

## MEASURING AND RESPONDING TO INCOME POVERTY<sup>†</sup>

Ron Kneebone and Margarita Wilkins

### SUMMARY

This paper discusses and describes measures of poverty and, on the basis of that discussion, proposes a public policy response that more closely and more easily targets income support to where it is most needed and most effective.

Our review of poverty measures shows there are many holes that prevent advocates and policy-makers from obtaining a clear picture of who is in poverty and the depth of that poverty. The Market Basket Measure is the most finely tuned to identifying where impoverished families live and that is in large part why it was recently adopted by the federal government to gauge its anti-poverty policies. The government of Alberta, on the other hand, evaluates its policies using a measure of poverty that allows no consideration that costs of living might vary by community.

Social assistance is the main policy instrument through which the federal and provincial governments provide assistance to people in need. We show that the growing emphasis of increasing social-assistance support via child benefits provides no increase in support in what has been for some time the majority of social-assistance cases. What's more, despite a great deal of evidence that the cost of meeting basic needs varies widely by community, the amount of assistance provided is the same regardless of where one lives in the province. We propose a modification to how social assistance is provided that makes allowances for the fact poverty is deeper in some parts of the province than others and that provides support to individuals and families whether or not they have children. Our proposal is superior to rent control as a means of dealing with falling housing affordability, removes barriers to people receiving social assistance from moving to seek employment, and has features similar to a guaranteed basic income. It is also inexpensive. We estimate the cost of our proposal to be equivalent to less than one per cent of the provincial health-care budget.

<sup>†</sup> This research was supported by 11 members of the Calgary Social Policy Collaborative (SPC): Calgary Counselling Centre, Calgary Food Bank, Carya Society of Calgary, Catholic Family Service, CUPS, Max Bell Foundation, Momentum, United Way of Calgary and Area, Vibrant Communities Calgary, Women's Centre of Calgary and YWCA of Calgary. The SPC is a group of community organizations committed to working together to inform the development and implementation of public policy that improves the well-being of Albertans. The views expressed in this paper should in no way be attributed to members of the SPC. While we acknowledge the extremely helpful comments of reviewers and the editor, they too are absolved of any responsibility for errors or omissions.

## INTRODUCTION

This paper discusses and describes measures of poverty and, on the basis of that discussion, proposes a public policy response that more closely and more easily targets income support to where it is most needed and most effective. We are motivated by the importance to a well-functioning democratic society of public policies that effectively address the needs of individuals and families experiencing poverty. Whether it is the “Occupy” movement, concerns about the wealth and influence of the richest one per cent, or the recent frustrations evident in populist attacks on economic institutions in North America and Europe, it is increasingly apparent that gains in economic efficiency cannot come without efforts to also address persistent poverty. The challenge is how to effectively target scarce resources to that purpose.

We will discuss data describing and measuring poverty in Alberta, but what is presented here can be applied to any province. Our focus is on measuring and addressing poverty as it is experienced by non-seniors and by non-Indigenous Canadians and we touch only lightly on the issue of poverty as it relates to people dealing with disabilities. The experiences of seniors, Indigenous people, and people dealing with disabilities demand separate treatment.

In the next section, we review measures of income poverty and show how those measures can be used to describe the prevalence and depth of poverty. We then turn to a description of social assistance, the public sector’s most important response to poverty among non-seniors. In the section following, we turn to other evidence describing the experiences of individuals and families experiencing poverty and in so doing raise questions about how social assistance is provided. This discussion will highlight the critical role played by the cost of housing in determining the challenges faced by individuals and families with low income. This evidence leads us to propose a different, and we think more effective way of providing income support to individuals and families in need. We conclude with a summary of our main findings.

## MEASURES OF POVERTY

When people define what they mean by “poverty,” they most often define a measure that is based on income. The availability of income is, after all, what makes shelter, food, clothing, and other essentials available to us. Income-based measures of poverty are also attractive because income is relatively easy to measure, has been measured for a long time, and is something that policy-makers can influence with tax and expenditure choices.

While in this paper we focus on income measures of poverty, we recognize there is another important financial measure we are not considering, namely household wealth. Household wealth is an important source of resilience in the face of unexpected events. It serves as a buffer against unexpected shocks, including loss of income, and so better enables individuals and families with low incomes to maintain their housing, their diet, and likely their health.<sup>1</sup> Our focus on income should not be taken as suggesting we do not consider issues related to asset accumulation to be important. On the contrary, we believe policies encouraging asset accumulation to be an important part of efforts to address poverty.

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<sup>1</sup> See Robson and Nares (2006) for discussion of the importance of asset wealth for alleviating poverty.

## Two Broad Concepts of Income Poverty

What defines poverty is a question bound up in questions of *fairness* and *equity*. Since these concepts are themselves difficult to define, it is not surprising to find poverty means different things to different people. These differences are apparent in the two broad approaches to determining a fair or equitable level of income support to provide to persons in need. One approach is based on the idea of poverty being a *relative* measure and the other is based on the idea of poverty being an *absolute* measure.<sup>2</sup>

Relative measures of poverty stress that the income below which one can be deemed to be in poverty should enable a standard of living that is constant relative to that enjoyed by others in society. Poverty thresholds should increase with the standard of living in society as a whole.

Absolute measures of poverty suggest that the income below which one can be deemed to be in poverty should reflect only the cost of maintaining a certain minimum standard of living. The level of income defining whether one is in poverty changes only if the cost of maintaining a defined standard of living changes. There is not necessarily a connection between the standard of living of the average person in society and the person deemed to be in poverty.

The choice of an absolute or a relative measure of poverty is important for how public policy responds to income inequality. For those who stress that poverty is best defined as a relative concept, measures of income inequality become important. It is not enough to raise the standard of living of the poor, their standard of living must rise at least as quickly as that of households with higher incomes and so the fight against poverty is also a fight against income inequality. For those who prefer to define poverty as an absolute measure, income inequality and poverty are distinct concepts.<sup>3</sup>

These broad-strokes descriptions of absolute versus relative measures of poverty highlight that all income-based poverty lines are values-based. Whichever measure one chooses, there will be people who object because the measure does not satisfy their concept of what is fair. It is for this reason many analysts suggest policy-makers should refer to a suite of measures, each defining a different dimension of poverty.<sup>4</sup>

## Three Published Income Measures

All levels of government in Canada implement policies that impact poverty, but until very recently none has defined an “official” poverty line against which to gauge their efforts. The exception is the federal government, which announced in August 2018 that it would evaluate its efforts to address poverty using the Market Basket Measure, which we describe below. It is important to note that municipal and provincial governments, who through social-assistance, affordable-housing, and homeless-shelter funding do most of the heavy lifting with respect to poverty alleviation, have yet to commit to adopting this same measure as a guide to evaluating their own efforts. What’s more, there may be a desire to maintain watch on more than one poverty line. It is useful, then, to briefly describe all three measures currently available to measure poverty.

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<sup>2</sup> Aldridge (2017) provides a concise overview of alternative income-based measures of poverty.

<sup>3</sup> This, for example, is the approach taken in the recent report of the Social Metrics Commission (2018) in the U.K. The commission argues that while income inequality and social mobility are related concepts to any measure of poverty, they are not measures of poverty itself.

<sup>4</sup> Debates over the preferred design of poverty measures are also based on the desired statistical and theoretical properties of Foster-Greer-Thorbeck income poverty measures. See Zhang (2010) for a discussion of these properties within the context of the three poverty measures we discuss below.

The **Market Basket Measure (MBM)** was developed in response to a perceived need on the part of provincial and territorial governments to have an agreed-upon measure of low income.<sup>5</sup> The MBM is, for the most part, an absolute measure of income poverty in that it defines a basket of goods and services that does not automatically change with changes in the general standard of living in society.<sup>6</sup>

As well as obvious necessities such as food, shelter and clothing, the MBM includes a very wide range of items related to recreation, transportation needs (including an automobile for those living in rural areas), household needs, furniture, telephone services, reading materials including newspaper and magazine subscriptions, video rentals, and even tickets to local sporting events.<sup>7</sup> This long and finely detailed list reflects a judgment that an element of poverty is the extent to which those with low income suffer social exclusion and that the latter can be avoided by making possible the purchase of entertainment and the enjoyment of recreation activities.

It is important to emphasize that the MBM is calculated for a four-member family consisting of two adults (one male and one female aged 25–49 years) and two children (a girl aged 9 and a boy aged 13). Different family sizes and compositions will face different costs of living, and how the defined poverty line is adjusted to account for this is not without controversy. This is discussed in the next section.

The MBM varies by province and size of local jurisdiction. In Alberta, separate MBM measures are available for Calgary and Edmonton, but the MBM for other jurisdictions is based solely on the population of that jurisdiction. Thus, there is a separate measure of the MBM for all communities with populations between 100,000 and 499,000 people, those between 30,000 and 99,999 people, and those with less than 30,000 people. Still another MBM measure is provided for rural areas. The cost of living as defined by the MBM is assumed to be the same in all jurisdictions within these population ranges, from an isolated community with limited road access to one with easy access to a larger population centre.

Unlike the MBM, the **Low Income Cut-Off (LICO)** does not attempt to define the cost of a long and finely detailed list of goods and services required to meet some minimum standard of living. Instead, it is based on a calculation of what the average family spends on what most people would consider to be necessities, namely housing, food and clothing. In 1992, when the base of the LICO threshold was last set, the average family was found to have spent 43 per cent

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<sup>5</sup> See Human Resources and Skills Development Canada, *Low Income in Canada: 2000-2007 Using the Market Based Measure – August 2009*, available online at [http://publications.gc.ca/collections/collection\\_2010/rhdcc-hrsdc/HS28-49-2009-eng.pdf](http://publications.gc.ca/collections/collection_2010/rhdcc-hrsdc/HS28-49-2009-eng.pdf).

<sup>6</sup> We add the qualifier “for the most part” because the content of the basket of goods changes from time to time. For a new good or service to be added to the basket, it needs to be widely used and thought to make a significant contribution to social inclusion. See Hatfield, Pyper and Gustajtis (2010) for discussion. To this limited extent, the MBM has an element of being a relative measure. The last changes made to the content of the MBM basket were made effective in 2011.

<sup>7</sup> See HRSDC (2010) for a list of goods in the MBM basket. Items in the MBM basket are identical for each geographical region but vary slightly in quantity. The major adjustment for geographic difference is made through the different purchasing costs of the items in the MBM basket. The price index used to adjust the MBM is a weighted average of the changes in price of each of the items in the basket. Thus, the MBM grows over time at a rate different from the provincial all-items consumer price index.

of after-tax income on food, shelter and clothing.<sup>8</sup> The LICO threshold is defined as the income below which a family is likely to spend 20 percentage points more of its income on food, shelter and clothing than the average family. Thus, the LICO defines a family as being in “straitened circumstances” if that family is required to spend 63 per cent or more of after-tax income on food, shelter and clothing.

LICO measures are available that define the income required for from one person, two people and so on up to seven people to reach that threshold, but the age and sex compositions of these hypothetical households are not considered. Unlike the MBM, no consideration is made that costs may differ according to family composition; for example, for a two-member family composed of an adult couple with no children versus one composed of a lone parent with one child.

A measure of the LICO is available for five community sizes: rural areas, urban areas with populations less than 30,000 people, urban areas with populations between 30,000 and 99,999 people, urban areas with populations between 100,000 and 499,999 and, finally, urban areas with populations over 500,000. These are the same population demarcations as used by the MBM, but whereas the MBM defines a different basket for each jurisdiction with a population over 500,000 people, the LICO does not. More importantly, unlike the MBM, the LICO measures do not vary by province. This becomes problematic when one considers by how much shelter costs, for example, vary by province, even across communities of similar size.

The **Low Income Measure (LIM)** is the most commonly used poverty line when making international comparisons. In simple terms, the LIM is a fixed percentage (50 per cent) of median adjusted household income. Since the LIM is strictly based on income distribution, researchers can compare low income in Canada with that in any country in which an income survey is conducted. Statistics Canada has provided measures of the LIM since the early 1990s. Although it is conceivable to define a separate LIM for each province, only a national version is currently available.

