# A CRITICAL ASSESSMENT OF CANADA'S OFFICIAL POVERTY LINE

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# Executive Summary

In November 2018 the Liberal government selected an existing low-income indicator as Canada's first official measure of poverty. The government chose this indicator, the Market Basket Measure (MBM), to play a key role in the government's new Poverty Reduction Strategy by allowing it to track progress towards its goals. Specifically, the government set a target to reduce poverty by 20 percent by 2020 and to fully halve the poverty rate by 2030.

This study critically examines the newly established "official poverty line" as it has been laid out since its origin in 1998 and in the various revisions, especially the latest version in Djidel et al. (2020) entitled *Report on the Second Comprehensive Review of the Market Basket Measure*. This assessment looks at both technical and conceptual issues with the poverty measure and finds that there are serious concerns in both areas.

Right from the beginning, the MBM was intended to be a compromise measure between the prevailing relative measures of low-income produced by Statistics Canada and a newer basic needs budget basket measure produced by Christopher Sarlo and the Fraser Institute. The MBM developers listed an array of goods and services without which, in contemporary society, a person would not be "creditable." Over the past 20 years as the measure has evolved that description has been rephrased to the more commonly used "inclusion" or "participation" and it is operationalized as a "basic, modest, standard of living."

Among the technical concerns with the MBM are a striking lack of published detail about the construction of many of the components and their revisions (research transparency) and an inconsistent methodology. That is, some components are estimated using expert judgements (food and clothing, for example), while others (like shelter, transportation, and the "Other" category), are wholly or in large part estimated as a percentile in the distribution of consumption. There is no coherent approach. Shelter costs increased dramatically in the 2018 revision driven in large part by the results of a flawed, online survey. The latest published poverty lines are expressed (but not labelled) as levels of disposable income that a family of four would need to avoid poverty. This lack of clear labelling serves to mask the levels of total income required to avoid poverty. For example, the

poverty line for a family of four in Winnipeg in 2018 is $44,000. However, given the stringent definition of disposable income used (deduct taxes, CPP, EI, and RPP payments, union dues, support payments, daycare, out-of-pocket medical costs, etc.) a family would have to earn about $60,000 to avoid poverty. The lack of any mention of the possibility of inaccurate or understated raw data—as if the data drawn from the census and other surveys are perfect—and the rather obvious attempt to predetermine the approximate poverty rate by a series choices relating to the distribution of consumption are both surprising. Specifically, the MBM team appeared to want to situate the ultimate rate of poverty somewhere within the second decile of the distribution of incomes.

The more important concern with the MBM as our official measure of poverty is conceptual. By choosing to define poverty as a condition in which a person is unable to acquire a living standard needed to integrate and participate in society, the government has rendered poverty un-measurable. There is simply no way to credibly assign an income (or a basket of goods) that will assure "participation," in large part because of the widely divergent interpretations of participation or inclusion. It is arguable whether income is even as important as other attributes (like intelligence, attractiveness, self confidence, and self sufficiency) to the goal of inclusion.

As of the latest (2020) revision, the MBM line has increased substantially (due largely to higher deemed costs of shelter) so that families of four in most urban centres in Canada would have to have total incomes in excess of $60,000 to escape poverty. This, I suggest, is not a reasonable line for poverty. It bears no connection to the understanding of poverty that most people have (as cited in the paper), which relates to the lack of basic necessities, and bears no connection to the way journalists and politicians routinely describe people in poverty (hunger, material deprivation, suffering). It is predictable, however, that social justice activists are not satisfied with the level of the MBM and want more items included in the basket.

The framers of the MBM have chosen to focus on inclusion. My suggestion is that they focus on real deprivation and employ a second measure as a goal for the poor just as all nations, including Canada, did when they convened in Copenhagen in 1995. I believe that we should want to know how many of our fellow Canadians cannot cover their basic needs. I think that most Canadians would find that to be vital information and that they would expect their government to care about that as well. A "basic, modest" standard of living is not a poverty line. Indeed, it is likely a standard to which many poor people aspire.

# Introduction

In early November 2018, the Liberal government of Canada introduced in Parliament a Bill (C-87) entitled the Poverty Reduction Act. A clause in that legislation establishes Canada's first ever official poverty line (the Market Basket Measure) in order "to measure the level of poverty and to assess progress towards meeting established targets." It further charges Statistics Canada with the task of calculating and publishing the relevant information relating to the poverty line and the rate of poverty but also of reviewing the measure on a regular basis "to ensure that it represents the cost of a basket of goods and services in keeping with a modest, basic standard of living" (Library of Parliament, 2019).

The official poverty line is, fundamentally, intimately connected to the poverty reduction strategy that the government has subsequently laid out. It can be said that the poverty reduction plan has given birth to the use of the Market Basket Measure (MBM) as Canada's official poverty line. So this evaluation must necessarily touch on the poverty reduction strategy to the extent that it is relevant to the nature and use of the MBM poverty line.

Because the government has now designated the MBM as Canada's official poverty measure, it is appropriate that it come under greater scrutiny. This author reviewed the MBM in 2003 in a shorter article (Sarlo, 2003). The examination here is intended to be a more thorough and comprehensive evaluation and one that asks the kinds of difficult questions that government that policymakers should appreciate, if not invite.

It is important to note that, while the official poverty line is central to the government's efforts to track the progress of their poverty reduction strategy and will undoubtedly get most of the attention from the media, it is part of a "dashboard" of indicators that policy-makers will use. That dashboard (Statistics Canada, 2019a) examines such indicators as unmet health and housing needs, food insecurity (self reported), as well as several purely relative measures showing the degree of inequality. This paper will not examine these other indicators but rather focus exclusive attention on the newly designated official poverty measure—the MBM.

This assessment begins with a discussion of the origin of the MBM in 1998 where a preliminary market basket measure was laid out in sub-

stantial detail. It examines both the structure of the basket as well as the ideas that underpin it. From there, each of the major revisions is described in some detail: in 2002 (establishing the 2000-base MBM); in 2010, establishing the 2008-base MBM; and finally the latest revision in February 2020, which establishes the 2018-base MBM (although this version has yet to be fully implemented). Each version has important changes that need discussion.

After the description and analysis of each version, with special attention to the latest variation, a commentary section examines the issues and concerns with the MBM. This section uses the author's own construction of a Basic Needs Poverty Line (BNL) as a useful comparator. The paper then concludes with a summary of the major issues with the MBM.

# The Market Basket Measure: Origin and Development

During the 1960s, Statistics Canada developed a measure of "low-income"[1] which was to become the de-facto poverty line for the next several decades. While Statscan continued to consistently refer to LICO as a measure of "low-income," activists, journalists, and even some academics used and labelled LICO as a poverty line without hesitation. And, for the most part, Statscan acquiesced in the use of LICO as a poverty line. That is until 1997 when chief statistician Ivan Fellegi issued an unambiguous statement about the LICO and its connection to poverty. He said, by way of summary, "Statistics Canada does not and cannot measure the level of poverty in Canada" (Fellegi, 1997).[2] It is not hard to understand why Statscan felt compelled to issue a clear caveat about the use of LICO as a measure of poverty.

In 1992, the Fraser Institute published a book entitled *Poverty in Canada* by this author. That book aimed to define and measure poverty and set out a detailed methodology for the development of a basic needs poverty line based on a fairly stringent market basket. The book received substantial national coverage and was predictably (and often hysterically) criticized by social justice groups. It certainly re-invigorated the debate about how best to define and measure poverty. The book featured a thorough-going review of the LICO measure and found that it was not credible as a poverty line. This was an important finding because so many individuals and groups (including the media) were using it exactly that way.

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[1]  The Low-Income Cut-Off or LICO was developed by statistician Jenny Poduluk who was, at that time, a researcher with Statistics Canada.

[2]  It is important to understand the context in which the head of Statistics Canada made this statement. The agency regarded poverty as a highly sensitive political matter. Given that, it did not wish to expose itself to the likely controversy that would ensue should the agency itself decide to define and measure poverty. Its view was that this is a matter for the government of Canada to decide; at which point, Statistics Canada could do the technical work to implement a poverty measure *as directed by the government.*

Principally, however, the book introduced a market budget measure of poverty based on the cost of a list of basic necessities such as nutritious food, apartment accommodation, clothing purchased new from department stores, and estimates for transportation, personal hygiene, furnishings and appliances, telephone, household supplies, insurance, and out-of-pocket health care costs. Undoubtedly it is a basic list but consistent with the guiding definition of poverty which is this: *Poverty means lacking sufficient resources to be able to obtain all basic necessities required for long-term physical well-being.* There had been other budget-based guides in Canada at the time but none that attempted to measure poverty.[3]

Perhaps most importantly the book laid out a case for measuring poverty from a basic needs perspective. That case was, I thought, very carefully and rationally developed and was consistent with how poverty was commonly understood. However, I did not fully appreciate that poverty was as much an emotional and political question as it was an economic one.

During the 1990s there was growing dissatisfaction with LICO as a measure of low-income. Of particular importance were the concerns from the provinces about the measurement of poverty as it related to their social policies. "With no clear and agreed upon way to define and measure child poverty, Social Ministers requested… [the development of] a consensus definition of basic needs poverty levels as an alternative to the myriad of existing definitions and particularly Statistics Canada's LICO" (Federal Provincial Territorial Working Group, 1998: 1). "The MBM was developed at the request of these Ministers to complement existing measures of low income in the evaluation of the effectiveness of the National Child Benefit initiative in reducing the incidence and depth of child poverty in Canada" (Hatfield, 2002: 1).

A federal/provincial/territorial working group was established with the task of developing a "poverty" measure that would meet the needs of the provincial ministers and it believed that the MBM met all of the criteria. The framers of the MBM made a clear choice to seek a "compromise" between a (Sarlo-Fraser Institute) basic needs measure of poverty and a higher, relative measure. To understand this choice and the decision to "situate" the MBM between these two conceptions of poverty it is necessary to review the case for each of those ideas.

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[3] For example, various budget guides by social planning councils and the guides for low-income families published by the Montreal Diet Dispensary.

## Poverty as social exclusion

For a relativist, poverty means being less well-off than most others in your community. It means not being able to afford the things that most others take for granted. It means not being able to fully participate in the life of the community because of your low income—even if you can afford the basic necessities. So poverty is about more than just basic needs; it is fundamentally about the lack of social inclusion. Therefore, the best way to measure relative poverty is to connect the poverty line to average or median levels of income or consumption. Statistics Canada, for example, has for many years published the Low Income Measure (LIM), which is set at 50 percent of the median income. In Europe, most countries use a (unofficial) poverty line set as a percentage of the median income. The percentages vary between 40 and 70 percent.

## Poverty as the lack of basic needs

From this perspective, poverty has traditionally been understood as a circumstance of serious and severe material deprivation. To be poor is to have an unsatisfactory, unsustainable, and unhealthy standard of living. Dictionary definitions, reflecting common usage, state that poverty means "want of the necessities of life" (Allen, Fowler, and Fowler, 1990: 934). Indeed, this is exactly the way journalists and grandstanding politicians use the term when they speak of the poor as hungry, ill-housed, and unable to afford appropriate clothing. Those of us who favour this conception of poverty often argue that we should all want to know how many of our fellow citizens cannot afford to acquire all of their basic needs.

Why is this particular threshold (basic needs) so important? It is important because we expect that something noticeable happens to people when they fall below that threshold. If you are several hundred dollars below the (basic needs) poverty line, some need or portion of basic need must be sacrificed. Perhaps it means hunger for a family member or, more likely, a substitution to cheaper, less healthy foods. Perhaps being below the poverty line means renting an unsatisfactory apartment unit or being unable to replace worn-out shoes or clothing. Essentially, it means compromising or putting at risk longer term physical well-being, and that is a problem. If we contrast that with a situation where someone is a few hundred dollars below a relative line, we are not sure that anything material happens. It is unlikely that health or longer term physical well-being will be affected.

It is notable that a UN-sponsored international social development conference in Copenhagen in 1995 examined this issue of the two different conceptions of poverty. In the end, all nations (including Canada) signed onto a declaration. The declaration required signatories to measure both absolute (basic needs) and relative poverty, but to commit to eradicate absolute poverty by a target date specified in each country given its national context. It is pretty clear what was considered to be the priority for both the framers of the declaration and its signatories. Despite that, Canada and other nations have done little to fulfill their commitment regarding the measurement and elimination of basic needs poverty.

Advocates of the basic needs (or more absolute) approach argue that a poverty line should not be a measure of our compassion or, specifically, of what we want for the poor.[4] Further, the poverty line should not be viewed as a social support level as that involves a different set of questions. Rather, it should focus on a measure that carefully and defensibly distinguishes between the poor and the non-poor.[5] For the purpose of measurement, policy questions should be set aside. In addition, there are also concerns about the measurability of "inclusion" or of "full participation" that will be left for later.

