcohol, books and newspapers. Finally, household supplies and miscellaneous items cost about \$500. Although he would love to have much more money to spend, he currently lacks none of the necessities and is, in large part, enjoying his life. Nevertheless, he is classified as one of Canada's impoverished.

their reported income (which excludes student loans and gifts) is below \$12,000?

Contained in boxes throughout this chapter are a series of hypothetical yet quit typical cases of "poverty," using the prevailing (LICO) definition. The purpose of these cases is to demonstrate that many people currently classified as poor cannot be reasonably regarded as living in poverty. They are not presented as evidence or proof of the inadequacy of the existing approach. That comes later. However, they do, I think, serve to undermine the credibility of prevailing poverty lines because they reflect the situations of many hundreds of thousands of households currently defined as poor.

It is my contention that the levels at which these lines are set are just not credible cut-offs for separating the poor from the non poor. I think that many working and middle class Canadians regard these lines as clearly inflated. Their personal experience of managing a household on

a tight budget, of knowing the true cost of essential goods and of seeing cases of genuine deprivation first hand leads them to seriously doubt the levels at which these lines are set. Canadians rightfully scoff at suggestions that individuals and families cannot “survive” on incomes lower than these levels. Many of today’s adults were raised in families whose annual incomes were far less, *in real terms*, than current “poverty” lines and never regarded themselves as “poor.” They never lacked any of the basic necessities of life.

The Canadian Council on Social Development has used its lines to estimate the extent of poverty in Canada since 1973. They reveal that the rate of poverty in Canada has *increased* from 23.3 percent in 1973 to 25.9 percent in 1986.⁸ Yet over this same period of time all indicators of average living standards rose. Real output per capita increased by 34 percent, real personal disposable income per capita rose 29 percent, average real family income increased 14 percent⁹ and average real income of unattached individuals increased 23 percent.¹⁰ The distribution of income (see quintile shares in Table A-1) was essentially unchanged during this period. In these circumstances, we should expect that real economic growth would lift some out of poverty. Yet the CCSD measure shows poverty increasing. That average living standards can increase while the proportion of the population classified as poor also increases defies our common sense.

Household facility information provides additional evidence that poverty in Canada is greatly exaggerated. In 1989, households whose 1988 income was below LICO, i.e., were “poor” according to the National Council of Welfare, had the following characteristics: 99 percent had flush toilets (virtually all lacking them were in rural areas); 99 percent had refrigerators; about 50 percent had automatic clothes wash-

8 Ross and Shillington (1989), p. 40. Poverty rates are for total households.

9 The seemingly small growth in real family income over this 15 year period is belied by the decline in average family size.

10 Calculated by the author using data from Statistics Canada, Canadian Economic Observer, Historical Statistical Supplement, 1988/89: [cat.# 11-210] and National Council of Welfare: Poverty Profile 1988, p. 86, 87.

CASE 4: ARE THIS SINGLE MOTHER AND HER FAMILY POOR?

Single mother of two children living in Toronto.

She is not working and is not currently looking for work because she feels her time is better spent caring for her children (ages 3 and 6) and because, with limited skills, her market wage would likely be lower than her current welfare benefits. She separated from her husband two years ago and he has provided no financial support. Her total 1990 income from family benefits, family allowance and tax credits (both federal and provincial) is approximately \$13,000. This puts her and her family fully \$9,000 below the poverty line. She is in a rent subsidized housing unit and pays only \$2,500 including utilities.¹¹ She is a good cook and ensures that her family eats nutritiously. Shopping wisely and buying no junk food, her total annual expenditure on food is \$4,500 and this includes a treat every two weeks (pizza, Chinese food, take-out chicken, etc.). In addition, she spends \$1,000 on clothing, \$1,000 on furniture, appliances, maintenance and other household items, \$500 for transportation, \$500 for laundry and dry cleaning, \$500 for personal care items for herself and her children, \$300 for telephone service, \$500 for cable T.V. and newspapers, and \$500 for entertainment (mainly videos, beer and an occasional baby-sitter). She spends her final \$1,000 on ways that enrich herself and her children. Such things as concerts, trips to the Science Center, the zoo, the ballpark, the circus, the planetarium, and picnics on Centre Island are, in her view, healthy and educational diversions. Is this family poor? I would argue that they are not poor because they can purchase all of their basic needs as well as a number of amenities. There is no extravagance here, but neither is there destitution.

ers and dryers; almost 20 percent had automatic dishwashers; 39 percent had freezers; 95 percent had telephones; 97 percent had radios; 60 percent had colour T.V.; 34 percent had VCR's; 62 percent had cable T.V.; and 50 percent had at least one automobile.¹² In spite of high rents and low vacancy rates in some of our major cities, the vast majority of "poor" Canadian tenants paid relatively low rents. Households with

11 Since she is in a rent-geared-to-income unit, her social assistance (FBA), \$9,876, is about \$400 per month less than it would be if she faced market rents. Nevertheless, with an average of two bedroom unit costing about \$700 per month, she is clearly better off in her subsidized apartment.

12 Statistics Canada, *Household Facilities by Income and Other Characteristics*, 1989 [cat.# 13-218], Table 10, p. 160.

1988 incomes below \$20,000 paid an average cash rent of \$340/month. For those in the lowest income group, below \$10,000, fully 75 percent paid a cash rent of less than \$400 per month.¹³

All of this information suggests that "poverty" might be an inappropriate label for many low income Canadians. The income cut offs do not appear to correspond to widely held notions of deprivation. Traditionally, poverty has meant the absence of basic needs. A family was poor if its income was too low to acquire all the necessities of life. It is my view that most Canadians retain that "basic needs" notion of poverty.¹⁴

In a sense we shouldn't be surprised that the extent of poverty is overstated. We live in an inflationary environment where exaggeration is acceptable if the cause is "good." Politicians, eager to share their vision of the future, stretch the truth and promise the world. Advertisers embellish because they want to improve living standards (ours and theirs). Teachers inflate marks to "help" their students. Reporters "hype" so that we will pay attention to their stories. Arguably the masters of the craft, social activists have refined exaggeration to a art. Problems become crises and crises catastrophes. "Crying wolf" is considered a legitimate political strategy.

Social scientists have an obligation to expose inflated claims. They must stand above the fray and must themselves resist the temptation to overstate regardless of what desirable goals it might serve. No one is naive enough to believe that there exists an objective truth about poverty. But neither is it wholly subjective. Poverty is simply not whatever you want it to be.

13 Ibid, p. 162.

14 That democratically elected governments in every province should set social assistance rates well below the "poverty" lines in Table 1-2 but high enough to permit the acquisition of all basic needs reflects, to a great extent, the views that most people have of poverty.

Purpose of this study

This study has two purposes: First, it is a critique of prevailing approaches to defining and measuring poverty in Canada. Second, it is an attempt to establish a credible and useful alternative approach, one which reinstates the traditional “necessities” link to poverty. Without denying its other aspects, I regard poverty as principally an economic problem. At its core, poverty means having insufficient resources. The debate, of course, is about what constitutes “sufficiency” or “adequacy.” Regrettably, economists have tended to avoid the study of poverty, probably regarding it as too laden with emotional and ideological overtones to be capable of rigorous scientific investigation. Much of the current literature on poverty (as opposed to, say, inequality or income and wealth distribution) is written by students of politics and sociology. This study is an attempt, in some sense, to bring poverty “home” by stressing its crucial economic component.

Just as we know, fairly precisely, the number of unemployed in Canada, so also should we know, with equal accuracy, the number who cannot afford basic necessities. We should want to know this independent of its policy implication. I regard the poverty “rate” as just as important and interesting a socioeconomic characteristic as the birth rate, the immigration rate, the inflation rate, the unemployment rate and the growth rate. In order to measure the poverty rate, we require a consistent and reliable measuring stick and a credible methodology. This work undertakes to provide both.

Plan of the book

The natural flow of the book involves three distinct stages. I begin with a critical evaluation of the existing approaches to the definition and measurement of poverty (Chapters 2 and 3). I then develop an alternative approach based on the cost of necessities which is used to measure and profile poverty in Canada (Chapters 4, 5, 6, 7 and 8). Finally, my own approach is subjected to critical scrutiny; qualifications are noted and contentious issues such as welfare adequacy, housing affordability, food banks, and child poverty are dealt with (Chapters 9 and 10). This is, broadly, the logic of the book. What follows is a more detailed, chapter by chapter, sketch of what lies ahead.

Chapter 2 involves a critical analysis of both relative and absolute approaches to defining and measuring poverty. A careful examination of Canada's most widely used "poverty line," Statistics Canada Low Income Cut Offs (LICO), is the content of Chapter 3. It is determined that LICO is strictly a relative measure and is a totally inappropriate tool for measuring poverty. An alternative approach, based on the cost of necessities, is developed in Chapter 4 and actual estimates of those costs are contained in the subsequent two chapters. Chapter 5 develops a rigorous methodology for the determination of the minimum cost of a nutritious diet. It is utilized to determine essential food costs during 1988 in Canada's 25 major cities. In Chapter 6, estimates of the essential cost of shelter and other basic needs are determined. These three chapters (4, 5 and 6) represent the crucial methodological core of the study. In Chapter 7 all cost calculations are integrated and 1988 poverty lines by family size for our major cities are determined. Provincial poverty lines are also determined and the incidence of poverty is estimated, province by province. The most important finding is that, using the necessities approach, just under 1 million Canadians, or about 4 percent of the population were poor in 1988. Chapter 8 profiles the poor, examining such characteristics as age, education, immigration status, family type, housing, children, and employment status. Not surprisingly, the majority of poor Canadians are either young, single or live in single parent families (many are all three). Chapter 9 considers a number of important qualifications or exceptions where income is not a good indicator of the households true standard of living. These exceptions result in a substantial yet indeterminate reduction in the number of estimated poor. Chapter 10 examines the very important issue of the "adequacy" of government welfare programs. We find that total income to both unemployable welfare recipients and all elderly households is adequate, averaging several thousand dollars *above* the poverty line. Income to employable welfare recipients is at or below the poverty line. The issue of the connection between food banks and welfare rates is also examined. Chapter 11, the conclusion, summarizes the major findings of the study, highlights several deficiencies or weaknesses and suggests improvements.

Income inequality is dealt with, appropriately, in the Appendix. It is a concept which has been associated with the issue of poverty and is

similarly tainted by mythology. The life cycle hypothesis is used to shed some light on the explanation of prevailing income inequality. Simulation experiments demonstrate that substantial disparities in incomes at any given time are quite consistent with egalitarian principles.

It is with some reluctance that I embarked on this critique of the prevailing approaches to the definition and measurement of poverty. To even imply that the extent of poverty in Canada is exaggerated is, to some, to be “anti-poor” and insensitive to the misfortunes of others. The belief that we have widespread and undiminished poverty is something of a sacred cow. It is heresy to challenge that notion. The open minded reader will recognize, however, that my criticisms are aimed at the “entrepreneurs of poverty,” not the poor.

We do not help the poor by exaggerating their numbers. We do great injury to the scientific study of poverty when we use poverty and the poor to further our own ideological goals. The importance of the problem demands a more objective, dispassionate approach. Despite a substantial literature, we really don’t know much about the nature of poverty in Canada. It is hoped that this study provides the impetus for a reexamination of how poverty is defined and measured. Existing approaches are not even remotely satisfactory.

Chapter 2

Defining and Measuring Poverty

THERE EXISTS NO “OBJECTIVE” OPERATIONAL definition of poverty. There cannot be. States of well-being or “ill-being” are essentially personal and depend on the individual’s preferences, expectations, self image—characteristics which are in turn determined by some mysterious mix of biology and environment. For each person the condition of poverty will lie somewhere on the continuum of well-being. The location will be quite unique for each individual and at different stages of life for the same individual. Poverty is an eminently subjective state and any precise definition for the purpose of measuring poverty will necessarily be subjective.

For example, dictionary definitions specify or imply that poverty involves the absence of basic necessities. We encounter problems as soon as we try to become more specific than this. What exactly are those basic necessities the lack of which would qualify one as poor? Who gets to decide? Should the list include some “social” amenities as well as needs essential for physical maintenance? Is the judgement of an expert panel or the poverty researcher less subjective than that of low income families themselves in the development of a list of necessities? If people decide on the basis of their own experience that they could not “get

along" or "make ends meet" below a particular income, is this a valid poverty line? In rejecting this latter approach, Ringen (1988) argues that "This is to accept that people are poor if they feel poor."¹

Is it the absence of *all* basic necessities (however the list is determined) that constitutes poverty or just *most* of them? How do we classify people who lack some basic necessities but who also consume non-necessities? Are they 'really' poor if they could have acquired all their basic needs but chose not to? The distinction between voluntary and involuntary poverty is extremely tricky. Are those who willingly deprive themselves of all but their basic physical needs genuinely poor? If they believe that spiritual or environmental salvation lies in the rejection of most material possessions and live their lives according to that belief, on what basis are they poor? If we allow that people are not poor if they freely choose to reject some of the comforts and amenities that most in the community enjoy, how do we regard those who voluntarily select a lifestyle which almost inevitably leads to a state of misery and deprivation, a *result* they would never choose? Have many drug-addicts and alcoholics freely chosen their poverty? Is the poverty of some high school dropouts and unwed mothers voluntary?

The answer to these and related questions involves subjective judgement. That judgement largely depends on the definer's notion of what it means to be poor and, of course, his ideological bias. This does not mean, however, that all subjective definitions of poverty are equally valid. What it does mean is that no definition can claim to be objective in the sense in which the scientific definition of water is objective or even the sense in which the economic definition of price is objective. In terms of subjectivity, defining poverty is comparable to defining disability. It is up to the definer to make the case that his definition, in spite of its subjectivity, is a more useful tool for measuring the problem than the alternatives.

The extent of poverty within a country or region should be measured primarily because it is an important social and economic problem. However it is defined, the word suggests misery, discomfort, and certainly an unsatisfactory standard of living. Compassion requires us

1 Ringen (1988), p. 360.

to extend a helping hand to people in need. Before we act, however, we must have a clear idea of the severity of the problem. So measurement is an essential first step in the development of the appropriate policy, public or private. But poverty is not just a policy problem. It is also an important demographic fact. If we wish to have an accurate picture of ourselves and how we live, we should determine among other things the incidence of poverty. This information contributes not only to an understanding of how we are doing as a society, but more importantly to the very valuable process of intertemporal and international comparisons.

Absolute and relative poverty

The standard distinction in the literature is between absolute and relative definitions of poverty. The former approach focuses on the lack of basic necessities while the latter emphasizes inadequacy compared to average living standards. There is a sense in which the distinction is artificial. Any operational definition must be relative because what is considered to be a necessity depends to some extent on the conditions in the larger society in which one is a member. Yet at the same time there seems to be an irreducible core of necessities invariant through time. An individual or family lacking water, food, shelter and clothing would have been poor at the time of Plato, Adam Smith or in the late 20th century. What is absolute (or nearly so) about the absolute approach is the *items* included in the list of necessities. What is relative about the absolute approach is the quantity and quality of each included item. Therefore, while all operational definitions of poverty are, to some extent at least, relative, it is fair to say that conventionally the term absolute poverty conveys a sense of the lack of all the basic physical necessities, whereas, the term relative poverty conveys the impression of a lack of both physical and 'social' needs. This distinction is almost universally used in the literature on poverty and is one I shall employ in this study. In fact, I shall use the terms "necessities approach" and "absolute approach" synonymously. I will also use the terms "social amenities approach" and "relative approach" to mean the same thing.

Measurement indicator

Defining poverty is one thing. Measuring poverty involves a whole range of additional problems. For example, we must decide how poverty as we have defined it is manifested in society. Is poverty a problem of low consumption or is it a problem of low income? If we believe it is the former, we would measure poverty by surveying household consumption and determining for how many consumption was deficient according to the operational definition. This approach has much to commend it. It directly examines living standards which is really the essence of poverty research. It is the lack of adequate housing, nourishing food, and other consumption needs after all that constitutes poverty. One difficulty with this approach is that some households may lack necessities but be consuming some non-necessities. How should such cases be classified? The major problem, however, with the use of consumption levels as indicators of poverty is a very pragmatic one. Should we measure consumption by volume or expenditure. The latter is easier to do but using it does not tell us if consumption levels are adequate.² Even if we use a volume approach, it does not tell us whether the quality is appropriate. A detailed examination of consumption (quantities and qualities) would, in general, be prohibitively expensive, and therefore, this approach is not widely regarded as a practical one.

Overwhelmingly, income is used as a proxy indicator of the level of well-being in poverty studies. An income cut-off below which a household is judged to be poor is determined and is referred to as a poverty line. Society is then divided in two groups—those with incomes below the line (the poor) and those whose incomes takes them above the line (the non-poor). The problem is that income and standard of living may be quite different even for those with very low incomes. In-kind income, wealth, do-it-yourself activities and thrifty practices are not easily accounted for when income is used as an indicator of well-being. The consumption approach, reflecting what people actually have, is better able to account for these things and represent living standards despite

2 For example, an expenditure of \$500 on clothing does not distinguish between the purchase of a \$500 leather coat or a range of items (pants, shorts, socks, underwear, shoes) for a family.

its other disadvantages. Ultimately, the major advantage of the income approach is the great volume of information that we have about income and income distributions. While income is acknowledged as an imperfect indicator of well-being for individual cases,³ in aggregate it is a reasonably good proxy for the consumption choices available to households.

Accounting Period

Once the decision to use income as an indicator has been made, the issue of the appropriate accounting period immediately arises. Does insufficient income over a period of one month constitute poverty? Six months? One year? Several years? In her excellent survey article, Sawhill (1988) points out that "... estimates of poverty are extremely sensitive to accounting periods. Far more people experience short periods of temporary poverty than are consistently poor over longer periods of time."⁴ Therefore, poverty rates using short accounting periods, such as one month, will be much higher and more volatile than rates for longer periods.

The difficulty with accounting periods of less than one year is that well-off people with temporary cash flow problems might be counted as poor. In addition, many thousands of seasonal workers might be counted as poor or well-off depending on when the income survey was taken. Fewer such problems arise with an annual accounting period. On the other hand, very few households are permanently poor, thus a lifetime accounting period, so important in the study of inequality, is of little practical value in examining the problem of poverty. Without suggesting that it is ideal, the one year period is a reasonable duration over which to measure poverty. The issue, of course, is (at the present time) academic because data on personal incomes is only available on an annual basis.

3 See Sawhill (1988), p. 1077-78.

4 Ibid, p. 1080-81.

Poverty lines: direct and indirect methods

Poverty lines can be determined directly or indirectly. The direct approach, also referred to as a budget standard, develops a list of needs (given a particular operational definition), costs the list for families of various sizes (and sometimes for different regions) and sets the poverty line equal to the cost of the list. The indirect method of developing poverty lines typically uses some device or equation to calculate lines without direct or implied reference to actual costs of a list of needs.

A common misconception regarding the use of budget standards to establish poverty lines is that the resulting lines will necessarily be "absolute," that is, at the level of subsistence or bare necessities. This view, perhaps developed as a result of the early association of absolute approaches with budget standards⁵ and the apparent use of budget standards to establish social assistance benefits, is nevertheless incorrect. Budget standards are quite capable of incorporating as many needs, social as well as physical, as one might wish. A good example of this is the Metropolitan Toronto Social Planning Council's Guides for Family Budgeting. Besides basic physical needs such as housing, food, clothing, personal care and household furnishings and maintenance, the Council includes a variety of contemporary social amenities such as sports, recreation, social outings, alcohol, tobacco and a vacation.⁶ The point is that budget standards use a direct, "cost" approach to establishment of poverty lines, regardless of how poverty is defined.

"Consensual" approaches to determining poverty lines represent a relatively new category of direct methods. These approaches typically involve the use of public opinion surveys (ie. Gallup poll) to determine what families need to "get along" in the community. The average of

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- 5 For example, Rowntree's 1899 definition of primary poverty is a budget based subsistence measure. See S. Rowntree, *Poverty: A Study of Town Life*, 1901.
 - 6 The Montreal Diet Dispensary's "Budget Guidelines for Basic Needs" is another, albeit more frugal, example of a budget standard yet "relative" approach to setting poverty lines.

survey responses, adjusted for family size, is used as a poverty line. Advocates of consensual approaches such as Rainwater (1974), Leyden school researchers Goedhart et al. (1977) and Hagenaars (1986), Piachaud (1987), Veit-Wilson (1988) and Walker (1988) argue that the choice of a poverty line is a social choice. Essential needs are socially derived and it is society that should decide what level below which people are poor. Supporters argue that this "democratic" approach to determination of poverty lines is intrinsically preferable to selections made by one or more "experts."

In Canada, Gallup has been conducting annual in-home surveys asking the question, "Generally speaking, what do you think is the least amount of money a family of four—husband, wife and two children—needs each week to get along?" In 1988, the mean response to this question was \$452 per week or \$23,504 for the year.

The use of Gallup or other similar survey results as poverty lines cannot be taken seriously. What kind of wisdom are we getting from people who are asked, on-the-spot, to determine the amount of money *on a weekly basis* that a family of four needs to "get along"? Does the typical person even have an accurate idea of what they themselves spend in an average week? Might their answers be different if they had a day or two to reflect on the question? And how does the average person interpret the words "get along"? In the minds of on-the-spot interviewees, does it mean "acquire basic necessities of life" or is it more likely to mean "achieve some measure of comfortable living"? If it is the latter, might respondents not be roughly estimating what they wish for the "poor" rather than what it means to be living "in poverty."

Public opinion polls are, at best, of only peripheral interest in a serious analysis of economic problems. For example, a recent Gallup poll⁷ reported that 71 percent of Canadians believe that Quebec would suffer economically if the province separates from Canada. While these poll results have obvious political uses, they are of no economic value. I don't know of a serious economist who would even include this result in an article or book analyzing the economic costs of separation.

7 *Toronto Star*, January 28, 1991.

Both CCSD and Statistics Canada employ an indirect approach to the determination of poverty lines. The CCSD line is essentially set at one-half the average income. Statistics Canada's Low Income Cut-Offs (LICO)—about which much more will be said in Chapter 3—are determined by finding the income level at which a family must spend 58.5 percent of its income on the three basic necessities: food, shelter and clothing. Both of these approaches are indirect in the sense that they are not connected to the costs of a list of necessities. Both employ a relative definition of poverty, the CCSD by tying its poverty lines firmly to average incomes and StatsCan by linking its lines to average expenditures.

Special mention needs to be made of the U.S. official poverty line, the so called "Orshansky method." Developed by statistician Mollie Orshansky in 1965, it was decided that anyone who had to spend more than a third of their budget on food would be poor. Thus, current U.S. poverty lines are set by calculating the cost of an "economy" nutritious diet and multiplying by three. The multiplier is larger for singles and couples and somewhat smaller for farm families reflecting the availability of home-grown food. The Orshansky method is predominantly an indirect approach to the setting of poverty lines. The cost of one necessity (food) is directly calculated; however, the overall poverty line is indirectly determined as a multiple of the necessary cost of food. The resulting lines appear to measure 'absolute' poverty, although it is not clear if this was intended. Because of the relative decline in the cost of food (i.e., relative to other necessities), the living standard of those at the poverty line has similarly diminished. Families will find it much more difficult to live on three times the cost of food now than they did during the 1960s. As Robert Haveman puts it,

The economy food budget on which the thresholds are based came from a study that was out of date by the time the lines became official and given large changes in tastes, food purchase options, and income over the intervening period, that basis is unrealistic today. The one-third-of-income-for-food rule on which the multipliers are based may be relevant for some families but clearly not for a large number of family sizes and

structures. Far more adequate and accurate equivalence scales are available than these crude multipliers.⁸

Critique of relative and absolute approaches

These two approaches to understanding and defining poverty can be distinguished quite simply: poverty as insufficiency versus poverty as inequality. Both approaches have weaknesses which require exposition and discussion. What follows is a critical evaluation of both relative and absolute notions of poverty.

Relative poverty:

Galbraith (1958) has eloquently stated the case for a relative definition of poverty:

People are poverty-stricken when their income, even if adequate for survival, falls markedly behind that of the community. Then they cannot have what the larger community regards as the minimum necessary for decency; and they cannot wholly escape therefore, the judgement of the larger community that they are indecent. They are degraded for, in a literal sense, they live outside the grades or categories which the community regards as acceptable.⁹

Supporters of the relative approach argue that the traditional definition of poverty, tied to "subsistence" is too narrow and too mean spirited. Poverty means having significantly less than others; it means standing out in the community and not being able to enjoy a "normal" living standard. Using this approach, having relatively "low" income qualifies an economic unit as poor even though it may have all of the necessities.

Some advocates would argue that there is a moral component to the justification of relative lines. Every individual has a fundamental right to a "decent" standard of living independent of their production or

8 Haveman (1987), p. 55.

9 Galbraith (1958), p. 323-24.

earnings and this standard is related to though not necessarily equal to the community average. Everyone has a right to share in the benefits and material well-being generated by the use of the resources of society. That share is not mere necessities but is properly linked to what people in general can reasonably expect to have. Whether it is motivated by compassion or entitlement, the relative definition of poverty based on the principle of equity has, without question, become the conventional approach.

British sociologist, Peter Townsend, labels "Victorian" the physical needs approach to the measurement of poverty. He argues that "... we are first and foremost social rather than physical beings"¹⁰ and that social needs are basic to human well-being. Townsend proposes a "deprivation index" which includes social "necessities" such as yearly vacations, having a refrigerator, inviting people to your house, birthday parties for children, etc. as well as basic physical needs as a (relative) measure of poverty.¹¹

In Canada, the quintessential relative poverty line is that developed by the Canadian Council for Social Development (CCSD). They argue that a family of three is "poor" if its income is less than one half the Canadian average for a family that size. Adjustments from this base are used to determine the lines for families of different sizes. While the Townsend and CCSD methodologies are quite different, both are relative approaches to poverty because they are intimately linked to community average incomes or consumption patterns.

The widespread acceptance of the relative approach to defining and measuring poverty is a major coup for the social welfare lobby. They have managed to persuade the media as well as many academics and politicians that poverty is properly defined as inequality. While objectors have been somewhat slow off the mark, there have emerged in recent years a number of very powerful and compelling criticisms of the relative approach.

10 *New York Times*, April 11, 1982.

11 See Townsend (1979) and Townsend (1987).

Poverty means insufficiency

The understanding that most people retain of the term poverty, in spite of efforts to redefine it, is the traditional one. Poverty means a genuine deprivation of life's basic necessities. It means that people cannot obtain a nutritious diet, warm, dry and safe housing, clean clothing appropriate to climate, sufficient personal hygiene items and health care. The absence of one or more of these "necessities" compromises long term physical well-being. Most people, including some members of the social welfare community, hold this "necessities" notion of poverty. For example, well known Canadian feminist and social activist, Rosemary Brown, has stated "Poverty is, quite simply, not having enough money to meet the basic necessities of life."¹² Defining poverty in this way permits us to determine how many in our society lack those basic necessities. By including as "poor" those who are merely "relatively less well off," we do a great disservice to the genuinely deprived.

The threshold argument

The relativists' claim that social needs are as important as physical needs is simply not credible. Maslow's (1954) research on human needs and his "hierarchy" of importance emphasizes the priority of physical requirements. This does not suggest that all physical needs are equally important nor does it mean that some people will not select some "non-necessity" before acquiring *all* basic necessities. It does imply, however, that in general we can expect that there is a "behaviour threshold" which is passed as we move from the satisfaction of physical needs to that of social needs. It is likely that behaviour patterns are driven to a much greater extent by anxiety and desperation when people lack physical necessities. To the extent that this threshold exists, the necessities approach is the appropriate mechanism for detecting this 'natural' cut-off.

12 This was Brown's first sentence as narrator of the 1987 NFB film on the feminization of poverty "No Way Not Me."

What are social needs anyway?

While it is possible to achieve some general consensus as to what basic physical needs are, no such agreement is likely in the case of social needs. Indeed it can be argued that there really are no social "needs" but rather only social "wants" or "desires." The social amenities that people choose are the result of a variety of motivations tied in with self esteem, peer pressure, culture, religion, conscience, etc. To suggest that a given list of items could adequately represent the social needs and wants of all (or even most) human beings is more than a little presumptuous. Are people socially deprived if they reject much of the junk that our economy produces. What if they prefer walks in the park to a night out on the town? What if they prefer good books (borrowed free from any public library) and intelligent conversation to TV and movies? What if parents reject the tons of plastic toys that companies like to foist on our children and choose for them instead healthier and more environmentally friendly recreation? Is this social deprivation?

Critics of relative notions of poverty do not accept that the absence of social amenities constitutes poverty. Not having alcohol, tobacco, a one week holiday at a cottage and costly recreation does not make one poor. The single mother struggling to find an affordable apartment or trying to plan healthy nourishing diets for her children might scoff at the suggestion that absence of such amenities means poverty. The fact is that, over the years, many lower-middle income households have foregone such social amenities until their finances improved.

Defenders of the idea that social as well as physical deprivation should be part of the definition of poverty might argue that the actual list of amenities is less important than having income above that needed for physical needs. Poverty means a lack of choice about what one can acquire. Therefore, poverty lines should include a "buffer zone" above basic needs, permitting the acquisition of the non-necessities of the household's choice. Critics of the relative approach are not likely to object to a social deprivation index or a social "comfort" line which would explicitly or implicitly take account of social "needs." They would insist however that these concepts not be called poverty lines.

What we want for the poor

The fundamental problem with the relative approach is that it fails to distinguish the technical question: How many people cannot afford the basic necessities of life? from the political question: What do we want the poor to have? Relativists are either oblivious to the distinction or else reject that such a distinction exists.¹³ Absolutists are correct however in insisting that poverty can and should be measured as an interesting and important demographic fact quite independently of policy. The level of public assistance to the poor is a separate question entirely. It is not at all inconsistent to use a necessities approach to defining poverty yet argue strongly that policies should be developed enabling the poor to raise their incomes well above the poverty line.

Economic growth versus income redistribution

A frequently cited weakness of relativism is that economic growth, by itself, does nothing to alleviate poverty. For example, if over time, real incomes double across the board with no change in the distribution of income or population, according to the relative approach there will be absolutely no reduction in poverty. This is, of course, absurd. There will have been many individuals and families who, before growth could not obtain the basic necessities but after growth could not only cover all the necessities but some non-necessities as well.¹⁴ No matter! They are still classified as poor because they are relatively less well off than others and this will never change no matter how well off in absolute terms they

13 For example, see Piachaud (1987), p. 161.

14 That economic growth lifts low income families out of poverty is supported empirically despite the use of flawed definitions. In America, Gottschalk and Danziger (1985) found that economic growth was about as important as increased transfers in reducing poverty. In Canada, Perron and Vaillancourt (1989), using the same econometric approach as Gottschalk and Danziger and the LICO (relative but badly flawed) definition of poverty, found that economic growth was the dominant consideration in reducing poverty during the 1970s and early 1980s.

become. Poverty then, can only be reduced by redistributing incomes and output and not by producing more. The fairy tale world of relativism reaches its zenith if we imagine a stagnant economy with a redistributionist government. Everyone lacks the basic necessities but no one is poor. Stein Ringen (1988) puts it succinctly:

Measured poverty will be the same in two societies with the same distribution of income even if the level of income is twice as high in one as in the other. No poverty will be recorded in a society where all are equally poor. If a dictator overnight chops off the heads of the richest 10 percent, there will automatically be less poverty.¹⁵

But massive redistribution of income does not ensure the elimination of poverty using the relative approach. Even if every individual and family had exactly the same lifetime income (weak egalitarianism), as much as 20 percent of the population will still be classified as poor as will be shown in the Appendix. Thus, not only does an improved real standard of living fail to lift people out of poverty, but neither does an egalitarian system—the dream of many relativists. To use the relative approach for the measurement of poverty is to guarantee the biblical prophecy that the poor will always be with us.

International comparability

An important test of the usefulness of a definition is its universality. If the same concept is used in a variety of situations, it must mean the same thing in each case. For example, the definition of the term “output per capita” is universal. It means the same thing in Japan and Bangladesh as it does in Canada. It doesn’t matter that output per capita is greater in one country than another. The technical definition is the same. On these grounds a relative definition of poverty would not be useful. Imagine a location where the vast majority of the population are living at bare subsistence and therefore average income is only slightly above this level. The CCSD relative approach would classify no one as poor

15 Ringen (1988), p. 359.

when, in fact, almost everyone is poor. As Power (1985) points out "nobody could live at half the average income in poor countries."¹⁶

Some relativists contend that poverty in underdeveloped countries cannot be compared to poverty in the developed world. The "mass" poverty of India and Somalia has different characteristics and different causes than the "individual" poverty in North America and Europe. Therefore, poverty should be defined differently in each case. This argument must be challenged. People living in poverty suffer wherever they are located. Is a Canadian family that is unable to obtain the basic necessities such that their long term physical well-being is compromised less miserable than an Indian family in the same circumstance? There well may be proportionately more families in India without basic necessities. This does not justify changing the definition of the problem. Indeed the very fact that poverty exists everywhere makes it crucial that there be a universal definition. International comparisons of socioeconomic problems are interesting and useful to a variety of academics, institutions and policy makers but are impossible unless we use the same standard.

Vested interests

It is possible to view the development and promotion of relative poverty lines quite cynically. By the mid-1960s, the social welfare lobby—a loose knit fraternity of social activists, social workers, academics, bureaucrats and politicians had begun to take shape as a significant force in Canadian politics. It is not surprising that they embraced the issue of poverty and made it their own. After all, most of them made a rather handsome living off the poor. The problem was that impressive economic growth in the post-war period was significantly reducing the number of people who were unable to obtain the basic necessities. Poverty, as it had traditionally been understood, was quickly disappearing putting at risk the comfortable livelihoods of many in the poverty "business." They reacted in much the same way as troubled corporations. They did what they could to increase the demand for their product. Specifically, they

16 Power (1985), p. 38.

redefined poverty as inequality and in doing so were able to demonstrate that the number of poor were, if anything, increasing. It was a brilliant manoeuvre and one that went largely unchallenged. It was a straightforward functional response to the threat of extinction. It was not compassion but old fashioned self interest at work.

Relative poverty lines satisfied another unrelated aim of many social activists. Now poverty could only be alleviated if there were a more equal distribution of income. While a socialist policy of redistribution may have been difficult to sell, the same end could be accomplished with a more acceptable "anti-poverty" policy. Graham Riches (1986) points out that if you believe "that poverty is generated by structural inequalities built into the fabric of capitalist society, you will favour a relative deprivation approach."¹⁷

Poverty versus inequality

Critics can argue, successfully I believe, that relative definitions don't really tell us about poverty but rather about inequality. The two are not the same. While there is unquestionably overlap, each has a separate place on the roster of important socioeconomic concepts. Poverty is trivialized if it is equated with inequality. The use of the relative approach may serve other goals but it does not help the poor nor does it contribute to our understanding of poverty. As Donnison (1988) has stated, "... to ask your readers to believe that any evidence of inequality is proof of poverty—as too many authors have done—is a lazy and dishonest procedure. It is arguable that inequality is a bad thing and that it should be reduced; but the argument should be advanced frankly, not concealed within a case for abolishing poverty without demonstrating the link between them."¹⁸

17 Riches (1986), p. 82.

18 Donnison (1988), p. 367.

Absolute Poverty:

The notion that poverty is properly defined as the lack of *all* basic physical necessities has much to commend it. It does correspond more closely to the traditional understanding of the term. It does lend itself to a constant standard by which progress can be measured. It permits us to determine an interesting and important demographic fact quite independently of the issue of what we will do about it. In spite of these and other advantages, there are a number of difficulties with this approach.

The term "absolute" implies a rock bottom level of subsistence and this impression is emphasized by its critics. As Ross (1989), in his rejection of the notion of absolute poverty, states,

The strictest application of this approach would result in a standard of living sufficient only to keep the human body together. [It] would stipulate a budget whose components were food provided by a charitable shelter or food bank, shelter provided by a community hostel, second-hand clothing, and access to basic remedial health care. The poverty line implied by such a budget would be very low; an annual income of \$2,000 per person would probably cover it.¹⁹

In comparison to this version, any other approach, even one which is badly flawed, would be infinitely preferable. The straw man that Ross sets up by no means does justice to the absolute approach. Nevertheless, the "frugal" and "inhumane" tag is difficult to shake.

Perhaps more to the point is the concern by many in the social welfare community that governments will use poverty lines derived using the "necessities" approach to justify low rates of social assistance. Governments may, as well, reduce efforts to eliminate poverty if, according to the necessities approach, the problem is not that severe. Defenders of the absolute approach would argue that we cannot concoct non-credible and inflated poverty lines just because we want more for the poor. First and foremost, we must tell the truth about poverty. We must determine, as a priority, the number in our society who cannot

¹⁹ Ross and Shillington (1989), p. 3.

afford the basic physical necessities. The policy issue of what to do is quite separate and to confuse the two is not appropriate.

Another problem has to do with arbitrariness. Every operational definition of poverty, absolute or relative, must make some arbitrary assumptions. With the absolute approach and the use of a budget standard measure, the list of basic necessities will involve some degree of subjective judgement. This is inescapable regardless of the likelihood of a broad consensus on what physical necessities are. It doesn't matter whether the list is devised by the researcher, by an expert panel or by social consensus (i.e., Gallup poll), the arbitrariness remains.

Finally, there is some doubt as to whether the necessities approach can be used for international comparisons. Is it possible to devise a simple list that will be universally applicable? To use an obvious example, a private, indoor flush toilet is regarded as a basic necessity in Canada but perhaps not in Somalia. Similarly with facilities such as telephones, transportation and even some articles of clothing. What about the problem of the quality of each item, something a simple list cannot address?

There have been few attempts to operationalize the necessities approach and no effort, as far as I am aware, to measure the incidence of poverty using this approach. This is undoubtedly due in part to a reluctance of supporters of the approach to become immersed in what would be a controversial debate. It is due, perhaps to a greater extent, to the absence of any reliable methodology.

Chapter 3

Low Income Cut-Offs—LICO

STATISTICS CANADA PROVIDES CANADIANS WITH the closest thing to an official poverty line. Virtually all poverty researchers, journalists and anti-poverty organizations use the Statistics Canada Low Income Cut-Offs (LICO) as if it were "the" poverty line. Indeed the National Council of Welfare, the federal government's advisory body on poverty and social policy and purveyor of widely distributed annual reports on poverty in Canada, uses the terms "poverty line" and "low income line" interchangeably. However, in spite of the almost universal acceptance of LICO as the poverty line, Statistics Canada is less than enthusiastic about its use as such. "Although Statistics Canada's low income cut-offs are commonly referred to as official poverty lines, they have no officially recognized status nor does Statistics Canada promote their use as poverty lines."¹ For good reason!

1 Statistics Canada Low Income Cut-offs, Household Surveys Division, January 1987, p. 1.

The use of LICO as poverty lines, official or unofficial, is fraught with numerous hazards. However, before discussing the inadequacies of LICO, it is essential first to outline in detail its methodology.

