Poverty Trends and the Canadian "Social Union"

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Abstract

This paper argues that if the term “Canadian Social Union” is to have practical meaning, there must be some commonality in poverty outcomes across provinces. The paper compares poverty intensity in Canada and the United States, and in the different Canadian provinces, in the early 1970s and from 1994 to 1996. Although Canada was statistically indistinguishable from the US in the early 1970s, by 1994 Canadian poverty intensity was clearly less than that in the US. In the early 1970s, Canadian provinces differed considerably in poverty intensity, both before and after the impact of taxes and transfers, but in 1994 all Canadian provinces shared a common, lower level of after tax, after transfer poverty intensity. In practical terms, between 1973 and 1994 one could say a “social union” had been put in place. However, since 1994 the trend has reversed. From 1994 to 1996 the poverty of the non aged population rose, with particularly large increases in poverty intensity for children under six in Ontario and Nova Scotia. The paper concludes with some speculation on the likely future course of the Canadian “social union”.

What is the practical meaning of a term like the Canadian "social union"?

How has the "social union" evolved in Canada in recent decades and how is it likely to evolve in future?

Why might it matter?

This paper takes the view that if a "social union" is to have practical meaning, it should find some concrete reflection in the outcomes which people actually experience - in particular, in the poverty outcomes which Canadians experience. This is not to say that other aspects of social policy are unimportant to a "social union" - social policy also affects the education, health care and retirement incomes of non poor Canadians. The public programmes which provide these broader services are important to rich and poor alike, and the degree of commonality which people have in their personal experiences with these programmes is important because a "social union" is presumably concerned with generating a national sense of shared experience and common destiny. Hence, services to the non-poor are clearly important.

However, because mitigating poverty is such a central issue for the welfare state, poverty outcomes are a particularly crucial practical indicator of a "social union". Poverty affects many Canadians directly[1] right now and the probability and depth of potential poverty affect the sense

[1]Appendix A discusses measurement issues and presents the results obtained when alternative possible poverty lines and equivalence scales are used. The main body of this paper uses the common practice, in the international literature, of drawing the poverty line at one half the median equivalent after-tax/after-transfer income of individual Canadians (where household economies of scale are assumed to be captured by the OECD equivalence scale). This measurement choice implies a significantly lower poverty rate (11.57% in 1994) than the use of the Statistics Canada Low Income Cut Off (15.9% in 1994). However, the issue this paper

of economic insecurity with which many non poor Canadians contemplate the future. If Canada is to be a meaningful "social union" one might therefore think that a basic objective of such a social union would be some commonality[2], across provinces, of poverty outcomes and poverty mitigation.

Part I of this essay therefore starts by asking how well the Canadian state has done over the period 1971 to 1994 in reducing the intensity of poverty to a common level in different areas of the country. Either by comparison with the US, or in comparison of provinces with each other, this period of roughly two decades saw a dramatic change in the effectiveness of Canada's tax/transfer system in reducing poverty intensity. However, the rapidity of the change also implies that such change is potentially vulnerable to equally rapid reversal.

Part II then outlines a few of the ways in which the federal government has withdrawn from anti poverty policy in the period since 1994, and presents some evidence on recent trends in poverty intensity by demographic group. Although the provincialization of social policy has had relatively little effect on senior citizens, impacts on younger cohorts have been more significant. In particular, the poverty intensity of children under six in Ontario and Nova Scotia has increased in recent years.

Part III is more speculative. It focuses on the possible future evolution of fiscal efforts to reduce poverty in Canada, in a more "provincial" environment where: (1) in the short term, the

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focusses on is *trends* in poverty, which are much the same for all combinations of poverty line and equivalence scale examined - see Appendix A.

[2]Note that "commonality" of poverty outcomes could be at either a high or low level of poverty. The issues of *whether* there is a social union, and *what type* of social union that may be, are analytically distinct.

federal government faces political pressure to reduce further its anti-poverty initiatives from the official opposition and from major provinces; (2) the federal government has effectively downloaded to the provinces much of the fiscal risk of any future recession and (3) there may be a secular trend to diminished saliency of pan-Canadian political sentiment.

1.Trends in Poverty Intensity in Canadian Provinces

What trends have there been in recent years in poverty in Canada ? The most commonly used statistic on poverty is the poverty rate, but since Sen (1976) many authors have recognized that the poverty rate, by itself, is a poor index[3]. Simply counting the number of the poor, as a percentage of all people, ignores any consideration of the depth of their poverty. As Myles and Picot (1999) have noted, some social policies transfer income to groups (such as single parents) whose incomes are well below the poverty line. *Because* their incomes are so far below the poverty line, policy changes which affect these groups may have large impacts on their well being, but not show up in the poverty rate statistics if few individuals are actually moved over the poverty line.

On the other hand, an index such as the average poverty gap ratio, which looks only at the average percentage shortfall of income below the poverty line, has the defect that it ignores the issue of how many people are poor. This paper therefore uses the Sen-Shorrocks-Thon (SST) index of poverty intensity, which combines consideration of the poverty rate, average poverty

[3]For surveys of the literature see Hagenaars (1991) or Zheng (1997)

gap ratio and inequality among the poor.[4] This paper also takes the view that poverty in Canada should be assessed in terms of *Canadian* social norms, and therefore calculates the poverty rate and poverty gap for each individual with reference to a Canada wide norm of living standards[5].

