

Work and relative poverty

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Many families have low incomes despite their members working a great number of hours. For example, in Canada roughly 117,000 married couple families with children have a low income even though their members collectively work the equivalent of a full-year, full-time job. Of course, families like this, often referred to in the media as the "working poor", are not the only ones failing to secure adequate incomes from the labour market. Some families look for work without finding any at all ([Chawla, 1984](#)). Nevertheless, the so-called "working poor" are an important group to study, for at least two reasons.

First, as in several other countries, Canada's labour force development strategy is moving away from passive income maintenance towards active employment measures ([OECD, 1988](#); [EIC, 1989](#)). In other words, there is increased emphasis on ensuring that families obtain adequate income from employment, as opposed to government transfer payments, and on devising tax/transfer schemes that preserve work incentives. [\(1\)](#)

Second, many newly created jobs in the service sector, especially those held by young people, seem to be less able to meet a family's income needs ([Myles et al., 1988](#)). These jobs tend to be relatively low paying and are often of short duration - characteristics associated with lower annual earnings.

Statistics Canada has no definition of the "working poor", but there are many definitions in the literature, reflecting that the terms "working" and "poor" mean different things to different people. The first part of this article describes the basic concepts involved and compares some of these definitions, which turn out to be very different. Rather than propose another such definition, the second part of the article tackles the basic question, "What are the work patterns of low income families?"

What is meant by "working poor"?

While Statistics Canada has no definition of the "working poor", several recent studies have concluded that they are a substantial number of people. However, the precise figures depend on the definition. For

example, a report to the [Ontario Ministry of Community and Social Services](#) (1988, p. 65) stressed that most low income families receive the bulk of their incomes from earnings, as opposed to social benefits or other sources of income. On the other hand, [Ross and Shillington](#) (1989, Table 6.1) estimate that "working poor" families account for about 30% of "poor" families.

The development of a practical definition requires judgement calls on three basic issues revolving around the concepts of "poverty" and "working". The first is the definition of the "poor" population. All the Canadian studies examined here resolve this by adopting the Statistics Canada LICOs (see [Statistics Canada low income cut-offs](#)), despite the fact that these cut-offs are designed only as indicators of low incomes, rather than "poverty". The LICOs are based on the family, which means that, apart from unattached individuals, it is only possible to say a person has low income if he or she lives in a family with low income.

The second issue to settle is the definition of the "working" population. This tends to clash with the definition of low income, because in modern society it is individual persons who are considered to be working, not families. All usual statistical definitions, such as those used in Statistics Canada's Labour Force Survey, are based on the individual person. However, it is possible to think of "working families" in the sense of families whose members collectively work more than a certain minimum amount, and this is the approach taken in many of the definitions. Some studies measure work in terms of hours of work over the year, others in terms of the amount of earnings from employment.

The third issue is the way the two criteria are combined. All but one of the Canadian studies resolve this by defining "working poor families" as those having total incomes below the appropriate LICO, and collectively working or earning more than a minimum amount over the year. This definition implicitly assumes that families make collective decisions about allocating time to employment, as well as sharing their incomes.

Now, for many purposes, what is needed are data on individual persons, not families. For example, person-based data are needed to evaluate training programs designed to improve family incomes by raising the employment incomes of individuals. For this reason, the Canadian study by [Gunderson et al.](#) (2) and the U.S. study by [Klein and Rones](#) (3) define the "working poor" directly in terms of persons. In their studies, the "working poor" are persons working more than a certain minimum amount but living in low income families.

However, even with this person-based approach, the interpretation of the figures still depends on family circumstances. People counted as "working poor" will owe their status to three criteria: first, their own earnings; second, the size and composition of their family and; third, the income of the family from all other sources. As a result, it is quite possible for one person classified as "working poor" to put in more hours of work and earn more than a second person not classified as "working poor". In addition, people with high-earning spouses can never be counted as "working poor". (5)

Even when the basic concepts have been determined, the estimated number of the "working poor" is

always sensitive to changes in the minimum level of annual hours or earnings incorporated in the "working" criterion. This clearly emerges from the analysis of the working patterns of low income families outlined in the second part of this article. In addition, the composition of the "working poor" varies as well. When the "working" criterion limit is raised to 1,900 hours a year from 1,000 hours a year, married couple families account for a higher proportion of the "working poor" (53% versus 41% in 1988), and the share of unattached individuals and lone parent families falls (to 34% from 44% and to 10% from 12%, respectively). [\(6\)](#)