The LIM is a relative measure. Assuming that the median income in the jurisdiction is rising over time, the LIM poverty line defines an income that enables recipients to buy more goods and services over time, and so enjoy a rising standard of living.<sup>9</sup>

An important problem with the LIM is that, because it is available only as a national measure, it fails to take into consideration large differences in the cost of living between big cities and rural communities and between provinces.<sup>10</sup> If the level and evolution of median income in a province differs from the national average, it is problematic for a provincial government to use the LIM as a measure of poverty and as a gauge of its progress in efforts to combat poverty.

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<sup>8</sup> The fact the LICO is based on expenditure patterns established in 1992 is problematic as these budget shares are no longer accurate. Using U.S. data, Schanzenback, Nunn, Bauer, and Mumford (2016) show that between 1984 and 2016 the share of a low-income family’s budget expended on necessities has increased. The major driver of this increase is the cost of shelter. We provide evidence of recent changes in budget shares in our discussion below. The failure to account for changing expenditure shares is at the heart of criticism of the LICO calculation. Prior to 1992, Statistics Canada used the Family Expenditure Survey to revise expenditure shares devoted to necessities in 1959, 1969, 1978, and 1986, and in this way regularly updated the LICO base. There has been no such update since 1992.

<sup>9</sup> A variant of the LIM, sometimes referred to as the “fixed LIM,” anchors the measure of poverty to a standard of living at a specified point in time. This makes this version of LIM an absolute measure until such time it is anchored to a new point in time. For a discussion, see Zhang (2010). The fixed LIM has not been adopted by Statistics Canada.

<sup>10</sup> The relative lack of access to services such as public transportation and internet access by people living in rural areas is one obvious consideration that makes it problematic to define a measure of poverty that fails to consider community size.

The LIM is only defined for a single person. Like the other poverty measures, adjustments for different family sizes and compositions can be made using family-equivalency scales.

As the discussion in this section suggests, these different poverty measures offer different levels of precision and all have advantages and disadvantages. The choice of one measure over another can also have far-reaching implications. For example, in choosing the MBM to guide its anti-poverty efforts, the federal government has chosen a measure that is best understood to be an absolute measure of poverty. An under-appreciated implication of this choice is that policies meant to deal with income inequality need not necessarily score well when evaluated on the basis of the MBM.

### Family-Equivalency Measures

We have noted that the LIM and MBM are defined for specific family compositions. Since there exist obvious economies of scale enjoyed by larger families, we need a way of adjusting poverty lines for family size and composition. For this purpose, family-equivalency scales have been developed. The most commonly used scales include:<sup>11</sup>

- The square-root scale. This scale divides household income by the square root of the number of family members. For example, a family of four is assumed to require ( $\sqrt{4}= 2$ ) two times what a single person would need to spend. Similarly, a lone parent with one child is assumed to require ( $\sqrt{2}= 1.414$ ) 1.414 times what a single person would need to spend. Statistics Canada uses this method when presenting MBM-based measures of poverty lines for alternative family sizes.
- The OECD scale. This scale assigns a value of one to the head of a household, a value of 0.5 to each additional adult (aged 15 years and above), and a value of 0.3 for each child. A family of four, composed of two adults and two children, is therefore assumed to require ( $1 + 0.5 + 0.3 + 0.3 = 2.1$ ) 2.1 times the income of a single person.
- The LIM scale. This is the scale that Statistics Canada uses when publishing LIM-based estimates of the poverty line for alternative family compositions. It is conceptually similar to the OECD scale but uses different weights. Thus, a value of 1.0 is assigned to the oldest person in the family while a value of 0.4 is assigned to all other family members aged 16 years and over. All family members aged less than 16 years are assigned a value of 0.3.

Table 1 provides calculations for alternative family sizes and compositions for each of these equivalency scales.

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<sup>11</sup> For a useful and recent discussion of equivalency scales see Omar (2018). For a more technical discussion see Atkinson et al. (1995).

**TABLE 1** FAMILY-EQUIVALENCY SCALES

Household Size	Square-Root Scale	OECD Scale	LIM Scale
One adult	1.0	1.0	1.0
Two adults, no children	1.4	1.5	1.4
Lone parent, one child less than 16 years of age	1.4	1.3	1.3
Couple, two children less than 16 years of age	2.0	2.1	2.0
Couple, three children less than 16 years of age	2.2	2.4	2.3
Couple, four children less than 16 years of age	2.4	2.7	2.6

Note: Calculations are rounded to one decimal place.

The square-root scale differs in an important way from the other scales by not distinguishing between the consumption costs associated with an adult versus a child. An important implication is that for large families, the poverty line will tend to be higher when using the LIM or OECD scales than when the square-root (MBM) scale is used. Different scales therefore impact estimates of the number of people deemed to be experiencing poverty. It is important that analysts make clear which equivalency scale is being used.

It is also important to recognize that, like the poverty measures themselves, none of the family-equivalency scales take health issues into consideration. When governments consider policies meant to address poverty among families dealing with physical or mental challenges, the existing measures of poverty and commonly used adjustments for family composition are underestimating — likely by a significant amount — the true cost of living faced by these families. An adjustment to the family-equivalency scale to take this into consideration would be useful.

Table 2 presents values of the poverty line in 2016 defined for two alternative family sizes relevant for Alberta communities of varying populations.<sup>12</sup> To obtain measures that vary by family composition, we use the family-equivalency scale that Statistics Canada applies to each of these measures, namely the square-root scale for MBM and the LIM scale for LIM and LICO. To illustrate the importance of the choice of a family-equivalency scale, we also report a poverty line for MBM\*, which we define as the MBM poverty line in Alberta when the LIM family-equivalency scale is used instead of the square-root scale.<sup>13</sup>

<sup>12</sup> Later in this report we will look at data on social-assistance incomes. The data that are available provide the social-assistance income paid to a single person, to a lone parent with one child, and to a couple with two children. To facilitate comparisons to social-assistance incomes, it will be useful to use these family compositions to define alternative poverty lines.

<sup>13</sup> Table 2 reports a value for Alberta. Any provincial value of an income-based poverty line should be calculated as a population-weighted average of the poverty line for every community in that province. That is how we produced the measure for Alberta reported in the table.

**TABLE 2 POVERTY LINES FOR 2016**

	Single Person			Lone Parent			
	LICO	MBM	LIM	LICO	MBM	MBM*	LIM
Calgary (>500,000)	20,675	20,215	22,657	25,163	28,588	26,280	29,454
Edmonton (>500,000)	20,675	19,268	22,657	25,163	27,248	25,048	29,454
100,000 to 499,999	17,485	19,153	22,657	21,281	27,086	24,899	29,454
30,000 to 99,999	17,267	19,951	22,657	21,016	28,215	25,936	29,454
< 30,000	15,478	20,223	22,657	18,840	28,600	26,290	29,454
Rural	13,525	19,511	22,657	16,461	27,592	25,364	29,454
Alberta	18,279	19,816	22,657	22,248	28,025	25,761	29,454

Notes: Poverty lines for MBM and LIM are based on the family-equivalency scale that Statistics Canada applies to those measures. MBM\* is our calculation and shows what would be the MBM poverty line for a lone parent with one child had the family-equivalency scale been the same as that used for LIM. As shown in Table 1, the choice of equivalency scale does not impact the calculations for a single person. As discussed earlier, LIM is not sensitive to community size. We calculated the poverty-line values for Alberta as population-weighted averages of poverty-line values for each of the 435 communities (cities, towns, municipalities, villages, municipal districts and rural areas) in the province. All values are measured in nominal dollars.

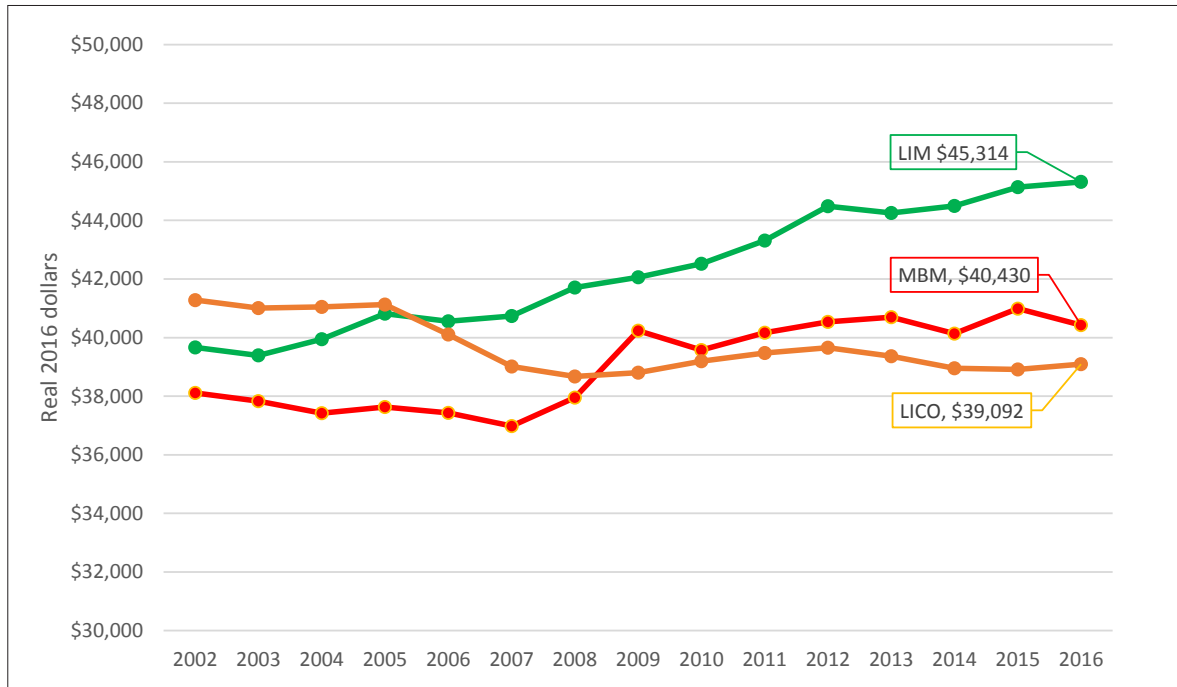
The table illustrates a number of important points. First and most obvious, poverty lines vary a great deal by family size and composition. Second, the LICO varies by community size more so than does MBM or, of course, LIM, which is a national value. For example, the LICO for a single person in Calgary is about 50-per-cent greater than the LICO for a single person living in a rural community. For LICO, more than any other measure, it is important to identify not only family composition but also the size of the community that family is living in. Third, the comparison of MBM and MBM\* for a lone parent with one child shows the importance of the choice of family-equivalency scale. In Calgary in 2016, the difference is \$2,308 annually or just under \$200 per month, depending on which equivalency scale is adopted. The design and choice of family-equivalency scale is important and should not be a secondary consideration.

### Income-Poverty Measures over Time

Figure 1 shows, for the period 2002 to 2016, three alternative poverty lines for a family of two adults and two children aged less than 16 years living in Calgary. Note that the relative position of the three lines has changed over time. Whereas in 2002 the LICO set the highest poverty line, by 2016 it was defining the lowest.



**FIGURE 1 POVERTY LINES FOR CALGARY, FAMILY OF FOUR, 2002-16**



Source: Statistics Canada CANSIM Tables 11-10-0230-01, 11-10-0232-01 and 11-10-0241-01; and authors' calculations. Nominal values deflated using Alberta consumer price index. Note: These are poverty lines for a family consisting of two adults and two children under the age of 16 years.

Understanding how the three lines are measured is important for understanding the message being conveyed by their relative movements. The LIM is a national measure that varies with the median income of Canadian, not Calgary, households. A large increase in Calgary's median income relative to Canadian households will therefore have little influence on the LIM with the result that it will understate the measure of poverty experienced by Calgary households. It is interesting then that the Alberta Ministry of Community and Social Services relies on using the LIM in its development of performance measures (see Government of Alberta (2018a)). By doing so, it has chosen a measure for guiding policy choices that is insensitive to the difference in median income in Alberta and elsewhere.