LICO methodology

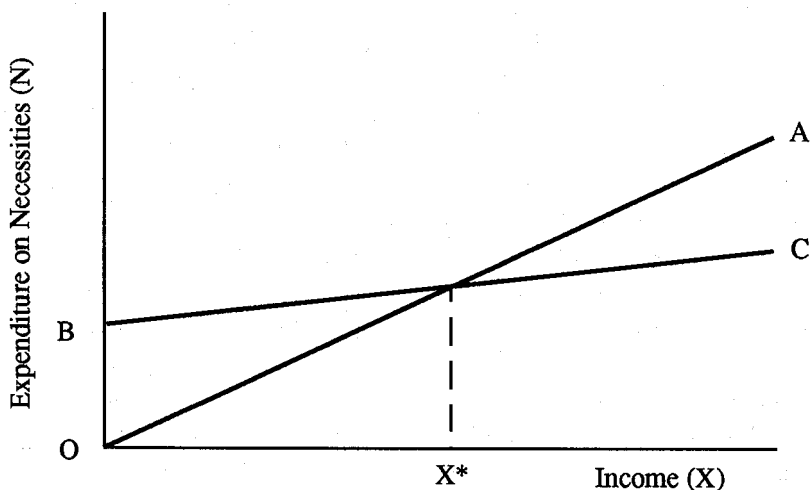
The construction of LICO is a multi-stage process. It begins with information on how much families in Canada actually spend on the three necessities—food, shelter and clothing. This information is obtained from the Family Expenditure Survey conducted every four years by Statistics Canada and published as *Family Expenditure in Canada* (FAMEX). Recent LICO lines continue to use the 1978 FAMEX data which reveals that the average family spent 38.5 percent of its gross (before tax) income on the three necessities. Statistics Canada then makes the judgement that any family that had to spend at least 20 percent more than this value (i.e., 58.5 percent) on the necessities would be in “straightened circumstances” or be “low income.”

Finally, in order to translate the 58.5 percent line into a numerical LICO, the relationship between spending on the necessities (food, shelter and clothing) and gross income is required. Using regression analysis on raw FAMEX data, a sort of “necessities” consumption function is estimated. The regression, in log-linear form, includes family size and degree of urbanization “dummies.” These are expected to be and were found to be statistically significant influences on necessary expenditures. Not surprising to anyone with even passing familiarity with consumption functions, the results indicate that spending on necessities varies directly but not proportionally with income. Simply put, for a given family size and degree of urbanization, family spending on necessities rises as income rises but not as fast. This means that the ratio of expenditure on necessities to income declines as income rises. This evidence confirms intuitive understanding of expenditure behavior. Now, once family size and degree of urbanization have been specified, we have a line relating expenditures on necessities and income and we simply have to find the place on the line where expenditures on necessities are .585 of income. The corresponding income level is the LICO for the base year (currently 1978). LICO are updated annually using the previous year’s CPI.

Illustration

A numerical illustration is useful in providing a better understanding of the LICO methodology. There are two equations used in the determination of LICO. The first equation can be referred to as the *low income line* because it represents Statistics Canada's judgement as to the proportion of spending on necessities that constitutes "low income." As we have seen, the currently used proportionality is .585. The second equation is simply the "*necessities consumption function*" which is estimated using regression analysis. It gives us the relationship between expenditures on necessities (food, shelter and clothing) and income, family size, and size of community. To simplify the illustration, let us focus our attention on a family of four in an "average" sized community in Canada (population between 30,000 and 99,000). Given this information, our second equation reduces to a relationship between expenditure on necessities and gross family income. The slope coefficient of this equation, the marginal propensity to consume necessities, is incorpo-

Figure 3-1
How LICO lines are determined



rated in the income elasticity of necessities, denoted ϵ . Close examination of both the 1978 and 1986 FAMEX surveys reveal that ϵ lies somewhere between .6 and .8. While it is impossible to be precise using "average-of-range" data, it does appear that ϵ has declined somewhat between 1978 and 1986. For convenience, this illustration will assume that $\epsilon = .65$. This value is within the estimated range and results in a slope coefficient of .25. Therefore, the LICO equations for 1978 would be:

$$(1) \quad N = (.385 + .2)X$$

$$(2) \quad N = 3599 + .25X$$

Where N = expenditure on Necessities
(food, shelter, and clothing)

and X = Gross Family Income

The solution to this simple system of equations ($X = \$10,750$) gives us LICO for a family of four in an average sized community in Canada in 1978. Using data on the distribution of income, it is relatively easy to determine the number of families (in this particular category) that fall below LICO and thereby derive the "incidence of low income." LICOs are determined in this manner for seven different family sizes and five different population categories each year.

LICO lines are inflation adjusted each year according to the rate of growth of the C.P.I. Formally, this involves increasing the intercept term by the inflation rate. In this manner, future poverty lines can be estimated using "expected" inflation rates. As long as there is no real economic growth, "updated" LICO lines keep pace with rising incomes. However, to the extent that living standards improve, i.e., real incomes increase, inflation-adjusted LICO falls behind rising incomes. In this case LICO loses some of its "relativity" unless it is rebased. Rebasings LICO involves a change in equation (1) to reflect the fact that, as living standards increase, the average family spends a smaller portion of its income on necessities. It may also involve changes in equation (2) because the "necessities consumption function" must be re-estimated. The end result of rebasing is higher LICO lines reflecting higher average living standards.

Figure 3-1 can be used to demonstrate the essential features of the LICO methodology. Line 0A corresponds to equation (1) and represents

the N/X ratio that, in the judgment of Statistics Canada, qualifies a household as "low income." In 1978 that line had a slope of .585. The line BC (equation 2) is the "necessities consumption function" or the estimated relationship between expenditures on necessities and income in the base year. The intersection of OA and BC determines the low income cut-off. This occurs at X^* and is referred to by most users as the "poverty line."²

Annual inflation adjustments can be shown as increases in the consumption function intercept, point B. Line BC shifts up parallel cutting OA further to the right and results in an increase in X^* . If, over a period of time, the economy experienced 20 percent inflation but no real income growth, LICO would increase by that same 20 percent. If, however, we experienced a 20 percent improvement in average living standards and no inflation, then, in the absence of rebasing, LICO would not change. It would therefore fall behind in relative terms. What has happened in this case is that, because of real income growth, the typical family is not spending as great a proportion of their income on necessities as they used to. This means that "true" OA is now flatter. Only if LICO is rebased to reflect the new ratio will X^* rise and recover ground lost to real growth.

This, of course, presents a problem for relativists. As Gunderson (1981) states "In essence, at least some of the fall in the incidence of poverty associated with the revised [Statistics Canada] poverty line occurs because the revised poverty line grows slower than does average income; hence proportionately fewer people fall below that poverty line."³

Another (and far more obvious) problem with LICO is the arbitrary 20 percent "rule." Why is it that families spending 20 percent more than the average proportion on necessities are regarded as low income? Why not use 15 percent, or 25 percent or any other value? Wolfson and Evans (1990) explain that the originator of LICO, Podoluk (1967), concluded

2 Of course, there is a separate equation (2) and therefore a distinct X^* for each of seven different family sizes and five different sizes of areas of residence.

3 Gunderson (1983), p. 59.

that a family which spent more than 70 percent of its income on food, clothing and shelter "were in 'straightened circumstances' relative to the rest of the population."⁴ This percentage was 20 percent higher than the Canadian average. While Statistics Canada has decided to maintain the 20 percent parameter for consistency, they do acknowledge that it is entirely arbitrary.

Had Statistics Canada chosen to define a "poverty line," the arbitrary 20 percent add-on would have never been acceptable to serious researchers. However, the concept they selected was "low income cut-off" and an arbitrary judgment (the 20 percent rule) is less likely to be challenged. This term is conveniently ambiguous and does not contain the heavy emotional overtones of the former concept. The problem is that the low income cut-offs are widely interpreted as "poverty lines." In spite of their caveat, Statistics Canada may well have intended this. They have certainly acquiesced in this use of LICO over the past decade. Indeed the only practical use of LICO is as a poverty line. What else could it be used for? The credibility of the LICO values will obviously depend on people's perception of poverty. To the extent that poverty means relatively less well off than average, LICO will have its adherents. On the other hand, if being poor implies the inability to afford the basic necessities of life then LICO will not be a believable poverty line.

It is impossible to rule out a political motivation in the selection of 20 percent. By using that value in the construction of LICO, Statistics Canada calculates that about 15 percent of the population are low income or poor.⁵ If they had constructed LICO using a 25 percent or greater "add-on" there would have been only 10-12 percent defined as poor and this would clearly not have been acceptable to the social welfare lobby. On the other hand, the use of 15 percent (or less) "add-on" would have resulted in substantially more than 22 percent classified as poor, and that would have been very difficult to sell to the government and ultimately to the taxpayers who could expect to pay the cost of the

4 Wolfson and Evans (1990), p. 12.

5 on average, during the 1980s.

alleviation of such distress. A value around 20 percent may well have been viewed as a politically acceptable compromise.

At first glance, there is a tendency to regard LICO as a composite of *both* absolute and relative definitions of poverty. The reference to expenditure on necessities gives the appearance, albeit superficially, that it is measuring subsistence. However, the close connection to average spending patterns and the proximity of LICO values to such obvious "relative" poverty lines as that constructed by the CCSD give LICO the appearance of having a strong "relative" component. The indirect nature of the construction of LICO explain, to some extent, the confusion and superficiality regarding its classification.

An absolute definition involves the development of a list of basic necessities and the costing of that list. LICO does not do this, not even obliquely. The dollar values for LICO calculated by Statistics Canada are derived from the proportion that an *average* family spends on food, clothing and shelter, not the *amount* that an average family needs to cover a (wider) list of necessities. Does this indirect connection to average spending patterns make LICO a relative measure of poverty? It would be fair to say that LICO is a relative measure but not a very good one.

As has already been mentioned, annually updated LICO lines, using the CPI, fall behind *relatively* to the extent that real living standards improve. There are problems, however, even if LICO is frequently rebased. LICO is defined as that level of income at which a household spends $\alpha + .2$ of their income on necessities, where α is the ratio of necessities to income for the average household. As average real income rises, we move rightward along the necessities consumption function and α declines. The decrease in α pivots line OA downward leading to a higher "poverty line." This process gives LICO its relativity. However, as long as necessities are income inelastic, incomes rise faster than α declines. This means that rebased LICO falls as a proportion of income. For example, forecasts using equations (1) and (2) show that a doubling of average real income from current levels and rebasing LICO annually will reduce the LICO to average income ratio by 68 percent. Long before that happens, LICO will have been abandoned by relativists. LICO is clearly in trouble. The decline in α has in fact slowed over the years. It was .50 in 1959, .42 in 1969, .385 in 1978, and .362 in 1986.

Given its existing methodology, LICO will not keep pace with rising living standards. In 1980, LICO as a proportion of average income for a family of four⁶ was .47. By 1988 that proportion had declined to .39. However, even if LICO had been rebased using the 1986 FAMEX data, the LICO to average income ratio would have still fallen to .425.

This analysis is predicated on the assumption that the necessities consumption function remains fairly stable. It could change however, if there is a fundamental variation in people's behavior regarding necessities. Most favorable for LICO would be a systematic increase in the marginal propensity to consume necessities. This change would work to offset the slowdown in the decline of α and result in a faster rising LICO. Visually, this amounts to a counter-clockwise pivoting of BC in Figure 3-1. This combined with the downward pivoting of OA due to the decline in α produces large increases in X^* . Such a rise in the necessities propensity could be the result of a significant change toward environmentally friendly production processes. Families could be forced to spend a much greater proportion of income on basic necessities because of the sharp rise in costs of non-polluting production. This possibility combined with the recent trend toward "cocooning" (families spending more time and money in their homes) may rescue LICO. On the other hand, technological improvements may permit a continuation of the long-term decline in the real cost of necessities. This would allow the necessities propensity to stabilize or even fall. It would be dangerous to bet against technology.

These and other difficulties have prompted Statistics Canada to undertake a review of LICO. In a recent discussion paper, Wolfson and Evans (1990) rather thoroughly outline the problems with LICO and suggest a number of possible options including scrapping LICO and starting over. Some of its disadvantages, such as the inability to account for such considerations as subsidized shelter and mortgage-free home ownership; in kind benefits and services; wealth; and underreporting of income—all of which tend to overstate the incidence of "low income"—are, of course, common to all poverty lines. A number of criticisms, including the arbitrary 20 percent parameter, are unique to

6 in an average sized community.

LICO. Most compelling of these has to do with its interpretation, an issue the authors skirt around rather than deal with head on. The fact is that a “low income” line is essentially meaningless unless it is understood as a poverty line. But “Statistics Canada repeatedly insists that the LICOs are *not* poverty lines”⁷ [my emphasis]. Then what exactly are they? Is someone living at the LICO level better off or worse off than someone living at the poverty level? This ambiguity results, predictably, in varied interpretations. Some users regard LICO lines as bare survival levels while others see them as “comfort lines” consistent with a modest array of social amenities.

The authors correctly point out that the complexity of LICO methodology contributes to the difficulties with interpretation. I think it is fair to say that most users do not fully understand how LICO lines are constructed. Their use of LICO as poverty lines is based on their confidence in the reputation of Statistics Canada and not on their own critical evaluation of the worth of LICO. Recognizing this, the agency argues that a simpler, and easy-to-understand methodology would be desirable. Indeed it would.

While readily admitting that LICO methodology is flawed in a number of ways, the authors come to a rather extraordinary conclusion. “However, the current figures relating to the incidence of low income are generally well accepted. Thus, it is worthwhile considering alternative methods which would produce results similar to the existing LICOs in terms of dollar levels for the LIL’s (low income lines) and the overall incidence of low income for a recent year, while avoiding to the extent possible the deficiencies of the current method.”⁸ In other words, Statistics Canada is claiming that they have the cut-offs about right and the proportion of “low income” Canadians about right, now all they need is a better methodology capable of generating those values. It is hard to believe that this highly respected institution would even consider such an approach. It seems to me that the correct, scientific method would be to start with a clear and precisely defined concept, followed by a

7 Wolfson and Evans (1990), p. 1.

8 Ibid, p. 43.

carefully explained and justifiable methodology for measurement and then finally, actual measurement, letting the chips fall where they may. By starting with the “right” answer and working backwards to find a way of getting there, Statistics Canada would be rejecting scientific methodology. Is their goal to deliver “acceptable” values or the truth?

The claim by Statistics Canada that it does not promote LICO as poverty lines is not convincing. Virtually every individual and group studying poverty in Canada uses LICO as the “official” poverty line. In spite of their disclaimer, the agency has consistently acquiesced in the use of LICO as a poverty line. It must be judged as such. In my view, LICO is neither a useful nor a credible tool for measuring poverty. It is based on an entirely arbitrary assumption that anyone spending 20 percent more than average on food, shelter and clothing is “poor.” It does not relate in any way to the cost of living facing the poor. It uses, indirectly, a relative approach but one which is badly flawed. There is no question that it has already fallen behind compared to average living standards and, under the most likely assumptions for the future, LICO stands to lose ground even faster. I can’t imagine why anyone who favours a relative approach to the measurement of poverty would prefer LICO to a simple, elegant and clearly relative measure such as that used by the CCSD. LICO’s complex methodology gives it a mystique and credibility that is entirely undeserved. The fact is that the use of sophisticated statistical analysis is wasted on such an ambiguous and ultimately meaningless concept, “low income.” It is hard to understand why Statistics Canada would cling to so flawed and inadequate a measure of something so important.

For almost a century, Statistics Canada (and its forerunner, the Dominion Bureau of Statistics) have been in the business of telling Canadians about themselves. They have developed a well earned reputation for technical skill and integrity in their selection, analysis and presentation of information about this country and its people. Regrettably, Statistics Canada has not yet developed a way to tell us about our poor. It seems unbelievable that at this point in our history we simply do not know how many among us are unable to acquire all the basic necessities of life. We have a mountain of information of far less interest and importance.

My advice to Statistics Canada would be to develop a genuine poverty line, one which is related to the cost of a list of basic necessities. Everyone recognizes that it would be impossible to obtain universal agreement on a list of necessities. Without question, what is considered essential is relative to a particular time and place. Therefore, my preference would be to limit the list to physical necessities, have a panel of experts make judgements or compromises where disagreements cannot be resolved through discussion and then keep the list fixed. The measurement of poverty requires a unambiguously constant standard to permit valid intertemporal comparisons. Canadians deserve to know how many people in this country have resources insufficient to acquire *all* the necessities of life. We should know many other things as well, but we should at least know this.

A “necessities-style” poverty line would be far less complex, far less arbitrary and because it would be based on a definition which directly describes a state of impoverishment (the absence of any physical necessity) far more credible than the existing approach. I also believe it would be much less expensive to calculate. Indeed, Statistics Canada and other government agencies are already collecting much of the needed data. It should be possible to determine poverty lines and poverty rates back at least as far as the 1970s. With this information we can find out whether (and the extent to which) poverty is decreasing in Canada.

Some will argue that, using this approach, poverty is now or will soon be virtually eliminated and that we need another measure of “well-being” related in some way to improvements in living standards. It may well be desirable for Statistics Canada to produce a companion measure to the poverty line which I might refer to as a “comfort level.” This would involve calculating or estimating the cost of an expanded list of items (necessities as well as non necessities) on a regular basis. While the development of such a list would be far more difficult and involve a greater degree of subjective judgement, on balance it is likely to be worthwhile. It is both interesting and useful for Canadians to know how many of us are unable to attain a satisfactory level of comfort as judged by a panel of experts. However, such a measure cannot be a substitute for the poverty line. The determination of the number of people living “in poverty” should be the first priority.

Chapter 4

An Alternative Approach

THE RELATIVE APPROACH TO DEFINING and measuring poverty is an illegitimate way of looking at this important social and economic problem. Relative poverty lines are simply not believable because they are not related to most people's understanding of what it means to be poor. By including social amenities, explicitly or otherwise, the relative approach effectively redefines poverty as inequality. This is not appropriate. Poverty is a strong and uncomplimentary term. It does not mean, nor has it ever meant, "comparatively less well-off." If poverty is to mean anything and if the problem is to be taken seriously, its connection to basic necessities must be restored. We trivialize the hardship and deprivation of those who are struggling to get by when we include those who are substantially better off. Traditionally, a person or family has been regarded as poor if they can, at best, afford just the basic necessities. They are deprived of any amenities or non-necessities that are available in their society. It's precisely the deprivation of amenities that renders them poor.

An alternative approach to defining and measuring poverty based on the cost of providing essential goods and services—the so called "absolute" approach—is a far more reliable and satisfactory way of viewing this important issue. What I propose then is a restoration of the

traditional "necessities" notion of poverty and therefore a brand new way of measuring it.

Critics of the absolute approach have argued that the concept of absolute poverty is too narrow and that there is a "social deprivation" component to poverty that goes beyond the insufficiency of physical necessities. "Absolute poverty lines are too low to ensure that a person can fully participate in society."¹ Supporters respond by arguing that, first and foremost, poverty means physical deprivation. We must have a way of identifying those in our society who lack basic necessities. Even die-hard relativists would, surely, regard this as important information. Supporters of the relative approach are quite entitled to develop social adequacy levels but they should not be confused with poverty lines. Elevating the poverty line does nothing at all for the poor. It may in fact do them great harm as was argued earlier.

The advantages of the absolute approach are threefold: It allows us to identify those who lack basic necessities. This is an important demographic fact independent of its usefulness as a guide to policy. It also makes possible valid intertemporal comparisons of the incidence of poverty within a given society. The relative approach, lacking a constant standard, cannot do this. Finally, the absolute approach potentially permits legitimate international comparisons of poverty incidence. Such comparisons are useful to a wide range of scholars.

It is best to begin with a very simple definition of poverty and leave any adjustments, amendments and exceptions for later. An economic unit is defined as poor if it can, at best, afford only the basic necessities. Income rather than consumption is used as an indicator of poverty. Although income may understate the actual standard of living, as, for example, when a household dissaves, borrows or receives private assistance or when it spends unreported income, data availability constrains us to employ income as our measuring stick.

Now the very difficult question of what constitutes basic necessities must be dealt with. While I believe it is possible to achieve wide agreement on a list of basic necessities, there is simply no question that the choices rely on subjective judgments. It would be a mistake to regard

1 Power (1985), p. 37.

the absolute approach as totally "objective." It is essential therefore that every assumption and judgement be clearly identified and justified.

The first judgement has already been made. Social amenities are excluded from the list of necessities. To include any of them would be inconsistent with our definition of poverty. This is not to deny that social amenities may be relevant in determining psychological well-being and that psychological well-being has an affect on long term physical health. However, there exists no *necessary* relationship between the absence of social amenities (such as alcohol, vacations and tennis lessons) and psychological health. It is not obvious that the social needs of the middle class are less intense than those of low income families. Once basic physical needs have been satisfied, misery and income may no longer be inversely related.

The construction of a "social comfort line" or "social amenities index" might be a way to integrate notions of poverty and social deprivation. I would expect, however, that such a construct would be fraught with theoretical and practical difficulties. Consider, for example, the social activity of gift giving. What level of expenditure on a gift is a social necessity. Some might argue that \$50 is perfectly adequate while others will maintain that you can't get anything "decent" unless you spend several times that. Should the amount allowed for gifts take into account the number of friends and relatives one has? Similar problems are encountered with amenities such as vacation expenditures. The amounts allocated do matter especially if they are used as the basis for rates of social assistance. If the recipient perceives the amounts allowed for social amenities to be insufficient or to be merely token, the allowance may not have the desired effect of improving psychological well-being but rather cause frustration and dissatisfaction.

Rather than develop a specific social amenities list, one might prefer to "add-on" a percentage to the poverty line as a way of avoiding these difficulties. For example, the social comfort level could be set at, say, twice the poverty line. Since social adequacy is about having choices, it is not necessary to specify, even generally, what those choices should be. In spite of the arbitrariness of this approach, it has many advantages over the budget method, not the least of which is simplicity.

The point of this discussion is that social amenities cannot be considered as equivalent to basic physical necessities.² The poverty line should not be an index of inequality. I count myself among those who want much more for the poor than they currently have. Poverty should not have to be redefined to help them get it.

Poverty defined

Poverty can now be defined more precisely. Someone is in a state of poverty if he lacks *any* item required to maintain long term physical well-being. For ablebodied persons, the list would consist of a nutritious diet, shelter, clothing, personal hygiene needs, health care, transportation and telephone. Transportation means any mode required in the process of obtaining other basic necessities. In order to operationalize this definition, we need to specify the "nature" of each of the items. This is where the "relative" aspect of "absolute" poverty is introduced. It is assumed that the type and quality of each item (or sub item) is at least at the minimum acceptable standard within the community in which one resides. For example, if the community norm for shelter is a mud hut, then anyone lacking a mud hut (or better) is poor. In Canada, the shelter norm in most communities is a home or an apartment. If one can, at best, afford only a hostel or a tent, one is poor by that standard alone. Similarly, with food there not only exists minimal nutritional standards but also palatability norms. The usual way of acquiring food in Canadian communities is the selection of a list of healthy, enjoyable foods at

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- 2 Braybrooke (1987), in a fascinating philosophical treatment of needs, has argued "Being essential to living or to functioning normally may be taken as a criterion of being a basic need. Questions about whether needs are genuine, or well-founded, come to the end of the line when the needs have been connected with life or health" (p. 31). He argues that, in principle, people should be able to agree on what he refers to as "course of life" needs and the minimum standard of provision of them. He suggests a two-part list of human needs, the first part involving activities relating to physical functioning and the second part relating to functioning as a social being. While my list of basic needs is at a different level of abstraction than Braybrooke's there is no obvious incompatibility between them. It is likely however that we would part company on the politics of meeting needs.

grocery stores. Anyone whose low income means that they must use food banks, beg for food or can only afford a boring and unappetizing diet is poor. For each and every item, whatever is regarded as the normal minimum acceptable or "decent" is used here. In summary then, the overall list remains constant over time but the type and quality of each item will change to reflect improving community standards.

Does this approach permit valid intertemporal comparisons? I argue that it does. With the exception of a telephone, the list of basic physical needs would be relevant for the Canada of 100 or even 200 years ago. Only the standard of quality of each item will have changed. Homes and rented accommodations now, almost universally, have indoor plumbing, electricity, central heating systems, refrigerators and other labour saving devices and appliances. Nutritional and hygiene standards have improved markedly, accounting in large part for increased longevity. The normal modes of non-human transportation have changed. People had the same physical needs many years ago even if they were satisfied less adequately, as a norm. Since the early post war period, a telephone has become part of the standard facilities in a home, like indoor plumbing, refrigerators and stoves. It has become part of the minimum acceptable standard for shelter just as *private* bath has. What has changed most dramatically over time is the provision of medical care. The little professional care that was available, say around the time of confederation, was almost the exclusive preserve of the wealthy. The "norm" at that time was undoubtedly medical care by family members or relatives in times of emergency. The minimum acceptable standard today is a full range of preventative and emergency care, medicines as well as dental and vision care.

In the future, we expect continued improvements in each area, particularly in the quality of shelter and health care. Even though the standards of acceptability will change over time, the basic list remains constant. Intertemporal comparisons, therefore, are completely valid with the 'necessities' approach. An individual or family that was unable to acquire all of their basic needs 50 or 100 years ago is just as poor as their counterparts today, regardless of the fact that minimum acceptable community standards have improved.

What about international comparisons? Again, the answer is affirmative. The necessities definition permits valid comparisons between

nations.³ Norms of minimum acceptability vary substantially between countries, and sometimes between regions of the same country. With the necessities approach, we compare the same things even though the standards of quality of those things may be different. A person who cannot acquire acceptable shelter in Canada suffers no less than someone in the same situation in Mexico or India in spite of the fact that the shelter he is without contains more facilities. The man in China who cannot afford his daily rice and corn is no more poor than the woman in Canada who cannot acquire a nutritional, balanced and palatable diet. It is true, however, that both the incidence and depth of poverty in less developed countries will generally be much greater than in Canada. The necessities approach, unlike the relative approach, will capture that.

Our understanding of the extent of poverty in Canada is wholly inadequate because of the reliance on relative measures. We must divorce what we want for the poor from the attempt to determine the conditions in which they live. Poverty means that people do not have all of their basic physical needs and only a "necessities" approach is useful or valid in measuring its incidence. As defined here, it is the only way to make legitimate intertemporal and international comparisons.

Chapters 5 and 6 contain the detailed methodology for the determination of the essential costs of living. Chapter 7 pulls essential costs together, establishes poverty lines and estimates the extent of poverty in Canada, province by province. A detailed profile of the poor is the subject of Chapter 8.

3 A standard measuring stick permits valid comparisons. However, a significant barrier remains. The lack of reliable data on incomes, consumption and other indicators of well-being currently prevents almost any valid international comparability. Indeed, Canada is not exempt from this problem. More on our "poor" data in Chapter 11.

Chapter 5

Food

Introduction

NEXT TO HOUSING, FOOD IS likely to be the biggest expense for low income families. It is a fact, however, that food has never been a better bargain than it is today. The proportion of every family's (including low income families) income spent on food has systematically declined during this century.

The purpose of this chapter is to develop a methodology for determining the essential cost of a nutritious diet. Discussion of food is limited to common, nutritious and palatable diets. This is consistent with the principle elucidated in the previous chapter, that is, basic necessities are those required to maintain long-term physical well-being and must be at least at the standard of quality considered minimum acceptable in the community. Before that is done, however, I wish to critically examine prevailing food budget guides.

Practical guides to food budgeting for Canadian families have typically used the "Food Basket" approach. This involves costing on a periodic basis an extensive list of foods designed to meet nutritional

needs. The Montreal Diet Dispensary,¹ the Social Planning Council of Toronto and, more recently, Agriculture Canada (Robbins (1984)), have developed Food Baskets to assist families in selecting a nutritious diet. While in principal the idea of a nutritious food basket is a good one, there are serious problems with each of the above versions.

Agriculture Canada's Nutritious Food Basket makes no claim to be a low or minimum cost way of providing good nutrition and it is well they don't. Included in their Food Basket are such items as bacon, cream cookies, salad dressing, jam, jelly, tea, coffee and condiments—all absolutely inconsistent with either good nutrition or low cost. In the case of processed foods, which make up half the Food Basket, "name" brands have been used exclusively. Many low income shoppers utilize generic products or store brands with no sacrifice of nutrition or palatability while enjoying substantial savings. In addition, the Food Basket does not always select the most economical size of an item. For example milk (2 l.), peanut butter (500 g.), macaroni (500 g.), apples (454 g.), carrots (454 g.), and onions (454 g.) can all be routinely purchased in larger and more cost efficient sizes. Virtually every family could take advantage of a larger size purchase within the perishability limit.

Related to the issue of purchase size is the "problem" of variety. Agriculture Canada's Nutritious Food Basket implicitly requires families to consume 79 different food items each week. This is physically impossible, even for very large families, because of fairly rigid indivisibilities in purchase sizes of most goods. For example, there are 15 items in the vegetable food group which when purchased in the (relatively small) stated package size will provide about 135 servings of vegetables per week. According to the Canada Food Guide, a family of four requires only 70 servings of vegetables per week to maintain good nutrition. The vegetable list is appropriate only for families of six or more persons. Attempting to achieve this variety each week is clearly uneconomical for virtually all Canadian families. The problem still exists but is less pronounced with the other food groups in the basket. The point here is that while the Nutritious Food Basket reflects average consumption patterns, it is of little use as a practical guide to real

1 Beginning in 1953.

Canadian families, whatever their income level. It is impossible for most families to achieve significant variety each week without great expense. Individual families are likely to be selecting food items from a smaller "core" list of foods and substituting when appropriate. The Food Basket is simply not representative of how Canadian households actually consume food.

The most damaging problem with Agriculture Canada's Nutritious Food Basket is that its consumption results in *excessive* caloric intake. The author provides no explanation of exactly how quantities consumed were to be determined and gives no information on the energy adequacy of the quantities selected. I have elsewhere calculated the Food Basket's caloric intake for various age/sex categories and found that average recommended levels were exceeded in each case.² This is true for both the 1984 and 1986 versions of the Food Basket. The consumption of too much food is not only unhealthy but results in an overestimate of the required cost of a nutritious diet.

This critique applies to the 1984 and 1986 versions of the Nutritious Food Basket because these were the prevailing versions during the reference period for this study (1988). In 1989, however, Agriculture Canada developed a "Thrifty Nutritious Food Basket" along with an updated version of their "Nutritious Food Basket."³ They use the same methodology but somewhat fewer foods than in the earlier versions. This time, unfortunately, they did not include sufficient information to enable researchers to check the energy adequacy of the baskets.

While Agriculture Canada does not claim to determine the *minimum* cost of a nutritious diet, the Montreal Diet Dispensary (MDD) does. They select a list of relatively low cost foods, use prices from major (Montreal) grocery chains, and use weights which reflect the consumption patterns of the least well off quintile. While these measures undoubtedly result in food costs being lower than they could be, there is nothing at all in the MDD methodology which ensures that the cost of a nutritious diet will be minimized. Indeed there are several rather

2 From 2-17 percent, depending on the age/sex category. See Sarlo (1988).

3 Published in *Food Market Commentary*, April 1989.

obvious features of their approach which result in higher than necessary costs.

The prices used in the MDD calculations are the median prices of each item from among three popular Montreal chain food stores. Only the regular price of the item is used, even if it is on sale that week. But surely sale prices ought to be included because they reflect what shoppers actually pay for the particular item while it is on special. In the normal course of shopping some food items are on sale and no shopper, whatever their income level, will insist on paying the higher, regular price. This does not require any deliberate shopping strategy on the part of the consumer. Ignoring sale prices clearly overestimates the essential cost of a nutritious diet.

In addition, weekly food costs are increased by an arbitrary five percent because of "inevitable food wastage." What evidence is there that inevitable wastage is five percent? We should be suspicious of a middle-class bias at work here. There are a great many low income families for whom food wastage is unthinkable and whose actual rate of waste may well be much less than five percent. Even if we accept that food costs are five percent higher because one-twentieth of all food purchased by poor households is wasted, there are surely some offsets which tend to lower food costs. "Stocking-up" strategies and family garden plots are among the more familiar examples.

Several food items in the MDD basket are not purchased in the most economical size. Their reference family of four could easily use larger sizes of two percent milk, cheese, peanut butter and rice and achieve some saving. Also, the use of generic and store brands for some two dozen items instead of the more expensive "name" brands would result in additional savings.

The 71 items in the MDD Basket provide more variety than most Canadian households can consume during a given week. Like Agriculture Canada, the MDD feels compelled to reflect average consumption patterns while ignoring the feasibility of their diets for real families. While they do attempt to account for the diseconomies (or economies) of family size, their adjustments are entirely arbitrary and without justification. One way of getting around this problem would be to use a shorter list of foods and make substitutions where appropriate.

The MDD uses 1975 guidelines for recommended intake levels. Health and Welfare Canada revised these guidelines in 1983 and in almost all age/gender categories the energy requirements have been scaled down. Yet the MDD continues to use the older, somewhat excessive levels in its calculation of "minimum" food costs. This in itself overestimates the essential cost of a nutritious diet. More importantly, however, like Agriculture Canada, they never demonstrate the energy adequacy of their own Food Basket.

Using the quantities they provide and a calorie counter booklet,⁴ it is possible to determine the energy intake of the MDD Basket. The calculations show that, for a family of four, food consumption is excessive by about seven percent (using the 1983 intake guidelines). So, as with Agriculture Canada's Nutritious Food Basket, the MDD "minimum" cost diet results in too much food being consumed which is, of course, unhealthy and needlessly expensive. Without question, the Montreal Diet Dispensary has *not* minimized the cost of a nutritionally adequate diet.

The Social Planning Council of Metropolitan Toronto has a guide for food budgeting which resembles in most ways the Food Baskets of Agriculture Canada and the MDD. The Social Planning Council (SPC) has a list of 106 food items subdivided into some 14 food groupings. An average cost per food grouping is determined by taking a weighted average of the price per unit for each of the foods in the grouping. The weights reflect the actual buying patterns of "sample" families. By multiplying the average cost per food grouping by the suggested weekly quantities (by age/gender), we get the cost of each food grouping for the week which can then be summed to determine total weekly cost. As with the other two approaches, the SPC uses too much variety to be feasible and nowhere demonstrates the caloric adequacy of its diet. In addition, it provides no information about how prices were determined (i.e., one Toronto grocery store? many?), whether "name" brands were used exclusively, or how exactly the suggested quantities were determined. However, the SPC does not claim to provide the least

4 "Nutrient Value of Some Common Foods," Health and Welfare Canada, 1988.

expensive means to a nutritious diet. They state "It should be emphasized that these costs do not represent a minimum"⁵ and go on to offer a number of suggestions to reduce food costs. They observe that families tend to overutilize meat (which is relatively expensive) and underutilize vegetables (relatively less expensive). Among their suggestions to lower food costs are: use larger sizes where feasible, stock up on sale items, buy lower priced store and generic products; and buy powdered milk because it is the nutritional equivalent of its fresh fluid counterpart and is lower priced.

At best, the prevailing Food Basket approaches can be regarded as estimates of how much average Canadian families pay for a nutritious diet. In no way do they represent the essential or minimum costs of a nutritious diet. Indeed, two of the three versions wisely make no such claim.

George Stigler (1945) was one of the first to develop a methodology to determine the minimum cost of a nutritious diet. He began by tabulating the nutrient composition of a long list of common foods. Only the following nine nutrients were examined; calories, protein, calcium, iron, vitamin A, thiamin, riboflavin, niacin and ascorbic acid. Using published urban average food prices, he then calculated the quantity of each nutrient per dollar of expenditure for each food. This enabled him to identify the most economical sources of each nutrient. Using "recommended nutrient allowances" established by the U.S. National Research Council as a constraint, he found, by trial and error, that the least expensive way of providing the recommended nutrients was in a diet of just nine foods. This result was to be expected. By omitting variety and palatability as constraints, cost minimization is achieved with the same number of foods as nutrients. Stigler recognizes this and does not actually recommend his diet to anyone.

Stigler's attempt to apply analytical techniques to the problem of minimizing food costs can be correctly viewed as an interesting academic exercise with no practical value. Variety and palatability are

5 Social Planning Council of Metropolitan Toronto, *Guide for Family Budgeting*, 1986, p. 25.

essential components of food consumption and must be included in any useful analysis of food cost determination.

Methodology

The approach used in this study is a variation of the classic linear programming diet problem. The cost of food is to be minimized subject to four considerations—variety, palatability, balance and energy. The first two are relatively subjective concerns and not easily amenable to scientific determination. However, it is inappropriate to ignore them. A reasonable solution to the palatability problem would be to develop a list of highly popular and widely available foods. The issue of variety, however, is more difficult to resolve. There is no consensus among nutritionists as to exactly how many different foods one must consume to obtain the required nutrients. There is certainly no agreement as to the variety required to avoid monotony. This would clearly depend on factors such as ethnic and regional preferences, age, education and income level and perhaps genetics. Their best advice is to eat a variety of foods from within each food group. The list of foods developed below is an attempt to balance off considerations of variety with popularity and regular price data availability. However, the issue of variety is very interesting and important and is examined again later in the chapter.

The final two considerations are formal linear constraints. Balance refers to the number of servings from within each food group required for good nutrition. The Canada Food Guide (1985) is the nutritional standard used. The energy constraint refers to the recommended caloric intake of the individual or family and Health and Welfare Canada's (1983) Recommended Nutrient Intakes for Canadians is the standard used in this case.

Table 5-1 below displays the list of foods used in this study. The foods were selected for the variety of nutrients they provide and for their popularity and wide availability in grocery stores. The foods are categorized according to five as opposed to four food groups because fruits and vegetables are treated separately. The Canada Food Guide recommends four to five servings per day of fruits and vegetables of which at least two must be vegetables. Therefore, there is really a unique constraint for each and that is why they are disjointed. Table 5-1 includes three foods which do not belong to any of the food groups. Margarine

Table 5-1
Food Cost Chart—1988

Item	Pur- chase Size	Serving amount		Jan. price (\$)	Cost per unit (\$)	Cost per serving (\$)	Cals per serving
		EP*	AP**				
Milk—fresh (2%)	4,000 ml.	250	250	2.99	.0007	.1869	128.00
Milk— powdered	25,000 ml.	250	250	11.85	.0005	.1185	90.00
<i>Milk averages</i>					.0006	.1527	109.00
Blade roast	1,000 g.	90	220	3.73	.0037	.8206	221.00
Stew beef	1,000 g.	90	131	5.05	.0050	.6616	203.00
Reg. gr. beef	1,000 g.	90	126	4.39	.0044	.5531	260.00
Liver—beef	1,000 g.	90	113	2.99	.0030	.3379	196.00
Pork roast—PS	1,000 g.	90	248	4.17	.0042	1.0342	220.00
Chicken— whole	1,000 g.	90	225	4.39	.0044	.9878	151.00
Tuna—canned	198 g.	90	90	1.59	.0080	.7227	177.00
Cheddar cheese	1,000 g.	60	60	8.57	.0086	.5142	241.00
Eggs—large	12	2	2	1.09	.0908	.1817	158.00
Peanut butter	1,000 g.	64	64	2.65	.0026	.1696	380.00
<i>Meat averages</i>					.0135	.5983	220.70
Cabbage	1,000 g.	37	37	1.29	.0013	.0477	9.00
Carrots	2,270 g.	58	58	1.49	.0007	.0381	25.00
Celery	1,000 g.	64	64	1.79	.0018	.1146	10.00
Lettuce	750 g.	30	30	1.99	.0027	.0796	5.00
Onions	2,270 g.	85	85	1.49	.0007	.0558	29.00

Table 5-1 (continued)
Food Cost Chart—1988

Item	Purchase Size	Serving amount		Jan. price (\$)	Cost per unit (\$)	Cost per serving (\$)	Cals per serving
		EP*	AP**				
Potatoes	4540 g.	125	166	1.79	.0004	.0654	137.00
Tomato Juice	1,360 ml.	125	125	1.19	.0009	.1094	22.00
<i>Vegetable averages</i>					.0012	.0729	33.86
Bananas	1,000 g.	114	114	1.67	.0017	.1904	105.00
Oranges	2,160 g.	131	131	2.49	.0012	.1510	62.00
Apples	1,000 g.	138	138	1.32	.0013	.1822	81.00
Orange juice	1,360 ml.	125	125	.99	.0007	.0910	59.00
Apple juice	1,360 ml.	125	125	.99	.0007	.0910	62.00
<i>Fruit averages</i>					.0011	.1411	73.80
Bread—white, 675 g.	24	1	1	.79	.0329	.0329	76.00
Macaroni	900 g.	74	28	1.09	.0012	.0339	82.00
Corn Flakes	675 g.	16	16	2.29	.0034	.0543	59.00
Rice—long grain	1,000 g.	85	34	1.50	.0015	.0510	90.00
Oatmeal cereal	1,000 g.	32	18	.99	.0010	.0178	120.00
<i>Bread averages</i>					.0080	.0380	85.40
Margarine	454 g.	5	5	1.99	.0044	.0219	36.00
Salt	1,000 g.			.99	.0010		
Sugar	2,000 g.	4	4	1.69	.0008	.0034	15.00

*EP = edible portion (as eaten)

**AP = as purchased

and sugar are considered “complementary” to foods in the Breads and Cereals category and would normally be part of the food budget. Salt is the most popular seasoning and a good source of iodine.

