

# THE POLITICS OF POVERTY MEASUREMENT IN CANADA: NATIONAL VS PROVINCIAL BASED THRESHOLDS

Chuk Plante

Department of Sociology  
McGill University

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# OUTLINE I

- 1 POVERTY
- 2 EMPIRICAL WORK
- 3 CHOOSING A BASE
- 4 CONCLUSION

# WHAT IS POVERTY?

- Poverty is an inability to meet (or maintain) a minimum standard of well-being
- Individuals can be considered poor in any number of dimensions and their combination
- In the developed world, income is the most common dimension considered
  - Other oft considered dimensions include consumption, health and leisure

# ASSUMPTIONS

- Operationalizations of poverty involve several sets of assumptions related to
  - ① units of analysis
  - ② measures of well-being
  - ③ thresholds
  - ④ measures of poverty
- Over the years, most of these assumptions have been discussed quite a bit
- Over the last 10 years the field has settled on several points of general consensus

## UNIT IF ANALYSIS

- Is poverty a characteristic of individuals? Families? Households? Communities?
- It is common practice to treat poverty as a characteristic of households, but to weight counts by the number of individuals therein

## MEASURE OF WELL-BEING

- Poverty comparisons are usually made using annualized after-tax and transfer...
- *Equivalent* family income. That is

$$\frac{\text{total annual after-tax family income}}{\sqrt{\text{number of family members}}}$$

- Purchasing power indices can be used to standardize income for international and inter-temporal comparisons

# THRESHOLD

- Statistics Canada calculates three thresholds: LIM, LICO, MBM
- Each measure has its own merits and shortcomings
- It is common to use the LIM for international comparisons, because it is easiest to calculate and compare across countries

## SATISTICS CANADA MEASURES

- LIM The Low Income Measure is based on a theory of social exclusion. People that make less than a certain threshold will be socially excluded
- LICO The Low Income Cut-off is based on Engel's law. People that have to spend more than a certain proportion of their income on consumption experience non-trivial duress
- MBM The Market Basket Measure is based on theories of material deprivation. People that are unable to afford a basic basket of goods are poor



## MEASURE OF POVERTY

- Once a dimension and threshold have been settled upon, we still have to decide on how to measure the extent of poverty
- Most popular are
  - The rate
  - The gap
  - The Gini
- The Sen-Shorrocks-Thon (SST) poverty intensity measure is popular among Canadian researchers:

$$P(Y; z) = (RATE)(GAP)(1 + Gini(X)) \quad (1)$$

## COROLLARIES...

- Economists Lars Osberg and Kuan Xu (1999) rightfully point out that the these decisions lead us to also assume
  - ① economic family after-tax income is shared equally among family members
  - ② the OECD equivalence scale adequately accounts foreconomies of scale in family consumption, and
  - ③ the poverty line is represented by [...] half the median equivalent income (1999)
- My work focuses on the merits of assumption 3

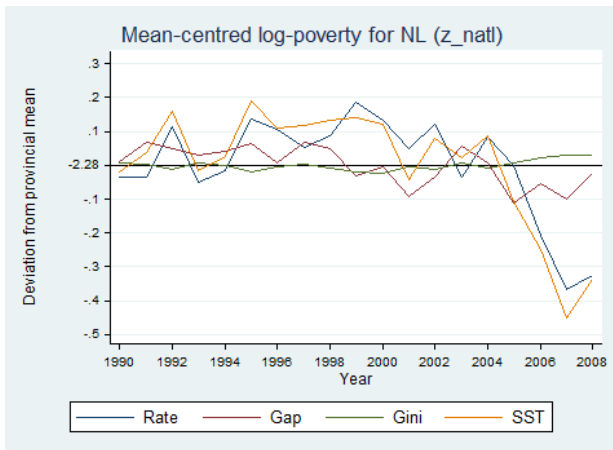
## EMPIRICAL APPROACH

- I estimate poverty intensity (SST) for each of the provinces between 1990 and 2008
- I then compare these estimates in terms of
  - ① The average overall rankings of provinces over the entire 18 period
  - ② Within province changes in poverty intensity over time
  - ③ Changes in the relative rankings of provinces from year to year
- I have done this for both nationally and provincially based LIM