LICO varies by community size but not by province, and so rising costs unique to Calgary will not noticeably influence the LICO measure. Given Calgary's experience with economic booms and busts and the influence they have on local prices, this is a serious limitation of the LICO measure. It will tend to understate the number of Calgary families experiencing poverty because it will fail to capture price increases that are unique to Calgary.

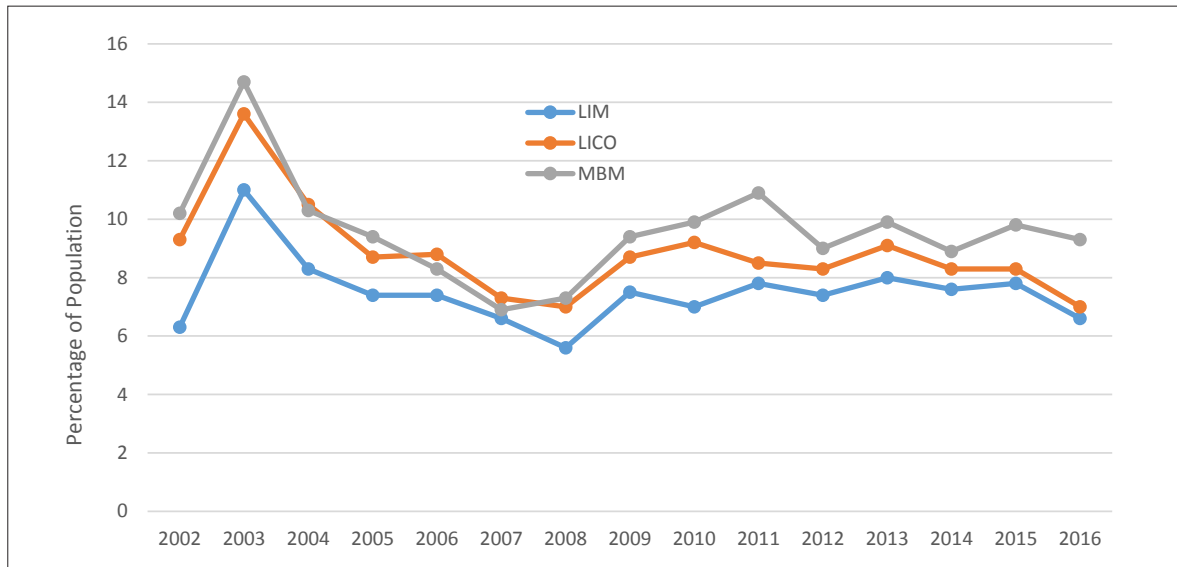
Only the MBM is defined specifically for Calgary and so it is the only one of the three measures that will fully capture the influence of cost changes that are unique to Calgary. This can be seen in Figure 1, where the rapid increase in the prices charged in Calgary for items purchased by families in low income that was observed over the period 2007–09 is represented only in the MBM measure.

## The Prevalence of Income Poverty

Having established income-based poverty lines, it becomes of immediate interest to know how many people in a jurisdiction are poor by the various measures. The answer will be sensitive to the choice of poverty line, the choice of family-equivalency scale used in the construction of that poverty line, and to the demographics of the jurisdiction.

Figure 2 shows, for Calgary and over time, the prevalence of poverty (the percentage of the population identified as experiencing income poverty) based on the three measures of income poverty and the family-equivalency scale each of them use. Noteworthy here is that while there are broadly similar trends, short-term movements in the prevalence of poverty vary by the three poverty measures. This is due, as we discussed above, to the differences in how LICO, MBM, and LIM are measured.

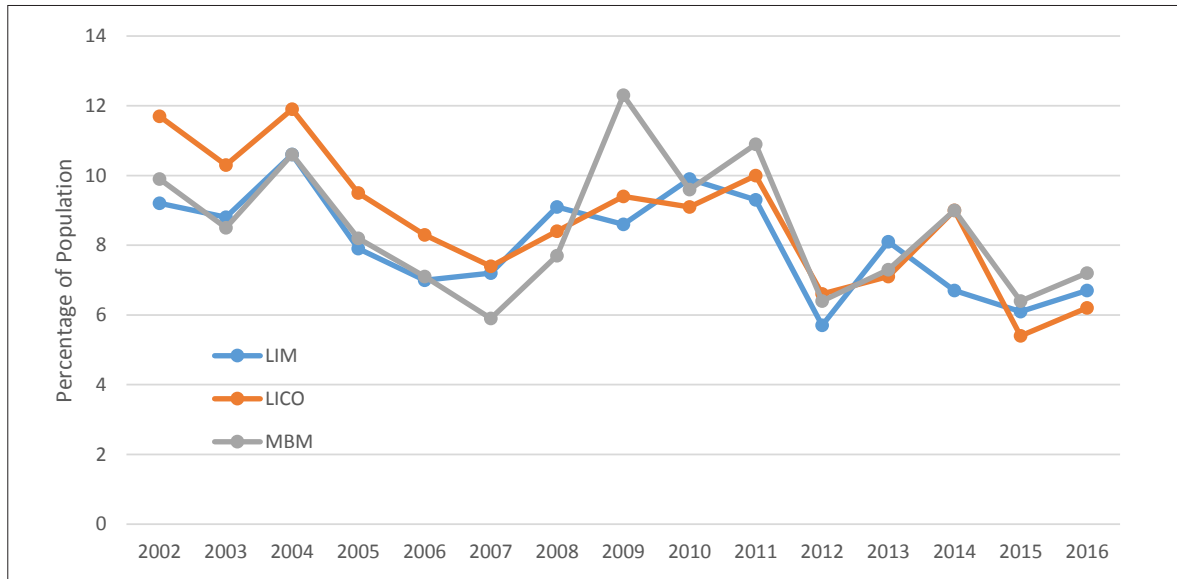
**FIGURE 2** PREVALENCE OF POVERTY, CALGARY



Source: Statistics Canada CANSIM Table 11-10-0135-01.

Figure 3 shows, for Edmonton and over time, the prevalence of poverty according to the same three measures of income poverty. Relative to Calgary, the movements of the three measures are more pronounced. Noteworthy is that, in 2016, the prevalence of poverty, indicated by all three measures, increased in Edmonton while all three measures fell in Calgary. This difference suggests the importance of adopting a poverty measure that is sensitive to local conditions and for public policies that can be well-targeted.

**FIGURE 3 PREVALENCE OF POVERTY, EDMONTON**



Source: Statistics Canada CANSIM Table 11-10-0135-01.

### The Prevalence of Income Poverty by Sex and Age

Statistics Canada reports the prevalence of low income by age and sex.<sup>14</sup> The useful takeaway from these data is that for any age comparison, the prevalence rate is very similar for men and women and the annual movements in prevalence rates are very similar as well. We don't report these data because they do not take into account family structure. It is only when we compare prevalence rates for men and women in similar family structures that we see significant differences by sex.

### The Prevalence of Income Poverty by Family Structure

Table 3 reports the prevalence of poverty in Alberta and for three jurisdictions by family structure. These data are from the census and represent values of 2015. Prevalence is determined by family income relative to the MBM.

**TABLE 3 INCIDENCE OF POVERTY BY FAMILY STRUCTURE, ALBERTA AND SELECTED CITIES, 2015**

	Alberta	Calgary	Edmonton	Medicine Hat
Persons in Economic Families	8.2	8.5	9.7	9.3
Families with Couples	5.9	6.6	7.6	5.7
Lone-Parent Families	25.5	24.0	23.5	32.4
Male Parent	16.6	17.8	14.1	20.7
Female Parent	28.0	25.7	25.9	35.5
Persons Not in Economic Families	22.1	22.9	21.4	24.6

Source: Census of Canada. Based on MBM measure of low income.

An important takeaway from Table 3 is how much the prevalence of poverty is sensitive to family composition. What's more, we now see how the gender of the head of family matters. The prevalence of poverty, as measured by MBM, is particularly high for lone-parent families

<sup>14</sup> See CANSIM Table 11-10-0135-01. These data report the prevalence of low income using different poverty measures, including the MBM.

headed by a female. The same family composition when headed by a male experiences a much lower prevalence of poverty. The traditional nuclear family of a couple experiences a low prevalence rate of poverty.

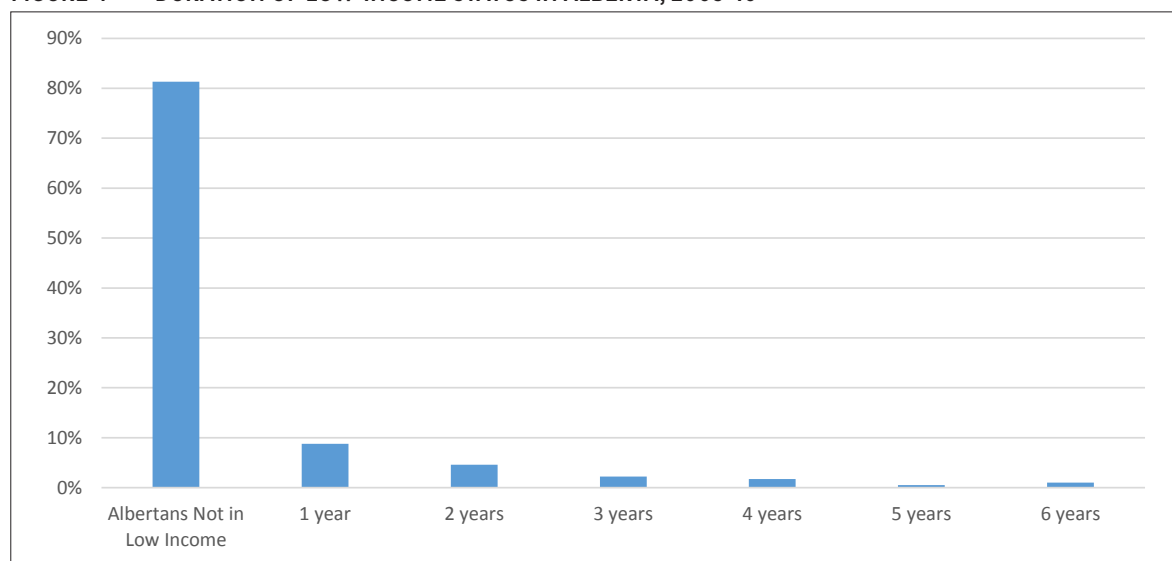
A problem with these data is that they are only available for census years and so observing patterns that might be responses to policy changes will only be observed intermittently. Statistics Canada provides a time series (CANSIM Table 11-10-0015-01) on how poverty differs by family type, but it relies on poverty as defined by the after-tax LIM. Data on the prevalence of poverty by family structure are therefore constrained by having to choose between a measure that uses the federal government’s preferred poverty measure (MBM) but having this data available only for census years, and a measure that is available annually but is based on a definition of poverty inconsistent with the federal government’s preferred poverty measure.

### The Persistence of Poverty

Another key policy-relevant characteristic of poverty is its persistence. That is, who is in poverty continuously versus who dips in and out of poverty. The policy responses to these varied experiences should be expected to be quite different. Unfortunately, we have only very limited information on this issue. Figure 4 reports the number of years over the period 2005–10 that Albertans of all ages lived with incomes below the MBM poverty line. Over this period, the great majority (81.3 per cent) of Albertans maintained incomes that were above the MBM poverty line but a significant minority (8.8 per cent) lived with incomes below the MBM for one of the six years in the 2005–10 period.<sup>15</sup>

Unfortunately, and despite the importance of the information provided by these data, the data series used to produce Figure 4 have been terminated by Statistics Canada. This is a major hole in the data available for measuring poverty.

**FIGURE 4** DURATION OF LOW-INCOME STATUS IN ALBERTA, 2005-10



Source: CANSIM Table 11-10-0185-01.