The second last column gives the cost per serving for each of the foods listed. All food quantities are measured in terms of servings so this value is very important. Its determination is quite straightforward. For each food there is a quantity which constitutes one serving. For example, one serving of milk is 250 ml., one serving of meat is 90 g., one serving of vegetables is 125 ml., and so on. The prices used were those prevailing during the relevant week at only one food store.⁶ Dividing the price by the container (or purchase) size and multiplying by serving size, we obtain cost per serving. With some foods cooking is required and in those cases the calculations incorporate the distinction between a serving as eaten and a serving as purchased.

In addition to cost per serving, the calories per serving associated with each food is given in Table 5-1. Then for each food group, both *average* cost per serving and *average* calories per serving have been calculated. It is these average values that are used in the linear program. The implicit assumption is, of course, that within each food group, the various foods are alternated on a roughly equal basis over a one week period. As this happens the averages are accurate representations of costs and caloric intake.

The model

As pointed out above, our problem can be formulated as a linear program. The model, in general form, consists of an objective function (the function to be maximized or minimized) and one or more constraints. Thus,

$$\text{Minimize } Z = \sum_{i=1}^n X_i X_i$$

where Z = the total cost of food for the week

6 The third week in January, 1988, at Food City, a large Ontario grocery chain.

C_i = the cost per serving of food i

X_i = the number of servings of food i

n = the number of foods

subject to:

- (1) Balance constraints:

$$X_i \geq N_i \text{ for all } i$$

where N_i = required minimum number of servings per week of food i

- (2) Energy constraints:

$$\sum_{i=1}^n E_i X_i = T$$

where E_i = calories per serving of food i

and T = total number of calories required for the week

The general model can be applied to any number of specific situations. In this study seven different foods ($n=7$) are used: milk, meats (including alternatives), vegetables, fruits, breads, margarine and sugar. Salt is excluded because it generates no calories and there is no obvious guideline to its use. Its cost can be added in at the end. The C_i 's and E_i 's are calculated in Table 5-1 (averages). Once family composition is specified (i.e., ages and gender), the N_i 's and T are easily determined by consulting respectively the Canada Food Guide and Average Energy Requirements.

The results

Prices for the foods in Table 5-1 were collected for six consecutive weeks during the first quarter of 1988. It is worth emphasizing that only actual weekly prices at one store were used. No saving strategies of any kind were employed.

Table 5-2**Minimum weekly food costs for a family of four, January/February, 1988**

Food Category	Serving quantities per week		Costs					
	Food Guide minimum	Optimal solution	Week 1 (\$)	Week 2 (\$)	Week 3 (\$)	Week 4 (\$)	Week 5 (\$)	Week 6 (\$)
Milk	70	70	\$10.69	\$10.69	\$10.69	\$10.69	\$10.69	\$10.69
Meat	56	56	33.50	36.79	31.33	34.27	35.03	32.47
Vegetables	70	70	5.10	4.84	5.06	5.06	4.78	5.06
Fruit	56	56	7.90	7.55	8.25	8.36	7.71	8.36
Bread	112	380.77	14.47	14.17	13.86	13.86	12.91	13.33
Margarine	—	140	3.07	3.07	3.07	3.07	3.07	3.07
Sugar	—	70	.24	.24	.24	.24	.18	.18
			74.97	77.35	72.50	75.55	74.37	73.16

The problem was solved initially for the "standard" family of four consisting of two males aged 36 and 13 and two females aged 33 and 9. According to the Canada Food Guide, the minimum required number of servings per week in this case for milk, meat, vegetables, fruit, and breads are 70, 56, 70, 56 and 112 respectively.⁷ The quantities of margarine and sugar are assumed to be constant at 140 servings and 70 servings per week respectively.⁸ The required weekly energy intake for this family is 65,100 calories. The linear program was solved for these values and the results are summarized in Table 5-2.

The optimal solution could have been anticipated. Since we wish to minimize the cost of nutritious eating, it should be intuitive that we fulfill the minimum quantities of the relatively more expensive foods (milk, meat, vegetables and fruit) and load up on the relatively inexpensive food (breads) until caloric requirements are met. Indeed, I believe most low income families understand this point without having to formally optimize and their consumption would generally reflect this pattern. The real problem is likely to be a failure to consistently meet the minimums in the non-bread categories.

On the basis of the six week experiment, the minimum cost of a nutritious diet for a family of four during the first quarter of 1988 is a bit under \$75 per week. This comes to about \$3,882 for the year.⁹

In order to catch the effects of possible seasonal price changes on costs, the six week experiment was repeated during both the second and

7 In all cases where a range of servings is given in the Food Guide (i.e., milk for children up to 11 years = 2-3 servings), the midpoint of the range was used as the relevant value.

8 For the purpose of this research, consumption of margarine is assumed to be 5 servings per person per day. This amount is roughly related to the average consumption of bread and to a lesser extent potatoes. One serving of margarine is 5 ml. Similarly, the consumption of sugar is assumed to be 2.5 servings per person per day, roughly related to consumption of cereals. One serving of sugar is 5 ml.

9 Excluding the cost of salt. The consumption of 1 kilogram of salt per person per year at the 1988 prevailing price of .99/kg would keep the cost of eating nutritiously under \$3,886 for a family of 4.

third quarters of 1988. The summary results are contained below in Table 5-3.

Table 5-3

Minimum weekly food costs for a family of four (1988)

Week	Minimum weekly food costs (\$)	
	April – May, 1988	July – August, 1988
1	\$71.93	\$77.37
2	74.28	78.49
3	71.31	75.16
4	75.07	77.88
5	78.49	79.36
6	78.61	78.86

The average weekly cost during the second quarter period was \$75.52, only slightly above the first quarter value. The rise in many food prices during the summer of 1988 is reflected in our July/August period average weekly cost of \$78.85—about four percent higher than the first quarter value.

Finally, the model was applied to other family structures commonly cited in poverty literature. Ni's and T's were determined and optimal solutions calculated for the following types:

- a) single female parent under 35 with two children, ages two and three
- b) elderly couple, both over 65
- c) single elderly female

The results just for the July/August 1988 period are presented below in Table 5-4.

For comparison purposes, the following list contains our cost estimates along with those of each of the "food baskets" for the reference family of four for the period of July/August 1988:

Table 5-4**Minimum weekly food costs (various family types), July/August, 1988**

Food	Family type					
	Family of 3 (single mother)		Family of 2 (elderly couple)		Family of 1 (single elderly female)	
	Servings	Cost (\$)	Servings	Cost (\$)	Servings	Cost (\$)
Milk	49.00	\$7.82	28.00	\$4.47	14.00	\$2.23
Meat	42.00	26.51	28.00	17.68	14.00	8.84
Vegetables	52.50	4.00	35.00	2.67	17.50	1.33
Fruit	42.00	6.34	28.00	4.23	14.00	2.11
Bread	87.18	3.23	154.24	5.72	56.63	2.10
Margarine	105.00	2.37	70.00	1.58	35.00	.79
Sugar	52.50	00.19	35.00	00.13	17.50	00.06
Total calories	31,500.00		28,700.00		12,600.00	
Total cost		\$50.47		\$36.47		\$17.48

	Annual Cost (\$)
Sarlo	4,052
Agriculture Canada	6,075
Montreal Diet Dispensary	5,360
Social Planning Council ¹⁰	7,000

There is a 50 percent difference¹¹ between my estimate of the cost of a nutritious diet and that of Agriculture Canada. This is not surprising. The purpose and methodologies are fundamentally different. There can be a wide variety of costs consistent with good nutrition. This study is unique in examining the lower bound of that range while incorporating consideration of variety, palatability, balance and energy into the problem. Because no shopping strategies, substitutions, coupons, etc. have been used in the analysis, it is reasonable to conclude that it would be relatively easy for the typical family to achieve the determined minimum costs. No effort is required to economize.¹²

The typical family described in this study makes one or two trips per week to one grocery store. However, the family is not buying every item every week. For example for the family of four a bag of potatoes lasts about three weeks, a bag of rice two weeks, a bag of apples less than two weeks and a bag of sugar about two months. Only bread and some fresh meats may need to be purchased more frequently than once a week. While many urban families live within a short distance of a grocery store there will be some for whom transportation costs start to

10 This is the 1986 SPC estimate updated to 1988 using the "food" component of the C.P.I.

11 For a family of 4 in the city of Toronto during April/May of 1988.

12 Clearly many low income families do make an effort to economize—because they have to. While the assumption made here is not realistic, it is necessary as a starting point in determining essential food costs. It would be an interesting and useful exercise to examine the effect on food costs of relaxing this assumption. This is done later in the chapter.

become meaningful. However, it would be inappropriate to include these costs in with food costs.

The “serving” is the base unit in this study, however, most foods are not purchased by the serving. The purchase sizes are given in Table 5-1. In most cases it is quite easy to subdivide the purchase size into serving sizes. For some foods such as roasts, it may be necessary to have a small freezer (within a refrigerator) to store portions for a short time. Nevertheless, the distinction between the purchase size and serving size presents no obvious barrier to cost minimization for the family of four. It may, however, present a problem for the other family types. The purchase sizes of some vegetables and fruits may be too large for smaller families to consume within the perishability limit. Staggering¹³ the use of these vegetables and fruits or splitting the purchase size among two or more families are possible solutions. The other alternative is to purchase a smaller size and typically pay an increased cost per serving. It is worth noting, however, that some vegetables simply do not come in smaller sizes, i.e., a head of cabbage, a head of lettuce, a head of celery. This problem is a persistent one for smaller families and is not unique to this study.

At first glance, the bread group aggregates appear to be excessive. However, when the totals are broken down on a per person per day basis the quantities do not seem to be unreasonable. For the family of four, on average, each person consumes 13.5 servings from the bread group per day.¹⁴ This might consist of a cup of cooked cereal (or 1.5 cups of corn flakes) and two slices of toast at breakfast, two sandwiches at lunch and 1.5 cups of cooked rice or macaroni and two slices of bread at dinner. The single elderly female consumes just eight servings of breads and cereals each day.

It should be relatively easy to visualize a series of menus that can be generated from the foods listed in Table 5-1. These basic foods permit a wide range of standard and ethnic fare. However, for all its appeal,

13 Staggered use is the most reasonable solution. The same variety is achieved but over several weeks instead of each week.

14 Somewhat more for males, somewhat less for females.

developing and costing menus is not a rigorous approach to the problem!¹⁵ A greater degree of subjectivity is introduced (including the likelihood of cultural bias in the selection process) and trial and error is required to search for minimum costs. The methodology used in this study with the explicit incorporation of an optimization procedure is far more elegant and precise.

It can be argued that the list of foods in this study is too narrow. There may well be sufficient variety to ensure good nutrition, but there may be insufficient variety to avoid monotony, at least for some. Would expansion of the food list significantly raise the cost of a nutritious diet? To examine this question, an additional 22 foods were selected from Agriculture Canada's Nutritious Food Basket list along with their typical mid-summer prices. Only four of the items were at their special, "in season" prices. The additional food list along with package sizes, prices, calories per serving and costs per serving are given below in Table 5-5. The additional foods were merged in with the original group and the linear program re-run with the revised average values. The new weekly minimum cost of eating nutritiously for a family of four is \$75.40—about four percent *less* than the original result. This experiment demonstrates that the variety of the diet can be significantly expanded without adversely influencing costs. Clearly, new foods cannot be added indefinitely without costs rising. It is equally clear that a wide range of foods give us consistent cost results.

In 1986, the average family of four (two adults, two children) in Canada spent \$6,049 on food, of which 21 percent was spent in restaurants. The estimates provided here, without resort to any economizing strategies, show that the same family of four can eat a nutritious, palatable diet for about \$4,000. To say that Canadians are spending more than they need to on food is merely to say that Canadians eat more red meat than they need to and fewer fruits, vegetables and whole grains

15 I have elsewhere (Sarlo (1987)), utilized the menu approach to examine the issue of the essential cost of good nutrition. In spite of the difference in methodologies between that study and this one, the results are remarkably consistent. The (low) cost of a nutritious diet for a family of four was found to be approximately \$3,750 in mid 1987.

Table 5-5
Additional food list

Item	Serving Size	AP*	Calories per serving	Jul-Aug 1988 price (\$)	Cost per serving (\$)
Ice cream	125 ml.	125 ml.	142	2.32 / 2 l.	.1450
Wieners	2	2	236	1.90 / 12	.3167
Cooked ham	90 g.	90 g.	163	5.83 / kg	.5247
Baloney	90 g.	90 g.	286	2.95 / kg	.2655
Turkey	90 g.	225 g.	148	4.25 / kg	.9563
Fish sticks	3 sticks	3 sticks	158	4.49 / 28	.4811
Sardines	90 g.	90 g.	183	.79 / 100 g.	.7110
White beans	250 ml.	125 ml.	230	1.53 / 907 g.	.1603
Sausages	3 links	3 links	177	3.29 / 16	.6169
<i>Average</i>			198		.4843
Tomatoes	123 g.	123 g.	23	.62 / kg	.0763
Spinach	30 g.	30 g.	7	3.10 / kg	.0930
Frozen fr. fries	50 g.	50 g.	111	1.49 / kg	.0745
Canned peas	125 ml.	125 ml.	62	.49 / 398 ml.	.1539
Canned beans	125 ml.	125 ml.	15	.49 / 398 ml.	.1539
<i>Average</i>			44		.1103
Canned peaches	125 ml.	125 ml.	100	1.79 / 796 ml.	.2811
Canned pears	125 ml.	125 ml.	100	1.79 / 796 ml.	.2811

Table 5-5 (continued)
Additional food list

Item	Serving Size	AP*	Calories per serving	Jul-Aug 1988 price (\$)	Cost per serving (\$)
Grapes	85 g.	85 g.	60	1.96 / kg	.1666
Plums	66 g.	66 g.	36	2.07 kg	.1476
Strawberries	125 ml.	125 ml.	24	2.00 / kg.	.1600
<i>Average</i>			64		.2073
Whole wheat bread	1 slice	1 slice	63	.99 / 24	.0413
Flour	40 g.	40 g.	146	2.59 / 2.5 kg	.0414
Wiener bun	1/2 bun	1/2 bun	75	.68 / 8	.0431
<i>Average</i>			95		.0419

*AP = as purchased

than they should. Nutritionists have long advised that a healthier diet is a less expensive diet.

It is important to stress that food shoppers require no optimization model nor do they need to use any cost saving strategies in order to achieve the food cost levels determined here. They merely shop at a grocery store on a regular basis, select a variety of tasty, nutritious foods, avoiding junk food and only the few top end items within each food group. Costs can, of course, be further reduced by practicing a bit of home economy. During 1990 and 1991 Canada's major newspaper services (Toronto Star, Southam, CP, etc.) regularly published articles advising food shoppers on various ways to stretch their food dollars. However, none of that is assumed here.

People who have lived most of their lives in the comfort of a middle class living standard have a tendency to lose sight of basic costs of living. There are now and have always been people forced by circumstance to make do with tight budgets. There are students, people on welfare, low income immigrant families, etc., who manage to eat nutritiously for considerably less than that spent by most middle class families of the same size.

One important limitation of the study is that no allowance has been made for either storage or "plate" waste.¹⁶ While it is reasonable to expect low income families to minimize waste, some of it is unavoidable. The amounts on average may not be insignificant. Surprisingly, food science and home economics literature is devoid of any reliable estimates of these losses. Since any attempt to account for storage or plate waste would amount to guessing, they have been implicitly set to zero for this study. The effect on family food costs of such considerations as plate and storage waste and regional price differentials on the one hand and home gardens, shopping strategies and gifts of food on the other hand requires serious examination.

Techniques for calculating the least cost way of achieving some objective are widely used in economics. There is no reason why these techniques should not be applied to very human activities such as the purchase and consumption of food.¹⁷ Food is *the* fundamental necessity and we should certainly be able to determine the minimum cost of supplying basic nourishment and nutrition to families. This study provides an objective and easy-to-use methodology for such determination. This methodology can be adapted to any family type including families with special nutritional requirements. Indeed, it can readily be modified to incorporate assumptions other than the ones I have made, such as the use of saving strategies and the inclusion of additional nutritious foods. The methodology, therefore, is at least as important as the results.

16 The loss due to cooking as well as bone and fat waste has, of course, been accounted for in the calculations.

17 Indeed, economic analysis has been useful, in recent years, in helping us understand human behaviour and decision making in such areas as marriage, procreation and religion.

Recent statements by well known politicians illustrate why it is important to accurately establish essential food costs. In July, 1987, former Liberal leader John Turner commented on a proposed sales tax on food and its effect on low income Canadians by stating "Just to meet basic nutritional requirements, a family of four must spend \$5,668 a year on food."¹⁸ Mr. Turner is using the Nutritious Food Basket estimate (Canadian average) as if it were a minimum requirement. This distortion was either intentional or else Mr. Turner did not understand what the Nutritious Food Basket represents. In any case, the statement is incorrect. This study, *using 1988 (first quarter) prices*, has shown that a nutritious diet for a family of four costs about \$3,900, a difference of 45 percent. In September, 1986, a report on Ontario nursing homes revealed that the average expenditure on food for elderly residents was \$2.70 per day. Bob Rae, Ontario NDP leader, called this (low) amount "a scandal" and said it was time somebody blew the whistle.¹⁹ Again, this study using 1988 prices demonstrates that an elderly couple and a single elderly female, *shopping at the retail level* would have no problem eating nutritiously for less than \$2.70 per person per day.

There is great value in establishing the minimum costs of providing good nutrition to families and individuals. This information would be of practical value to poverty researchers, among others. It is too important to be determined by *ad hoc* estimates. This research is an attempt to provide a reliable approach to the problem.

Shopping strategies

In determining the minimum cost of a nutritious diet, no saving practices have been employed. Families are assumed to make regular trips to one grocery store and purchase a list of food items in given quantities at the prices prevailing that week. Absolutely no strategic behavior involving stocking up on sale items, substitutions, purchase of marked down items that are day old, end of day or slightly damaged, or couponing was permitted. While this is a good starting point for the

18 *Toronto Star*, July 4, 1987.

19 *Toronto Star*, October 22, 1986.

study of necessary food costs, it is unrealistic to leave it at that. Many low income families practice shopping strategies because they have to. They recognize that they can enjoy non-trivial increases in living standards by employing some quite simple procedures.

The gains from such shopping strategies can be easily estimated once our optimization procedure is in place. Using our reference family of four, we examined two common practices and measured the savings in food costs as each was employed.

The first strategy involved modest "stocking up" of items on special. Specifically we assume that the consumer buys two weeks worth of sale priced perishables (such as fruits, milk, meat and bread) and four weeks worth of sale priced non-perishables (canned, dry or frozen items). To take full advantage of savings due to stocking up on perishables, the use of a freezer or, more likely, making two rather than just one weekly trip to the grocery store would be necessary.

The second shopping strategy utilizes some substitutions. Specifically, the three least expensive items in the fruit and meat entree categories are double weighted each week as the family is assumed to increase use due to their relative inexpensiveness. It is important to note that for practical purposes, vegetables have been excluded from both shopping strategies. Normally, in one week, a family of four consumes about two-thirds of a head of celery and about half of each of a cabbage and a lettuce. They could not feasibly stock up or substitute into these items within the perishability limits. The same problem applies, to a lesser extent, to carrots, onions, and potatoes. Therefore, for most families, there is limited scope for shopping strategies in fresh vegetables.

The results of re-running our linear program with costs adjusted to account for shopping strategies for three separate time periods between January, 1988 and March, 1989 show that, on average, a family of four that consistently employed a stocking up strategy could reduce their food expenditures by about four percent or about \$160 per annum. To the extent that they were able to utilize the substitution strategy in combination with "stocking-up," the saving would be about seven and a half percent or about \$300 per annum.

Clearly smaller families (size three or less) will be less able to use these saving practices and therefore their percentage gains will be smaller. In addition, rural families will typically be unable to fully utilize

these strategies. However, it is equally clear that many poor families can and do use other savings practices such as couponing, comparison shopping and garden plots²⁰ which could further reduce food costs.

The minimum cost of a nutritious diet has, so far, been estimated only for Ontario. The fact is that food prices vary, sometimes substantially, in different regions of the country. Additional information is required to estimate essential food costs across Canada.

Statistics Canada is the only source of easily available and reliable food price data. They publish quarterly the "city average retail prices" of some 50 food items for 25 major cities in every province and region of this country.²¹ While the list of foods in Table 5-1 substantially overlaps with the Statistics Canada list, direct comparability is limited by two considerations: the use by Statistics Canada of just "name" brands for a number of items and their use of inappropriate sizes of some items.

Statistics Canada does not price store brands or generic equivalents of items such as cheese, peanut butter, tomato juice, orange juice, apple juice, macaroni and cornflakes. Our list made no such exclusion and permitted the low income shopper to select the least expensive equivalent. In addition, Statistics Canada has selected uneconomical sizes of certain items, such as milk, cheese, peanut butter and macaroni. In the case of milk, the most perishable of the items listed, the purchase of just one litre at a time is expensive and clearly unnecessary. Most families, whatever their income, have been purchasing fresh milk in the four litre plastic bags throughout the 1980s. Even a single person can consume a four litre bag of milk within the usual perishability limit if they derive most of their dairy intake from this source.

In spite of substantial mismatching, there remains 13 key foods which are directly comparable with the Statistics Canada list. Table 5-6 below lists these 13 foods with size of purchase in parenthesis and

20 It might be assumed that the poor could make very limited use of gardens. However, as we will see in the profile of the poor, fully one-third of poor families are homeowners. Garden plots are not an insignificant consideration.

21 Statistics Canada, Consumer Prices and Price Indexes, cat # 62-010.

Table 5-6

Comparative food prices in various Canadian cities (\$ cost per unit of weight)—July, 1988

	(kg)	(kg)	(kg)	(kg)	(doz.)	(kg)	(kg)	(4.54 kg)	(kg)	(kg)	(kg)	(675 g)	(2 kg)	
Cities	Blade roast	Stew beef	Ground beef	Chicken	Eggs	Cabbage	Celery	Potato	Lettuce	Banana	Orange	Bread	Sugar	Total Cost
St. John's	5.07	6.25	3.93	4.05	1.69	.87	1.49	2.89	1.23	1.46	1.78	.78	1.39	32.88
Charlottetown	4.18	6.03	3.72	3.35	1.52	.92	1.89	1.89	1.52	1.16	1.55	1.11	1.25	30.09
Sydney	4.10	6.48	3.89	3.65	1.60	.91	2.26	2.22	1.74	1.48	1.63	1.11	.98	32.05
Halifax	3.66	5.99	3.62	3.20	1.48	.99	1.77	2.05	2.10	1.51	1.74	.98	1.15	30.24
Moncton	4.21	6.44	3.42	3.42	1.58	.86	1.58	1.85	1.35	.95	1.77	1.05	1.10	29.58
Saint John	3.90	6.59	3.35	3.09	1.57	.98	1.58	2.11	1.19	1.12	1.55	.97	1.08	29.08
Chicoutimi	5.87	7.74	4.16	4.39	1.37	1.29	1.70	2.76	.98	1.74	1.94	.99	1.66	36.59
Quebec	6.95	7.00	3.32	3.73	1.37	.95	1.21	2.13	1.60	1.30	1.96	1.18	1.49	34.19
Trois-Rivieres	4.74	6.90	2.74	3.73	1.52	1.00	1.15	2.43	1.12	1.38	1.95	1.18	1.79	31.63
Sherbrooke	3.93	7.13	3.67	3.81	1.54	.89	1.32	1.64	1.61	1.46	2.05	1.14	1.84	32.03
Montreal	4.68	6.26	3.76	3.98	1.55	.94	1.22	2.41	1.42	1.32	2.01	1.27	1.94	32.76
Hull	4.85	4.70	3.03	2.28	1.13	1.07	1.20	2.88	1.08	1.03	1.96	.83	.89	26.93
Ottawa	4.71	5.00	3.16	2.91	1.09	.88	1.24	2.64	1.53	1.08	1.94	.85	.89	27.92
Toronto	4.61	5.79	4.02	3.89	1.26	.83	1.11	3.34	1.33	1.36	1.85	.94	1.42	31.75
Hamilton	4.42	5.80	3.86	4.09	1.05	.87	1.22	2.54	1.29	1.22	1.69	.80	1.00	30.95

Table 5-6 (continued)

Comparative food prices in various Canadian cities (\$ cost per unit of weight)—July, 1988

	(kg)	(kg)	(kg)	(kg)	(doz.)	(kg)	(kg)	(4.54 kg)	(kg)	(kg)	(kg)	(675 g)	(2 kg)	
Cities	Blade roast	Stew beef	Ground beef	Chicken	Eggs	Cabbage	Celery	Potato	Lettuce	Banana	Orange	Bread	Sugar	Total Cost
London	4.62	5.95	4.21	4.05	1.19	.81	1.25	3.14	1.68	1.49	1.97	1.01	1.23	32.60
Sudbury	4.46	5.21	3.74	3.29	1.16	.82	1.29	2.69	1.27	1.36	1.95	.88	1.35	29.47
Thunder Bay	4.91	6.50	3.41	3.18	1.43	.92	.99	3.60	1.38	1.48	1.95	1.24	2.03	33.02
Winnipeg	4.26	5.08	2.09	3.74	1.02	.78	.88	2.44	1.44	.80	1.59	1.32	1.40	26.84
Regina	3.02	5.31	2.06	3.72	1.16	.78	.98	3.99	1.32	1.00	1.73	1.41	1.55	28.03
Saskatoon	2.65	5.41	2.01	3.95	1.07	.94	1.23	3.94	1.36	.93	1.67	1.34	1.55	28.05
Edmonton	2.82	6.10	2.64	3.91	1.17	.90	1.63	3.09	1.91	.95	1.97	1.27	1.52	29.88
Calgary	3.48	5.74	2.77	4.41	1.44	1.14	2.00	2.94	1.77	1.48	2.04	1.14	1.46	31.81
Vancouver	5.32	6.29	2.82	2.93	1.37	.62	1.03	3.07	.90	1.42	1.59	1.46	1.72	30.54
Victoria	5.52	6.13	2.96	3.35	1.40	.69	1.16	2.63	1.08	1.46	1.55	1.45	1.75	31.13
Ontario (Food City)	5.59	6.59	3.73	2.18	1.09	.99	.99	3.99	1.29	1.52	2.33	.69	1.69	32.67

Sources: Statistics Canada: Consumer Prices and Price Indexes (#62 - 010), July - September, 1988;
Food City, North Bay, Ontario - July 2, 1988.

displays the July, 1988 prices of each food for the 25 cities that Statistics Canada surveys. At the bottom of the table are the corresponding prices at Food City, the Ontario grocery chain from which this study's prices have been drawn. While the prices of many individual items varied substantially, the overall cost of the aggregate "basket" showed much less variation between cities. The cost of this basket (sum total of the 13 foods) is a fair representation of food costs in each community as it includes popular foods from each of the food groups except dairy. The total cost of the bottom row is referred to as the Ontario base.

Using food prices derived from our one Ontario grocery chain, we calculated essential food costs for families of size one to six. The results, contained in Table 5-7, are referred to as "base" food costs. It is in relation to these costs that essential food costs in other cities will be determined. A variety of age-gender compositions were considered but in each case the most expensive result was selected. Since the typical composition of a poor family is unknown, it is best to err on the high side.

Essential food costs by family size for the major Canadian cities were estimated as a proportion of the corresponding "base" costs. The proportions used represent the ratio of the cost of the basket of comparable foods (Table 5-6) in the major city to the cost of the same basket in the Ontario base. Table 5-8 presents these results and as well, the corresponding ratio (R) for each community. The values in the table represent the minimum cost of a nutritious (and palatable) diet for the major metropolitan areas in all regions of Canada (excluding Yukon and N.W.T.) by family size. It is noteworthy that these metropolitan areas comprised slightly more than 60 percent of the population of Canada in 1986.

Some critics will argue that there is a much simpler way to determine food costs relevant to low income families. Since Statistics Canada conducts family expenditure surveys every four years, why not just use the food expenditure results of, say, the lowest quintile, as representative of required expenditure by the poor. The fundamental problem with this approach is that we have no way of knowing whether average food expenditures of this (or any) quintile will result in a nutritious diet.

Table 5-7**Essential food costs by family size for Ontario, July, 1988**

Family size	Family composition	Weekly calories	Weekly food costs (\$)	Annual food costs* (base) (\$)
1	Adult male	21,000	\$21.13	\$1,100
2	Adult female; adult male	35,700	39.52	2,057
3	Adult female; adult male; 1 child	49,700	58.79	3,060
4	2 adults; 2 children	67,200	79.57	4,142
5	2 adults; 3 children	81,900	98.36	5,120
6	Adult female; 5 children	91,700	116.19	6,048

* includes salt

Evidence that a significant proportion of school children, from a variety of backgrounds, are malnourished²² suggests that income and a healthy diet are not related. It would be inappropriate to use actual food expenditures to represent the essential costs of providing a nutritious diet.

Is it possible that those with low incomes shop more frequently at convenience and corner stores and thereby need to pay significantly more to eat than their more well-off counterparts? The food expenditure surveys conducted by Statistics Canada reveal no evidence of this. Overall, only 5 percent of unprepared (i.e., non restaurant) food purchases in Canada are bought from convenience

22 A 1988 study for the Waterloo Region Separate School Board found that less than a third of elementary school children are properly nourished and that lifestyle is more at fault than poverty. See *Toronto Star*, September 8, 1988.

Table 5-8
Essential Annual Food Costs—1988 (\$)
(by family size for major metropolitan areas)

Cities	(R)*	Family size					
		1	2	3	4	5	6
St. John's	1.01	\$1,111	\$2,078	\$3,091	\$4,183	\$5,171	\$6,108
Charlottetown	.92	1012	1892	2815	3811	4710	5564
Sydney	.98	1078	2016	2999	4059	5018	5927
Halifax	.93	1023	1913	2846	3852	4762	5625
Moncton	.91	1001	1872	2785	3769	4659	5504
Saint John	.89	979	1831	2723	3686	4557	5383
Chicoutimi	1.12	1232	2304	3427	4639	5734	6774
Quebec	1.05	1155	2160	3213	4349	5376	6350
Trois-Rivieres	.97	1067	1995	2968	4018	4966	5867
Sherbrooke	.98	1078	2016	2999	4059	5018	5927
Montreal	1.00	1100	2057	3060	4142	5120	6048
Hull	.82	902	1687	2509	3396	4198	4959
Ottawa	.85	935	1748	2601	3521	4352	5141
Toronto	.97	1067	1995	2968	4018	4966	5857
Hamilton	.95	1045	1954	2907	3935	4864	5746
London	1.00	1100	2057	3060	4142	5120	6048
Sudbury	.90	990	1851	2754	3728	4608	5443
Thunder Bay	1.01	1111	2078	3091	4183	5171	6108
Winnipeg	.82	902	1687	2509	3396	4198	4959
Regina	.86	946	1769	2632	3562	4403	5201
Saskatoon	.86	946	1769	2632	3562	4403	5201
Edmonton	.91	1001	1872	2785	3769	4659	5504
Calgary	.97	1067	1995	2968	4018	4966	5867
Vancouver	.93	1023	1913	2846	3852	4762	5625
Victoria	.95	1045	1954	2907	3935	4864	5746
Ontario "Base"	1.00	1100	2057	3060	4142	5120	6048

*R = ratio of the cost of foods in the comparison basket to the Ontario "base."

stores.²³ Those in the lowest quintile of the income distribution spend a slightly higher proportion (8 percent) but a lower absolute amount of their non restaurant food dollars at convenience stores.²⁴ There is, in addition, no evidence that when they do shop at convenience stores, they do so because they have to.

23 Statistics Canada, *Family Food Expenditure in Canada 1986* [#62-554], Table 3, p. 22 ("Average Weekly Food Expenditure, 1986, All Families and Unattached Individuals").

24 Ibid, Table 6, p. 30.

Chapter 6

Shelter and Other Necessities

Shelter

THE SHARP INCREASE IN REAL estate prices during the 1980s prompted a surge in media stories on the issue of shelter “affordability.” A common theme in these pieces was that home ownership is increasingly an unrealistic goal for young Canadian families. The high cost of a house combined with high interest rates condemned, we were told, most middle and lower income households to lifelong tenancy. And even renters did not escape the effects of real estate inflation. Greedy landlords found ways, in spite of rent controls, to sharply raise the rents many tenants paid.

When asked, economists explained that the real estate boom was, in large part, a demographic phenomenon. During the 1980s most “baby boomers” came of home-buying age and a surge in demand for houses was expected. As well the steady reduction in the average size of Canadian households, due mainly to lower birthrates and increasing rates of family breakdown, added to the demand for homes. Finally, heavy offshore investment in Canadian real estate, especially in Toronto, pushed prices up further in already overheated markets. These explanations and concomitant analyses indicating that the boom would

be temporary were downplayed or ignored. The "crisis" in affordable housing was a good story.

The evidence is clearly inconsistent with the media hype. In spite of the boom, most housing in Canada can fairly be described as "low cost" and is eminently affordable. In 1986, for example, 54 percent of tenants paid a gross rent of less than \$400 per month and 10 percent of tenants paid less than \$200 per month.¹ Homeowners fared even better. In 1986, almost 24 percent of all Canadian homeowners had basic shelter costs (mortgage, taxes, hydro, heat and water) of less than \$200 per month and for another 30 percent, these costs were between \$200-\$400 per month.² So for more than half of Canadian households, shelter costs were less than \$4,800 in 1986.

By 1989, arguably the peak of the real estate boom, the situation for tenants was unchanged. Fifty-six percent paid average monthly cash rent of \$450 or less. For the lowest income group, households with 1988 income less than \$10,000, average cash rent was \$318 per month.³ As expected, young tenants had most difficulty handling the rent. Almost 18 percent of households whose head was less than 25 years old paid more than 50 percent of income on rents. Overall, however, young tenants paid an average of 22 percent of income in cash rents during 1989.⁴ Affordable rental housing, even for the most vulnerable group, is not a myth.

The exaggeration of the costs of home ownership in Canada is largely due to the media's "Toronto bias." The young couple facing a \$150,000 mortgage and monthly payments of \$1,600 are seen as clear evidence that home ownership is an impossible dream for all but the wealthy. These examples are typically drawn from the hottest real estate market in Canada. In point of fact, however, outside of Metropolitan

1 Statistics Canada, *1986 Census of Canada*, Table HH86B02.

2 Ibid, Table HH86B02.

3 Statistics Canada, "Household Facilities by Income and Other Characteristics," 1990, [cat. #13-218], Table 12, p. 162.

4 Ibid, Table 14, p. 164.

Toronto, the price of a three-bedroom 1 1/2 bath detached bungalow averaged about \$100,000 in 1988.⁵ Townhouse and semi-detached homes averaged less than that. The typical household in Canada, with 1988 gross income of about \$38,000 can afford the average home. Just looking at initial mortgage payments also distorts the issue of affordability. Because of inflation, mortgage payments decline as a proportion of income over time. Today's \$100,000 home was about \$50,000 ten years ago and homeowners who bought then currently have monthly mortgage payments of between \$350 and \$400. The first few years of a new mortgage are always the most difficult and require the greatest sacrifice.

The belief that only the well off own their own homes is incorrect. In 1988, about 44 percent of families whose total reported income was less than \$15,000 were homeowners, 72 percent of which were mortgage free.⁶ Curiously, almost one-quarter (23 percent) of *mortgage free* homeowners were "poor" by CCSD standards (i.e., earned less than half the average income).⁷ While it is true that the majority of lower income households are tenants, this is largely explained by the life-cycle pattern of incomes. In 1986, roughly 46 percent of all tenancies were headed by someone under 35 years of age whereas only 17 percent of homeowners were headed by someone under 35.⁸

Over the years, home ownership has been an achievable goal for the vast majority of Canadians. Lower income families have used a variety of strategies to attain this end. Some have purchased duplexes and rented out half of the space. Others have purchased "starter" two bedroom bungalows or "handy-man" specials and have done their own repair and landscape work. Still others have built or helped build their own homes and thus dramatically reduced the overall cost. The pur-

5 Royal LePage, *Survey of Canadian House prices*, 1989.

6 Calculated using information in Statistics Canada, *Income Distributions by Size*, 1988, Table 20, p. 89.

7 Ibid.

8 Statistics Canada, *Family Expenditure in Canada*, 1986, [cat #62-555], Table 7, p. 70.

Table 6-1
Shelter cost calculations of various alternatives to
tenancy (\$)

	Duplex (2-2bdrm)	2 Bdrm Starter Home	Mobile Home
Approximate Average 1988 Purchase Price (including related fees)	\$80,000	\$60,000	\$30,000
Mortgage Loan (Assuming 25% Down payment)	60,000	45,000	22,500
Monthly Mortgage Payment (Assuming 3 year term @ 10 1/2%)	557	418	209
Income from Duplex	- 405	—	—
Estimated Cost of All Utilities (Heat, Hydro, Water) plus Taxes, Insurance and Repairs	300	182	150*
<i>Total Monthly Cost:</i>	452	600	359

* includes space lease fees

chase of mobile homes, more common in the U.S. than here, has nevertheless been used by some Canadians as a stepping stone to more substantial housing or as a low cost alternative to tenancy. Currently, just over 1 percent of Canadian households live in mobile homes.⁹ These

9 Statistics Canada, 1986 *Census of Canada*, Table DW861-301.

and other methods continue to be used as ways of accomplishing home ownership for low income Canadians.

An estimate of the monthly costs of housing for several of the above options in an average sized, average cost, Ontario city¹⁰ in 1988 is given in Table 6-1. These values represent an approximation of the relevant first year costs facing prospective buyers seeking an alternative to tenancy. It is worth repeating that these costs decline relative to income each and every year due to wage inflation. For example, in the city of North Bay, in 1988, the average cost of a 2 bedroom starter home was about \$60,000. Assuming a conventional mortgage and estimating associated costs such as property taxes, insurance, water fees, heat, electricity and repairs, the monthly cost to carry this house is approximately \$600. This is fully 25 percent above the average monthly rent of a 2 bedroom apartment in North Bay during 1988. If both rents and non-mortgage housing costs rise, on average, by 5 percent per year then after 7 years the cost of the starter home and the apartment will be about the same. After 12 years, the apartment will cost 16 percent more, on a monthly basis, than the home.

While there exists no systematic price information on duplexes, starter homes and mobile homes for various parts of Canada, Royal LePage does publish, annually, estimates (based on MLS listings) of fair market value of a 3 bedroom bungalow in most Canadian cities. This unit is the quintessential working class home. What is most interesting is the *differences* in the cost of these houses in different areas of Canada. Table 6-2 displays these costs for Canada's major metropolitan areas for 1978, 1983 and 1988. The percentage rise in prices and the current relation to the Toronto price as a percentage are both given. It can be argued that these percentages roughly reflect the differentials in lower cost owned accommodation as well.