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[4] If it was, surely we would want it to be far higher than all of the lines suggested by relativists.

[5] For a more comprehensive treatment of the case for a basic needs kind of poverty measure and a critique of purely relative measures, see Sarlo (2013: 2-8).

# The MBM Conceptual Foundation

The framers of the MBM made it clear that they wanted their poverty measure to "lie between" the two leading approaches. They rely on Adam Smith's notion of "creditability" as the foundation of their conception of poverty. The idea is that even people of the lowest order (Smith's wording) still need certain things beyond the basic necessities in order to "fit in" or be seen to be respectable or "creditable." The MBM, then, is an attempt to situate poverty as a condition somewhere above basic needs but below full social inclusion. The original document that outlined the preliminary construction of the MBM states that there is no clear consensus on the meaning of poverty and its appropriate measure. So "the notion of creditability perhaps has the potential to create a pragmatic compromise" (Federal Provincial Territorial Working Group, 1998: 5).

The more recent versions of the MBM have refined the notion of creditability to represent "a modest, basic standard of living" (Hatfield, Pyper, and Burton, 2010: 1) or, put another way, "The MBM is calculated based on the costs of a basket of goods and services that individuals and families require to meet their basic needs and achieve a modest standard of living" (Heisz, 2019: 3). Clearly, different people will have different ideas of what constitutes a "modest" standard of living. The authors of the MBM lay out their version of a modest, basic living standard in a paper which revised the MBM (Hatfield, Pyper, and Burton, 2010) and more recently in a 2018 update after it was selected as Canada's official poverty line.

In terms of the detailed construction of the MBM, it broadly follows the approach of any market basket. It begins by suggesting a methodology for costing out the core necessities of food, clothing, and shelter and then deals with other necessities independently. It is important to note that the MBM underwent a thorough review and revision, the results of which were published in 2010. It is currently undergoing a second review and revision that is expected to be implemented later this year. The discussion paper related to the second review is now available and is examined below. So, we have three versions of the MBM to discuss: The original MBM construction as outlined in the 1998 report and updated in Hatfield (2002), the revised version as set out in Hatfield, Pyper, and Burton (2010), and the latest version (in Heisz, 2019 and in Djidel et al., 2020). There is broad similarity in the three versions but also some notable differences which affect the level of the MBM line.

# The Nature and Structure of the Market Basket Measure

## 1) The 1998/2002 version

The original construction of the MBM was laid out in the 1998 report, *Construction of a Preliminary Market Basket Measure of Poverty,* by the Federal Provincial Territorial Working Group tasked with designing the MBM. By 2002, the working group led by economist Michael Hatfield had set out the procedures and methods for calculating the MBM for the reference family of four in various parts of Canada. The 2002 "update," *Constructing the Revised Market Basket Measure,* contained some important revisions and changes to the original construction. However, the essentials were unchanged. This early version involved calculating the costs of acquiring a basic but modest living for a standard family of four (two adult parents and two children). Originally, it had four components: food, clothing, shelter, and other goods.

For food, it adopted the estimates provided by the National Nutritious Food Basket (NNFB), which Health Canada managed and calculated with assistance from Statistics Canada. The 1998 version of the NNFB was used for that first calculation of the MBM and subsequent revisions of the NNFB were employed in later MBM versions. In choosing the NNFB as their standard for food, the working group wanted to ensure that "the basket reflected food purchasing patterns of urban Canadian families and current nutrition recommendations" (Federal Provincial Territorial Working Group, 1998: 7). And, in the revised 2002 construction, the authors specify where exactly the food basket is positioned in terms of contemporary community standards. "It is neither 'an ideal diet' nor the cheapest diet that meets nutritional requirements. Instead it represents a nutritional diet which is consistent with the food purchases of ordinary Canadian households… it is designed to be socially acceptable" (Hatfield, 2002: 3).

For clothing, the MBM framers began by using the estimates from the Social Planning Council (SPC) of Metro Toronto for clothing and footwear. It then proposed to take 75 percent of that value as its standard.[6]

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[6] The SPC estimate at that time was actually about the same as the average spending

However, in the 2002 "Construction" paper, the working group shifted away from the Toronto SPC estimates and adopted the estimates of the Winnipeg Social Planning Council budget guide for clothing and footwear in their Acceptable Level of Living (ALL) basket. There is no explanation for this substitution. They do point out that these estimates reflect a standard "similar to that aimed for by the MBM" as it "reflected an effort to provide clothing and footwear for most common work, school and social occasions" and it "had significant input from low-income persons" (Hatfield, 2002: 3).

So for several years, the clothing and footwear components of the ALL served as interim specifications for the MBM. Then "relative spatial price indexes" were used to determine clothing and footwear estimates for other communities in Canada. However, when the working group looked at the actual spending by Canadians on clothing and footwear, they found an alarming discrepancy. "[T]he cost of the clothing and footwear component of the ALL basket in Winnipeg represents expenditures on clothing and footwear by the *seventh* decile of reference families. This is above the standard of consumption aimed at by the MBM" (Hatfield, 2002: 5). This is an interesting development and one that we will return to later. The working group looked for a replacement for this component and that will show up in the next revision.

For shelter, in the original construction, "the standard for adequate shelter for the reference family (of four) was defined as a three bedroom apartment" and "the standard cost was defined as the median rent for such an apartment as measured by the Canada Mortgage and Housing Corporation (CMHC)" (Federal Provincial Territorial Working Group, 1998: 10). The CMHC conducts rent surveys every October for privately initiated apartments (three units or more) in Canada. The CMHC publishes this rent data as well as vacancy and new construction information in printed documents (in the 1990s) and more recently on their website. So the CMHC was deemed to be a reliable and common source for this kind of information.

However, by the time the working group was producing the actual estimates, they had substituted census and Statscan surveys (of household spending) in place of the CMHC source. The explanation was that these

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on clothing and footwear for a family of four as determined by the Family Expenditure survey (FAMEX) conducted by Statistics Canada. Presumably, MBM researchers felt that a "low-income" threshold must have an estimate for clothing somewhat below the average spending by Canadians. There is no explanation for the choice of 75 percent other than the statement that they used a standard "where persons had sufficient quantities and variety of clothing to fully participate as members of the community in normal activities at work and socially" (Hatfield, 1998: 9).

other sources were able to provide more data on whether rents included utilities or not, which was an important feature. More importantly, we note the change in the acceptable standard for rented accommodation. Initially, it was suggested that a three-bedroom unit was the standard for a family of four. Now, the standard is a mix of two- and three-bedroom units—reflecting the fact that actual renting families of four are about evenly split between two- and three-bedroom apartments. Subsidized rental units were included in the calculations.

A fourth component of the MBM, not included in the 1998 report, was transportation. The working group obviously determined that this category was sufficiently important to be a component on its own rather than be lumped into the "Other" category. So for urban centres well served by public transit, the MBM standard for transportation is a monthly bus pass for each adult and one monthly taxi ride. For smaller urban and rural areas, the standard is the cost of operating a five-year-old Chevy Cavalier including all normal maintenance, oil, gas, licenses, insurance, etc.

The determination of "Other" costs in the Market Basket measure (MBM) is, arguably, the most contentious component of the basket. Rather than cost out actual other necessities (like household supplies, telephone, personal hygiene, furnishings, out-of-pocket health care costs, etc.) that would need to be acquired to prevent poverty, the framers of the MBM decided to use a simple multiplier for these costs. In the 1998 report, the authors argued as follows for the "multiplier": Based on the budget guides of five SPCs (in major Canadian cities) it was determined that the cost of these other items was, in aggregate, about 60 percent of the cost of food and clothing combined for the reference family. So to calculate "Other" costs in each province and each community examined, the working group used a multiplier of .6 (Federal Provincial Territorial Working Group, 1998).

It is important to note the kinds of necessities that are included in the Other category as it is substantially more expansive than, for example, a basic needs list. According to Hatfield (2002), the MBM poverty line includes the following additional items in the Other category: school supplies, postage, religious and charitable donations, a newspaper subscription, video rentals, YMCA membership, magazines, books, and tickets for movies and sports events.

While there is no mention of the amount of the multiplier in Hatfield (2002), the manner of its calculation is specified and, as it turns out, has changed substantially from the determination just four years earlier. Instead of examining the average cost of the commodities in the Other category in the SPC budgets of major Canadian cities, now this "multiplier for other goods and services" will be calculated for each year using the detailed micro data from Statistics Canada's Survey of Household Spending.

The second decile was chosen as the reference level "because since 1980, the low-income rate for the reference family (4 persons) using Statistics Canada's pre-income-tax Low Income Cut-offs, has never exceeded 15%. The 15th percentile is the mid-point of the second decile" (Hatfield (2002: 7). This suggests, pretty directly, that the framers of the MBM are looking to situate their poverty measure at about the 15th percentile of the population which would mean, obviously, that about 15 percent would be classified as poor. This begs the question: Why go to all this bother of a very detailed construction of a poverty line? Why not just set the MBM at the 15th percentile?

The upshot of these calculations is that each of the five components of the MBM is estimated for the reference family. So we can determine, using a hypothetical example, the MBM poverty line.

### Hypothetical example of MBM calculation for family of four:

| | |
|---|---:|
| 1. Estimate for the annual cost of food | $10,000 |
| 2. Estimate for the annual cost of clothing (including footwear) | $3,000 |
| 3. Estimate for the annual cost of shelter | $12,000 |
| 4. Estimate for the annual cost of transportation | $3,000 |
| 5. Estimate for the annual cost of other needs (60% of 1 + 2) | $7,800 |
| MBM line for family of four | $35,800 |

The MBM authors claim that, because "the standards for food, clothing and shelter appear to fall close enough to average consumption levels for these three basic items, we can be confident they represent creditable standards of living" (Federal Provincial Territorial Working Group, 1998: 12). They further claim that their estimate of other expenses (based on the 60 percent of food and clothing) is a reasonable approximation of community norms and therefore consistent with the creditable standard of living. Overall, given the construction and the accompanying rationale, the authors assert that someone living at the MBM level would have a standard of living consistent with community norms or "creditability."

Once the MBM line has been calculated for the reference family for each community using the costs (or relative price index ratios) unique to that area, lines for households of other sizes are calculated using equivalence scales. The LIM equivalence scale is used here to determine the MBM lines for households of other sizes.[7] Finally, these lines must be

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[7]  The appendix at the end of this paper has a useful explanation of equivalence scales and how they are used in the study of poverty.

compared to the incomes of Canadian households in order to estimate the amount of poverty. The framers wanted to find the "income available to purchase the goods and services within the basket" (Federal Provincial Territorial Working Group, 1998: 17). They make the following deductions to get to their conception of "disposable" income:

- Income taxes
- EI and CPP contributions (payroll taxes)
- Child support payments made by non-custodial parents (which is added to the income of custodial parents)
- Out-of-pocket child care expenditures for working parents
- Out-of-pocket medical expenses (like prescription meds, vision care, dental, disability expenses, etc.)

## 2) The First Comprehensive Review of the MBM (2008 version)

The authors of the 2008 (base) version of the MBM (see Hatfield, Pyper, and Burton, 2010) emphasized that the place of the MBM within the group of low-income measures developed at Statscan was as a budget or market basket-based measure that could be easily understood by people in contrast to the LICO and even the LIM. "The 'value added' of the MBM was to provide a more intuitive and transparent measure of low income based on a basket of goods and services representing a modest, basic standard of living (food, shelter, clothing, footwear, transportation and other common expense such as personal care, household needs, furniture, basic telephone service, school supplies and modest levels of reading material, recreation and entertainment)" (Hatfield, Pyper, and Burton, 2010: 1).

The Hatfield, Pyper, and Burton (2010) review and revision of the MBM began with, apparently, a thorough-going series of consultations not just within the federal government, but between governments at the provincial and territorial levels and with experts in the area of poverty measurement. The authors point out that at each stage, useful insights were provided for consideration and some were retained as part of the revised version of the MBM. Among the most noteworthy changes were the following.

First, a decision rule was established for adding new items to the basket. In order that the MBM "basket" continue to embody a modest basic standard of living in the Canadian context (Hatfield, Pyper, and Burton, 2010: 1), some changes, including changes in the content of the basket, might occasionally be required. So, the decision rule was intended as a guide for future additions.

There are two components to the decision rule:

1.  The numerical standard for including new items in the basket is that 70 percent of reference families nationally and in seven of the ten provinces with at least two-thirds of the national population had expenditures on the item in question; and

2.  Items considered for inclusion must also meet the test that they contribute to social and economic inclusion and to a modest but basic standard of living in contemporary Canadian society in a way not accounted for in the current basket. (Hatfield, Pyper, and Burton, 2010: 2-3)

So, for example, it was proposed (and accepted) that a computer and internet service be added to the basket in the "Other" category because they easily met the 70 percent threshold for usage. Several other items were proposed but did not meet the threshold for addition.