Note: Low income is based on the MBM measure.

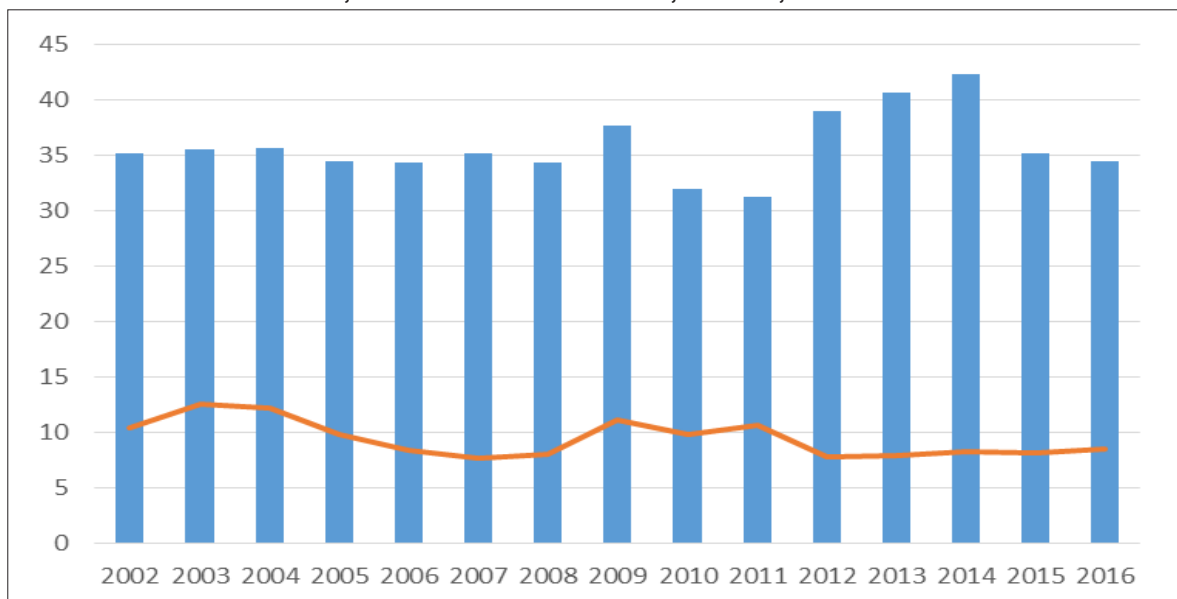
<sup>15</sup> Murphy et al. (2012) report that during the early 2000s, one-third of Canadians who fell into low income left low income the following year. Only between 1.4 and 3.5 per cent were poor for six years or more.

## Measuring the Depth and the Severity of Income Poverty

A poverty line only indicates the level of income below which one can be identified as being income poor. One might live with an income just below the poverty line or deal with the direr consequences of living with income that falls well below the line. The design of effective poverty-alleviation measures requires measures of the depth, or severity, of poverty.

Unfortunately, the information currently available is limited in that it describes the experience of poverty only for broad groups. Statistics Canada releases some information that gives limited insight into the depth of poverty by publishing estimates of the *poverty gap* by province and for large cities. These data are limited in that they are available only for broad aggregates without very much breakdown according to family composition.<sup>16</sup>

**FIGURE 5 THE POVERTY GAP, ALL PERSONS IN LOW INCOME, ALBERTA, 2002-16**



Source: CANSIM Table 11-10-0135-01.

Notes: Based on MBM. Similar calculations are available for Calgary and Edmonton and can be inferred for the “rest of Alberta.” These data are for all persons in low income, regardless of family composition.

Figure 5 presents the size of the poverty gap for the average family in Alberta with an income below the MBM poverty measure. The height of the bars defines the size of the difference between the poverty line and the household income of those families whose income falls below the poverty line, expressed as a percentage of the MBM poverty measure. A gap ratio of 30 per cent indicates that, among those families whose income is below the poverty line, household income is, on average, 30-per-cent less than the MBM poverty line. The bigger the gap ratio, the deeper is the average level of poverty.

The line in Figure 5 identifies the percentage of Albertans experiencing low income as measured by the MBM. With some fluctuation, it has averaged 9.5 per cent over this period. The gap ratio has also fluctuated, hitting a peak of 42 per cent in 2014 and a low of 31 per cent in 2011. It has averaged 36 per cent over the period. That is to say that over this period, the average household experiencing low income has had an income 36-per-cent below the MBM

<sup>16</sup> Data are provided for all persons in low income and are further broken down by persons living in “economic families” and persons “not in economic families.”

poverty measure. It is interesting to note how, since 2012, the percentage of people in low income has been flat, while the poverty gap has fluctuated a good deal. This illustrates the importance of not relying solely on a poverty count to guide policy decisions.

### **Better Information is Needed**

A key message that we would hope people have drawn by this point is that measures of poverty that are currently available are terribly blunt and not always highly informative or useful for policy-makers. Indeed, we sympathize with the answer provided by Corak (2016) when asked whether poverty in Canada has fallen:

Has poverty fallen? We do not know. We do not know, not because we can't know, but in large part because the statistical system we have put into place has failed us, offering a menu of poverty statistics that are not reliably grounded in the way Canadians live their lives and that ultimately cloud the picture and confuse the conversation. This limits our ability to design income support policies for lower income groups and to evaluate the policies we put in place. (Corak 2016, page 404)

Improving our understanding of poverty is possible with ready access to administrative data describing the experience of poverty by individuals and their families. Such data describe individuals' incomes over time and their movements into and out of poverty. These data enable the calculation of very accurate measures of the number of people experiencing poverty, the prevalence of poverty, the persistence of poverty, and the severity of poverty. The data would also enable observation of people moving on and off social assistance and the response of those movements to government policy choices. As Hicks (2018) emphasizes, the needed data-collection and analytical tools are well known to researchers but have not been made widely available or used to determine the appropriate design of policy responses. Providing these data to researchers is the road to better, more targeted public policies intended to address poverty.

## **SOCIAL ASSISTANCE**

The response of governments to the problem of poverty among non-seniors has been mainly through programs of social assistance. In this section we describe social assistance and how it is provided. A point of interest will be to observe how the provision of social assistance matches with the measures of poverty we have discussed above.

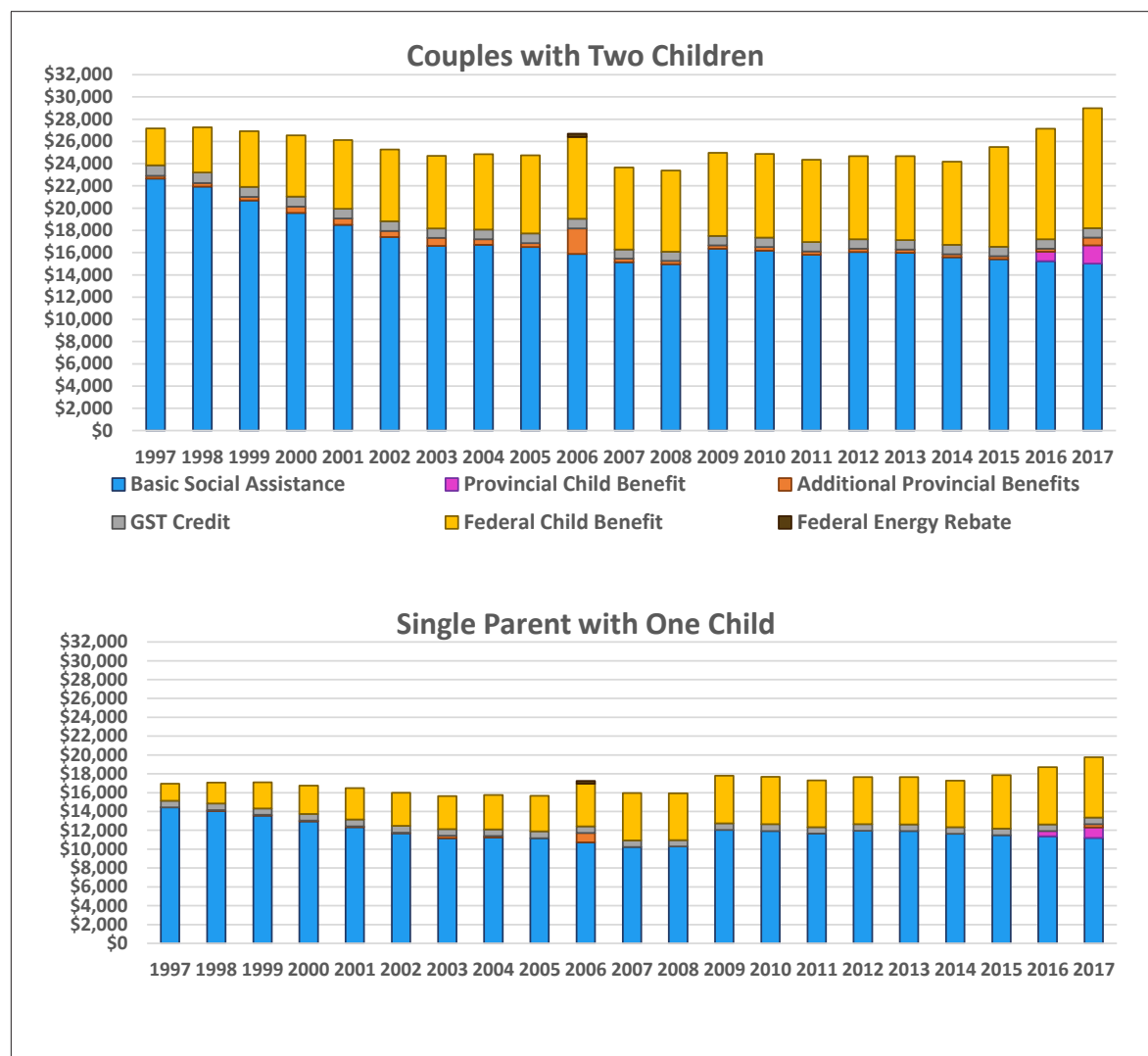
### **Who Provides Social Assistance to Whom and in What Form?**

Government provision of social assistance, while defined to be a provincial responsibility in the Constitution, has usually involved the federal government. In the past, federal involvement was largely limited to sharing in the funding of these programs, while leaving program delivery and design to the provinces. More recently, the federal government has increased its role by providing benefits directly to families. This is an important development, in part because effective anti-poverty efforts now require the close collaboration of the two levels of government.

The amount of social assistance that is provided by provincial governments varies by the degree of attachment to the labour market. In Alberta, this is determined by *Alberta Works* which classifies social-assistance applicants as being “expected to work” (ETW)

or facing “barriers to full employment” (BFE).<sup>17</sup> Regardless of classification, recipients of social assistance receive income in a variety of ways from both the federal and provincial government. The three panels in Figure 8 show these amounts for three sample family compositions in Alberta: a single person, a lone parent with one child, and a couple with two children. In each case we assume the benefit recipient has been classified as “expected to work” and has no earned income to report.<sup>18</sup> The three graphs use the same vertical scale to make it easy to identify the relative size of the support provided to the three family types. All amounts are measured in inflation-adjusted dollars (2017 dollars).<sup>19</sup>

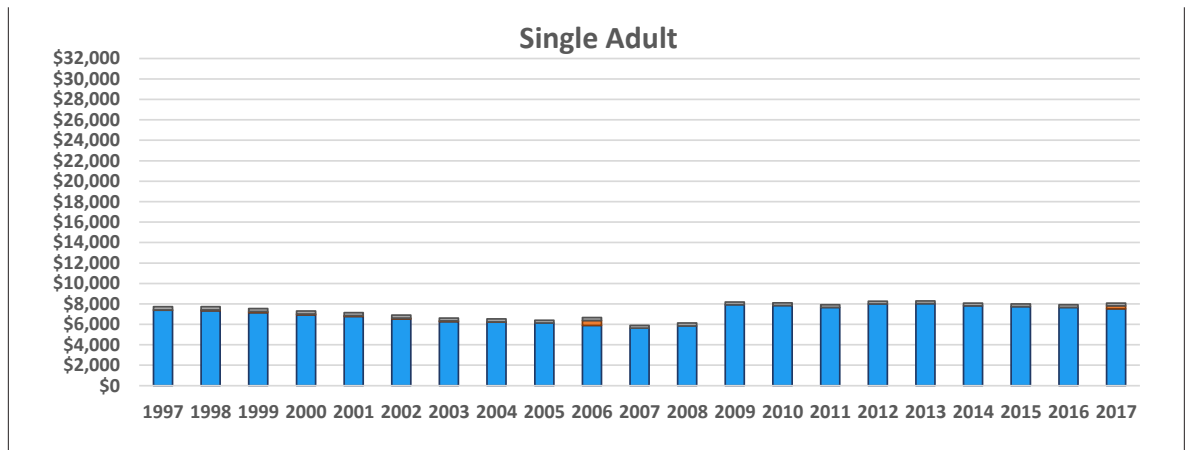
**FIGURE 8 SOCIAL ASSISTANCE BY SOURCE AND TYPE, ALBERTA**



<sup>17</sup> Someone deemed to have a physical or cognitive disability that more severely limits their employment prospect is made eligible for the Assured Income for the Severely Handicapped (AISH) program. AISH is a significantly different assistance program than the ETW and BFE programs administered by *Alberta Works* and is not considered here.

