

## Poverty in Canada: 2006 Update

By: Chris Sarlo

### Main Conclusions

- The proportion of Canadians living in poverty fell to 4.9 percent in 2004 (roughly one in 20 Canadians), the lowest level in history.
- Canada's child poverty rate also hit a historic low of 5.6 percent, meaning about one in 18 children were poor.
- There have been significant declines in child poverty and overall poverty since 1996 after a period showing little reduction in poverty: poverty rates (for individuals) have since fallen 37 percent overall, and 46 percent for children.
- Over the past 55 years, the poverty rate for Canadian households has fallen dramatically from a rate of 41.2 percent to about 6.6 percent, more than a six-fold decrease.
- The lack of an "official" poverty measure makes it difficult to hold politicians to account for the effectiveness of expensive programs intended to alleviate poverty in Canada.

Chris Sarlo is an Associate Professor of Economics and Director of the School of Business and Economics at Nipissing University in North Bay, Ontario. He is the author of *Measuring Poverty in Canada*, published by The Fraser Institute.



### Introduction

**Basic needs poverty lines are intended** to measure the number and proportion of Canadians who cannot afford the basic necessities of life, such as food, clothing, shelter, and other household essentials. Since 1992, this measure has been an important alternative to prevailing "relative" poverty lines like Statistics Canada's Low Income Cutoff (LICO) that consider how well off some Canadians are relative to others. This *Fraser Alert* uses the most recent data available (2004) to update the basic

needs poverty lines and estimates poverty in Canada. The findings are encouraging: poverty in Canada, including child poverty, has fallen dramatically since 1951 and, notably, has continued to decline recently after leveling off during the 1980s and early 1990s.

## Measuring Poverty in Canada: The Basic-Needs Approach

There will always be people who are less well off relative to others. While it is interesting to know about levels and trends of inequality, it is also useful to know how many Canadians cannot

**TABLE 1**  
**Basic Needs Poverty Lines (dollars) by Household Size Canada 2006**

SIZE OF HOUSEHOLD	BASIC NEEDS LINE
One	\$ 10,314
Two	\$ 16,186
Three	\$ 19,673
Four	\$ 22,852
Five	\$ 25,809
Six	\$ 28,593

**Sources:**

Statistics Canada, CANSIM, tables 326-0001 and 326-0002 and Catalogue nos. 62-001-XPB and 62-010-XIB, Sarlo (2001), Calculations by Derek Stacey.

afford a list of essentials and how that is changing over time. To this end, in 1992 the first edition of *Poverty in Canada* proposed an alternative measure of poverty, one that viewed being poor as a problem of serious deprivation (Sarlo, 1992).<sup>1</sup> Essentially, the basic-needs approach determines the cost of a list of household necessities (food, shelter, clothing, health care, personal care, essential furnishings, transportation and communication, laundry, home insurance, and miscellaneous) for various communities across Canada and then determines how many households have insufficient income to afford those necessities.<sup>2</sup>

This basic-needs approach to poverty, is often referred to as an “absolute” measure. This label is misleading insofar as it suggests that the list can never change and is therefore completely out of place in our rapidly changing society. While the basic needs line does propose a broad list of necessities that remains in place over time, the nature, standard of quality, and the quantity of each of the components will vary across societies and will vary over time in a given society. In other words, the basic-needs approach is partly absolute (the list is limited to items required for long-term physical well-being) and partly relative, reflecting the standards that apply in the individual’s own society at the present time.

**Table 1** displays the basic needs poverty lines for Canada as a whole for 2006.<sup>3</sup> The 2006 estimate (updated from Sarlo, 2001) is based on consumer price

information (all items) available from Statistics Canada in June 2006. The lines represent income levels below which households of given size would not be able to afford all of the basic needs required for long-term physical well-being.

### DEPRIVATION VERSUS INEQUALITY

The basic-needs approach has been criticized as being too stringent and even “mean-spirited.” The simplest response to these concerns is to emphasize the essential rationale for the approach: poverty is fundamentally a problem of insufficiency and not inequality. Prior to the development of the basic-needs approach to measuring poverty, Canada had a number of indicators of inequality. None, however, measured real deprivation. If we want to understand how Canadians are doing, we would presumably want to know how many of our fellow citizens cannot even afford the basic necessities of life.