Second, the multiplier for the "Other" category was not fixed at 60 percent of the cost of food plus clothing but rather allowed to change depending on whether more (or fewer) items were added to this category. Hypothetically, as more items meet the 70 percent threshold (and can been seen as necessary under the social inclusion filter) the Other category could rise substantially from the 60 percent value.

Third, the MBM consultation process "concluded that homeowners without mortgages should be included in the shelter component since, especially in rural and small communities, homeownership without mortgages is common among reference families in the lower part of the income distribution" (Hatfield, Pyper, and Burton, 2010: 8). This presented an interesting challenge because including mortgage-free home ownership would bring shelter costs down significantly. Undoubtedly the concern was that this would present an unrealistically low cost facing most disadvantaged families. At the same time, it is certainly a fact that some poorer families have these lower costs. It was decided, after much discussion, that the shelter costs of mortgage-free owners would be included but only if they have a below-median income.

Other important revisions include:
- the 2008 Nutritious Food Basket replaced the 1998 version and was phased in;
- for the transportation category, a transit pass was added for the 13-year-old child;
- the defunct Chevy Cavalier had to be replaced by a five-year-old Ford Focus and a second adult licensed driver was added; and

- in the Other category, as mentioned, a computer, computer supplies, and internet service were added, having easily met the 70 percent threshold.

It is worth noting that the group decided that the shelter component would maintain the assumption that the appropriate accommodation for families of four would be a split (but not necessarily 50-50) between two- and three-bedroom rented units based on information of actual usage. "After extensive discussion of the alternatives suggested at the consultation with Provincial and Territorial officials it was agreed that the average of median shelter costs for two and three-bedroom dwellings should continue to be the basis for the calculation of the Shelter component of the MBM basket" (Hatfield, Pyper, and Burton, 2010: 10).

Perhaps the biggest challenge the MBM team faced was that of assessing the cost of shelter in cases where families had arrangements whereby their rent was geared to their income. This is not a small issue. There are many hundreds of thousands of subsidized housing units spread right across the country and they significantly lower the cost of living to the families housed in them. This matter is very relevant to the situation of many poor people and to the measurement of poverty. However, no consensus could be reached on how to handle this and so the matter of subsidized housing costs was deferred for the next revision (Hatfield, Pyper, and Burton, 2010: 15).

The MBM team again used a multiplier to determine that value of the fifth category, "Other." However, the multiplier was not fixed at 60 percent, but varied depending upon the guidance provided from the SHS spending data for reference families in the second decile. Hatfield, Pyper, and Burton, (2010) do not discuss where the multiplier typically fell, but later reports show it to be well above 70 percent. The team decided to use a three-year rolling average for the multiplier to reduce annual variability. MBM "poverty lines" are, then, simply the total cost of the five components of spending for the reference family in their particular community. The team then made calculations for each community depending upon whether it was rural or urban—and if urban, what population range it was in.[8] After all the calculations were done, however, it turned out that the post-revision thresholds for the MBM (the 2008 base) were lower than they would have been without the revisions. The shelter component was the main (but not the only) driver of this result. "The combined effects of all the components tended to push the overall MBM threshold levels down across all regions, and for most years. Average decreases over the period

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[8] MBM uses the same population ranges as the LICO has used, that is: Under 30,000; 30,000 to 99,999; 100,000 to 499,999; 500,000 to 1,000,000; and over 1 million.

for most provinces ranged from 3.3% to 7.2%" (Hatfield, Pyper, and Burton, 2010: 48).

The final stage of the process was to determine the disposable income that would be compared to the thresholds and determine which households fall below the MBM, i.e., which are poor according to that standard. The definition of disposable income was expanded somewhat from the previous revision.

## Calculation of disposable income for the MBM

To calculate MBM income, subtract the following from Total Income.

- **Income tax,** that is, federal and provincial taxes on income, capital gains, and RRSP withdrawals, after taking into account exemptions, deductions, non-refundable tax credits, and the refundable Quebec abatement.
- **CPP/QPP contributions** that are deducted from earnings due to paid employment. (*Receipts* from CPP/QPP are included in Total Income.)
- **Employment Insurance (EI) contributions** that are deducted from earnings due to paid employment. (*Receipts* from EI are included in Total Income.)
- **Registered Pension Plan (RPP) contributions** that are deducted from earnings due to paid employment.
- **Union and professional dues** including union dues, fees associated with collective agreements, professional membership dues, and liability or malpractice insurance premiums.
- **Child/spousal support payments** *paid* to a former spouse or partner, as covered by an agreement to pay a fixed amount on a regular basis. (*Receipts* from support payments are included in Total Income.)
- **Work-related child care expenses** incurred for child care which enable the parent(s) or guardian(s) to work for pay.
- **Out-of-pocket medical expenses** for medically recommended health care and equipment.
- **Public health insurance premiums** as required in some provinces.

This is, of course, a more "liberal" conception of disposable income than economists generally use. It captures what the MBM framers believe are the monies available to households to purchase a standard of living. Clearly, different observers will draw the line between discretionary and non-discretionary spending differently. One could argue, for example, in

favour of including auto insurance and licensing on this list for workers in areas not well served by public transit; and if work-related child care expenses are deemed to be so essential as to be unavoidable, why not rent and food? And, curiously, out-of-pocket medical expenses are likely to include medications like Viagra but not supplies and pain remedies related to a woman's menstrual cycle (the latter concern has been recently raised by a Quebec woman's group) (RGF-CN, 2019: 5).

Related to the definition of disposable income for the MBM in regard to the issue of subsidized housing, Hatfield, Pyper, and Burton (2010) suggest that this problem could be handled by adding the differential between actual rent paid and fair market rent to disposable income and then imputing a fair market rent to the economic unit (household). The data required for this to be implemented was deemed to be inadequate and so the matter was put off until the next revision. This paper further discusses this issue later on when it examines the latest revision.
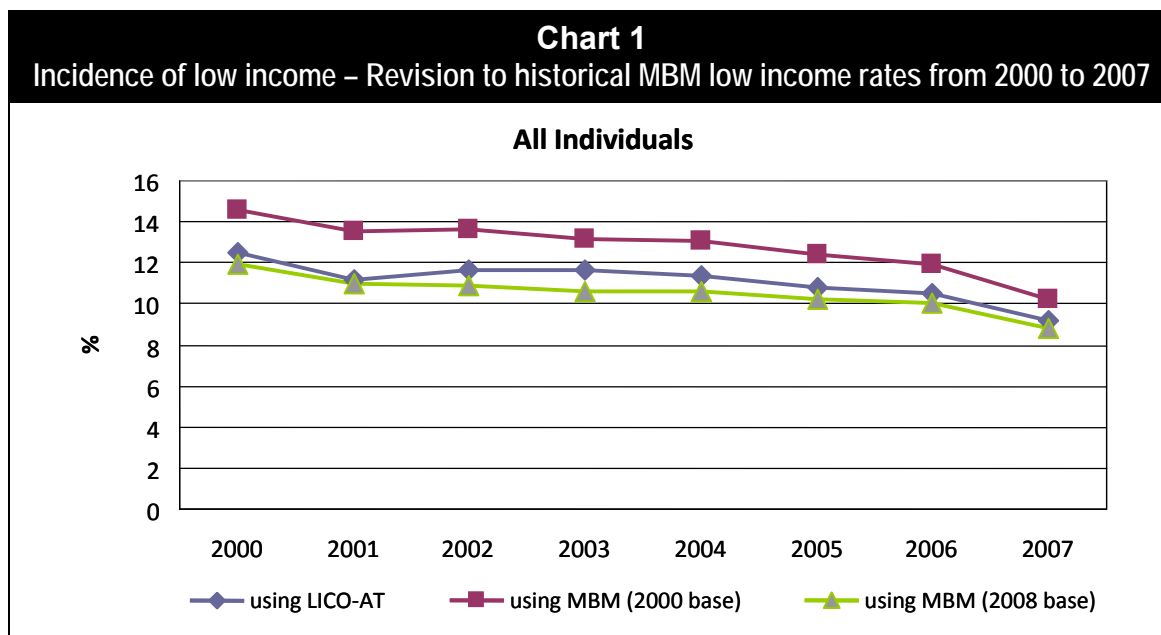
## The Incidence of Low-Income Using the MBM

It is noteworthy that while the original (1998) paper outlining the preliminary construction of the MBM used the term "poverty" frequently when referring to the MBM measure (and also in reference to the LICO measure), the later papers (Hatfield, 2002 and Hatfield, Pyper, and Burton, 2010) have backed off from that usage, consistently referring to the MBM as a measure of "low income." The terminological change could be regarded as significant in light of the later adoption of that same "low-income" measure as an official poverty line.

Figure 1 reproduces Chart 1 in Hatfield, Pyper, and Burton (2010). It shows the trend in the MBM rate of low income for the years 2000 to 2007 comparing the 2000 base with the 2008 base. The chart also includes the LICO (after-tax) rate over the same period.

The MBM (2000 base) rate of low income is higher than that using the revised, 2008 base, as mentioned above. The MBM 2008 base trend actually appears to track fairly closely the LICO rate over the period shown. The downward trend in the rate of low-income, regardless of the base or the measure used, is clear. The revised MBM shows a decline in the low-income rate for all persons from about 12 percent in 2000 to about 8.5 percent in 2007, just prior to the financial crisis and recession.

It is important to emphasize what appears to be an anomalous outcome in both the MBM levels and the rates of low income. Hatfield, Pyper, and Burton (2010) are clear that the revisions of the MBM resulted in a lower set of thresholds than was the case using the 2000 base MBM. This, of course, would lower the rate of low income. "Since the MBM (2008

**Figure 1: Reproduction of Chart 1 in Hatfield, Pyper, and Burton (2010)**



**Chart 1**
Incidence of low income – Revision to historical MBM low income rates from 2000 to 2007

**All Individuals**

using LICO-AT | using MBM (2000 base) | using MBM (2008 base)

Source: Hatfield, Pyper, and Burton (2010): 52.

base) thresholds are lower than the 2000 base for the years 2000 to 2007, the incidences of low income are lower in those years" (Hatfield, Pyper, and Burton, 2010: 61). This is surprising. Given the stated intent of the measure and its construction, one would have expected increases in the thresholds upon revisions and, consequently, higher rates of low income. This issue is taken up again in the commentary section.

## 3) The Second Comprehensive Review of the MBM (2018 version)

In February 2020, Statistics Canada published the report of the second comprehensive review of the MBM. This report recommended a series of changes to the MBM which would increase the poverty line substantially and, consequently, increase the rate of poverty by a significant amount (Dijdel et al., 2020: 8-9).[9] The report allows a period of several months for

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[9] Based on the tables (1 and 2) in the Second Comprehensive Review it appears that

consultations and questions ("engagement with users") after which the changes will be implemented. So, while not completely final, the following analysis assumes that the MBM will be modified as recommended.

Statscan released three discussion papers in the months leading up to the main (Dijdel et al, 2020) report; these papers dealt with various aspects of the MBM (such as shelter costs, transportation, and disposable income) in more detail. Since the methodology of the construction of the latest revision is important to this assessment, I will refer to aspects of these discussion papers as needed.

The food and clothing changes are relatively modest and have little impact on the overall poverty line. The clothing component is again based on the "Acceptable Living Level" (ALL) basket sponsored by the Social Planning Council in Winnipeg. The most recent revised clothing basket "is more contemporary and responds to some concerns regarding the datedness and gender-stereotypes found in the previous basket" (Dijdel, 2020: 12). While there are some regional differences, overall, these changes amount to only a small increase in the cost of clothing. With food, the MBM uses the latest (2019) revision of the National Nutritious Food Basket (NNFB). Here again, the change in cost is relatively marginal and will not materially change the MBM.

With the transportation component, there is a substantial change which serves to increase costs overall. That change is to recognize the widespread use of cars even in urban settings with adequate public transit systems. So, rather than use public transit costs in urban communities in the new calculations, it is proposed that the new MBM employ a mix of public transit and auto use with the mix in each area determined by the response to a census question about the mode of commuting to work. The transportation component also includes a smaller change that recognizes the longer life of autos and their increased fuel efficiency. While the changes have the effect of generally reducing transportation costs in rural areas (where there are smaller populations) they generally increase (sometimes substantially) the cost of transportation in urban areas (where there are much larger populations). Overall, the cost of the transportation component has increased and pulled the MBM up.