<sup>18</sup> ETW claimants comprise approximately two-thirds of all *Alberta Works* clients. In 2018, the income support provided to those classified as BFE was approximately \$200 per month more than that provided to ETW claimants. For ease of presentation, we ignore this difference but account for it in calculations we present in the next section.

<sup>19</sup> Data on social-assistance incomes are available from Tweddle et al. (2017). The data in that published report are measured in real dollars deflated using the consumer price index for Canada. We thank Sherri Tjorman, Anne Tweddle and Ken Battle for providing us with nominal values of these data to allow us to produce these measure deflated using the consumer price index for Alberta. Social-assistance incomes are inclusive of tax and other benefits.



In each of the three figures, the first source of support (starting from the bottom of each column) is the amount of the basic-income cheque provided by the provincial government. This includes the amounts referred to as “core essential” benefits plus “core shelter” benefits.<sup>20</sup> Next is support in the form of the provincial child-benefit income support. This support was introduced in Alberta starting in 2016. Next is the total amount received from various one-off payments from the provincial government and, beginning in 2017, the Alberta Climate Leadership Adjustment Rebate.<sup>21</sup> The rest of the column shows money received from the federal government. These include, in order, the GST rebate that people with low incomes are entitled to receive, the federal child benefit, and finally, the federal energy-cost benefit that was provided in 2006.

It is worth drawing attention to a number of features of these payments:

- The amount of income support provided to single people is very low. This is a characteristic of income support in all provinces, not just Alberta.
- The federal government provides no support to single recipients of social assistance other than the GST credit. Federal support is therefore limited to families with children.<sup>22</sup>
- The size of the federal child benefit has grown over time. In 2017, it provided 33 per cent of the total support provided to a lone parent and 42 per cent of total support provided to a couple with two children.
- Growth in the federal Canada Child Benefit has come at the cost of a shrinking provincial contribution to basic social assistance. In 1997, for a couple with two children, support provided by the provincial government was equal to 84 per cent of total support received. By 2017 this had fallen to 56 per cent.
- The GST credit is paid quarterly. It is a challenge for a single person or a family in straitened circumstances to take advantage of a benefit paid quarterly, making this a less helpful benefit than otherwise.

<sup>20</sup> The core shelter amount varies by whether the recipient lives with relatives, in social housing, or in private housing. We use the largest amount for the core shelter benefit, which is provided to someone living in private housing.

<sup>21</sup> The one-off payments include the Provincial Resource Rebate, popularly known as “Ralph Bucks,” that were paid to every adult and child in the province in 2006.

<sup>22</sup> This includes the federal energy rebate, a one-time payment made in 2006. This was a benefit provided only to families eligible for the federal child benefit. Thus, singles were denied even this federal benefit intended to compensate for higher energy costs.



- The GST credit, the federal and provincial child benefits and the Alberta Climate Leadership Adjustment Rebate (included in “additional provincial benefits”) are accessible only by filing income tax forms. For a lone parent, these benefits accounted for 44 per cent of all benefits in 2017. For a couple with two children, the amount accounted for by tax benefits was just over 50 per cent.

The last feature of social-assistance payments noted above is particularly important. Recent research by Ference & Company Consulting Ltd. (n.d.) shows that only 72 per cent of parents to whom the Canada Child Benefit (CCB) is targeted actually access those benefits. Put differently, 28 per cent of parents eligible to receive the CCB are not accessing those benefits.<sup>23</sup> For a lone parent with one child in Alberta who does not access the benefit, this is a loss of nearly \$6,500, or just over \$541 per month in 2017.

Before leaving this brief overview of social-assistance benefits, it is interesting to compare the evolution of the form in which social assistance is provided to whom it is that is actually receiving that assistance. In September 2018, 71 per cent of all social-assistance cases (ETW plus BFE) involved households without children and 69 per cent of were for single individuals.<sup>24</sup> The focus of both federal and provincial governments on increasing the size of the financial benefit provided to social-assistance recipients with children, while laudable, in fact increases financial support to what is currently only 29 per cent of social-assistance applicants.

A final important feature of social-assistance benefits that needs to be emphasized is that the size of the benefit is the same regardless of where in the province one lives. Whether a family or an individual lives in a large city or a small rural community, the benefit is the same. It is interesting that social-assistance support has this characteristic, since it is widely understood that effort needs to be put into designing measures of poverty that are sensitive to local costs. The choice of the MBM to guide federal policy reflects this understanding. Having made an effort to develop and adopt local-specific measures of poverty, it is curious that the most important public policy response to poverty is not at all sensitive to the fact that measures of poverty show the problem varies by community.

## AN ALTERNATIVE APPROACH

Developers of the MBM poverty line are faced with the Herculean task of defining a single, finely detailed basket of goods and services representing what families from diverse backgrounds, with different age and sex compositions, and with different family relationships ought to be able to afford to purchase in order to enjoy a modest but basic standard of living. Clearly, there is a false precision in the MBM’s attempt to identify every item in the consumption basket relevant for every person and family with limited income.

Another approach is to gain insight into poverty by focusing on only a limited number of key expenditure items, those accounting for the better part of the budget of a family with limited income, recognizing that the rest of any consumption budget is too idiosyncratic to each family to be captured in a defined consumption basket. If this approach sounds familiar it is because it’s similar to the approach used to define the LICO discussed earlier.

<sup>23</sup> Also see Finn and Goodship (2014) who report that, in the U.K., almost one-third of eligible people were not claiming means-tested benefits they were entitled to.

<sup>24</sup> These calculations are based on data available from <https://open.alberta.ca/opendata/income-support-caseload-alberta>.

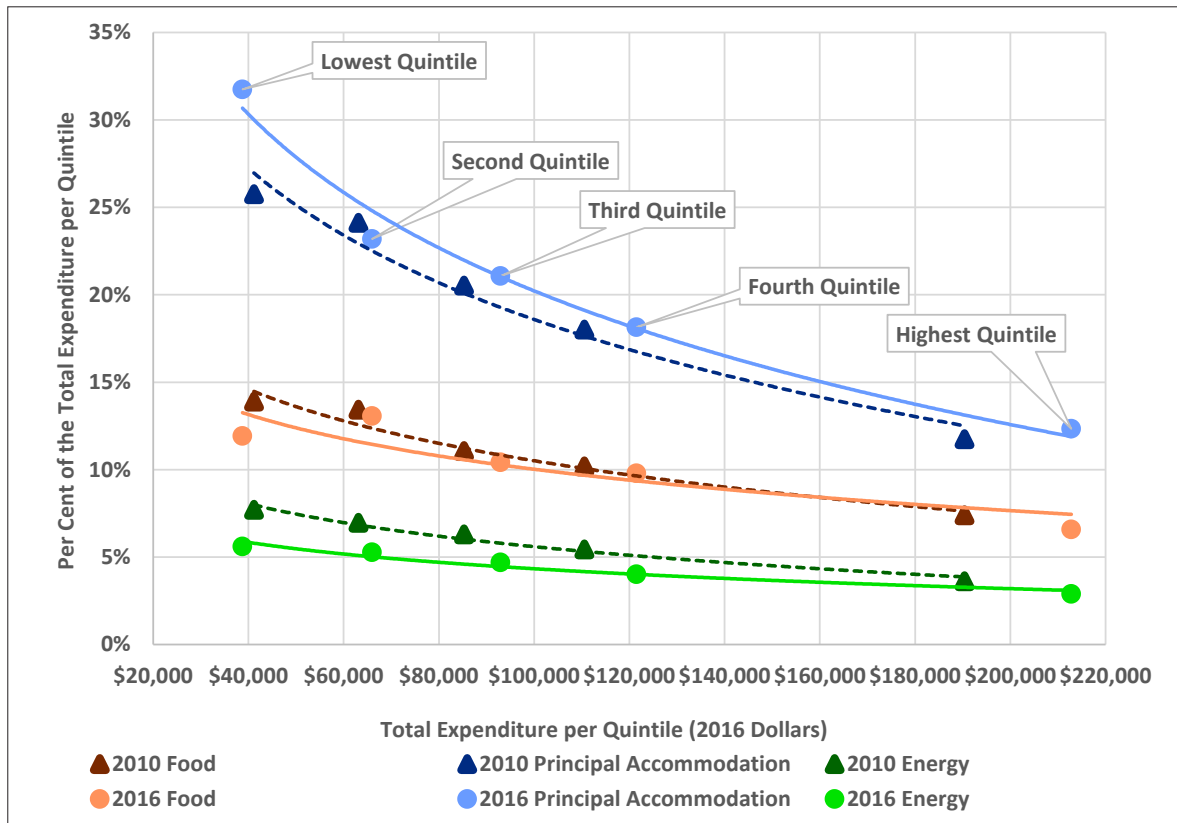
## The Budget for Necessities

Figure 9 presents data for Alberta showing the percentage of total expenditure that the average household allocates to spending on what we identify as core necessities: shelter, food and energy.<sup>25</sup> Expenditures are expressed in 2016 dollars and so have been adjusted for inflation.

Two sets of lines are presented, one showing data from 2010 and the other showing data from 2016. The data presented are for households grouped into after-tax-expenditure quintiles. Moving from left to right, each marker represents a household quintile and shows the average percentage of total expenditure that is budgeted to spending on essentials by the poorest 20 per cent to the richest 20 per cent of households. The shapes of the lines drawn through the markers indicate that, as incomes rise, expenditures on essentials consume an ever-smaller fraction of the average total household budget.

Focusing on the budget shares allocated to necessities is important for at least two reasons. The first is obvious from Figure 9. Necessities consume roughly 50 per cent of the after-tax budget of a family living with an income in the first quintile of incomes. The second is that the costs of necessities are particularly volatile and are particularly sensitive to public policy choices. Thus, policy choices with respect to carbon taxes, housing policies, and food costs impacted by dairy supply management all have particular importance for those with low income. Changes in only these few key expenditure items have far greater implications for individuals and families with low income than for other Canadians.

**FIGURE 9 HOUSEHOLD SPENDING SHARES BY INCOME, ALBERTA, 2010 AND 2016**



Source: CANSIM Table 11-10-0234-01 and authors' calculations.

<sup>25</sup> Shelter costs are on the household's principle residence only. What we define as the "energy" budget describes spending on heating the principle residence and fuel for transportation.