While low cost home ownership strategies are valid for some low income individuals and families, the dominant mode of shelter for "poor" Canadians is rental accommodation. People with very low

10 North Bay, Ontario. According to the Royal LePage survey, in 1988 North Bay had average resale house prices just slightly above the Canadian average.

Table 6-2

**3 bedroom bungalow—recent average prices
in major Canadian cities (\$)**

City	Fall 1978	Fall 1983	Fall 1988	10 year growth rate (%)	Percent- age of 1988 Toronto price
St. John's	\$49,500	\$70,000	\$92,900	88%	41%
Charlottetown	44,500	65,000	92,000	107	41
Halifax		124,000	132,000	—	58
Moncton	39,500	52,500	76,000	92	34
Fredricton	45,000	64,000	84,000	87	37
Quebec	52,500	63,000	93,000	77	41
Trois Rivieres	37,000	48,000	67,000	81	30
Shawinigan	37,000	38,000	55,000	47	24
Montreal	40,000	67,500	105,000	163	46
Hull	42,000	69,000	110,000	162	49
Ottawa		106,000	128,000	—	57
Kingston	49,500	64,000	112,000	126	49
Toronto (Scarborough)	68,500	101,000	226,500	231	100
Hamilton	58,000	64000	120,000	107	53
Kitchener	55,500	74,000	132,000	138	58
London	53,000	70,500	124,000	134	55
Windsor	60,500	55,250	84,000	39	37
North Bay	46,000	57,500	112000	143	49
Sudbury	54,000	47,500	98,000	81	43
Thunder Bay	70,000	82,000	125,000	79	55
Winnipeg	57,000	77,000	107,000	88	47
Regina	57,000	85,000	89,000	56	39
Saskatoon	61,000	78,000	86,250	41	38

Table 6-2 (continued)
3 bedroom bungalow—recent average prices
in major Canadian cities (\$)

City	Fall 1978	Fall 1983	Fall 1988	10 year growth rate (%)	Percent- age of 1988 Toronto price
Lethbridge	64,000	83,500	85,680	34	38
Calgary		102,000	112,500	—	50
Edmonton	79,000	82,500	90,000	14	40
Kelowna	49,000	72,000	79,000	61	35
Vancouver	74,500	128,000	160,000	115	71
Victoria	63,500	103,000	117,000	84	52

Source: Royal LePage, *Historical Information on Canadian Housing*, Summer, 1989.

incomes are unlikely to be able to provide the required downpayment on a home and are even less likely to qualify for a mortgage loan. Indeed, about 75 percent of households with 1988 income below \$12,500 were renters.¹¹

Essential Shelter Costs

The cost of rental accommodation varies widely depending chiefly on quality of unit, size of unit and location. Low income renters necessarily end up with less expensive accommodation. It would not be inappropriate to assume that "poor" families would be selecting accommodation from the least expensive *half* of the rental market. While low

11 Statistics Canada, "Income Distributions by Size in Canada," 1988, [cat #13-207], Table 42, p. 115.

vacancy rates in some areas may delay this process somewhat, low incomes ultimately constrain the poor to acquire units with below average rents. How much below average? CMHC publishes rent ranges for major metropolitan areas and this information indicates that the average of the bottom 50 percent of rents is approximately 10 percent below the overall average.¹² Using this rough estimate as a rule of thumb we shall assume that essential shelter costs in a particular community will be 10 percent below the average for any given size of rental accommodation.

What size of rental accommodation is adequate? The Montreal Diet Dispensary (MDD) has developed a guideline for matching apartment size to size of family and I adopt it here with minor modification.¹³ Specifically, a bachelor apartment is appropriate for a household of one person, a one bedroom for 2 persons, a two bedroom for 3 persons and a three bedroom for 4 or more persons.

The Canada Mortgage and Housing Corporation (CMHC) publishes biannually average monthly rents by size of apartment in apartment blocks with six or more units for all metropolitan areas in Canada with population of 50,000 or more.¹⁴ These communities represent about two-thirds of the Canadian population. The rents paid by the remaining third, about 8 million people, will not be adequately represented by rents in metropolitan areas. We expect that families living in the thousands of smaller cities, towns and rural areas would pay lower rents, perhaps substantially lower, than are paid in urban centers. This issue is best put aside until later.

12 CMHC, Rental Market Surveys, various cities, 1987.

13 Montreal Diet Dispensary, *Budget Guidelines*, 1988, Appendix I, Guide For Shelter Requirements Pertaining to Family Size.

14 CMHC, HMIS R508.

Table 6-3

Average monthly rents (\$) in apartments of 6 or more units by major city (CMA) and apartment size—October, 1988

CMAs	Population (1986)	Apartment Size			
		Bachelor	1	2	3
Calgary	671,326	\$312	\$407	\$523	\$583
Chicoutimi	158,468	279	333	391	421
Edmonton	785,465	313	396	482	530
Halifax	295,990	398	463	551	664
Hamilton	557,029	312	389	472	594
Hull	200,215	343	416	465	524
Kitchener	311,195	329	397	475	595
London	342,302	329	411	510	629
Montreal	2,921,357	354	440	510	600
Oshawa	203,543	444	486	540	596
Ottawa	619,050	371	471	594	709
Quebec	603,267	336	426	476	549
Regina	186,521	260	396	490	576
St. Catherines	343,258	295	404	464	529
Saint John	121,265	289	338	390	427
St. John's	161,901	380	451	515	542
Saskatoon	200,665	274	376	449	511
Sherbrooke	129,960	263	325	381	452
Sudbury	148,877	333	400	464	497
Thunder Bay	122,217	283	430	540	577
Toronto	3,427,168	409	493	596	738
Trois-Rivieres	128,888	312	362	370	408
Vancouver	1,380,729	399	482	631	740
Victoria	255,547	326	397	515	543

Table 6-3 (continued)

Average monthly rents (\$) in apartments of 6 or more units by major city (CMA) and apartment size—October, 1988

CMAs	Population (1986)	Apartment Size			
		Bachelor	1	2	3
Windsor	253,988	\$277	\$419	\$541	\$521
Winnipeg	625,304	317	417	518	622
Barrie	67,700	370	486	557	624
Belleville	87,530	334	457	516	597
Brantford	90,500	320	398	444	474
Charlottetown	53,807	318	370	457	546
Chilliwack	50,288	354	361	425	—
Cornwall	51,720	339	393	496	545
Drummondville	56,283	237	312	358	379
Fredericton	65,765	357	418	466	548
Granby	51,180	226	336	382	436
Guelph	85,965	403	428	486	535
Kamloops	61,773	257	312	373	462
Kelowna	89,730	268	413	442	489
Kingston	122,350	288	418	496	589
Lethbridge	58,841	324	394	459	495
Matsqui	88,420	284	358	436	505
Medicine Hat	50,730	242	306	372	438
Moncton	102,085	300	375	429	483
Naniamo	60,420	274	323	397	420
North Bay	57,420	331	432	481	550
Peterborough	87,080	333	438	526	599
Prince George	67,621	303	352	394	427

Table 6-3 (continued)

Average monthly rents (\$) in apartments of 6 or more units by major city (CMA) and apartment size—October, 1988

CMAs	Population (1986)	Apartment Size			
		Bachelor	1	2	3
Red Deer	54,425	\$313	\$383	\$453	\$523
St. Jean	58,958	275	302	358	400
Sarnia	85,700	289	390	458	581
Sault Ste. Marie	84,620	295	418	486	561
Shawinigan	61,965	196	268	290	302
Sydney	119,470	258	318	402	564
<i>Total</i>	<i>17,127,841</i>				

Source: CMHC, Ottawa: HMIS – R508, October, 1988.

Table 6-3 displays average monthly rents by type of apartment in October, 1988 for all of the major metropolitan centers in Canada. The first grouping of 26 cities are the larger urban agglomerations while the second grouping lists 27 smaller metropolitan areas. Both lists are presented in alphabetical order. Using the MDD guideline to match apartment size and family size and employing our rule of thumb that low income families pay 10 percent below average rents, we can determine the necessary shelter costs for various communities by family size. This is presented in Table 6-4.

These values represent the average costs that low income Canadians could reasonably expect to pay for accommodation appropriate to family size in the various communities listed. What about rental costs in smaller places? If we are interested in determining essential shelter costs for all parts of Canada we must somehow factor in those communities with less than 50,000 population that have so far been omitted. As might be expected information regarding these smaller communities is far less satisfactory than data on major urban centers. Nevertheless,

Table 6—4
Essential annual shelter costs (\$)—1988
by major city and family size

Cities	Family Size					
	1	2	3	4	5	6
Calgary	\$3,404	\$4,440	\$5,705	\$6,360	\$6,360	\$6,360
Chicoutimi	3,044	3,633	4,265	4,593	4,593	4,593
Edmonton	3,415	4,320	5,258	5,782	5,782	5,782
Halifax	4,342	5,051	6,011	7,244	7,244	7,244
Hamilton	3,404	4,244	5,149	6,480	6,480	6,480
Hull	3,742	4,538	5,073	5,716	5,716	5,716
Kitchener	3,589	4,331	5,182	6,491	6,491	6,491
London	3,589	4,484	5,564	6,862	6,862	6,862
Montreal	3,862	4,800	5,564	6,545	6,545	6,545
Oshawa	4,844	5,302	5,891	6,502	6,502	6,502
Ottawa	4,047	5,138	6,480	7,735	7,735	7,735
Quebec	3,665	4,647	5,193	5,989	5,989	5,989
Regina	2,836	4,320	5,345	6,284	6,284	6,284
St. Catherines	3,218	4,407	5,062	5,771	5,771	5,771
Saint John	3,153	3,687	4,255	4,658	4,658	4,658
St. John's	4,145	4,920	5,618	5,913	5,913	5,913
Saskatoon	2,989	4,102	4,898	5,575	5,575	5,575
Sherbrooke	2,869	3,545	4,156	4,931	4,931	4,931
Sudbury	3,633	4,364	5,062	5,422	5,422	5,422
Thunder Bay	3,087	4,691	5,891	6,295	6,295	6,295
Toronto	4,462	5,378	6,502	8,051	8,051	8,051
Trois-Rivieres	3,404	3,949	4,036	4,451	4,451	4,451
Vancouver	4,353	5,258	6,884	8,073	8,073	8,073
Victoria	3,556	4,331	5,618	5,924	5,924	5,924

Table 6—4 (continued)
Essential annual shelter costs (\$)—1988
by major city and family size

Cities	Family Size					
	1	2	3	4	5	6
Windsor	\$3,022	\$4,571	\$5,902	\$5,684	\$5,684	\$5,684
Winnipeg	3,458	4,549	5,651	6,785	6,785	6,785
Barrie	4,036	5,302	6,076	6,807	6,807	6,807
Belleville	3,644	4,985	5,629	6,513	6,513	6,513
Brantford	3,491	4,342	4,844	5,171	5,171	5,171
Charlottetown	3,469	4,036	4,985	5,956	5,956	5,956
Chilliwack	3,862	3,938	4,636	—	—	—
Cornwall	3,698	4,287	5,411	5,945	5,945	5,945
Drummondville	2,585	3,404	3,905	4,135	4,135	4,135
Fredericton	3,895	4,560	5,084	5,978	5,978	5,978
Granby	2,465	3,665	4,167	4,756	4,756	4,756
Guelph	4,396	4,669	5,302	5,836	5,836	5,836
Kamloops	2,804	3,404	4,069	5,040	5,040	5,040
Kelowna	2,924	4,505	4,822	5,335	5,335	5,335
Kingston	3,142	4,560	5,411	6,425	6,425	6,425
Lethbridge	3,535	4,298	5,007	5,400	5,400	5,400
Matsqui	3,098	3,905	4,756	5,509	5,509	5,509
Medicine Hat	2,640	3,338	4,058	4,778	4,778	4,778
Moncton	3,273	4,091	4,680	5,269	5,269	5,269
Naniamo	2,989	3,524	4,331	4,582	4,582	4,582
North Bay	3,611	4,713	5,247	6,000	6,000	6,000
Peterborough	3,633	4,778	5,738	6,535	6,535	6,535
Prince George	3,305	3,840	4,298	4,658	4,658	4,658

Table 6—4 (continued)
Essential annual shelter costs (\$)—1988
by major city and family size

Cities	Family Size					
	1	2	3	4	5	6
Red Deer	\$3,415	\$4,178	\$4,942	\$5,705	\$5,705	\$5,705
St. Jean	3,000	3,295	3,905	4,364	4,364	4,364
Sarnia	3,153	4,255	4,996	6,338	6,338	6,338
Sault Ste. Marie	3,218	4,560	5,302	6,120	6,120	6,120
Shawinigan	2,138	2,924	3,164	3,295	3,295	3,295
Sydney	2,815	3,469	4,385	6,153	6,153	6,153

what is available does appear to confirm our hypothesis that rents are lower in smaller places.

The CMHC conducted a rent survey of census agglomerations (CA's) with populations between 10,000 and 49,999 in October 1988. These smaller communities account for about 2.2 million of our 1986 population. Table 6-5 presents the *provincial averages* drawn from the survey. In every province the average rent in small CAs is below, often substantially, the average rent in large CAs. Indeed, rents in most smaller communities tend to be at or below levels in the least expensive larger community within a province.

There remains, of course, about 25 percent of the population that reside in communities or rural areas with populations smaller than 10,000. The great majority of these households are homeowners, 63 percent of whom own mortgage free.¹⁵ The roughly 13 percent who do rent very likely have shelter costs no higher than those in the smaller CAs. One of the attractions of rural living has always been lower cost accommodation. In the absence of any data on these rents, we assume, for the purposes of this study, that rents in smaller communities within a prov-

15 Statistics Canada, *Household Facilities by Income and Other Characteristics*, 1989, Table 2.4, p. 84.

Table 6-5

Provincial average monthly rents (\$) in apartments of 6 or more units in CAs between 10,000 and 49,999 in October, 1988

Province	Number of communities included	Bachelor	One Bdrm	Two Bdrm	Three Bdrm
Newfoundland	4	\$302	\$353	\$385	\$426
P.E.I.	1	245	381	423	462
Nova Scotia	2	238	337	432	445
New Brunswick	3	245	303	368	347
Quebec	23	242	300	345	377
Ontario	27	292	377	454	515
Manitoba	4	296	378	448	501
Saskatchewan	7	244	350	434	484
Alberta	5	333	364	428	487
B.C.	18	251	313	365	417

Source: CMHC, Ottawa, special survey.

ince will, on average, be no higher than rents in the least expensive CA within the same province. This assumption permits inclusion of smaller areas when provincial average rents are required. It would be quite incorrect to assume that average urban rents are reasonably representative of rents in smaller communities.

An obvious question regarding these published rents is what they include. While some rental agreements involve a single monthly fee covering heat and electricity, others specify that tenants pay their own utilities. Unfortunately, CMHC data involves just 'stated' rents, some of which would cover utilities and others which would not. There is no way to determine what proportion of the stated rents include all or even some utilities. CMHC analysts have declined to estimate the proportion

that includes utilities. Clearly, if very few of the stated rents include all utilities, then the values in Table 6-4 underestimate to some extent the true essential shelter costs.

A survey of apartment listings in the City of North Bay during 1988 yields some relevant information.¹⁶ Forty three percent of the listings specifically included *all* utilities in the stated rent, 10 percent specified that utilities were extra, 17 percent stated that only hydro was extra and 30 percent did not specify anything regarding utilities. Surprisingly, in a comparison of the rents of those units which included all utilities and those excluding all utilities, the average rents of the latter *exceeded* the former in every type of apartment except the three bedroom. On a typical day there were about 50 listings which represents less than 1 percent of the average 1988 rental stock.¹⁷ However, overall, fully 25 percent of listings were unfilled after one week. This information is relevant to one community in 1988 and may or may not reflect the situation at other times and in other areas in Canada. These data do serve, however, to cast some doubt on the view that CMHC stated rents underestimate true shelter costs.

Rent controls directly affect both affordability and availability of rented accommodation. The purpose of rent controls is to hold down the rate of increase in rents that would otherwise occur due to market forces. It is supposed to be a way of maintaining affordable shelter. Because rent controls result in shortages of rental accommodation, however, affordability is achieved at the expense of availability. Low vacancy rates, little or no unsubsidized construction of new units and conversions (legal and illegal) to uncontrolled uses are all consequences of a controlled rental market. In fact, even affordability is somewhat elusive. While we do have many apartments renting well below fair

16 Conducted by the author. Fifteen different days covering every month of the year were randomly selected. Every apartment listing in the city's only newspaper was recorded and categorized according to size, utilities included and price.

17 Information regarding the stock of rental housing in the City of North Bay was obtained from the City of North Bay Housing Report, Planning and Development Department, June, 1989.

market value, in tight markets few are likely to be occupied by low income tenants. They rarely have the time, resources or connections to find these gems. Because of artificial shortages, tenants of modest means often encounter large search costs and when they find an "affordable" unit it is likely to be poorer quality than they would otherwise expect. Rent controls are a most inefficient way to deal with the problem of rapid rent increases. Ultimately they benefit only well off, long term renters. They adversely affect the stock of rental accommodation and are especially harmful to low income tenants.

All things considered, the values in Table 6-4 are a reasonable estimate of essential shelter costs in various Canadian communities in 1988. They represent costs that low income households could expect to pay, on average, for rental accommodation. There are several exceptions however. Mortgage-free homeowners, students living in residences or sharing accommodation and people living in subsidized, rent-geared-to-income housing would all have shelter costs substantially lower than are given in the table. These exceptions are dealt with in greater detail in Chapter 9.

Some will argue that the costs in Table 6-4 underestimate the amounts that some low income tenants must pay for rental accommodation because low vacancy rates in many cities force tenants to take more expensive apartments. A critical evaluation of this issue is treated in Chapter 10. As well, the problem of homelessness and its relation to the private rental market is taken up in Chapter 10.

Other necessities

Food and shelter are the most basic necessities. The absence of either one seriously jeopardizes physical well-being. There is no debate that people, wherever they live, are poor if they cannot afford (or cannot somehow acquire) these core necessities on an on-going basis. Applying the criterion that a necessity is anything that a person requires to continually maintain physical well-being, the list of "other necessities" must include: clothing, transportation, personal hygiene needs, health care and household items.

Clothing

Over the years low income Canadians have used a variety of strategies to clothe themselves. Sewing and knitting some clothing items, hand-me-downs within and between families and the purchase of second hand clothing are all ways that poor individuals and families have used to economize on clothing. Indeed it is fair to say that these strategies transcended social class and were characteristic of most Canadian families a generation ago. While the need to economize has diminished as real incomes have grown, these and other ways to reduce clothing costs continue to be used.¹⁸ In recent years "sales" and "specials" on clothing and footwear have become perhaps the most popular way that families use to cut costs. Unlike food, the purchase of most clothing items is "postponable" and this provides shoppers with greater scope to benefit from the frequent sales in the apparel and footwear industry.

Beyond defining adequate clothing as clothing and footwear which is intact, reasonably in style and appropriate to the season, it is difficult to generalize about the quantity and quality of clothing that is essential. It should be possible to rigorously estimate basic needs in this area based on normal usage by age and gender. However, in the absence of any such published information, I will use the estimates provided by the Montreal Diet Dispensary, albeit with some reluctance.

The MDD has developed lists of basic clothing items by age and gender which they suggest are "minimum adequate." Some items on the list are clearly outdated (the list is unchanged since 1959) and other items reveal gender bias (i.e., bathing suit for women, not for men). In addition, there is no justification provided for the quantities used. Nevertheless, the lists seem in general to be reasonable and in no way would be regarded as insufficient. Using prices derived from the 1988

18 The most destitute families have, for some time, been able to receive most of their clothing free. For example, in November 1990, the United Way in Toronto expected to give away 25,000 coats to needy children. Similar drives exist for footwear and other clothing items. Charitable gifts of clothing to the needy is common, formally or informally, in every community in the country.

Sears and Eaton's catalogues, the MDD estimates that clothing costs are approximately \$245 per person per year.

This value is exclusive of provincial sales tax. In Quebec, all clothing and footwear are entirely exempt from the sales tax. Overall, six provinces (representing 46 percent of the population) exempt all clothing and footwear from sales tax. All provinces exempt children's clothing. Similarly, all provinces exempt yarns, fabrics, patterns, and other sewing accessories used to make clothes. It is true that about half of Canadian adults will pay between \$15 and \$30 per year more on clothing than the MDD estimates due to provincial sales taxes. However, low income families, out of necessity, use a variety of strategies which tend to lower clothing costs. For example, the "on sale" purchases of one pair of shoes or one pair of pants will save most or all of the amount spent on sales tax. The MDD calculations explicitly exclude all economizing practices and to that extent, they overestimate necessary clothing costs. Therefore, on net, we do not expect the MDD value to be an underestimate even in those provinces that tax adult clothing. We will use the MDD average of \$245 per person per year as our 1988 necessary clothing costs.

Transportation

Essential transportation costs depend largely on two factors: whether or not one is employed and the distance between home and place of employment or shopping. While many city dwellers are able to walk to work or shopping or both, there are also many who require public transit.¹⁹ Assuming an average 1988 fare of \$1 per trip and two shopping trips per week, there are several cases, presented in Table 6-6, to be considered.

Some readers may regard cases I, II and III as irrelevant, arguing that the poor must be unemployed. However likely that may be, there can be other possibilities. For example, there are undoubtedly people supporting several children (and possibly another adult) earning at or just above the minimum wage. It may well be that their income does not cover all necessary expenses. As well, there are some who were em-

19 In terms of economy, public transit wins hands down over the automobile.

played for part but not all of the year and whose income is insufficient to cover necessities. So employed persons should be included in these calculations. How heavily they should be weighted is another question and one which this study essentially ignores.

Table 6-6
Transportation costs—various cases, 1988

Case	Employed	Bus/Walk To Work	Bus/Walk To Shopping	Annual Cost
I	Yes	bus	bus	\$718*
II	Yes	bus	walk	\$520
III	Yes	walk	bus	\$208
IV	No	—	bus	\$208
V	No	—	walk	0

* assuming 5 statutory holidays per year

For convenience we treat each case equally and therefore select the mid point of the range (i.e., \$359) as representing the necessary cost of transportation for the average household while keeping in mind that there will be special cases in which costs may be substantially different. Two such cases that come immediately to mind are the elderly and residents of small communities. Necessary transportation costs of the low income elderly are likely to be somewhat lower because most seniors are retired from work and some municipalities offer reduced fee or free transit to seniors. On the other hand, low income families in rural areas must often pay significantly more for transportation because of the large distances to jobs and shopping and because of the unavailability of public transit. It is expected however that the lower cost of housing in these areas completely offsets the higher transportation costs.

Personal Hygiene

The cost of personal hygiene and health needs vary widely between people. When cosmetics, perfumes and hair styling services are included, this category of expenditure has a relatively high income elasticity. However, if we limit the discussion to *essential* hygiene items, it is doubtful that anyone would include such products. They cannot be regarded as necessary to the long term physical well being of the user.²⁰

I begin with a "core" list of hygiene products common to all families and which undoubtedly account for the bulk of expenditures on necessary personal care. Included are: personal soap, shampoo, deodorant, facial and bathroom tissue and oral hygiene products. In 1986, average family expenditure on these items was \$229.²¹ Assuming that the average family in Canada is spending an adequate but not excessive amount on these personal care items to maintain good hygiene, it would be reasonable to use this value as a proxy for necessary basic hygiene costs. Using the change in the overall C.P.I. to adjust for inflation, this expenditure would be \$249.61 in 1988. On a per person basis the annual (1988) cost is \$91.77.

Now, in addition to these "core" hygiene needs, there are additional necessary items related to a person's age or gender. Included here would be diapers, bandages, pain remedy, electric shaver (and annual replacement screen), hair brush, nail clipper / filer, feminine hygiene products, condoms, powders, ointments, etc. Using 1986 FAMEX data (which reports on most of these items) plus an estimate based on 1988 prices²² (where no FAMEX data was available), the 1988 cost of these additional

20 The issue of hairstyling and haircutting is a difficult one. The decline in the number of barbers and the increase in sales of barber kits indicates that many households, including middle class families, are cutting their own hair. Some prominent Canadian executives, including Ken Thompson, always have their spouses cut their hair (see Peter Newman's *Merchant Princes*). For this reason I have not included haircuts anywhere in "other" necessities.

21 FAMEX, 1986, Table 20, p. 149-155.

22 Taken from a national drug store chain, Shoppers Drug Mart.

items for the average person would be just over \$100.²³ Therefore, the total necessary cost of personal care and hygiene in 1988 would be approximately \$200 for an average person.

Household Items

Table 6-7 displays a list of necessary household items and the corresponding average family expenditure (1986). These items are sufficient to maintain household cleanliness on an ongoing basis. The 1988 cost

Table 6-7

**Essential household items,
average annual family expenditure—(1986)**

Item	Cost (\$)
Detergents and Soaps (excluding personal)	\$110
Cleaning powders	14
Paper Towels	28
Plastic garbage bags	25
Light bulbs	16
Sheets and pillow cases	23
Table cloths, napkins	8
Towels, washcloths, etc.	19
Brooms, brushes, mops	14
<i>Total</i>	257

Source: Statistics Canada, FAMEX (1986)

23 Included in these calculations is a (subjective) estimate of the expected life of some items (shavers, brushes, etc.)

would be approximately \$280 for an average family or roughly \$103 per person. Added to this would be an estimated per person laundromat cost of \$52 (one load per two persons per week).

In addition to these necessary household items, basic telephone service has come to be regarded as essential if only because it links the household to the community's emergency services. Apparently the cost of this service varies substantially across the country with the overall Canadian average estimated to be \$172 per year.²⁴ The annualized cost of a name brand telephone with an expected useful life of five years is approximately \$5.²⁵

Finally, there is the question of household furnishings. Expenditures on furniture and appliances vary considerably between households and this is largely explained by income differences. The following items are basic to all households and can be regarded as essential: bedroom dresser, bed (box spring, mattress, frame), mattress cover, bedspread/duvet²⁶, flannelette blanket, chesterfield set, coffee table, kitchen table set, dishes, pots and pans, flatware, toaster. In some cases, low income families receive many of these items as gifts from family, friends or charitable groups. In other cases, they purchase these items second hand at thrift outlets, flea markets, garage sales and used furniture stores. In still other cases, items are purchased brand new. However, it is reasonable to expect that donated furniture and second hand items would have a somewhat shorter useful life than new furniture. This generalization clearly does not hold for well-built antiques.

One relatively simple way to adequately represent the annual cost of home furnishings is to determine the average annual cost of *new* furniture by dividing the 1988 price by the expected useful life of the item. Assuming a staggered acquisition of new furniture items and a

24 Montreal Diet Dispensary estimate, Canadian average, 1988. Budgeting for Minimum Adequate Standard of Living, 1988, p. 32.

25 G.E. 'Telemax' telephone, including 8 percent sales tax. Prices obtained from *Consumers Distributing Catalogue*, Fall, 1989.

26 Bed sheets have already been included under household items.

balance of donated and used furnishings, the pattern on which these estimates are based need present no cash flow problems.

Some of the costs of home furnishings, such as bedroom items, will vary with the number of persons in the household while other costs (kitchen and living room) will be largely independent of the number of persons. It is reasonable, for example, to assume that each person in the household requires one complete set of bedroom furnishings. While this assumption ignores some scale economies in the bedroom, it does, I believe, reflect a minimum adequate standard and, as well, fairly represents the situation of many low income single parent families.

Table 6-8 below summarizes the calculation of the average annual cost of our list of (newly purchased) furniture for households of various sizes. All prices were taken from the 1988 Sears catalogue. One can argue that each of these items would cost substantially less at discount department stores; however, I believe a case can be made that price reflects the

Table 6-8
Costs of new essential furnishings (1988)
by family size

Family Size	Annual Living Room & Kitchen Costs (\$)	Annual Bedroom Costs (\$)	Total (\$)
1	\$71.01	\$31.43	\$102.44
2	71.01	62.86	133.87
3	75.30	94.28	169.58
4	75.30	125.71	201.01
5	80.19	157.14	237.33
6	80.19	188.57	268.76

Source: 1988 Sears Catalogue (Canada)

quality and durability of an item and that cheaper furnishings will have a much shorter life expectancy. The values in the table include 8 percent sales tax which is approximately the average rate in Canada weighted by provincial populations.

The omission of some items requires an explanation. Health care is clearly a basic necessity. In all Canadian provinces premium assistance was available in 1988 to low income citizens. We assume therefore that those defined as poor would not have to pay for coverage and would receive all the routine and emergency medical benefits provided by the health insurance program. In the case of dental care, this same health insurance covers emergency treatment. As well, dental societies in all major centers provide free dental services to the poor. Similarly, people with vision problems receive free annual eye examinations under provincial health plans and Lions Clubs across Canada provide free eyeglasses to needy individuals.²⁷

Textbooks are provided in our public secondary schools, but students are normally responsible for their own supplies such as pens, pencils, notebooks, etc. The relatively minor costs of such items is assumed to be offset by part-time or summer earnings. All required school supplies are generally provided by schools at the primary level.

Throughout the discussion of "other" necessities, we have estimated costs for a "normal" or "typical" household. There are, of course, people with special needs and these requirements may or may not be met by existing public and private sources of assistance. Nevertheless, it would be inappropriate to consider the costs of the various special needs as part of a discussion of basic necessities. It is preferable to treat them as special cases and then assess income adequacy of the particular situation. This issue is taken up again in Chapter 10.

Table 6-9 below provides an itemized summary of the cost of "other" necessities by family size. These costs are representative of all of Canada and are not adjusted for different communities or regions. This is justified because, in large part, Canadian average costs or prices

27 At this stage, I have not discussed provincial welfare programs. In Chapter 10, we will see that social assistance in every province extends to health insurance as well as dental and vision care.

Table 6-9
Other necessities summary chart
1988 costs by family size (\$)

Category	Size of Family					
	1	2	3	4	5	6
Clothing	\$245	\$490	\$735	\$980	\$1225	\$1470
Transportation	359	359	359	359	359	359
Personal Hygiene	200	400	600	800	1000	1200
Household Needs:						
a) Cleaning/ Maintenance	155	310	465	620	775	930
b) Telephone	177	177	177	177	177	177
c) Home Furnishings	103	134	170	201	237	269
Totals	1239	1870	2506	3137	3773	4405

have been used in our calculations. Specifically, clothing and home furnishing costs were taken from the catalogues of national department stores. Transportation costs are based on the maximum transit fees in our large cities. Much of the cost of personal hygiene and household cleaning supplies is based on overall Canadian average family expenditure (FAMEX) patterns for 1986 and inflation adjusted to 1988. The rest of the cost of items in those categories is based on prices at a nation-wide drug store chain. Finally, the cost of basic telephone service is a national average as estimated by the MDD.

Chapter 7

Poverty Lines and the Determination of Poverty in Canada

THE NECESSITIES APPROACH to the measurement of poverty is based on the premise that it is important for a society to know how many of its members cannot afford to provide themselves with all the basic necessities of life. In the previous two chapters, we have attempted to determine, with some rigour, the cost of basic necessities in Canada in the reference year, 1988. Essential food costs have been estimated by family size for 25 major metropolitan areas in each of the 10 provinces. Essential shelter costs by family size have been determined for metropolitan centres with a population of at least 50,000—53 cities in all. And finally, the cost of other necessities by family size has been calculated in such a way as to reflect an approximate Canadian average. Therefore, we have sufficient information to determine “poverty lines” for (at least) 25 major Canadian communities. The combined 1986 population in these 25 communities is 14,318,851 or about 57 percent of the overall population of Canada.

Using the necessities approach, the poverty line for a given family size is simply the sum of the costs of food, shelter and other necessities. This dollar value tells us the minimum income required to purchase all

basic needs. The results of these calculations, by major city and by size of family are displayed in Table 7-1.

Regrettably, we cannot directly determine the number of poor persons in our major cities. There exists no published statistical information on income distribution by city and family size. The census provides city income distributions but with families of all sizes lumped in together. Statistics Canada annual household survey "Income Distributions by Size in Canada" presents income distributions by family size for provinces but not cities. Thus, the data do not permit the measurement of poverty in Canadian cities. However, this is really not a serious limitation. In fact, it is important to determine poverty lines and the extent of poverty in the whole of Canada and not just in the roughly 57 percent of the population represented in Table 7-1. Therefore, it is appropriate to move on to the construction of essential living costs by province.

In determining provincial poverty lines, the major issue to be resolved is how to treat the numerous towns, villages and rural communities for which food or shelter data are not available. Casual observation of the data we do have suggests that food and shelter should be treated differently. For example, it appears, from Table 6-4 that shelter costs are positively correlated with city population. If this is true, then the thousands of smaller communities not included would have lower shelter costs than those which are included. With food, there does not appear to be any particular relationship between costs and size of community. In fact, food costs seem to have something of a regional pattern—generally higher in the East and lower in the West—if anything at all.

Statistical analysis confirms these suspicions.¹ City population is found to be strongly significant in explaining shelter costs in major cities across Canada. This result also holds for cities *within* our two largest provinces—Ontario and Quebec. With food on the other hand, the size of city does not help explain essential food costs and there is no significant correlation between city population and essential food costs. Given this evidence, it would not be inappropriate to calculate a

1 Based on regressions done by the author for this study.

Table 7-1
Poverty lines (\$)—1988
by major city and family size

City	Category	Family size					
		1	2	3	4	5	6
St. John's	Food	\$1,111	\$2,078	\$3,091	\$4,183	\$5,171	\$6,108
	Shelter	4,145	4,920	5,618	5,913	5,913	5,913
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,495	8,868	11,215	13,233	14,857	16,426
Charlotte-town	Food	1,012	1,892	2,815	3,811	4,710	5,564
	Shelter	3,469	4,036	4,985	5,956	5,956	5,956
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,720	7,798	10,306	12,904	14,439	15,925
Sydney	Food	1,078	2,016	2,999	4,059	5,018	5,927
	Shelter	2,815	3,469	4,385	6,153	6,153	6,153
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,132	7,355	9,890	13,349	14,944	16,485
Halifax	Food	1,023	1,913	2,846	3,852	4,762	5,625
	Shelter	4,342	5,051	6,011	7,244	7,244	7,244
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,604	8,834	11,363	14,233	15,779	17,274
Moncton	Food	1,001	1,872	2,785	3,769	4,659	5,504
	Shelter	3,273	4,091	4,680	5,269	5,269	5,269
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,513	7,833	9,971	12,175	13,701	15,178
Saint John	Food	979	1,831	2,723	3,686	4,557	5,383
	Shelter	3,153	3,687	4,255	4,658	4,658	4,658
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,371	7,388	9,484	11,481	12,988	14,446

Table 7-1 (continued)
Poverty lines (\$)—1988
by major city and family size

City	Category	Family size					
		1	2	3	4	5	6
Chicou-timi	Food	\$1,232	\$2,304	\$3,427	\$4,639	\$5,734	\$6,774
	Shelter	3,044	3,633	4,265	4,593	4,593	4,593
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,515	7,807	10,198	12,369	14,100	15,772
Quebec	Food	1,155	2,160	3,213	4,349	5,376	6,350
	Shelter	3,665	4,647	5,193	5,989	5,989	5,989
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,059	8,677	10,912	13,475	15,138	16,744
Trois Rivières	Food	1,067	1,995	2,968	4,081	4,966	5,867
	Shelter	3,404	3,749	4,036	4,451	4,451	4,451
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,710	7,614	9,510	11,606	13,190	14,723
Sher-brooke	Food	1,078	2,016	2,999	4,059	5,018	5,927
	Shelter	2,869	3,545	4,156	4,931	4,931	4,931
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,186	7,431	9,661	12,127	13,722	15,263
Montreal	Food	1,100	2,057	3,060	4,142	5,120	6,048
	Shelter	3,862	4,800	5,564	6,545	6,545	6,545
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,201	8,727	11,130	13,824	15,438	16,998
Hull	Food	902	1,687	2,509	3,396	4,198	4,959
	Shelter	3,742	4,538	5,073	5,716	5,716	5,716
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,883	8,095	10,088	12,249	13,687	15,080

Table 7-1 (continued)
Poverty lines (\$)—1988
by major city and family size

City	Category	Family size					
		1	2	3	4	5	6
Ottawa	Food	\$ 935	\$1,748	\$2,601	\$3,521	\$4,352	\$5,141
	Shelter	4,047	5,138	6,480	7,735	7,735	7,735
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,221	8,756	11,587	14,393	15,860	17,281
Toronto	Food	1,067	1,995	2,968	4,018	4,966	5,867
	Shelter	4,462	5,378	6,502	8,051	8,051	8,051
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,768	9,243	11,976	15,206	16,790	18,323
Hamilton	Food	1,045	1,954	2,907	3,935	4,864	5,746
	Shelter	3,404	4,244	5,149	6,480	6,480	6,480
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,688	8,068	10,562	13,552	15,117	16,631
London	Food	1,100	2,057	3,060	4,142	5,120	6,048
	Shelter	3,589	4,484	5,564	6,862	6,862	6,862
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,928	8,411	11,130	14,141	15,755	17,315
Sudbury	Food	990	1,851	2,754	3,728	4,608	5,443
	Shelter	3,633	4,364	5,062	5,422	5,422	5,422
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,862	8,085	10,322	12,287	13,803	15,270
Thunder Bay	Food	1,111	2,078	3,091	4,183	5,171	6,108
	Shelter	3,087	4,691	5,891	6,295	6,295	6,295
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,437	8,639	11,488	13,615	15,239	16,808

Table 7-1 (continued)
Poverty lines (\$)—1988
by major city and family size

City	Category	Family size					
		1	2	3	4	5	6
Winnipeg	Food	\$ 902	\$1,687	\$2,509	\$3,396	\$4,198	\$4,959
	Shelter	3,458	4,549	5,651	6,785	6,785	6,785
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,599	8,106	10,666	13,318	14,756	16,149
Regina	Food	946	1,769	2,632	3,562	4,403	5,201
	Shelter	2,836	4,320	5,345	6,284	6,284	6,284
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,021	7,959	10,483	12,983	14,460	15,890
Saskatoon	Food	946	1,769	2,632	3,562	4,403	5,201
	Shelter	2,989	4,102	4,898	5,575	5,575	5,575
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,174	7,741	10,036	12,274	13,751	15,181
Edmonton	Food	1,001	1,872	2,785	3,769	4,659	5,504
	Shelter	3,415	4,320	5,258	5,782	5,782	5,782
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,655	8,062	10,549	12,688	14,214	15,691
Calgary	Food	1,067	1,995	2,968	4,018	4,966	5,867
	Shelter	3,404	4,440	5,705	6,360	6,360	6,360
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,710	8,305	11,179	13,515	15,099	16,632
Vancouver	Food	1,023	1,913	2,846	3,852	4,762	5,625
	Shelter	4,353	5,258	6,884	8,073	8,073	8,073
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	6,615	9,041	12,236	15,062	16,608	18,103

Table 7-1 (continued)
Poverty lines (\$)—1988
by major city and family size

City	Category	Family size					
		1	2	3	4	5	6
Victoria	Food	\$1,045	\$1,954	\$2,907	\$3,935	\$4,864	\$5,746
	Shelter	3,556	4,331	5,618	5,924	5,924	5,924
	Other	1,239	1,870	2,506	3,137	3,773	4,405
	PL	5,840	8,155	11,031	12,996	14,561	16,075

weighted average of essential food costs for each province using just the cities in Table 5-8. We have no reason to believe that food costs for those communities omitted would be significantly different.²

It would be quite inappropriate, however, to do the same for shelter costs. As was pointed out in Chapter 6, apartment rents are lower in towns with populations between 10,000 and 50,000 than in cities with populations above 50,000. There is no data on shelter costs in smaller communities and rural areas. In the absence of complete information, it is assumed that, within each province essential shelter costs in the omitted areas are approximately equal, on average, to the least expensive shelter cost among included cities. In Ontario for example, the city of Sudbury had the lowest overall shelter costs in 1988 among all listed cities. Our assumption means that shelter costs in the smaller commu-

2 At this point, some readers will argue that food costs in small towns and rural areas are higher because major grocery stores are not as accessible. While many residents of rural communities make frequent treks to cities for shopping and medical needs, it is true that some day-to-day items may cost more. However, these additional food expenses may be offset by garden plots and direct purchases from farmers. Indeed in 1986, average family food expenditure in both small urban and rural areas of Canada were below the overall average. (Famex (1986), p. 40-1.)

nities in Ontario, comprising about 22 percent of the population, would be no higher, on average, than those in Sudbury.