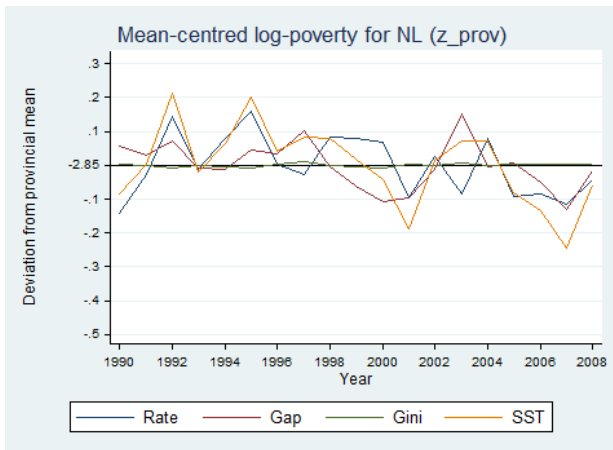
## A FEW HIGHLIGHTS

- 1 BC performs poorly by all measures
- 2 Ontario and BC both show increases in poverty over the period
- 3 Poverty declines dramatically in Alberta and Newfoundland after 2004, but only by the national base
- 4 By the provincial base, the Maritime provinces outperform all the other provinces except Quebec
- 5 Alberta and Ontario perform much better, on average, by the national base

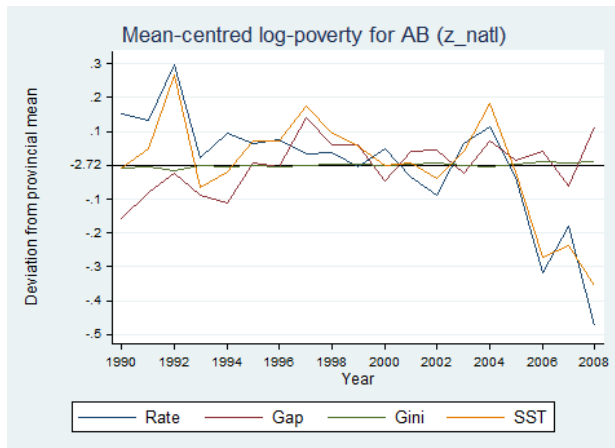
# NFLD SST, 1996-2008



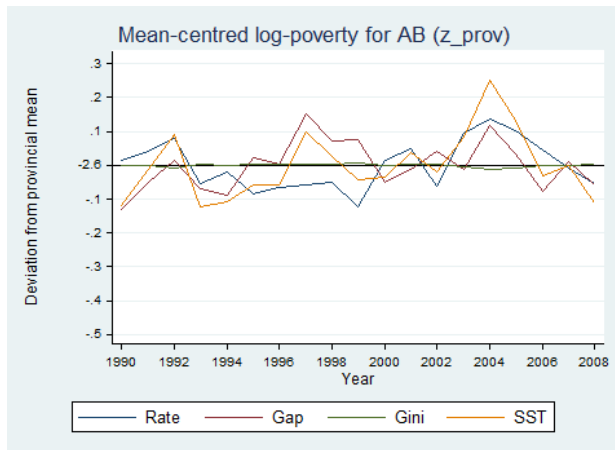
# NFLD SST, 1996-2008



# ALBERTA SST, 1996-2008



# ALBERTA SST, 1996-2008





## ALBERTA AND NEWFOUNDLAND

- Alberta and Newfoundland's economies both experienced economic booms in the mid-2000s
- Newfoundland and Labrador
  - Newfoundland is thought of historically as a "have-not" province
  - Newfoundland has been acknowledged for its efforts at reducing poverty
- Alberta
  - Alberta is regarded as a "have" province
  - Alberta has been chided for its lack of poverty protections

