

The Meaning of Poverty

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Richard Shillington

Michelle Lasota

Laura Shantz

Mike McCracken: Reviewer

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Working Papers provide a succinct discussion of specific issues that arise throughout the analytical process of poverty measurement. The Metcalf Foundation has funded the overall project.

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The Meaning of Poverty

1 Objectives

This working paper discusses the meaning of poverty as a concept. Understanding the concept of poverty prepares us for the subsequent papers, which consider how poverty is, could be, and should be measured. Here, the intent is to delineate what the term is generally taken to mean. There will be compromises when we move from a discussion of meaning to creating a statistical measure that can be used with existing data as a poverty indicator.

One may discuss the political/policy question, why measure poverty at all. Is there a value in a societal consensus on a poverty threshold and reliable data on the related trend in the poverty rate? This is discussed in Working Papers 3 and 10.

2 The “Meaning” of Poverty

The human condition(s) which we might classify as being in poverty have a long history with a variety of interpretations; these conditions are influenced by a number of factors including resources, contemporary standards and public perceptions of what is minimally acceptable.

The history of comments about poverty is extraordinarily long, including many well-known quotes: “The poor will always be with you” (Matthew 26:11). The persisting theme is that those living in poverty have a standard of living that is “unacceptable” because it is unjust. To this day, poverty remains a social problem.

Notions of acceptability and standards of living remain contentious, in part because of the implied role of society in ensuring the care and general well-being of all persons. Different persons, of all income groups, have various notions as to what is “unacceptable”.

Adam Smith proposed a conceptual definition of poverty as missing “not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without”.¹

The more recent writings of Nobel prize-winning Amartya Sen state that poverty is a standard at which one cannot “achieve adequate participation in communal activities ... and be free from public shame from failure to satisfy conventions”.²

It is worth noting that these, like almost all concepts of poverty, refer to some sense of what is decent:

- Adam Smith “... indecent for creditable people.”³

¹ Smith, A (1776): *An Inquiry into the Nature and Causes of the Wealth of Nations*, Edinburg, 1776, Book 5, Chapter 2, Article 4.

² Sen, A (1983): “Poor, Relatively Speaking” *Oxford Economic Papers, New Series*, Vol. 35 No. 2, July 1983, 167.

³ Smith, Book 5, Chapter 2, Article 4.



- Leonard Marsh proposed living standards that “...should cover the costs of bare ‘essentials for health and self respect.’”⁴
- Amartya Sen “... free from public shame.”⁵
- Economic Council of Canada “...certain goods, services and conditions of life ... accepted as basic to a decent minimum standard of living”.⁶
- Council of Europe “...exclude them from the minimum acceptable way of life”.⁷
- Sarlo “...the nature and quality of the items fulfilling the basic need will be that which is considered acceptable and 'decent' in one’s own society.”⁸

I suggest including the definition of poverty used by the UN Committee on Economic, Social and Cultural Rights, as follows:

“A human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights”

In these examples, a sense of what is decent is central to defining poverty. But this view reference to decency is not universal. Rowntree’s work on the poverty-level standard of living reflected his late 19th Century England: “Nothing must be bought but that which is absolutely necessary for the maintenance of physical health, and what is bought must be of the plainest and most economical description”.⁹

⁴ As interpreted from Scott, K. and B. Haggart (2008): “Poverty and Low Income in Canada: Definitions and Measures” Canadian Council on Social Development; July 2008; (prepublication manuscript), 8.

⁵ Sen, 167.

⁶ As quoted from Osberg, L (2007): “The Evolution of Poverty Measurement - with special reference to Canada” February 2007, 3.
<<http://myweb.dal.ca/osberg/classification/research/working%20papers/The%20Evolution%20of%20Poverty%20Measurement/PaperFebruary9The%20Evolution%20of%20Poverty.pdf>> Accessed 19 Nov 2008.

⁷ As quoted from Rio Group (2006): *Compendium of Best Practices in Poverty Measurement* United Nations Statistics Division, Expert Group on Poverty Statistics, United Nations, Sept 2006, 124.