In each of three of Canada's provinces—Newfoundland, Prince Edward Island and Manitoba, there is only *one* city with a population of 50,000 or more people. In these cases average essential shelter costs for the province will be clearly overestimated. However, in these areas it is preferable to let major city costs reflect overall provincial costs than to make some arbitrary adjustment.

Finally, the cost of "other" necessities (clothing, transportation, personal hygiene and household items) have been calculated for Canada as a whole (not by province or city) and vary only with family size.

Table 7-2

**Poverty lines in Canada by province and family size (\$)
—1988**

Province	Family Size					
	1	2	3	4	5	6
Newfoundland	\$6,495	\$8,868	\$11,215	\$13,233	\$14,857	\$16,426
P.E.I.	5,720	7,798	10,303	12,904	14,439	15,925
Nova Scotia	5,611	7,818	10,332	13,572	15,132	16,640
New Brunswick	5,470	7,550	9,656	11,734	13,250	14,716
Quebec	5,504	7,955	10,122	12,447	14,063	15,625
Ontario	6,222	8,679	11,210	13,946	15,516	17,033
Manitoba	5,599	8,106	10,666	13,318	14,756	16,149
Saskatchewan	5,149	7,785	10,124	12,411	13,888	15,318
Alberta	5,426	7,821	10,344	12,621	14,174	15,676
B.C.	5,920	8,230	10,974	13,578	15,127	16,625

These assumptions permit the construction of provincial poverty lines by family size. Weighted³ average food and shelter costs among the cities in each province are summed and "other costs" added in to get provincial totals. The results are presented in Table 7-2. As might be expected, there is a somewhat smaller range of poverty line values among provinces than was the case with cities. Specifically, there is only a 16 percent difference between the least expensive (New Brunswick) and most expensive (Ontario) provinces compared with a range of about 25 percent between the least and most expensive cities. It would not be incorrect to say that there is broad similarity in provincial average essential living costs across the country.

The estimation of poverty in Canada

The basic source of data used to determine the extent of poverty in Canada is Statistics Canada's Microdata file for Economic Families (1988). The information on the tape is compiled from the Survey of Consumer Finances which Statistics Canada has conducted annually since 1971. The sample survey, over 36,000 households in total, is representative of virtually all private households in Canada except for residents of Yukon and N.W.T., households located on Indian reserves and inmates of institutions. The current survey was conducted in April 1989 and respondents were asked by interviewers to supply information on their 1988 incomes. The following income sources were included: wages and salaries, net income from self employment, investment income (interest and dividends), net rents, estate income, government transfer payments from all levels of government including child and sales tax credits, pensions of all types, as well as income from scholarships, alimony and miscellaneous income. Specifically *excluded* as sources of income are: gambling gains and losses, money inherited during the year in a lump sum, capital gains or losses, receipts from the sale of property or personal belongings, loans received, lump sum settlements on insurance policies and rebates of property taxes and other taxes. All "in-kind" forms of income were similarly excluded. Finally, the income distribution publications exclude family units and

3 Weighted by (1986) population of metropolitan area.

individuals whose major source of income was military pay and allowances.

Estimation of the incidence of poverty using StatsCan's published income distribution tables (such as *Income Distributions by Size*) would require a process known as linear interpolation. This is because published ranges will not correspond to calculated poverty lines. Linear interpolation, a simple method of determining within range percentages, will result in fairly accurate aggregate estimates. However, the use of the microdata file, which includes every household in the sample, permits precise calculations and is therefore preferable.⁴

For those who are unfamiliar with the published income distribution tables, an example is reprinted below in Table 7-3. This table shows the distribution of income in 1988 by family size for Ontario. Statistics Canada groups families with five or more persons together because of the small numbers of households involved. I will do the same both for convenience and to ensure close correspondence between my tables and published tables.

Using the microdata file it was found that the average size of families with 5 or more persons was almost exactly 5.5 persons. Using this value, the poverty line for the 5 and over category is simply the arithmetic average of the poverty lines for families of sizes 5 and 6. This methodology is employed for simplicity for all provinces.

Applying the provincial average poverty lines to the microdata file, the extent of poverty by family size in each province in Canada was determined. The percentages as well as the absolute number of persons who reported incomes less than the given poverty lines are summarized below in Table 7-4. At the bottom of the table, the aggregate values for Canada are given. In some cases, the household counts in the microdata file differ slightly from the published counts (i.e., in Statistics Canada's *Income Distributions by Size in Canada*, Catalogue #13-207). These differences are due to the masking of special family units to ensure confidentiality.

4 The use of linear interpolation results in slightly (about 5 percent) exaggerated estimates of poverty. This is clearly because incomes are not evenly distributed within the selected lower income ranges but are rather "bunched" somewhat towards the higher end of the range.

Table 7-3

**Percentage distribution of families by income groups,
provinces and size of family, 1988**

Income group	All families	Size of family			
		2	3	4	5 or more
Ontario					
Under \$5,000	0.8%	1.4%	0.4%	0.5%	0.1%
\$ 5,000 - \$ 9,999	1.5	2.5	2.0	0.2	0.5
10,000 - 12,499	1.6	2.5	2.2	0.5	0.3
12,500 - 14,999	1.9	2.8	1.9	1.0	0.7
15,000 - 17,499	2.5	4.2	1.0	2.1	1.3
17,500 - 19,999	3.3	6.0	1.8	1.3	2.0
20,000 - 24,999	6.2	9.9	5.0	3.4	2.6
25,000 - 29,999	6.4	8.1	6.9	5.0	3.5
30,000 - 34,999	7.2	9.1	6.6	5.9	5.0
35,000 - 39,999	7.3	8.6	7.6	6.9	4.2
40,000 - 44,999	8.1	7.6	10.1	6.7	8.4
45,000 - 49,999	7.0	6.4	6.1	8.9	6.8
50,000 - 54,999	7.8	6.2	8.2	9.0	9.3
55,000 - 59,999	6.3	4.6	6.7	7.6	8.1
60,000 - 64,999	5.0	3.4	5.6	6.3	6.2
65,000 - 69,999	4.9	3.0	6.4	5.7	6.5
70,000 - 74,999	3.4	2.5	2.9	4.7	4.8
75,000 and over	18.8	11.3	18.8	24.3	29.9

Table 7-3 (continued)

Percentage distribution of families by income groups, provinces and size of family, 1988

Income group	All families	Size of family			
		2	3	4	5 or more
<i>Total</i>	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Average income</i>	\$52,764	\$43,469	\$52,608	\$59,928	\$65,891
<i>Median income</i>	\$47,327	\$37,006	\$48,853	\$54,233	\$58,333
<i>Number of records</i>	5,330	2,085	1,198	1,323	724
<i>Estimated numbers</i>	2,591	987	610	631	362
<i>Standard error of average income</i>	\$709	\$920	\$1,113	\$1,330	\$2,083

Source: Statistics Canada, *Income Distributions by Size in Canada*, 1988, # 13-207.

This approach, based on the cost of necessities in the various parts of Canada, reveals that just under 1 million Canadians or about 4 percent of the population are poor. The rates of poverty are somewhat higher in Atlantic Canada but are fairly consistent across the country. Undoubtedly, there would be greater variations between cities. The poverty rate averages about 9 percent for unattached individuals and about 3 percent for persons in families. By comparison, Statistics Canada incidence of "low income" for 1988 (1986 base) was 37.7 percent for unattached individuals and 12.2 percent for families. To the extent that poverty is appropriately defined as insufficient income to afford all of the basic necessities, StatsCan's (1986 base) "low income" percentages represent a roughly four-fold exaggeration of the extent of poverty in Canada. Table 7-5 presents a full comparison of poverty rates using the various approaches for 1988.

Table 7-4: Estimation of poverty by province, 1988

Province:	Totals	1	2	Family Size 3	4	5 or more
NEWFOUNDLAND						
# and % of Poor Households	14720 (8.4)	4454 (14.8)	2904 (8.6)	2445 (7.1)	2208 (5.0)	2709 (8.3)
Number of Poor Persons	41329	4454	5808	7335	8832	14900
PRINCE EDWARD ISLAND						
# and % of Poor Households	2804 (6.0)	1635 (12.2)	396 (3.1)	294 (3.9)	420 (6.1)	59 (9)
Number of Poor Persons	5314	1635	792	882	1680	325
NOVA SCOTIA						
# and % of Poor Households	18944 (5.8)	10318 (11.5)	3281 (3.8)	1439 (2.5)	2599 (4.6)	1307 (4.0)
Number of Poor Persons	38782	10318	6562	4317	10396	7189
NEW BRUNSWICK						
# and % of Poor Households	13366 (5.2)	6755 (10.4)	2174 (3.4)	1582 (3.3)	1732 (3.4)	1123 (4.1)
Number of Poor Persons	28954	6755	4348	4746	6928	6177
QUEBEC						
# and % of Poor Households	117664 (4.4)	67797 (8.1)	22925 (3.2)	10339 (2.3)	10167 (2.2)	6436 (3.3)
Number of Poor Persons	220730	67797	45850	31017	40668	35398
ONTARIO						
# and % of Poor Households	165200 (4.6)	99841 (9.5)	26525 (2.7)	20928 (3.4)	11279 (1.8)	6627 (1.9)
Number of Poor Persons	297240	99841	53050	62784	45116	36449
MANITOBA						
# and % of Poor Households	21272 (5.2)	13241 (10.4)	2796 (2.5)	2672 (4.8)	1085 (1.5)	1478 (3.7)
Number of Poor Persons	39318	13241	5592	8016	4340	8129
SASKATCHEWAN						
# and % of Poor Households	22785 (6.0)	10662 (9.4)	3116 (2.9)	2895 (5.3)	2629 (4.5)	3483 (8.2)
Number of Poor Persons	55252	10662	6232	8685	10516	19157
ALBERTA						
# and % of Poor Households	51929 (5.5)	31760 (10.3)	8145 (3.3)	5334 (3.7)	2983 (2.0)	3707 (3.9)
Number of Poor Persons	96373	31760	16290	16002	11932	20389
BRITISH COLUMBIA						
# and % of Poor Households	74145 (5.8)	43936 (9.3)	13552 (3.8)	7192 (4.6)	6692 (3.9)	2773 (2.7)
Number of Poor Persons	134636	43936	27104	21576	26768	15252
TOTALS FOR CANADA						
Number of Poor Households	502184	289754	85814	55120	41794	29702
Number of Poor Persons	957283	289754	171628	165360	167176	163365
Percentage:	(3.8)	(9.3)	(3.1)	(3.4)	(2.5)	(3.1)

One of the major advantages of the "necessities approach" is that it enables us to measure changes in the incidence of poverty over time in the absence of changes in the distribution of income. In other words, it allows us to track our success or failure in improving the lot of the least advantaged in our society. With that in mind, poverty lines were constructed for 1985 using the same methodology. While it would have been preferable to make comparisons to earlier periods, data on rents and food prices were not consistently available before 1985.

Table 7-5

Comparison of poverty rates and number of poor—1988

	Incidence of Poverty (%)			Number of Poor Persons
	Families	Unattached Individuals	Persons	
CCSD	20.6%	38.9%	22.1%	5,598,000
LICO (1978 base)	10.5	33.1	13.1	3,328,000
Sarlo	3.0	9.3	3.8	957,000

Source: Statistics Canada, Microdata file of Economic Families, 1988.

Income distributions for 1985 lump together the four "maritime" provinces and the three "prairie" provinces rather than treating each province separately, as has been done more recently. Therefore, a weighted average poverty line for each of these two regions was constructed. Using Income Distributions by Size in Canada (1985)⁵, the extent of poverty was determined for the five areas of Canada—Mari-

5 In this case the microdata file was not available so estimates were made using linear interpolation within published income ranges.

times, Quebec, Ontario, Prairies and B.C. The results, including the aggregate totals for Canada, appear in Table 7-6.

While some general patterns of poverty were similar, for example, somewhat higher rates in the Maritimes and for unattached individuals, the overall incidence of poverty in Canada was higher in 1985 than was the case in 1988. In fact, about 42 percent higher.⁶ In 1985 there were about 400,000 more people living in households where the reported income was insufficient to acquire all of the basic necessities, than was the case in 1988. This is not surprising considering the state of the economy in the mid 1980s and the steady improvements after that time. The national unemployment rate fell from about 10.5 percent in 1985 to 7.8 percent in 1988.⁷ The unemployment rate among young people less than 25 years old, the age group with by far the highest incidence of poverty, declined from 16.4 percent to 12 percent over the same period.⁸ At the same time, there was no change in the underlying distributions of income, as represented by the quintile proportions in Table A-1. This implies that the significant decline in the number of poor has been due primarily to real economic growth.

Between 1985 and 1988 our poverty lines have kept pace with the inflation rates in the various regions, increasing an average of just over 4 percent per year. Since 1988, the inflation rate has crept up to about 5 percent. Using this value, the poverty lines in Table 7-2 can be "updated" for 1989 and 1990, and forecast for 1991 and 1992. The results are displayed in Table 7-7. Inflation adjusted poverty lines should not be confused with revised poverty lines. The latter involves a complete recalculation of the cost of basic necessities using actual relevant costs and prices while the former uses a single average rate of inflation to increase all existing poverty lines uniformly. As long as poverty lines

6 This figure takes into account the likely error due to interpolation.

7 Statistics Canada, *Canadian Economic Observer*, [cat # 11-210], Historical Statistical Supplement, 1988/89, Table 2-5, p. 34.

8 Ibid.

Table 7-6
Estimation of poverty by province, 1985

Family Size												
Province:	Totals		1		2		3		4		5 or more	
MARITIMES												
# and % of Poor Households	64985	(8.5)	23539	(13.5)	13153	(7.0)	9588	(7.2)	8784	(5.7)	9921	(8.8)
Number of Poor Persons	168312		23539		26305		28763		35137		54568	
QUEBEC												
# and % of Poor Households	148151	(5.9)	58401	(8.4)	38208	(5.4)	24652	(5.4)	13084	(3.0)	13806	(5.9)
Number of Poor Persons	337044		58401		76416		73957		52335		75934	
ONTARIO												
# and % of Poor Households	212070	(6.2)	108810	(11.2)	37643	(4.0)	29273	(5.2)	19887	(3.2)	16457	(4.8)
Number of Poor Persons	441975		108810		75286		87818		79549		90511	
PRAIRIES												
# and % of Poor Households	121058	(7.2)	54959	(10.9)	23363	(5.1)	16420	(6.5)	13940	(5.0)	12376	(7.1)
Number of Poor Persons	274775		54959		46727		49259		55762		68068	
BC												
# and % of Poor Households	99990	(8.5)	52433	(13.5)	21845	(6.2)	11125	(6.5)	8737	(4.9)	5850	(6.4)
Number of Poor Persons	196623		52433		43691		33376		34947		32177	
CANADA												
Number of Poor Households	646254		298143		134212		91058		64432		58410	
Number of Poor Persons	1418728		298143		268425		273174		257729		321257	
Percentage:	(5.7)		(10.9)		(5.1)		(5.8)		(3.9)		(6.1)	

are revised every three or four years⁹, inflation adjusted poverty lines are a reasonably good proxy in the interim.

Table 7-7
Poverty lines in Canada by province and family size (\$)

1989	Family Size					
Province	1	2	3	4	5	6
Newfound- land	\$6,820	\$9,311	\$11,776	\$13,895	\$15,600	\$17,247
P.E.I.	6,006	8,188	10,818	13,549	15,161	16,721
Nova Scotia	5,892	8,209	10,849	14,251	15,889	17,472
New Brunswick	5,743	7,927	10,139	12,321	13,913	15,452
Quebec	5,779	8,353	10,628	13,069	14,766	16,406
Ontario	6,533	9,113	11,771	14,643	16,292	17,885
Manitoba	5,879	8,511	11,199	13,984	15,494	16,956
Saskatchewan	5,406	8,174	10,630	13,032	14,582	16,084
Alberta	5,697	8,212	10,861	13,252	14,883	16,460
B.C.	6,216	8,642	11,523	14,257	15,883	17,456

9 Because the necessities approach uses a simple, direct methodology and published data (largely), there is no reason why these poverty lines could not be revised annually. There would, of course, be a delay of approximately 1 to 2 years in obtaining relevant information from such sources as Statistics Canada and the CMHC.

Table 7-7 (continued)

Poverty lines in Canada by province and family size (\$)

1990	Family Size					
Province	1	2	3	4	5	6
Newfound-land	\$7,161	\$9,777	\$12,365	\$14,589	\$16,380	\$18,110
P.E.I.	6,306	8,597	11,359	14,227	15,919	17,557
Nova Scotia	6,186	8,619	11,391	14,963	16,683	18,346
New Brunswick	6,031	8,324	10,646	12,937	14,608	16,224
Quebec	6,068	8,770	11,160	13,723	15,504	17,227
Ontario	6,860	9,569	12,359	15,375	17,106	18,779
Manitoba	6,173	8,937	11,759	14,683	16,268	17,804
Saskatchewan	5,677	8,583	11,162	13,683	15,312	16,888
Alberta	5,982	8,623	11,404	13,915	15,627	17,283
B.C.	6,527	9,074	12,099	14,970	16,678	18,329
1991	Family Size					
Province	1	2	3	4	5	6
Newfound-land	\$7,519	\$10,266	\$12,983	\$15,319	\$17,199	\$19,015
P.E.I.	6,622	9,027	11,927	14,938	16,715	18,435
Nova Scotia	6,495	9,050	11,961	15,711	17,517	19,263
New Brunswick	6,332	8,740	11,178	13,584	15,339	17,036
Quebec	6,372	9,209	11,717	14,409	16,280	18,088
Ontario	7,203	10,047	12,977	16,144	17,962	19,718
Manitoba	6,482	9,384	12,347	15,417	17,082	18,694
Saskatchewan	5,961	9,012	11,720	14,367	16,077	17,732
Alberta	6,281	9,054	11,974	14,610	16,408	18,147
B.C.	6,853	9,527	12,704	15,718	17,511	19,246

Table 7-7 (continued)**Poverty lines in Canada by province and family size (\$)**

1992 Province	Family Size					
	1	2	3	4	5	6
Newfound- land	\$7,895	\$10,779	\$13,632	\$16,085	\$18,059	\$19,966
P.E.I.	6,953	9,479	12,523	15,685	17,551	19,357
Nova Scotia	6,820	9,503	12,559	16,497	18,393	20,226
New Brunswick	6,649	9,177	11,737	14,263	16,105	17,887
Quebec	6,690	9,669	12,303	15,129	17,094	18,992
Ontario	7,563	10,549	13,626	16,951	18,860	20,704
Manitoba	6,806	9,853	12,965	16,188	17,936	19,629
Saskatchewan	6,259	9,463	12,306	15,086	16,881	18,619
Alberta	6,595	9,506	12,573	15,341	17,229	19,054
B.C.	7,196	10,004	13,339	16,504	18,387	20,208

Chapter 8

Profile of the Poor

WE HAVE ESTIMATED THAT in 1988 there were roughly 1 million Canadians living in households whose reported income was insufficient to afford all of the basic necessities. While they share a common bond, that of being classified as “poor,” it is their differences that are particularly noteworthy. The following profile is intended to help answer the question: “Who are the poor?” The decomposition will undoubtedly confirm several widely held hypotheses about the nature of poverty. It will also reveal a number of surprises.

Of particular interest are such characteristics as age, education, employment status, type of family, and gender. Having already considered regional (provincial) and family size variations it is useful at this point to work with just two poverty lines—one for families-in-general and one for unattached individuals. While some accuracy may be lost with the use of the wider poverty lines, there is an enormous gain in convenience. In fact, the possible inaccuracy is really quite modest. An estimate of the overall amount of poverty in Canada using these two “general” poverty lines was found to be only 1.3 percent different (higher) than the estimate in the previous chapter using 50 poverty lines broken down by province and family size.

The construction of the family poverty line, which would apply to all households with two or more persons, involved two stages of averaging. First, a weighted average poverty line for Canada (using provincial populations as weights) for each different size of family was calculated. Then, an overall "family" poverty line using the proportions of poor in each size of family in Canada as weights¹ was determined. As a result of these calculations, the average family poverty line in 1988 is \$10,616. For unattached individuals, a weighted average of provincial lines was used to determine a Canadian average and this worked out to be \$5,819. While these gross averages are unable to catch regional cost differentials, not one of our characteristics in any case, they are quite adequate in capturing national behaviour.

Age

There should be little surprise that the young are overrepresented among the poor. We see in Table 8-1 that families with heads 24 years old and under represent less than 4 percent of families but over 16 percent of poor families. Similarly, young singles represent 34 percent of the single poor while comprising less than 14 percent of the population of unattached individuals. The middle aged (35-54) and the very old (over 70) are the most underrepresented categories. This evidence conforms closely with the life cycle theory of income patterns. Youth incomes are lowest because of limited skills and experience and because of the difficulties associated with breaking into the job market. Skill, experience and employment opportunities typically improve with age and peak when a worker is in his 50s. Indeed, Canada's youth unemployment rate has been more than double the rate for workers over 25

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- 1 A number of options were considered here, including using the average size of family or the average size of poor families to determine the overall family line. However, since the number of poor persons by family size was already available (Chapter 7), it was my judgement that these proportions would be the most representative weights. For example, among poor families in Canada in 1988, about 46 percent were in families of size 2, so, in the calculation of an overall family poverty line, families of size 2 would receive a weight of 46 percent. In contrast, only about 17 percent of the poor were in families of size 4 so that represents the appropriate weight for that value.

for most of the past 20 years. All of this suggests that poverty is largely, although not entirely, a problem of youth and one which tends to get resolved over time.

Table 8-1
Age profile of the poor—1988 (%)
Families and unattached individuals

Age of Head	Families		Unattached Individuals	
	Percentage of the Population	Percentage of the Poor	Percentage of the Population	Percentage of the Poor
24 and under	3.72%	16.57%	13.73%	33.77%
25-34	22.62	25.51	25.10	22.19
35-44	26.01	19.23	12.13	12.88
45-54	18.31	11.10	9.32	10.41
55-64	14.95	19.19	11.74	13.71
65-69	5.90	5.28	7.31	2.86
70 and over	8.49	3.13	20.67	4.19

Source: Statistics Canada, Microdata File, 1988.

Another way to examine the connection between poverty and age is to determine poverty rates by age. This is done in Table 8-2. Again the youth category stands out. For example, the rate of poverty is about 17 percent for families whose head is 24 or younger versus about 3 percent for families whose head is between 35 and 65. Clearly, for most families, the financial situation improves over time. With unattached individuals, the youth rate is by far the highest although single people have quite high rates until they reach age 65.

Table 8-2
Poverty rates by age—1988

Age of Head	Families	Unattached Individuals
24 and under	16.96%	23.94%
25-34	4.30	8.60
35-44	2.82	10.34
45-54	2.31	10.87
55-64	4.89	11.36
65-69	3.41	3.81
70 and over	1.41	1.97

Source: Ibid.

Education

More formal education typically brings with it more and better employment opportunities and consequently a more secure financial situation. It would be no surprise to find the incidence of poverty to be inversely related to the level of education. This hypothesis is entirely supported by the evidence for *families* in Table 8-3. Just above 1 percent of families whose head had a university degree reported an income lower than the poverty line in 1988. This compares with about 5 percent of families whose head had a grade school education. The evidence for unattached individuals is, however, quite surprising. The category with the highest incidence of poverty is, curiously, single persons with some post-secondary education. People in this group were more than 1½ times as likely to be poor as those with some high school education. On the surface, this appears to contradict widely held propositions about the link between education and employment opportunities. Perhaps just as surprising is the fact that unattached individuals with post-secondary

certificates, diplomas or degrees have such high rates of poverty. Given that this group have extremely low unemployment rates, it is strange indeed that almost one in twelve of them live below the poverty line. The family versus single comparison in Table 8-3 prompts the question: Why is a single person with a university degree six times as likely to be poor as a family head with a university degree? These apparent anomalies will be examined in detail in the next chapter.

Table 8-3

Education profile of the poor—1988
Families and unattached individuals

Education of Head	Family		Unattached Individuals	
	Poverty Rate (%)	Number of Families	Poverty Rate (%)	Number of Persons
0-8 years	5.46%	75,794	9.85%	61,619
Some High School	4.29	134,702	8.92	111,668
Some Post Secondary	3.92	20,289	16.18	52,448
Post Secondary Certificate/Diploma	2.29	21,662	8.11	35,840
University Degree	1.43	14,459	8.83	41,313

Source: Ibid.

Canadian born versus immigrants

The difficulties faced by newcomers to Canada leads us to suspect that their poverty rate would be somewhat higher than the rate for the Canadian born. Over the years, most immigrants have had relatively

little formal education, many have had to learn a new language and some have faced discrimination in the job market and elsewhere, all of which has tended to limit employment choices and upward mobility. The initial adjustment period, settling into a new culture and new job, is undoubtedly the most difficult time for immigrants. This is borne out by the evidence. Table 8-4 shows that recent immigrants—those whose head arrived here since 1981—have almost three times the rate of poverty as do Canadian born. This is true both for families and unattached individuals. What is surprising, however, is that pre-1981 immigrants—about 85 percent of all foreign born Canadians in 1988—are half as likely to be poor as their Canadian born counterparts and about one sixth as likely to be poor as the more recent immigrants. The significant gaps between the poverty rates of each of the three groupings needs to be explained and an attempt is made to do this in the next chapter.

Table 8-4
Immigration profile of the poor—1988
Families and unattached individuals

Category	Families		Unattached Individuals	
	Poverty Rate (%)	Number of Families	Poverty Rate (%)	Number of Persons
Canadian born	3.97%	223,278	9.78%	260,149
Head Immigrated before 1981	2.02	24,542	5.42	20,605
Head Immigrated since 1981	11.67	19,086	31.40	22,134

Source: Ibid.

Table 8-5

Employment profile of the poor—1988
Families and unattached individuals

Status of Head	Families			Unattached Individuals		
	Poverty Rate (%)	Number of Families	Percent of the Poor	Poverty Rate (%)	Number of Persons	Percent of the Poor
Employed	1.43%	71,370	26.7%	6.46%	107,493	35.5%
Un-employed	10.08	33,829	12.7	22.65	38,703	12.8
Not in the Labour Force	9.69	161,707	60.6	12.27	156,692	51.7
Employee*	1.09	48,207	18.1	6.50	100,658	33.2
Self-Employed	4.35	24,831	9.3	8.88	10,833	3.6

* Employee is defined here as an employed, paid worker

Source: Ibid.

Employment status of head

As we might expect, the poverty rate is higher among the unemployed. For families whose head experienced no unemployment in 1988, the incidence of poverty (3.2 percent) was less than half the rate (7.9 percent) for families whose head experienced some unemployment during the year. For unattached individuals, the same comparison is 8.3 percent versus 19.2 percent. As Table 8-5 indicates, employees are much less likely to be poor than the self-employed. The major finding, however, is that those *outside the labour force* have the highest poverty rates and account for a majority of poor persons. Fully 58 percent of the poor live in households whose head is not in the labour force.

Table 8-6**Family characteristics profile of the poor—1988**

Type of Family	Percentage of Total Families	Poverty Rate (%)	Number of Poor Families	Percentage of Poor Families
All Husband & Wife Families	85.79%	1.93%	115,689	43.34%
Married Couple, No Children	30.79	3.52	75,929	28.45
Married Couple, with Children	50.64	1.12	39,548	14.82
Single Parent, Male Head	1.56	9.69	10,584	3.97
Single Parent, Female Head	8.27	20.47	118,542	44.41
Homeowners	73.52	1.77	91,299	34.21
Renters	26.48	9.47	175,607	65.79

Source: Ibid.

Family characteristics

It seems reasonable to expect that “intact” husband and wife families would be far less vulnerable to poverty than single parent families. Single parents, on average, are more likely to be young (a high risk group in itself) and outside the labour force.² In addition, we suspect that the poverty rate among renters will be well above that for home-

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- 2 The participation rate of single mothers, for example, is significantly lower than heads of households in general, despite the fact that more than 50 percent are in the labour force, a majority on a full-time basis. See Statistics

owners. Over the years, the purchase of a home has almost always involved a significant cash down payment and a reasonably good income to qualify for a mortgage loan. Families with those resources are much less likely to be poor. Both of these hypotheses are strongly supported by the evidence in Table 8-6.

In 1988, married couples with children comprised about 50 percent of families but only 15 percent of poor families. At the other extreme, female headed single parent families, just over 8 percent of all families, accounted for 44 percent of all poor families. Indeed, single mothers have become a powerful symbol of poverty in our time. Table 8-6 also reveals that although renters comprise just over a quarter of all families in Canada they make up about 66 percent of all poor families. With regard to homeowners, the source from which this table is drawn reveals a somewhat anomalous fact. Among families whose 1988 income was less than \$5,000 (not even half the Canadian average poverty line for families) fully 46 percent were homeowners, 72 percent of whom were mortgage free. While it is possible to imagine some scenarios in which extreme poverty and mortgage-free home ownership might coincide, it is puzzling that one-third of Canada's most destitute families own their own home outright.

Child poverty

Perhaps the most disturbing image of poverty is that of the needy child. Children are least able to help themselves. They are the unwilling victims of parental misfortune or mismanagement. Using the necessities approach to defining and measuring poverty, it is estimated that, in 1988, there were about 225,000 poor children under the age of 16. While this result means that prevailing estimates of child poverty are high by a factor of at least 5, there is a sense in which my estimate does not do justice to the problem of "poor" children. A great many more children are neglected, abused, malnourished or homeless for reasons that have nothing to do with low income. The issue of child poverty is examined further in Chapter 10.

Canada, *Labour Force Annual Averages*, 1981-88, #71-529, Table 8, p. 135.

Gender breakdown

Finally, use of the microdata tape permits a rather precise calculation of the gender breakdown of those whose reported income in 1988 was below the poverty line. These calculations, summarized below in Table 8-7, show that, overall, for every 45 poor males there were 55 poor females. Considering the demographic fact that, in 1986, there were 100 females for every 97.4 males³ these data reveal a moderate but not extraordinary female bias among the poor. The focus on just poor adults rather than all poor persons, including children, gives rise to the largely exaggerated claims regarding the "feminization of poverty."

Table 8-7
Gender profile of the poor—1988

Type of Household	Number of Poor Persons		
	Male	Female	Total
Single Parent—Female Head	83,563	202,105	285,668
Single Parent—Male Head	17,485	6,901	24,386
Husband and Wife Families and all other Families*	175,286	175,286	350,572
Unattached Single Female		149,714	149,714
Unattached Single Male	153,174		153,174
Totals	429,508	534,006	963,514
Percentages	45	55	

* assuming an equal gender split in this category

Source: Ibid.

3 *Canada Year Book*, 1990, p. 2-18.

Chapter 9

Qualifications

THE ESTIMATE THAT JUST UNDER one million Canadians (or about 4 percent of the population) had reported incomes lower than the poverty line in 1988 must be qualified. It is clear that in a number of important cases the poverty lines, based on 1988 market costs, overestimate true costs to the household, thus resulting in an exaggerated poverty rate. In several other cases, the low reported incomes belie true living standards—again resulting in an overestimate of the incidence of poverty.

Home ownership

Mortgage-free home ownership does not eliminate shelter costs but, in most cases, substantially reduces them. Though the household is freed from payment of principle and interest on the mortgage loan, there do remain four additional categories of costs: (1) maintenance, repairs and replacements; (2) property taxes; (3) homeowners' insurance; and (4) utilities (water, fuel and electricity). In 1986, the total cost of these categories for the *average* Canadian mortgage-free homeowner was

\$3,440.¹ The cost for "poor" mortgage-free homeowners is likely to be less than this. However, using the Canadian average and applying a 9 percent rate of inflation between 1986 and 1988, shelter costs for the typical mortgage-free homeowner would be \$3,750 in 1988. Since mortgage-free homes contain on average almost three persons, it is appropriate to compare this cost with our estimates of essential shelter costs for a family of three based on market rents. For those with paid up homes, shelter costs are between 17 and 54 percent less than our estimates, depending on the location. The number of poor households involved is not insignificant.

In 1988, about 1.8 percent of home-owning families were poor² to the extent that their reported incomes were below that needed for basic necessities. That amounts to roughly 92,000 families and of those fully two-thirds or about 63,000 families owned their homes mortgage-free. Among poor unattached individuals, it is the case that about 85 percent are renters. Nevertheless about 5 percent of home-owning individuals (or 44,600 persons) in 1988 were poor. Of these, 72 percent or about 32,200 unattached individuals owned their homes mortgage-free.³ In aggregate then, roughly 183,000 persons or 20 percent of the poor in Canada in 1988 will have shelter costs that are significantly below the estimated amounts, due to outright home ownership.

Consider, for example, an Ontario family of three with a 1988 income of \$11,000. They would have been unable to purchase all of the basic necessities (cost = \$11,210). If that same family owned their home mortgage-free, they would have been able to purchase all necessities with about \$1,800 to spare.

Mortgage-free home ownership effectively reduces a family's de facto poverty line. To get an idea of the importance of this consideration, new poverty lines were calculated for people who own their own homes and the incidence of poverty determined. Since shelter costs comprise,

1 Statistics Canada, FAMEX, 1986, p. 70.

2 Using a weighted average poverty line for families of 3, \$10,675.

3 These calculations assume an overall weighted average poverty line for unattached individuals of \$5,819.

on average, about half of essential costs and since mortgage free home ownership results in at least a 20 percent reduction in shelter costs, new poverty lines for this experiment were a simple 10 percent below the previous ones. As a result, the number of poor persons in Canada is reduced by about 37,000 or 4 percent.

Before leaving the issue of home ownership, it is worth pointing out that there will also be a somewhat smaller number of poor homeowners *with* mortgages whose costs will nevertheless be lower than the stated "essential" shelter costs because they are towards the end of their amortization period.

Rent subsidies

Every province in Canada has a stock of "social" housing which has been built up over the years with federal and provincial financial assistance. The rents in social housing are geared to income, that is, tenants pay rents equal to 25 percent to 30 percent of their gross income. The CMHC estimates that in 1988 there were approximately 600,000 social housing units in Canada.⁴ Acquisition of social housing can surely lift people out of poverty. The single mother of two in British Columbia whose income is \$10,500 is living almost \$500 below the poverty line. With social housing, her family's situation improves significantly and they are now \$2,500 above the line. Similarly, the financial status of the unattached single person in New Brunswick with total income of \$5,000 changes from a "poverty gap" of about \$500 to a surplus of about \$1,500 upon acquiring a rent-geared-to-income unit. There are no data that reveal how many of Canada's roughly one million poor are living in social housing units. We do know that about 700,000 of them are tenants.⁵ Since income is the main criterion for eligibility, we might expect that a majority of poor tenants would be in social housing. However, there are also good reasons to believe that a fair number of them may not be living in these units. Not all the poor will necessarily

4 Information obtained from CMHC official by telephone.

5 Using the microdata file, there are an estimated 691,000 poor persons living in rented accommodation.

need social housing and not all will apply even if they need it. In addition, at any point in time some who qualify will be on a waiting list and will be paying market rents in the interim.

It is important to note that in 1986, 120,000 tenants in Canada lived rent-free. It is not known how many of these were poor. Another 127,000 tenants were roomers, the majority probably living in rooming houses and in family homes. Roomers paid average annual shelter costs of \$1,866 in 1986. With average incomes less than 40 percent of the national average for tenants, it is likely that a majority of roomers would be poor by our definition.⁶

What all of this means is that for a substantial number of poor tenants, perhaps a majority, estimated essential shelter costs in Table 6-4 significantly overstates the actual costs of their housing. Since shelter is the largest expense for poor households, the existence of subsidized, free and other low-cost shelter is of enormous importance to the least well off.

Students

During the 1988-89 school year, there were about 816,000 full-time students at Canada's universities and community colleges.⁷ Roughly 37 percent of them lived at their parents home while they attended a post secondary institution.⁸ Since Statistics Canada conducts its income survey every April, at the time of the survey this group would be counted as part of the family they were living with and would not be considered unattached individuals. The other 63 percent however lived independently during the school year—in student residences, in co-ops, in houses, in rented rooms and chiefly, in apartments. The majority of

6 All of the statistical information in this paragraph is derived from Statistics Canada, FAMEX, 1986, Table 7, p. 71.

7 Statistics Canada, "Enrolments at Canadian Universities and Colleges," 1988 [cat.# 81-229].

8 Statistics Canada, *A Profile of Post Secondary Students in Canada, 1983-84, special run*. As of June 1990, this is the most recent survey of college and university students.

these post secondary students were unmarried and therefore, for the purposes of the income survey, should be classified as unattached individuals.

It would not be surprising to find that most college and university students living independently during the school year would have incomes below the poverty line. Their incomes from summer and part-time jobs, student loans and assistance from parents would be relatively limited. The most recent profile of post secondary students in Canada (1983-84) revealed that average income for full-time students 30 years old and under during the twelve month period from May 1983 to April

Table 9-1

Composition of income for full-time post secondary students 30 years old or under

a) May, 1983 to April, 1984 (actual)

b) May, 1988 to April, 1989 (forecast)

Sources of Income	a) 1983-84 (actual)		b) 1988-89 (forecast)	
	%	Amount (\$)	%	Amount (\$)
Earned Income	56%	\$3,242	56%	\$4,137
Scholarships, Grants & Awards	10	579	10	739
Parents, Friends & Relatives	15	868	15	1,108
All Loans	19	1,100	19	1,404
<i>Totals</i>	<i>100</i>	<i>5,789</i>	<i>100</i>	<i>7,388</i>

* Assumption: All nominal values increased by about 5 percent per annum between 1983 and 1988.

Source: Statistics Canada, *A Profile of Post Secondary Students in Canada*, 1983-84.

1984 was \$5,789.⁹ The composition of that average income as well as forecasts for the 1988-89 school year applying a 5 percent annual increase in nominal values is contained in Table 9-1. The forecasted values are based on the assumption that the source proportions remained the same over the five year period.

Although the income of the average post secondary student in 1988 is likely to be approximately \$7,388, it is not this value that Statistics Canada uses in its income survey. Their definition of income specifically excludes all gifts and loans. This means that the average *reported* income of full-time students would have been \$4,876, about \$1,000 less than the Canadian average poverty line for an unattached individual. Therefore, more than half of full-time post secondary students living independently are likely to have reported incomes below the poverty line.¹⁰ A fair number will, in fact, have reported incomes below \$2500. Anyone who had limited success finding a summer job would most likely be in this category.

It is regrettable, however, that Statistics Canada's income survey does not adequately cover full-time post secondary students. For example, the number of unattached individuals who were enrolled as full time students in 1988 and who had taken at least some post secondary education is put at about 148,000 in the microdata file, a roughly three-fold understatement of the true number.

In fairness to StatsCan, they do not attempt to control for the number of students, just the overall number of unattached individuals. There are several good reasons for this. Because the income survey is conducted the week after the 15th of April, it will automatically exclude many university students, whose examination period is normally complete by then. In addition, many parents of post-secondary students include these students on their own survey questionnaire as part of the family, even though the student may be living independently for two-thirds of the year. Finally, the survey specifically excludes student residences in its sampling.