Changes in the shelter component, however, are the main factor driving the MBM poverty line higher. Previous versions of the MBM (the 2000-base and the 2008-base) assumed that families of four would

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the increase in the poverty lines is in the range of 15 to 20 percent on average. The increase in the poverty rate for 2018, as a result of the revisions, is about 26 percent (from 8.7 to 11 percent).

be split between 2-bedroom and 3-bedroom rental units.[10] The split (a combination of both two- and three-bedroom units) was based on census information that showed that this was, in fact, the case for actual families of four persons. But new information relating to the National Occupancy Standard (NOS) required that the reference family of four (two adults plus a female child of 9 and a male child of 13) be accommodated in a three-bedroom unit. So, for the new revision, the MBM team decided to apply this requirement across the board, regardless of the age or gender mix of actual families of four. This alone will likely result in a substantial increase in the cost of the shelter component of the MBM.

In determining the cost of rented accommodation, the team departed significantly from the previous cost determination method, which was based on a mix of the median rent of two- and three-bedroom rental units. Now, the team takes an estimate of the median cost of three-bedroom rental units "*occupied by households in the second income decile*" [emphasis added] (Djidel et al., 2019: 16).[11]

It is important to point out that the MBM researchers were influenced by the results of consultations relating to the cost of accommodations. Ninety percent of respondents to a voluntary on-line survey indicated that the shelter component of the MBM was too low; specifically, on average, they felt that it was low by about 43 percent (Djidel et al., 2019: 8). This information immediately precedes the case for significantly changing the shelter component in Dijdel et al (2019) and is referred to after those justifications. "The first proposed change for the 2018-base MBM is to update the [rental] values to a more recent time period using the 2016 Census. Updating the rental values to a more recent time period will *address to a large degree the shortfall in rents noted throughout the consultation process*" [emphasis added] (Djidel et al., 2019: 8).

This statement raises three important questions. First: what other consultations (besides the voluntary on-line survey) identified rents as being understated? Second: what was it about a consultation process that would persuade Statscan to override their best scientific judgement as to the appropriate calculation of the cost of shelter? Third: Why would updating rental values using the 2016 census do a better job of reflecting actual spending on shelter than a simple CPI (shelter component) updating? After all, the shelter component of the CPI is supposed to reflect yearly

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[10]  To be precise, with the 2008-base MBM, "the cost of rent was estimated for 2006 by using the median rent for 2- and 3-bedroom units, while to get estimates for subsequent years, rental price data was inflated using the CPI index for rented accommodations" (Djidel et al., 2019: 8).

[11]  No rationale is given for this decision, no details are provided, nor is there any discussion of what the implications might be.

changes in shelter costs in the various cities and regions. We will return to these and other questions in the next section.

Finally, the MBM team added an amount to the cost of shelter to account for the fact that "some households would have to provide their own appliances such as refrigerator, stove, washer, dryer" (Djidel, 2020: 16) and they also added tenant's insurance to the calculation. Because a portion of the rental market is "unfurnished," it is understandable that researchers would suggest "imputing" an additional cost to those units. There is no information in the published papers as to how the imputation was done, how that changed the cost, or how large the problem was. Similarly, there is no further information on what adjustment was made regarding tenant's insurance or how significant the imputation was. It is also worth noting that the MBM team decided that it would use the provincial all-items index of the CPI to update future values of the shelter component rather than the CPI's rental accommodation index. It is not at all clear why the team made this change; they have given no explanation for it.

The overall effect of all of these changes to the shelter component of the MBM has been to increase it substantially. While it is difficult without more detailed information to identify the main source of the increase, it is likely that the application of the NOS guidelines across the board was a good portion of it. The increases to the shelter component are quite staggering, unlike anything one would normally see with updates and revisions. For example, the Quebec City value is up 27 percent; for Toronto and Ottawa, 31 percent; for Vancouver, 40 percent; for Halifax and St. John's, 41 percent; for Winnipeg, 43 percent and for Edmonton, 53 percent (from $12,465 to $19,055). Overall, the increase in average shelter costs as a result of this revision appears to be in the range of 30 to 35 percent. That certainly addresses any perceived "shortfall" in rental costs.

In terms of the "Other" category, the value of the multiplier for computing other necessities was set at 75.4 percent of the total cost of food and clothing (in the 2008-base MBM) for each MBM region. The authors remind us that this multiplier was based on historical spending patterns of items deemed necessary for a modest, basic standard of living. Specifically, "the other component is meant to approximate average expenditures on a wide range of goods and services, using data sourced from Statistics Canada's *Survey of Household Spending* (SHS)" (Djidel et al., 2020: 20). The team decided to maintain that same multiplier because "food and clothing components are relatively unchanged" but to add onto it the "provincial average expenditures on cell phone services observed in the SHS for families in the second decile of income" (Djidel et al., 2020: 20). Cell phone service was deemed essential in the contemporary Canadian context and easily met the 70 percent threshold for adoption. Finally, moving forward

after the 2018 revisions, annual updates to the "other" component would be tied to the (provincial) all-items CPI as opposed to price changes in food and clothing, as was previously employed.

As a result of the updates to the Other category, the cost of that component increased by about 10 to 12 percent, on average. It is not clear whether this rather substantial increase is due to the addition of cell phone service or to changes in spending on other goods as determined by the latest SHS. There is no discussion of the decomposition of the increase nor is there any indication if one was done. All we have is the net effect as represented by the new estimates for the "Other" component.

Putting all of the changes and adjustments together, the overall MBM thresholds have increased markedly (Djidel et al., 2020: 21, table A.5). There is no city, town, or region where the thresholds have decreased. On average, the increases in the poverty line appear to be in the 11 to 12 percent range. This increase means that measured poverty will be higher, other things being equal. However, to get an estimate of the implications of these changes for poverty, we must first look at any changes to disposable income.

Disposable income is intended to capture what, in the view of the MBM team, is the amount of income that is available to spend after all non-discretionary expenses have been removed. Their definition of "non-discretionary" is broader than what we might see in most related studies in economics. However, working with that definition we note that in the previous (2008 base) version of the MBM, homeowners having no mortgage payments had an imputed amount added to their disposable income. This amount was referred to as the Mortgage-Free Advantage (MFA) as it reflected "the lower shelter costs faced by families with this type of housing tenure" (Djidel et al., 2020: 22).

For the 2018 revision, the team decided to open up the adjustment to all homeowners (including those with mortgages) as well as to tenants who face a "rent-geared-to-income" advantage. So, the Tenure-Type Adjustment (TTA) "would be obtained by subtracting the typical shelter costs of a specific tenure type from the shelter cost for renters derived during the construction of the basket. These TTA values are calculated for a three-bedroom unit for a family in the second decile of income for each MBM region... TTAs are first estimated for a family of four, and then equivalent values for other family sizes are computed using the square-root method. These TTAs are then added to disposable income when evaluating poverty status" (Djidel et al., 2020: 22). In simple terms, this would mean that if a family in a rent-subsidized three-bedroom unit pays $3,000 annually for rent and it is determined that, in their city or area, the cost of that unit for families in the second decile of income is $12,000,

then, the TTA is $9,000 and that would be added to that family's dispos-able income.

It is the case that disposable incomes, overall, have increased. Table A.6 (in Djidel et al., 2020) shows sharp increases in the MFA (for home-owners without mortgages) between the previous revision (based on the 2006 census) and this revision (2018) based on the 2016 census. In addition, there are all of the other amounts added to disposable income from house-holds with mortgages and households having subsidized rents. In theory, the (seemingly substantial) increases in disposable income should serve to re-duce measured poverty. However, the new poverty lines are sufficiently high that any shelter advantages as a result of subsidized rent or near-mortgage freedom might not make much difference to people in these circumstances.

What does all of this mean for measured poverty? What is the net effect of all of these changes in the MBM on the number of people living in poverty in Canada and the trend in the rate of poverty? It turns out that the higher poverty lines, despite some increases in disposable incomes, dominated and increased measured poverty. In other words, the influence of the higher poverty lines was stronger than the effect of the higher dis-posable income, which resulted in greater measured poverty. In total, for 2018, more than 800,000 additional Canadians were deemed to be living in

## Figure 2: Poverty Rates for Canada, 2015 to 2018
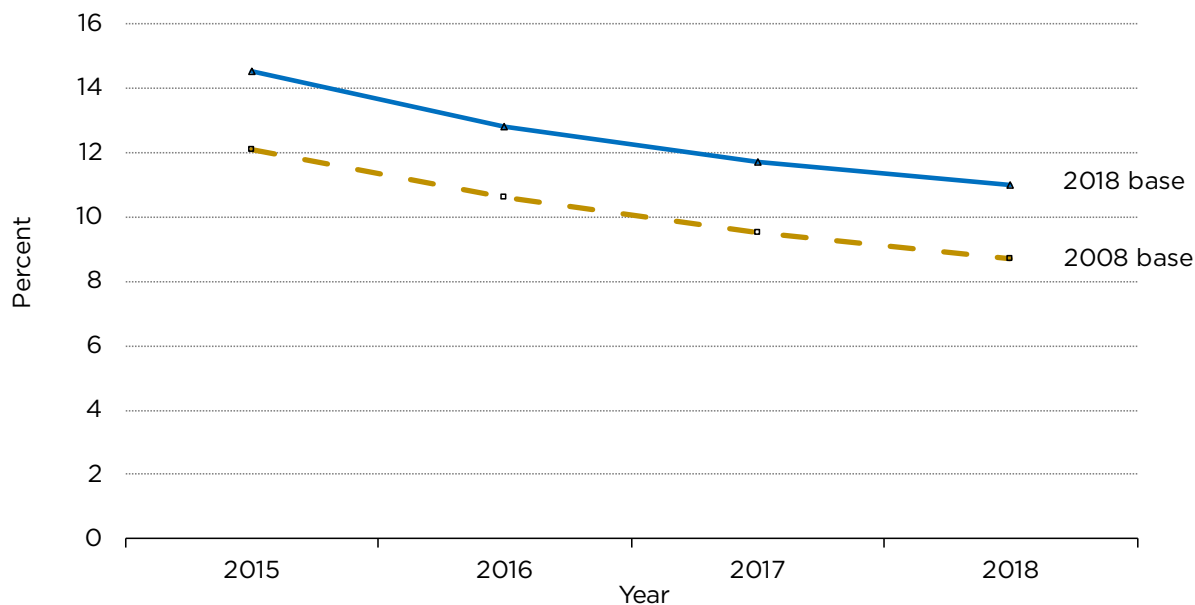


Source: Djidel et al., 2020: 9, table 2.

poverty than was the case in the 2008-base MBM. The 2018 poverty rate is about 2.3 percent higher than in the 2008-base, from 8.7 to 11 percent. Figure 2 compares the poverty trend between the 2008-base MBM and the new 2018-base MBM.

While the poverty trend line is still decreasing, the rates of poverty are higher after the rebasing. "The changes proposed in the rebasing would result in a roughly 'parallel shift' upwards in measured poverty rates, with no significant change in the measured trend in poverty over time" (Djidel et al., 2020: 10). The authors then make the claim that the same kind of shift happened after the 2008 rebasing. "By way of reference, the last time the MBM poverty rate was updated, during the comprehensive review that took place between 2008 and 2010, the 2008-base MBM yielded a poverty rate that was 2.2 percentage points higher than the previous 2000-base MBM for reference year 2008" (Djidel et al., 2020: 9).

While any reduction in poverty using a valid measure is encouraging, it is not often easy to identify the main drivers of the decline. That takes a careful economic analysis and even then, questions often remain. This does not stop politicians from making superficial and cringe-worthy pronouncements. An *iPolitics* story in February 2020 (Lim, 2020, February 25) included a Tweet from Minister of Families, Children, and Social Development Ahmed Hussen, who commented: "Over 1 million Canadians have been lifted out of poverty since 2015! This is the largest reduction in Canadian history." He attributed this decline to the improvement in government benefits, chiefly the Child Tax Benefit and the Guaranteed Income Supplement (Lim, 2020, February 24). First, while the MBM low-income line has been around for a couple of decades, we have only had an *official* poverty line since 2018 so it might be premature to be talking about all of Canadian history. During the 1950s and 1960s there were sharp increases in living standards and poverty (defined in terms of basic needs) fell dramatically both in terms of rates and numbers of people (see Sarlo, 2001: 35-36). Second, the revised MBM (2018-base), of which the minister would have been aware since it emanated from his shop prior to February 24, added another 800,000 Canadians to the ranks of the poor. The COVID-19 pandemic response is likely to increase that number once the data is finalized for 2020. Finally, we simply have no reason to attribute the 2015-2018 decline in the poverty rate (using either base) to government redistribution programs. The fact is that since 2009, the private sector created jobs and the unemployment rate declined substantially. Without reliable evidence to the contrary, it might be more accurate to identify private sector economic improvement and employment growth as the major explanation for poverty reduction.

