Resources

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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.

The research was assisted immensely by the comments and suggestions of a sounding board (Nate Laurie, Brian Murphy, Bob Rainer, Sheila Regehr, Katharine Scott, Sherri Torjman and Armine Yalnizyan). Regardless, the opinions expressed are those of Informetrica Limited staff preparing the papers.

1 Objectives

The existence of savings and assets can be an advantage for those living close to the poverty line. This paper explores how to include these items within a robust measurement of poverty.

One's resources can have a substantial effect on one's experiences of low income. Understanding resources is also important because a person's resources may affect his or her eligibility for certain programs and services, such as social assistance.

2 Resources and Definitions of Poverty

Most poverty measures examine poverty as a relationship between an individual's income and needs. While these calculations provide a snapshot of one's daily living standards, they ignore the presence of other resources which can affect one's standard of living. One's material resources, including home equity, savings accounts, or fixed assets, can have a large effect on whether or not someone would be considered 'poor' by the average person.

Some definitions and measures of poverty do consider resources. Of note, the definition being used in Ireland is of this form:

> *People are living in poverty if their income and **resources** (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally.*
>
> *As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society.*
>
> Office for Social Inclusion; Ireland

The United Nations Committee on Economic, Social and Cultural Rights also situates poverty in a broader context. The definition notes the multifaceted nature of poverty and specifically mentions an individual's access to resources, as opposed to income:

> *In the light of the International Bill of Rights, poverty may be defined as 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.*
>
> United Nations Committee on Economic, Social and Cultural Rights, 2001

These definitions consider and address resources instead of income, allowing for a more holistic understanding of poverty. Finding ways of measuring an individual's resources, however, proves more difficult than acknowledging their value.

3 The "Measurement" of Resources

Poverty, then, is inadequate income and resources to meet a standard requirement. The various poverty measures in Canada reflect these definitions. Within the measures, however, there are differences in how 'resources' and 'adequacy' are defined. Various groups will differ in defining 'acceptable' income and resources. But this paradigm should assist one navigating the various poverty measures and identifying their differences – how resources are defined and how 'acceptable' is defined.

Currently, three types of poverty measures are used in Canada. These include:

- **Market Basket Measures**, which are based on consumption and a 'market basket' of basic goods and services:
    - Local baskets – Montreal Diet Dispensary; Winnipeg Harvest and Social Planning Council of Winnipeg (Acceptable Living Level)
    - Fraser Institute's Basic Needs and the HRSDC's Market Basket Measure
- **Statistical Measures** based on income with adequacy defined using median income or spending patterns
    - LICO, before and after tax
    - LIM, before and after tax
- **Qualitative Measures**, which examine poverty in a holistic manner and seek to measure 'social exclusion' instead of poverty:
    - Social participation; as in the consistent poverty measure used in Ireland or the more recent Deprivation Index being developed in Ontario.

Ideally, we would like to be able to make objective statements about the resources available to an individual or family, in addition to measuring income, in order to assess the adequacy of the individual or family's total resources in comparison to some criteria of adequacy.

Most broadly one would like to include each of the following:

- Their **income** (including income in-kind such as the results of fishing, hunting and gardening) over an acceptable time interval (usually month or year); less any mandatory income and payroll taxes. One should note that certain individuals would have low or negative income for one year due to losses in the stock market or business. They will often have assets, which suggests they don't fit our notions of poverty. Again, they are usually included as poor because the asset data are not readily available.

- Some assessment of **liquid assets** (i.e., assets that are easy to access, such as cash or investments). Without this, an individual with no income but $100,000 in the bank could be considered poor, although this would not make sense to many people.

- **Non-liquid assets** are most difficult to incorporate into a poverty measure. The most common are pension entitlements and home equity. These are typically ignored in income calculations for two reasons. First, being non-liquid, they are not easy to change into cash; in addition, they are ignored because they are usually not readily available in surveys. There are obviously some individuals who are poor who have pension entitlements and home equity.