9 Ibid, p. 31.

10 Assuming these incomes are normally distributed.

Even with the undercoverage, it is clear that students comprise a substantial proportion of Canada's poor. The microdata file reveals that about 60,000 poor unattached individuals and about 15,000 heads of poor families (or their spouses) were full-time post secondary students in 1988. The percentage, about 8 percent, is likely half the true value. In any case, it is not really surprising that the poverty rates for single persons with some post secondary education is so high. A substantial portion of these individuals are still in school and their limited reported income naturally reflects this fact.

If the definition of "student" is broadened to include all household heads or their spouses who were "in school" at any level during 1988 on a full time basis then an additional 30,000 persons are "poor" students. For most their poverty is overstated due to unreported income sources and the transitory nature of their condition.

Poor students comprise an important qualification to our estimate of the extent of poverty in Canada. The major reason for this is that the reported incomes of many students living independently will belie their real living standard. Statistics Canada income survey explicitly excludes loans and gifts as sources of income. While these exclusions may be of little consequence for the full-time participant in the labour force, they represent a significant omission for full-time students. It has already been pointed out that just over one third of the income of the average post secondary student comes from student loans and non repayable assistance from parents, relatives and friends.¹¹ For some students, especially those with modest summer earnings, loans could easily comprise half or more of the funds they need to support themselves.

The hypothetical case cited in Chapter 1 nicely illustrates this point. The student has summer earnings of \$3,000, gets \$1,500 from parents and receives a \$4,500 student loan. The total amount, \$9,000, is sufficient to cover food, shelter, tuition and other expenses while living away from home during the school year. In this case Statistics Canada tells us we

11 More generally, some portion of young unattached individuals—students or not, have a "claim" on family resources even though they do not live at home [see Osberg (1981), p. 10]. In these cases as well, reported income understates true standard of living.

have an unattached individual whose annual income is \$3,000, well below the poverty line. In fact, what we have is a post secondary student whose true income is above the poverty line (as defined here), who lives independently during the school year and who lives with her parents during the summer. There is no suggestion that such students are living in luxury or that they are not making sacrifices. However, they are not desperately poor as their reported incomes would indicate. Their financial resources are, in most cases, adequate to meet their needs.

The relatively low living standard of many post secondary students is a temporary phenomenon. Those that graduate with diplomas and degrees will have lifetime incomes significantly higher than their less well educated counterparts. In addition, the enhanced development of intellectual skills and critical thinking capabilities are their own reward. Every worthwhile investment involves some sacrifice, some costs initially. Post secondary education is no different. In fact those "lean" years are regarded by many as their character building period—a time when some of life's most important lessons are learned. The need to wisely manage time and money, the importance of hard work and discipline, the refinement of personal values and setting of priorities according to those values, the need to become independent of parents and the need to take full responsibility for your own actions are all lessons that perhaps are most quickly and firmly learned in an atmosphere of relative scarcity.

Unreported and under reported income

Recent estimates indicate that the underground economy in Canada is probably about 5-8 percent of GNP.¹² There are two major categories: (1) income earned from activities that are illegal and therefore go unreported and (2) income derived from activities which are legal but which is not reported to evade income taxes. Individuals whose earn-

12 See, for example, Mireille Ethier, "The Underground Economy: A Review of the Economic Literature and New Estimates for Canada," in Vaillancourt (1985).

ings come from illegal activities are unlikely to participate in a Statistics Canada income survey. Some of them may well be poor but will not be counted in the survey. Some of those in the second category may participate; but if they underreport for tax purposes, they are likely to do so in the income survey. An example might be someone who fully reports income from their primary job but income from moonlighting, especially if it is paid in cash, goes unreported. It is unlikely, however, that many in this situation will be poor.

Of far more concern for the purposes of this study is the possible under-reporting of income by people receiving benefits from government programs and by low wage earners. Statistics Canada themselves have examined this problem. "The Survey of Consumer Finances" (SCF), the basic source of income distribution data underlying all estimates of the incidence of low income, suffers from considerable under-reporting of certain types of income. For example, unemployment insurance is low by about 20 percent and social assistance benefits by about 40 percent in comparison with administrative data on expenditures by the provincial and federal departments concerned. Aggregate wages, on the other hand, are almost identical to the National Accounts figures."¹³ When StatsCan corrects for this under-reporting, they find that about 200,000 fewer adults and children would be below their poverty line. This is an especially important consideration for this study as almost half of those households determined as poor received social assistance or UIC benefits or both in 1988.

Self employment

Every year there are self employed people who sustain losses. The expenses they incur in the process of doing business exceed their revenue. Some of these individuals and families will be classified as poor because their net income from self employment will be negative and other income will be insufficient to put them above the poverty line. Among the likely candidates here are farmers, fishermen, writers, artists, landlords and small businessmen. In some cases the loss may be

13 Wolfson and Evans (1990), p. 26.

temporary and the enterprise will bounce back later. In other cases the business is going or has gone bankrupt during the year. Still another possibility is that there exist rather generous depreciation and other allowances that permit a healthy firm to rather continually show a loss. Whichever is the case, it is likely that reported total income including net income from self employment underestimates true living standards.

For example, the fisherman whose catch sells for \$5,000 but is able to claim depreciation on his boat and other equipment of \$10,000 has a net self employment income of -\$5,000. If his unemployment insurance benefits are \$9,000 for the year, his total reported income is \$4,000 which is well below the poverty line for, say, a family of four. However, because depreciation is not an out-of-pocket expense, the true annual income for this family is \$14,000 which in most cases is sufficient to cover basic necessities. Clearly, this situation cannot persist in the long run without the fisherman moving to another line of work.

Similar scenarios can be imagined for farmers, landlords and small businesses. Indeed, Statistics Canada reports that a substantial portion of Canadian farmers do not generate enough net income to sustain a family.¹⁴ The point is that the family or individual may not be drawing on just its reported income for its living expenses during the year. It may be dissaving, it may have transfers, such as unemployment insurance or welfare, it may engage in home production or it may have some wage income, all of which are offset by the net losses from self employment.

Statistics Canada's income survey reveals that in 1988 there were about 23,100 poor families whose head was self employed. These families comprised 67,600 persons and had average reported income of \$4,634. Their average net income from self employment was -\$1,418. For about one-quarter, the major source of income came from government transfers. Forty one percent had zero or negative net income from self employment. The largest group of poor self employed families were farmers, 39 percent of the total. In addition, there were approximately 10,500 poor self employed single persons with average income in 1988 equal to \$2,061. About 43 percent had zero or negative net income from self employment. In total then, low (or negative) net earnings from self

14 *Toronto Star*, August 25, 1988.

employment accounts for about 8 percent of the poor—33,600 households or 78,000 persons.

While the average income of these households, about \$3,800 for the whole of 1988, appears to be consistent with desperate poverty, there is good reason for skepticism that all are in fact "poor." Home production, in-kind gifts and barter are likely to be important sources of consumption among farmers, fisherman, trappers, and other types of self employed persons. Underreporting of income, especially among small landlords and those who receive government transfers, is likely to be a consideration. However, generous depletion allowances and direct government assistance may be most important in explaining any inconsistencies between income and living standard. After all, we have this large group of 33,600 households whose primary employment activity netted less than zero income, on average, for a whole year. Either this is a transitory situation where the household moves on to more rewarding enterprises or there is something going on behind the scenes. Whichever is the case, it is important to qualify the claim that 8 percent of Canada's poor are self employed persons or their families.

Immigrants

In 1988, Canada admitted approximately 160,000 immigrants.¹⁵ For the purpose of the Statistics Canada income survey, only the income earned in Canada is counted as income. Thus those arriving during the second half of the year and immediately taking jobs would have reported incomes which would significantly misrepresent their true circumstance. The fact that the majority of immigrants destined for the labour force get relatively low paying jobs¹⁶ (i.e., in textiles and other fabricating, assembling industries, clerical, sales, service, manual labour, etc.) means that many in this group could easily have a total 1988 income *in Canada* falling below the poverty line. Suppose for example that a

15 Employment and Immigration Canada, *Annual Report, 1988-89*, p. 35. In his 1990 report, the Auditor-General, Mr. Kenneth Dye, reveals that actual immigration exceeded this official total by as much as 20 percent.

16 *Ibid.*, p. 35.

sponsored family of four arrives in Montreal in mid to late spring and the income earner takes a job on July 1 at an annual rate of \$20,000. If the family were surveyed the following April, they would give their 1988 income as \$10,000 which is almost \$4,000 below the poverty line. In fact, however, their annual *rate* of income puts them over \$6,000 above the poverty line.

It is the case, of course, that not all immigrants will find jobs immediately. While they are searching for an appropriate job they may be running down their savings, getting assistance from sponsors, friends, churches or other charitable organizations or they may be receiving welfare. The problem is especially acute for the roughly 25,000 refugees and special humanitarian cases that arrive in Canada each year. In virtually all cases they come here with little or no wealth and few marketable skills. The process of evaluating refugee claimants is a long one and until newcomers have been successfully processed, they may not legally take a job. As of January 1, 1990, there was backlog of 113,000 refugee claimants waiting to be processed.¹⁷ The point here is that *new* refugees, living mainly on welfare, government grants and loans for newcomers (AAP, ISAP and transportation and admissibility loans) and some charitable assistance are most likely to have reported incomes below the poverty line because these benefits would have been received for only part of the year. To the extent that other immigrants (non-refugees), even those arriving early in the new year, had difficulties finding a job in Canada, even a delay of a few months, their reported incomes could similarly fall below the poverty line. In both cases, the poverty label is likely to be inappropriate because the total resources that newcomers have to draw on for the part of the year they are here will be sufficient to cover at least the basic necessities.

Regrettably, the microdata file does not permit the determination of the number of immigrants in this situation. We do know, from Table 8-4, that immigrants arriving in Canada since 1980 have a significantly higher poverty rate than those who arrived earlier or than the Canadian

17 *Toronto Star*, March 19, 1990, p. A22.

born. Among the most recent arrivals, those who came here between 1986 and April of 1989, about 12 percent fall below the poverty line.¹⁸

After a period of adjustment, immigrants have done very well in Canada. They have significantly lower poverty rates than those born in Canada. A great many of them left situations of real poverty and almost no opportunity for improvement in their native land. Although most came here with limited skills, a different language and culture and often faced discrimination, their achievements have been remarkable. In general, initial sacrifices, hard work and frugal living have been followed by home ownership, financial security and even greater opportunities for their children. Their incomes may have been low, but they were rarely "poor."

Although anecdotal, the story of the 155 Tamil refugees who were dumped onto the shores of Newfoundland in mid-August 1986, is particularly inspirational. Paula Todd writes:

Since their dramatic rescue from two open lifeboats off the foggy coast of Newfoundland, the 145 men, four women and six children have struggled to rebuild their lives. All of the adults have found employment. Most did so within less than a month of settling in Toronto and Montreal; many hold down two jobs and work 80-hour weeks. Their average annual salary is higher than the Canadian average. Three have started their own business, employing 20 Canadians.¹⁹

People in transition

As was the case with immigrants, there will be people whose situation changes during the reference year in such a way that reported income understates the true standard of living. One obvious example is the predicament of many women after separation or divorce. If they did not have an income earning job prior to the separation they must either search for a job or depend on welfare and whatever child support payments are provided. For young women with children, welfare is

18 In this case, the record count in the sample is somewhat below 100 and so the value must be taken with some caution.

19 *Toronto Star*, July 13, 1987.

often the sole source of income, at least initially. Because women separating during 1988 receive benefits for only part of the year, for many, reported incomes will fall below the poverty line. Even if they found jobs during the year, a low rate of pay for part of the year would likely result in aggregate calendar year income below poverty level. In either case the low reported income for 1988 may misrepresent the actual living standard. For the months they were separated, income from earnings or welfare benefits (as will be seen in the next chapter) could well have been sufficient to cover all basic necessities. Prior to separation, their living standard would, in large part, be a reflection of their husband's income. Some women widowed in 1988 would similarly be mis-classified as poor as would many unmarried mothers as long as they are household heads at survey time, April 1989.

Mary Jo Bane (1986) distinguishes 3 ways in which a female household head and her children might have become poor, in her discussion of transitions into poverty.

She might have been poor before she became a household head, living with her own poor parents or with a husband who was also poor, and in a sense carried that poverty over into her new situation. She might have become poor after she became a household head, either by losing earnings, child support, or another source of income or by adding a member to the family whose increased needs put sufficient pressure on family income to drive them into poverty. Alternatively, she might have become poor at the same time she became a household head; that is, moving from the non poor household of her parents or a marriage into a poor household headed by herself.²⁰

In the latter case, poverty could have come about even though the total resources available to household members remained about the same. Bane stresses the possible "loss of economies of scale [which] could have made both households poor after the split."²¹

While this analysis does not distinguish between total annual income and rate of income in measuring poverty, a crucial consideration

20 Bane (1986), p. 220.

21 *Ibid*, p. 221.

for transitional situations in my view, it does highlight the process by which many women "slip" into poverty. Recent evidence from the U.S. using a longitudinal data base suggests that, for a great many, poverty is indeed transitory. Bane and Ellwood (1986) in their analysis of poverty "spells," state that "most people who slip into poverty are quite successful in getting out."²²

Inmates released from prisons and mental institutions during 1988 would similarly be in transition in terms of annual income. At best, they will find an income earning job for part of the calendar year. At worst, they will resort to welfare. In both cases the income flow may be adequate to cover necessities, but the (low) total income during the year means that they will be classed as "poor." Ironically, for many such persons material living standard is lower even though their income has increased enormously.

According to the Canadian Centre for Justice Statistics, during the 1988-89 period of operation, there were approximately 9,000 persons released from federal and provincial prisons on parole or mandatory supervision. Another 54,000 individuals were released on probation; however, a substantial number of those were released from courts and not prisons.²³ Statistics Canada reports that during the 1980s, approximately 30,000 persons are released from Canadian mental institutions each year. About half of those are adults (20 years or older) who had a length of stay greater than 30 days.²⁴

Finally, some young people taking their first full-time job late in 1988 and living independently by April, 1989 would be erroneously included among the poor. The single person starting a job on September 1 or later and earning income at an annual rate of \$16,000 or less would be classified as poor in every province but one.

22 Bane and Ellwood (1986), p. 12.

23 Statistics Canada, Adult Correctional Services in Canada, 1988-89, [catalogue # 85-211].

24 Statistics Canada, Mental Health Statistics, Psychiatric Hospitals, [cat. # 83-204].

Unfortunately, the microdata file does not contain information permitting the determination of the number of families and individuals classified as poor even though their rate of income was sufficient to cover all necessities. The resolution of this issue will require a reliable longitudinal data base, something not currently available in Canada. Nevertheless, this is, theoretically at least, an important qualification. Considering the very high rate of family breakdown (both formal and informal), it is likely that the issue of transition accounts for a substantial portion of the short term poor.

Voluntary austerity

In 1986, almost 26,000 persons were classified as employed in the service of their religion.²⁵ For some of these religious, basic needs are completely taken care of by the order or church they belong to. In other cases, their shelter and food are provided by the church and they receive a modest stipend for personal needs. The remaining earn a modest income from which they provide for all of their needs. To classify any of these as poor is inappropriate even though their reported incomes may fall well below the poverty line. In many cases, they have deliberately shunned worldly possessions to better focus attention on what they consider the most important values. Despite their low income they may regard themselves as "richer" than any multi-millionaire.

There are several religions in Canada that require members to lead an austere, simple life without modern material possessions. Typically they farm, resist outside influences, practice collective economic arrangements and tend to be virtually self sufficient. Included among these groups, with estimated numbers in parenthesis, are Amish/Mennonites (10,000)²⁶ and Hutterites (17,000).²⁷ Many of them earn no income and all of them live disciplined, frugal lives. Their

25 Statistics Canada, Census of Canada, 1986, [#93-112], Table 1, p. 1-5.

26 Reimer (1984). This estimate is just the number of old order/old colony *adult* members in 1981-82. Total Amish/Mennonite membership exceeds 90,000.

27 1981 Census of Canada.

day-to-day consumption would be far below our “necessities-based” poverty line, however, I don’t know of anyone who would regard them as poor. They represent a modest overestimate of the number living in poverty in Canada.

In addition to these established religious groups, there are an unknown number of communal, back-to-basics groups as well as families and individuals who choose to live a simple life with little or no money and possessions. Each one is quite unique in its approach to an alternative life style but all participants would invariably be classified as poor on the basis of income.

It is impossible to accurately estimate from available data how many Canadians do not have access to all the basic necessities of life once these qualifications have been considered. However, what information is available suggests that our initial estimate of roughly one million Canadian poor in 1988, based just on reported incomes, is greatly exaggerated. It is probably the case that at least half of those currently defined as poor would not be so classified once home ownership, rents subsidies, students, unreported / under-reported income, negative income from self employment, new immigrants, people in transition and those who, because of their religious commitment have little or no income are accounted for.

Just as there are qualifications which tend to reduce the number of poor, there are also some which would increase it. It is important to ask the question: Are there categories of families and individuals for whom the estimated “essential” costs clearly *understate* the true cost of basic needs and are there poor people that income surveys miss altogether? In the first category are people with special needs that cost significantly more than has been included in estimates of essential costs. Included here would be some disabled persons as well as those who need expensive medicine or treatments. I am not aware of any research which determines the number who are deprived of basic needs because they or another family member must pay out of pocket for costly treatments, equipment, medicines etc. that are not covered by health insurance or other government programs. My own bias is that there are few in this situation and that their predicament is temporary. I am persuaded by the comprehensiveness of health insurance and a variety of public and private programs that people with special, costly needs are not im-

poverished because of them. However, I offer no evidence in support of this. It is an open question and one that I will leave for others to resolve.

There are, however, three additional qualifications which tend to increase the estimated number of poor in Canada because existing sources omit them. The homeless are not included in the income surveys nor in the censuses conducted by Statistics Canada. If they had no address at the time of the survey, they have no chance of being counted. Among the excluded would be runaways, bag ladies, ex-psychiatric patients, alcoholics and drug addicts and transients, virtually all of whom would be living in poverty on a permanent basis. In many cases, they are living outside the system voluntarily, wishing to avoid detection by police or simply wanting to be left alone. The great dilemma here is that while we recognize that each individual has the right and freedom to live his life in his own way, we also appreciate that some are not capable of caring for themselves. Without question, the long term health and physical well-being of some and perhaps most of the homeless would improve substantially if they acquired shelter and received welfare benefits.

We have no idea how many people are homeless in Canada.²⁸ Both the U.S. Census Bureau (in 1990) and Statistics Canada (in 1991) will attempt, for the first time, to count the homeless. The task is especially difficult because not all of them are easy to find. Nevertheless, I believe it is vitally important to determine how many in our society are without shelter and why. Until we find out this number, our estimate of poverty in Canada is understated to that extent.

The 1988 income survey also excludes two other categories: (1) residents of the Yukon and North West Territories and (2) members of households located on Indian reservations. The first group is excluded because of the remoteness and costliness of inclusion. It is the case that, in 1985, both Yukon and N.W.T. had average household incomes about 5 percent higher than the Canadian average although they had a somewhat greater percentage of households living on less than \$10,000

28 Several estimates are provided in the next chapter.

income (11.5 percent versus 8.4 percent).²⁹ I would estimate that the omission of the two territories understates poverty in Canada by about 6,000 persons in 1988.

The exclusion of Indian reserves is of greater potential importance. In 1986 there were an estimated 200,000 persons living on Indian reserves in Canada.³⁰ While some earned income off the reserve or by selling items they produced to the general public, for the majority, the bulk of their income comes from social assistance. There exists very little information about the incomes and costs for people living on reservations, but it is generally believed that the rate of poverty, however defined, exceeds the rate for the population as a whole.

29 Statistics Canada, *Census of Canada, 1986*, Table IN86BOIB.

30 This is a rough approximation based on two sources: (1) The 1986 Census reveals that reserve population, including an estimate for unenumerated reserves, was 220,000. (2) The Department of Indian Affairs 1987 estimate of the number of people living on reserves was 187,000.

Chapter 10

Social Assistance and Poverty

SO FAR I HAVE NOT DISCUSSED the role that social assistance or “welfare” plays in the alleviation of poverty. Welfare is a last resort source of income for the poor. It is a safety net that is intended to provide “income to meet the cost of basic requirements of a single person or family when all other resources have been exhausted”,¹ regardless of the reason for the need. Are welfare benefits sufficient to lift individuals and families above the poverty line (i.e., are they adequate to cover all of the basic necessities of life)? To what extent are welfare recipients among Canada’s approximately one million poor?

The answer to these questions may appear, on the surface, to be obvious. If welfare recipients are not poor then who is poor? After all, welfare benefits are supposed to be the rock-bottom level of income below which we will not permit people to go. Since it is a last resort available to all, surely there cannot be any with incomes lower than this.

1 Health and Welfare Canada, *Inventory of Income Security Programs in Canada*, Chapter 4, “Provincial and Municipal Social Assistance Programs 1988,” p. 43.

In fact, as we have already seen, there are a great many people whose reported annual income falls below the rates of social assistance. Nevertheless, the question of adequacy remains. Given my “necessities” definition of poverty, this is equivalent to asking: Does government social assistance exceed the poverty line?

Anyone attempting to answer this question is immediately faced with a fundamental information gap. There is no published source of welfare rates by family size and circumstance in Canada. The apparent rationale for this is that the provincial governments regard the basic rates as an incomplete index of the total assistance (including in-kind benefits) flowing to their recipients. They are concerned about superficial interprovincial comparisons. I do not regard this as a compelling argument. It seems to me that researchers are quite capable of appreciating subtle distinctions between the various welfare programs. The fact is that there is sufficient uniformity across provinces that rates could be given for a variety of family circumstances with exceptions or qualifications footnoted. Indeed, the National Council of Welfare and the SARC researchers have recently compiled tables along these lines. I find it quite extraordinary that information on provincial welfare rates is not available nationally to researchers or to the general public, especially given the fact that the federal government pays half the cost of these programs. I am also surprised that social activists and advocates would not have, by now, insisted on open and public disclosure of these rates.

Rates of assistance

As it currently stands, it is necessary to obtain these rates directly from each province’s social services agency. A selection of these rates for cases commonly cited in poverty literature are given in Tables 10-1 to 10-6. The amount of social assistance for each category can be regarded as a maximum, that is, the sum that the household would receive if it were paying market rents and had no other resources whatever. There is no earned income, either by adults or children, no gifts or assistance from charitable organizations (i.e., food banks). We do assume, however, that the household receives such “in-kind” benefits as medical, dental and vision care and in some cases, free day care for single parents. In addition, the households qualify for family allowance (if they have children), federal tax credits and, in some provinces, provincial tax

credits.² The column labelled Total Annual Income in each Table combines just cash payments to the corresponding social assistance recipient. These totals are then compared to the provincial poverty lines and the "poverty gap" is calculated by subtracting the poverty line from total annual income. A negative poverty gap means that income is insufficient to cover basic necessities by the amount of the gap.

It is clear from the selected cases that the employable/unemployable distinction is absolutely central to the issue of adequacy of welfare. In all provinces, a single, non-disabled person is considered employable and the rates of social assistance plus tax credits generally do not cover all the basic necessities. In two provinces, total income to single employable welfare recipients is only about half of the poverty line.

The inadequacy is clearly intentional. The provincial governments wish to discourage employable individuals from relying on welfare. The low rates force singles to draw on other resources, chiefly their own wage earning capabilities.

The built-in work incentive is also evident in the rates for an employable couple with two children (Table 10-2) although to a lesser degree. The assumption is that neither spouse is disabled and so there is the expectation that at least one of them should earn income to support the family. At the same time the presence of dependent children accounts the somewhat more favorable treatment by the welfare system. In seven provinces comprising 92 percent of the population, recipient income exceeds the poverty line for the employable couple with two children. This means that, for the vast majority of such families, social assistance and other benefits will be sufficient to cover all basic necessities and will therefore prevent the family from being impoverished.

2 Some provinces provide additional cash and in-kind benefits for families with children (i.e., lump sum payments for newborns in Quebec, educational allowances and school lunch programs), for the elderly (property and sales tax rebates, drug plans) and a variety of benefits for the disabled.

Table 10-1

Welfare recipients:

Income and poverty gap calculations—1988

Case: Single Employable

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$3,648	\$—	\$70	\$0	\$3,718	\$6,495	\$-2,777
P.E.I.	7,488	—	70	0	7,558	5,720	1,838
N.S.	4,944	—	70	0	5,014	5,611	-597
N.B.	5,028	—	70	0	5,098	5,470	-372
Que.	2,256	—	70	400	2,726	5,504	-2,778
Ont.	5,604	—	70	343	6,017	6,222	-205
Man.	5,532	—	70	605	6,207	5,599	608
Sask.	4,860	—	70	0	4,930	5,149	-219
Alta.	5,040	—	70	0	5,110	5,426	-316
B.C.	5,160	—	70	0	5,230	5,920	-690

1. Source: Provincial Social Services Departments.

2. Source: Inventory of Income Security Programs in Canada, 1988.

3. Source: 1988 Income Tax, Revenue Canada.

Table 10-2**Welfare recipients:****Income and poverty gap calculations—1988****Case: Employable Couple, 2 children**

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$10,764	\$777	\$1,328	\$0	\$12,869	\$13,233	\$-364
P.E.I.	15,456	777	1,328	0	17,561	12,904	4,657
N.S.	10,560	777	1,328	0	12,665	13,472	-907
N.B.	8,772	777	1,328	0	10,877	11,734	-857
Que.	10,836	964	1,328	400	13,428	12,447	1,081
Ont.	12,516	777	1,328	389	15,010	13,946	1,064
Man.	12,156	777	1,328	697*	14,958	13,318	1,640
Sask.	14,880	—**	1,328	0	16,208	12,411	3,797
Alta.	13,164	864	1,328	0	15,356	12,621	2,735
B.C.	11,676	177	1,328	0	13,781	13,578	203

* Excluding SAFFR benefits.

** In Saskatchewan, family allowances are already included in the social assistance rates.

1. Source: Provincial Social Services Departments.

2. Source: Inventory of Income Security Programs in Canada, 1988.

3. Source: 1988 Income Tax, Revenue Canada.

Table 10-3**Welfare recipients:****Income and poverty gap calculations—1988****Case: Unemployable Couple**

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$9,912	\$—	\$140	\$0	\$10,052	\$8,868	\$1,184
PE.I.	10,404	—	140	0	10,544	7,798	2,746
N.S.	9,744	—	140	0	9,884	7,818	2,066
N.B.	8,244	—	140	0	8,384	7,550	834
Que.	9,288	—	140	400	9,828	7,955	1,873
Ont.	12,636	—	140	302	13,078	8,679	4,399
Man.	9,622	—	140	713	10,475	8,106	2,369
Sask.	10,200	—	140	0	10,340	7,785	2,555
Alta.	9,888	—	140	0	10,028	7,821	2,207
B.C.	9,384	—	140	0	9,524	8,230	1,294

1. Source: Provincial Social Services Departments.

2. Source: Inventory of Income Security Programs in Canada, 1988.

3. Source: 1988 Income Tax, Revenue Canada.

Table 10-4**Welfare recipients:****Income and poverty gap calculations—1988****Case: Single Parent and 1 Child**

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$9,300	\$389	\$664	\$0	\$10,353	\$8,868	\$1,485
P.E.I.	10,416	389	664	0	11,469	7,798	3,671
N.S.	9,012	389	664	0	10,065	7,818	2,249
N.B.	7,548	389	664	0	8,601	7,550	1,051
Que.	7,944	451	664	400	9,459	7,955	1,505
Ont.	10,464	389	664	288	11,805	8,679	3,126
Man.	7,961	389	664	737*	9,751	8,106	1,645
Sask.	10,320	—**	664	0	10,984	7,785	3,199
Alta.	9,228	372	664	0	10,264	7,821	2,443
B.C.	9,384	389	664	0	10,437	8,230	2,207

* Excluding SAFFR benefits.

** In Saskatchewan, family allowances are already included in the social assistance rates.

1. *Source:* Provincial Social Services Departments.2. *Source:* Inventory of Income Security Programs in Canada, 1988.3. *Source:* 1988 Income Tax, Revenue Canada.

Table 10-5**Welfare recipients:****Income and poverty gap calculations—1988****Case: Single Parent and 2 Children**

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$9,768	\$777	\$1,258	\$0	\$11,803	\$11,215	\$588
P.E.I.	13,632	777	1,258	0	15,667	10,303	5,364
N.S.	10,560	777	1,258	0	12,595	10,332	2,263
N.B.	7,860	777	1,258	0	9,895	9,656	239
Que.	8,688	964	1,258	400	11,310	10,122	1,188
Ont.	11,916	777	1,258	301	14,252	11,210	3,042
Man.	10,236	777	1,258	711*	12,982	10,666	2,316
Sask	12,420	—**	1,258	0	13,678	10,124	3,554
Alta.	11,220	864	1,258	0	13,342	10,344	2,998
B.C.	11,052	777	1,258	0	13,087	10,974	2,113

* Excluding SAFFR benefits.

** In Saskatchewan, family allowances are already included in the social assistance rates.

1. Source: Provincial Social Services Departments.

2. Source: Inventory of Income Security Programs in Canada, 1988.

3. Source: 1988 Income Tax, Revenue Canada.

Table 10-6**Welfare recipients:****Income and poverty gap calculations—1988****Case: Single Parent and 3 Children**

Prov.	Social Assistance ¹	Family Allowance ²	Federal Sales & Child Tax Credit ³	Prov. Tax Credits ²	Total Annual Income	Poverty Line	Poverty Gap
Nfld.	\$10,200	\$1,166	\$1,852	\$0	\$13,218	\$13,233	\$-15
P.E.I.	15,396	1,166	1,852	0	18,414	12,904	5,510
N.S.	11,616	1,166	1,852	0	14,634	13,572	1,062
N.B.	8,172	1,166	1,852	0	11,190	11,734	-544
Que	8,688	2,068	1,852	400	13,008	12,447	561
Ont.	13,260	1,166	1,852	316	16,594	13,946	2,648
Man	11,580	1,166	1,852	701*	15,299	13,318	1,981
Sask	14,640	—**	1,852	0	16,492	12,411	4,081
Alta.	12,660	1,170	1,852	0	15,682	12,621	3,061
B.C.	12,276	1,166	1,852	0	15,294	13,578	1,716

* Excluding SAFFR benefits.

** In Saskatchewan, family allowances are already included in the social assistance rates.

1. Source: Provincial Social Services Departments.
2. Source: Inventory of Income Security Programs in Canada, 1988.
3. Source: 1988 Income Tax, Revenue Canada.

In most provinces, single parents are considered unemployable and are therefore treated more generously by the welfare system. Tables 10-4, 10-5 and 10-6 display the welfare rates and total income of the three most common types of single parent families. In every province total recipient income is above the poverty line.³ Indeed the typical case finds itself \$2,200 or about 20 percent above the poverty line. It must be pointed out that these families could earn about \$1,000 of additional income without effecting their social assistance benefits. They would also be significantly better off if they could acquire a rent-geared-to-income apartment. The standard of living of single parent welfare recipients will never be luxurious, but it is also not impoverished. The system provides sufficient income to meet all basic necessities as well as some non-necessities.

In general then, single employable welfare recipients in Canada, without additional resources, will be living in poverty. This does not mean that they cannot subsist. They may share accommodations, find an inexpensive room (or room and board), have some (undeclared) cash income or use any number of other strategies to survive. The point is that they are properly classified as poor because they must go to extraordinary lengths to acquire basic necessities and are likely to be lacking some essential items. The low rates of assistance given to single employables represents a strong incentive to work. They are a reflection of society's view that these able bodied individuals, without dependents to support, can fairly easily find a job. The help they receive should, therefore, reflect the relative lack of urgency and the temporary nature of the problem. Indeed, these people do not appear to stay "on welfare" for very long. The recent evidence for Ontario, compiled for the SARC report, is that the average period of assistance for employable, working age persons is seven months. In the case of employable couples with

3 There are two exceptions and both involve the single parent, three child category. In Newfoundland, recipient income is \$15 below the poverty line. This result is largely due to the overestimation of average shelter costs in that province as discussed in Chapter 6. In New Brunswick, recipient income is \$544 below the poverty line. However, young, single parents are regarded as employable in the province of New Brunswick and this helps explain the less favourable treatment.

children, society's expectation that one of the adults work is obviously tempered by the immediate needs of dependents. In most provinces, these families have total income which permits them to escape poverty, but often just barely.

In contrast, the welfare system's treatment of those defined as unemployable is clearly more generous. The analysis of worst-case scenarios in Tables 10-3, 10-4, 10-5 and 10-6 demonstrates that Canadian families lacking an employable adult will be provided with enough income to cover all basic needs.

Disabled persons

There is a disturbing tendency among people who should know better to speak of disabled individuals as a homogeneous and quite helpless group, all of whom need special consideration. In fact, there are more differences between disabled persons than similarities. Many mildly or moderately handicapped individuals may not want special consideration, just equal consideration.

In most cases their abilities far outweigh their disability making them eminently employable in a variety of occupations. Advanced technologies have greatly broadened the range of opportunities available to people with handicaps. The major barrier they face is the narrow-mindedness and discrimination of some employers (and some fellow employees). Even people with severe physical disabilities—the blind, the deaf, those permanently unable to walk can and do get full time, non-token jobs.

For those disabled who cannot work and have no other resource to draw on, there exists a variety of monetary and non-monetary benefits for which they qualify. Are these benefits adequate to meet all of their basic needs? This is difficult to determine because many disabled persons will have specialized requirements in addition to their basic needs. Each case will be somewhat unique. Without question, however, it will cost many disabled more to live, often substantially more, than the average. Nevertheless it is the case that social assistance rates for disabled persons are significantly higher than amounts given to the non-disabled. In addition, special need items are accommodated in each province (at the discretion of welfare officials); special physical and health care requirements are provided by the health care system; special

shelter subsidy programs and preference for social housing and "disability-specific" housing for the disabled are available in many areas; special consideration in the form of tax credits exist as well as a variety of private charitable initiatives helping the disabled. All of these programs and efforts incline one to the view that the basic needs of the least advantaged disabled persons are being cared for. However, it is fair to say that there is no firm evidence regarding the adequacy of assistance to severely disabled persons in Canada.

The elderly

What about Canada's elderly? Are the "last resort" benefits flowing to senior citizens sufficient to cover all the basic necessities? To fairly answer this question, we examine several "worst case" scenarios for seniors. We assume in each case that the pensioner has not worked and therefore has neither a government pension (CPP/QPP) or a private pension. They have, as well, no savings, no significant assets, no inheritances and will receive no assistance from family, friends or charitable groups. We do assume, however, that in each case the seniors meet the residency requirements to qualify for the full Old Age Security (OAS) benefit and the full Guaranteed Income Supplement (GIS) and Spousal Allowance (SPA), where applicable.

Table 10-7 considers three cases: the single pensioner, the married pensioner whose spouse is less than 60 and the married pensioner whose spouse is 60 or over. In every case, total income exceeds the poverty line—substantially so except for the married pensioner with spouse less than 60. However, in this particular case the pensioner would be better off on welfare until the spouse reaches the age of 60. In Ontario, for example, this elderly couple would receive \$12,636 in social assistance and have total 1988 income just over \$13,000 once tax credits are included. This is fully \$3,000 above the total they receive under OAS/GIS. Thus, last-resort benefits flowing to senior citizens will always lift them well above the poverty line. Because they are considered unemployable, they can do no worse than the maximum benefits to the unemployable offered under social assistance programs. Therefore, even seniors who do not meet OAS residency requirements or those that have dependents will receive welfare benefits which are more than sufficient to cover all the necessities.

Table 10-7

**Income benefits to low-income seniors
and the poverty gap (\$)**
Annual values—1988

Province	OAS	GIS/ SPA	Prov. Supp.	Tax Credit	Other*	Total In- come	Pov. Line	Pov. Gap
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Newfoundland, P.E.I. & New Brunswick

Single Pensioner	\$3,784	\$4,497	\$0	\$70	\$0	\$8,351	\$5,903	\$2,448
Married: Spouse <60	3,784	4,497	0	140	0	8,421	8,100	321
Married: Spouse ≥60	7,568	5,858	0	140	0	13,566	8,100	5466

Nova Scotia

Single Pensioner	3,784	4,497	219	70	0	8,570	5,611	2,959
Married: Spouse <60	3,784	4,497	219	140	0	8,640	7,818	822
Married: Spouse ≥60	7,568	5,858	219	140	0	13,785	7,818	5,967

Quebec

Single Pensioner	3,784	4,497	0	70	500	8,851	5,504	3,347
Married: Spouse <60	3,784	4,497	0	140	500	8,921	7,955	966
Married: Spouse ≥60	7,568	5,858	0	140	600	14,166	7,955	6,211

Table 10-7 (continued)
Income benefits to low-income seniors
and the poverty gap (\$)
Annual values—1988

Province	OAS	GIS/ SPA	Prov. Supp.	Tax Credit	Other*	Total In- come	Pov. Line	Pov. Gap
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Ontario

Single Pensioner	\$3,784	\$4,497	\$996	\$70	\$650	\$9,997	\$6,222	\$3,775
Married: Spouse <60	3,784	4,497	996	140	650	10,067	8,679	1,388
Married: Spouse ≥60	7,568	5,858	1,992	140	700	16,258	8,679	7,579

*Manitoba ***

Single Pensioner	3,784	4,497	393	70	540	9,284	5,599	3,685
Married: Spouse <60	3,784	4,497	393	140	540	9,354	8,106	1,248
Married: Spouse ≥60	7,568	5,858	844	140	588	14,998	8,106	6,892

Saskatchewan

Single Pensioner	3,784	4,497	780	70	500	9,631	5,149	4,482
Married: Spouse <60	3,784	4,497	780	140	700	9,901	7,785	2,116
Married: Spouse ≥60	7,568	5,858	1,260	140	700	15,526	7,785	7,741

Table 10-7 (continued)
Income benefits to low-income seniors
and the poverty gap (\$)
Annual values—1988

Province	OAS	GIS/ SPA	Prov. Supp.	Tax Credit	Other*	Total In- come	Pov. Line	Pov. Gap
Alberta								
Single Pensioner	\$3,784	\$4,497	\$1,140	\$70	\$1,200	\$10,691	\$5,426	\$5,265
Married: Spouse <60	3,784	4,497	1,140	140	1200	10,761	7,821	2,940
Married: Spouse ≥60	7,568	5,858	2,280	140	1200	17,046	7,821	9,225
British Columbia								
Single Pensioner	3,784	4,497	592	70	0	8,943	5,920	3,023
Married: Spouse <60	3,784	4,497	592	140	0	9,013	8,230	783
Married: Spouse ≥60	7,568	5,858	1,446	140	0	15,012	8,230	6,782

* Mainly Sales and Property Tax Rebates and Assistance to Elderly Renters

** Excluding SAFER Benefits

Source: Health and Welfare Canada, *Inventory of Income Security Programs in Canada*, 1988.

How can the unemployable be poor?

If social assistance for the unemployable is fully adequate, then it follows that all of Canada's roughly one million poor must be employable. But they are not! As the poverty profile in Chapter 8 reveals, some of the poor are elderly, some are single parents and some are disabled. How can this be?

It is important to point out that not everyone qualifies for welfare. The existence of substantial assets will render applicants ineligible for social assistance. Welfare is intended as a safety net for those who have no other resources to draw on. Those with real or financial assets must therefore "dissave" until they qualify for welfare. Although their income may be zero, they will be covering their living expenses by selling off assets. Once they hit the asset exemption levels, they will become eligible for social assistance. An individual or family in this circumstance might well have been classified as poor for one or two (or more) years and yet never lacked any of the basic necessities.

