What is meant by poverty?

**Absolute and Relative Definitions**

Defining poverty, poverty lines, poverty level, sufficient incomes or minimum standards of living is a matter of ongoing global debate among policy-makers inside and outside government. In general, poverty is defined either in absolute terms – inability to obtain the necessities of life – or in relative terms – “being worse off than average.” Multiple measures of poverty have been developed on the basis of these definitions. For example, a measure based on an absolute definition of poverty may calculate the amount of income needed by a household to purchase a basket of specified goods and services that is deemed to meet the basic needs of an average household. On the other hand, a “relative measure” may compare the total income of a particular household against the income level defined as the poverty line for an average household of similar size in a similar community. By and large, most methods and measures used as poverty indicators in Canada fall somewhere along the continuum of these two traditional definitions of poverty based on income and consumption.

**Canada’s Debate**

In Canada, the federal government has endorsed no official measurement of poverty. Debate over the poverty line has been heated because poverty analysts, policy-makers and not-for-profit organizations disagree on what approaches and measures should be used to determine who is poor in Canada. The main measures are the following.

**Low Income Cut-offs and Low Income Measures: Statistics Canada**

- Low Income Cut-offs (LICOs) are set at the point where a family spends on average at least 20 percentage points more of its income than the average family on food, clothing and shelter (given family and community size).\(^1\)

  - With the publication of *Income in Canada 1998* in mid-2000, Statistics Canada began to highlight LICOs based on after-tax rather than before-tax income. However, both sets of rates are still available. The use of after-tax LICOs resulted in poverty estimates lower than they would have been had the calculation been made on before-tax income. For example, in 2006, based on before-tax income, 10.6 % of persons in economic families in Canada lived on low incomes. That same year, based on after-tax data, the prevalence of persons in economic families living on low incomes was 7.3 %.

  - Although Statistics Canada has consistently stressed that LICOs are not poverty measures and that the federal government does not accept them as such, anti-poverty advocates rely mostly on LICOs to establish poverty lines in Canada.

- Statistics Canada publishes other indicators of income that are currently used by some organizations to measure poverty, namely the Low Income Measures (LIMs). Defined as half the median family income adjusted for different household types and derived from both before- and after-tax income, LIMs are used primarily for international comparison purposes.

**“Basic Needs”: The Fraser Institute**

- This measure determines poverty by calculating the cost of “basic necessities.” By this measure, an individual would be poor if he or she lacked any item required to maintain long-term physical well-being and that was regarded as a minimum acceptable standard within the community in which that person resides. For example, the items
considered are: “food, shelter, clothing, health care, personal care, essential furnishings, transportation and communication, laundry, home insurance, and miscellaneous.”

- This is an absolute measure of poverty espoused by those who believe that LICOs measure inequality – not poverty.

- This method calculates significantly lower poverty lines, rates and trends. For example, the Fraser Institute released a study in 2006 that measured poverty according to the “basic needs” approach; it showed that while the before-tax LICO measure yielded the commonly quoted poverty rate of about 15.8%, a poverty measure based on basic needs showed that only 4.9% of Canadians lived in poverty in 2004.

**Market Basket Measure**

- Starting in 1997, Human Resources Development Canada, now Human Resources and Social Development Canada (HRSDC), developed the Market Basket Measure (MBM) in consultation with the Federal–Provincial/Territorial Working Group on Social Development Research and Information. The MBM is a new means of measuring low income that offers a different perspective on poverty in Canada. According to HRSDC, the measure is meant to complement, not replace, other low-income measures such as Statistics Canada’s LICOs and LIMs.

- The MBM is based on the estimated cost of purchasing a “basket” of goods and services deemed to represent the standard of consumption for a reference family of two adults and two children. This measure includes the costs of food, clothing, shelter, transportation, and other goods and services that are determined for different regions across Canada.

- On the basis of the MBM, low-income households are those that lack the disposable income to purchase the goods and services in the basket. The disposable family income is calculated after deducting expenses such as child care; medically prescribed, non-insured health care; personal income taxes and the personal portion of payroll taxes (such as payments to the Canada/Quebec Pension Plan); alimony and child support payments; and all mandatory payroll deductions for employer-sponsored pension plans, union dues and supplementary health plans.

**International Poverty Measures: The Human Poverty Index**

- The United Nations Development Programme (UNDP), in its *Human Development Report 1997*, introduced the Human Poverty Index (HPI) – an international tool to measure the prevalence of human poverty. The HPI is meant to be used as a tool for advocacy, as a planning tool to identify areas particularly affected by poverty, and as a research tool. Drawing particularly on the capability perspective, the HPI does not assume that levels of income are indicators of who is rich and who is poor, but rather focuses on the “lack of real opportunity to lead valuable and valued lives” in defining human poverty.

- The HPI was developed as a complement to the Human Development Index (HDI). It measures deprivations in the same three aspects of human development as the HDI: longevity, education and a decent living standard.
The HPI was initially designed to measure poverty in developing countries (HPI-1), but a more specialized measurement (HPI-2), particularly relevant to selected high-income OECD and industrialized countries such as Canada, was introduced in the 1998 Human Development Report. In addition to raising the benchmarks for longevity, knowledge and a decent standard of living, the HPI-2 adds a fourth dimension: social exclusion.


The HPI-2 … reflects deprivations in four dimensions:

- **A long and healthy life** – vulnerability to death at a relatively early age, as measured by the probability at birth of not surviving to age 60.
- **Knowledge** – exclusion from the world of reading and communications, as measured by the percentage of adults (ages 16-65) lacking functional literacy skills.
- **A decent standard of living** – as measured by the percentage of people living below the income poverty line (50% of the median adjusted household disposable income).
- **Social exclusion** – as measured by the rate of long-term unemployment (12 months or more).


Policy analysts argue that outcome data, quality-of-life indicators and social indicators (such as poverty measures) provide important information that can inform discussions between the government and the community about what needs to be done to reduce poverty in Canada: that is, which goals have been met, and which may need adjustment. Poverty data are used in policy debates about issues related to urban poverty, children and families, women, Aboriginal people, people with disabilities, immigrants, health, and social programs generally.

The importance of developing reliable and comparable indicators was also highlighted in the Social Union Framework Agreement, signed in February 1999, which emphasized the need for accountability and transparency in measuring and reporting on the results of social programs and activities aimed at improving the well-being of Canadians. Policy-makers are dependent on reliable measurements of poverty to ensure that decisions taken concerning social programs and policies will provide cost-effective results and indeed contribute to reducing poverty.

The definitions and measurements of poverty are at best crude indicators that reflect different perspectives on poverty and provide different advantages and disadvantages. However, the measure chosen has serious policy implications, and this is why many observers and policy analysts are pressing the federal government to adopt a more comprehensive view and measurement of poverty. Most would argue that the conceptualization and measurement of poverty should not be limited to a shortage of income but should reflect the values of Canadian society, enhance our understanding of poverty in Canada and better inform policy-makers about the prevalence of poverty in Canada.

Notes


(2) Chris Sarlo, “Poverty in Canada: 2006 Update,” in Fraser Alert, Fraser Institute, November 2006.

(4) The concept of “human poverty” and the Human Poverty Index were part of a series of new human development measurements developed and used by the UNDP to measure, monitor and assess progress in the eradication of poverty and human development in the aftermath of the 1995 World Summit for Social Development, the International Year for the Eradication of Poverty in 1996 and the launch that same year of the Poverty Strategies Initiative and the first United Nations Decade for the Eradication of Poverty (1997-2006).


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