By way of summary, here is the way each of the components of the MBM is currently constructed:

## Summary of the MBM Components (2018-base)

The **food** component of the MBM follows the cost estimates produced for the reference family of four in the 2019 version of the National Nutritious Food Basket (NNFB), which is a product of Health Canada in coordination with Statistics Canada. The change in cost since the previous update is very small.

The **clothing** portion of the MBM uses the most recent estimates calculated for clothing by the Social Planning Council of Winnipeg in their ALL (Acceptable Level of Living). Again, the estimates are little changed from the previous version.

In the **transportation** component of the MBM, the team has made substantial changes to recognize that, even in communities with good public transit, many lower income people still use their own vehicle as their principle mode of transportation. So the cost of vehicle ownership (which includes monthly payments, auto insurance, licenses, repairs, and maintenance, etc.) is now factored into transportation costs in both urban and rural settings. This change has materially increased the cost of the transportation component and contributes to a higher level of the MBM.

**Shelter** costs are dramatically higher as a result of the decision (based on guidance from occupancy standards) to define shelter for the reference family as a three-bedroom unit across the board. Previously, the standard had been a mix of two- and three-bedroom units. One gets the distinct impression that the MBM team was strongly influenced by the feelings expressed in an online survey that shelter cost estimates in the MBM had been far too low. The increase in shelter costs as a result of the changes in the 2018 revisions varied widely by city, but were, on average, in the range of 30 to 35 percent.

The determination of **Other** costs used the same multiplier as in the 2008 version (75.4 percent) but added one important item to the list thought to be essential for a modest, basic standard of living, namely, cell phone service. To determine the cost of that item, they used the "provincial average expenditures on cell phone services observed in the SHS for families in the second decile of income." This change helped boost the cost of this component by about 10 to 12 percent.

When all of the changes are put together, the MBM thresholds have risen by about 11 percent. These higher poverty lines must then be compared to disposable incomes to determine the number of poor people and, of course, the rate of poverty. The MBM team made several noteworthy changes to their measure of disposable income. They extended the mortgage-free advantage (MFA) to households with mortgages and to people living in rent-subsidized units. This is called the Tenure Type Advantage (TTA). The TTA is just the differential between the cost of a three-bedroom unit that they impute to all compared to the actual costs of shelter that the mortgage-free or rent-subsidized household pays. So, disposable income for the purpose of the MBM is

> defined as total income (including government transfers) after deducting not only income tax, but also several non-discretionary expenses including Canada Pension Plan and Quebec Pension Plan contributions, Employment Insurance and Registered Pension Plan contributions, union dues, child care expenses, spousal support payments paid, public health insurance premiums, and direct medical expenses including private insurance premiums. (Djidel et al., 2019b: 4)

In addition, the tenure type advantage (as described above) is added to disposable income.

There has been considerable attention to detail in describing the structure of the MBM, its components, and the changes in those components as it developed over the past 22 years. As we will see in the next section, this detail is important in establishing as far as possible the intent and the rationale for the evolving nature of what is now Canada's official poverty measure.

# Commentary (Conceptual and Empirical Issues with the MBM)

Despite having a "dashboard" of indicators of hardship or deprivation, it is pretty clear that it is the official poverty line that will get the overwhelming bulk of the attention in the media, in professional circles, and amongst the general public. Changes in the rate of poverty (based on the official poverty measure) will be watched and commented upon widely. Those changes will reveal a lot about how we are doing as a society in reducing the scourge of severe deprivation in this country. While governments have systematically taken more and more responsibility for addressing poverty, it is, in fact, the responsibility of all of us—in our own families, in our communities, and in all of the places where we gather—to help those struggling with poverty—with their consent, of course. And all of us are interested in ideas and plans that actually work to reduce poverty and thereby lift people out of the misery and demoralization that accompany this condition.

Statistics Canada has the expertise, experience, and methodological rigour to take on the task of constructing Canada's official measure of poverty. There is no better organization to do that simply because no one else has the resources (money and skills) needed for such a complex job. Even if the poverty line was to be determined as a simple formula or ratio (the LIM, for example) there is statistical work behind the measure (like income definition, equivalence scale, method of updating, etc.) that requires exacting effort. It is important to remember that, prior to 2018, the MBM was considered merely one of three low-income measures, all of which were calculated and presented as low-income measures by Statistics Canada. It was not until 2018 that the MBM was nominated as Canada's official poverty line and this, of course, ratcheted up the focus on Statistics Canada as the agency most responsible for its construction and evolution.

As someone who has a keen interest in poverty and its measurement, I might be one of a number of Canadians who feel a special obligation to comment on our newly minted official poverty line. Indeed, in their recent publications on the MBM, the authors have invited interested parties to provide input. "We encourage users to ask questions, provide

feedback and make suggestions for future work" (Djidel et al., 2020: 11). It is in that spirit that I offer this assessment.

## Empirical Issues

### Inconsistency re: 2000-base MBM vs 2008-base MBM

There appears to be an error or inconsistency in characterizing the 2008-base version of the MBM. In Hatfield, Pyper, and Burton (2010), there are a number of references to the fact that the 2008 MBM thresholds are actually lower than the 2000 base thresholds. In table 14, the authors show the percentage reductions in the lines over the relevant range of years. They state, "Since the MBM (2008 base) thresholds are lower than the 2000 base for the years 2000 to 2007, the incidences of low income are lower in those years" (Hatfield, Pyper, and Burton, 2010: 48). Further, in their Chart 1, Hatfield, Pyper, and Burton (2010: 52) show the 2008 base MBM (incidence of low-income) tracking below the 2000 base MBM. Murphy and colleagues also reproduce this chart and note that the 2000 base MBM is actually below the 2008-base version (Murphy et al., 2012: 95). That chart is reproduced in this paper as figure 1. Yet, in the "Methodological Changes" paper of 2019, Chart 4 shows the low-income rate using the 2008 base MBM as above that using the 2000 base (Statistics Canada, 2019b: 7). As well, in Djidel et al. (2020), the authors explain that, just as the 2018 rebasing resulted in a higher poverty rate (compared with that using the 2008 base), the same kind of shift occurred when the 2008 base superseded the 2000 MBM. "By way of reference, the last time the MBM poverty rate was updated, during the comprehensive review that took place between 2008 and 2010, the 2008-base MBM yielded a poverty rate that was 2.2 percentage points higher than the previous 2000-base MBM for reference year 2008" (Djidel et al., 2020: 9). This is clearly a contradiction and needs to be cleared up. Researchers, users, and the general public need to have a consistent story about the development of the MBM now that it is Canada's official poverty measure. Given the approach that they use to rebase the MBM, it is expected that the new base will typically result in higher thresholds and higher poverty rates with every revision. The evidence presented in Hatfield, Pyper, and Burton (2010) is out of step with that.

## Insufficient detail

Given the complex nature of the construction of the MBM, it would be almost impossible for interested researchers to replicate the measure. Compared to, for example, the LIM (which is simply half the median after-tax income adjusted for family size) the MBM has a great many calculations that go into the measure on a community level, provincial level, and national level. In the absence of any ability to replicate the measure and its outcomes, it would seem that there is an extra obligation (for the purpose of transparency) on the MBM team to provide more technical details on the construction and the changes. Those determining the original construction and subsequent revisions made many decisions that they did not explain or justify. I believe that it is important for Statscan to have a section on their poverty website (Dimensions of Poverty Hub) that provides a link to granular, technical details for every component of the MBM. This is especially important now that it has been elevated to the status of Canada's official poverty measure.

## Inconsistent methodology

I think that many economists will find that the structure of the MBM is curious and confusing. Some components are based on expert recommendations as to what should be consumed—for example food (NNFB which sets out Health Canada's guide to healthy eating) and clothing (ALL which prescribes attire and footwear for everyday use and inclusion). Other components, however, are determined on an entirely different basis. With shelter, transportation, and much of the Other category, the determination of acceptable levels is based on actual consumption within a specified decile. Presumably the team based part of the MBM on actual consumption levels to connect the poverty line to community standards and therefore to "inclusion." If so, why choose the second decile? How inclusive is it if you are emulating the consumption levels of people near the bottom of the income distribution? In any case, the MBM has a real problem in its construction if it can't demonstrate a consistent and coherent methodology.[12] My preference is to have expert recommendations throughout and cost them accordingly.

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[12] Wolfson (2018) from the Council on Aging of Ottawa has also made this point in his evaluation of the MBM.

## Shelter cost determination

The decision to adopt the National Occupancy Standard (NOS) for the reference family of four and then apply that standard across the board to all families of four is not reasonable. This decision is likely the biggest contributor to the significant increase in the poverty thresholds coming out of the 2018 revision. Specifying that boys and girls should have separate bedrooms is understandable; however, for very young children and for young people of the same gender, a shared bedroom would seem to be acceptable and quite normal. Indeed, even in middle-income renting families of four, 21 percent live in two-bedroom units (calculations by author drawn from the 2017 SHS). For families of four in the bottom quintile of total income, a zone in which the MBM researchers appear to want to situate their focus, fully 47 percent occupy two-bedroom units (calculations by author drawn from the 2017 SHS). If representing shelter costs faced by low-income tenants as a mix of two- and three-bedroom units, of itself, violates the "basic, modest standard of living" they seek to embody, then a lot more explanation for the change is necessary.

Even if their goal was to sharply increase shelter costs in order "to address… the shortfall in rents noted throughout the consultation process," that is not a good justification for such a critical change. In the 2000-base MBM and in the 2008-base MBM, the team decided to determine rents based on a mix of two- and three-bedroom units. This was based on the evidence from the census that some families of four occupied two-bedroom units and some occupied three-bedroom units. The split, based on the local distribution of two- and three-bedroom units among families of four, is certainly reasonable. Departing from that method based on NOS guidance for the reference family of four *applied across the board* and on questionable consultations is very problematic. It reduces the scientific credibility of the effort. The issues with the consultation process are taken up in the next point.

## Consultations

The MBM consultation process, as described in Djidel et al. (2019b) involved three layers. The first layer consisted of interviews and focus group discussions with people who have lived experience with poverty; the second entailed using a voluntary, non-randomized on-line survey conducted in 2018 where respondents were asked whether the 2008 MBM thresholds and the individual components of the MBM were too high or too low (or just right). Ninety percent of respondents said that the shelter component, specifically, was too low. The third layer of consultations

involved workshops with NGOs, academics, and stakeholders in various levels of government. In Djidel et al. (2019b) there is no mention that this last consultation (workshops with NGOs etc.) resulted in a recommendation relating to shelter costs. Similarly, there is no such recommendation coming out of the first set of consultations (people with lived experience of poverty). Indeed, the only substantive mention of "shelter" coming out of this set of consultations is that despite the fact that shelter is the sole largest expense for them, "most seemed satisfied with their dwellings" (Djidel et al., 2019b: 8). So, we are left with the unscientific on-line survey in which respondents felt that 2008 rents were too low when looked at in 2018. In this context, the statement quoted above, i.e., "… the shortfall in rents noted *throughout the consultation process,*" seems misplaced and potentially deceitful. Yet this sole survey result appears to have strongly influenced the MBM team to change shelter costing in a way that would make the costs much higher. And the increases in shelter costs helped push the overall threshold (and the poverty rate) to a higher level. It is certainly not surprising that online respondents in 2018 would have "felt" that 2008 shelter costs were too low. Besides the 10-year gap, many people would have been aware of the barrage of media stories during that period highlighting unaffordable housing, skyrocketing rents, home price surges, and the "housing crisis."[13] There is also likely to be some middle-class bias at work here. However, when we look at the facts as reported by Statistics Canada itself, we see a totally different story. Between mid-2008 and mid-2018, the shelter component (which includes home and condo prices as well as rents) of the consumer price index increased by about 14 percent; for food it was 25 percent and for clothing and footwear it was flat (no change) (Statistics Canada, 2020; and Soumare, 2017). So, it is surprising that the results of an on-line voluntary survey would trump the reality of a very modest (about 1.4 percent per year) rise in shelter costs, below even the core inflation rate.

## Scaling issue

One final point regarding the on-line survey. Is it possible that survey respondents were making judgements about rents that were, in fact, equivalized for their family size? So, for example, consider the following monthly rents in a major Canadian city in 2020: One bedroom—$800; two bedroom—$1100; three bedroom—$1300. If a single person was respond-

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[13] No less an authority than Leilani Farha, the executive director of Canada Without Poverty and the UN special rapporteur on adequate housing made this claim recently. "We have a housing crisis in the country..." (Lim, 2020, February 24).

ing to the survey and was told that the MBM imputed rent (based on the square root equivalent scale) for one person was half that of the family of four (i.e., the three-bedroom unit), would they believe that the assigned shelter cost was too low? I would not have thought that possible until I reviewed Heisz's description of the survey. "The first part of the questionnaire asked participants if the existing 2008-base MBM *thresholds for their family size* and region were "too high, too low, or about right." That is, were they still satisfactory in the context of 2018, and did they continue to reflect a modest, basic standard of living?" [emphasis added] (Heisz, 2019: 9). The critique by the RGF-CN group (discussed below) makes a similar point.