⁸ Salo, C (2008): “What is Poverty? Providing Clarification for Canada” Fraser Institute Digital Publication, May 2008, 4. <http://www.fraserinstitute.org/commerce.web/product_files/What_is_Poverty.pdf> Accessed 19 Nov 2008.

⁹ As quoted from Mendelson, M (2005): “Measuring child benefits: Measuring child poverty” Caledon Institute, February 2005, 33.

There is a choice between seeing poverty as only an inability to meet physical needs or an inability to meet social needs as well. One important social need is autonomy; the ability to make choices. Many food banks provide food baskets where the beneficiary has no choice in their food – they are not shopping. Arguably, physical needs are being met by food banks although limited fresh fruits and vegetables have consequences in poorer health. Certainly the human need for autonomy is not met. Those who consider poverty eradication to be simply about meeting physical needs, will consider autonomy irrelevant. Others will argue that choice is basic to autonomy and that itself is a basic human need¹⁰.

Perhaps not by design, but one consequence of poverty is a social exclusion from the forces that drive your life. Social policy is researched and developed by a research elite that has little contact with poor populations. Similarly, public programs are designed and administered by a bureaucracy, which has little awareness or experience of poverty. Social benefits are often administered in such a way that public assistance increases one's standard of living immediately, but actually makes the escape from poverty more difficult¹¹.

These social aspects of poverty – defeatism, loss of autonomy and isolation from public policy determination – are important, but will likely not be part of the measure of poverty. The are social consequences of poverty which are important; loss of autonomy and social isolation can lead to despair, defeatism, which then become reinforcing factors making difficult the 'escape from poverty'.

The emphasis on a basic physical needs measure is reflected in more recent work by Sarlo for the Fraser Institute. For his Basic Needs Measure (BNM), poverty is the minimum income required to meet basic physical needs such that "poverty means that people do not have all of their basic physical needs and only a "necessities" approach is useful or valid in measuring its incidence".¹²

However, in his May 2008 paper, Sarlo states:

*While the list of basic needs remains constant over time and between nations, the nature and quality of the items fulfilling the basic need will be that which is considered acceptable and 'decent' in one's own society.*¹³

Thus, even the most rudimentary measure of poverty, one that identifies the minimal standard of living, refers to what is decent in society.

It should be noted this Basic Needs approach advocated by the Fraser Institute since about 1993 has not been widely used. Some researchers consider it "too low". Sarlo decided that his poverty

¹⁰ After all, prisons meet one's basic physical needs while denying autonomy.

¹¹ The "welfare wall" and other clawbacks have been well documented (cf. Caledon, 2001; Shillington, 2003; Stapleton, 2007).

¹² Sarlo, C (1996): *Poverty in Canada* 2nd Edition, The Fraser Institute, 1996.
<http://oldfraser.lexi.net/publications/books/poverty/chapter_4.html> Accessed 24 Nov 2008.

¹³ Sarlo (2008), 3-4.

measure would not be based on notions of acceptability, so perhaps it is understandable this Basic Needs Measure is not widely used. Therefore, one's definition of "decent" varies because the minimum acceptable for survival is not necessarily decent for one's society.

The public debate about what is meant by "poverty" has been long and contentious. Why so? Perhaps exactly because the concept implies what is "socially unacceptable". The concept of poverty defines those who are "poor" but equally, those who are "not poor" and therefore defines social conditions that are "not acceptable" and those that are "acceptable". Labelling something as unacceptable is contentious because it implies the need for government programs to address this problem.

An understanding of what poverty is, and hence what is acceptable, can be arranged from least to most generous. These would define poverty as the income needed for:

- Basic Physical Needs - poverty is the inability to meet basic physical needs (Fraser Institute);
- With limited Social Participation – "between the poles of subsistence and social inclusion" – the Market Basket Measure (MBM); or
- Social Inclusion – for participation in society without shame as measured by various deprivation indexes – the LICO and LIM perhaps.