That is the aim of the basic needs poverty lines. It excludes a number of amenities that other lines (explicitly or implicitly) include—items such as cable TV, meals at restaurants, and tickets to movies and sports events. While we would like all Canadians to be able to enjoy these and other amenities, people are not necessarily poor for the lack of them. They are poor when they lack any of the basic necessities. Given the significant resources devoted to the problem of poverty, governments should insist on having a reliable and meaningful measure of poverty to track

the effectiveness of poverty-reduction programs and ensure accountability for scarce tax dollars.

## Poverty Rates

Total pre-tax income (including all government transfers such as welfare, employment insurance, and old-age pensions) is used in calculations of basic-needs poverty rates. Because of the fairly low level of the basic needs lines, households in this situation would pay little or no income tax.<sup>4</sup>

**TABLE 2**  
**Poverty Rates in Canada: 1973 - 2004**

Year	POVERTY RATE (%)	
	ALL PERSONS	CHILDREN
1973	11.8	12.0
1977	9.8	9.9
1981	7.1	8.8
1984	8.6	11.1
1988	6.2	7.7
1991	7.1	9.6
1994	6.8	9.1
1996	7.8	10.9
2000	5.7	7.6
2002	5.0	5.8
2004	4.9	5.8

### Sources:

Statistics Canada: microdata files of household incomes (Survey of Consumer Finances, Economic Families and Survey of Household Spending), various.

Calculations by author and Derek Stacey

The basic information source for these estimates of poverty is the *Survey of Household Spending, 2004*, the most recent data available. This survey is conducted annually by Statistics Canada and contains quite detailed information about incomes, household demographics, and consumption expenditures. The 2004 survey had just become available at the time this research was conducted, so the estimates are fresh.

As [table 2](#) shows, 4.9 percent of Canadians (approximately 1.6 million people) were poor in 2004, compared to 7.8 percent of Canadians in 1996. The dramatic fall in Canadian poverty rates experienced since 1996 is particularly notable because it followed a lengthy period of stagnation throughout the 1980s and early to mid-1990s.

Over the past decade, there has been considerable attention devoted to the issue of poverty among children. There are many reasons for this concern. Children are especially helpless to change their own situation. They are the passive recipients of whatever living standard their parents happen to have. As well, poor children may be more likely to be unhealthy and may be at greater risk of developmental problems.<sup>6</sup>

Consistent with other studies that estimate child poverty, this report defines a poor child as a person under 18 years of age living in a household that has a total household income below the poverty line. In 2004 the Canadian child poverty rate was 5.8 percent, down from 10.9 percent in 1996.