## Predetermining the outcome

During the 2018 revision, the team made deliberate decisions to situate the cost of key components of the MBM into the second decile of household expenditures. This was done, as we saw, with shelter and also with key aspects of transportation and the "Other" category (like the newly added cell phone service). This suggests that the MBM team was attempting to "nudge" the line in such a way that the eventual poverty rate would end up in the second decile, that is, between 10 and 20 percent. Alternative ways of costing necessary items do not rely on general consumption levels but rather on a genuine market basket approach. This "second decile" strategy clearly increases the relativity of the MBM. Normally, with scientific measurement, we design a defensible methodology and then let the data tell us what is happening.

## Ignoring concerns about the raw data

The measurement of poverty requires some definition of (usually "disposable") income, which is compared to the poverty threshold for all households. In the case of the MBM, there is a fairly unique and somewhat stringent definition of disposable income that is used to estimate the extent of poverty in Canada. Income information, of course, is derived from Statistics Canada surveys (or a census) in which a household is asked to report their income from the previous year. Often, they simply use last year's tax return as the basis of this information. But we must appreciate that the resulting data is far from perfect. Yet, in all of the documents that describe the process of determining poverty, there is not so much as a whisper about the possible flaws in the actual data that are used. The team used the Canadian Income Survey (CIS) as the source for the calculation of disposable income. It is a randomized survey of Canadian households

and the majority of households consent to have their tax return used as their answers to demographic and income questions. No one should be under the illusion that all tax return values are correct. In 2015, Bank of Canada economists Dunbar and Fu published a study about under-reported income and found that between 35 and 50 percent of households underreport their income; that the problem of underreporting was grow-ing and that the issue was particularly noticeable at the lower end of the income distribution. They conclude that poverty estimates that rely on reported income appear to be "unreliable" (Dunbar and Fu, 2015: 1-2).[14] So, the CIS data (largely based on tax returns) that the MBM team uses for determining disposable income is subject to this same concern. But they also use other similarly flawed databases like the census and the Survey of Household Spending (SHS) in estimating costs of particular components of the MBM. This concern does not mean that researchers should not use these databases but simply suggests that they honestly inform users that the data are imperfect. It is surprising that Statistics Canada does not have a clear caveat about data quality in a prominent place in its reports on the MBM. Again, this kind of warning is especially important now that the MBM has been anointed as Canada's official poverty line.

## Confusion regarding support payments

The calculation of disposable income involves the deduction (from total income) of a number of expenses deemed as non-discretionary. Among the list of such expenses for the MBM is "spousal support payments paid." The team gives the Canadian Income Survey (CIS) as the source of this information. However, as of the latest version of the CIS available to this author, spousal support is not broken out as a separate expenditure. Rath-er, the database lists a variable (ALIMO), described as "support payments received," and another variable (ALIP), described as "support payments paid." The notes, which qualify and provide detail on the variables, state that in both cases these amounts include *both* alimony (spousal support) and child support. So, it appears that all support payments have been included in the calculation of disposable income. There just needs to be a change in the labelling here. It is fair to say that if only spousal support payments (and not child support payments) had been counted as a non-discretionary expense, there would have been an issue.

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[14] It is important to underline that the authors used administrative data from tax returns for about 80 percent of respondents.

## Issues with the equivalence scale

The use of the square root equivalence scale is pretty common in studies of poverty. The advantage is the ease of use and convenience in determination of equivalized incomes. As well, in the case of many poor households, it does not obviously violate common-sense notions of economies of scale in living despite being somewhat on the high side of all possible scales. Nevertheless, Statistics Canada has identified this as a matter for future research. They ask: "Does this method lead to the best possible thresholds for smaller families and unattached individuals?" (Djidel et al., 2020: 11). Perhaps separate baskets could be determined for households of one and two persons if for no other reason than to test the validity of the square root scale. A longitudinal database might also help to uncover how spending patterns change with changes in family size. Now, it is especially important that users clearly understand that, when we use this scale, we are not saying that the extra cost of a second adult is 40 percent more and that the marginal cost of a child is another 30 percent. What these scale values represent is the additional spending necessary (when we add a person) to maintain the same standard of living or the same level of welfare. This is a very important distinction.

## Is poverty mainly transitional?

Longitudinal databases can also be very useful in tracking movements in and out of poverty over time. With all of the evidence from Statistics Canada that most low-income is transitory in nature and that a significant proportion of those who fall into low-income are able to move out within a few years, this suggests that the same may hold true for poverty. There is no mention in the MBM revision of the (likely) transitory nature of poverty. The omission of any discussion of the likely transitional nature of poverty is notable.

## Possible confusion with disposable income values

It may not be entirely clear what the thresholds in table 1 of the latest MBM report (Djidel et al., 2020b: 8) actually represent. To the casual reader, these values might be interpreted as earnings or income values unless otherwise specified. In fact, these are the amounts of "disposable income" that a family of four would need to be right at the poverty line. These numbers do not represent total or gross income. So, for example, if the estimated poverty line for Winnipeg in 2018 for this reference family

of four is $44,000, this means that this reference family likely has to have a total income closer to $60,000 by the time income taxes, CPP, EI, registered pension plan contributions, union dues, child care expenses, child and spousal support payments, as well as private health care expenses and premiums are all accounted for. And Winnipeg's poverty threshold is lower than many other large Canadian cities. Just so this is clear, we have a multitude of Canadian families with total earnings at or above $60,000 per year that are defined as impoverished. I emphasize this point because I expect that many readers, including some journalists, are likely to misunderstand what the MBM thresholds represent. For example, a recent *iPolitics* story about the 2018 revisions to the MBM used Toronto to illustrate the sharp increase in the MBM poverty lines that were largely a result of the adjustment in shelter costs. The article stated that "… a Toronto household [of four persons] would earn less than $48,143 to be living under the 2018 adjusted poverty line" (Lim, 2020, February 24). Again, these poverty lines are not earnings levels or amounts of total income. They are levels of *disposable* income as defined by the MBM developers and should be clearly labelled as such. The actual earnings necessary to be at the poverty line for Toronto is surely in excess of $60,000 for most families of four.

## Conceptual problems with the MBM

In my view, the major concern with the MBM has to do with its definition of poverty. In the Executive Summary of *Opportunity for All: Canada's First Poverty Reduction Strategy*, poverty is defined the following way:

> Poverty is the condition of a person who is deprived of the resources, means, choices and power necessary to acquire and maintain a basic level of living standards and to facilitate integration and participation in society. (Employment and Social Development Canada, 2018a)

This definition is broadly consistent with the original positioning of the MBM and its focus on "creditability" and inclusion. And, with a bit of finesse, one could make the definition fit the description of the MBM as a threshold representing a "modest, basic standard of living."

Some questions arise. What does it take to participate in society? Is it only about having enough money? Or, rather, might it be education or knowledge that allow you to fully participate? Are there other personal characteristics that contribute to societal participation? Attractiveness? Self-confidence? A positive attitude? A strong work ethic? There are a

myriad of other qualities and attributes that could be more closely related than money to inclusion, participation, and to the goal of "fitting in."

If this definition implies that it is merely additional money over and above that needed to cover basic needs that is sufficient for people to "participate," how much extra is required? A number of arbitrary decisions must be made to determine a basic needs standard of living. How many more arbitrary decisions would be needed to determine the amount of money and the list of goods required to pass the threshold for inclusion? One could argue that by defining participation solely in terms of money, we are reducing your "participation" in society to your function as a consumer, yet we have absolutely no way to credibly determine what amount it would take to fully participate. Furthermore, an argument can be made that some (or perhaps most) of the exclusion felt by the poor comes from the physical privation of basic needs. More than anything else, that is what separates them from others in their community.[15]

The authors of the MBM made it quite clear that they view their low-income threshold (the now official poverty line) as a pragmatic compromise between a basic needs measure of poverty and a relative measure that captures inclusion. They set about structuring a basket that substantially exceeds the necessities because they believe that even poor people *should* have goods that are commonly consumed by most in society. In the latest revision, they have added items or adjusted the quality and quantity of existing basket items to conform more closely to what they perceive to be broadly accepted societal standards. And there cannot be a Canadian that does not want all of that and more for people who are struggling in poverty. But is that the best way to measure poverty? Is it possible that we are confusing what we want for the poor with the need to measure a very important human situation? Should a poverty line be a goal (for the poor) or should it be a useful threshold that identifies a serious problem?

The social justice community, in general, see the poverty line as a goal. Indeed, it is often expressly viewed as a measure of our compassion. The higher the poverty line, the more generous we are as a society. For example, anti-poverty advocate Michèle Biss (2018) is concerned that many of the items that people should have are left out of the MBM. Further, she notes that poverty lines get used as eligibility criteria for some social programs and if the poverty line is too low, then more people will fail to qualify for benefits. This, of course, reinforces the view that a poverty line is not just a scientific way to distinguish the poor from the non-poor but,

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[15]  Ravallion and Chen (2011) make this point in a recent article. They are concerned that economic growth that is proportional does not reduce relative poverty. They propose "weakly relative" poverty measures to get around this issue. The Sarlo "basic needs line" can be broadly placed under this "weakly relative" umbrella.

in fact, is a policy instrument. This is regrettable. It puts pressure on researchers to have political considerations in mind as they try to craft what should be (as far as possible) an objective measure of a serious problem.

Similarly, a Quebec woman's advocacy group (with the acronym RGF-CN) has recently criticized Canada's official poverty measure (the MBM) in a brief relating to the poverty reduction plan (RGF-CN, 2019). The group expresses the view that while the MBM appears to cover basic needs, it does not adequately ensure integration and participation in society. In addition, it specifically criticizes the MBM for its failure to address the special needs of women and girls (RGF-CN, 2019: 3-4). It suggests that the MBM undergo a "gender-based analysis plus" in order to fully account for the real needs of people. The report's many recommendations, which include a full range of women's products and services, housing needs of single mothers, education or tuition costs, and an amount for savings would substantially increase the poverty line.

My own perspective on poverty is that it is a serious condition of material deprivation that needs to be measured. I believe that we risk trivializing the predicament of people who live in miserable circumstances, who sometimes go hungry, who are inadequately housed, and who lack other basic needs when we put them in the same group as people earning $55,000 to $65,000 per year. Their conditions are simply not the same. If poverty is to mean anything, we need to make that distinction. It is my view that we should be measuring the number of Canadians who do not have their basic needs covered. This, I believe is a priority. Of course, we should have goals and those goals should include higher living standards for everyone. But special attention should be given to those who are genuinely poor.

The basic needs poverty line is an attempt to find that threshold below which people are likely to be deprived of some necessity required for their longer term physical well-being. The list of necessities that comprise the measure is relatively sparse for that reason. It doesn't include YMCA memberships, tickets to concerts, cable TV, a car where public transit is available, or a more spacious apartment—*not because people should not have these things but because you would not be impoverished for lack of them*. It is important to remember that when journalists, politicians, and social activists speak or write about poverty, their descriptions are of hunger, misery, a variety of specific insufficiencies relating to housing, clothing, and personal needs as well as despondency and demoralization.[16]

In developing the basic needs poverty measure in Sarlo (1992) there was an explicit acknowledgement that a poverty line is not a goal but

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[16] I have documented the striking (and glaringly inconsistent) difference between descriptions of poverty and definitions of poverty in Sarlo (2008) and Sarlo (2013).

rather a threshold below which something important happens. For that reason and to recognize that we should not be satisfied just because people are moving above the poverty line, I suggested that a "social comfort line" (set at double the poverty line) might be an objective. That social comfort line, expressed as a pre-tax value, would be, in today's dollars, about $57,000 for a family of four—roughly in line with current pre-tax levels of the MBM. As mentioned earlier in this paper, this idea of two measures, one which is more of an "absolute" measure of poverty and another, higher, measure that would include many of the social amenities that most people enjoy, was brought to prominence several years later at the 1995 UN conference. Nations committed themselves to measure both absolute and relative poverty but to eliminate absolute poverty as a primary policy goal. The pledge to eliminate absolute poverty as a priority was drafted by Peter Townsend, socialist, social justice advocate, and promoter of relative poverty. The pledge was endorsed by all countries attending the 1995 conference, including Canada.