- Where an individual is receiving **subsidized or free services** from governments or agencies (e.g., social housing, comprehensive health plans), the funds required for the family are effectively reduced and need to be adjusted in poverty measures.

    - If the service is universal, it could be ignored since no one needs to provide it out of private funds. Thus, Medicare is generally ignored in poverty discussions because it reduces a family's needs but also represents a benefit enjoyed by all.

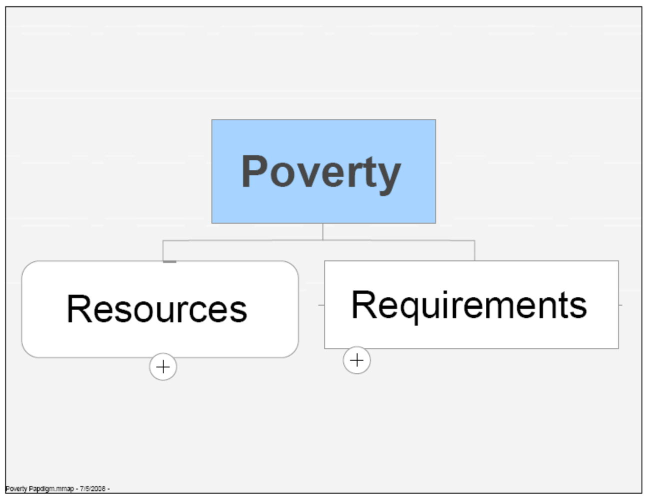
    - Non-insured health needs (e.g., dental care, vision care, drug costs) present a problem since they are provided to some individuals as a health benefit through their employers; subsidized by their employer and the income tax system. One could either include the employer's and tax system's subsidy as income in-kind or reduce the income requirements of families receiving health benefits. The fact that fewer low-income families have employer health benefits means that it is important to determine how these costs are managed.

    - Subsidized housing reduces shelter costs for a portion of Canadians. Again, the subsidy can be included as an income amount or subtracted from their income requirement.

- Similarly, childcare subsidies can be included in income or subtracted from income requirements.

We are not trying to quantify the standard of living for each family; rather, we wish to broadly quantify the average income, including non-monetary benefits.

Poverty exists where resources are less than the requirements for adequacy, therefore, poverty measures must attempt to determine individual needs and collect data to measure the resources people have to meet these needs.



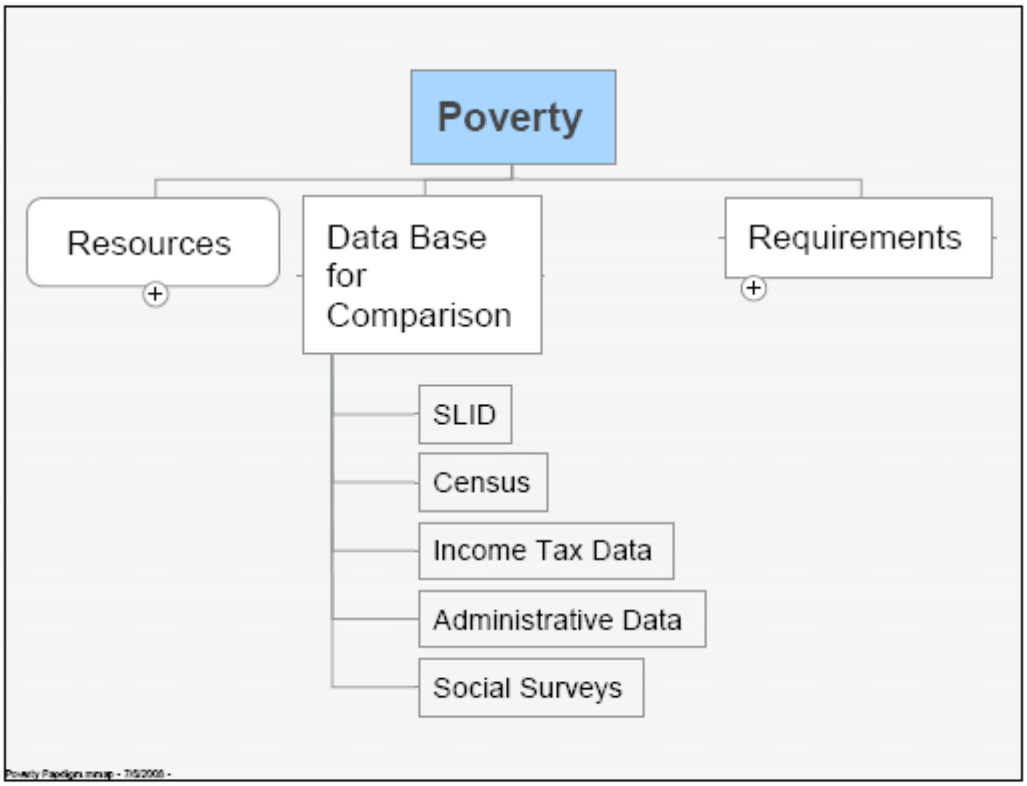
The base for comparison of data is added to the above schematic to remind us that our ultimate goal is to publish credible data on 'poverty rates'. As such, some survey database is needed which can be used to compare an individual's resources, however defined, to their requirements, however defined, and determine an estimate of the number of 'poor' and the poverty rate.