## CANADIAN TRENDS, 1951–2004

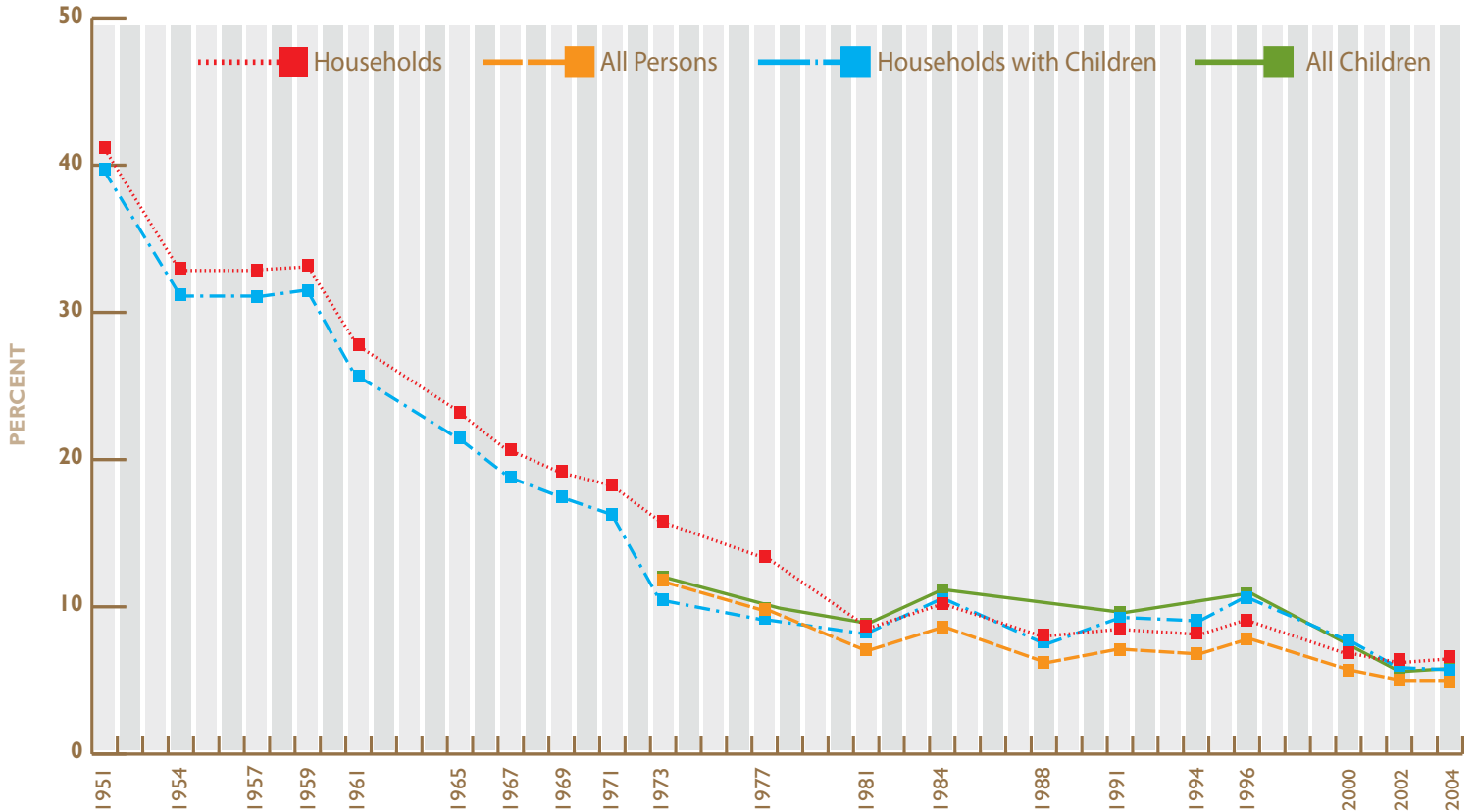
It is important and revealing to look at poverty rates over the long term. Data on Canadian income distribution is available back to 1951. However, from 1951 to 1971 it is only possible to estimate poverty by households (not persons) and, even then, the tabular data only permit rough approximations (see Sarlo, 2001). In light of this, the long-term poverty rates (overall and for children) in [Figure 1](#) are for “household” poverty. Poverty rates for “persons” are provided for the period from 1973 to 2004, the years for which data is available (see [Table 2](#)). Generally, poverty estimates for persons is somewhat lower than that for households because poor households tend to be somewhat smaller, on average, than households in general.

As we see in [Figure 1](#), the latest values for household and individual poverty appear to be consistent with the longer term pattern of decline. In just over 50 years, the rate of poverty in Canada has declined from about 42 percent of households to about 6.6 percent of households. The poverty rate for persons, as opposed to households, is even lower.

Roughly, the proportion of Canadians unable to afford all of the basic necessities is now only about one seventh as much as it was in 1951.<sup>8</sup> Despite concern that between 1981 and 1996 the rate of poverty had “plateaued” and would no longer decline, since 1996 the rate of income poverty has declined a further 27 percent for households, and

## FIGURE I

### Poverty Rates in Canada: Income Indicator 1951 - 2004



#### Sources:

Statistics Canada: 1. pre-1973 - Income Distributions by Size (cat. #13-207), various; 2. 1973 - present - microdata files of household incomes (Survey of Consumer Finances, Economic Families and Survey of Household Spending), various; and Calculations by author and Derek Stacey.

\* Due to data limitation it is only possible to estimate poverty by households (not person) between 1951-1971. Poverty rates are only available for the years shown.