Work patterns of low income families

Underlying all these studies of the "working poor" is a concern to understand the work patterns of the low income population. This section concentrates on working families with incomes below the Statistics Canada LICOs. [\(7\)](#)

In keeping with most studies on the "working poor", unattached individuals over the age of 65 and families with heads aged 65 and over are excluded, because the elderly are not expected to work to make a living. (In any case, few people aged 65 and over spend much of their time in paid employment.) For the same reason, also excluded are families headed by persons who declare themselves unable to work over the year. On the other hand, unattached individuals or family heads who are ill or disabled, but can work with some limitations, are included, despite any restrictions in the amount of work they can do. [\(8\)](#)



Chart A Relationship between employment and low income

Source: Survey of Consumer Finances

By far the majority of non-elderly low income families, including unattached individuals, reported that one or more of their members had been employed at some time in 1988. [\(9\)](#) Some of these families had worked very few hours, but almost two-thirds of the low income families reported a total of at least 40 hours over the year the equivalent of one week of full-time work. Just over one-third had worked at least 1,000 hours. One-fifth had worked 1,900 hours or more, representing roughly one full year of full-time employment ([Table 1](#)). [\(10\)](#) (Of course, these proportions are lower than the corresponding proportions for families and unattached individuals with incomes above the LICO. For example, 83% of this group worked 1,900 hours or more in 1988.)



Table 1 Annual hours worked by low income families, 1988

Source: Survey of Consumer Finances

Regarding their income from employment, only 29% of low income families, including unattached individuals, reported earnings of 50% or more of the LICO applying to a family of their size and area type. One in nine had earned 75% of the LICO ([Table 2](#)).



Table 2 Earnings of low income families, 1988

Source: Survey of Consumer Finances

Generally, families with more adults of working age and fewer dependants are potentially better-placed to engage in employment. Thus, it is not surprising that the data show that low income married couple families report more employment hours and higher earnings than unattached individuals or lone parent families.

Lone parent families with low incomes also report less employment than unattached individuals. And those with two or more children under 18 years work less and earn less than those with only one child. This is understandable since lone parents often face the double burden of raising children and providing employment income on their own. The more children they have, the more difficult it is for lone parents to engage in paid employment.

On the other hand, low income married couple families with children under 18 years report more employment hours than similar families with no children; the more children they have, the more likely they are to report working at least 1,900 hours. Part of the reason for this is that family composition changes at different stages in the life cycle. Married couples without children are often young people beginning their lives together or "empty nesters". In both cases they will tend to have relatively low levels of employment earnings. But when children are present, each one adds to the family's income needs. The rising level of employment for the larger families reflects this. However, the extra employment income often fails to match the extra needs. In general, the income of the larger families is much more likely to be low ([Table 3](#)).



Table 3 Composition of low income families, 1988*

Source: Survey of Consumer Finances

** Using 1978-based LICOs; excludes families with heads aged 65 and over and/or who are permanently unable to work.*

Despite the effects of the 1981-82 recession, and the subsequent recovery, the broad picture in 1988 was very similar to 1981, except for a slight drop in the proportion of low income families working at least 1,000 hours and at least 1,900 hours ([Table 4](#)).



Table 4 **Change over time in the proportion of low income families, 1981 and 1988***

Source: Survey of Consumer Finances

** Using 1978-based LICOs; excludes families with heads aged 65 and over and/or who are permanently disabled.*

The more work performed, the less likely family incomes are to be low

Although some families receive low incomes despite working a substantial number of hours, in general, the more families work, the less likely their incomes are to be low. In fact, the proportion of families with low incomes falls continuously as the number of annual hours worked increases. Combining all families and unattached individuals, the probability of having a low income falls steeply from two-thirds for families working under 500 hours, to one-third for families working 1,000 to 1,499 hours. The probability further drops to one-eighth for those working 1,500 to 1,999 hours. This illustrates the sensitivity of the definition of "working poor" to the criterion used to define "working". A slight increase in the minimum number of hours required to be classified as "working" results in a significant decrease in the incidence of low income and hence a significant decrease in the measured number of "working poor".



