


4.9 percentage points (table 2). The difference between Canadian and US government spending (net of debt service payments) as a percentage of GDP has decreased substantially since its peak of 13.8 percentage points in 1992. The reduction in the gap is a result of rapidly increasing spending as a percentage of GDP in the US rather than a decrease in the ratio in Canada. Spending (net of debt service payments) as a percent of GDP has increased by 0.5 percentage points in Canada and 2.4 percentage points in the United States since 2000.

The April graphs show Canadian government spending relative to US government spending both for total spending and spending net of debt service costs. The bars labeled “percent of GDP” represent the difference (in percent) between Canadian and US spending as a percent of GDP. Similarly, the bars labeled “per person” represent the difference (in percent) between Canadian and US spending per person.

In 2002, American governments spent 2.1 percent more per person than Canadian governments. Although American governments spent more per person, they spent 16.4 percent less of the GDP than did Canadian governments (graph 2).

Notes

¹The data that this article is based on, taken from the *OECD Economic Outlook vol. 72*, has changed significantly from previous versions of the *Economic Outlook*, specifically, the *OECD Economic Outlook vol. 69*. These changes are the result of adjustments by the OECD.

²Purchasing Power Parity exchange rates were employed to convert US dollars to Canadian to account for differences in the prices of goods and services between the two countries. Had actual exchange been used, spending by US governments would have exceeded Canadian government spending by \$4,334 Canadian in 2002. 

The Market Basket Measure of Poverty

by Chris Sarlo

It is possible to view the long-awaited (and still not ready) market basket measure (MBM) of poverty as a victory for the basic needs approach that I developed more than a decade ago. While The Fraser Institute and I can take some satisfaction in having contributed to the poverty measurement debate, victory celebrations would be premature.

The MBM project began in 1997 as a joint effort of the federal, provincial, and territorial governments. Its mandate was to produce a poverty measure based on the consumption of a basket of goods and services in contrast to most prevailing measures, which used a relative approach to the measurement of poverty. Human Resources Development Canada (HRDC) with the assistance of Statistics Canada provided the research expertise and leadership for the project.

In my view, the MBM project is a response to three concerns:

1. The need to have a credible, “absolute” measure of poverty. The 1995 Copenhagen declaration committed signatory nations, including Canada, to produce two measures—one of absolute poverty, and the other of “overall,” or relative poverty. A statement by European social scientists (Gordon and Townsend, 2000,

p. 17) makes the point that this two-level approach would give better information to policy makers and lead to better anti-poverty policies. As well, it would be useful in making credible international comparisons of poverty.

2. The need to deal with significant dissatisfaction by the provinces over the Low-Income Cut-Offs (LICO) and that measure’s widespread use as a poverty line. It was (and still is) common to see anti-poverty organizations condemn the provinces for having welfare benefits far below the “poverty line.” It is fair to say that the provinces were tired of having the LICO lines, which were quite high, purely relative, and do not account for regional differentials in costs, thrown in their face in this way. They demanded and are getting a new, more realistic approach to poverty measurement.
3. Fundamental doubts about, and erosion of support for, the prevailing measures as a result of the series of Fraser Institute publications by this author exposing the flaws in LICO and other relative measures. I first

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proposed an alternative, market basket, basic needs approach to defining and measuring poverty in 1992.

The MBM project has moved very slowly. Six years on, all we have is a discussion paper by the project's lead researcher, Michael Hatfield, outlining in fairly broad terms the methodology of the construction of the MBM. We have no poverty lines, no specific costs of any of the components of the basket, and no estimates of the number of "poor" in Canada. While interested parties can appreciate the political sensitivity of the issue, the fact that the project is completely in the hands of arms-length bureaucrats suggests that there is far too much caution in releasing details.

Nevertheless, it is the methodology that ultimately matters.

How one constructs a measure of poverty, including the all-important choice of indicator, is more important than the numbers. The reasonableness and soundness of the methodology is the foundation upon which the credibility of the exercise rests.

There are a number of striking similarities between the MBM and my basic needs measure. The choice of the reference family (four people—two adults, one boy, and one girl) and the use of an equivalence scale to determine costs of other family sizes is essentially the same. In terms of the food component of the basket, my own estimates of the minimum cost of a nutritious diet (based on 1997 costs) and the MBM "National Nutritious Food Basket 1998," are broadly similar, especially regarding the overriding goal of including only foods that "people like to eat." However, the MBM includes a larger number of foods, including some "more costly, 'basic processed foods'" (Hatfield, 2002, p.

3) than I do. Estimates for clothing and footwear in the MBM are based on the budget guide of the Winnipeg Social Planning Council. The estimates for the Basic Needs Measure are from the Montreal Diet Dispensary, a longtime social planning organization specializing in giving clients advice on daily budgeting. In terms of shelter, the MBM uses the average cost of the median rents of two- and three-bedroom apartments for the various communities across Canada, whereas I used the average rents of three

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bedroom apartments times 0.9 (which works out to be approximately the average rent in the bottom 50 percent of all rental units). Transportation estimates are broadly similar. The big difference has to do with the estimate of other costs in the basket. While I used specific estimates of the costs of such things as household furnishings and supplies, local telephone service, insurance, laundry, and out-of-pocket health care costs, the MBM uses a proportion of food and clothing expenses, a so-called "multiplier," to estimate the cost of all other needs. In the first draft of the MBM methodology in 1998, the multiplier value was 0.6.

The somewhat more generous estimates embedded in the various components of the MBM are based on its preoccupation with what Canadians actually spend, as opposed to what they need to spend to escape poverty. Their use of the second decile (incomes between the

bottom 20 percent and bottom 10 percent of Canadian households) as a target level of consumption is telling in this regard. The inclusion of such items as religious and charitable donations, video rentals, YM/YWCA memberships, magazines, and tickets to sport events in the "MBM standard of consumption" (Hatfield, 2002, p. 7), suggests a definition of poverty that extends beyond necessities. My difficulty with such an approach is that, while we certainly would like all Canadians to have these things and more, it would be hard to argue that people are poverty-stricken for lack of them. It may be desirable for us to know, as a priority, how many Canadians do not even have the basic necessities covered.

Despite my misgivings about the MBM and the philosophy underlying it, it may well be that the estimates of the numbers of people living in poverty based on this measure will be much closer to the 8 percent of Canadians that the basic needs approach estimates than the 17 to 20 percent range that the LICO measure indicates. If that is the case, HRDC and Statistics Canada should brace themselves for the inevitable accusations that will be leveled at them from the social welfare community and the major media, claiming that they lack compassion, have defined poverty away, and that the MBM is little more than an attack on the poor.

References

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Hatfield, Michael (2002). *Constructing the Revised Market Basket Measure*. Technical Paper Series T-01-1E. Ottawa: Applied Research Branch, Strategic Policy, Human Resources Development Canada (April). Available digitally at <http://www.hrdc-drhc.gc.ca/sp-ps/arb-dgra/publications/research/2002docs/it-01-1/english/it-01-1e.pdf>.