Up until 2018, Statistics Canada researchers made a clear distinction between poverty and low-income. Ivan Fellegi's statement quoted earlier in this paper was unambiguous: The Agency can measure low-income but does not measure or opine on poverty. More recently, three Statistics Canada researchers, Murphy, Zhang, and Dionne (2012), reiterated that Statscan does not measure poverty. They further argue that all three measures of low-income (LICO, LIM, and the MBM) are relative in nature. This is because those measures are all connected to the incomes or consumption levels of the entire distribution of Canadian households in some direct or indirect way. In fact, these authors have pointed out that one of the fundamental axioms of poverty measurement is the "focus axiom," which states that "a poverty index should be independent of the non-poor population… it should be about the 'poor' only" (Murphy, Zhang, and Dionne, 2012: 87). They point out that all of Statistics Canada's low-income measures (including the MBM) violate the focus axiom because they are not independent of the incomes or expenditures of the non-poor population and so, "if one accepts the focus axiom as a scientific principle in poverty measurement, one would have to distinguish low-income from poverty" (Murphy, Zhang, and Dionne, 2012: 87). The question then is, without a fundamental change in the nature and construction of the MBM, how did it transform itself from a low-income measure to a poverty line and from there to the elevated status of Canada's official poverty line? It would seem that some explanation is required to justify the transformation given the firm distinction between low-income and poverty drawn by Statistics Canada over the years.

## Figure 3: Absolute/Relative Scale of Poverty
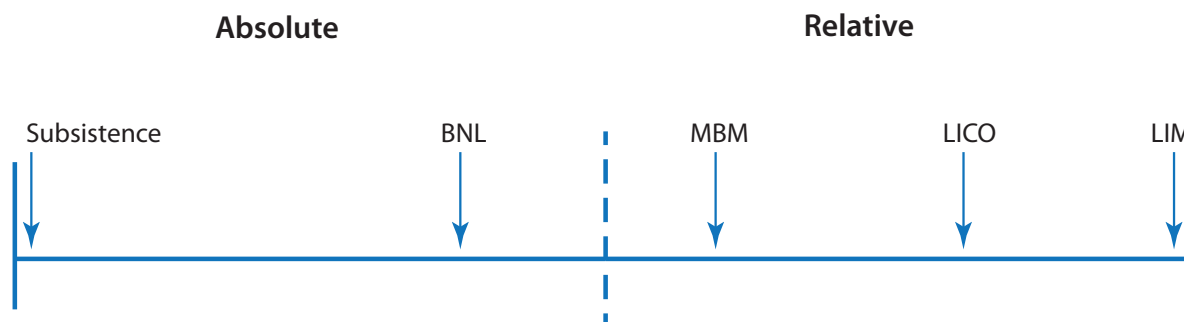


If we try to position the various low-income and poverty measures discussed in this paper along a scale with absolute poverty at the left end and relative poverty at the right end, figure 3 might be a first attempt at the categorization.

The dashed line in the middle denotes a kind of cross-over point between absolute and relative measures. At the left end of the graph is a subsistence conception of poverty where a simple basket of goods sufficient for bare survival is unrelated to societal standards of acceptability. Closer to the middle of the scale but still in the absolute category we would have a measure that encompasses a basket of goods deemed necessary for long term physical well-being *at a quality that meets community standards of acceptability*. This is where the Basic Needs Line (BNL) attempts to situate itself. At the far right on the scale, we have purely relative measures, like Statistics Canada's LIM. Moving leftward from there we place the LICO and then the MBM. The latter is closer to the dashed line because it contains some elements that are largely unrelated to average consumption levels, like food and clothing, but otherwise determines costs in a relative way.

Let us return to the critical question posed earlier. If the MBM threshold is to be regarded as a credible poverty line, what is it that is supposed to happen as a family moves down just below the threshold? For example, if the 2018 threshold for the reference family of four is $44,000 and the family's disposable income declines by $1,000 from $44,001 to $43,001, what would the consequences be in terms of material deprivation? The family might, for example, choose to maintain its spending on the core basics of food, clothing, and shelter but marginally cut some of the spending on transportation and the "Other" category (perhaps fewer movies, live sports, and concert outings). Would any objective observer examining the condition of the household and its members notice any important differ-

ence? And, would a reasonable person be able to conclude that the family has been plunged into poverty? Of course, if you define poverty to include creditability or participation, then you can claim that the $1,000 decline in disposable income prevents the family from full participation in society without having to prove why or how. However, even then, since participation in society may be as much (or more) about education, intelligence, appearance, self confidence, and work ethic as it is about money, it is not at all clear that the decline in disposable income will make any difference.

On the other hand, if we are able to find a genuine basic needs threshold, then any amount below that means that some basic need is sacrificed and with it physical well-being. With a basic needs poverty line, we are not measuring what we *want* for the poor (because there is no limit to that) but rather what people *need* for longer term (physical) well-being. And we are not attempting to determine the unmeasurable, that is, the amount of money one needs to "fully participate" in society.[17] No one, however, should be under the illusion that a poverty threshold is scientifically determinable in the same way, for example, as the freezing point of water. The best we can do is to define a problem (and living in poverty is a very serious problem) and select the most reasonable way to measure the incidence. Approaches that employ formulas connected to overall incomes or expenditures are not reliable ways to measure poverty. Market basket approaches, I believe, are much better.

The MBM, now designated as Canada's official poverty line, is substantially relative in its construction and even more so with the latest revision. This means that it is connected in an important way to the overall living standards in society. The real danger of relative poverty measures is that improvements in overall living standards will not reduce measured poverty. Only a compression of the distribution of income will. This is a problem. With relative measures, we could have a robust, growing economy where everyone is getting equally better off, yet showing no less poverty. Of more concern, we could have a declining economy where everyone is getting equally worse off but showing no more poverty. Indeed, with relative poverty measures, if the incomes of the top groups increase by 100 percent and that of the bottom (including the poor) by only 99 percent, measured poverty will actually increase despite the breathtaking real gains for the poor.

To the extent that Statistics Canada continues to revise the MBM to reflect changes to overall living standards, the government will never achieve its poverty reduction target of halving the poverty rate by 2030

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[17]  As if money is the most important or even an important ingredient. We have all kinds of examples of people actively engaged in their communities without having much money as long as they have the basic needs covered.

without a far more aggressive plan for redistribution of income (and wealth). While the pandemic will effectively prevent the achievement of the interim target (a reduction of 20 percent by 2020), expected slower economic growth and expected resistance to higher tax rates suggest that halving poverty using a substantially relative measure is simply not realistic.

In the original (1998) report that laid out the essential framework for the MBM, the authors defended their decision to situate the market basket measure somewhere between "subsistence" which they mistakenly (and likely intentionally) associated with the basic needs approach and inclusion by pointing to a survey on poverty. Specifically, they referred to a large sample survey of Australian social assistance recipients who were asked what poverty meant to them. Nearly 70 percent (68.3 percent) of respondents gave answers that corresponded to a "basic needs" under-standing of poverty (i.e., not having enough to buy the basics like food and clothing, having to struggle to survive each and every day). Another 12.3 percent said that poverty meant "not having enough to make ends meet," an answer that arguably fits more in the "basic needs" category than it does in the "inclusion" group. The rest of the answers appear to refer (more or less) to poverty as "exclusion." Only 1.8 percent of respondents said poverty meant "having a lot less than everyone else"; in other words, less than 2 percent thought that poverty is a purely relative condition. This result is not surprising. Poverty researchers rarely ask people with lived experience in poverty what they understand by the term. But whenever they do, directly or indirectly, they invariably get the same sentiment expressed.[18]

The original framers of the MBM bizarrely claimed that the Austral-ian survey provided support for the construction of a low-income measure that was a mix of absolute poverty and inclusion. Clearly, the survey gave no support for such a mix. Nevertheless, they proceeded to develop the market basket measure that covered all of the basic needs and then added many other items that they thought people *should* have.[19] What we end up with is a hybrid measure—one that I suggest will satisfy neither those who

[18] Over my many years as a professor of economics, I have often asked my largest classes at the very beginning of term what poverty means to them. I write two choices on the board: 1) Poverty means having a lot less than most others in my community; 2) Poverty means not having enough to cover the basic necessities. Without exception, more than 80 percent of the class always chooses the basic needs answer. This is purely anecdotal and has no scientific value. But why haven't any social science researchers followed up with more recent surveys of their own? Would it not be a useful test of their own preconceptions of poverty?

[19] They later formalized this by suggesting that if 70 percent of the general population used an item, then that item should be in the MBM basket.

want to uncover absolute or basic needs poverty nor those who wish to focus on inclusion and participation.

Again, it is rare that academics seek to uncover the views of ordinary people about their conception of poverty. However, economists Yoram Amiel and Frank Cowell conducted a large sample survey of non-experts' understanding of both inequality and poverty, the results of which are published in their widely read book, *Thinking About Inequality* (1998). They took great care to select a sample that was sufficiently literate (and numerate) to be able to understand questions involving inequality and poverty scenarios yet not steeped in the attitudes and biases of experts in the area. They conducted their survey on university students who had not been exposed to lectures on topics in economics that might tend to produce a bias in their answers. In all, they received over 4,000 responses from 8 different countries. Of particular importance to our discussion was the question about people's conception of poverty. Specifically, the question was: Poverty is a situation where incomes are…

1.  Not enough for a supply of basic needs
2.  Below a level that is relative to the income distribution (for example 50 percent of median income).

The results are strikingly similar to those from the Australian survey of welfare recipients: 72 percent chose answer #1; 11 percent chose answer #2; and 10 percent chose neither of the above (Amiel and Cowell, 1998: 110-111). In other words, of those who selected an answer, about 87 percent believe that poverty is a situation of insufficiency of basic needs.

Leading up to the federal government's paper on poverty reduction strategy, Employment and Social Development Canada reported on its consultations with people across the country who have experienced poverty. The first chapter of the on-line report, *Canadian Poverty Reduction Strategy: What We Heard about Poverty So Far,* is entitled "Inability to Meet Basic Needs." The introductory paragraphs state:

> As we spoke to Canadians across the country about poverty, many said that they struggle with having enough money to provide for their basic needs. We heard about Canadians' difficulty in keeping a roof over their head, whether it is because of the high costs related to housing, or because they have experienced certain life situations beyond their control which have led to homelessness.

> Participants with families made it clear that they sometimes struggle to respond to the basic needs of their children. Others shared stories of lived experience indicating that issues related

to health can sometimes lead one to live in poverty and make it hard to get out.

We were told that despite working hard, many people who live in poverty find it challenging to make ends meet. We heard a number of stories about low-income families who are forced to make hard decisions. They have to sacrifice some things because the costs of basic living expenses—such as heating, electricity and food—cost more than what they make. This means they often have little to nothing left for anything else, such as participating in local activities. This also results in many low-income Canadians feeling left out of their communities.

"There is just not enough money and my bills equal more than my income. It causes tough choices. You want to buy things for your kids but rent takes priority."—Participant, Tackling Poverty Together Project (Employment and Social Development Canada, 2018b)

The entire report is filled with references to homelessness, food insecurity, overcrowding, families being only a few hundred dollars a month from starving, and poverty having an adverse effect on people's health. This is textbook "basic needs poverty." All of the personal stories of people living in poverty relate to insufficiency and the struggles to meet the basic necessities. The overwhelming focus of the report is on basic needs poverty, yet we have ended up with a definition and an official measure of poverty neither of which reflect the *actual experience of people living in poverty* as stated in the government's own report.

In the most recent round of revisions, the MBM researchers highlighted the "consultations" they did with the public and especially those with people who had lived experience in poverty. This is a departure from most other studies of poverty, which don't bother to ask poor people their thoughts and aren't even interested in the studies and surveys that include the views of people who live in poverty. It is as if nothing can be gained by including poor people in an examination of poverty; it is as if to say "*We (the smart people) know what poverty is; we know how to measure it, we know what causes it, and we know what the solution is. We don't need the thoughts and views of people experiencing poverty because they don't really understand the big picture.*" I am concerned that this kind of self-serving, arrogant attitude has tainted poverty research for a long while. So the MBM researchers are to be congratulated for including the poor in their consultations.

However, did they really make an effort to try to understand the thoughts, opinions, and perspectives of people living in poverty? Did they

employ survey methods to determine what poverty meant to those below existing measures (there are several in Canada to choose from)? Did they employ the same methods to ask people above these lines what poverty meant in order to compare the answers? Did they ask people in general to rate their own living standard on a scale (and observe how that matches up with their income)? Did they ask people living in poverty about their own life journey and the causes of their situation? To the extent that the impetus for creating an official poverty measure was to get serious about poverty reduction, one would think that insight into the causes of the situation would be a critical component.[20] Did they ask a host of other questions the answers to which might provide some useful insights into what kinds of help would be most effective in alleviating poverty? Or did they believe they already knew that?