The amount of available data will vary based on the poverty definition used, and by the surveys available that include the statistical measures for resources and requirements. To illustrate this issue: the 2006 Census was the first Census that allowed respondents to grant permission for Statistics Canada to access their income tax data to determine their income after tax. Previous Census questionnaires left the burden of reporting income to the survey taker. Of note, any poverty measure based on after-tax income using the 2006 Census cannot have historical values.

Statistical reports on poverty currently use the following Statistics Canada surveys:

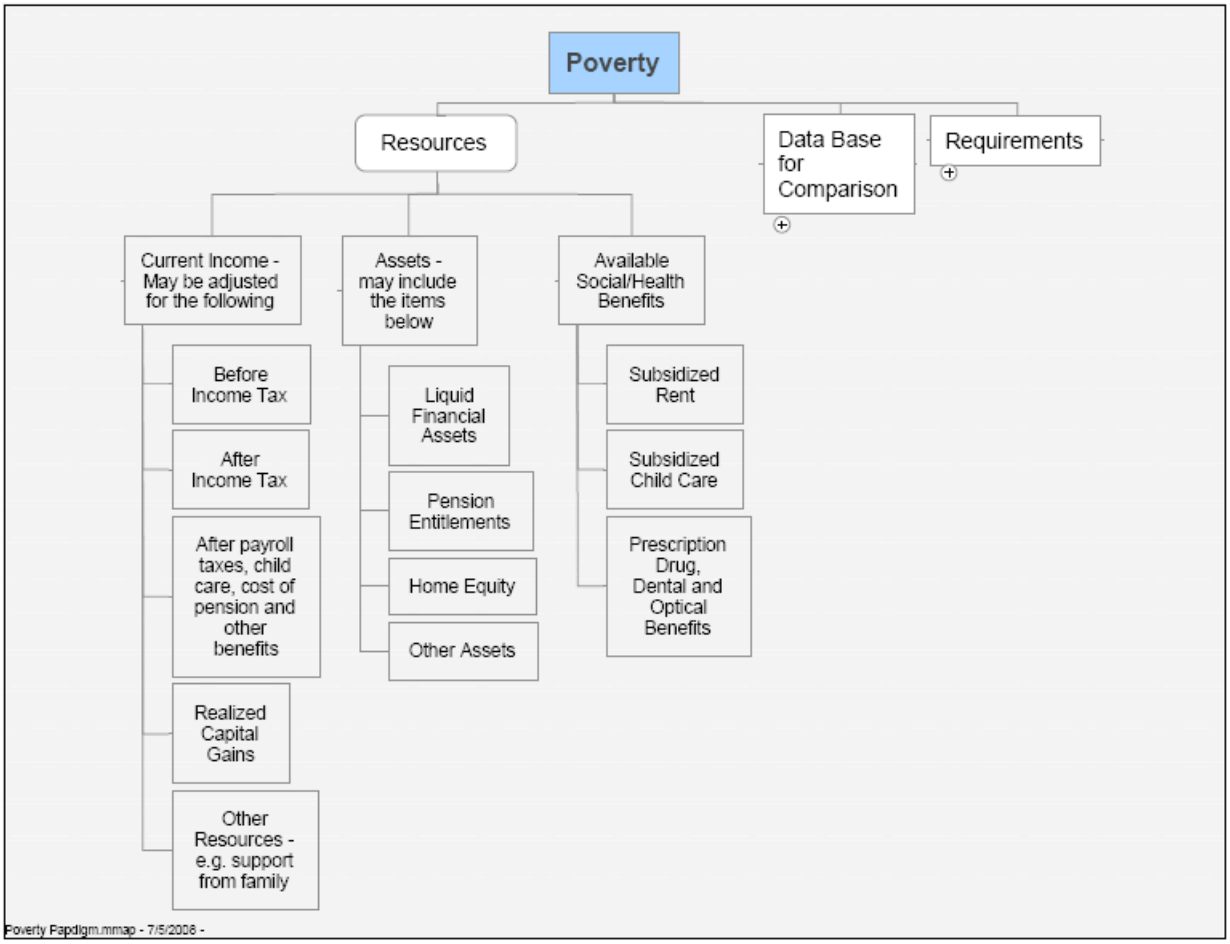
- Survey of Consumer Finances (discontinued in 1996),
- Survey of Labour Income Dynamics (SLID);
- Longitudinal Administrative Database (LAD); and