What differences between provinces are meaningful ? Since this paper will focus on the differences between Canadian provinces in poverty outcomes, it is essential to know when those differences are statistically significant and when they are not. Data on poverty is obtained from surveys of the population, and there is inevitably some statistical uncertainty in forming estimates of the characteristics of a population based on sample data. Osberg and Xu (1997, 1999a,b) show how bootstrap estimation[6] can be used to establish the confidence intervals

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[4]The Sen-Shorrocks-Thon (SST) index of poverty intensity can be calculated as I = (rate)*(gap)*(1+G(x)) where "rate" is the percentage of the population with incomes below the poverty line (sometimes called the head count ratio), "gap" is the average percentage gap between the incomes of the poor and the poverty line and G(x) is the Gini index of inequality of the poverty gap among all people. In the main body of this paper, cash incomes are converted to "equivalent income" using the "OECD" equivalence scale ratios for households of different sizes. Appendix A includes calculations in which the "LIS equivalence scale" is used. For further details on the SST index, and its trends over time in Canada, see Osberg and Xu (1999b) or Myles and Picot (1999). For international comparisons, see Osberg and Xu (1997,1999a).

[5]The alternative point of view is that there is no such thing as "Canadian" society, and poverty norms should therefore be appraised with reference to local/provincial standard of living norms. Clearly, if this were the case, there would be no point at all in talking of a Canadian "social union".

In the main body of the text, the poverty line norm adopted is one half the median equivalent income of all Canadian individuals, since this concept of poverty has been widely used in the international literature and can therefor be compared to international data. A disadvantage of this approach is that it does not recognize the differences in the cost of living that accompany residence in urban and rural areas. Appendix A therefore presents the results obtained when the Statistics Canada Low Income Cut Off (LICO), which builds in city size and urban/rural cost of living differentials, is used as the poverty line. Unfortunately, the LICO methodology is unique to Canada and cannot be directly compared internationally.

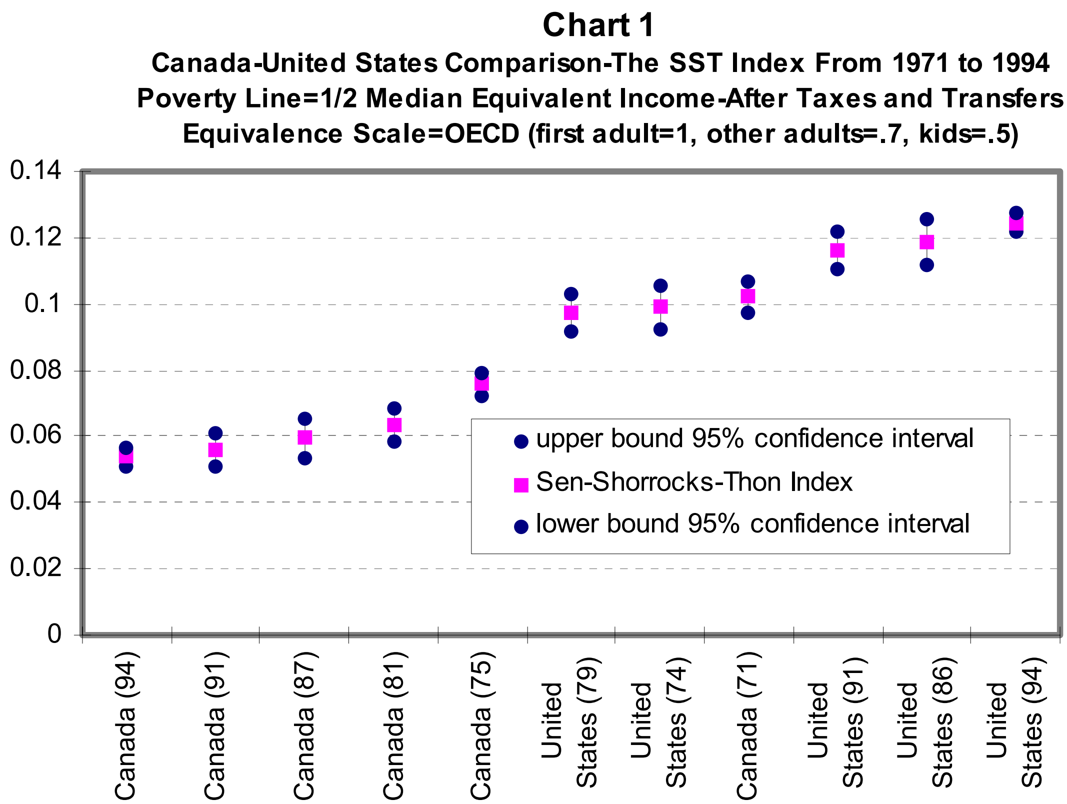
[6]The idea behind bootstrap estimation is that of experimenting (by multiple random resampling of the survey micro data) with the implications of drawing somewhat different samples, from which to calculate the characteristics of the population.

surrounding poverty estimates. Hence, this paper reports both point estimates of poverty intensity and the 95% confidence band that surrounds such estimates, since we want to know when the differences between provinces are large enough to be statistically significant.

Overall, how much has the anti-poverty effectiveness of taxes and transfers changed in Canada in recent decades? Quite a lot, as it happens. Over the period 1971 to 1994, Canadian social policy followed a different trajectory than that of the USA (see Card and Freeman(1993)). As a result, Canadians have become accustomed to (and perhaps a bit sanctimonious about) the lower level of poverty to be observed in Canada, compared to the USA. Chart 1 is based on Luxembourg Income study data and plots the SST index of poverty intensity for Canada and the USA from the 1970s to the 1990s. It is notable that although the 1994 data show a considerably greater intensity of poverty in the USA than in Canada, this difference is of relatively recent origin[7]. In the early 1970s, Canada and the USA were statistically indistinguishable in poverty intensity (indeed the point estimate of Canadian poverty in 1971 is actually a bit higher than the point estimate of poverty intensity in the US in 1974).