37 percent for persons. This is clearly good news.

Figure 1 also displays the rate of child poverty over the same period. Again, the trend is clear, and encouraging. Child poverty based on reported incomes is declining. The proportion of households with children that are unable to afford basic needs is now about one seventh of what it was 53 years ago. The 46 percent decline since 1996 is particularly good news after more than a decade (1984–

1996) with almost no change in the rate of child poverty aside from cyclical fluctuations.

### Indicators of Well-Being: Income and Consumption

#### INCOME

Income has long been used as the primary indicator for the measurement of poverty. Ideally, the household's income would represent the total

resources available to the household to purchase its "standard of living." However, there are many issues that make income less reliable than it may appear to be. As it is currently measured, household income (which is self-reported) does not account for gifts-in-kind (a primary example of which is free or subsidized rent); it understates the resources available to students in post-secondary programs; and the treatment of business losses for farmers,

fishers, and other small operators may understate the true resources available to the household. Most importantly, however, there is significant under-reporting of income, which alone is likely to seriously bias any estimate of income poverty (see Sarlo, 2001: 41–42). Despite concerns about income, it continues to be the indicator favoured in most studies of poverty. As long as the bias does not change over time, there is some value in making comparisons of income poverty over the long term.

#### CONSUMPTION

Another indicator of a household's well-being is consumption. The amount of spending by a household on goods and services should reflect its standard of living, perhaps even better than income does. Unfortunately, information about consumption is subject to some bias as well, if only because it is self-reported. More research is needed to

determine the extent of the bias and how that compares to the bias with reported income. Nevertheless, the idea of “consumption poverty” is useful and is included in this report as it has been in many earlier studies by this author. The amount that households actually spend on goods and services is a more direct and potentially a more accurate indicator of their material standard of living.

#### Consumption Poverty Rates

**Table 3** shows the consumption poverty rate for both households and individual persons. Overall, it is estimated that about 5.1 percent of Canadian households have reported consumption that (in terms of total dollars) is below the basic needs poverty line. This is slightly higher than the reported consumption poverty rate for individuals, which was 4.2 percent in 2004. Regardless of what items they actually spend their money on, the total

spending is judged to be insufficient to cover all of the basics.

## Conclusion

Basic needs poverty is a problem. It means that people cannot afford all of the basic necessities of life and must go to extraordinary lengths (such as borrowing or getting assistance from family and friends) or do without.

Estimates provided in this report show that about 1.6 million Canadians (4.9 percent of the population) were poor in 2004 based on their reported incomes; a somewhat smaller number, about 1.3 million Canadians (about 4.2 percent of the population) were poor using consumption as an indicator. This should be of concern to all of us. It is nevertheless encouraging that poverty in Canada is declining, significantly over the past decade, but even more dramatically over the past 50 years.

**TABLE 3**

### Poverty in Canada (consumption), 2004

Number of Persons Below Poverty Line	1,303,625
Total Number of Persons	31,294,554
Poverty Rate (percent)	4.2
Number of Households Below Poverty Line	624,072
Total Number of Households	12,343,337
Poverty Rate (percent)	5.1

#### Sources:

Survey of Household Spending, 2004; CANSIM Table 326-0002, Sarlo (2001). Calculations by Derek Stacey.

## Notes

- 1 A substantial revision to the basic needs line was undertaken in 2001 making it a stronger and more credible choice as a poverty measure (Sarlo, 2001). The revisions were “ground up” in that they looked at the list of necessities anew while maintaining the essential definition of the basic-needs approach. It was a substantial revision and resulted in several additions (including out-of-pocket health care expenses). Equivalence scales were used to assist with determining costs for families of different sizes.
- 2 Sales tax is included in the basic needs line.
- 3 The territories and Nunavut are excluded due to insufficient data.
- 4 Checks using tax software confirm this.
- 5 The methodology used to calculate these values, particularly those prior to 1973, is contained in Sarlo, 2001: 33–35.
- 6 See Lewit, Terman, and Behrman, 1997. While the correlations are clear, some caution is in order. Whether poverty itself “causes” these outcomes or whether these outcomes and poverty are caused by some other variable is not clear. Nevertheless, additional concern about child poverty is warranted because of a child’s vulnerability and helplessness.
- 7 There is an important methodological note qualifying this latest estimate relative to the first basic-needs estimates of child poverty published in Sarlo, 1992. Statistics Canada has begun to reduce the amount of information about family size and about the number of children in a household. Information about the size of households stops at six and about the number of children at three. There is therefore some (likely small) additional inaccuracy in the estimate although it is uncertain in which direction. This author believes that this change is most regrettable. Statistics Canada should return to the practice of recording the actual number of children and the actual household size.
- 8 The assumption here, of course, is that there has been no change in the extent to which reported incomes are inaccurate. As suggested in Sarlo, 2001, there is reasonable evidence that the underground economy has been growing and, with it, the amount of unreported income. If that is the case, poverty is more and more overstated using reported incomes.

