

THE RELATIONSHIP BETWEEN ECONOMIC GROWTH AND THE EXTENT OF POVERTY AMONG CANADIAN FAMILIES

*Kempe R. HOPE**)

Introduction

The growth of the Canadian economy has proceeded sufficiently far that severe poverty has become a problem of a specific group of its citizens, no longer a problem common to most men in most places. Economic growth has had little effect on the nature and dimensions of poverty in Canada. The economy's failure to achieve full employment and the acceptance of policy choices which increase unemployment contribute directly to the spread and perpetuation of poverty. While the economic system by itself cannot eliminate poverty, a healthy and expanding economy provides the environment essential to a comprehensive attack on poverty.

This paper examines the growth of the Canadian economy in recent years, and its relationship to the extent of poverty among Canadian families. The paper relies heavily on the Statistics Canada publications on *Income Distributions By Size in Canada*. Data was also obtained from publications of the Economic Council of Canada, the Canadian Ministry of Finance, and Information Canada.

Recent growth and prospects for future growth of the Canadian economy

Economic growth pertains primarily to an increase in the gross real production and income available to the residents of a nation — an increase in its real Gross National Product (GNP). In Canada, as seen from Table 1, GNP grew from \$ 38.4 billion to \$102.9 billion during the period 1960—72. The current rate of growth of output is a little more than 10 per cent, of which 5.5 per cent is an increase in volume and 4.9 per cent is an increase in the overall price deflator. The continued expansion of the economy was reflected in heavy demands for credit. Consumer borrowing and mortgage financing were appreciably higher in 1972 than in 1971. Business financing was also at a high level in 1972 though somewhat below that in 1971, when major efforts

*) Syracuse University, Syracuse, New York, U.S.A.

Table 1

**Relation between GNP at market prices and net national income (NNI)
at factor cost, 1960—1972 (billions of dollars)**

YEAR	GNP at Market Prices	% Change	NNI at Factor Cost	% Change
1960	38.4		28.8	
1961	39.6	+ 3.1	29.8	+ 3.5
1962	42.9	+ 8.3	32.4	+ 8.7
1963	46.0	+ 7.2	34.7	+ 7.1
1964	50.3	+ 9.3	37.7	+ 8.6
1965	55.4	+10.1	41.2	+ 9.3
1966	61.8	+11.6	46.3	+12.4
1967	66.4	+ 7.4	49.7	+ 7.3
1968	72.6	+ 9.3	54.6	+ 9.9
1969	79.7	+ 9.8	60.5	+10.8
1970	85.4	+ 7.2	64.2	+ 6.1
1971	93.1	+ 9.0	70.6	+10.0
1972	102.9	+10.5	78.7	+11.5

SOURCES: Government of Canada, Ministry of Finance, *Economic Review* (April 1973); and Statistics Canada, *Canadian Statistical Review*, Volume 49 (1974)

were underway to rebuild liquid asset positions.¹⁾ The provincial and municipal governments raised substantially larger amounts of funds. The Federal Government's borrowing was smaller, however. These credit demands were met without any significant change in interest rates over the year as a whole due to some expansionary policies pursued in the monetary field in order to sustain domestic economic growth and limit upward pressures on the exchange value of the Canadian dollar.²⁾

The strong growth of demand and production in the Canadian economy led to a rapid increase in employment opportunities in 1972. For the year as a whole, employment was 3.1 per cent higher than in the previous year. This rate of increase was the strongest recorded since 1969, when the rate of growth was 3.2 per cent.

It was noted earlier that real output increased by 5.5 per cent in 1972. Another measure of real output is the index of Real Domestic Product (RDP). RDP in both the goods-producing and service-producing industries advanced 4.5 per cent in 1972. Agricultural output declined 10 per cent while RDP less agriculture advanced by 5.1 per cent. Trade output increased 7.4 per cent, reflecting the gains in personal spending.

¹⁾ Government of Canada, Ministry of Finance (April 1973 : 7).

²⁾ Government of Canada, Ministry of Finance (April 1973 : 8).

Output in the transportation, storage and communication industries increased 5.8 per cent. Manufacturing and mining output rose 6.1 per cent and 5.4 per cent, respectively, despite the impact of industrial disputes and poor weather. Utility output recorded a large 10.6 per cent increase.