How much similarity has there been across provinces in these trends ? Chart 2 also uses the Luxembourg Income Study data base, but instead of looking at Canada wide outcomes in 1971, it compares Canadian provinces. Since this paper is interested in the impact of social policy on poverty, Chart 2 contrasts the level of poverty intensity "pre-fisc" (before taxes and transfers) and

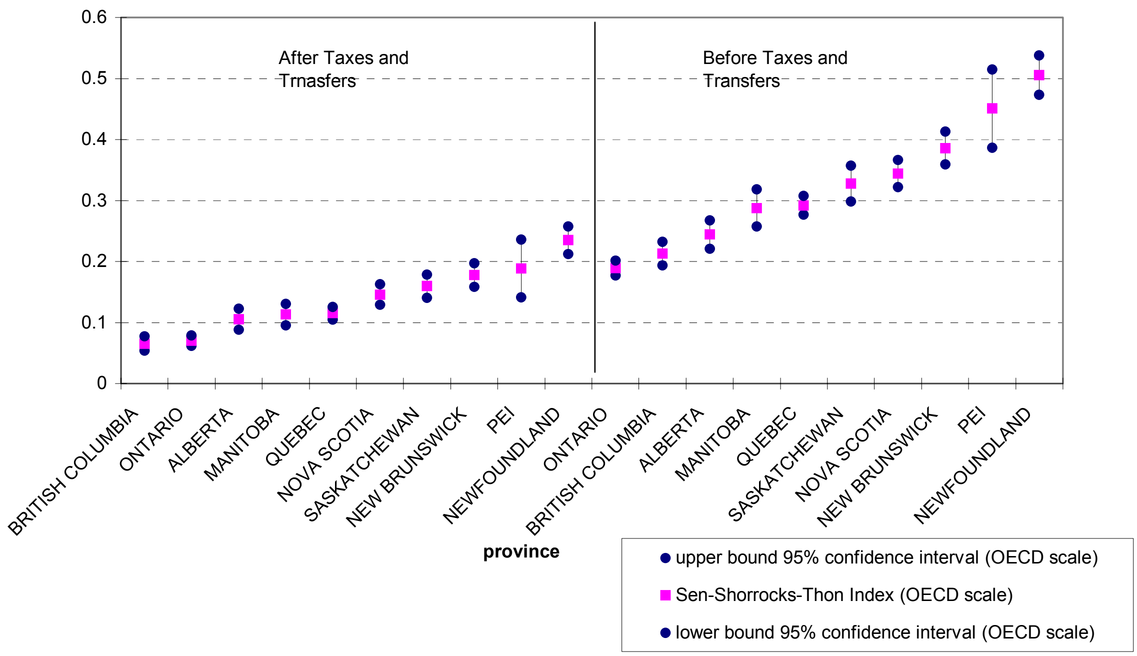
[7]As well, it should be emphasized that the USA is a clear outlier in poverty intensity, and it is not really that hard to look good compared to the worst. Compared to other developed countries, Canada in 1994 was at the high end of a continuum, with a similar level of poverty as Spain or the UK but clearly greater poverty intensity than Belgium, the Netherlands or the Scandinavian countries - for more details, see Osberg and Xu (1997, 1999a).



note: [95% confidence interval=mean +/- 2 standard deviations] of 200 bootstraps, (income = money income of household after tax/after transfers)

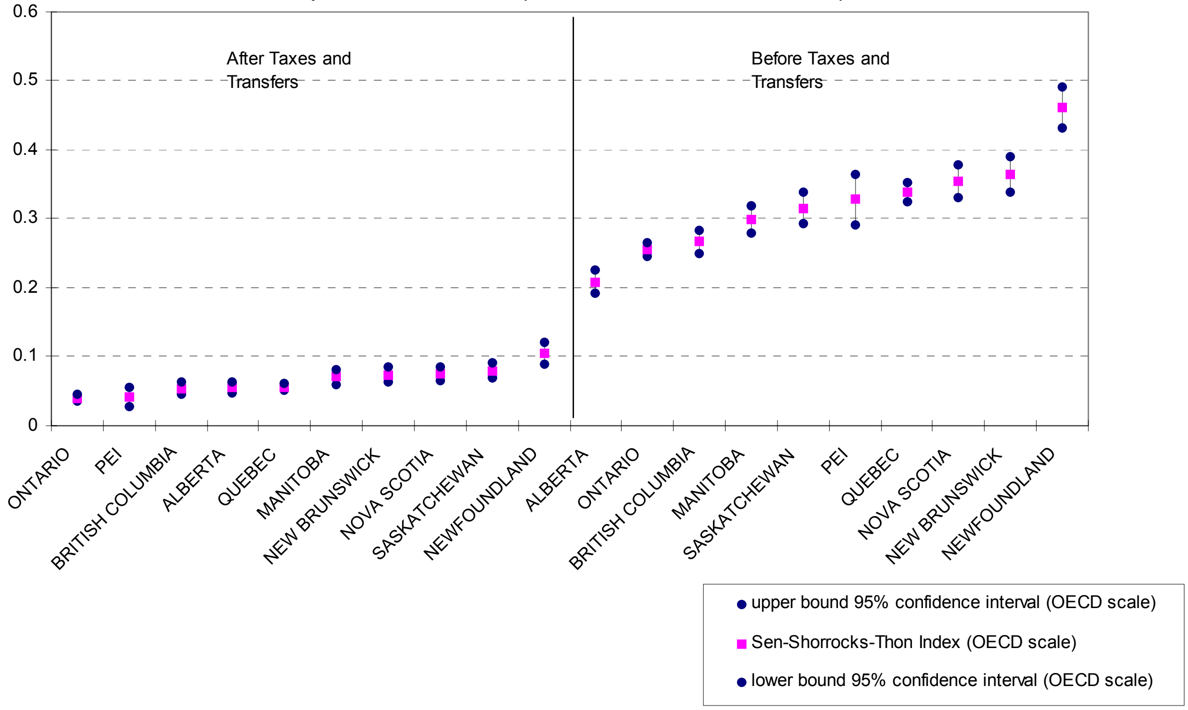
Source: Luxembourg Income Study, Osberg and Xu (1997, 1999a).

