

by Scott Gilbreath

LOW INCOME CUT-OFFS VERSUS POVERTY MEASURES

On interprète souvent le « seuil de faible revenu » de Statistique Canada comme étant un indicateur de la pauvreté, mais cela ne va pas sans poser des problèmes sérieux. Le seuil de faible revenu n'est pas un indice valable de la pauvreté, non plus qu'il n'aide à éclairer le débat public sur la pauvreté ou à mettre au point des mesures appropriées. Statistique Canada pourrait mettre fin à l'ambiguïté et la confusion actuelles en élaborant un véritable indice de la pauvreté.

Statistics Canada has been publishing a series of "Low Income Cut-Offs" (LICOs) for almost 30 years, as well as statistics on individuals and families whose incomes are below the LICOs. Statistics Canada repeatedly insists that the LICOs are not poverty lines, but they are commonly treated as Canada's official poverty lines. As the name implies, however, LICOs measure "low income," not poverty.

The methodology of LICO estimation is intricate and arbitrary. Data from the Family Expenditure Survey (FAMEX) is analysed to find the average proportion of family income spent on food, shelter and clothing. That proportion is augmented by 20 percentage points and

a regression equation is fitted to calculate the LICOs. A series of LICOs is estimated which take into account differences in family size, population of area of residence and region of Canada. Finally, the LICOs are adjusted for inflation annually by applying the previous year's CPI; and they are re-based periodically with new FAMEX data.

The 20 percent parameter is completely arbitrary and based on no reasoning or scientific investigation of any kind. The original LICOs were calculated in 1967 based on the 1959 FAMEX, which found that, on average, Canadian families spent 50 percent of their incomes on food, shelter and clothing. In a 1990 discussion paper on LICOs, Statistics Canada analysts M. C. Wolfson and J. M. Evans freely admit the arbitrary nature of the parameter: "As an arbitrary choice, families spending more than 70 percent of their incomes on these 'necessities' were held to be in 'strained circumstances' relative to the rest of the population." Since then, Statistics Canada has updated the average proportion of income spent on food, shelter and clothing based on subsequent FAMEX surveys, but has maintained the arbitrary 20 percent parameter, without as yet confirming (or even arguing for) its relevance.

The initial assumption of the LICO methodology is that families spending the same proportion of their income on food, shelter and clothing have approximately the same standard of living. However, it is easy to think of examples where this is far from true. A family that chooses to assume a large mortgage on an expensive house and eat most meals in restaurants may spend a higher proportion of its income on food, clothing and shelter than a poor family that rents a small dwelling and eats at home; but clearly the former family would have a higher standard of living.

Bias to higher poverty as average living standard improves

As already mentioned, the first LICO was based on the 1959 FAMEX survey, which found that the average Canadian family spent 50 percent of its income on food, shelter and clothing. Since then, the standard of living in Canada has increased tremendously and, concurrently, the proportion of incomes spent on food, shelter and clothing has declined. For example, the most recent FAMEX, conducted in 1992, estimated that the average Canadian family spends about 35 percent of its income on those three categories. The decrease in this proportion has imparted an upward bias to the LICO. As this proportion goes down, the LICO tends to increase, and with it the number of families falling below the LICO. In their 1990 discussion paper, Statistics Canada analysts Wolfson and Evans document this effect and show that it is an artifact of the estimation process and does not reflect an increase in relative deprivation among those falling below the LICO. It is, to say the least, counter-intuitive that an increase in average living standards is automatically accompanied by an increase in "low income."

No distinction between “necessary” and “luxury” spending

The LICO methodology makes no distinction between “luxurious” and “necessary” spending on food, shelter and clothing. All expenditure falling into these categories is assumed to be essential to a minimal standard of living, while all spending on other items is assumed to be unimportant. No attempt is made to distinguish between meals purchased at expensive restaurants and food purchased at the local supermarket, between buying a mink stole and buying a pair of cheap jeans, or between the purchase of a 4000 square foot house by a family of three and rental of a three-room basement suite by a family of six. At the same time, any spending on toothpaste, toilet paper and mass transit fares is deemed non-essential.