Another reason why some unemployable households might be included among Canada's poor is that they were in transition during the reference year. Single women with dependent children would be the main example. If they were separated, divorced, abandoned or became a mother for the first time in 1988 and subsequently applied for social assistance, then in most cases their total 1988 income would be below the poverty line. Since income to single parent recipients is, on average, about 20 percent above the poverty line, then women (who were not previously in the labour force) who undergo one of these changes after mid-March would almost certainly be included among 1988's poor. Although their rate of income is sufficient to meet their needs, they are classified as poor because of their low total income during the calendar year. The same line of reasoning helps us explain why individuals released from institutions, even if disabled, may not have accumulated sufficient income during the reference year to escape the poverty label.

The purpose of Canada's social safety net is to be a "last resort" source of income for those who cannot or do not provide for themselves. For the vast majority of recipients social assistance achieves its goal of providing sufficient income to cover basic requirements. There are a great many problems with our welfare system but inadequacy is not one of them.

Welfare and subsistence

What are we to make, then, of persistent claims by what can loosely be referred to as the social welfare lobby that welfare benefits in Canada are woefully inadequate? In recent years this view has been expressed, in various ways, by such organizations as the CCSD, SARC, the Social Planning Council of Metropolitan Toronto (SPC), the National Council of Welfare as well as various food bank administrators, politicians, feminist groups, church organizations and editorial writers. If these claims are based on some notion of "social adequacy," then there can be no argument. It is true that social assistance does not provide sufficient income for all of the following: social outings, sports, recreation, toys, alcohol and tobacco, a \$2,000 annual expenditure on clothing, and a one week vacation.⁴ It was never intended to. However, these criticisms go well beyond claims of social inadequacy. Directly or indirectly, they assert that welfare benefits are insufficient to cover *even basic physical needs*. For example, the SARC report cites growing food bank use as a primary indicator of social assistance inadequacy. The clear implication is that benefits are too low to permit the purchase of shelter, clothing, transportation, personal needs, household necessities *and* food. The SPC has argued that "most households on social assistance are living on annual incomes which are between \$3,500 and \$8,000 less than they require to meet the cost of *basic necessities*" (my emphasis).⁵ Perhaps the strongest condemnation of welfare rates and their inability to cover physical needs comes from the National Council of Welfare.

"It is impossible to describe in words alone the devastating impact of abnormally low rates of social assistance. No written account can even come close to portraying the damage to physical health and the scars to psychological well-being that can come from living at standards below those deemed absolutely

4 Items on the "social" component of the Metropolitan Toronto Social Planning Councils Budget Guideline for a family of four.

5 *Toronto Star*, Feb. 9, 1987.

minimal for basic subsistence. What can be said of a life which consists of a daily struggle merely to survive?"⁶

Apparently, some welfare administrators share this belief: "A single parent on social benefits—even with the very high level of rent subsidy—can't attain an adequate level of nutrition. There has to be other help"⁷ and "I don't know how they survive, quite frankly, on what we give them."⁸

In none of these cases is there any evidence provided or studies cited to support the view that social assistance rates are insufficient to cover basic physical needs. No actual cost information is presented and compared with the income of recipients. Yet all confidently proclaim or infer that welfare rates condemn recipients to an unhealthy living standard below subsistence. The universal inadequacy of welfare is apparently an article of faith, self evident and requiring no proof. Upon this foundation enlightened social policy can stand.

The fact is that welfare benefits are sufficient to provide unemployable recipients with private market housing; palatable and nutritious food as well as a variety of other needs including transportation, telephone, personal hygiene, home furnishings and supplies. Life on welfare is not extravagant. It is not middle class. Neither is it below subsistence or below the poverty line.⁹

6 *Welfare in Canada: The Tangled Safety Net*, National Council of Welfare, 1987, p. 82.

7 *Toronto Star*, September 7, 1988—David B. Greenspan, Chairman of Ontario Housing Corporation.

8 *North Bay Nugget*, April 8, 1989, Doug Hill, Social Welfare Administration, City of North Bay.

9 Defining poverty in relative terms and simultaneously describing the state of living of those so defined in terms of bare subsistence is all too common these days. This relativist "sleight of hand," whether deliberate or not, is apparently nothing new. Twenty seven years ago, Rose Friedman, in an excellent monograph on poverty, stated "It is highly misleading, however, to adopt such a [relative] definition and then describe the living conditions of those labelled poor in terms reminiscent of poverty as defined a century ago" Friedman (1965), p. 27.

\$1,000 to \$2,000 more than in smaller cities. In addition there is typically a higher crime rate, more pollution, more drug-related problems, more congestion and stress in larger cities. Offsetting these costs is the existence of a broader range of job opportunities, a lower unemployment rate and the somewhat higher wages that frequently prevail in large metropolitan areas. On balance, however, there is little doubt that welfare recipients would be better off in small rather than large cities.

Affordable housing and vacancy rates

In determining essential shelter costs we have assumed that the poor are drawing from the least expensive half of private market units. In some areas, however, shortages caused by rent controls make it difficult for some to find appropriately priced accommodation. In some cities with very low vacancy rates it may take months for an active seeker to find an affordable unit. While they are searching, they may be living with family or friends; they may be inadequately housed, forced to take housing they would normally reject or they may be housed in an inconvenient location, distant from their desired neighborhood. Alternatively they may temporarily pay higher than average rents until an acceptable unit is found. In some of these cases the additional costs may be sufficient to push their personal poverty line above their income. As long as this situation persists, this household will be genuinely poor. However, we should not exaggerate the importance of this consideration.

In 1988 there were some 600,000 social housing units across Canada accommodating the most needy cases. Rents in these units are no more than 30 percent of gross income. Some of those paying higher than average market rents will eventually secure a subsidized unit, greatly improving their financial situation. Priority is usually given to single parents and the disabled.

Most stories about the "crisis" in affordable housing in Canada have a strong Toronto bias. Indeed, Metropolitan Toronto has consistently had the lowest vacancy rates and the highest rents during the 1980s. However, even in Canada's hottest real estate market, the impact on welfare recipients has not been too severe, according to the SARC report. "The data show that social assistance recipients, in general, pay less than

the average amount for their shelter. For example, in 1987 the average shelter cost for each social assistance recipient in Metropolitan Toronto was less than \$300, whereas average costs in the market place ranged from \$392 to \$956, depending on dwelling size."¹³ Many commentators have suggested that the rents relevant to the poor and to welfare recipients in low vacancy communities are average rents on *vacant* units, the so-called "marginal cost" of shelter. The SARC report does not accept this view.

The committee rejects marginal costs as an appropriate standard for shelter ceilings. The marginal cost of housing is an unrealistic indicator of the actual cost of housing for all sectors of society, including social assistance recipients. Only a small percentage of recipients are actually in the market for private (as opposed to public) housing at any point.... Therefore, we believe that average costs should be used to set ceilings.¹⁴ Published vacancy rates can be somewhat deceiving. The much quoted CMHC survey lists the vacancy rates of major Canadian cities in apartment structures of six units or more. While this category includes the majority of apartment units, it is important to stress that these vacancy rates exclude smaller structures, i.e., duplexes, triplexes, fourplexes, basement units, walk-ups, etc. We might expect that these excluded units would have somewhat lower rents and higher vacancy rates than their more popular counterparts. Indeed, at least for Toronto CMA, the CMHC reveals that in October, 1989¹⁵ the vacancy rate for apartments in smaller structures (three to five units) was 3.1 versus .3 for apartments in larger structures (six or more units). The evidence for

13 SARC Report, 1988, p. 188.

14 Ibid, p. 188.

15 CMHC, *Rental Market Survey*, Toronto CMA, October 1989, p. 22. Regrettably the CMHC does not include in their surveys buildings with fewer than 3 apartment units. Apartments in buildings with 3 to 5 units comprise about 4 percent of the Toronto CMA apartment market. It is unknown how many units are contained in buildings with less than 3 apartments.

Ottawa¹⁶ is quite similar. In buildings with 3 to 5 units, the October, 1989 vacancy rate was 3.3 compared to 1.3 for buildings with 6 or more units.

On the matter of rents, it is true that, in general, costs are lower in buildings with 3-5 units than in buildings with 6 or more units.¹⁷ In every major city in Canada, with the exception of Toronto, rents in the 3-5 structures were lower. Overall (including Toronto), on a weighted average basis, one bedroom apartments were about 20 percent below and two bedroom apartments were about 10 percent below the cost of their counterparts in buildings with 6 or more units.

There is a tendency in the media to focus attention on the very low vacancy rates in Toronto and Vancouver. The CMHC considers a vacancy rate of at least 2 percent to be required to "ensure a competitive market, keep rents down, and allow sufficient choice for households."¹⁸ The fact is that there are just about as many people living in major cities with high vacancy rates. Specifically, among Canada's nine CMA's with 1986 population of 500,000 or more, four (with total population of 5,984,000) have vacancy rates below 2 percent and five (with total population of 5,605,000) have vacancy rates above 2 percent.

This approximate equality prevails as well for cities with population below 500,000 as we see in Table 10-8. Indeed if the Ottawa-Hull CMA is treated as one housing market, then the average vacancy rate in that area for 1988 is 2.5 percent and this would mean that a somewhat greater proportion of Canada's population live in major cities with vacancy rates above 2 percent. The popular view that all (or most) welfare recipients face tight housing markets is incorrect. It is likely that not much more than one-third of those on social assistance reside in areas where vacancy rates are consistently below 2 percent and hence where they would encounter significant difficulty in readily choosing an appropriate apartment. And in even those communities, the vacancy rates in structures with fewer than 6 units will likely be far more favourable. All things considered (social housing, lower rents and high-

16 CMHC, *Rental Market Report*, Ottawa CMA, October 1989, p. 4.

17 CMHC, *Housing Market Information System*, R508, October, 1989.

18 CMHC, *Rental Market Survey*, Toronto CMA, October, 1989, p. 6.

Table 10-8

**Average vacancy rates in apartment structures
with 6 or more units—1988**

Less than 2%			2% or more		
City	Popula- tion	Vacancy Rate (%)	City	Popula- tion	Vacancy Rate (%)
Barrie	67,700	1.1%	Calgary	671,326	3.1%
Belleville	87,530	1.2	Chicoutimi	158,468	7.5
Brantford	90,500	.4	Cornwall	51,720	2.0
Guelph	85,965	.1	Edmonton	785,465	5.6
Hamilton	557,029	.4	Halifax	295,990	4.5
Kingston	122,350	.8	Montreal	2,921,357	4.0
Kitchener	311,195	.5	Hull	200,215	5.9
London	342,302	1.5	Peter- borough	87,080	2.5
North Bay	57,420	.9	Quebec City	603,267	5.2
Oshawa	203,543	.4	Regina	186,521	5.2
Ottawa	619,050	1.8	St. John	121,265	3.7
St. Cath. / Niagara	343,258	1.1	St. John's	161,901	9.8
Sault Ste. Marie	84,620	.4	Sarnia	85,700	3.8
Sudbury	148,877	.8	Saskatoon	200,665	8.7
Thunder Bay	122,217	1.6	Sher- brooke	129,960	7.6
Toronto	3,427,168	.2	Trois Rivieres	128,888	6.6
Vancouver	1,380,729	.7	Winnipeg	625,304	3.7
Victoria	255,547	.7			
Windsor	253,988	1.0			
<i>Totals</i>	<i>8,560,988</i>			<i>7,415,092</i>	

Source: CMHC, *Rental Market Survey*, Toronto CMA, October 1989.

er vacancy rates in smaller structures, the fact that not all communities have low vacancy rates, etc.), a social assistance recipient actively searching for an affordable unit should be able to find one without much delay.

To summarize, non-disabled, unemployable, welfare recipients will have sufficient income to acquire all their basic needs. In fact, for most, incomes will be about \$2,000 above the poverty line. For disabled recipients, the range of programs and benefits appear to cover all necessities; however, this is clearly an area of uncertainty. Among employable recipients, most of those with unemployable dependents will be above the poverty line, although probably not by much. Almost all single employables will not receive enough, by themselves, to live above the poverty line. Overall, I would estimate that there were between 250,000 and 400,000¹⁹ employable welfare recipients in 1988. Because life at this level is uncomfortable and deficient, there is little incentive to remain on welfare. It is the case that most in this situation receive benefits for less than one year.

Most of the poor in 1988 did not receive welfare benefits for the entire calendar year or were not on welfare at all.²⁰ As mentioned already, students at post secondary educational institutions do not normally qualify for welfare. Some immigrants, people in transition, and self-employed persons who sustained losses in 1988 were among Canada's poor but did not necessarily receive social assistance for the whole year. People in religious orders and others voluntarily living on low incomes were not recipients. Finally, there are some who for various reasons (pride, lack of information, fear of embarrassment, already getting help from parents, relatives, sons, daughters, etc.) do not apply for social assistance even though they might qualify.

19 This is a crude approximation derived from several sources, but chiefly Health and Welfare Canada's "Inventory of Income Security Programs," 1988, chp. 4.

20 The microdata file reveals that, overall, just 37 percent of poor households received any social assistance income in 1988.

The working poor

What about the “working poor”? Are there people who worked continuously in full time jobs in 1988 but received incomes insufficient to cover all the basic necessities? By way of answering this question, let us examine the worst case situation, that is, those earning the minimum wage.

Table 10-9 displays the 1988 hourly minimum wages in each province and the corresponding annual income. This income is sufficient to support two persons but no more in all provinces. Any family of three or more persons whose sole source of income is earnings from a full time minimum wage job will be poor. The minimum wage is more often paid for part-time work, especially in the service sector, than full-time work. Those full-time jobs that do pay minimum wage are typically entry level, unskilled jobs. Frequently, individuals starting at minimum wage quickly move up to higher wage levels as they acquire experience or move on to better jobs. Nevertheless, the income derived from a minimum wage job is insufficient to support a family. An employable individual with at least two dependents would be better off financially going on welfare than to take a minimum wage job—unless there was a good probability of fairly quick advancement.

In recent years there have been demands that governments raise the minimum wage. A variety of politicians, church groups, labour organizations and social planners have pressed for hikes from 25 percent to 100 percent in the minimum wage. The line of argument is usually that the current levels are unfair, unjust, not a living wage and condemn people to poverty. The motivation behind these demands is an honest and genuine attempt to improve the standard of living of the least fortunate working Canadians. Most economists regard minimum wage laws as a prime example of a policy with good intentions but bad consequences. They argue that an effective minimum wage (set above the “going rate” for entry level jobs for unskilled workers) will result in fewer jobs for unskilled workers. If an employer is required to pay a worker more than the worker’s perceived worth to the company, then that person will not be hired. The higher the minimum wage the fewer jobs there will be for the least educated and least skilled workers.

Table 10-9**Hourly minimum wages and annual income by province—1988**

Province	Hourly Minimum Wage (\$)	Annual Income* (\$)
Newfoundland	\$4.25	\$8,840
Prince Edward Island	4.50	9,360
Nova Scotia	4.50	9,360
New Brunswick	4.25	8,840
Quebec	4.75	9,880
Ontario	4.75	9,880
Manitoba	4.75	9,880
Saskatchewan	4.50	9,360
Alberta	4.50	9,360
British Columbia	4.50	9,360

* Assuming a 40 hour work week.

Source: *Canada Year Book*, 1990

Well known black economists such as Andrew Brimmer, Thomas Sowell, and Walter Williams are particularly adamant in their critique of minimum wage laws. Brimmer has argued that "Advances in the minimum wage have a notably adverse effect on young people—with the effects on black teenagers being considerably more severe."²¹ Williams states "Minimum wage laws make it uneconomical to hire highly disadvantaged youngsters."²² Canadian employers of unskilled workers appear to concur. R. Michener, president of Tourism Ontario, has

21 Reported in a column by Louis Rukeyser, *Toronto Star*, April 2, 1988.

22 Ibid.

said "We are in the tourist and hospitality industry. We are the largest employers of youth, women, students, unskilled and inexperienced people. The minimum wage rate is of major concern to us. Inevitably, when the minimum wage rates increase, opportunities for those at or near the margin diminish."²³ Canadian Federation of Independent Business official, Judith Andrew, has stated "When minimum wages rise, the number of jobs drop,"²⁴ citing U.S. studies on the effect on teen unemployment of increases in the minimum wage. Economists have tended to argue that the best hope for unskilled workers is a strong, dynamic economy with a wide range of entry level jobs, good prospects for upward mobility as well as skills training opportunities on or off the job. This and not a minimum wage will systematically improve the standard of living of the least advantaged workers.

The microdata file reveals that in 1988, just over one quarter of heads of poor families described themselves as employed. However, this group averaged just 34 weeks of work during the year and 36 percent of them worked part time or did not work at all. Among poor unattached individuals 36 percent classified themselves as employed. This group also averaged 34 weeks of work in 1988 and 40 percent of them worked part time or not at all.

The homeless

Perhaps the most distressing category of poor in our society is the homeless. A motley collection of runaways, bag ladies, alcoholics and drug addicts, ex-mental patients, transients and eccentrics, they are our most visible poor. They sleep on park benches, under bridges, in stairwells and in abandoned buildings. They often hang out on our main streets and steal or beg for things they need. There is little doubt that their long term physical health is being compromised as long as they are homeless. It is likewise clear that the homeless would be materially much better off by acquiring shelter and going on welfare. They would, at the very least, receive enough money for modest accommodation,

23 *Toronto Star*, June 14, 1987.

24 *Toronto Star*, November 22, 1987.

nutritious food, personal hygiene and as well be entitled to in-kind benefits such as health, vision and dental care. They would do much better than this if they were classified as unemployable. Why then, do many of the homeless consistently reject social assistance? The reasons are probably as varied as the homeless. Mistrust of "the system," personal pride, the excitement and spontaneity of street life, the perception that they would be pressured to find employment, and expected loss of freedom may be some of the more popular motivations. Whatever the reason, it is morally wrong to apply coercion in order to bring these people into the mainstream. While some who suggest institutionalizing the homeless are genuinely concerned about the inability of many of them to adequately care for themselves, there are others who are more concerned about property values and their own inconvenience. We need to be reminded that in a free society everyone is permitted to live his life in his own way. It is important that we extend a helping hand to those we perceive to be in need and allow them to choose to accept or reject that assistance.

It would be very difficult to make a case that currently, people are homeless (for more than a brief period) because of a shortage of affordable housing. The evidence presented thus far on average rents and vacancy rates across Canada, suggests that in spite of various municipal restrictions and rent controls, there is ample low cost housing.

By 1990 each of Canada's provinces directly or indirectly provided social assistance to homeless persons. In some cases it amounts to a per diem rate which can be used at sanctioned hostels and shelters. In other cases, in-kind and cash benefits may be provided depending on individual circumstance at the discretion of the welfare agency. In at least two provinces direct cash benefits are given to homeless persons. The amount is effectively the non-shelter component of the single employable rate.

Estimates of the number of homeless in Canada range widely, obviously depending on the definition used. The Canadian Council on Social Development has determined that at least 100,000 Canadians

were homeless at some stage in 1986.²⁵ Their calculation is based on emergency shelter and soup kitchen use. On any given night, there were about 8,000 persons sleeping in shelters and hostels. Perhaps as many or more sleep outdoors—on park benches, make-shift tents, over heated grates or in stairwells, railway stations, hotel lobbies and abandoned buildings.

The Social Planning Council of Metropolitan Toronto estimates that there are at least 200,000²⁶ Ontario families caught in the cycle of homelessness although they admit the term includes people in substandard and unaffordable housing (i.e., spend more than 50 percent of their gross income on shelter). John Jagt, director of Metropolitan Toronto's emergency shelter system objects to this approach. "There are thousands with a housing problem—but having a housing problem does not mean being homeless."²⁷ He has recently estimated that there are about 2,600 homeless people in Toronto and "most of them are housed in emergency shelters. Those on the streets choose to be there. . . . The number living on the streets ranges from 200 to 300 in winter to about 1,200 in the summer. . . . Those figures surprise a lot of people who think there are tens of thousands of homeless in the big city."²⁸ A study by Calgary's Horizon Housing Society found, in 1990, that there were about 100 people who were permanent residents of that city's streets.²⁹

Currently, there is no broadly accepted definition of homelessness nor has there been any comprehensive attempt to measure the number of homeless, however defined. In 1991 Statistics Canada will attempt, for the first time, to count the homeless as part of the regular census. It is an important task and the credibility of the effort will depend fundamentally on the definition of homeless that they use.

25 *Toronto Star*, April 7, 1987.

26 Social Planning Council of Metropolitan Toronto "More Than Just A Roof" April, 1988.

27 *Toronto Star*, April 21, 1986.

28 *Toronto Star*, June 9, 1990, p. D5.

29 Canadian Press article, published in the *North Bay Nugget*, April 3, 1990.

Food banks

In the course of this study, four quite distinct hypotheses have emerged. First, the number of people living in poverty (that is to say, those whose income is not sufficient to permit them to acquire all of the basic necessities) is far lower than all previous estimates. Second, the number and percentage of poor (at least between 1985 and 1988) is declining. Third, for the vast majority of the poor, (i.e., students, some self-employed people, immigrants, and single parents) their poverty is temporary. Fourth, for unemployable persons, welfare—the last resort source of income—is sufficient to raise its recipients above the poverty line. If the evidence presented supports these hypotheses, and I believe it does, why then have foodbanks proliferated throughout the 1980s? How can there be fewer poor when there are more and more food banks and more food distributed to the needy? If welfare rates are generally sufficient to cover necessities (including food), why are many foodbank users welfare recipients?

Charitable food donations to the needy have been around for a long time. We've always had informal mechanisms, such as friends, relatives, neighbors, etc. helping those in their circle through a difficult time. Charitable foundations, service clubs, community food drives and church charities (especially the Salvation Army) are more formal and systematic ways of achieving the same goals—feeding the hungry. As a result of these efforts, we can fairly say that involuntary starvation has been effectively eradicated in Canada for at least 50 years.

The recent foodbank phenomena can be viewed as the result of happy marriage of interests between producers and distributors of food who have significant surpluses and volunteer groups seeking donated food for (apparently) increasing numbers of hungry people. It is good public relations for corporate donators to give surplus food to the needy. In some cases, donating rather than selling surplus food may prevent prices from falling and therefore also serve the economic interest of the industry. The volunteer sector wishes to get food to the hungry in the most direct, most efficient (least expensive) way and to that extent food banks are successful.³⁰ Some volunteers may prefer giving food to the

30 Some suggest that food banks are not efficient at all. Rick Myer, director of

hungry rather than an equivalent amount of cash, say in the form of higher welfare rates, because they are not confident that the additional cash will be spent on food. Direct transfers of food may be perceived as a better way to ensure that recipients, especially children, receive good nutrition. While this view is understandable, it is nevertheless paternalistic and insulting to people in need.

There are several reasons why foodbanks have flourished during a period of time when the poverty rate was declining and the income of most welfare recipients was sufficient to cover all basic necessities including food. First, it is a fact that firms and households are more charitable during good economic times than bad. Between 1983 and 1989 Canada has experienced very good economic times characterized by solid economic growth, improving corporate profits and a steadily declining unemployment rate. We should not be surprised that people are more generous, to foodbanks and other charities, in these circumstances.

Second, for a great many people, going on welfare means a significant drop in their standard of living. The adjustment to the reduced level is likely to be difficult and painful and may take a long time. Some recipients might try, at least initially, to maintain some semblance of their former living standard, for example, by having a larger, more expensive apartment than they can afford, maintaining their clothing and restaurant expenditures, etc. To the extent that they do this they will invariably run out of money before the end of the month and may utilize foodbanks if they are available. For employable persons whose incomes are already at or below the poverty line, foodbanks are likely to be necessary until they find a job even if they don't live beyond their means. For unemployable recipients, foodbanks represent insurance against a crisis brought on by a failure to buy necessities first.

Some readers will be upset by the suggestion that some recipients of social assistance are living beyond their means. The fact is that

a Toronto food bank, argues that when the opportunity costs of volunteers and transportation costs are tallied up a simple \$1.20 can of beans can end up costing \$20 by the time it reaches the needy family. *Toronto Star*, Oct. 23, 1990.

overspending and mismanagement occur at every income level. Every year we have thousands of personal bankruptcies spread in rather egalitarian fashion right across the distribution of income. The problem for welfare recipients is that there is typically little room for error. The purchase of a few non necessities in a given month can wreck the budget and create the need for additional help. Similar impulsive behaviour by middle income families likely results in relatively minor, if any, discomfort for the balance of the month. To suggest that some recipients of social assistance do not wisely manage their (unquestionably limited) resources and do not always set priorities which are in the best interests of their dependents is to suggest that they are fundamentally no different than a great portion (perhaps a majority) of the overall society.

It is rare to hear someone publicly suggest that not all users of foodbanks really need to be there. But it does happen. During the 1990 hearings of the Ontario government Committee for Social Development on the topic of food banks, the manager of a food bank in Belleville claimed that more than half of her clients were there because of an inability to budget.³¹ Former Ontario Social Services Minister, John Sweeny, in April of 1986, reacted to news that some welfare recipients in subsidized housing were using food banks by stating "There really isn't any good reason why they should . . . quite frankly; they shouldn't be."³² Connie Osterman, Alberta's Social Services Minister and former single mother of five children has maintained that food allowances to welfare recipients are sufficient and that recipients need better shopping and budgeting skills.³³

Third, once foodbanks have been solidly established in a community, they may come to be regarded by some not as an emergency source of food but rather as an in-kind supplement to whatever assistance they are receiving. It serves to expand the consumption possibilities of users. To the extent that this hypothesis is valid and to the extent that food is

31 Televised, Ontario parliamentary channel, March 7, 1990.

32 *Toronto Star*, April 10, 1986.

33 *North Bay Nugget*, CP article, Feb. 22, 1989.

dispensed in an easy going, non-judgmental fashion, this motivation may account for some of the regular use of foodbanks.

A fourth reason for the popularity of foodbanks may simply be that food is free and any time an important, valuable item is given away a crowd will gather.

In summary, it is ridiculous to assume, as many "social reformers" do, that the growth in the number and use of foodbanks during the 1980's is clear evidence of both an increasing number of poor and inadequate social assistance benefits. Indeed, a stronger case can be made that it is the result of fewer poor and more people becoming better off. It is simply wrong to assume that the poor would starve without food banks. We do not know the extent to which foodbanks do what was previously done informally by the charitable efforts of individuals and groups. Emergency sources of free food will always be required as long as there are homeless people, people whose lives are in crisis and disarray and people who live beyond their means. Private charitable systems (foodbanks or otherwise) can respond quickly, efficiently and humanely—all quite uncharacteristic of government remedies.

Child poverty

In recent years, Canadians have been shocked to learn that there are more than one million poor children in this country. While the estimate is based on a definition of poverty that is, in my view, not credible, in fact that number may not be an exaggeration. Former NDP leader, Ed Broadbent, has drawn attention to the staggering food bank use by children.³⁴ It is irrelevant from the child's point of view that his parents have sufficient income to purchase nutritious food at grocery stores on an on-going basis. Hunger and need forces them to use food banks. While some children are undernourished, a great many more are malnourished. That is, they consume sufficient quantities of food but do not regularly receive a nutritious, balanced diet.

34 In his final speech to the House of Commons on Friday, November 24, 1989, Broadbent pointed out that 151,000 children in Canada use food banks each month.

The government or the public-at-large are routinely blamed for this situation. Welfare payments and other assistance are insufficient to meet the basic needs of families, it is claimed. As one *Toronto Star* editorial puts it, "... society's failure to ensure everyone an adequate income is nothing less than a form of collective child abuse."³⁵ These are strong words. The clear message is that children are hungry and malnourished because society is stingy and uncaring. This view must be challenged. The evidence presented earlier in this chapter demonstrates that, in virtually every case, welfare recipients with children have enough income to acquire all basic necessities, including nutritious food, without having to use any extraordinary means to economize and without having to resort to food banks. There is absolutely no need for any child in Canada to be hungry or malnourished.

A 1988 study of the diets of school children in Waterloo region found that less than a third of elementary school children are properly nourished. The study, conducted by the Centre for Social Welfare Studies at Wilfrid Laurier University and funded by the Waterloo Region Separate School Board revealed that lifestyle is more at fault than poverty. In response to the study, school board vice-chairman, Ray Voll, stated "Parents are harming their children by allowing them to skip meals or by not feeding them properly. . . . It's really another form of child abuse."³⁶

The problem of malnourished kids cuts across all socioeconomic categories. *Toronto Star* columnist, Susan Pigg, writes "Hunger in Metro has reached pathetic new proportions. Malnutrition is such a growing problem, even in middle class parts of Toronto, that board of education and public health officials are considering lunch or nutritious snack programs in every Toronto school. 'Lots of middle class families just don't have the time to think about proper nutrition any more' says Lorraine Fry, an executive assistant at Toronto City Hall who has spent months now looking at the hunger problem. . . . Public health nurses are

35 *Toronto Star*, May 13, 1989.

36 *Toronto Star*, September 8, 1988.

increasingly concerned about malnutrition and its long term impact on the health and learning abilities of children."³⁷

Hunger and malnutrition are not caused by inadequate welfare benefits. To suggest that families of very modest means cannot feed their children without food banks is ludicrous. It is an insult to the hundreds of thousands of families who have, over the years, consistently provided healthy and nutritious diets to their children on incomes less in real terms than today's welfare rates. Irresponsible parents are far more of a threat to children than an uncaring welfare system.

The welfare system in Canada is a last resort source of income for those who cannot support themselves. It attempts to provide sufficient income to cover the basic necessities. In this it is successful. For unemployable persons, provincial social assistance rates are, on average, about 20 percent above the poverty line. In most cases, for employable persons, welfare generally provides just enough to acquire food and shelter because the assistance is seen as meeting a temporary need. However, despite its success at covering basic needs, there is another sense in which the welfare system is not successful. In spite of various euphemisms, recipients are dependent on the state, on society, on fellow citizens for their survival. With dependency comes a loss of self esteem, a loss of pride and a loss of confidence. Capabilities are down-played and underestimated. Inabilities and disabilities are exaggerated. The longer the dependency, the more difficult it is to become independent. The welfare system has a tendency to trap people in a sort of "psychology of poverty" from which it is difficult to escape. It affects the lifestyle, attitudes, health and outlook of recipients. Its detrimental effect on the family unit is well documented.³⁸ The stigma and shame of being dependent on the state further separates them from the rest of society. Simply raising the amounts given to recipients is not a solution. While it will improve their material comfort in the short term, it will make it more difficult for many to become independent. A significant increase

37 *Toronto Star*, March 12, 1990.

38 See the work of U.S. sociologists Charles Murray and George Gilder, in particular.

in welfare rates will unquestionably suck into the system many who are currently working but have low incomes. We need to start over and construct a new system. Such a system must provide contractually, adequate income to those unable to work. It must be fair, have a strong built-in work incentive and must be universal. This is the creative challenge for policy makers.

Chapter 11

Conclusion

POVERTY IS NOT A MAJOR PROBLEM in Canada. In 1988, there were only about one million Canadians with reported incomes too low to afford all of the basic requirements of living. Of those, at least 75,000 are college and university students who have sources of funds (such as student loans and loans or gifts from parents and relatives) not counted as income; about 70,000 were elderly yet we know that benefits to persons (and their families) 65 and over are, in all cases, above the poverty line; and 300,000 were in single parent families and again last resort benefits for these families is, in virtually all cases, above the poverty line. In addition, there are an undetermined number of individuals and families who, because they lived in subsidized housing, under-reported their income, were self employed and reported negative net income from self employment, were in transition during 1988 (i.e., immigrants, marriage breakdown, etc.), or were members of religious orders or ascetic sects had reported income below the poverty line but may not have been poor at all. It is almost certain that less than 2 percent of Canada's population lives in poverty. Of those all but employable persons or those with substantial assets qualify for programs that would lift them above the poverty line. So, while poverty has not been entirely

eradicated, there is no reason for anyone in Canada to be permanently poor. Everyone is able to acquire all of the basic necessities of life.

This result flies in the face of numerous media stories about the growing numbers of poor who must do without food or resort to food banks to prevent starvation; about the dreadful inadequacy of welfare benefits to cover even basic necessities; about the crisis of child poverty. These stories, frequently written by self styled social reformers, would have us believe that poverty is Canada's major problem. The good common sense of Canadians prevents them from being taken in by blatant exaggeration, emotional appeals and, at best, anecdotal evidence. We find it hard to believe that 3 to 5 million Canadians are poor. It is difficult for us to understand how a senior couple who own their own home can be impoverished if their 1990 income is \$14,000. And we simply cannot believe that a great many college and university students, our future income elite, are among Canada's poor.

Perhaps most skeptical are those currently over 60 years of age. Many of their generation raised entire families on incomes less, in real terms, than today's welfare rates. They recall that shelter was somewhat cramped by our standards and contained fewer facilities but was generally adequate. Food was typically plentiful and nutritious. More clothing was home made, repaired or used than is the case today. Many readers will remember the sacrifices and difficulties of their day-to-day lives in the 1950s and 1960s, but they could not in fairness characterize their situation as "poverty." They never lacked any of life's basic necessities. Yet, they are expected to believe that people materially much better off than they were are poor.¹

To a large extent the rapid growth in average living standards over the past twenty five years has obscured our understanding of essential living costs. Many fewer people are forced to make sacrifices, to econo-

1 For example, according to the 1951 Census, average family income in 1951 was \$3,535 or about \$20,000 in 1988 dollars. The average family size in 1951 was just over four persons. That "average" family of four would have been declared "impoverished" in 1988 using LICO and CCSD measures. While the income distribution for families is not available, it is likely that one-quarter to one-third of all families in 1951 lived on incomes of less than \$15,000 (in 1988 dollars).

mize. In our pursuit of material affluence we are less able to appreciate the standard of living of those who are compelled to practice thrift. We have lost sight of the costs of basic necessities because so many of us are so far removed from them. There is a natural tendency to exaggerate those costs.

The fact is that necessities have never been a better bargain. They have never been easier to acquire. Indeed, there is more opportunity now than ever before for individuals and families to achieve a middle class living standard. Higher real wages, more leisure time, fewer children to support and more dual income households means that enjoyment of amenities, available only to the wealthy twenty five years ago, is a realistic goal for everyone. However, we live in an imperfect world and some people encounter difficulties on the way to improved living standards. It is important for us to know how many fall below a level such that all necessities cannot be acquired. It is likewise important for us to know to what extent real growth in our economy is lifting people out of poverty.

This study has examined the issue of the appropriate definition and measurement of poverty. It has almost entirely ignored questions about causes and cures. Similarly, policy issues such as the proper mechanisms for delivering assistance to the poor have not been covered. These fascinating and important problems are clearly beyond the scope and intent of this book. However, the sad fact is that we know very little about why people end up below the poverty threshold and best how to help them. Future research should include detailed case studies of poor households involving complete histories rather than just current circumstances. This will help us to understand what causes poverty which in turn will assist in the selection of the appropriate policy.

Critique of this study

It seems to me that this research is subject to three distinct lines of attack: (A) you completely reject the necessities approach to the definition and measurement of poverty; (B) you accept the necessities approach but find my list of necessities inadequate; and (C) you accept both the approach and the list but you have some problems with methodologies or data. I wish to examine each of these possible criticisms in turn.

Poverty is more than just the absence of basic necessities

Poverty must be understood within a social context. We are poor if we lack amenities that most people in the community enjoy. Poverty really means being less well off than most other people. While no one would argue that people are poor if they lack any basic necessity, poverty is more than just the absence of basic physical needs.

The notion of a social adequacy line does have some merit. However, connecting it to "poverty" is entirely inappropriate. Once people have acquired all their basic needs, it is not obvious how they would rank in terms of "poverty." For example, compare the well-being of a lonely, elderly widow with failing health but income substantially above the poverty line to that of the healthy, popular 19 year old, unemployed, high school drop out. Who is poorer? Rose Friedman asks, "What of the poverty of the blind, who, however rich in material goods, are deprived of the richness of experience obtained through vision. What of the poverty of the bereaved who, through the death of loved ones, become poor regardless of material goods."² What about the two-income family of five in Toronto earning \$60,000 a year but who have little leisure time, high stress levels and expenses (two cars, mortgage, daycare, taxes, food and clothing) about \$5,000 less than income? Are they better off than the one income family in a small Ontario town with income of \$25,000 but with much more leisure time, a cleaner and healthier environment and with an annual surplus of \$3,000 after all basic needs have been covered? It is fair to say that income is a poorer indicator of quality of life at high incomes than at low incomes. The social amenities or relative approach is just not capable of credibly distinguishing between "poor and non-poor" in their sense of the word.

In contrast, the necessities approach utilizes a rather natural threshold as a cut-off point. People are poor if they cannot afford all basic physical necessities—items the absence of which is likely to compromise long term physical well-being. If we believe that basic necessities—food, shelter, clothing, health and hygiene—are more important than or take

2 Friedman (1965), p. 14.

priority over other needs then this level will be a useful cut-off. Above this threshold, well-being is improved in rather mysterious ways, with qualitative factors such as leisure time, appearance, popularity, health, attitude and support systems at least as important as income.

Poverty is a strong word. It doesn't mean "relatively less well off." The traditional meaning of the word conveys a sense of real deprivation, of lacking basic needs, of compromising long term physical health. I have argued that this is the sense in which most people understand poverty and that this sense must be preserved.

There may well be merit in developing other kinds of lines or cut-offs. We need to find out more about ourselves and our standards of living. It may be possible, for example, to construct a widely accepted "social adequacy line." Current relative poverty lines, such as the CCSD line, do not qualify. What is socially adequate about an income half the community average? Advocates of the measurement of "social deprivation" will have to do much better than that. However, even if you support the use of social adequacy lines (however constructed), it is hard to imagine simultaneously rejecting the poverty line. Why would any student of poverty not be interested in determining how many in our society cannot afford all the basic necessities of life?

Social activists undoubtedly are concerned about the possible policy implications of accepting the validity of the necessities approach. Will these poverty lines be used to justify low rates of social assistance? As I have argued earlier, the appropriate definition and measurement of poverty should be quite distinct from the issue of poverty policy. Those who feel that the best interests of the poor are served by higher rates of social assistance must be prepared to make their case on grounds other than adequacy in meeting basic needs. For example, arguments for greater generosity have been made on the basis of fairness and social justice. The point is that determination of the conditions in which the poor live should be done quite independently of the determination of what action should be taken.

It is important for me to stress that the necessities definition of poverty used here as well as the resulting estimation of the extent of poverty in Canada is solely intended to provide interesting and important information about the poor. There are no intended policy implications. While the existing social welfare system is flawed and may

not be best serving the long run interests of those in need, there is no suggestion in this study that social assistance rates are either too high or too low. The poverty lines developed here should not be regarded as either policy "floors" or "ceilings." The moral and economic questions involved with the issue of public assistance to those in need are best ignored for the purpose of this study. I do see, however, three very important and practical uses to which the poverty line, constructed using the necessities approach, could be put.

First, it permits us to know something significant about ourselves at the present time. Just as we know current birth rates, death rates, unemployment rates, crime rates and tax rates, so we should also know the number in our society who cannot afford all basic necessities, i.e., the poverty rate. Second, it permits us to make inter-temporal comparisons regarding poverty. I think it is interesting and important for us to know whether the poverty rate in Canada is increasing or decreasing over time. To what extent is our growing economy systematically lifting some people out of poverty? This information can be determined only if we use a reliable, fixed standard. Finally, it permits us to make international comparisons. As long as other countries employ essentially the same methodology in measuring their poor, we can make legitimate comparisons between poverty rates in various countries. Using the necessities approach we have a tool capable of universal application. These comparisons may help us determine which political and economic systems contribute most to the alleviation of poverty.

The list of necessities is inadequate

You might very well agree with the necessities approach to the measurement of poverty but disagree with my list of necessities. Fair enough! The guiding principles used in developing the list were: (1) include any item the absence of which is likely to compromise long term health and physical well-being and (2) the quality and type of each of the included items should be at a standard considered no less than the minimum acceptable in the community in which the person resides. Thus the list of necessities consists of food, shelter, clothing, transportation, personal hygiene, household items including telephone, home furnishings and health care. Are all the included items justifiable? Are there additional items which should be included?