Chart 2
Sen-Shorrock-Thon Index of Poverty Intensity
1971
PovertyLine=1/2 Median Equivalent Income-After Taxes and Transfers
Equivalence Scale=OECD (first adult=1, other adults=.7, kids=.5)



note: [95% confidence interval=mean +/- 2 standard deviations] of 200 bootstraps
poverty line set at one half the median equivalent income of individuals (OECD equivalence scale, money income of household (after tax/after transfers for left panel, before tax/before transfers for right panel)).
Source: Luxembourg Income Study, author's calculations.

Chart 3
Sen-Shorrock-Thon Index of Poverty Intensity
1994
PovertyLine=1/2 Median Equivalent Income-After Taxes and Transfers
Equivalence Scale=OECD (first adult=1, other adults=.7, kids=.5)



note: [95% confidence interval=mean +/- 2 standard deviations] of 200 bootstraps
poverty line set at one half the median equivalent income of individuals (OECD equivalence scale, money income of household (after tax/after transfers for left panel, before tax/before transfers for right panel)).
Source: Luxembourg Income Study, author's calculations.

"post-fisc"(after the impact of taxes and the receipt of transfer payments)[8]. The wide range of poverty intensity across Canadian provinces is notable, and it is particularly striking that Canadian provinces differed a good deal in poverty intensity, <u>both before and after the impact of taxes and transfers</u>. Indeed, in 1971 poverty intensity *before* taxes and transfers in some Canadian provinces (Ontario, BC, Alberta) was statistically indistinguishable from poverty intensity *after* taxes and transfers in several Atlantic provinces. Evidently, although the net impact of taxes and transfers within all provinces was a reduction in poverty intensity, in 1971 the tax/transfer system left poverty at a relatively high level and did little to equalize the experience of poverty across Canada.

By 1994, a very different picture in post-fisc outcomes had emerged. Chart 3 presents the SST index of poverty intensity (and its 95% confidence interval) for Canadian provinces, pre and post taxes and transfers. Over all, the tax and transfer system produced a considerably lower national level of poverty intensity post-fisc in 1994 than in 1971. As well, it is notable that although pre tax/transfer poverty outcomes continued to diverge substantially across provinces, by 1994 there was much more homogeneity in post-fisc poverty outcomes across Canadian provinces than in 1971. If mitigating poverty and substantial equalization of the life chances of Canadian citizens across provinces are indicators of the success of a social union, the 1994 data offer considerable reason for satisfaction.

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[8]In Charts 2 and 3, the poverty line is set at one half the median of the relevant income concept - before tax and transfer or after tax and transfers.

2. Social Policy Change since 1994

Although the data up to 1994 tell a hopeful story about the successes of the Canadian social union, 1994 was also a year that marked a major transition in social policy regimes in Canada[9]. Since 1994, Canada has seen: (1) major revisions to the UI system, and its replacement by the EI system; (2) replacement of the Canada Assistance Plan by the Canada Health and Social Transfer; (3) substantial devolution of authority to the provinces of in kind service delivery such as social housing and training; (4) major expenditure cuts in transfers to the provinces by the federal government; (5) substantial cuts in social assistance generosity in Ontario (and to a lesser extent in some other provinces).

The federal government has clearly been retreating from social activism and de-emphasizing poverty mitigation as a major goal of policy. As the pendulum swings towards greater provincial autonomy, in general, provinces now also have to rely much more on their own fiscal resources for social transfer expenditures[10]. Social assistance payments are no longer partially borne by the federal government, since cost-sharing under CAP has been replaced by block funding under the CHST, and provinces may differ in both fiscal capacity and inclination to reduce poverty.

In thinking about how poverty outcomes may have diverged across provinces, it is useful

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[9]Osberg and Xu (1999b) compare poverty intensity within Canadian provinces in 1984 and for each year from 1989 to 1996.

[10]The new national child benefit system does allow provinces to reduce social assistance payments to families in receipt of child benefits if the money is being spent on related programmes.

to distinguish between the outcomes experienced by different age groups. Improvements in the old age security system (Canada Pension Plan, the Guaranteed Income Supplement and Old Age Security) occurred in the late 1960s and early 1970s and their impacts were phased in during the 1970s. The reduction in poverty among senior citizens which that produced has been a major success of Canadian social policy[11]. Because the old age security system is largely federal and has been mostly untouched in recent years there is likely to have been very little change across provinces in the poverty outcomes observed for senior citizens.

The experience of adults of working age, on the other hand, is more likely to vary across provinces. There have been different trends in local labour market conditions and the details of the UI/EI system have changed substantially. These changes interact in their effects on the working poor (and near poor) of different provinces, who have been differentially exposed to the impacts of changes in local unemployment and UI/EI regulations. Since provincial social assistance regulations for the working age population have also changed in differing ways, they may also have experienced changes in social assistance benefit levels and accessibility. Since the poverty of children is determined by the poverty of their parents, child poverty outcomes are likely to have changed in different degrees in different provinces - and since the parents of very young children are likely to be the young adults who have been disproportionately affected by

[11]Osberg (1997) discusses trends from 1971 to 1994 in the poverty and inequality outcomes of different birth cohorts of Canadians, and emphasizes that because many senior citizens depend on the same transfer programmes, many have much the same income. This “spike” in the income distribution of senior citizens means that the poverty rate among the over 65 cohort is sensitive to choice of poverty line.

the labour market environment of the 1990s[12], it seems useful to pay particular attention to the poverty of children under six.

Charts 4 and 5 examine changes in poverty intensity among people of different ages, in the different provinces of Canada from 1973 to 1994 and from 1994 to 1996. Charts 1 to 5 embody the assumptions that: (1) Family income is equally shared among all family members[13]; (2) The "OECD" equivalence scale adequately captures the economies of scale in family consumption; (3) the post-tax, post-transfer money income of the economic family measures family economic resources; (4) the poverty line is drawn at one half of the median equivalent income of all Canadians[14]. If these assumptions are granted, one can assign an equivalent income to each member of each economic family in the Survey of Consumer Finance[15], and calculate the

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[12]Osberg, Erksoy and Phipps (1998) discuss the impacts of the greater risk exposure of the youth cohort in the 1990s, due to higher unemployment and less generous unemployment insurance.

