



A CRITICAL REVIEW OF CANADA'S OFFICIAL POVERTY LINE

The Market Basket Measure

Authors:

Garson Hunter and Miguel Sanchez

Faculty of Social Work, University of Regina



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<https://campaign2000.ca/wp-content/uploads/2018/11/SaskatchewanChildFamilyPovertyReportCardNov2018.pdf>; and

<https://campaign2000.ca/wp-content/uploads/2020/01/2019-Saskatchewan-Child-Poverty-Report.pdf>.

A Critical Review of Canada's Official Poverty Line: The Market Basket Measure

On August 21, 2018 the Canadian media reported that the government of Canada had vowed to reduce Canada's poverty rate by 50% by the year 2030.¹ Also, the media reported that the government was going to do so with no new spending or policy promises. The government pointed to previously announced federal programs that would reach that goal. Those programs included the child benefit program, the worker's benefit program and the Guaranteed Income Supplement. The same news reports also mentioned that the Canadian government had adopted Canada's first Official Poverty Line, the Market Basket Measure (MBM). This is an interesting decision, since no other region on the planet uses the Canadian MBM as a measure of poverty. For example, the United Nations and the Organisation for Economic Co-operation and Development (OECD) along with most of the world use a measure of poverty based upon 50% of the median income. The 50% of the median income is a relative measure of poverty (MBM and similar measures are argued to be absolute measures) that Statistics Canada produces every year; it's called the *Low Income Measure After Tax* (LIM-AT).

Although the authors of this report are not certain that the existing programs will eliminate poverty, we would like to argue that a significant reduction in poverty by 2030 could be achieved just by adopting the MBM as Canada's official poverty measure with absolutely no new spending. Our suggestion is in keeping with the government's promise to cut Canada's poverty rate in half by 2030 with no new spending or policy promises. However rather than counting on existing program, the government can just adopt the MBM to achieve the same success.

Absolute poverty measures of poverty differ from relative measures of poverty in that they are not linked to a community standard of living.² Rather these measures determine the absolute minimum an individual or a family needs to survive. In actuality however, absolute poverty measures are always relative poverty measures because of the decisions that are made as to what constitutes an absolute minimum. How many socks, how many shoes and how much milk to buy are all relative judgements; judgments that are made by the developers of absolute poverty measures.

¹ "Liberals vow to lift 2 million Canadians out of poverty by 2030, with no new spending." CBC, August, 21, 2018. <<https://www.cbc.ca/news/politics/poverty-strategy-low-income-1.4792808>>

² The following section is from "Child poverty and the Canadian welfare state." Garson Hunter, in Anne Westhues and Brian Wharf eds., 2012, Wilfrid Laurier University Press, pp. 167-191.

In May 2003, Statistics Canada introduced its own absolute low-income measure: the Market Basket Measure (MBM). The MBM was not produced as a result of requests from a large number of advocacy groups and researchers. Rather, the measure was developed in response to a 1997 request of the Federal/Provincial/Territorial Ministers Responsible for Social Services (Human Resources Development Canada [HRDC], 2003, p. 1). As an absolute measure, the MBM approach is an attempt to determine how much disposable family income³ is required for a pre-determined, specific basket of goods and services. The HRDC market basket measure includes five types of expenditures: 1) food; 2) clothing and footwear; 3) shelter; 4) transportation; and 5) other household needs (e.g., school supplies, personal care products, telephone, furniture).

The MBM is calculated with a referent family, comprised of two adults (one male and one female) aged 25-49, and two children (a girl aged 9 and a boy aged 13). All other household configurations are calculated using a formula based on the Low Income Measure (LIM) equivalence scale. A family of four has an equivalence scale value of 2. A single person has an equivalence value of 1. Therefore it is postulated by Statistics Canada that a family of four requires twice as much income as a single adult (HRDC, 2003, pp. 34-35). The MBM then establishes thresholds, which are the sum of costs for the predetermined basket of goods and services for the selected communities and community sizes across the ten provinces. Economic families that are below the MBM thresholds are considered low income.

