

Written submission to the House of Commons Standing Committee on Human  
Resources, Skills and Social Development and the Status of Persons with  
Disabilities

**Regarding a study of poverty reduction strategies**

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## I. INTRODUCTION AND RECOMMENDATIONS

Canada's practice of using only monetary indicators to monitor progress on poverty reduction is inadequate for two reasons. First, monetary indicators such as low-income poverty lines do not provide a reliable picture of poverty in Canada. Low-income indicators label a sizeable population group experiencing material hardship as non-poor and, simultaneously, label groups as poor that, despite having a low income, may not be experiencing material hardship. Second, these measurement issues also bias analysis of the effects of public policies on poverty reduction. When a policy positively affects the well-being of a person who is materially deprived but not income-poor, this is not counted as contributing to poverty reduction so expenditures may be incorrectly assessed as inefficiently targeted.

Both issues are well documented in the international academic literature and Canadian studies confirm these problems are also present in Canada. Therefore, many European jurisdictions, including Ireland, the United Kingdom and the European Union, use both monetary and non-monetary types of indicators. The national statistics offices collect the data and policy makers use established indicators to track progress on poverty reduction objectives.

Canada is unusual among developed countries in having no official poverty line. A country such as Canada cannot really do without a poverty measure so Statistics Canada low-income indicators are identified as 'poverty lines' by most Canadians, notwithstanding Statistics Canada protestations. However, Statistics Canada does not currently produce any non-monetary poverty indicators. It is certainly possible to produce a non-monetary indicator. Statistics Canada itself has experience collecting data to support a non-monetary poverty indicator as the agency occasionally surveyed material deprivation indicators for Ontario (on request and financed by the Government of Ontario) and through its own pilot survey [Heisz and Langevin 2009].

We **recommend** that the Federal Government:

- 1) Task Statistics Canada with the annual collection of non-monetary poverty data, including material deprivation data;
- 2) Track progress on poverty reduction using both current monetary low-income and non-monetary poverty indicators, including a material deprivation index.

The remainder of this brief details this argument, as set out in Notten and Mendelson 2016.

## II. POVERTY IS NOT NECESSARILY 'LOW INCOME'

A Canadian household is poor if it cannot afford a very modest but still acceptable standard of living, compared to the average standard of living in Canada. In an extremely poor country, poverty might mean that your children have no shoes. In Canada, poverty means you cannot afford such things as a warm winter coat; or being able to give your child an inexpensive birthday gift; or any other goods and services that are minimally necessary for an acceptable standard of living in our wealthy country.

Almost all poverty measures in Canada set a dollar amount – a poverty line – below which a household is said to be in poverty, above which a household is not considered poor. But when we measure poverty only according to income, we may incorrectly assess whether Canadians are actually experiencing a ‘poverty level’ standard of living.

Some households with incomes above an income-defined poverty line may have many debts, special needs or face especially high living costs – or hundreds of other factors that can arise in real life. Alternatively, some households below the poverty line may have usable assets, may get help from other family members or otherwise have access to alternative resources. Crucially, using income lines as poverty measures also does not take into account the availability or the quality of public services such as medicare or education. This factor is especially important for policy-makers since many of the measures taken to reduce poverty and inequality involve enhanced public services rather than just money.

So if we use only poverty lines defined as an amount of income, we may be measuring the extent of poverty and the effects of poverty reduction policies with an imperfect yardstick. We could be misdiagnosing the scope of poverty – the number of Canadians who are poor, who they are and the depth of their poverty.

An answer in Europe is to complement the income yardstick with another poverty measure: material deprivation. Such an indicator focuses on the outcome of not having enough financial resources, namely being unable to afford typical necessities. While income indirectly measures standard of living by assessing inputs, material deprivation attempts instead to assess directly the household’s standard of living by looking at what it actually has. Material deprivation data is usually obtained by surveying households as to whether they would want but cannot afford goods or services commonly present in households with an acceptable but modest standard of living [Matern, Mendelson and Oliphant 2009a].

