Poverty in Canada: *A Backgrounder*

"Ministers attack child poverty dilemma"

"MLA wonders about fate of child poverty money"

"Tackle family poverty or else
Disturbing statistics show 68 per cent of single-parent families live in poverty"

IN BRIEF:

* ***news stories about poverty in Canada are based on information produced by Statistics Canada in the form of Low Income Cut-offs (LICO).***
* ***LICO does <u>not</u> take into account the overall improvement in the standard of living which has occurred in Canada in the last 40 years.***
* ***using the LICO information leads the news stories to exaggerate the number of poor Canadians.***
* ***the key point is LICO is a measure of relative income and expenditures - it is not a particularly good measure of poverty.***

Recent reports in the media have focussed attention on poverty in Canada. It is generally stated that despite an improving economy and a lower Federal deficit, poverty in Canada is increasing. One story based on a release from the United Nations stated that Canada was the best place to live in the world (as it has continued to be for several years now) but that poverty, and in particular child poverty, was increasing.

These reports on poverty are based on information provided by Statistics Canada in the form of **"low income cut-offs" or LICO** (a brief explanation of LICO methodology begins at the bottom right of this page).

It is the stated position of Statistics Canada that:

> "Although ... 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."**

What does the LICO information tell us?

LICO is used to sort Canadian families into "low income" and "other" groups (Note that Statistics Canada does not make reference to "poor" families.) A family with an income **below** the cut-off for its size (that is a family of 1 person, 2 people, 3 people, etc.) living in an urban area is considered a **"low income" family.** For instance, LICO provides statistics for 1996 which show the following:

* *if a person who lives alone in a city of 500,000 or more has an annual income which is less than $17,132 (this is the low income cut-off for this individual) they would be considered by Statistics Canada to be a **"low income" family.***

Is this just a question of semantics, namely, Statistics Canada can tell us how many Canadians are living in families with a "low income" but not how many families are "poor"?

No, it is more fundamental than that. The discussion about the relevance of LICO revolves around the basic question of how to measure "poverty".

Measuring Poverty

Poverty can be measured in two fundamentally different ways. The first uses an "absolute" measure and the second a "relative" measure:

An absolute measure of poverty

This measure establishes a certain level of income which would provide the family with all the basic "necessities" of life. The much debated question then becomes "what are the basic necessities of life?" Starting with the assumption that the "necessities" include food, shelter and clothing, there are still many decisions to be made as to what to include in the more detailed list of "necessities". However, once the list has been established it can be costed out and a figure arrived at below which a family of a certain size would be unable to purchase the "necessities" and would be considered to be "poor".

A relative measure of poverty

In this case poverty is measured relative to the general standard of living in a particular community. What this means is that as the entire community's standard of living changes (either for better or for worse) the level at which a family would be considered to be "poor" would also change. Take for instance an extreme example such as a community of very rich families with a correspondingly high standard of living. These families would have quite a different perspective on the basic "necessities" of life to the extent that such things as not having to work for a living or having servants would be part of that "standard". In that setting a family of moderate means but which still has a standard of living well above any "absolute" measure of basic "necessities" would be, relatively speaking, "poor". The LICO is an example of such a relative measure.

Low Income Cut-offs (LICO)

What is a "low income cut-off"?

It is an income where, on average, a person (or family) spends **20%**[1] **more** of their total income on food, shelter and clothing than is spent by similar persons or families in similar locations.

How does Statistics Canada determine the "low income cut-off"?

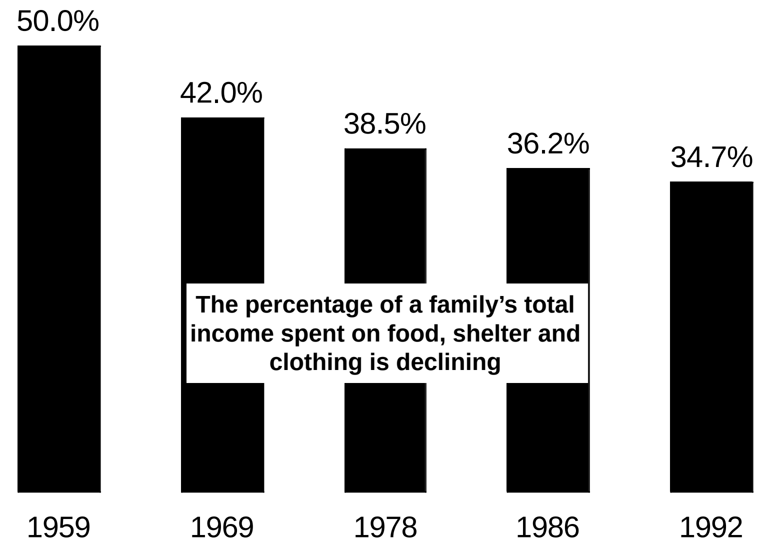
Statistics Canada has information on what Canadians earn in a year as well as information on what Canadians spend their earnings on. Looking at the average Canadian family, Statistics Canada detemines how much is spent on food, shelter and clothing in a year. This amount of money is converted into a percentage of the average family's pre-tax income. For instance, if the family spends $14,000 on food, shelter and clothing and the family pre-tax income is $40,000, the percentage would be 35% ($14,000/$40,000 multiplied by 100). Statistics Canada sets the low income cut-off at the point where families spend **20 percentage** points more of their income on food, shelter and clothing than the Canadian average. In our example, the low income cut-off point would be 35% (the average expenditure) plus 20% = **55%**. For example, let's say that families earning $40,000 per year who live in a certain location spend on average $24,000 on food, shelter and clothing or 60% of their income. These families would be spending a greater proportion of their income (60%) on food, shelter and clothing than families at or below the low income cut-off point (55%).

What has the LICO measure told us?

In 1959 (when the LICO was first developed) a family spending 70% or more of its income on food, shelter and clothing was considered to be in "straitened" circumstances. By 1992 the figure was 54.7%. Generally speaking, as our standard of living improved, the LICO has become based on a smaller percentage of total income. The methodology used to calculate the LICO guarantees:

* **youth** ***(less than 18 years old)*** - 15 to 21 percent "low income";
* **retired Canadians** ***(over 65 years old)*** **-** 19 to 34 percent "low income";
* **Canadian families -** 11 to 16 percent "low income"; and
* **single Canadians -** 37 to 46 percent "low income".

Statistics Canada's Family Expenditure Survey tells us how Canadians spend their income. It shows us that since 1959 the percentage of a family's total income spent on food, shelter and clothing has been declining:



The low income cut-off point for each of the years in the chart can be calculated by simply adding 20 percentage points to each figure. Below is a table showing the LICO percentage figure for each year:

1959	**50% + 20% =**	**70.0%**
1969	**42% + 20% =**	**62.0%**
1978	**38.5% + 20% =**	**68.5%**
1986	**36.2% + 20% =**	**56.2%**
1992	**34.7% + 20% =**	**54.7%**

[1] There does not appear to be any basis for the **20%** figure. In 1959 when LICO was developed the average family expenditure on food, shelter and clothing was 50% of total family income. At that time Statistics Canada believed that, as a "rule of thumb", families spending 70% (the 50% average family expenditure above + **20%**) or more of their income on food, shelter and clothing were in "straitened" circumstances. While the 70% "rule of thumb" may have some value as an indicator of families in "straitened" circumstances, this has been lost but the 20% "rule" (70% - 50% = 20%) continues.

Prepared:
97.06.16. Revised 97.06.20; 97.06.24; 97.06.25; 97.06.30

Source:
Statistics Canada Catalogue 13-551-XPB

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