Several issues with the MBM approach should be raised in the context of the LICO measure. First, although the MBM is considered an absolute approach to poverty measurement, it is actually a relative measure because it must be decided what constitutes a basket of goods and services. Any number of subjective opinions comprises what should and should not be in the market basket. All measures of poverty, in this sense, are relative. However, the larger problem is that the MBM approach does not account for the growing disparity of income between the rich and the poor. The income and wealth of the rich recede from scrutiny when consideration is focused on what constitutes a reasonable MBM basket of goods and services. Relative measures of poverty have the advantage of rising with the growth of economic

³ The MBM defines disposable family income as the sum remaining after deducting from the total household income the following: total income taxes paid; the personal portion of payroll taxes; other mandatory payroll deductions such as contributions to employer-sponsored pension plans, supplementary health plans and union dues; child support and alimony payments made to another household; out-of-pocket spending on child care; and non-insured but medically-prescribed health-related expenses such as dental and vision care, prescription drugs and aids for persons with disabilities (HRDC, 2003, p. 4). As such, the MBM definition of disposable household income would appear to more closely reflect available funds than the after-tax LICO.

expansion rather than the Consumer Price Index (inflation) on a fixed basket of goods and can capture growth in income disparity⁴. This can be illustrated using the example of the province of Saskatchewan.

Table 1: Total Income Distribution Saskatchewan. 2009 and 2015

Deciles	Upper Income Cut-off		Percent Income Share		Cumulative Percent	
	2009	2015	2009	2015	2009	2015
Lowest 10%	\$17,225	\$19,750	1.6%	1.4%	1.6%	1.4%
2 nd 10%	\$24,450	\$31,650	2.9%	3.0%	4.5%	4.4%
3 rd 10%	\$32,975	\$43,425	4.1%	4.4%	8.6%	8.8%
4 th 10%	\$43,200	\$55,000	5.4%	5.7%	14.0%	14.4%
5 th 10%	\$55,000	\$68,400	7.2%	7.0%	21.2%	21.4%
6 th 10%	\$68,750	\$84,500	8.5%	8.9%	29.7%	30.3%
7 th 10%	\$85,400	\$103,275	11.0%	10.8%	40.7%	41.1%
8 th 10%	\$106,550	\$129,525	13.6%	13.4%	54.3%	54.5%
9 th 10%	\$138,775	\$170,075	17.3%	17.0%	71.6%	71.5%
Highest 10%						
90%-95%	\$170,875	\$214,500	10.9%	11.0%	82.5%	82.5%
96%-99%	\$280,550	\$345,000	11.8%	12.1%	94.3%	94.6%
Top 1%	none ⁵		5.7%	5.4%	100%	
(gini coefficient)	0.412	0.409				
(gini index)	41.2%	40.9%				

Source: Calculated by the authors using Statistics Canada *Survey of Labour and Income Dynamics 2009* micro data file and the *Canadian Income Survey 2015* micro data file.

⁴ The Low Income Measure After Tax is set at 50% of the median income adjusted for family size (square root). As median income grows (rises) then the poverty measure will reflect that growth, being established at the 50% level.

⁵ Naturally there is no upper income cut-off for the top one per cent.

The five population Market Basket Measure Threshold Income Cut-offs for the province of Saskatchewan are displayed below for 2009 and 2015.

Table 2: Market Basket Measure Threshold Income Cut-offs, Current Dollars

Population Center	Upper Income Thresholds Current Dollars	
	2009	2015
Rural	\$32,081	\$37,558
Under 30,000	\$33,009	\$38,658
Between 30,000 and 99,999	\$30,745	\$36,431
Saskatoon	\$32,506	\$38,110
Regina	\$31,583	\$37,613

Source: Statistics Canada. *Table 11-10-0230-01 Market Basket Measure (MBM) thresholds for reference family, by Market Basket Measure region and component, in current dollars and constant dollars.*

If the Income Distribution Cut-offs are juxtaposed with the Market Basket Measure Threshold Income Cut-offs the issue becomes obvious. Only the bottom three income deciles are utilized as the income cut-offs do not reach higher. The five Population Centers used by Statistics Canada are averaged to account for the regional differences: 2009 ($159,924 / 5 = \$31,985$) and for 2015 ($188,370 / 5 = \$37,674$).

Table 3: Growing Gap Between Income Deciles Compared to Corresponding MBM cut-offs

Deciles	2009 Upper Income Cut-off	2015 Upper Income Cut-off
Lowest 10%	\$17,225	\$19,750
2 nd 10%	\$24,450	\$31,650
3 rd 10%	\$32,975	\$43,425
Gap: Income decile compared to MBM cut-offs	\$32,975 - \$31,985 = \$990 Difference between Upper Income and MBM Cut-off is \$990 or 3.0%	\$43,425 - \$37,674 = \$5,751 Difference between Upper Income and MBM Cut-off is \$5,751 or 13.24%
4 th 10%	\$43,200	\$55,000

Therefore as the economy grows over time less and less of the overall expansion represented by income growth reaches the poorest section of society. In effect they become ghettoized into a fixed strata of lower income while the economy continues to grow. This clearly illustrates the strength and the logic of relative

measures of poverty. The relative measures are tied to the growth of the economy and illustrate how that growth is distributed.