From the above discussions, there is no doubt about the rate of growth of the Canadian economy nor of its prospects for future growth. Recent studies indicate that by 1980, the total value of goods and services produced in Canada will have almost doubled, raising the GNP to \$ 190 billion as compared to \$ 102.9 billion in 1972. Optimistically, unemployment is expected to be reduced to 4 per cent and real personal disposable income per capita is projected to reach twice the level attained in 1960.³⁾ But, due to the progressive nature of the taxation system, an increasing share of personal income would be absorbed by government.

All in all, the Canadian economy is expected to continue its favourable growth performance in the future. I think it would be appropriate to point out at this time, however, that no projections have been made with respect to equitable distribution of rising incomes. The problem of income is, of course, and as we shall see in the next section, one of the major reasons why there is a poverty dilemma in Canada.

The extent and nature of poverty among Canadian families

Despite the significant progress made by the Canadian economy over the years, there is still an alarming number of families who are subjected to a life of poverty. There does not exist the kind of abject poverty that is common in other areas of the world, but real poverty does exist, a poverty relative to the living standard which the rest of the society enjoys.

Being poor can simply be determined to mean not having enough money above a certain level in order to subsist. There may be other reasons for poverty, such as lack of education, but those are also consequences of not having enough money to maintain an adequate standard of living.

In 1971, the much-publicised Senate Committee on Poverty published a report entitled *Poverty in Canada*. In that report, poverty-line incomes were established by family unit size⁴⁾ and poverty rates were calculated. These calculations indicated that the overall rate of poverty was approximately 25 per cent. This meant that one Canadian in four was a member of a family unit whose income was below the poverty line in 1969. The Committee also found that more than half of all low-income families (54 per cent) live in either Quebec or Ontario and that about 27 per cent of all low-income family heads are 65 years of age or older.

More recent statistics, as revealed in the Table below, indicate that about 58 per cent of the low-income families live in Quebec or

³⁾ Economic Council of Canada (1972).

⁴⁾ The Senate Committee poverty-line incomes were \$2,140 for an individual, \$3,570 for a family of two, \$4,290 for a family of three, \$5,000 for a family of four, and \$6,570 for a family of more than five. See Senate Committee on Poverty (1971: 12).

Table 2

**Low-Income families and unattached individuals by region, 1972
(Percentages)**

REGION	FAMILIES	UNATTACHED INDIVIDUALS
ATLANTIC PROVINCES	12.7	10.3
QUEBEC	30.7	28.1
ONTARIO	27.8	32.3
PRAIRIE PROVINCES	20.7	18.0
BRITISH COLUMBIA	8.1	11.4

SOURCE: Statistics Canada, *Income Distribution by Size in Canada 1972* (Ottawa: Information Canada, August 1974).

Ontario. This represents an increase of 4 per cent over the 1969 figures. The majority of the low-income families reside in nonmetropolitan areas (58 per cent). Of this number, 38.5 per cent are in the rural areas and this, of course, accounts for the reason why 17.1 per cent of the heads of these households are engaged in farming.

An examination of family size as shown in Table 3 indicates that the incidence of poverty was highest among single individuals (34.7 per cent) and two-person families (17.2 per cent). The two-person families make up approximately 39 per cent of all low-income families and they are primarily the aged with heads of households being 55 years and over. The other 61 per cent of all low-income families, obviously,

Table 3

**Incidence of low-income among Canadian families
by size of family unit, 1972**

SIZE OF FAMILY UNIT	INCIDENCE (%)
1 PERSON	34.7
2 PERSONS	17.2
3 PERSONS	12.5
4 PERSONS	10.3
5 OR MORE PERSONS	13.3

SOURCE: Statistics Canada, *Income Distributions by Size in Canada 1972* (Ottawa: Information Canada, August 1974).

**Selected characteristics of low-income and other
Canadian families, 1972**

(Percentages)

CHARACTERISTICS	Families	
	LOW-INCOME	OTHER
AREA OF RESIDENCE	100.0	100.0
Metropolitan Areas	41.7	63.5
Non-Metropolitan Areas	58.3	36.5
SEX OF HEAD	100.0	100.0
Male	71.8	94.5
Female	28.7	5.5
EMPLOYMENT STATUS OF HEAD	100.0	100.0
In Labour Force	47.7	88.1
Not in Labour Force	52.3	11.9
EDUCATION	100.0	100.0
Elementary Schooling	56.7	31.8
Some Secondary Schooling	27.7	29.9
Complete Secondary Schooling	8.7	17.4
Some Post-Secondary Schooling	5.3	13.3
University Degree	1.6	7.6
MAJOR SOURCE OF INCOME	100.0	100.0
No Income	1.4	0.0
Wages and Salaries	27.3	85.6
Net income from Self-employment	14.4	6.5
Transfer Payments	51.9	4.1
Other Money Income	4.9	3.8
TENURE	100.0	100.0
Owners	60.0	71.3
Renters	37.0	28.0
Other	3.0	0.7