## References

- Lewit, Eugene M., Donna L. Terman, and Richard E. Behrman (1997). “Children and Poverty: Analysis and Recommendations.” *The Future of Children* 7, 2 (Summer). <[http://www.futureofchildren.org/pubs-info\\_show.htm?doc\\_id=72141](http://www.futureofchildren.org/pubs-info_show.htm?doc_id=72141)>.
- Sarlo, C. (1992). *Poverty in Canada*. 1st edition. The Fraser Institute.
- Sarlo, C. (2001). *Measuring Poverty in Canada*. Critical Issues Bulletin. The Fraser Institute.
- Statistics Canada (2005). Survey of Household Spending, 2004 (microdata file). Ottawa: Statistics Canada.
- Valletta, R. G., (2006). “The Ins and Outs of Poverty in Advanced Economies: Government Policy and Poverty Dynamics in Canada, Germany, Great Britain, and the United States.” *Review of Income and Wealth* 52, 2 (June): 261-284.

# Fraser Alert

---

## About this publication

Fraser Alerts are published from time to time by The Fraser Institute (4th Floor, 1770 Burrard St., Vancouver, BC, Canada V6J 3G7) to provide, in a format easily accessible online, short, timely studies of current issues in economics and public policy.

### OUR MISSION

Our vision is a free and prosperous world where individuals benefit from greater choice, competitive markets, and personal responsibility. Our mission is to measure, study, and communicate the impact of competitive markets and government interventions on the welfare of individuals.

Founded in 1974, we are an independent research and educational organization with offices in Vancouver, Calgary, and Toronto, and international partners in over 70 countries. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

### DISTRIBUTION

These publications are available from <http://www.fraserinstitute.ca> in Portable Document Format (PDF) and can be read with Adobe Acrobat® or with Adobe Reader®, which is available free of charge from Adobe Systems Inc. To download Adobe Reader, go to this link: <http://www.adobe.com/products/acrobat/>

[readstep.html](#) with your browser. We encourage you to install the most recent version.

### DISCLAIMER

The author of this publication has worked independently and opinions expressed by him are, therefore, his own, and do not necessarily reflect the opinions of the supporters or the trustees of The Fraser Institute.

### COPYRIGHT

Copyright © 2006 by The Fraser Institute. All rights reserved. No part of this publication may be reproduced in any manner whatsoever without written permission except in the case of brief passages quoted in critical articles and reviews.

Media enquiries and information

For media enquiries, please contact the communications department, via e-mail: [communications@fraserinstitute.ca](mailto:communications@fraserinstitute.ca); or via telephone: 604.714.4582.

Our web site, [www.fraserinstitute.ca](http://www.fraserinstitute.ca), contains more information on Fraser Institute events, publications, and staff.

### DEVELOPMENT

For information about becoming a Fraser Institute supporter, please contact the Development Department via e-mail: [development@fraserinstitute.ca](mailto:development@fraserinstitute.ca); via telephone: 604.688.0221 ext. 586; via fax: 604.688.8539. In Calgary, please contact us via e-mail: [barrym@fraserinstitute.ca](mailto:barrym@fraserinstitute.ca); via telephone: 403.216.7175 or, toll-free 1.866.716.7175; via fax: 403.234.9010.

### EDITING

Lindsey Thomas Martin

### DESIGN AND PRODUCTION

Kim Forrest