To further illustrate this point, let's examine the performance of the relative measure of poverty that has been used for many years in Canada, Low Income Measure – After Tax. The income cut-offs for the years 2009 and 2015 are in bold.

Table 4: Low Income Measure–After Tax Cut-offs 2009 - 2015 Current Dollars

Canada							
Current dollars							
Income Cut-offs							
Household size¹	2009	2010	2011	2012	2013	2014	2015
1 person	18,876	19,239	20,027	20,785	21,019	21,773	22,352
2 persons	26,695	27,208	28,322	29,394	29,725	30,792	31,611
3 persons	32,694	33,323	34,688	36,001	36,406	37,712	38,715
4 persons	37,752	38,478	40,054	41,570	42,038	43,546	44,704
5 persons	42,208	43,020	44,782	46,477	47,000	48,686	49,981
6 persons	46,237	47,126	49,056	50,913	51,486	53,333	54,751
7 persons	49,941	50,902	52,986	54,992	55,611	57,606	59,138
8 persons	53,389	54,416	56,645	58,789	59,451	61,583	63,221
9 persons	56,628	57,717	60,081	62,355	63,057	65,319	67,056
10 persons	59,691	60,839	63,331	65,728	66,468	68,852	70,683

1. To convert to other household sizes, multiply the value for a "1 person household" by the square root of the desired household size.

Source: Statistics Canada. *Table 11-10-0232-01 Low income measures (LIMs) by income source and household size in current dollars and 2016 constant dollars*

Returning to the Total Income Distribution Chart above, adding the relative measure of poverty that has been used for many years in Canada, the Low Income Measure – After Tax (LIM-AT) and comparing it to the Market Basket Measure Threshold Income Cut-offs (MBM) illustrates the concern. Table 5 below uses the Total Income Distributions for 2009 and 2015.

Table 5: LIM-AT Compared to MBM Income Thresholds - Total Income Distributions for 2009 and 2015, Current Dollars

Deciles	2009			2015		
	Income Cut-off	MBM	LIM-AT	Income Cut-off	MBM	LIM-AT
Lowest 10%	\$17,225			\$19,750		
2 nd 10%	\$24,450			\$31,650		
3rd 10%	\$32,975	\$31,985		\$43,425	\$37,674	
4 th 10%	\$43,200		\$37,752	\$55,000		\$44,074

Notice how the LIM-AT is set at a higher level than the MBM measure at its income cut-off threshold, and it rises in relative position to the growth in the economy. This is due to the measure being set at 50% of the median income. As the median income rises the LIM-AT Cut-offs rise. Looking at the data, the MBM measure increased **\$5,689** between 2009-2015 whereas the LIM-AT increased by **\$6,322** during the same period of time. The difference in growth rate of the poverty line measures in relation to growth in the Saskatchewan economy between 2009 and 2016 is \$623 or \$104 per year ($\$6,322 \text{ (LIM-AT)} - \$5,699 \text{ (MBM)} = \$623$). If this change in levels was to be held constant, by 2030 the LIM-AT would have outpaced the MBM by an additional \$1,456 for total difference of \$2,079 between 2009 and 2030. That scenario is unlikely however because it can't account for the potential changes in inflation rates, economic growth, changes in tax policy, changes to the MBM methodology etc.

It's also worth noting the LIM-AT Cut-off falls in the fourth income decile rather than the MBM which falls in the bottom third income decile. Without tying the MBM to a fixed ratio of the LIM-AT, it's relationship to economic growth will diminish and the rates of poverty will fall without any meaningful intervention by the federal/provincial governments. The rates of poverty will diminish as an artifact of the measure being pegged at a certain moment of time and the measure becoming disconnected from the growth in the economy.

Also worth noting is that the LIM-AT cut-off is also losing ground to its corresponding income decile upper income cut-off. This is similar to the MBM. In 2009 the top 20% of the population received 45.7% of the Total Income and the bottom 80% received 54.3% of the Total Income. For 2015 the top 20% of the population received 45.5% of the Total Income and the bottom 80% received 54.5% of the Total Income. A huge disparity of total income received exists between the top 20% and the bottom 80%, and this did not change between 2009 and 2015.