I had no difficulty in excluding products such as radios, televisions, VCRs, newspapers, magazines, etc. from the list. These cannot in any way be described as physical necessities. In addition, the inclusion of alcohol, tobacco and other drugs could not be justified even for those who have developed some addiction to these substances. The medical evidence is clear that continuing use of these drugs compromises physical health and that stopping consumption, at any stage, will improve health. On these grounds it would be inconsistent to include them in a list of basic physical necessities even though, for some, there is a strong physical need for them. Similarly, such items as children's toys, books, and writing materials would not qualify as physical necessities even though they are common everyday products. Fortunately, each of these items is accessible to all who want them at little or no cost.

To exclude such items from a list of basic necessities in no way means that the poor will or should be without them. It merely means that we wish to strictly confine our list to physical necessities. We do this because we believe it is both interesting and important to distinguish between those who are able to acquire them and those who are not. To do it any differently would be to abandon our definition of poverty. It is clear that human beings have other needs—social, psychological, intellectual—over and above basic physical needs. However, our interest here has been to determine what basic needs cost and how many in our society have incomes too low to purchase all of them. Nothing more.

Problems with the methodology

There will be those who agree that poverty means the inability to afford all of the basic necessities and will agree that my list of basic necessities is complete. They may, however, have some difficulties with either the data or some methodologies used in manipulating the data. I am considerably more sympathetic to this line of criticism. Indeed, I wish to draw the reader's attention to several areas where such limitations exist.

1. *Essential Food Costs:*

The construction of essential food costs involved a multi-stage process. Using a list of 32 common, nutritious foods covering all four food groups and prevailing grocery store prices, a linear

program enabled us to determine the minimum cost of a diet fulfilling both nutrition and energy needs for families of various sizes. While Statistics Canada collects city-wide average prices for a variety of foods in 25 of Canada's main cities, regrettably, this data includes only 13 of the foods on our list.³ Using the prices of the common 13 foods as an unweighted index of costs in a given city, essential food costs were calculated for Canada's major cities by comparison with the Ontario reference base. While I regard the 13 food index as quite representative of overall city prices, it would have been much better to have had complete food price information for each city.

2. *Essential Shelter Costs:*

To determine necessary shelter costs we began by assuming that low income people were tenants and paid market rents. CMHC provides twice yearly average rents for apartments of various sizes (i.e., number of bedrooms) in 56 major Canadian urban areas. It was assumed that low income people would, for apartments of given size, generally select from the least expensive half of rented accommodations, the average of which turns out to be about 10 percent below the overall average. Apartment sizes were matched with family sizes and essential shelter costs were determined to be 10 percent below city average rent in each case. The major data limitation here is that published rents sometimes include all utilities and sometimes do not. CMHC simply pass along whatever stated rent is given them by owners. Since the rent survey only includes apartments in structures with six or more units, one is inclined to believe that most stated rents do include heat and hydro. However, we just do not know. It has also been assumed that, even in tight rental markets like Toronto and Vancouver, apartment seekers are able, eventually, to find something in their price range (i.e., roughly 10 percent below market average). This assumption is justified in part by the high

3 In fact, the overlap is considerably greater but package sizes for such items as milk, macaroni, cheese, peanut butter and carrots are not compatible.

turn over in apartments in our dynamic, mobile society, and by the fact that apartment structures with fewer than six units, excluded from the CMHC survey, generally have lower rents and higher vacancy rates. However, the major limitation is clearly the question mark regarding utilities. For those low income persons whose stated rent excludes utilities, essential shelter costs could be \$500 to \$1,000 higher annually.⁴

3. *Other Costs:*

In the case of other necessities, it would be preferable to have an "expert panel" making judgements as to the selection and appropriate quantity and quality of items. In the absence of such a panel some personal judgments were necessary, as for example, the lists of hygiene items, household items and home furnishings. The expected useful life of home furnishings is based solely on the author's own experience and judgment. In addition, assigning a cost to transportation based on public transit fees and estimated average usage was purely a judgement call. While I feel quite comfortable with these decisions and regard the judgements as eminently reasonable, they will always lack some credibility because they are based on the experience of just one individual. In all cases, the costs of these items were obtained from published sources, chiefly FAMEX (1986), updated to 1988. In the case of clothing, I used the Montreal Diet Dispensary estimates for 1988. I had some serious reservations about certain items they included and would have preferred to modify their list for the purposes of this study. However, in the interests of minimizing personal judgement and using independent sources (even if they are not entirely satisfactory) I decided to use the MDD clothing estimates unaltered.

4. *Determination of Provincial Average Poverty Lines:*

Initially, poverty lines have been calculated for Canada's main metropolitan areas for which both food cost and shelter cost

4 Source: CMHC, unpublished data.

information is available. The problem however, is that there exists no information on the distribution of income by family size in major metropolitan areas.⁵ This information is available only by province. Therefore, in order to estimate the incidence of poverty in Canada, it was necessary to construct provincial poverty lines. The very idea of an average poverty line for a province is problematic because costs can and do vary widely within a province. Indeed, we have very little cost information on smaller communities (comprising about one-third of Canada's population) and their omission from such provincial averages could be a source of error. On the other hand, if our interest is to reasonably approximate the incidence of poverty and to ensure that poverty not be underestimated, then a provincial poverty line constructed from a weighted average of essential costs among the major metropolitan areas within the province should serve our purpose.

Several assumptions were required in calculating these weighted averages. First, it was assumed that food costs in smaller communities within a province were equal to the provincial average. Econometric evidence that city size is not a factor in explaining food costs was presented in support of this assumption. Rents, on the other hand, are explained by size of city and this evidence favoured a second assumption, i.e., that rents in smaller communities (for which no published information is available) are no higher on average than the least expensive rents in that province. Thus, for the purpose of the weighted average, persons in smaller communities are assumed to face rents equal to those in the least expensive metropolitan area in the province. In the cases of Newfoundland, P.E.I., and Manitoba, there is only one metropolitan area, so rents in the whole province are equal to rents in its major city. This is certainly a limitation leading to an overestimate of shelter costs facing many people. Indeed in all provinces, due to omitted smaller

5 In fact, one could extract income distribution data for some (but not all) of Canada's major cities from the microdata file.

communities, weighted average shelter costs are higher than they would be if better information were available.

The third assumption employed in the construction of provincial poverty lines was that other costs are the same for all Canadians. This was justified because most of the estimates are based on published average expenditures by Canadians (hygiene items, household items), use prices at Canada-wide retail firms (Sears, Shoppers Drug Mart) or are based on estimates done for Canada by the Montreal Diet Dispensary (clothing, telephone service). However, it would be ideal to have had regional price information on all items. Currently no published source for this information exists. As it stands, I am confident that the estimated cost of other necessities is a broadly representative average appropriate to most Canadian households.

5. *Limitations of the Data:*

The source of income data used for this study is Statistics Canada's income survey. This survey, held in April each year, asks respondents to provide a detailed breakdown of their income from various sources during the previous year as well as demographic information (number of persons, ages, gender, marital status, etc.) and labour force status. Questionnaire responses are edited and in cases where the answers are clearly inaccurate and the editor knows what the true value should be (i.e., family allowance, tax credits, OAS/GIS, etc.) appropriate changes are made. It is fair to say that Statistics Canada does as good a job as can be done, given the resources available to it, to provide users with timely information on incomes in Canada. Nevertheless, we must realize that the data, especially for low income households, is seriously deficient. It has already been mentioned that, after editing, reconciliation checks reveal that income from unemployment insurance and social assistance are low by 20 percent and 40 percent respectively. Since almost 50 percent of the households this study identified as poor receive either unemployment insurance or social assistance benefits (or both), this is a major concern. Indeed, if unreported income from these two sources is just \$1,000, on average, then the incidence

of poverty will have been overestimated by about 15 percent. Other types of income that we might suspect would also be unreported or underreported are: income from rents by small landlords, income from moonlighting and gratuity income to some service workers. It is not at all clear that these omissions, relatively small in absolute terms but significant as a proportion of a poor households income, will be picked up in the edit or reconciliation process. Finally, there is a concern regarding the 20 percent of surveyed households that are classified as non response. While Statistics Canada uses techniques to impute information to these households, it is a large gap to fill. The accuracy of the imputation is considerably reduced if non response households are not themselves randomly distributed.

Therefore, it is best to use the data, especially at the lower end of the income distribution, with considerable caution. Fancy statistical analysis of poor households may well be wasted on this data. For this reason I have tried to keep the statistical presentations simple and stress that calculations should be thought of as approximate rather than precise. The best hope for a greater understanding of the dynamics of poverty in Canada lies in the development of a accurate, representative longitudinal database.

6. *The Disabled*

There remains uncertainty regarding the material well-being of some of the disabled. In spite of a variety of government programs, tax deductions and private charitable efforts, we cannot be sure that disabled persons with special needs but few resources are living above the poverty line. It was suggested in the previous chapter that it was likely that the unemployable disabled would have, at the very least, all of their needs covered because of the high priority governments and the general public give them. Nevertheless, there is simply no solid evidence to support this view. The issue of the adequacy of the incomes of the disabled clearly needs to be studied.

I am convinced that these and other possible criticisms do not detract substantially from the major findings of this research. The data presented here overwhelmingly support the view that poverty, as it is generally understood, has been largely eliminated in Canada. The sacred maxim of social reformers that poverty is a widespread and growing problem in Canada is a myth. The claim that government assistance to those who cannot be expected to work is inadequate to enable recipients to buy all of life's basic necessities is wrong.

This is not to say that life at the bottom of the income scale is wonderful. For many it is a struggle. There is little or no margin for error. It is sometimes a real challenge to remain hopeful about the future. However, our generally robust economy and "last resort" support systems ensure that no Canadian need live in poverty.

Appendix

The Myth of Income Inequality

EQUALITARIANISM IS, ARGUABLY, *THE* CLASSICAL principle of socialism.¹ Over the years, socialists of various stripes have criticized the degree of inequality in modern industrial (capitalist) societies and have worked towards greater equality, not just of opportunity but of results. Sympathetic philosophers, among them Rawls (1971) and Dworkin (1981), have attempted to provide the moral justification for an egalitarian society.

By the 1960s, information about the distribution of income, chiefly in the form of quintile shares, was being collected and disseminated on a regular basis. Noting that income flowing to the top 20 percent of households is about ten times that flowing to the bottom 20 percent of households, social reformers found what they thought was a powerful symbol of the moral bankruptcy of a market economy. Radical interpretations, for example Sherman (1987) and Roemer (1988), focus attention on the exploitation of labour to explain observed inequality. More mainstream scholars such as Gans (1973) and Miller and Roby (1970)

1 Berki (1975), p. 25.

point to other considerations but similarly conclude that the existing inequality is morally unacceptable. Even liberal economist Arthur Okun, after examining income shares in the U.S., has been moved to remark, "That seems terrible to me. And I find it disturbing that the top fifth of families have about as much after-tax income as the bottom three-fifths."² Various Canadian reports on poverty, by, for example, the CCSD (1989), the National Council of Welfare (1988), and the Senate (1971), present the quintile distribution of income as clear evidence of the unfairness of the way our economy allocates rewards. Pejorative language ("regressive," "little progress," etc.) is used in reference to the prevailing pattern of income shares. Is it obvious that Canada's distribution of income, displayed in Table A-1, constitutes evidence of an unjust economic system?

The most remarkable aspect of the distribution of Canadian pre-tax incomes by quintile shares is its stability over the past forty years. The percentage share going to each quintile is virtually unchanged over this whole period. In spite of massive government spending on various anti-poverty programs, the distribution of income is as unequal as it ever was.³ It is almost as if there were something inevitable or inherent about this distribution. The politics of income distribution lend some support to this view. The tax burden of additional redistribution is likely to be sufficiently high on the large middle class that it could be regarded as politically unwise. Edgar Browning (1976) makes this point regarding the U.S. economy and I believe that there is enough comparability to our income distribution and tax structure for the argument to be valid here. Also, economists warn that at some point additional equality will have an adverse effect on incentives with the result being a reduction in total output. Most politicians favour, on strictly pragmatic grounds, a growing economy, however it is achieved. Even if the existing income distribution (as represented by quintile shares) is regarded as politically

2 Okun (1975), p. 68-69.

3 Wolfson (1986) has argued that improvements in the social safety net which tend to reduce inequality have been largely offset by demographic changes such as increased female participation in the labour force, increased rates of marital breakdown and more young people living on their own.

Table A-1**Distribution of total Canadian income by household quintile shares, 1951 – 1988**

Year	Bottom	Second	Middle	Fourth	Top
1951	4.4%	11.2%	18.3%	23.3%	42.8%
1954	4.4	12.0	17.8	24.0	41.8
1957	4.2	11.9	18.0	24.5	41.4
1959	4.4	11.9	18.0	24.1	41.4
1961	4.2	11.9	18.3	24.5	41.1
1965	4.4	11.8	18.0	24.5	41.4
1967	4.2	11.4	17.8	24.6	42.0
1969	4.3	11.0	17.6	24.5	42.6
1971	3.6	10.6	17.6	24.9	43.3
1972	3.8	10.6	17.8	25.0	42.9
1973	3.9	10.7	17.6	25.1	42.7
1974	4.0	10.9	17.7	24.9	42.5
1975	4.0	10.6	17.6	25.1	42.6
1976	4.3	10.7	17.4	24.7	42.9
1977	3.8	10.7	17.9	25.6	42.0
1978	4.1	10.4	17.6	25.2	42.7
1979	4.2	10.6	17.6	25.3	42.3
1980	4.1	10.5	17.7	25.3	42.4
1981	4.6	10.9	17.6	25.2	41.8
1982	4.5	10.7	17.3	25.0	42.5
1983	4.4	10.3	17.1	25.0	43.2
1984	4.5	10.3	17.1	25.0	43.0
1985	4.7	10.4	17.0	25.0	43.0
1986	4.7	10.4	17.0	24.9	43.1
1987	4.7	10.4	16.9	24.8	43.2
1988	4.6	10.4	16.9	24.9	43.2

Source: Statistics Canada, *Income Distributions by Size*; Cat. # 13-207, various years.

and economically inevitable, it is believed by many to be unfair and immoral. It is this view that must be challenged!

There is nothing intrinsically unjust about inequality in general and the current quintile distribution of incomes in Canada in particular. In fact, it is easy to show that the prevailing income disparities are entirely consistent with all but the most radical egalitarian principles. For example, only "levellers" require that every worker, regardless of age or skill level, earn the same income. Most egalitarians would find it hard to disagree with income differentials based on experience. Within a given work group, as an individual gets older he not only acquires maturity and a better understanding of the needs of his employer but also training, experience and often versatility, all of which makes him a more valuable worker. The firm benefits directly from his increased productivity and indirectly as the older worker takes on more responsibility and is better able to train and coordinate young workers. Systematic income increases and promotions reflect the workers' increased value to his organization and provide a positive incentive to younger workers. Each worker may earn exactly the same lifetime income but have quite different incomes at different stages of life.⁴ Intertemporal inequality is quite consistent with an egalitarian outcome. As long as society is composed of people of different ages we can expect this pattern. By what standard is this unfair?

If everyone progressed through exactly the same work group over time, at any point in time there would be a certain degree of income inequality with younger workers at the bottom and older, more experienced workers at the top. However, in modern economies we don't all belong to the same work group. There are a variety of occupations requiring substantially different levels of skill and responsibility. Is it fair that there be income differentials on this basis? Should medical doctors, engineers, and executives earn more than secretaries, clerks and janitors? If we agree that they are "worth" more or that it is "fair" for them to be paid more (or necessary, to prevent them from leaving), how much more? Double? Triple? There is no question that, if wages were entirely market determined, there would be a substantial gap between

4 Paglin (1975) has made this point as well as anyone.

the “professional” and “worker” groups. However even non-market wage schemes, such as “pay equity,” result in clear wage differences based on skill and responsibility.

A simulation model

In order to demonstrate the “fairness” of income inequality, I have constructed a simple, simulation model. Consider a society with a flat age distribution and precisely equal number of males and females. Everyone starts full-time work at age twenty-one, gets married at age twenty-six to some one of the same age and has two children at age thirty-one. Children live with and are supported by their parents for twenty-one years. Every household has only one wage earner. Every worker retires at age sixty-five and everyone dies at the end of their seventy-fifth year. This is a steady state system in the sense that the population age distribution is static over time. While the assumption of equal sized cohorts is not realistic, key aggregations approximate the actual Canadian population distribution. For example, the model contains only slightly fewer children, defined as individuals 19 years old or less, (27 percent versus 29 percent) and somewhat more elderly, defined as age 65 or older (14 percent versus 10 percent).

Age (experience) income differentials

It is assumed that every wage earner in society has the same lifetime income. Each wage earner systematically progresses through the ranks as he acquires more knowledge and experience. Part of the process is undoubtedly regular training or education programs. Starting at the entry level at age twenty-one, wages increase annually at a given rate. If the rate of wage growth is $2\frac{1}{4}$ percent, the peak annual wage (at age 64) will be about $2\frac{1}{2}$ times the entry level wage. This value is in fact roughly representative of most occupational groups in Canada. The peak to entry (income) ratio in a wide variety of occupations (such as teaching, at all levels; most professions including medicine, accounting and law; armed forces; civil service; and a number of skilled and semi-

skilled trades) ranges between two and three.⁵ While there are certainly specific jobs where this ratio is two or less, a slight broadening of the job group to include related functions at a higher level would raise the ratio. Such vertical mobility within a broad occupational category is not at all uncommon in Canadian society.

For example, in 1988 the peak salary of a bank teller was roughly \$24,000, about 1½ times the entry level for the same job. However, the bank teller who, over the years, progresses to become a loans officer has most likely tripled her real income. Similarly with the clerk who becomes an accountant, the salesman who becomes sales manager, the apprentice piece-worker who becomes foreman or supervisor, the cub reporter who becomes an editor. An income growth rate of 2¼ percent per annum fairly represents the typical progression of a worker through his working lifetime.

Every worker saves a certain portion of gross income during his working life for the purpose of providing a fund for a retirement pension. The fund is converted to an annuity at age 65 yielding constant payments for eleven years. There is no inflation in this economy and the interest rate is a constant 3 percent, approximately equal to the average real rate of return over the long run.

In order to make this illustration concrete we need to specify two things: the amount of the (fixed) pension and the starting wage. Both can be selected so that the resulting income distribution corresponds as far as possible to actual Canadian values for 1988. This would permit us to make relevant comparisons between our simulation results and 1988 living costs.

The median income of Canadian households with heads aged 65 or more was approximately \$17,500 in 1988⁶. This income was composed of occupational pension plan benefits, Canada or Quebec pension plan benefits, annuity income, interest and other investment income as well as old age security payments and federal and provincial supplementary

5 Anisef and Baichman (1984).

6 Statistics Canada, *Income Distribution by Size in Canada, 1988* [cat # 13-207], Table 39, p. 112.

payments to seniors. In our simulation model retirement income is exclusively generated from personal savings. For comparability, the simplest assumption to make therefore is that the household saves for retirement at a sufficient rate to provide a pension equal to the 1988 income of the typical senior Canadian household. It is recognized however, that in the absence of involuntary saving (via taxes) for retirement, households may not devote an equivalent amount to a pension fund.

If constant pension income is \$17,500 per year, then a starting wage rate of \$25,700 is required in order to conform to the other constraints of the model. The lifetime pattern of income generated by the model is displayed in Table A-2. Each person begins their working lives at age 21 and is a single, unattached individual for the first five years. Thereafter, they belong to a family unit (composed of at least two persons) until they die. The peak wage, achieved during the final year of work, is about 2.6 times higher than the entry level. The structure of earned income and a savings rate for retirement purposes of approximately 4 percent leads to a \$17,500 per year pension annuity. It is important to stress that Table A-2 not only represents the lifetime income profile of each wage earner but also the society wide income distribution *at any point in time*.

To keep things relatively simple, we assume that the retired couple own their own home mortgage-free and upon their death at age 75, the home is confiscated by the municipality in lieu of unpaid property taxes. No bequests of any kind are permitted. Thus, housing costs of retired couples are limited to "utilities," insurance, and maintenance which amounted to about \$2,000 for the average elderly household in 1988⁷. Food costs for the same elderly couple were about \$4,000 and income taxes on \$17,500 of pension income would have been about \$10 in 1988⁸. This leaves over \$11,000 per year for other necessities and non-necessities.

7 Statistics Canada, *Family Expenditure in Canada* (FAMEX), 1986, Table 16, p. 125. 1986 values "updated" to 1988 assuming a 9 percent rate of inflation between 1986 and 1988.

8 Revenue Canada, *1988 Income Tax Guide*.

Table A-2**Lifetime income pattern: single occupational group**

Age of Head	Size of Family	Income (\$)
21	1	\$25,700.00
22	1	26,278.25
23	1	26,869.51
24	1	27,474.07
25	1	28,092.24
26	2	28,724.32
27	2	29,370.61
28	2	30,031.45
29	2	30,707.16
30	2	31,398.07
31	4	32,104.53
32	4	32,826.88
33	4	33,565.48
34	4	34,320.71
35	4	35,092.92
36	4	35,882.51
37	4	36,689.87
38	4	37,515.39
39	4	38,359.49
40	4	39,222.58
41	4	40,105.09
42	4	41,007.45
43	4	41,930.12
44	4	42,873.55
45	4	43,838.20
46	4	44,824.56
47	4	45,833.11
48	4	46,864.36
49	4	47,918.81
50	4	48,996.98
51	4	50,099.41
52	2	51,226.65

Table A-2 (continued)**Lifetime income pattern: single occupational group**

Age of Head	Size of Family	Income (\$)
53	2	52,379.25
54	2	53,557.78
55	2	54,762.83
56	2	55,994.99
57	2	57,254.88
58	2	58,543.12
59	2	59,860.34
60	2	61,207.19
61	2	62,584.36
62	2	63,992.50
63	2	65,432.34
64	2	66,904.56
65	2	17,500.00
66	2	17,500.00
67	2	17,500.00
68	2	17,500.00
69	2	17,500.00
70	2	17,500.00
71	2	17,500.00
72	2	17,500.00
73	2	17,500.00
74	2	17,500.00
75	2	17,500.00
<i>Average Income</i>		\$38,013.06
TOTAL LIFETIME INCOME		\$2,090,718.49

Taxes would undoubtedly be lower in this hypothetical system because there is no scope for state redistribution of income. Everyone has exactly the same lifetime income! What about the possible redistribution from middle aged persons to the young and the old, thus flattening the income profile? In fact each household already engages in this kind of intertemporal redistribution by saving in order to provide future income during retirement and possible borrowing against expected future income to finance household durables and other capital items. Could the state improve on this? Is the states' vision of an optimal lifetime pattern of consumption likely to be superior to that which the household voluntarily chooses for itself? I can't imagine any grounds on which such intervention could be justified. In addition, because of the administrative and other costs of the redistribution of income, everyone's lifetime income would necessarily be reduced. Income redistribution would clearly be inefficient and would result in everyone having lower average living standards.⁹

The important result of this simulation exercise is that even though everyone's lifetime income is identical, there exists substantial inequality of incomes at any point in time. If we examine the household quintile shares generated by the model, displayed in Table A-3, we see that the top 20 percent of households receive more than 3 times as much income as the bottom 20 percent. This dramatic departure from perfect equality is due solely to the life cycle pattern of earnings. If the pattern itself is eminently fair, can the income distribution it produces be considered unfair?

9 This statement assumes that capital markets function reasonably well. However, some will argue that if people are myopic, state intervention will be required to prevent poverty in old age. This argument is difficult to take seriously on a number of counts: 1) If everyone is equal in every sense, politicians and bureaucrats will be as short-sighted as everyone else. 2) Even if there exist variations in preferences, with everyone having the same lifetime income, it would be the height of arrogant paternalism for some to impose their "ideal" intertemporal consumption pattern on others and lower average living standards in the process. 3) The very existence of a state capable and willing to intervene to redistribute income will itself promote myopia.

It is easy to notice that the bottom quintile is composed entirely of retirees. In reality, the bottom 20 percent would be a mixture of unattached individuals, either young (less than 25) or old (65 or older) as well as a small percentage of families. Without the assumption of full employment and complete parental support until age 21, there would have been a substantial number of young people in the lowest quintile. Our model assures a smooth transition between childhood (non working dependents below age 21) and adulthood (age 21 and over). There are no years when young people are away at college, living on their own, reporting zero or miniscule incomes. There are no bouts of lengthy unemployment when reported income would again be very low.

Table A-3
Quintile income distribution: one occupational group

	Share percentage
Quintile 1-Bottom	9.21%
Quintile 2	15.15
Quintile 3	19.35
Quintile 4	24.72
Quintile 5-Top	31.57

The amount of the retirement annuity is a function of two things—the savings rate and the rate of interest. There is no inflation in this system so the nominal rate of interest (3 percent) is equal to the real rate. An average savings rate of about 4 percent per year over the 44 wage earning years will build up a retirement fund of about \$162,000. This fund provides the constant annuity of \$17,500 for 11 years. If the time of death were uncertain, a life annuity rather than a fixed term annuity would be necessary. This would result in a somewhat lower retirement pension, depending on average life expectancy, or would require a higher average savings rate to maintain the existing pension.

Of course, the pattern of saving is unlikely to be flat—either in percentage or absolute terms. Younger households will have a lower savings rate as they acquire durable goods (mainly home, automobile and major appliances) and while they have dependent children. The savings rate would increase as the debt burden eases. The rate would be highest in the 13 years prior to retirement when children leave their parents home and become independent.

The essential point of this exercise is that a large part of income inequality, as reflected by household quintile shares, can be explained simply by differences in the ages of workers. Older, more experienced workers are paid more than their younger counterparts. I don't know of anyone who would regard this as unfair. Wages rise as productivity increases and people earn most when they need it most, i.e., during the years when family size is highest and during the key preretirement "savings" years. This arrangement does result in substantial inequality, as we see in Table A-3, even though everyone earns exactly the same lifetime income.

Skill income differentials

Of course, not all income inequality is explained by age-experience differentials. It is clear that occupational differences account for some of the disparity. Wage earners of the same age do not all earn the same income. Professionals, during their peak earning years, often earn double or triple the corresponding peaks for most ordinary workers. The fundamental reasons for occupational differentials have to do with different skills and responsibilities associated with different jobs. The significantly higher income paid to most "professionals" is both a reward to specialized and uncommon talents and an incentive needed to attract people with the requisite abilities into that area. Few people, save strict egalitarians, question the fairness of occupational differentials. Most of the current debate centres around the appropriate size of gap between jobs.

We can easily modify our hypothetical illustration to account for the impact of different occupations on income disparity. For simplicity we assume just two groupings: Professional and Worker. In the former would be included scientific and technical professionals such as engineers, architects, geologists, chemists, system analysts, etc.; teachers at

all levels; health care professionals including physicians, surgeons, specialists, nurses, dentists, optometrists, pharmacists, veterinarians, medical technicians, etc.; middle and upper level managers in business and government; entrepreneurs; institutional executives and administrators; business managers, supervisors, specialists, consultants, etc.; law enforcement and fire protection officers; accountants, lawyers; librarians; financial, insurance and real estate brokers; as well as a variety of technical, personal service and sports/entertainment professionals. This broad group, whose average income was roughly \$60,000 in 1988,¹⁰ made up about one third of the full time workforce. The "worker" category includes a wide variety of occupations from typists, secretaries, clerks, sales staff, cashiers and tellers to janitors, cleaners, waitress, cooks, and common labourers. Also included are a majority of semi-skilled heavily unionized jobs in manufacturing, maintenance and repairs, various crafts and trades and the public service. This latter sub-group raises the overall average income of the worker group to the \$33,000 range in 1988.¹¹ Those in the professional category have an average lifetime income about 70 percent higher than the worker group.¹²

For the purposes of the next simulation, it is assumed that whereas workers begin fulltime work status at age 21, professionals do not begin until age 26. Over this 5 year period, professionals are being educated and are independent of their parents. They have no income but borrow against expected future income to finance their education and living expenses. As well, they may receive financial assistance and gifts from parents and relatives. It is noteworthy that neither loans nor gifts are counted as income by Statistics Canada, so it is quite likely that official reported income for most in this situation is zero. The savings rate (for retirement purposes) for professionals is assumed to be only slightly higher than that for the worker group (4.6 percent versus 4.3 percent).

10 Statistics Canada, *Income Distributions by Size in Canada*, [cat. # 13-207], Table 10, p. 72.

11 This information is derived chiefly from Anisef and Baichman (1984).

12 Ibid.

Table A-4**Lifetime income pattern: two occupational groups**

Age of Head	Size of Family	Worker Income (\$)	Professional Income (\$)
21	1	\$22,000.00	\$.00
22	1	22,440.00	.00
23	1	22,888.80	.00
24	1	23,346.57	.00
25	1	23,813.50	.00
26	2	24,289.77	36,000.00
27	2	24,775.56	37,080.00
28	2	25,271.07	38,192.40
29	2	25,776.49	39,338.17
30	2	26,292.01	40,518.32
31	4	26,817.85	41,733.87
32	4	27,354.21	42,985.88
33	4	27,901.29	44,275.46
34	4	28,459.31	45,603.72
35	4	29,028.49	46,971.83
36	4	29,609.06	48,380.99
37	4	30,201.24	49,832.42
38	4	30,805.26	51,327.39
39	4	31,421.36	52,867.21
40	4	32,049.79	54,453.23
41	4	32,690.78	56,086.83
42	4	33,344.59	57,769.43
43	4	34,011.48	59,502.51
44	4	34,691.71	61,287.59
45	4	35,385.54	63,126.22
46	4	36,093.24	65,020.00
47	4	36,815.10	66,970.60
48	4	37,551.40	68,979.72
49	4	38,302.43	71,049.11
50	4	39,068.47	73,180.59
51	4	39,849.84	75,376.01
52	2	40,646.83	77,637.29

Table A-4 (continued)**Lifetime income pattern: two occupational groups**

Age of Head	Size of Family	Worker Income (\$)	Professional Income (\$)
53	2	41,459.76	79,966.40
54	2	42,288.95	82,365.40
55	2	43,134.73	84,836.36
56	2	43,997.42	87,381.45
57	2	44,877.36	90,002.89
58	2	45,774.91	92,702.98
59	2	46,690.40	95,484.07
60	2	47,624.20	98,348.59
61	2	48,576.68	101,299.05
62	2	49,548.21	104,338.02
63	2	50,539.17	107,468.16
64	2	51,549.95	110,692.21
65	2	14,250.00	24,000.00
66	2	14,250.00	24,000.00
67	2	14,250.00	24,000.00
68	2	14,250.00	24,000.00
69	2	14,250.00	24,000.00
70	2	14,250.00	24,000.00
71	2	14,250.00	24,000.00
72	2	14,250.00	24,000.00
73	2	14,250.00	24,000.00
74	2	14,250.00	24,000.00
75	2	14,250.00	24,000.00
<i>Average Income:</i>		\$30,651.00	\$52,080.59
<i>TOTAL LIFETIME INCOME:</i>		\$1,685,804.76	\$2,864,432.38

Professional incomes grow a bit faster (3 percent versus 2 percent) than workers reflecting the more favourable scope for advancement in that category. Overall, the weighted average income of two groups approximates the Canadian average for families and unattached individuals in 1988. The weighted average pension, \$17,500, is also typical.

Table A-4 displays the lifetime income pattern of the two occupational groups. The lowest quintile now consists of students living on their own, working class pensioners and young unattached workers. This result quite accurately reflects the actual composition of the bottom 20 percent of incomes in Canada for 1988.¹³ The highest quintile is made up almost entirely of professionals in their peak earning years, again a realistic outcome. It is important to point out that members of *both* occupational groups occupy positions in each of the five income quintiles at one stage or another during their lifetime.

Overall, roughly 15 percent of the households in this simulation exercise are “poor” by both CCSD and Statistics Canada standards. Professionals during their student years are considered poor because their reported income is zero even though their resources, chiefly from student loans and assistance from parents and relatives, may be quite adequate to cover all of their needs. As for working class pensioners, their low retirement annuity, \$14,250, qualifies them as “poor.” In fact, their standard of living is notably middle class in all important respects. They are home owners and have over \$8,000 to spend after food and shelter needs have been covered.

When all incomes are combined and ranked, the quintile shares (shown in Table A-5) are easily calculated. It is note worthy that the distribution of income is now much closer to that which has prevailed in Canada over the past 40 years. A society which permits relatively moderate (and I would say eminently fair) income differences on the basis of age/experience *and* skill level produces significant income inequality at any point in time. In fact, however, the *lifetime* income of the professional group is only 70 percent higher than that of the worker group. This may be regarded as barely sufficient to compensate for the

13 Many single parent families would also be in the lowest quintile, however, our simulation model does not include this category of family.

Table A-5**Quintile income distribution: two occupational groupings**

	Share percentage
Quintile 1—Bottom	7.19%
Quintile 2	13.34
Quintile 3	17.88
Quintile 4	23.21
Quintile 5—Top	38.38

hard work and lower living standard during the training phase and the extra work, responsibility and stress during the working phase. Most important however is that these two considerations—age and skill—are capable of explaining almost all of the observed income inequality. Much of the remaining inequality can be explained by unemployment, personal and marital difficulties at the low end and a relatively small number of very high income people at the top end.

But there's really not that much left to explain! Age and skill differentials explain about 80 percent of the deviation from perfect equality in both the bottom and top quintiles. Thus, as long as we live in a society that permits incomes to grow moderately as people gain experience and permits skilled professionals to earn, over a lifetime, about 70 percent more than workers, then policies promoting full employment and capping top incomes, even if successful, will do little to change the underlying distribution of income. Only policies promoting significant redistribution of income can do that.

The results of these simulations are essentially based on three assumptions: (1) that the peak to entry income ratio is about 2½ (3 for professionals and 2.3 for workers); (2) that the savings rate for retirement purposes is between 4 percent and 5 percent of gross income and (3) that the lifetime income of professionals is about 70 percent higher

than that of workers. Each of these assumptions roughly conforms to actual corresponding values in the Canadian economy.¹⁴

I would expect that critics would be least comfortable with the income gap between the professional and worker occupational groups. Some might prefer a smaller difference on "fairness" grounds. Others, I am sure, would justify a larger gap on the same grounds. In fact, the quintile shares are quite insensitive to the size of the lifetime income gap. For example, reducing the gap from 70 percent down to 23 percent (by reducing both the starting salary and salary growth rate of the professional group, with pensions unchanged) results in quintile percentage shares of 8.3, 15.4, 19.6, 24.7 and 32, bottom to top.

Another possible criticism of these illustrations is that they provide an idealized version of the life-cycle pattern of income. In our model, incomes rise systematically reaching a peak at age 64. In fact, most income distributions by age show that peak incomes occur about 10 years earlier. Early retirement, structural unemployment, injury, illness and death explain the dip in household income after age 55. However, it is obvious that changing the pattern of income while preserving the lifetime average will have no effect on the distribution of income. Middle aged workers simply change places with older workers.

It is important to emphasize the point of this illustration. It is strictly a theoretical and not an empirical exercise. It does not *prove* anything about the pattern of income inequality in Canada. What it does show is that in societies where the great majority of workers progress through the ranks with experience and where there exists moderate income differentials based on skill, these two considerations (age and skill) are capable of explaining most of the "point-in-time" inequality. Clearly, there are other theories which are capable of explaining the observed inequality. A system of rigid socio-economic classes with little interclass

14 (1) See Anisef and Baichman (1984).

(2) According to the *Canadian Economic Observer*, the overall savings rate during 1988 was about 9 percent. This includes precautionary savings, funds set aside for durable acquisition, savings for children's education as well as savings for retirement.

(3) Statistics Canada, *Income Distributions by Size in Canada*, 1988.

mobility wherein the same people tend to remain in the same income ranges would be the main alternative.

While economists favour the former approach, a true empirical test of the competing hypotheses must wait the development of a reliable longitudinal data base. Empirical tests using cross sectional data to proxy longitudinal income profiles, while problematic, do lend support to the view that age is crucial in explaining inequality. Irvine (1980) uses generated lifetime income profiles combined with estimates of wealth to demonstrate that lifetime purchasing power is more equally distributed than annual incomes. Beach (1981), in his study of the distribution of income and wealth in Ontario, finds that the degree of income inequality "will depend a good deal on the age distribution of the population"¹⁵ and that when age is controlled for, family income is, in general, more equally distributed. Davies et al. (1984) constructs a simulation model, similar in many respects to the one used here, and uses cross-sectional data to proxy longitudinal income profiles. Consumption series are generated and a variety of taxes are compared on the basis of lifetime versus annual burdens. Regarding the importance of age in explaining inequality, Davies et al state "... much of the observed inequality in earnings and transfer payments disappears when we examine lifetime rather than annual distributions. According to the estimates of Jacob Mincer (1974), Lee Lillard (1977) and Nils Blomqvist (1981), about half of annual earnings inequality (according to conventional measures) disappears when one looks at lifetime earnings."¹⁶

Although imperfect, existing empirical evidence appears to support the view that the lifecycle pattern is a crucial determinant of the distribution of income in Canada. Thus a simulation model utilizing empirically based parameters reflecting this pattern, as this one does, can be useful in demonstrating that even if everyone has identical lifetime incomes, substantial inequality of current incomes will result. Even

15 Beach (1981), p. 144.

16 Davies *et al.* (1984), p. 635.

greater inequality will prevail if moderate differentials between occupations exist.

The condemnation of the overall inequality of Canadian incomes is not warranted and except as a political tool it has no merit. The quintile distribution is an effective weapon for the social welfare lobby because it displays apparent extremes. The superficial observer is not likely to distinguish between *intra* family income differentials (due to the life-cycle pattern) and inter family income differentials (due to occupational status). By equating fairness with equality, social reformers find it very easy to attack existing income disparities and the market system which generate them. The fact that the non-market sector produces similar disparities is conveniently ignored.

Greater equality in Canadian society would necessarily mean smaller income gaps within and between occupations. What will be the long term economic effect of this kind of change in the reward/incentive system? It is very likely that such a change would reduce upward mobility and increase the export of talent. This in turn would lower output and living standards. The cost of greater equality might well be more poverty.

Finally, a strong argument can be made that when income is properly defined the degree of inequality in Canada is reduced. Income, broadly viewed, consists of cash and non cash benefits (sometimes called in-kind benefits). Every household in society receives "free" non cash benefits such as health care and education. If we assume that every household receives exactly the same benefit regardless of income, this effectively adds thousands of dollars to the annual income of every household and this automatically reduces the degree of income inequality. The greater the non cash benefits flowing to each household, the more equal will be the distribution of income broadly defined. In fact, however, these in-kind benefits flow *disproportionately* to the young (college and university education, various training programs) and the old (health care)—categories that dominate the bottom quintile. This clearly reduces further the "true" degree of inequality in Canada.

British social activist, Peter Townsend has stated "We cannot as governments take decisions about fair distributions of income or fair distribution of hiring standards only by looking at cash income. We've

also got to take into account, well, free social services . . .”¹⁷ When these social services are accounted for the distribution of income in Canada is decidedly more equal.

Evidence for the U.S. indicates that, when non-monetary considerations are included, the degree of income inequality is substantially reduced. Browning (1976) demonstrates that once money income is adjusted for such factors as underreporting, benefits-in-kind, education, capital gains, potential additional earnings and taxes, the distribution of income is compressed. For example, his calculations for 1972 show that while the percentage of pre-tax money income flowing to the bottom quintile is 5.4, once the above adjustments are made, 12.6 percent goes to the bottom quintile.¹⁸

17 Peter Townsend, *New York Times*, April 11, 1982.

18 Browning (1976), p. 912-23.

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