[13]Sharif and Phipps (1994) note that the measurement of child poverty levels in Canada is quite sensitive to intra-family sharing assumptions. If, in all provinces, there is the same degree of intra family inequality, the level of child poverty will change but not the inter province differences reported above. However, if there are substantial differences across provinces in social norms with respect to the degree of inequality with which family resources are shared, the conclusions of Charts 4 and 5 with respect to child well being may need to be revised.

[14]Note that this methodology implies a lower poverty rate and poverty gap than use of the Low Income Cut Off (LICO), since the LICO is higher than half the median - see Footnote 1 and Appendix Table A1. However, the main body of this paper uses one half the median equivalent income as the poverty line to keep comparability with the international literature on poverty. Appendix A reproduces the calculations embodied in Charts 4 and 5 using the Statistics Canada LICO as the poverty line and the corresponding equivalence scales.

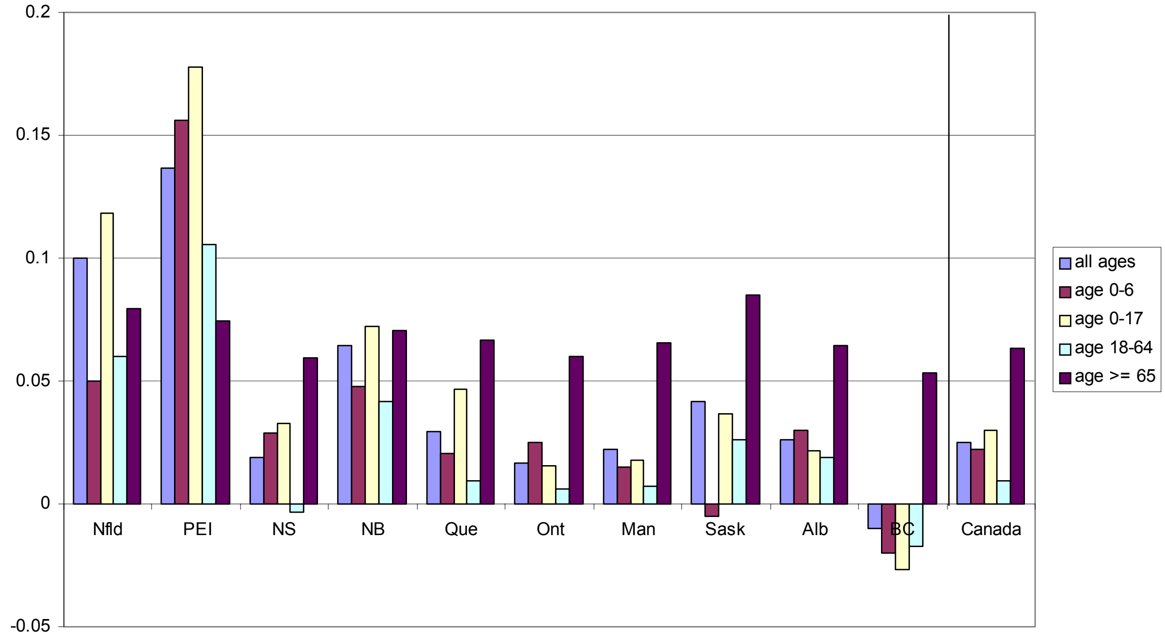
[15]Note that Charts 4 and 5 use the Survey of Consumer Finance micro data directly, since 1994 is the most recent data for Canada available on the LIS. This necessitates a small change in definition from the poverty of households (LIS) to that of economic families (SCF) - but there is no significant change in results. As well, 1971 is available in LIS but 1973 is the earliest SCF data available to us under the Data Liberation Initiative.

poverty intensity, rate of poverty and average poverty gap for four age groups: all persons aged 0 to 6, 0 to 17, 18 to 64 and 65 or over.

Chart 4 is consistent with the picture already painted in Charts 2 and 3 - over the twenty one year period 1973 to 1994, with the exception of BC, all demographic groups in all provinces experienced a decline in poverty intensity. Notably, in all provinces other than PEI and Newfoundland, the improvement for senior citizens was both greater than that for other demographic groups and much more uniform across provinces, possibly reflecting the greater federal role in old age security.

However, Chart 5 indicates a general trend since 1994 to stable or worsening poverty intensity. Although there has been little change in the poverty intensity of senior citizens, there