## ABSOLUTE VS RELATIVE POVERTY MEASURES

- A lot of ink has been spilled over this issue
- Nonetheless, a general consensus has emerged around two points
  - ① Relative poverty thresholds for developed countries
  - ② Absolute poverty thresholds for developing countries
- Note that all three of Statistics Canada's poverty thresholds are relative

## THE ARGUMENT FOR A RELATIVE MEASURE

- The argument for a relative measure is made most convincingly by Sen
  - ① All people should be entitled to a minimum level of personal and social functioning: “capabilities”
  - ② Realizing particular capabilities in different settings may require different resources
  - ③ Poverty can be cast in absolute terms in the realm of capabilities, however observed in a relative terms in the realm of resources
- The absolute vs relative debate is collapsed into a single challenge of capturing absolute differences in terms of capabilities via relative differences in resources that we can observe

## CAPABILITIES AND THE LIM

- According to statistics Canada, the LIM is 50% of median national income
- Similarly, the official EU "at-risk-of-poverty" estimates use 60% of median national income
- These measure are based on a hunch shared by most poverty researchers
  - That there is some proportion of median earnings such that if people's incomes fall below this amount they will be incapable of freely participate in society
- The EU "at-risk-of-poverty" nomenclature highlights the fact that our choice of a threshold need not be exact in order to capture a poverty effect

## HOW SHOULD WE BASE OUR MEDIANS?

- Social exclusion happens to individuals
- It implies their exclusion from a particular society
- None of the aforementioned discussions of poverty spend much time considering this. Nonetheless
  - It is customary to base things at a national level
  - In Quebec researchers are calling for a provincially based LIM
  - Europeans estimate nationally based poverty thresholds, but still calculate an EU wide poverty rate
- Why provincial over national in Quebec? Why not base our "at-risk-of-poverty" threshold at the EU level?

# THE POLITICS OF POVERTY MEASUREMENT

- Implicit in these approaches are assumptions about the scope of respective societies
- Given its socio-political history, it shouldn't surprise us that Quebec intellectuals would be among the first to suggest a provincially based threshold
- Accepted differences among nations permit little room for controversy around basing threshold at the national level in Europe

## SOME POSSIBLE ROUTES FORWARD

- BUT, do we need to accept that the decision to base poverty thresholds is a normative one?
- Is there no empirical approach that can help us decide?
- My current work is showing that there may be quite a bit at stake

## PLAUSIBLE EMPIRICAL APPROACHES

- ① Subjective judgements regarding societal membership: What groups do people worry about being included in?
- ② Networks approaches to societal membership: Which groups are people actually members of?
- ③ A more direct approach: directly measuring capabilities or social exclusion, and checking to see what threshold captures them best
  - An axiom: A social exclusion effect exists between two groups if an individual in group  $A$  can be made worse off by gains among individuals in group  $B$
  - If this holds, then a single base may be needed



## TWO REASONS TO ADOPT THE PROVINCIAL BASE

- ① It seems reasonable to suggest that the issues of social exclusion and overall standards of living are different
- ② Most policies that target social exclusion specifically are under provincial jurisdiction, and are not the same as those that target living standards

## TWO DIMENSIONS OF WELL-BEING

- It seems reasonable that the people of the Maritimes could not be socially excluded, but still set at a disadvantage in terms of development
- Whereas social exclusion relates to people's ability to participate in their communities, standards of living pertain to the overall welfare of that community
- As evidenced by the recent headlines regarding Attawapiskat, Canadians also expect a certain amount of equality in terms of standards of living among communities

## DIFFERENT KINDS OF POLICIES

- This approach could facilitate policy evaluation
- Policies aimed at reducing social exclusion includes things like benefits, training and job-search services
- Policies aimed at raising standards of living typically involve broader infrastructure investments
- For example, it would appear that Alberta and Newfoundland have both lead the way in terms of raising standards of living, but only Newfoundland has also lead the way in terms of also managing social exclusion