The following table lists Market Basket Measure (MBM) thresholds for economic families and persons not in economic families, 2016, Saskatchewan:

Table 6: Market Basket Measure (MBM) Income Thresholds for Saskatchewan, 2016

	Persons not in economic families	2 Persons	3 Persons	4 Persons	5 Persons
Rural areas	18,511	26,178	32,062	37,023	41,392
Small population centres with less than 30,000 persons	19,060	26,995	33,013	38,120	42,619
Medium population centres with a population between 30,000 and 99,999 persons	17,946	25,379	31,083	35,892	40,128
Saskatoon (CMA)	19,016	26,893	32,937	38,032	42,521
Regina (CMA)	18,907	26,738	32,748	37,815	42,277

Source: Statistics Canada. Table 11-10-0230-01 Market Basket Measure (MBM) thresholds (2011 base) for reference family, by Market Basket Measure region and component, in current dollars and 2016 constant dollars *for the 4 person reference family. All other calculations performed by the report authors.* At the time of writing the authors could only find the income thresholds for the MBM reference family of four.

With the reference family it is easy to calculate the income thresholds for all family sizes. The first step is to calculate the square root of the reference family of 4, which is 2. Divide the income threshold of the reference family of 4 (ex. \$37,023) by 2 which equals \$18,511. Using \$18,511 it's a simple calculation to calculate the income threshold for all other family sizes. If the family six is 6, the square root of 6 is 2.4495. \$18,511 x 2.4495 equals an income threshold of \$45,342.

The following table lists Market Basket Measure (MBM) thresholds for the reference family of four in constant and current dollars for the period of 2012- 2016, Saskatchewan:

Table 7: Market Basket Measure (MBM) Income Thresholds Saskatchewan, 2012-2016 Constant and Current Dollars

Geography	2016 Constant dollars Total Threshold					Current dollars Total Threshold				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	37,782	37,603	37,202	37,971	37,023	35,410	35,744	36,224	37,558	37,023
population under 30,000	38,886	38,720	38,312	39,083	38,120	36,444	36,806	37,305	38,658	38,120
population 30,000 to 99,999	36,107	36,045	36,016	36,832	35,892	33,840	34,263	35,069	36,431	35,892
Saskatoon	38,288	38,451	38,514	38,567	38,032	35,917	36,446	37,356	38,110	38,032
Regina	36,820	37,328	37,235	38,027	37,815	34,508	35,584	36,327	37,613	37,815

Source: Statistics Canada. Table 11-10-0230-01 Market Basket Measure (MBM) thresholds (2011 base) for reference family, by Market Basket Measure region and component, in current dollars and 2016 constant dollars

What stands out in stark contrast is that according to the figures provided by Statistics Canada the cost of living decreased in 2106 across the province of Saskatchewan. The following tables break down the MBM income thresholds by its constituent components of food, clothing, shelter, and in constant and current dollars. Readers may judge for themselves whether those items cost less in 2016 than 2015.

FOOD

Geography	2016 constant dollars					current dollars				
	Food					Food				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	11,169	11,136	11,259	11,841	11,359	10,468	10,586	10,963	11,712	11,359
population under 30,000	11,169	11,136	11,259	11,841	11,359	10,468	10,586	10,963	11,712	11,359
population 30,000 to 99,999	11,169	11,136	11,259	11,841	11,359	10,468	10,586	10,963	11,712	11,359
Saskatoon	11,297	11,354	11,552	11,732	11,477	10,598	10,762	11,205	11,593	11,477
Regina	10,719	11,030	11,178	11,489	11,278	10,046	10,515	10,905	11,364	11,278

CLOTHING

Geography	2016 constant dollars					current dollars				
	Clothing					Clothing				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	2,315	2,259	2,125	2,014	2,054	2,170	2,147	2,069	1,992	2,054
population under 30,000	2,315	2,259	2,125	2,014	2,054	2,170	2,147	2,069	1,992	2,054
population 30,000 to 99,999	2,315	2,259	2,125	2,014	2,054	2,170	2,147	2,069	1,992	2,054
Saskatoon	2,313	2,265	2,133	2,016	2,054	2,170	2,147	2,069	1,992	2,054
Regina	2,315	2,252	2,121	2,014	2,054	2,170	2,147	2,069	1,992	2,054