If one accepts that a poverty line identifies resources needed to meet physical needs, then the poverty concept includes some provision for basic physical requirements. To accept a poverty concept that includes the need for social participation without shame, a relative component is required. The standard of living, at the poverty line, can't be too far below the social norm because it would impede social participation or attach shame to the individual. Understood this way, poverty is related to inequality but is not equivalent to inequality.

Inherent in our concept of poverty are degrees of poverty. Some people can be "more poor" than others. For policy analysis, it is useful to be able to assess the amount of poverty not just in terms of the rate of poverty or the proportion of the population deemed poor, but also in the depth or degree of poverty. Therefore, in the next section concerning measurement, we are concerned with determining who is poor, and also how poor they are.

Moving from a discussion of the meaning of poverty to a poverty indicator necessitates making compromises. A poverty indicator will be limited by:

- Available data: a poverty indicator which can not be calculated has little practical value;
- A desire for economic rigor balanced by need for simplicity if the policy discussion is to be accessible to non-technicians; and,

- Problems of misclassification; those labelled poor by some measure will often include some who would not normally be considered poor¹⁴.

Child poverty often attracts more media attention, likely because one cannot blame the poverty on some inadequacy of the child; as many would do with the parent. Also, the ideal of ‘equality of opportunity’ is dear in a liberal democracy.

In discussing child poverty one should keep in mind that children happen to live in a family with a low income; they are not ‘in and of themselves’ - poor. They have no income. The data are clear; though many children beat the odds, children are raised in poverty are more likely to do less well in school and in their career.

3 The “Meaning” of Poverty The Definition of Adequacy and Canadian Approaches

Working Paper 2 has a complete discussion of Canadian and international approaches to measuring poverty. Poverty thresholds are generally based on an income threshold (a more detailed discussion is presented in Working Paper 2). Thus, adequacy is set at the income level on the “edge” of poverty.

Most people will recognize that relying solely on income, as a measure of prosperity is an enormous compromise; we are ignoring important resources such as financial assets, home equity, in-kind social benefits, and employer health benefits. This compromise is made, mostly, because data did not exist to account for these resources; existing data could account for some factors but it is not available as regularly as data on income. Data which could account for all these ‘other’ factors do not exist.

The various existing poverty measures are summarized as follows:

Low-Income Cut-Offs (LICO) – these are incomes set where families are spending a substantial share of their incomes on necessities, for example 20% higher than the Canadian norm.

Low Income Measures (LIM) – this cut-off is, for example, 50% of median income adjusted for family size.

Market Basket Measures (MBM) – this cut-off is based on the cost of a basket of goods and services sufficient for a standard of living “between the poles of subsistence and social inclusion” (Giles, 15).

Basic Needs Measures (BNM) – this cut-off is based on the cost of a basket of goods needed to meet the basic physical needs for long-term survival.

¹⁴ They may be low-income, if income is the determining factor, by choice, or temporarily or they may have significant assets.

Once the income threshold for adequacy, or minimum requirements, is set, one must address a number of methodological issues, such as how that standard should vary to account for the differences in resources needed between families to meet the same standard of adequacy. Adjustments are often made to account for:

- Family size and composition;
- Location (i.e., urban/rural categories or city); and,
- Changes over time; reflecting improved living standards or changes in price levels only.

These adjustments are discussed in greater detail in Working Paper #2.

The LIM adjusts only for family size and otherwise does not vary by location within Canada. The LIM is updated each year by Statistics Canada, based on median incomes in Canada.

The MBM and the Basic Needs Measure (BNM) of the Fraser Institute is calculated by geographic region, either metropolitan area or size of community by province.

The two poverty thresholds based on a ‘market basket’ have kept the consumption basket constant over time but have published values based on repricing the goods in the basket.

The LICO and LIM are calculated using both income before tax and income after tax. Statistics Canada tends not to published LICOs based on before-tax income. The LIM is reported in before- and after-tax income measures. The MBM is based on its own income definition, as explained in “Existing Measures: Working Paper 2”, while the BNM uses expenditures to determine its threshold and its income definition is also explained in “Existing Measures: Working Paper 2”. In-kind benefits are not used for the determination of income as used by any of the aforementioned Canadian measures.

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