SOURCE: Statistics Canada, *Income Distribution by Size in Canada* (Ottawa: Information Canada, August 1974).

belong to family units with three, four, or more persons. The incidence of poverty in this group is highest among families with five or more persons (13.3 per cent). Like the United States, the incidence of poverty in Canada is highest among families headed by females (45.5 per cent) although only 28.7 per cent of all low-income families are headed by females. The incidence of poverty among families headed by a male is 10.7 per cent.

Low-income among Canadian families is also positively correlated with the education of the family head. The lower the level of education, the higher the probability of low-income. Approximately 84 per

cent of all low-income families did not complete secondary schooling compared to 8.7 per cent of those who did. The incidence of poverty was 12.8 per cent for those families that completed some secondary schooling and 7.4 per cent for those that completed all secondary schooling.

As can be seen from the selected characteristics outlined in Table 4, low-income families are to a very large extent dependent upon government transfer payments of various types for their income. Transfer payments comprise about 52 per cent of the income of low-income families. In contrast, transfer payments were only about 4 per cent of the income of the other families. Transfer payments to the low-income families include substantial amounts in family allowances, old-age assistance and pensions, and unemployment insurance. In 1961 the major source of income for low-income families was from wages and salaries and income from self-employment, while in 1969 the major source of income was from transfer payments. Transfer payments in 1961 comprised only 27 per cent of the income of low-income families.⁵⁾

From the foregoing discussion, it can be determined that some degree of real poverty exists in Canada. The ultimate result of the existence of a household headed by a poor person would be that of poor dependent children. The children inherit poverty and grow up poor because their parents are poor. This inherited poverty tends to perpetuate the existence of poverty since, as we have seen from experience, all opportunities, educational and otherwise, tend to be limited for the poor.⁶⁾ Thus, even when the level of living of the poor improves through time, poverty never seems to be eliminated because a wide gap persists between the level of living attained by some groups of the population and those achieved by the majority of the society.

The poor know that they have very little choice in any part of their lives, and none at all in the determination of their standard of living. But the affluent retain their faith in the fairness of the Canadian economy, which has been much more fair to them.⁷⁾

The problem of poverty in developed growth economies, like Canada's, is increasingly viewed as a lack of access to certain goods, services, and conditions of life which cannot be obtained because of insufficient income to do so. The Canadian economy is one of the wealthiest and has been one of the wealthiest in the history of the world, yet poverty continues to be a dilemma there.

Income growth and distribution

The income distribution stretches as average income grows; if this were not true, poverty would long since have ceased to be a problem.⁸⁾ Table 5 shows the shares of total income of families and unattached individuals by quintile for the period 1961—1972. From the Table, it can be observed that the share of total income increases or

⁵⁾ Podoluk (1968 : 188).

⁶⁾ Hope (1974 : 6).

⁷⁾ Adams et al. (1971 : 24).

⁸⁾ Anderson (1964 : 513).

**Shares of total income of families and
unattached individuals by quintile, 1961—1972**
(Percentages)

YEAR	LOWEST QUINTILE	SECOND QUINTILE	THIRD QUINTILE	FOURTH QUINTILE	HIGHEST QUINTILE
1961	4.2	11.9	18.3	27.5	41.1
1965	4.4	11.8	18.0	24.5	41.4
1967	4.2	11.4	17.8	24.6	42.0
1969	4.3	11.0	17.6	24.5	42.6
1971	3.6	10.6	17.6	24.9	43.3
1972	3.8	10.6	17.8	25.0	42.9

SOURCES: Jenny R. Podoluk, *Incomes of Canadians*, (Ottawa: Dominion Bureau of Statistics, 1968); and Statistics Canada, *Income Distributions by Size in Canada 1972* (Ottawa: Information Canada, August 1974).

decreases by approximately the same percentages for each quintile. This results in widening absolute differentials.

The poorest fifth of Canadian families received in 1972 a little less than 4 per cent of the income while the richest fifth received in excess of 40 per cent. For all individuals, the share of total income in 1972 was 2.4 per cent for the lowest quintile and 48.1 per cent for the highest quintile. The lowest quintile of individuals consisted primarily of females who make up about 66.9 per cent of all individuals in the quintile, whereas the highest quintile contained almost exclusively 92.5 per cent males.