LICO misclassifies significant numbers of families

By design, the LICO methodology necessarily misclassifies families: some families that spend more than the set percentage on food, shelter and clothing fall above the LICO, while some that spend less fall below the LICO. Wolfson and Evans found that, in 1982, 20 percent of Canadian families spent more than the set percentage (56 percent) of their income on food, clothing and shelter, but only 16 percent fell below the LICO. Eight percent of families fell above the LICO yet spent more than 56 percent of their income on food, shelter and clothing, while four percent fell below the LICO and spent less. The usefulness and accuracy of a low-income measurement methodology that misclassifies 12 percent of the population is, to put it as charitably as possible, questionable.

LICO ignores traditional economic activities

Of great concern also is the fact that the LICO ignores food, shelter and clothing acquired outside the economic marketplace. In rural areas, many people hunt or gather their own food and/or make their own clothes. Some even construct their own dwellings. But the LICO implicitly assumes that such traditional activities are utterly non-supporting — an assumption highly objectionable to aboriginal peoples, among others.

LICO does not measure poverty

The perversity of the LICO as a measure of low income can be illustrated by a simple hypothetical example. Suppose the economic circumstances of Canadian families were such that we all had to spend 100 percent of our incomes on the most rudimentary varieties of food, shelter and clothing. According to the LICO, no one would be considered low income; however, it is obvious that Canada would have a severe poverty problem. This example shows that the LICO cannot be considered a true measure of “low income”

(whatever that is), let alone poverty. This example also shows that the LICO is wholly a relative measure: it is purely an artifact of the distribution of income and expenditures. It is not based on any actual prices of any particular goods, nor on the expenditure patterns of any particular families.

Finally, the import of a statistic that purports to measure something as nebulous as “low income” is problematic at best. Given the ambiguities of the concept of low income, to estimate LICOs is practically to invite misinterpretation and misapplication. Furthermore, given that the LICO does not measure poverty, precisely what does it measure? Is Statistics Canada aware of any legitimate and proper uses of the statistic? That Statistics Canada continues to calculate and publish a measure of low income in the presence of rampant misuse causes one to wonder whether Statistics Canada really does object to its utilization as a poverty line.

This conundrum is complicated by the 1990 discussion paper by Wolfson and Evans, which indicates that these two authors — both Statistics Canada analysts — regard “low income” measures, constructed solely from income distribution data, as indicators of poverty: “[T]here is a broad range of options that Statistics

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Canada could pursue with respect to the publication of statistics on low income intended to provide a rough indication of the extent and nature of poverty.” At this point, a footnote is interjected: “The word “poverty” is chosen deliberately. It is judged that statistics on low income can be useful, albeit substantially imperfect, indicators of poverty as this latter term is commonly understood.” On what basis was this judgment made? How do these analysts think poverty is “commonly understood”?

The low income measure

In tandem with the LICO, Statistics Canada calculates and publishes another measure of low income — a statistic called the Low Income Measure (LIM). The methodology of the LIM is much simpler and less opaque than that of the LICO. Perhaps for that very reason, it is also less popular with those who insist on using the LICO as a poverty measure. The LIM is equal to one-half of the median family income, adjusted for family size and composition. The simplicity of the LIM makes obvious the arbitrariness of the assumptions and parameters involved in its construction. In the case of the LICO, on the other hand, because at one point in its long and tortuous journey from raw data to published statistic, it relies on highly aggregated information on family expenditures, users can maintain that it bears some relation to the economic circumstances of Canadians. The LIM’s transparency in this regard is apparently a distinct disadvantage in the eyes of potential users.