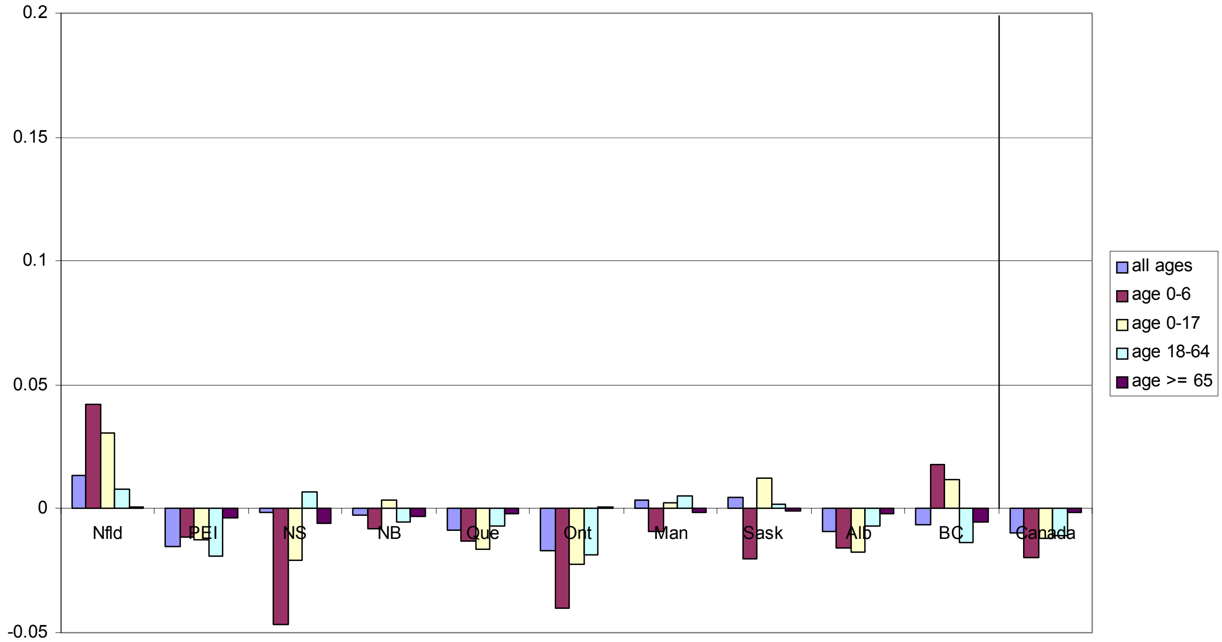
Chart 4
Improvement* in SST index from 1973 to 1994 All Provinces
PovertyLine=1/2 Median Equivalent Income-After Taxes and Transfers
Equivalence Scale=OECD (first adult=1, other adults=.7, kids=.5)



* Change in SST Index [1973-1994]

Poverty line set at ½ the median equivalent income of individuals (OECD equivalence scale, after tax/after transfer money income of economic family used-see Table A1).
Source: Author's calculations from SCF (table A4)

Chart 5
Improvement in SST Index from 1994 to 1996 All Provinces
PovertyLine=1/2 Median Equivalent Income-After Taxes and Transfers
Equivalence Scale=OECD (first adult=1, other adults=.7, kids=.5)



* Change in SST Index [1994-1996]

Poverty line set at ½ the median equivalent income of individuals (OECD equivalence scale, after tax/after transfer money income of economic family used-see Table A1).
Source: Author's calculations from SCF (table A4)

have been especially large increases in poverty intensity among very young children in Ontario and Nova Scotia. Although there has undoubtedly been an increase in the level of rhetorical concern with child poverty in recent years, the net effects of the actual policy measures adopted (e.g. the 21% cut in October 1995 in social assistance payments in Ontario) have not been consistent with that rhetoric. The increase in the poverty intensity from 1994 to 1996 among children under six in Canada's largest (and richest) province is especially notable.

3. Likely Future Trends

The future trend of poverty outcomes in Canada will undoubtedly be affected by trends in household composition and stability, the ups and downs of aggregate demand in low wage labour markets, and the impacts of regulatory, market and technological changes on labour market structure and institutions. However, trends in social transfers are always particularly important for those who cannot rely on an adequate and stable stream of earnings. In thinking about likely future trends in poverty intensity in Canada, there is no escaping the central role of the adequacy of transfer payments.

Unlike some other federations (e.g. Australia), there is in Canada a substantial degree of divergence across provinces in pre-transfer/pre-tax poverty intensity. In the Canadian context, there is, in a sense, more for the federal government to do, if there is to be some commonality across provinces in citizenship rights and poverty outcomes, after taxes and transfers. However, there is no mistaking the direction of the political winds in the immediate future. The official opposition and the governments of the two largest provinces unite in the proposition that the federal government should play a diminished role in the tax/transfer system and in social policy, which is more or less the direction in which federal policy has moved in the last five years anyway. Provincial governments have been observed making rhetorical commitments to something called a "social union" but this appears to be code for restricting federal powers to impose conditions in cost shared programmes or to initiate federal social policy initiatives - the federal-provincial agreement on the social union is notably without any specific constraints on provincial decisions[16].

Longer term trends can be decomposed into cyclical and secular components. Federal institutions (i.e. the Bank of Canada and the Department of Finance) retain sole control over monetary and fiscal policy in Canada, but the distribution of fiscal risk from business cycle fluctuations has shifted significantly in recent years. During the recessions of the early 1980s and 1990s, the federal government shared in the costs of cyclical downturn through its responsibility for Unemployment Insurance, and the cost sharing of social assistance under the Canada Assistance Plan[17]. In those recessions, the vast majority of the unemployed got Unemployment Insurance (paid for by the federal government) and those who ran out of UI could sometimes go on Social Assistance, for which the federal government paid fifty per cent of the cost.

In the late 1990s, the situation is fundamentally different. A minority of the unemployed are eligible for EI and any increase in social assistance costs produced by a downturn in labour

[16]With the possible exception of residency based policies which impede labour mobility, although the wording ["unless they can be demonstrated to be reasonable and consistent with the principles of the Social Union Framework"] would appear to have lots of room for interpretation.

[17]In the 1990s recession, federal participation in recessionary costs was greatly limited by the "Cap on CAP" which limited annual increases in Canada Assistance Plan transfers to Ontario, BC and Alberta to 5% - despite the fact that the recession hit Ontario hardest.

demand will be entirely borne by provincial treasuries. The shift to block funding of transfers to the provinces embodied in the CHST means that the federal government's participation in increased social assistance payments in a recession is now zero. Demands on the social assistance system are likely to be more sensitive to future business cycle downturns because the dramatic decline in eligibility for unemployment insurance payments under EI[18] means that provincial Social Assistance programmes will be called on to carry the burden earlier, and to a far greater degree, than in past recessions.