The median income of all family units increased by about 8.4 per cent, from \$ 7,832 in 1971 to \$ 8,493, in 1972. However, due to the rise in the consumer price index, the real gain in incomes amounted to only about 3 per cent.

The relationship of incomes with respect to economic growth

To study the degree with which incomes respond to movements in aggregate income, a series of regressions were fitted relating the percentage change in median incomes to the percentage change in personal income per capita. The results of these regressions are presented in Table 7 below. The data used was for the period 1957—1973.

Table 6

Median incomes of families and unattached individuals
by selected characteristics, 1972

(Dollars)

SELECTED CHARACTERISTICS	MEDIAN INCOMES
CANADA	8,493
AREA OF RESIDENCE	
Metropolitan Areas	9,353
Non-Metropolitan Areas	7,097
SEX OF HEAD	
Male	9,897
Female	3,378
TENURE	
Owners	10,308
Renters	6,904
Other	2,667
AGE	
24 and Under	4,557
25—34	9,699
35—44	11,082
45—54	10,987
55—64	8,063
65 and Over	3,612

SOURCE: Statistics Canada, *Income Distributions by Size in Canada 1972* (Ottawa: Information Canada, August 1974).

For those families with a female head, those with an aged head, and those that live in the Atlantic Provinces, the regressions were significant at the 50 per cent level only. For the other groups, with the exception of those families headed by a male, the relationship is also of questionable usefulness since the regressions were significant at the 5 per cent level but not at the 1 per cent level.

For all groups, except those families residing in British Columbia, the elasticity was less than one. For families in British Columbia, the results indicate elasticities a little more than one and an intercept that is negative.

The results of these regressions suggest that changes in the rate of income growth have a greater impact on median incomes of families headed by a male and the least impact on families headed by a female or an aged person and those that reside in the Atlantic Provinces.

The incidence of poverty by sex of head is highest among families with a female head. By age of head, the incidence of poverty is highest among families with the head 65 years of age or older. By province,

Table 7

Regressions relating median incomes to per capita personal income

(Percentage changes)

GROUP	INTERCEPT	SLOPE	R ⁻² ADJUSTED
ALL FAMILIES	2.83	0.64	0.71***
MALE HEAD	2.69	0.70	0.70***
FEMALE HEAD	4.96	0.48	0.17*
METROPOLITAN	2.36	0.64	0.63**
NON-METROPOLITAN	3.28	0.67	0.55**
HEAD 65 or OVER	0.98	0.66	0.22*
ATLANTIC PROVINCES	7.95	0.36	0.20*
PRAIRIE PROVINCES	1.44	0.72	0.63**
QUEBEC	0.32	0.78	0.48**
ONTARIO	2.20	0.74	0.47**
BRITISH COLUMBIA	-2.07	1.13	0.51**

* Not Significant at the 5% level.

** Significant at the 5% level.

*** Significant at the 1% level.

the incidence of poverty is highest in the Atlantic Provinces. Given these facts and our regression results, it can be expected that unless direct measures are taken to increase their median incomes over some period of time, then irrespective of the economic growth in the Canadian economy, those families with a female head, an aged head, or residing in the Atlantic Provinces will continue to live in a state of relative poverty. These families are to a great degree isolated from economic growth. Aggregate income simply does not trickle down directly enough to be counted upon to reduce poverty among them.

Conclusion

The existence of poverty in Canada may be traced mostly to the unequal abilities of individuals and groups to earn income. This inequality in turn may be due to inherent differences in the earning units themselves, or to the differing effects upon them of the socio-economic and geographic structure of the country.⁹⁾ Poverty signifies a low-income situation that carries with it a sense of entrapment and hopelessness¹⁰⁾ which, for some families, seems unlikely to be eradicated through sustained economic growth.

(Rad primljen avgusta 1976)

⁹⁾ Ostry and Zaidi (1972 : 263).

¹⁰⁾ Economic Council of Canada (1968 : 104).