Comparing the data on expenditure shares in 2010 and those in 2016, average shelter costs in Alberta increased by 9.8 per cent, food prices rose by 15.5 per cent and energy prices fell by 7.3 per cent. Over this period, total expenditures by low-income households in Alberta fell from an average of \$41,145 to an average of \$38,756. With a shrinking expenditure budget, low-income households therefore had tough choices to make between shelter, food and energy consumption. The choices they made indicate that, to remain housed, they reduced consumption of food, and possibly, energy use.<sup>26</sup>

The data in Figure 9 suggest that policy actions targeted to lowering housing costs would have had favourable effects not only on the cost of housing but also for income shares devoted to spending on food and energy. Thus, for people with limited incomes, changes in the cost of housing matters not just for being able to afford housing, but also for being able to afford food and other necessities. This suggests that a focus on the cost of housing is likely the most important way of ascertaining the well-being of families with limited incomes and affecting the affordability of housing may be the most important single policy tool available for improving the well-being of these families.

### **The Cost of Shelter as a Measure of Poverty**

As housing and other costs rise, individuals and families are squeezed into the lower end of the housing market so they can continue to pay for other necessities, such as food and utilities. If they are squeezed too much, they may, as noted by Raphael (2010), be forced to forego conventional housing and instead try their luck doubling up with relatives or friends, or even resort to using a city's homeless-shelter system. The cost of housing, then, is central to issues of poverty.

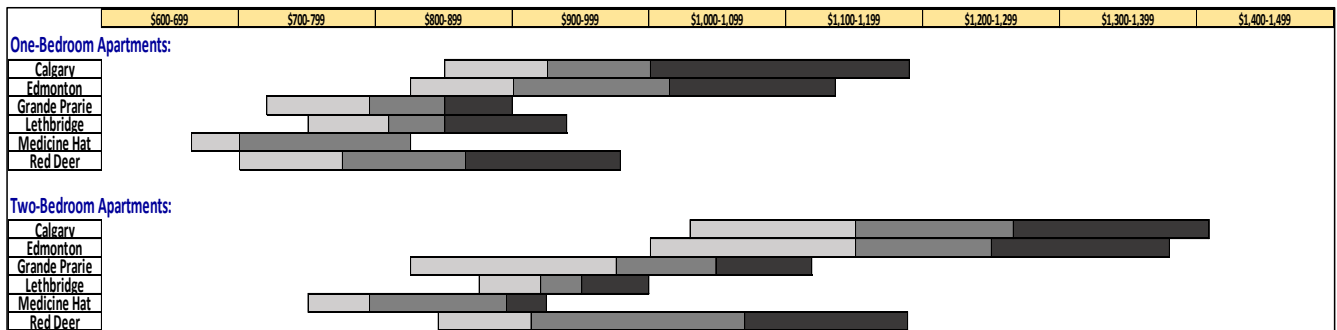
The cost of shelter that is most relevant for individuals and families with low income is the cost of renting.<sup>27</sup> Rents vary by size of rental unit (one bedroom, two bedroom, etc.) and by location (large city versus rural community). But they also vary by quality (old units in need of repair versus new units with modern facilities). When using rents as a measure of the shelter costs relevant for households with limited income, it is important to recognize that for most such households, the relevant rental market is for units of relatively poor quality and so are offered at relatively low cost. Using the average (or median) rent paid on a rental unit in a community likely overstates the rent paid by most individuals and families with low income.

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<sup>26</sup> Households in all income quintiles were required to devote a large share of total after-tax income to housing but, because higher-income households can better absorb increases in housing costs by reducing expenditures on non-necessities (by choosing a "staycation" over a more costly holiday, for example), their expenditure shares on other necessities are not so sensitive. Households with low income must make harder choices. Some of these hard choices could be made easier if those with low income were better able to establish and maintain savings they could use to buffer against unexpected shocks. As noted earlier, this is why attention deserves to be paid to measures of asset wealth when considering poverty-alleviation policies. See Robson (2008) and Stapleton (2009) for discussion. Finally, see Kirkpatrick and Tarasuk (2007) for evidence that the adequacy of food expenditures is closely related to housing expenditures among low-income households.

<sup>27</sup> While it is true that some individuals or families in low income, perhaps due to divorce or other circumstances, may find themselves to be homeowners, they are in the minority. Statistics Canada (CANSIM Table 11-10-0057-01) reports that in Canada in 2016, only 22 per cent of individuals and families in low income owned a principal residence. Of these, only about half were mortgage-free. Even those who are mortgage-free face costs of homeownership (maintenance, utilities and property taxes) that are similar to the costs of renting. For all these reasons, we believe the cost of renting is a good measure of the housing costs faced by those with low incomes.

**FIGURE 10 MONTHLY RENT QUINTILES BY CITIES IN ALBERTA, 2017**



Source: Canada Housing and Mortgage Corp., special data request.

In any community and for any size of rental unit, there is a wide range of rents paid. Low-income households pay rents at the lower end. Figure 10 presents data from 2017 on rent quintiles for six communities in Alberta.<sup>28</sup> For each community, the width of the bars show the range of rents paid on units in that community. The light-grey bars show the range of rents paid on units charging the second quintile of rents. The medium-grey and the dark-grey bars show the range of rents paid on the third and fourth quintile of rents, respectively.<sup>29</sup> These data show that the cost of rental accommodations vary widely by community. In 2017, the monthly rent paid on a lower-quality one-bedroom apartment in Calgary was \$850. This compares to just \$665 in Medicine Hat. For two-bedroom units the difference across communities is even wider; from a high of \$1,029 in Calgary to a low of \$750 in Medicine Hat.

The amount that must be paid for rental accommodations is without context unless it is compared to the income of those paying that rent. The source of income for many people in poverty is the income they receive in the form of social assistance. Even for families with low earned income, the amount of social-assistance income to which they would otherwise be eligible is a good measure of their earned income (see Kneebone and Wilkins (2016b)). We therefore use social-assistance income to understand what these rents imply for individuals and families with low income.

Table 4 calculates what percentage of the income available to a family receiving social assistance must be devoted to paying rent on an apartment priced at the top of the first quintile of rents available in that community. In other words, we assume the family rents a relatively low-quality rental unit. Two compositions of family are considered: a lone parent with one child and a couple with two children. We assume the lone parent with one child rents a one-bedroom apartment while the couple with two children chooses to rent a two-bedroom apartment.<sup>30</sup>

<sup>28</sup> Similar data are available for Wood Buffalo (mainly Fort McMurray), but because rents there are so high, including them makes the figure difficult to read.

<sup>29</sup> Imagine a community having 100 rental units ordered from the least expensive (unit 1) to the most expensive (unit 100). The range of rents identified by the light-grey bar represents the rent paid on units 20 to 40. The medium-grey bars show the rent paid on units 41 to 60, and the dark-grey bars show the rent paid on units 61 to 80.

<sup>30</sup> This is an important assumption. We assume that a family living in straitened circumstances will trade comfort for other necessities. Thus, we assume a lone parent with one child will choose to live in a one-bedroom apartment, giving the bedroom to the child and perhaps using a pull-out couch for herself, and use the amount saved relative to renting a two-bedroom apartment to benefit the family. We recognize this is at odds with regulations imposed by providers of social housing who need to adhere to the National Occupancy Standard (NOS) that stipulates, for example, that a lone parent with one child rent a two-bedroom apartment. We are therefore providing measures of housing affordability that assume families are renting in the private market where they are free to make other choices. Why providers of social housing choose to impose restrictions on families' choices is an interesting question.

**TABLE 4 THE AFFORDABILITY OF RENT WHILE LIVING ON SOCIAL-ASSISTANCE INCOME**

**Lone Parent with One Child Renting a One-Bedroom Apartment in the First (Lowest) Quintile of Rents:**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	59%	58%	57%	56%	53%	63%	68%	61%	60%	59%	59%	63%	70%	66%	57%	51%
Edmonton	50%	50%	50%	51%	47%	55%	63%	57%	57%	57%	57%	58%	61%	60%	54%	50%
Grande Prairie	57%	56%	57%	59%	65%	70%	62%	53%	49%	55%	57%	63%	67%	62%	45%	43%
Lethbridge	49%	50%	50%	48%	45%	50%	51%	50%	51%	53%	51%	51%	51%	49%	48%	45%
Medicine Hat	41%	40%	40%	44%	39%	44%	43%	40%	40%	42%	40%	41%	43%	42%	40%	40%
Red Deer	51%	50%	49%	49%	47%	52%	55%	50%	49%	47%	48%	51%	53%	52%	46%	42%
Wood Buffalo	90%	90%	94%	105%	110%	127%	136%	122%	125%	121%	114%	116%	115%	96%	73%	66%

**Couple with Two Children Renting a Two-Bedroom Apartment in the First (Lowest) Quintile of Rents:**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	46%	45%	44%	43%	43%	52%	56%	52%	50%	50%	52%	53%	57%	55%	42%	39%
Edmonton	39%	40%	39%	39%	37%	44%	52%	49%	48%	48%	48%	50%	54%	52%	42%	38%
Grande Prairie	42%	43%	44%	45%	49%	54%	51%	43%	40%	43%	47%	53%	54%	51%	34%	32%
Lethbridge	36%	37%	37%	36%	33%	38%	41%	43%	42%	43%	41%	41%	43%	41%	36%	34%
Medicine Hat	31%	32%	31%	32%	30%	35%	35%	34%	34%	34%	33%	34%	35%	35%	29%	29%
Red Deer	38%	37%	37%	37%	35%	41%	45%	42%	41%	40%	41%	41%	44%	43%	34%	32%
Wood Buffalo	64%	66%	67%	78%	79%	103%	108%	98%	103%	97%	92%	98%	98%	75%	56%	52%

Colours indicate the severity of the affordability problem in that jurisdiction and year by identifying a range of values. White cells indicate 35 per cent or less of a family's social-assistance income needing to be devoted to paying rent on a low-quality rental unit. Other colours indicate different ranges as follows:

0-35%	35-50%	50-65%	> 65%
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Data are available to extend these calculations back to 1990. They show that the affordability of housing for families receiving social assistance fell steadily during the 1990s. In Calgary in 1990, rent consumed 46 per cent of the social-assistance income of a lone parent with one child and 38 per cent of the social-assistance income received by a couple with two children. The same respective calculations for Edmonton in 1990 were 41 and 33 per cent.

Sources: Rental data provided by Canada Housing and Mortgage Corp. via a special data request. See footnote 19 for source of social-assistance income data.

With these assumptions, we calculate what percentage of social-assistance income must be devoted to paying rent on a low-quality rental unit. The results are presented for each of seven cities in Alberta for the period 2002 to 2017.<sup>31</sup> The colour of each cell in Table 4 is based on the percentage of social-assistance income that must be used to pay rent. When 35 per cent or less of income must be devoted to paying rent, the cell is not shaded. As the percentage of income that needs to be devoted to rent increases, a darker shade is applied to the cell.

It is important to emphasize that the calculations in Table 4 are based on social-assistance incomes that are the same in all communities. That is, a lone parent with one child, for example, receives the same social-assistance benefit regardless of where the family lives in Alberta. Since, as shown in Figure 10, housing costs vary by community, so too will the percentage of social-assistance income that will need to be devoted to housing. The calculations show that, for families receiving social assistance, housing costs have often forced them to devote very large fractions of their income to remaining housed. This is particularly true for lone parents. However, the calculations also show that affordability is much better in some communities than others and that, for a given community, affordability can change quickly and by a significant amount. Housing affordability for families relying on social assistance has, for example, improved a great deal in Calgary, Wood Buffalo, and Grande Prairie since 2014.

Another perspective on this issue can be had by considering the calculations in Table 5. Table 5 shows, for 2017, the result of calculating how much social-assistance payments provided to residents in each community would need to increase to enable those residents to dedicate the same percentage of social-assistance income to housing as their counterparts in Medicine Hat.