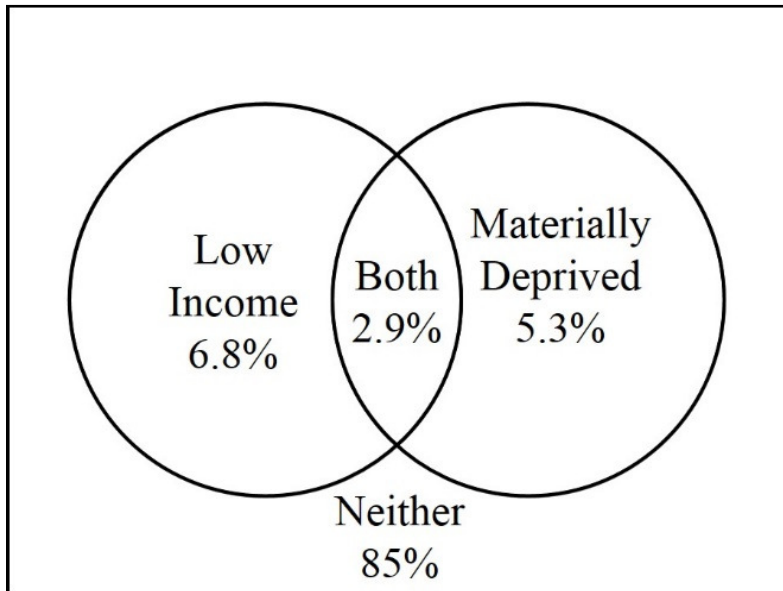
### **III. THE OVERLAP BETWEEN LOW INCOME AND MATERIALLY DEPRIVED POPULATIONS IS SMALL**

Notten’s research on child poverty in Ontario confirms the international evidence [Notten 2015a; Heisz and Langevin 2009]: the overlap between poverty line and material deprivation indicators is small. As seen on Figure 1, among children in Ontario in 2010, 9.7 percent were in households below an income-defined poverty line and 8.2 percent were in materially deprived households as defined by their family’s inability to afford two or more indicators of material deprivation. However, only 2.9 percent of children were living in households that were both below common poverty lines and also experienced material deprivation.

Seventy percent of children who are poor according to a poverty line are not poor according to a material deprivation index. On the other side of the coin, sixty-five percent of children identified as poor according to a material deprivation index are not poor according to a poverty line. A

similar pattern arises irrespective of which of the three common Canadian low-income indicators (the Market Basket Measure, the Low Income Measure and the low income cut-offs) is used.

Figure 1: Child poverty in Ontario, percent of poor children



Source: Notten [2015a], low-income cut-offs after taxes [SLID, 2010]

Assessments based solely on poverty lines or solely on material deprivation may exclude people whom we would consider poor and also include people whom we might *not* consider poor if we were better able to assess their circumstances. In the language of epidemiology, these are known as false negatives – those who are deemed not poor but really are – and false positives – those who are deemed poor but really are not.

#### IV. THE LACK OF OVERLAP ALSO BIASES POLICY EVALUATIONS

The diagnostic problem also biases policy evaluation. Notten [2015a; 2015b] shows that when the assessment relies on a single poverty indicator, income transfer programs can be assessed as less effective and efficient in reducing poverty than if two complementary poverty indicators were used.