Fundamentals of poverty measurement

The fundamental questions at the bottom of any statistical measures of poverty are: How is poverty to be understood? What information will help the public and the government to quantify the nature and extent of poverty? The LICO is manifestly not based on a defensible concept of poverty, nor is it helpful or informative. Furthermore, that average provincial social assistance rates are set well below the LICO attests to the widespread rejection of the LICO approach among Canadians and their elected representatives.

The fundamental defect of the LICO is lack of clarity about the conception of poverty it embodies. It is, however, apparent that the LICO approach implicitly equates poverty with inequality. For that is exactly what the LICO measures: inequality. As we have seen, this is not a definition that conduces to pertinent estimates of the scope of the problem. Few people define poverty as "20 percent below average." It is time to consider seriously whether a more transparent and easily understood conception would enable Canadians to obtain a useful account of the nature and extent of poverty in this country.

An alternative proposal

Poverty is commonly understood as difficulty meeting basic needs. This understanding does not necessarily imply that poverty involves living on the edge of starvation; the specific content of "basic needs" will be different for different times and places. But it does imply an objective standard directly related to prices and availability of those goods and services that constitute the basic needs. Quantification of this understanding in the form of poverty statistics necessarily requires formulating the items that comprise basic needs and gathering and analysing data on what particular people must spend in order to acquire those items. This will be a more demanding and costly exercise than analysing readily available income data. But at least, in the end, statistics of some potential use will be generated.

The chief theoretical difficulty with this type of approach is specifying the goods and services that are to be deemed essential or necessary to a minimal standard of living in Canada today. In formulating this list, it must be kept in mind that, under our definition of poverty, any individual or family whose income is insufficient to purchase all of the specified items will be considered poor. In broad terms, the list will include a nutritious diet, clothing, shelter, personal care needs, health care, necessary transportation and telephone. The exact items under each of these broad headings will be those regarded as adequate in Canada today.

Canadians would regard as satisfactory a house or apartment conforming to typical building and housing codes. Similarly, an acceptable diet would consist of a combination of healthy food items on offer at the local grocery store that provides all required nutrients and allows for some variety as well. Similar reasoning

would go into the selection of particulars under each of the broad headings.

The stipulation of the list of necessary items goes beyond the scope of this discussion paper. Our purpose here is to set forth the issues and arguments and provoke meaningful discussion.

Conclusion

The widespread and improper reliance on the LICO as a poverty measure obscures the poverty issue in Canada. To misapply the LICO in this way trivializes the problem, not least because many who are not poor are classified as such and many who are poor are also misclassified. The LICO does not contribute to insightful public debate and development of appropriate policy initiatives; on the contrary, it detracts from these processes. The most important function of any statistic is to tell the truth about the question under investigation. The LICO, when it is used as a purported measure of poverty (and this, clearly, is its most common usage), fails this most basic test.

Statistics Canada, as the generator of the LICO, has a special responsibility in this regard. Statistics Canada's disclaimers notwithstanding, this statistic is commonly understood and used as a poverty measure. Statistics Canada could end this misapprehension and confusion if it were to produce a true poverty measure.

Scott Gilbreath is a Statistician at the Bureau of Statistics, Government of Yukon, Whitehorse, Yukon. The opinions expressed in this paper are those of the author and do not necessarily reflect those of the Yukon Government.

Books Available/Livres disponibles

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Antonia Cornwell and John Creedy, *Environmental Taxes and Economic Welfare*, Edward Elgar Publishing, 1997.

Paul T. Hill, Lawrence C. Pierce and James W. Guthrie, *Reinventing Public Education: How Contracting Can Transform America's Schools*, University of Chicago Press, 1997.

Stephen T. Kerr ed., *Technology and the Future of Schooling: Ninety-fifth Yearbook of the National Society for the Study of Education*, University of Chicago Press, 1996.

Keith Archer and Alan Whitehorn, *Political Activists: The NDP in Convention*, Oxford University Press, 1997.