**TABLE 5 THE MEDICINE HAT HOUSING ADVANTAGE**

2017 First Quintiles of Rents	Lone Parent with One Child (One Bedroom)			Couple with Two Children (Two Bedroom)		
	Annual Social-Assistance Income (Actual)	Annual Social-Assistance Income Required to Match Housing Affordability in Medicine Hat	Annual Required Increase in Social-Assistance Income	Annual Social-Assistance Income (Actual)	Annual Social-Assistance Income Required to Match Housing Affordability in Medicine Hat	Annual Required Increase in Social-Assistance Income
Calgary	\$19,935	\$25,481	<b>\$5,546</b>	\$31,299	\$42,942	<b>\$11,643</b>
Edmonton	\$19,935	\$24,732	<b>\$4,797</b>	\$31,299	\$41,732	<b>\$10,433</b>
Grande Prairie	\$19,935	\$21,584	<b>\$1,649</b>	\$31,299	\$34,429	<b>\$3,130</b>
Lethbridge	\$19,935	\$22,484	<b>\$2,548</b>	\$31,299	\$36,515	<b>\$5,216</b>
Medicine Hat	\$19,935	\$19,935	<b>\$0</b>	\$31,299	\$31,299	<b>\$0</b>
Red Deer	\$19,935	\$20,985	<b>\$1,049</b>	\$31,299	\$35,263	<b>\$3,965</b>
Wood Buffalo	\$19,935	\$32,976	<b>\$13,040</b>	\$31,299	\$57,047	<b>\$25,749</b>

Source: Authors' calculations. Social-assistance income is assumed to be the amount provided to ETW claimants.

Looking at this differently, we can ask how much more a family in Medicine Hat would have needed to spend on rent had it lived in one of the other cities. These calculations show, for example, a lone-parent family would have needed to devote an additional \$2,220 per year to rent had it lived in equivalent housing in Calgary. For a couple with two children, the additional housing cost would have been \$3,348 per year. The additional amounts would have had to been found in the non-housing budget of the family living in Medicine Hat. These calculations have

<sup>31</sup> As noted earlier, we are using social-assistance income provided to someone classified as ETW. Benefits provided to someone classified as BFE are higher, meaning that for these recipients, the percentages in Table 4 will be smaller.

a clear implication: The depth of poverty as measured by the income one has left over after paying for housing is far greater in Calgary than in Medicine Hat and, indeed, in most other communities in the province.

The focus on the cost of housing offers an alternative approach to the MBM for identifying when a family or an individual is experiencing poverty. Rather than relying on a poverty line that is based on an attempt to identify the whole gamut of goods and services that a family needs to be able to afford to escape poverty, we suggest that a focus solely on the cost of necessities, and in particular on the cost of housing, would serve the same purpose. The focus on the cost of housing is based on the understanding that, without housing, a person or a family is unable to properly educate children, to find employment, to maintain health, and to experience an adequate degree of social inclusion of the sort designers of the MBM emphasize. Simply put, housing is the most essential budget expenditure and, as we have seen, changes in the cost of housing have an impact on the ability to pay for all other essentials.

A focus solely on housing also has the attraction of recognizing that how a person or family chooses to allocate what income it has remaining after paying for shelter is so idiosyncratic to that family that no government agency should attempt to identify and quantify those expenditures. All that matters is that the fraction of available income devoted to housing be limited, so that a family's residual after-housing income is sufficient to meet other needs. It is no small consideration to emphasize that the data requirements of an approach that focuses solely on housing are small, readily available, and easily updated.

To be sure, this approach demands an answer to the question of what budget share devoted to purchasing housing identifies a person or family as experiencing poverty. But we have a commonly used metric that can be employed. According to the Canada Mortgage and Housing Corp. (CMHC), housing is considered to be affordable when a household spends less than 30 per cent of its pre-tax income on adequate shelter. Households that spend more than 30 per cent of their income on shelter are deemed to be in *core housing need*. Those that spend 50 per cent or more on shelter are in *severe housing need*. Choosing such a metric offers a straightforward way of determining the level of income below which one might be considered in poverty.

## A PROPOSAL

In this section, we describe a proposal that shows how the provision of social assistance can be changed in a way that focuses on the share of housing costs in a family's budget as a measure of poverty.<sup>32</sup> The approach relies on a judgment of the maximum rent-to-income ratio an individual or family can pay without being considered in poverty. For this purpose, we arbitrarily choose 35 per cent. While this leaves households in what CMHC refers to as core housing need, it also means, as shown in Table 4, a considerable improvement in the lives of households with low income.

Table 6 shows calculations of how much monthly social-assistance payments would need to be adjusted to ensure no family devotes more than 35 per cent of social-assistance income to paying rent. These calculations are based on the rent charged on a market-provided rental unit

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<sup>32</sup> Our proposal is similar in many ways to that described in The Council on Aging (2018).

priced at the top of the first quintile of rents.<sup>33</sup> Shaded cells indicate in which communities and in which years the amount of social assistance could have been lowered to meet the target of devoting no more than 35 per cent of income to rent.

**TABLE 6 MAKING RENT AFFORDABLE FOR FAMILIES RECEIVING SOCIAL ASSISTANCE**

Lone Parent with One Child Renting a One-Bedroom Apartment in the First (Lowest) Quintile of Rents:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	\$673	\$651	\$630	\$630	\$610	\$929	\$1,111	\$970	\$925	\$893	\$925	\$1,120	\$1,400	\$1,264	\$1,022	\$783
Edmonton	\$416	\$437	\$445	\$473	\$396	\$644	\$954	\$830	\$825	\$822	\$853	\$905	\$1,043	\$1,050	\$894	\$712
Grande Prairie	\$616	\$609	\$645	\$716	\$1,022	\$1,144	\$897	\$688	\$540	\$736	\$865	\$1,103	\$1,257	\$1,121	\$465	\$412
Lethbridge	\$388	\$423	\$445	\$387	\$324	\$501	\$540	\$545	\$597	\$679	\$639	\$620	\$615	\$587	\$608	\$498
Medicine Hat	\$173	\$151	\$130	\$259	\$139	\$287	\$254	\$202	\$197	\$250	\$210	\$220	\$329	\$293	\$251	\$255
Red Deer	\$445	\$423	\$416	\$416	\$396	\$558	\$683	\$545	\$511	\$465	\$496	\$620	\$723	\$693	\$537	\$355
Wood Buffalo	\$1,531	\$1,571	\$1,702	\$2,059	\$2,530	\$3,001	\$3,397	\$3,259	\$3,397	\$3,236	\$3,067	\$3,191	\$3,186	\$2,547	\$1,748	\$1,498

Couple with Two Children Renting a Two-Bedroom Apartment in the First (Lowest) Quintile of Rents:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	\$466	\$435	\$403	\$375	\$395	\$821	\$1,060	\$873	\$791	\$770	\$938	\$997	\$1,245	\$1,187	\$772	\$524
Edmonton	\$180	\$221	\$189	\$175	\$95	\$450	\$817	\$715	\$705	\$713	\$730	\$854	\$1,045	\$1,001	\$772	\$441
Grande Prairie	\$309	\$364	\$403	\$447	\$723	\$904	\$774	\$430	\$277	\$428	\$652	\$980	\$1,059	\$930	\$186	-\$59
Lethbridge	\$66	\$78	\$74	\$61	-\$105	\$164	\$274	\$401	\$391	\$428	\$338	\$340	\$459	\$330	\$329	\$84
Medicine Hat	-\$177	-\$136	-\$169	-\$139	-\$277	-\$22	-\$12	-\$56	-\$66	-\$58	-\$119	-\$74	-\$13	\$1	-\$157	-\$273
Red Deer	\$137	\$107	\$103	\$90	\$23	\$307	\$488	\$373	\$291	\$285	\$310	\$354	\$487	\$487	\$200	-\$1
Wood Buffalo	\$1,251	\$1,407	\$1,474	\$2,015	\$2,280	\$3,307	\$3,614	\$3,301	\$3,577	\$3,285	\$3,095	\$3,497	\$3,487	\$2,356	\$1,772	\$1,490

Source: Authors' calculations. These amounts identify the additional monthly housing allowance paid to a social-assistance recipient sufficient to limit housing costs to 35 per cent of total social-assistance income.

As noted previously, social assistance is provided in two parts: an amount for core essentials and an amount for core shelter. In 2018, these summed to \$627 for a single adult, \$933 for a lone parent with one child, and \$1,217 for a couple with two children. These amounts are the same regardless of the community in which the person or family lives. The calculations reported in Table 6 show that to meet the 35-per-cent target, there needs to be a substantial change in the core shelter amount and, most importantly, the core shelter amount needs to be tailored to each community.

How much would such an adjustment cost? A detailed calculation would require information on the number of social-assistance cases by all family compositions in each community. Provincial ministries have such information and so can make detailed calculations. Even without that information, we can make a reasonable estimate.

<sup>33</sup> The calculations in Table 6 assume there is no change in rents resulting from the change in social-assistance incomes. The extent to which this is true depends on the vacancy rate, the price elasticity of supply in the rental market, and the number of units in the market that are occupied by people benefitting from our proposal. According to the 2016 census (Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016225), in that year there were 95,060 renter-occupied dwellings in Alberta where the renter had an income of less than \$30,000. Data from the Alberta government's online "Income Support Caseload" statistics (<https://open.alberta.ca/opendata/income-support-caseload-alberta>) indicate that, in 2018, roughly one-third of these rentals might therefore be filled by social-assistance recipients who would benefit from our proposal. To the extent there is an increase in rents stemming from our proposal, the rent-to-income ratio may not fall fully to the 35-per-cent target. This speaks to the need for perhaps establishing a range of values for the target value of the rent-to-income values to fall within.



From Table 6, assuming that the majority of families live in Calgary and Edmonton, the required increase in the monthly core shelter payment made to a lone parent with one child is about \$740 per month. In 2017, there were approximately 13,000 lone-parent families receiving social assistance in Alberta.<sup>34</sup> The annual cost of providing this extra benefit to lone-parent families receiving social assistance is therefore approximately \$115 million.<sup>35</sup> The same exercise applied to two parents with two children suggests the need to spend a further \$15 million per year. Importantly, this latter amount assumes no cuts to social assistance to recipients in the cities identified in Table 6 as receiving a housing benefit larger than required for housing to absorb 35 per cent of income. The total cost of a policy that ensures that no family receiving ETW or BFE social-assistance benefits need allocate more than 35 per cent of income to rent is therefore approximately \$130 million per year.

Besides guaranteeing that families receiving social assistance need allocate no more than 35 per cent of their income to housing, there are three other attractive features of this proposal. First, it would transfer household budget uncertainty arising from variation in rents from families receiving social assistance to the government ministry providing social assistance. For families, there would now be far greater certainty in the income they have available after paying for housing. The proposal, then, introduces a feature that is touted by advocates as a critically important feature of a guaranteed basic income, namely relieving families of the stress of budget uncertainty. Second, the proposal also has the benefit of indexing the core shelter benefit to the cost of housing and in this way goes some considerable distance toward protecting recipients of social assistance from inflation. Finally, the proposal facilitates the geographic mobility of people receiving social assistance. To the extent housing costs inhibit families from moving, perhaps to take advantage of better employment prospects, our proposal removes that barrier.

## The Special Case of Singles

This discussion has so far focused on families. As noted earlier, the majority of people receiving social assistance are singles and for that reason alone deserve special attention. Beyond that, however, singles are especially vulnerable to the impacts of job loss, illness, and other shocks because they are without a partner. Finally, singles also deserve special attention because, as noted above, providing support to singles in the form of social assistance falls wholly on provincial governments.

The first panel in Table 7 shows, for singles receiving social assistance, the percentage of social-assistance income that must be devoted to rent. Different assumptions can be made about shared living. We consider three single people pooling their social-assistance incomes to rent a three-bedroom apartment that has a rent defined at the top of the lowest quintile of available rents. These calculations show that three singles sharing the rent on a three-bedroom rental must devote roughly the same percentage of their incomes to paying rent as do lone parents (compare to the top panel of Table 4). Wood Buffalo is an outlier with rents that are often out of the reach even for three singles pooling their social-assistance incomes.

The second panel in Table 7 shows, as we did for families with children, how much the social-assistance income paid to each single would need to increase for a group of three to devote 35 per cent of their pooled income to renting a low-quality three-bedroom apartment.