- Census data.



3.1 Defining "Resources"

As part of this project, the 'Resources' module will be expanded and described so the reader will understand the choices made in its definition. Resources usually include income, which can be defined in various ways. It can also include assets, although this is not usually done, as well as non-financial supports such as subsidized rent and other benefits. As illustrated in the schematic, several adjustments could be made, and some would argue should be made, to income such that assets and access to benefits are considered as 'Resources'.



3.2 Defining "Requirements"

Definitions of one's 'requirements' are based on some concept of what is 'minimally acceptable.' There are a variety of opinions on what exactly 'minimally acceptable' means and how it should be determined. Should a poverty measure define minimally acceptable based on one's 'basic needs for survival' as advocated by some, or reflect 'social inclusion' (i.e., being able to "achieve adequate participation in communal activities … and be free from public shame from failure to satisfy conventions."[1]) as argued by others?

Discussing 'adequacy' raises the comparison of absolute and relative measures of poverty, which tend to be respectively market basket approaches (what is acceptable is based on a basket of goods and services) and what are so-called relative approaches (which sets adequate in comparison to a norm; for example, half of the median).

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[1] Sen, A (1983): "Poor, Relatively Speaking" *Oxford Economic Papers, New Series,* Vol. 35 No. 2, July 1983, 167. For a full discussion of social inclusion, refer to Working Paper 1 – The Meaning of Poverty.

Compromises in the definitions of resources and requirements are necessary to allow us to measure poverty even roughly. A rough measure, so long as its limitations are well understood, is certainly better than no measure.

Implicit in this aggregation are some assumptions that are often violated:

- Individuals within a family share resources. Clearly, this is violated where one family member does not have access to the family income. There are often poor individuals living in non-poor families.
- Resources are shared between units that are separate families. University students will often be classified as poor due to low income; yet many receive financial support from parents, which is not included in 'income' as collected by Statistics Canada.
- We have good information on family incomes, but information on assets is more difficult to obtain. The Statistics Canada surveys on Assets and Debts are occasional; three data sets are available, covering 1984, 1999 and 2005. It is likely that there are very few families with very low incomes, low enough to be classified as 'poor' who would have significant financial assets that can be spent easily.
    - The equity in a home may sometimes be significant, but again this is rare. It is plausible that low-income individuals may own a modest home, but would have difficulty utilizing any perceived equity. This is not to argue that the mythical low-income single senior living in a luxurious home does not exist, but only to say these cases are rare enough that they would not distort the poverty statistics as published.