REFERENCES

1. Ian Adams et al. (1971) *The Real Poverty Report* (Edmonton: M. G. Hurtig Limited).
2. W. H. Locke Anderson. (November 1964) »The Relationship Between Economic Growth and the Extent of Poverty Among American Families.« *Quarterly Journal of Economics* LXXVIII (511—524).
3. Economic Council of Canada. (1968) »The Challenge of Growth and Change.« *Fifth Annual Review* (Ottawa: Information Canada).
4. Economic Council of Canada. (1972) *A View of the Years to 1980* (Ottawa: Information Canada).
5. Government of Canada, Ministry of Finance. (April 1973) *Economic Review* (Ottawa; Information Canada).
6. Kempe R. Hope. (1974) *Rural Poverty in America: An Analytical View of the Dilemma* (New Brunswick: Rutgers University Mimeo.).
7. Sylvia Ostry and Mahmood Zaidi. (1972) *Labour Economics in Canada* (Toronto: Macmillan).
8. Jenny R. Podoluk. (1968) *Incomes of Canadians* (Ottawa: Dominion Bureau of Statistics).
9. Senate Committee on Poverty. (1971) *Poverty in Canada* (Ottawa: Information Canada).
10. Statistics Canada (August 1974) *Income Distributions by Size in Canada 1972* (Ottawa: Information Canada).
11. Statistics Canada. (December 1974) *Canadian Statistical Review* (Ottawa: Information Canada).
12. Statistics Canada. (Several Issues) *Income Distributions by Size in Canada* (Ottawa: Information Canada).

ODNOS PRIVREDNOG RASTA I RASPROSTRANJENOSTI
SIROMAŠTVA MEĐU KANADSKIM PORODICAMA

Kempe R. HOPE

R e z i m e

U periodu od 1960. do 1972. godine kanadski GNP povecao se od 38.4 milijardi na 102.9 milijardi dolara, rastući po prosečnoj nominalnoj godišnjoj stopi nešto većoj od 10%, dok je realna stopa rasta u tom periodu iznosila 4.9%. Snažan rast tražnje i proizvodnje — meren kanadskim standardima — vodio je i brzom povećanju zaposlenosti. Tako je, npr., 1972. godine zaposlenost bila veća za 3.1% nego u prethodnoj godini. Ta stopa rasta bila je najviša posle 1969. godine, u kojoj je zabeležena rekordna stopa rasta zaposlenosti od 3.2%.

Svi ovi podaci ukazuju na zdravu ekspanziju kanadske privrede u proteklom periodu. Ne postoje sumnje da će se takav trend nastaviti i u budućnosti. Najnovije studije ukazuju na to da će se do 1980. godine ukupna vrednost dobara i usluga proizvedenih u Kanadi udvostručiti, tj. da će dostići nivo od 190 milijardi dolara. Međutim, ističe autor, nijedna od sačinjenih projekcija ne bavi se (pravičnom) raspodelom tog rastućeg dohotka. Način raspodele dohotka osnovni je uzrok posto-

janja problema siromaštva u Kanadi. Naime, uprkos značajnom napretku koji je postigla kanadska privreda u proteklom periodu, još uvek alarmantan broj kanadskih porodica živi u bedi. Ovde, svakako, nije reč o nepodnošljivoj bedi koja vlada u drugim krajevima sveta. Ipak i u Kanadi, smatra autor, znatan broj porodica živi u stvarnoj bedi u odnosu na životni standard koji uživaju ostali članovi društva. Takvih Kanađana, čiji je dohodak bio ispod tzv. linije siromaštva, bilo je 1969. godine oko 25%. Senatski komitet, koji je 1971. godine ispitivao problem siromaštva u Kanadi, takođe je ustanovio da više od polovine porodica sa niskim dohotkom (54%) živi u Kvebeku ili Ontariju i da u 27% porodica sa niskim prihodima glave tih porodica imaju 65 i više godina.

Takođe je utvrđeno da je nizak dohodak kanadskih porodica pozitivno koreliran sa stepenom obrazovanja starešina porodice. I njihova deca žive u uslovima ograničenih obrazovnih i drugih mogućnosti, što vodi perpetuiranju siromaštva. Tako čak i kada se standard života siromašnih tokom vremena poboljša, beda neće biti odstranjena jer će i dalje da postoji širok jaz između nivoa života koji su postigle određene grupe stanovništva i onog životnog nivoa koji uživa većina članova društva.

Štaviše, taj jaz se u poslednje vreme i povećao. Dok je 1961. godine jedna petina najsiromašnijih kanadskih porodica primala 4.2% ukupnog nacionalnog dohotka, 1972. godine to učešće opalo je na 3.8%. Istovremeno petina najbogatijih pojedinaca i porodica od 1961. do 1972. godine povećala je svoje učešće od 41.1 na 42.9%.

Na kraju autor, uz pomoć regresivne analize, ispituje odnos između ličnih dohodaka i agregatnih dohodaka u periodu od 1957. do 1973. godine.