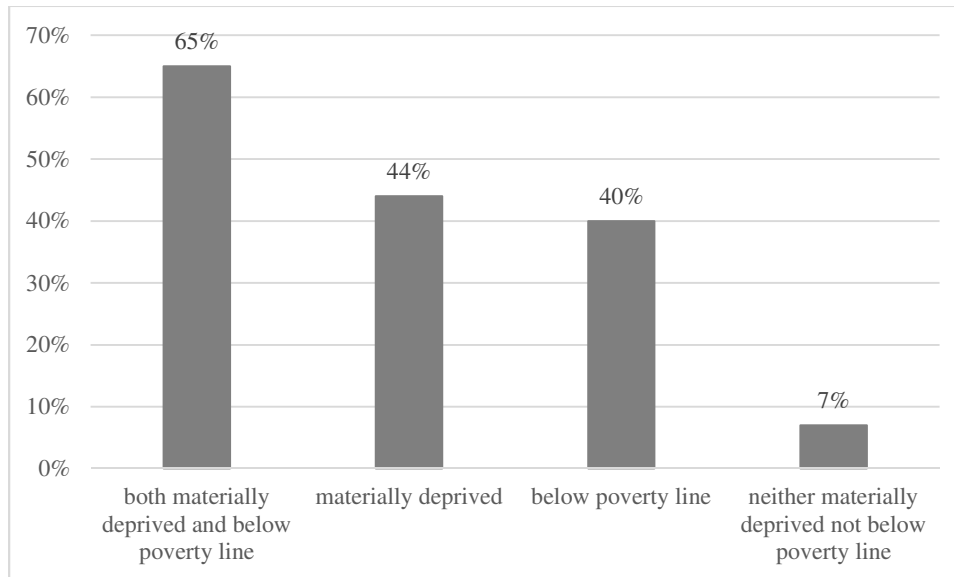
The advantage of using two complementary poverty indicators is that it reduces the uncertainty around identifying the poor by distinguishing between a group that is very likely to be experiencing poverty (poor according to both indicators), one that may possibly be experiencing poverty (poor according to only one indicator) and one that is almost certainly not poor (not poor according to either indicator).

Making these distinctions improves the evaluation of programs because it reduces the risk of a program getting ‘blamed’ for measurement issues in the poverty indicator. However, it is not a perfect solution as the use of two indicators minimizes the chances of ‘false positives’ when both

indicators are present, but does not minimize false negatives. The need remains for more information to assess the situation of those about whom the poverty metrics disagree.

Take, for example, social assistance in Ontario. The Ontario Works and Ontario Disability Support Program provide last-resort income support to households with no or minimal financial resources and no alternative means to generate income.

Figure 2: Percentage of Ontario children in households with one, two or no poverty indicators on social assistance



Source: Notten [2015a] using low income cut-offs before taxes [SLID 2010]

Consistent with the aim of these programs, Notten's research found that many poor Ontarian children receive support from these programs [Notten 2015a]. Figure 2 shows that fully 65 percent of children in households that are both materially deprived and below the poverty line are recipients of social assistance. Given that these two poverty indicators make different measurement mistakes, a unanimous verdict means that it is highly likely that a household's living standard has been correctly measured, and that Ontario's social assistance program is reaching about two-thirds of those children in households that are almost certainly in need.

On the right hand bar in Figure 2, we can see that about 7 percent of children in households with neither indicator are in receipt of social assistance. Children in households with both indicators are therefore about 9 to 10 times as likely to be in receipt of assistance – a highly significant difference in likelihood between those with neither indicator and those with both indicators. Because social assistance is an extremely detailed, individualized assessment, it is all but certain that any household on assistance is experiencing poverty [see also Béland and Daigneault 2015].

We see that children in households with at least one indicator, but not necessarily both (some of these households have both indicators), have about 40 percent likelihood of receiving assistance – about four to five times the likelihood of those with neither indicator. We need more

information to determine if the ‘missing’ 60 percent in this group are a problem of social assistance not reaching many of the poor or a problem of the definition of poverty.

## **V. A MATERIAL DEPRIVATION INDEX AS A COMPLEMENT TO LOW INCOME**

Neither poverty lines nor material deprivation indices are perfect.

Using both poverty lines and material deprivation indicators as complementary indicators can provide more accurate information, because the mistakes of one indicator are not likely to be the same as those of the other. Each poverty indicator measures a distinct aspect of poverty. Poverty lines count financial resources. Material deprivation counts items that a household says it does not have because it cannot afford them.

The federal government should, of course, continue to look at poverty through the lens of income-defined poverty lines. But if it is serious about using good evidence to assess policy, the government should also adopt a Material Deprivation Index as a complementary indicator with which to monitor progress on poverty reduction.

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