TRANSPORTATION

	2016 constant dollars					current dollars				
Geography	Transportation					Transportation				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	5,579	5,451	5,131	5,056	5,009	5,229	5,182	4,996	5,001	5,009
population under 30,000	5,579	5,451	5,131	5,056	5,009	5,229	5,182	4,996	5,001	5,009
population 30,000 to 99,999	2,433	2,404	2,464	2,432	2,415	2,280	2,285	2,399	2,406	2,415
Saskatoon,	2,911	2,873	2,887	2,841	2,864	2,731	2,723	2,800	2,807	2,864
Regina,	2,491	2,454	2,403	2,789	3,044	2,335	2,339	2,344	2,759	3,044

SHELTER

	2016 constant dollars					current dollars				
Geography	Shelter					Shelter				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	8,555	8,659	8,600	8,618	8,493	8,018	8,231	8,374	8,524	8,493
population under 30,000	9,658	9,777	9,710	9,730	9,589	9,052	9,294	9,455	9,624	9,589
population 30,000 to 99,999	10,027	10,150	10,081	10,101	9,955	9,397	9,648	9,816	9,991	9,955
Saskatoon	11,507	11,695	11,627	11,617	11,438	10,795	11,085	11,277	11,479	11,438
Regina	11,471	11,580	11,512	11,557	11,391	10,751	11,039	11,231	11,431	11,391

OTHER EXPENSES

Geography	2016 constant dollars					current dollars				
	Other expenses					Other expenses				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
rural	10,163	10,095	10,087	10,442	10,109	9,525	9,596	9,822	10,328	10,109
population under 30,000	10,163	10,095	10,087	10,442	10,109	9,525	9,596	9,822	10,328	10,109
population 30,000 to 99,999	10,163	10,095	10,087	10,442	10,109	9,525	9,596	9,822	10,328	10,109
Saskatoon	10,258	10,264	10,314	10,362	10,198	9,623	9,729	10,004	10,239	10,198
Regina	9,824	10,011	10,022	10,177	10,048	9,207	9,543	9,778	10,066	10,048

The same formula for converting the MBM reference family of 4 to any family size applies. Take the figure of interest, (ex. 2016 average MBM shelter cost of \$10,173 and divide by 2 = \$5,087). This would be the shelter for 1 person. For 2 people, use the square root of 2 (1.414) and multiply by \$5,087 which gives the shelter cost of \$7,193. This is a woefully low and unrealistic number, according to Saskatchewan Housing the “Average shelter costs⁶ in Saskatchewan on a monthly basis were \$1,136 in 2016, compared to \$1,213 for Canada. Saskatchewan renters paid an average of \$1,021 while homeowners paid \$1,178. Canadian renters paid an average of \$1,002 compared to \$1,313 among homeowners.”⁷

The low shelter cost estimates are no accident, they are designed into the MBM formula based on what the government called the *First Comprehensive Review of the Market Basket Measure of Low Income Final Report*.⁸ This review had a dramatic impact in lowering the level of poverty when using the MBM because the review fundamentally changed how shelter costs were calculated after this review, what the government refers to as rebasing a measure.

The MBM’s shelter component was rebased by a combination of two factors: weighting the formula more strongly toward a family of four having a two rather than three bedroom apartment; and assuming that some low income families owned rather than rented their accommodation. Consideration was also given to further adjusting the shelter component to account for families living in rent geared to income (RGI) accommodation.⁹

⁶ Shelter costs include, where applicable, rent or mortgage payments, electricity, heat, water and other municipal services, property taxes and condominium fees.

⁷ *Saskatchewan Housing 2016 Census of Canada*, Saskatchewan Housing, October 25, 2017, <www.publications.gov.sk.ca/redirect.cfm?p=86690&i=104387>

⁸ *First comprehensive review of the market basket measure of low income: final report*. Michael Hatfield, Wendy Pyper, and Burton Gustajtis. June 2010. <HS28-178-2010-eng.pdf>

⁹ *Issue Update: The Market Basket Measure - Rebased or Debased?* John Kolkman, Edmonton Social Planning Council. Winter 2011. <<https://edmontonsocialplanning.ca/~edmont65/index.php/our...edition-of.../file>>

The rebasing of the shelter component of the MBM (2011) is inadequate and diminishes the usefulness of this measure. There's nothing to prevent governments from rebasing the MBM measure sometime in the future.

The MBM is an inadequate measure of poverty. Dozens of arbitrary decisions go into deciding what to include in its market basket, the shelter calculation is unsophisticated and the measure is not linked to growth in the economy. In fact, the whole idea of a poverty measure is not useful towards achieving social, economic and environmental justice. The focus needs to shift towards inequality, the capriciousness of the super wealthy and the rest of the population is where attention should shift.