There are three broad resources that we might wish to include in assessing whether a family is poor; these include income, assets and access to subsidized benefits.

Virtually all poverty measures in use in Canada use income, or income after taxes, as a measure of one's available resources. This is not because researchers have concluded that other factors such as assets and subsidies are not valuable, but rather because the data which could be use to include these in a poverty calculation are either never available or available so infrequently that that poverty statistics could not be produced on a regular basis.

3.3 Choices

When determining what will be included in poverty measures, one must consider what variables will be used. How will incomes, prices, demographics and financial information be compiled? What will be included and excluded? These questions have been answered differently depending on the context: they vary between nations and organizations, as well as across time. Despite these variations, as noted, most poverty measures attempt to quantify an "adequate" income.[2]

[2] **Osberg, L (2007):** "The Evolution of Poverty Measurement - with special reference to Canada" February 2007, p. 6

The World Bank, for instance, examines poverty across many countries with disparate average incomes and standards of living. As such, comparisons based on income prove difficult for cross-country comparisons. Therefore, the World Bank uses consumption, which, it argues is more closely related to a person's well-being; is not affected by seasonal fluctuations in income; and also reflects scarcity and mass deprivation by providing a measure of the availability of goods for consumption.[3] In developed countries, however, measures tend to focus on some type of comparison between resources and needs.

In 2006, the European Union adopted common indicators for measuring social inclusion and deprivation, using fourteen indicators which touch on three key themes, namely social inclusion, pensions, and health and long-term care. The EU acknowledges that there are no fully agreed upon measures or policies for examining poverty and social exclusion, so a variety of indicators are used to describe poverty and deprivation. These indicators include a definition of low income which is set at a 60% of the median household income, as well as indicators examining unemployment, persistent poverty, and education. Of note, the EU plans to include indicators for material deprivation and poverty, but these have not yet been developed.[4]

In the United States, the official poverty measure, which was developed in the 1960s, does not account for many social benefits. The measure determines poverty based on a calculation of deprivation derived from comparing emergency food budget data with the portion of income a family spends on food. Only money income is measured in this poverty rate. While government cash subsidies to individuals are included in income, and therefore in the poverty measures, other supports – such as food stamps, Medicare, employer-provided health insurance and housing subsidies – are all excluded from the calculation.[5] As this official measure is often criticized, other measures have been developed.

The United States Census Bureau has published alternative poverty indices which vary from the official poverty rate since 1979. Various variables are changed in these unofficial calculations to produce 17 different income definitions: some use after tax income, some include in-kind and non-monetary benefits, and others deduct some work-related expenses.[6] These measures tend to show lower levels of poverty. The US National Academy of Sciences (NAS) has also published

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<http://myweb.dal.ca/osberg/classification/research/working%20papers/The%20Evolution%20of%20Poverty%20Measurement/PaperFebruary9The%20Evolution%20of%20Poverty.pdf > Accessed 19 Nov 2008.

[3] **World Bank** (2009) *Poverty Analysis – Defining Welfare Measures*, World Bank, 2009. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242876~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367~isCURL:Y~isCURL:Y,00.html> Accessed 29 January 2009.

[4] **European Commission** (2006): *Portfolio of Overarching Indicators and Streamlined Social Inclusion, Pensions and Health Portfolios*, Brussels: European Commission, p 10, 13.

[5] **National Poverty Center** (2009): *Poverty in the United States: Frequently Asked Questions*, National Poverty Center, 2009. http://npc.umich.edu/poverty/>. Accessed 29 January 2009.

[6] **U.S. Census Bureau** (2003): *Alternative Poverty Estimates in the United States: 2003,* Washington: U.S. Census Bureau.

an alternative poverty rate since 1995, which contains different definitions of both ‘income’ and ‘need.’ Of note, the NAS’s measure shows a poverty rate slightly higher than the official rate.[7]

[7] **National Poverty Center** (2009)

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