Furthermore, in addition to "recession proofing" its own fiscal situation at the expense of the provinces, the federal government has backed away from its commitment to the macro economic stabilization of output and employment, preferring a commitment to "price stability", with concomitant greater likelihood of output and employment fluctuations. Aggregate cyclical risk has grown, and the provinces now have a greater share of that higher risk.

Provincial revenues from sales tax and income taxes are clearly vulnerable to downturns in the business cycle - with the added wrinkle in Atlantic Canada that Newfoundland, Nova Scotia and New Brunswick have, by replacing their provincial sales tax with the Harmonized Sales Tax, surrendered control of both the rate and the definition of the tax base of one of their

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[18]In 1997, the percentage of the unemployed receiving EI benefits was 25%. The beneficiary to unemployed ratio was significantly higher (at 42%), largely because a significant fraction of EI recipients work while on claim (and declare their earnings) and are therefore not counted as unemployed. The decline in UI/EI recipiency in the 1990s has been dramatic - the beneficiary/unemployed ratio in 1989 was 83%. See HRDC (1998: Table 4.1, page 56)

major revenue sources[19]. In some provinces explicit legislation now ties governments to a balanced budget and in all provinces there is heightened political sensitivity to budget deficits. Hence, provincial expenditure cuts are a likely response to any future recession. Of the four main headings of provincial government expenditure (health care, education, debt payments and social assistance), social assistance is clearly the most vulnerable, since debt servicing is sacrosanct, and there are broad and powerful coalitions supporting health and education. There is thus reason to believe that the poor are increasingly at risk in any future economic downturn.

During the 1930s, the inability of the provinces to cope with the fiscal burden of the Depression led to serious re-examination of federal/provincial relations, which ushered in an era in which federal macroeconomic policy aimed at minimizing downturns in output and employment, and federal programmes shared the burden of cyclical downturns. That policy regime has now been substantially dismantled, but nearly sixty years ago the Rowell-Sirois Commission expressed fairly clearly its rationale:

> "The quality of education and welfare services is no longer a matter of purely provincial and local concern. In Canada today, freedom of movement and equality of opportunity are more important than ever before, and these depend in part on the maintenance of at least minimum national standards for education, public health and care of the indigent. The most economically distressed areas are the ones least capable of supporting these services, and yet are also the ones in which the needs are likely to be greatest. Whether the remedy lies in emigration from these areas or in the development of alternative means of livelihood, they must not be allowed to become backwaters of illiteracy and disease. Not only national duty and decency, if Canada is to be a nation at all, but equity and national self-interest demand that the residents of these areas be given average services and equal opportunities -- equity because these areas may have been impoverished by the national economic policies which enriched other areas, and which

[19]Because federal transfers are either fixed sums per capita (CHST) or formula driven (equalization) and because the federal government retains control of the definition of the income tax base, the only major revenue parameter these governments now control is the provincial percentage rate of the income tax.

> were adopted in the general interest. Those whose interests were sacrificed have some claim that the partnership should work both ways. National self-interest demands it because the existence of areas of inferior educational and public health standards affects the whole population, and creates many grave and dangerous problems. More fortunate areas cannot escape the pressure on their standards and the effect on their people; in this case prevention, in both fiscal and human terms, is much cheaper than the cure."[20]

However, it is not clear that these lessons have been remembered.

In the new millennium, business cycle fluctuations will interact with longer term secular trends in determining the degree of redistribution in Canada's tax/transfer system. Fundamentally, such redistribution is driven by a political sense of common membership in a national community (As Rowell-Sirois put it: "If Canada is to be a nation at all") and some expectation of the appropriate degree of sharing of aggregate output. The longer term question is whether a sense of national community in Canada can survive the barriers of geography, political decentralization, Quebec nationalism, regional alienation, the louder voices of the global entertainment industry and the pervasive marketization of social policy. The issue is clearly somewhat circular, since the saliency of common institutions and the objective reality of a common situation underpin political support for pan Canadian redistribution, and a decline in federal programmes and an increase in the objective differences in outcomes between provinces undermines both, thereby accentuating the trend to greater provincialism.

Within the last three decades, two different patterns have been observed in Canada. In 1971, Canada had a similar over all level of poverty intensity as the United States and because pre-transfer poverty levels differed and because different tax and transfer systems were in place

[20]Report of the Royal Commission on Dominion -- Provincial Relations, Book 2, page 128 (Rowell -- Sirois, 1940).

in different Canadian provinces, the provinces differed considerably in ultimate post-fisc poverty outcomes. In 1994, Canada had, overall, much less poverty than the United States and much greater commonality than in 1971 in the level of post tax/transfer poverty intensity - i.e. the operation of the tax and transfer system meant that despite differing levels of pre-transfer poverty, Canadians in all provinces had in the end a much more similar chance and depth of poverty. In 1971, one could hardly say that there was a "social union", but in 1994 a practical "social union" was in existence.

Which scenario is more likely for the future ?

Who cares ?

On balance, there would seem to be more likelihood than not that the federal role in social policy will continue to shrink and that poverty outcomes will continue to trend up and to diverge across provinces. The rhetoric of "social union" may continue, but not the reality - at least for those under 65. The direct impacts will clearly be felt primarily by the poor, who are a minority of society, with very little political influence, and among senior policy makers there may well be a diminished sense that this matters much[21].

My own opinion is that this is a mistake. The prevalence and depth of poverty is of personal concern not only to those who are poor at any given time, but also to the much larger number who will experience a spell of poverty at some point in their lives, and to the even larger number who are anxious about their probability of poverty. Even those people who are certain that they will be affluent all their lives are affected, since growing poverty affects the general quality of urban life and undermines any residual sense of national community. Having a sense

[21]See Graves et al (1999)

of a larger identity to belong to seems to be important to many people, including the securely affluent, and there are many economic costs to diminished social cohesion[22]. The maintenance of Canada's social union and an effective anti poverty role matters, in many ways, but it is unclear whether current trends will continue, or not.

