

REGION OF OTTAWA CARLETON
 RÉGION D'OTTAWA CARLETON

MEMORANDUM
NOTE DE SERVICE

Our File/N/Réf.
 Your File/V/Réf.

<u>Information Previously Distributed</u> To Be Listed on the Community Services Committee Agenda 17 Dec 98

DATE 27 November 1998

TO/DEST. Coordinator
 Community Services Committee

FROM/EXP. Commissioner
 Social Services

SUBJECT/OBJET **MARKET BASKET MEASURE OF POVERTY - FOR
 INFORMATION**

PURPOSE

The purpose of this report is to provide information on the federal government's development of a preliminary Market Basket Measure of Poverty (MBM), and the implications of this measure for understanding the incidence and depth of poverty in Ontario and Canada.

BACKGROUND

The measures of poverty currently used by policymakers in Canada are the LICO (low-income cut-off) and the LIM (low-income measure). In addition, the Sarlo measure has been developed by an academic of the same name. None of these measures, as discussed below, have proven to be entirely satisfactory for illuminating the extent of poverty in Canada. The federal government is currently developing a new measure of poverty based on a market basket approach which they are calling the Market Basket Measure of Poverty or the MBM. A preliminary report has been released by the Federal/Provincial/Territorial Working Group on Social Development Research and Information entitled "Construction of a Preliminary Market Basket Measure of Poverty". Regional staff have participated in a consultation session with the working group as a representative for the Ontario Municipal Social Services Association (OMSSA).

The final version of the MBM is not yet available nor has its adoption as public policy yet occurred. The federal government has not stated when they expect the MBM to be finalized.

DISCUSSION

In order to measure poverty, policymakers must first define it, and this definition must have some degree of acceptance with the general public as a reasonable one. Furthermore, the type of measure must also be decided. There are two types of measures of poverty: absolute and relative.

Subsistence vs Social Inclusion

Concepts of poverty may be restricted to notions of subsistence, wherein persons are defined as poor only if they lack sufficient income to purchase a survival level of necessities such as food, clothing and shelter. An example of a measure of poverty based on subsistence is the Sarlo measure. The notion of subsistence has never been widely accepted as an adequate measure of poverty in Canada. A different concept of poverty includes the idea of social inclusion whereby persons are defined as poor if they do not have a standard of living which makes them participating members of society.

Absolute vs Relative

In an absolute measure, income thresholds are updated as the cost of the items comprising the measure change. In a relative measure, income thresholds are updated according to average or median income or consumption. The LICO and the LIM are both relative measures. Increasingly, the LICO and the LIM have been criticized as casting “too wide a net”. Moreover, these measures tell you about the spread of incomes, and income levels, but they do not tell you about the standard of living of people in the lowest quintiles.

Market Basket Measure of Poverty

The federal government has drawn on the writings of Adam Smith (“The Wealth of Nations”, 1776). Smith defined the poverty level as “the custom of the country”, or that which “renders it indecent for creditable people, even of the lowest order, to be without”. Thus the MBM strives for creditability, in other words to create an absolute measure that is not restricted to subsistence but includes some reasonable level of social inclusion.

The following criteria for the MBM were set. It will:

1. be sensitive to geographic differences;
2. be measured against income available to consume the items in the basket;
3. be updated as cost of goods change; and
4. be updated as social policy changes.

The MBM includes the following features: it embodies separate food, clothing and shelter costs for a reference family of four; costs for other necessary items are aggregated; cost thresholds are adjusted for family size and age; it leans more toward a consumptive base than LICO and LIM; and moves more toward social inclusion than Sarlo.

Construction of the Preliminary MBM

In constructing the preliminary MBM, the federal government intended to choose standards of creditable consumption for food, clothing and shelter for a reference family of four. In addition, it added a multiplier to account for other necessary items of consumption. It was adjusted for different family sizes and geographical differences in costs. However, because of the population-weighting within the largest urban size category of 500,000+, it is likely the MBM inadequately captures the shelter costs for the reference family of four residing in Toronto, for example. Moreover, as explained below, a fraction, or discount, has been built into each measure in the construction of each component, but this fraction, or discount, is not supported other than to be deemed “reasonable” by those constructing the measure.

1. Food Component

The MBM uses 85% of the 1998 version of Agriculture Canada’s Nutritious Food Basket developed by nutrition experts. Thus it sets a threshold, or minimal requirement, below which level of consumption people would be considered poor.

2. Clothing/Footwear Component

The MBM uses 75% of the cost of the 1991 Metro Toronto Social Planning Council Budget Guide for clothing and footwear, updated to 1996. The Toronto-based guide was used for all provinces as there was found to be little variance in clothing costs between Canadian urban centres. This constitutes the threshold below which level of consumption people would be considered poor.

3. Shelter Component

The MBM uses 80% of a population-weighted median rent for a 3-bedroom apartment in October 1996. The reference family of four was assumed to have 2 children of different sex. This median was calculated for the same community size categories as are used for the LICO in each province. As noted above, however, the population-weighted median rates for shelter might be woefully inadequate for the family of four seeking shelter in Toronto, especially since these rates are then discounted by 20%.

The potential inadequacy of the shelter component measure is particularly important to consider with respect to how much social inclusion the MBM will actually incorporate. Food and clothing/footwear components have already been discounted in their construction relative to the Agriculture Canada food basket and the Metro Toronto SPC Budget Guide at 85% and 75% respectively. The need to make up shelter costs for an actual family of four in Toronto would likely result in reducing other necessary expenditures.

4. Other Necessary Expenditures Component

The MBM uses a multiplier of 60% of the combined budgets for food and clothing/footwear to create a threshold for the other necessary expenditures component. While a list of possible items falling within this component of the basket has been constructed which would permit some level of social inclusion, no analysis is available at this point to demonstrate what a family could actually purchase based on this threshold. It is important to note that child care is not included in this or any component of the MBM.

Adequate and meaningful development of this component is the most problematic and it is still considered a work-in-progress.

5. Defining the Income To Be Compared To The Thresholds

The MBM considers the disposable income available to the household to purchase items in the basket. Only income taxes have been deducted from gross income. Other deductions such as EI or CPP contributions have not been deducted. This is due to data constraints.

IMPLICATIONS OF THE PRELIMINARY MBM

The construction of a measure of poverty must be considered within a broader context of social policy development. The number of people who will be defined as poor will change with the introduction of the MBM. Fewer people will be defined as poor than would be if one were using the LICO or the LIM, and child poverty rates will be lower. However, more people would be considered poor than if the Sarlo measure were used. Where various provinces stand in relation to others, or to the national average, may also change. The following are some examples:

Table 1. Poverty Level of Income for Family of Four

Ontario Pop: 500,000+ LICO	Ontario Pop: 500,000+ MBM
\$32,238	\$25,194

Table 2. Ontario Provincial Rate of Child Poverty

LICO %	MBM %
19.1	16.9

Table 3. Ontario Provincial Rate of Poverty, All Persons

LICO %	MBM %
15.6	12.5

Table 4. Ontario Incidence of Poverty, All Persons

LICO Pre-tax %	LIM Post-tax %	MBM %
15.6	8.7	12.5
2nd lowest incidence out of 10 provinces	Lowest incidence of all provinces	7th lowest incidence out of 10 provinces

Using the MBM, only Newfoundland, Nova Scotia and British Columbia have a higher incident of poverty than Ontario.

Table 5. Depth of Poverty in Ontario

LICO (million \$)	MBM (million \$)
2,357.4	1,471.8,

*Approved by
Dick Stewart*

CP