The decision to draw the poverty line above the basic needs level up to a threshold that attempts to capture inclusion or "creditability" or full participation is, I think, a fool's errand. It is difficult enough to get the basic needs right and to have some good justification (like physical well-being) for setting it there. Certainly some arbitrary choices have to be made and they are better made by experts (including people with lived experience in poverty) than by a middle-income academic or bureaucrat. However, once we go above that level the number of arbitrary choices and their rationales expand greatly. This is especially true when the justification is something as hard to define as "inclusion" and when one believes that the poverty line is properly viewed as an allowance or as a show of compassion. The question was asked earlier: What items are necessary (in a market basket) for someone to feel included or to be creditable? Let me suggest that goods can be added to the basket with equal justification all the way up to (at least) the median standard of living.

Clearly, once you open the MBM "door" to an item that can be justified under the inclusion or "creditability" banner, there is really no end to what can be added. For example, Biss, who states that poverty means choosing between "paying the utility bills or putting food on the table" (2018: 3)[21] admonishes the MBM for not including university education costs and debt payments as part of the necessary list of expenses. Both, in her view, are major expenses for many lower-income households and are ignored by the MBM. Student loan debt especially weighs on poorer households trying to get ahead. The RGF-CN group criticizes the MBM as

[20]  There does not appear to have been a major study of the causes of poverty by a Canadian government agency, ever. Yet, the government spends untold billions every year on poverty reduction strategies.

[21]  Incidentally, this characterization of poverty, clearly a basic needs description, is common among social justice advocates even as they use relative measures.

being wholly insufficient for women. Its brief argues that child care, health care, and education needs are not adequately accounted for. It argues that single mothers are especially disadvantaged and their situation is "underserved" by the MBM measure. For example, it points out that a single mother of two (a family of three) is assigned an equivalence value of 86.5 percent of the family of four. "You cannot own 86.5% of a car and you cannot rent 86.5% of a two bedroom unit" (RGF-CN, 2019: 5). A similar point is made regarding unattached individuals. The group suggests a number of changes including an allocation for "a minimum amount of savings… for a 3- to 6-month emergency fund, retirement, children's education, or the tuition required to obtain skilled employment" (RGF-CN, 2019: 5).

I want to anticipate a sharper kind of criticism of the latest version of the MBM based on the very language and rationale used to construct it. The authors of the original MBM measure emphasized the role that "creditability" plays in defining a necessity. However, the clothing component of the current MBM does not include a men's suit (or a tie). This means that a man is not properly attired for a job interview, for social gatherings such as funerals, or for the weddings of his own children. How creditable is that?[22] Neither does the MBM have a woman's dress in its basket, which raises similar concerns relating to inclusion. While many might agree that alcohol should not be part of a poverty market basket, is it not customary in our society to offer a guest a glass of wine or a beer? Are you really participating in the community if you don't have that which is customary for guests and for an occasional treat for yourself? How about pets? A substantial number of households in Canada have a pet. Pets provide comfort and company for people, especially those who are feeling lonely and depressed (as many poor people are). Yet, the MBM makes no mention of pets. The Nutritional Food Basket, which represents the food component of the MBM, does not include even a small amount for restaurants. Expect a story in our major media telling us that Canada's official poverty measure does not "allow" poor folks to take their child to McDonald's for their birthday.[23] What about gift giving? Would a person be considered less than creditable if they did not participate in this very social, reciprocal practice? The point is that if you are going for creditability and inclusion, these (and many other) kinds of omissions will draw attention and controversy.

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[22]  Ironically, Adam Smith regarded a linen shirt in the late eighteenth century as a necessity—a point emphatically made by the MBM developers.

[23]  According to the SHS for 2017, about 82 percent of Canadian households have expenditures in restaurants, so it easily meets the 70 percent threshold.

The list goes on. These selected examples suggest that, based on the principle of inclusion, a reasonable case can be made for adding to the market basket any number of goods and services that are commonly used. The basket itself will reflect, more and more, the consumption patterns of most Canadians.[24] This process can continue until fewer and fewer citizens believe that the market basket bears any relation to the condition of poverty. This is the fundamental problem with the MBM and there is no way to fix it short of a change in approach. The MBM is simply not a credible measuring stick for poverty.

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[24]  At that point, why not just use the LIM or even the median income itself and save a lot of money on research costs?

# Conclusion

There is real poverty in Canada. There are children who go to bed (and some who go to school) hungry. There are families living in cramped, inadequately heated, unsafe dwellings in our inner cities and in rural parts of the country. There is misery and despondency all across this land relating to insufficiency of basic necessities. And it is not acceptable.

Despite the massive "anti-poverty" expenditures by governments and by private groups and individuals over many decades to deal with poverty, the sad fact is that poverty persists. There are several reasons why poverty policies have not been successful. One of those reasons is that we have not been able to agree on what poverty is.

This critique, in large part, examines a conception of poverty that is counterproductive to the objective of reducing (and hopefully ending) the kind of hunger, misery, and material insufficiency that we know still exists in this land. The market basket measure is a failed attempt to meld two distinct approaches—a basic needs approach and a more relative approach that incorporates "inclusion" into its construction. What we end up with is a confusing mix of science, expert opinion, public "consultations," and compassion. And of course, predictably, the result is a "poverty" line that is not credible because it lumps together people struggling to acquire basic necessities for themselves and their children with people who have pre-tax earnings in the range of $55,000 to $60,000. It is not helpful and will surely divert resources away from the real problem. To the extent that the general population understands the condition of poverty as an insufficiency of basic necessities, what does it tell us when the government insists on a measure that is awkwardly relative and bears no relation to basic needs?

If we view the poverty line as an allowance for the poor or as a show of our compassion, we are going to end up with something like the MBM. On the other hand, if we view a poverty line as a useful threshold to distinguish between poor and non-poor and where something significant happens as we fall below it, then we might do well to focus attention on basic needs. We should be under no illusion, though, that we can measure poverty precisely. People will differ on what constitutes a basic need, at least at the margin, and there will always be arbitrary choices made relating to quality and quantity. However, dealing with the scourge of absolute poverty and the real deprivation that it implies is essential and it is a

priority. Support for this is shown in the surveys of public opinion that we have about what poverty means. In particular, it is shown when we have prominent advocates of relative measures, such as Peter Townsend, who nevertheless urge that ending absolute poverty should be prioritized. This happened openly at the 1995 Copenhagen conference referred to earlier. The renewed interest in deprivation indexes, some of which appear on the poverty "dashboards" is also telling.

If we divide the low-income community into two parts—those who are poor because they cannot afford all of their basic needs and those who have their basic needs covered but are relatively less well off (they feel excluded from the mainstream)—we can imagine different strategies directed at the two groups. Focusing attention on the poor specifically, I have often stressed the need for more personal, direct, and hands-on assistance as the main component of anti-poverty policy because the remoteness and sterility of regular cash payments may not deal adequately with underlying and more fundamental issues. Of course, a strong, vibrant economy with a buoyant labour market is a critical ingredient to improvement in living standards generally.

Poverty is a problem because people suffer. Anyone who cares about human suffering will want to find intelligent and effective solutions to reduce that suffering. There is ample evidence that employment is an essential part of the solution. It is the case, however, that some adults living in poverty are not in a position to take employment at the moment.[25] Despite that, it is important not to classify any human being of working age as unemployable. Doing so only increases suffering and reduces confidence, self-esteem, and the incentive for self improvement. Employment not only leads to financial independence but it produces enormous benefits to mental well-being.

The framers of the MBM have chosen to focus on inclusion. My suggestion is to focus attention on real deprivation and employ a second measure as a goal for the poor just as all nations did when they convened in Copenhagen in 1995. I believe that we should want to know how many of our fellow Canadians do not have the basic needs covered. I think that most Canadians would find that to be vital information and I think that they would expect their government to care about that as well. A "basic, modest" standard of living is not a poverty line. Indeed, it is likely a standard that many poor people aspire to.

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[25] There are a variety of reasons, from addiction, mental illness, lack of skills, to new health and disability conditions.

# Appendix

## The use of equivalence scales

Equivalence scales are often used by researchers and policy makers in the determination of poverty lines. They are a handy way to estimate poverty lines *for households of different sizes.* Equivalence scales are numbers that purport to tell us the income that households of different compositions need to attain the same level of "welfare." So, if an adult couple requires 40 percent more income to have the same level of welfare as a single adult, the equivalence ratio for the couple is 1.4. If the addition of a child requires 30 percent more income (based on the single adult), then the equivalence ratio for the family of 3 is 1.7. These values capture the real or expected scale economies that people experience when they live together. This gives us a way of comparing households with different compositions.

Assuming that an equivalence scale accurately reflects the relevant direct cost differentials for households of different compositions and reliably handles the "welfare" question, it can be a convenient tool in the measurement of poverty. If we can determine the poverty line for a single adult, an equivalence scale will, ideally, allow us to generate poverty lines for households of all different sizes *based on that original line.*

However, there are issues with equivalence scales. Perhaps the most obvious concern is the matter of "welfare" and how that concept is proxied. Does "welfare" mean "material standard of living" or does it refer to the broader and more philosophical sense of that term implied by synonyms like "happiness" or "well-being." If it is the former, is it just the standard of living of the parents that matter or are all household members counted? And what would be a useful and reliable proxy for this conception? Overall consumption? Specific categories of consumption? Or some broader indicator which might include assets, debt, level of income security, and the quality of relationships within the household?

Scale economies that occur when people live together are very important in economics. We expect that these economies will be fairly minimal with clothing, personal hygiene items, and food, and fairly

substantial with shared goods such as shelter, owned transportation, and household furnishings (refrigerators, couches, TV sets, etc.). Parents with children will be well aware of these economies and will note that the addition of a newborn into a family will often involve a relatively small marginal cost in the sense of direct cash expenditures. The first child born to a couple will not normally increase costs by 50 percent, as would be the case if we simply pro-rated overall costs in moving from 2 to 3 persons (Sarlo, 2013).

We have to recognize that equivalence scales go much farther than simply a recognition of scale economies. They purport to establish income (or spending) ratios which represent equal welfare for different households. It is one thing to determine the marginal cost of an additional person to a household. It is another thing entirely to determine the extra income required to *maintain the same level of welfare* for the household upon such an addition. The compensatory adjustment embedded in these equivalence scales begs the question: Why is *more* income required? If having a spouse or children is a choice, then there must be a net benefit to the household and hence, in many cases, a *reduction* in income would be required to equalize before and after welfare under any broad definition of welfare or even of standard of living. Only with a fairly narrow conception of welfare—that of "material living standard" (which could be proxied by overall consumption or some subset of consumption)—do equalization scales make sense. So a household may be "better off" with extra household members but still require extra income to equalize because those extra members will involve additional direct costs.

Now, even if we conceive of equivalence scales in this narrow sense, it is unlikely that the same equivalence scale that might be useful to compare lower-income households would be useful across the full distribution of income. Poorer households are likely to experience higher ratios of equivalence because, being smaller than better-off households on average, they will find it more difficult to exploit economies of scale. In particular, they will likely experience more challenges than higher-income households with respect to the major shared goods. They are more likely to be renters, so the addition of an extra person or two (children, for example) may require more space and therefore a move; this is much less likely with home owners. They are more likely to use public transit for which there exist no scale economies, unlike a family automobile. And, having a tighter budget constraint, they are less likely to be able to make strategic purchases that save the household money over time.

Despite these concerns, there is some value in the determination of equivalence scales using a narrow, material living standards definition of welfare. Recognizing that a particular equivalence scale is a broad approximation and should only be used to reflect a particular segment

of the income distribution (e.g., poorer households), they can be helpful, especially in the estimation of poverty incidence.

While empirical measurement of equivalence scales, even for use in studying poverty, have produced estimates that are all over the map (Sarlo, 2013: 5), quite a number of studies use scales in the range of "40/30." The "square-root" scale is most often used in studies examining poorer households in industrial nations. It uses the square root of family size as its adjustment factor in scaling household income. Those adjustment factors work out to be 1, 1.41, 1.73, 2.0, 2.24, and 2.45, for households of 1 to 6 persons respectively. It was one of two scales used in the previous estimates of basic needs poverty (Sarlo, 2008).

This scale is employed to "equivilize" the after-tax incomes of all households by dividing the households' after-tax income by the square root of household size. The result is an after-tax income that is appropriately scaled to represent the income standard of living of the members of that household. Thus, income so adjusted is referred to as "equivilized" after-tax income. These equivilized after-tax incomes are then compared to the basic needs poverty line for a single person, and estimates determined for households, persons, and children.

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