<sup>34</sup> This includes BFE as well as ETW claimants. See <https://open.alberta.ca/opendata/income-support-caseload-alberta> for the number of BFE and ETW recipients by family composition.

<sup>35</sup> As noted earlier, recipients classified as BFE currently receive approximately \$200 more per month than ETW recipients. This means that, for BFE clients, the required increase in core shelter benefit is smaller than shown in Table 8. Our estimate of cost should therefore be understood to be on the high side.

How much would this cost? In 2017 there were approximately 38,000 single people receiving social assistance in Alberta.<sup>36</sup> If we assume the required average increase in the housing supplement to be about \$300, then the annual cost of a program designed to limit the share of housing costs borne by single people to 35 per cent of social-assistance income is \$72 million per year.<sup>37</sup> In evaluating this cost, it is useful to keep in mind that provincially funded shelters that are provided for people without homes are mainly populated by single people. Kneebone and Wilkins (2016a) have shown that increasing the income of single adults receiving social assistance by as little as \$125 per month is sufficient to close nearly 20 per cent of homeless-shelter beds. There is therefore potential for a substantial cost-offset in the form of reduced support for the provision of homeless-shelter beds and associated costs to the provincial health and justice systems that are suffered when people are forced to use homeless shelters.<sup>38</sup>

**TABLE 7 HOUSING AFFORDABILITY FOR SINGLES**

**Three Singles Renting and Sharing a Three-Bedroom Apartment in the First (Lowest) Quintile of Rents:**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	52%	52%	52%	51%	51%	61%	59%	49%	48%	47%	47%	49%	51%	53%	51%	49%
Edmonton	54%	56%	57%	57%	56%	67%	76%	57%	55%	58%	55%	59%	62%	64%	62%	57%
Grande Prairie	59%	57%	64%	63%	70%	95%	79%	52%	51%	52%	54%	62%	60%	61%	46%	46%
Lethbridge	46%	42%	50%	48%	55%	62%	48%	43%	42%	44%	44%	45%	41%	56%	51%	47%
Medicine Hat	45%	45%	46%	46%	45%	54%	51%	39%	39%	39%	37%	37%	41%	41%	44%	42%
Red Deer	51%	48%	48%	55%	51%	67%	66%	47%	44%	44%	44%	46%	49%	51%	47%	46%
Wood Buffalo	85%	79%	93%	117%	103%	150%	144%	119%	130%	116%	97%	113%	110%	97%	82%	79%

Colours indicate the severity of the affordability problem in that jurisdiction and year by identifying a range of values. Ranges of rent to income ratios are indicated by colour as follows:

0-35%	35-50%	50-65%	> 65%
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**Three Singles Sharing a Three-Bedroom Apartment in the First (Lowest) Quintile of Rents:**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Calgary	\$200	\$199	\$199	\$198	\$207	\$317	\$310	\$244	\$230	\$206	\$220	\$256	\$303	\$327	\$303	\$283
Edmonton	\$223	\$247	\$261	\$260	\$269	\$389	\$524	\$373	\$349	\$396	\$363	\$446	\$496	\$531	\$493	\$436
Grande Prairie	\$290	\$261	\$346	\$341	\$450	\$721	\$572	\$301	\$277	\$301	\$339	\$494	\$470	\$489	\$211	\$217
Lethbridge	\$133	\$90	\$184	\$151	\$260	\$321	\$167	\$139	\$120	\$158	\$172	\$194	\$113	\$384	\$303	\$236
Medicine Hat	\$119	\$118	\$137	\$132	\$131	\$226	\$205	\$63	\$63	\$63	\$29	\$37	\$113	\$112	\$160	\$141
Red Deer	\$195	\$152	\$151	\$241	\$212	\$388	\$405	\$206	\$158	\$158	\$163	\$208	\$256	\$298	\$231	\$212
Wood Buffalo	\$595	\$533	\$699	\$984	\$883	\$1,388	\$1,405	\$1,444	\$1,634	\$1,396	\$1,124	\$1,455	\$1,398	\$1,155	\$874	\$855

Source: Authors' calculations. These amounts identify the additional monthly housing allowance paid to a social-assistance recipient sufficient to limit housing costs to 35 per cent of total social-assistance income.

<sup>36</sup> See footnote 35 for data source. Again, this includes both ETW and BFE recipients.

<sup>37</sup> This should again be considered to be on the high side for reasons discussed in footnote 36.

<sup>38</sup> For estimates of these savings see Goering et al. (2014).

## Comparing our Proposal to Rent Control

It is interesting to understand our proposal as an alternative to rent control. Rent control is typically introduced to protect tenants from high and volatile rents. But the imposition of rent controls not only force landlords to deal with a social problem not of their making, but elicits a response from them that exacerbates the problem by reducing the number of rental units.<sup>39</sup> Our proposal protects people from volatility in rents by adjusting social-assistance payments to ensure they need never spend more than 35 per cent of their income on rent. The housing market is not impinged by our proposal. On the contrary, by increasing the income made available to people on social assistance to purchase housing, the market will increase the quantity of units available for rent at prices that are affordable to people with low incomes.<sup>40</sup> Most importantly, our proposal shifts budget volatility from low-income households to the government's social-assistance budget, where that volatility can be more effectively and more cheaply financed without threatening the food budget of families with low income.

## Comparing our Proposal to a Guaranteed Annual Income

Our proposal has similarities to a guaranteed annual income (GAI). A GAI provides recipients with a stable income floor but leaves recipients with the problem of dealing with fluctuating housing costs and the effect they have on their non-housing budget. Our proposal stabilizes the non-housing budget for families without earned income by adjusting social-assistance income in a way to offset fluctuating housing costs. Both approaches thus offer a form of budget stability to those with low incomes.

Both approaches also face similar challenges. Whether it is a GAI, our proposal, or any proposal to improve income support to individuals and families with low income, the suggestion will be made that we are building a welfare wall behind which people will wish to remain or even seek to slip behind by leaving paid employment. Research on these issues is consistent in showing that the labour-supply response is likely small<sup>41</sup> and that the benefits to society — benefits in terms of reduced health costs and improved education outcomes of affected children<sup>42</sup> — are large relative to the costs that may be suffered from reduced labour supply.

An important difference between our proposal and a GAI is that by excluding the working poor, our proposal does not address all income poverty. Many other anti-poverty measures, in particular the earned-income or working tax credits provided by both senior levels of government, explicitly exclude individuals and families without earned income. Still other anti-poverty measures exclude families without children, and of course the Guarantee Income

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<sup>39</sup> See, for example, the study of the effects of rent control in San Francisco by Diamond, McQuade and Qian (2018). They show that rent control reduced the supply of rental housing by 15 per cent as landlords rapidly converted rental properties to condominiums. Over time, there was a 30-per-cent decline in the number of renters living in units protected by rent controls. The authors find that rent control offered large benefits to current tenants but also very large welfare losses for those who, in the future, were unable to enter the housing market due to the reduced stock of housing.

<sup>40</sup> By how much depends on the price elasticity of supply in the rental market and the share of the market rented by beneficiaries of our proposal.

<sup>41</sup> See, for example, Hum and Simpson (1993) and more recently Gilbert et al. (2018) whose reviews of the results of past guaranteed-income experiments conclude that labour-supply responses are modest. One reason to expect a modest labour-supply response may be the size of the tax benefits available to those with low earned incomes. These include the federal Working Income Tax Benefit and the Alberta Family Employment Tax Credit. Maintaining a work history also provides larger CPP benefits upon retirement. The incentives to give up earned income in favour of a guaranteed annual income or social-assistance income are therefore less strong than one might otherwise imagine.

<sup>42</sup> See, for example, Forget (2011).

Supplement provided by the federal government to support low-income seniors excludes those aged less than 65 years. So while it is true our proposal is not a comprehensive solution to poverty as it is experienced by all demographics, we deem it to be a valuable contribution to the suite of public policy responses currently in place.

## SUMMARY AND CONCLUSION

Poverty is a difficult social problem. Its causes are complex, varied and often poorly understood. It is a social ill that deserves the attention of policy-makers and, no matter how imperfect such an effort will be, policy-makers need a relatively simple target at which they can aim anti-poverty policies.

Of the three poverty-line measures Statistics Canada currently produces, the MBM is the most useful because it is the most sensitive to local conditions. But it is a blunt instrument that relies on the generation, maintenance, and frequent updating of an extensive list of goods and services. This attempt to define a finely detailed budget seems at odds with the fact that the budgets of individuals and families with low incomes are dominated by only a few categories of spending. By focusing on only the costs of necessities, it is much easier to maintain and update indicators of poverty that are more sensitive to local conditions. Once it is recognized that housing is the foundation for quality of life and that, for families with low income, changes in housing costs impact expenditures on other necessities, it then becomes obvious that tracking the cost of housing should be central to any effort to measure poverty.

Our review of poverty lines and the quality of the data that are available to measure, evaluate and respond to poverty has led us to suggest an alternative approach to providing income support to people in need. The approach involves the provincial government absorbing the budget uncertainty that households receiving social assistance are currently forced to deal with. By guaranteeing that no more than a certain percentage of social-assistance income need be devoted to housing, families on social assistance would be provided with greater certainty over the size of their after-housing budget. The cost to the government is uncertainty in its own budget as social-assistance payments are annually adjusted to compensate for changes in housing costs. But government budgets can absorb and finance this uncertainty far more easily and cheaply than can low-income families.

We have provided back-of-the-envelope estimates of the cost of our proposal. It is based on an arbitrary choice of 35 per cent as the rent-to-income ratio above which a family spending that amount would be considered to be in poverty. We estimate that the gross cost of our proposal would be \$200 million per year. To put this amount into perspective, it is equal to 0.9 per cent of the budget of Alberta's Ministry of Health,<sup>43</sup> an amount that surely falls into the category of rounding error for that ministry. But more than that, we are convinced that the cost savings that we describe as stemming from our proposal are substantial, thus making the net cost an even smaller consideration than this. As it is our belief that our proposal would have a dramatic effect on the well-being of those Albertans living with low income, it is hard to avoid the conclusion that reducing the burden of poverty is not only possible with readily available tools, but is also easily affordable.

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<sup>43</sup> See Government of Alberta (2018).

Finally, given the breadth and depth of the issues we have looked at in this paper, it will be no surprise that it suffers from limitations. When describing the provision of social assistance in Alberta, we consciously focused only on the assistance provided to people classified by Alberta Works as “expected to work” and facing “barriers to full employment.” We have not dealt with AISH, partly because we have already exhausted the patience of the reader, but also because we think it deserves separate treatment. We have also said nothing about the issue of poverty as it is experienced by Indigenous people. In large part this is because available poverty measures are silent on Indigenous people’s experience with poverty. The unique circumstances of Indigenous people is another reason why their experience demands a separate examination. Finally, our focus has been on issues of poverty as it relates to non-seniors. How pensions address senior poverty is beyond the scope of this paper.

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## About the Authors

**Ron Kneebone** is the Scientific Director of the Social Policy and Health research division at The School of Public Policy and a Professor of Economics, both at the University of Calgary. His current research examines the characteristics of Canadian federal, provincial and municipal fiscal policy choices, and the problems of homelessness and poverty.

**Margarita Wilkins** is a Research Associate in the Social Policy Program at The School of Public Policy at the University of Calgary. Her current research analyzes the finances of provincial governments and examines issues relating to poverty and homelessness. She is the co-author of *Social Policy Trends*, a publication released monthly by The School, which considers a variety of issues impacting social policy. She holds an MA in Economics from the University of Calgary.

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### The School of Public Policy

University of Calgary, Downtown Campus  
906 8th Avenue S.W., 5th Floor  
Calgary, Alberta T2P 1H9  
Phone: 403 210 3802

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#### ISSN

ISSN 2560-8312 The School of Public Policy Publications (Print)  
ISSN 2560-8320 The School of Public Policy Publications (Online)

#### DATE OF ISSUE

February 2019

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