[22] A growing literature has begun to recognize the importance of social cohesion for economic growth - see Knack and Keefer (1997). For a series of studies on the economic impact of social cohesion in a Canadian context, see Osberg (forthcoming).

Appendix A - Measurement Choices

The issue of where to draw the poverty line has been much debated over the years - for surveys, see Hagenaars(1991) or Atkinson (1998). The main body of this paper uses the common practice, in the international literature, of drawing the poverty line at one half the median equivalent after-tax/after-transfer income of individual Canadians (where household economies of scale are assumed to be captured by the OECD equivalence scale). By this criterion, 11.57% of the population were poor in 1994. In using one half the median, the poverty criterion used in this paper is conceptually similar to what is now called the Low Income Measure (LIM) by Statistics Canada, which sets the 1994 poverty rate at 14.7%(see Statistics Canada, 1998:17). The difference arises because the Statistics Canada LIM uses pre-tax, post transfer income (while we use after tax, after transfer income), calculates the median across households (we take the median across individuals), does not exclude people with negative incomes (we do), counts children as those under 16 (OECD uses 18) and uses an equivalence scale with much greater economies of scale in which additional adults count for 0.4 adult equivalents (OECD uses 0.7), and children count as 0.3 (OECD uses 0.5). By the more widely known (in Canada) Low Income Cut Off or LICO criterion, the poverty rate (after tax) was 15.9% in 1994 and 17.0% in 1996. See Table A1 below for the dollar values which correspond.

The sensitivity of the poverty rate at a point in time to the exact measure of the poverty line chosen is symptomatic of the ambiguity of definition of poverty for those just at the margin - see Wolfson and Evans (1989) or Short et al (1999). However, trends over time among the non-elderly, and the conclusions of this paper, are not sensitive to these measurement choices.

Because the dependence of many senior citizens on the same transfer programmes implies that many have much the same (low) income, and because that "spike" in the income distribution of senior citizens lay between the LICO and one half the median in 1994, poverty measurement among the over 65 cohort is more sensitive to measurement choices - see Osberg (1997).

Table A1 presents the dollar values of the poverty line, in 1994 and 1996, which correspond to the conceptual choice of "Low Income Cut Off" or "one half the median equivalent individual income" as the poverty line. Although these two conceptual choices generated much the same dollar poverty line for a four person family in the late 1980s, they have diverged since then. In the period 1990-1996, average real family income has fallen since consumer prices have risen faster than family money incomes. Because the LICO has been updated by the increase in consumer prices, while a poverty line drawn at one half the median increases with family incomes, the LICO is now significantly higher than "one half the median".

However, a major advantage of using the "one half the median equivalent individual income" concept to draw the poverty line is the possibility of making international comparisons. An earlier version of this paper (available on the web at http://is.dal.ca/~osberg/home.html) presented the numbers that correspond to Charts 1 to 5 in the text. The advantage of using the LICO is that it builds in consideration of the cost of living differences that go with residence in different urban or rural settings[23]. The disadvantage is that international comparability is lost, since the LICO methodology is unique to Canada.

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[23]The difference in housing costs between Metro Toronto and rural Ontario (or rural Nova Scotia) is a clear example of the importance of urban size to cost of living - and since provinces differ in the relative importance of urban and rural areas, these have the potential to influence inter-provincial comparisons. [Note that inter provincial differences in cost of living, controlling for urban size, are much smaller than urban size differentials in cost of living.]

In the international literature on equivalence scales, reference to the “LIS” scale is increasingly seen. This refers to the hypothesis that the number of equivalent adults in a household should be calculated as the square root of the number of household members. Are the results in the main body of the text sensitive to our use of the “OECD” equivalence scale? Figini (1998, p. 2) notes that “OECD and other two-parameter equivalence scales empirically used show a similarity of results [in measurement of inequality] to one parameter equivalence scales with elasticity around 0.5.”, but that leaves open the possibility that in poverty intensity calculations there may be differences due to equivalence scale choice. The paper posted on the web site presents the results obtained with the “LIS” equivalence scale, which are essentially identical to those in the main text.

Table A1
Poverty Lines - After-Tax LICO and ½ the Median Equivalent Income (OECD scale)

	Low Income Cut-Offs					½ Median Equivalent Income (OECD scale)		
1994	Urban				Rural	1 adult	2 adults	3 adults
# in household	>= 500,000	100,000-499,999	30,000-99,999	< 30,000				
1	13,635	11,486	11,309	10,333	8,940	8,332	--	--
2	16,638	14,014	13,798	12,609	10,908	12,498	14,164	--
3	21,043	17,726	17,452	15,948	13,797	16,664	18,330	19,997
4	26,209	22,077	21,736	19,862	17,184	20,830	22,496	24,163
5	29,294	24,675	24,293	22,199	19,206	24,996	26,662	28,329
6	32,378	27,273	26,851	24,537	21,229	29,162	30,828	32,495
7(or more-LICO)	35,462	29,871	29,408	26,874	23,252	33,328	34,994	36,661
8	--	--	--	--	--	37,494	39,160	40,827
1996								
1	14,240	11,996	11,811	10,792	9,337	8,590	--	--
2	17,376	14,637	14,411	13,169	11,393	12,885	14,603	--
3	21,977	18,513	18,227	16,656	14,410	17,180	18,898	20,616
4	27,373	23,058	22,701	20,744	17,947	21,475	23,193	24,911
5	30,595	25,771	25,372	23,185	20,059	25,770	27,488	29,206
6	33,816	28,484	28,044	25,627	22,172	30,065	31,783	33,501
7(or more-LICO)	37,037	31,198	30,714	28,067	24,285	34,360	36,078	37,796
8	--	--	--	--	--	38,655	40,737	42,091

Sources: Statistics Canada - Catalogue 13-592-XPB
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[NOTE: articles marked ** are available at http://is.dal.ca/~osberg/home.html]

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