Chart B **Incidence of low income by hours worked, 1988**

Source: Survey of Consumer Finances

The incidence of low income is minimal for families working many hours, a situation possible only when

two or more earners are present. Only 1% of married couple families with two children under 18 years were working around 4,000 hours annually in 1988 (the equivalent of at least two full-time, full-year jobs) and earning incomes under the LICO. To illustrate how such a situation could occur, assume a married couple both work full-time throughout the year and each person earns \$4.50 an hour. They also have two children. The family's gross annual employment income, at about \$18,000, is well below the LICO for a four-person family (\$20,900). [\(11\)](#)

Conclusion

Most low income families and unattached individuals are employed at some time during the year. Some work a substantial number of hours but remain in the low income zone. Families find themselves with low incomes for a large number of reasons such as low wage rates and difficulties in obtaining enough work (for example, lack of full-year employment in seasonal occupations, lack of child care facilities). Their position in the life cycle is another contributing factor, as is family size and composition, and the incomes of other family members.

The number and complexity of these issues is reflected in the lack of any single, well-accepted definition of the "working poor" in Canada. The range of definitions used in the current literature is wide and, as a result, the "working poor" population of one study may be very different from the "working poor" population of another. Nevertheless, many policy issues can only be resolved in the light of a thorough knowledge of the working patterns of those in and on the margins of the low income population.

Statistics Canada low income cut-offs

Low income cut-offs (LICOs) are income levels designed to identify the low income population. Families and unattached individuals with incomes under the LICOs are deemed to have low incomes. The LICOs are set at the levels where, on average, families spend a significantly higher proportion of their incomes on necessities than Canadian families as a whole. These cut-offs are defined for families, as opposed to persons, because income is assumed to be shared within families. Unless a person lives alone, his or her standard of living depends on how many other people live in the family and on their combined income.

Low income cut-offs are at best only rough indicators of "poverty", which is an imprecise and complex concept. Not all families with incomes under the LICOs necessarily find it difficult to make ends meet. Conversely, some families with incomes above the LICOs are still hard-pressed financially.

The current set of LICOs consists of 35 different income cut-offs, which correspond to 35 different types of families. Separate cut-offs are calculated for families of one (an unattached individual) to seven or

more, and for families living in different types of urban and rural areas. The base year for the LICOs used in this paper was 1978. Since then they have been updated regularly in line with inflation, as shown by the Consumer Price Index.

The basic steps involved in the calculation of the 1978-based LICOs used in this paper are as follows:

1. Estimate the proportion of income spent, on average, by all families and unattached individuals on food, shelter and clothing, using Family Expenditure Survey data. (In 1978, this proportion was 38.5%.)
2. Add an arbitrary 20 percentage points to this figure (raising the above proportion to 58.5%).
3. Using income data, also collected in the Family Expenditure Survey, estimate the average income levels at which families spend 58.5% of their income on food, shelter and clothing, by family size and type of area. These are the LICOs for 1978.
4. Multiply these 1978 LICOs by the change in the Consumer Price Index to arrive at the LICOs for other years.

The larger the family the higher the LICOs. Other things being equal, larger families need more income to reach the same standard of living. LICOs also rise with the population of the area in which the family lives, reflecting the higher proportion of income spent on food, shelter and clothing in bigger cities.

The LICO method is currently under review and may eventually be supplemented or replaced. Full details on the present construction of LICOs can be found in *Rebasing Low Income Cut-offs to 1978* ([Statistics Canada](#), 1983), available from Roger Love at (613) 951-6898.



Table **Low income cut-offs for 1981 and 1988 (1978-based)***

Source: Survey of Consumer Finances

** For families living in an urban area with a population from 30,000 to 99,999. Figures are rounded to the nearest \$100.*

Some definitions of the "working poor"

Although Statistics Canada has no definition of the "working poor", many definitions exist in the literature. All of them combine two criteria: one which defines the "poor" population and another which defines the "working" population. The "working poor" are those who are in both the poor and the working populations. They may be either families or individuals.

In Canada:

All four Canadian definitions of the "working poor" listed below use the Statistics Canada LICOs to define families "in poverty", or, more correctly, "having low incomes". However, the definition of "working" varies considerably:

- low income *families* whose head was in the labour force (that is, employed or unemployed) at the time of the survey ([Ross](#), 1981); [\(4\)](#)
- low income *families* whose adult members work a total of at least 49 weeks (full- or part-time) during the year ([Ross and Shillington](#), 1989);
- low income *families* with at least 50% of their total income coming from employment ([National Council of Welfare](#), 1981; [Ontario Ministry of Community and Social Services](#), 1988);
- *persons* living in low income families who did any work during the year ([Gunderson et al.](#), 1990).

In the United States:

In the United States, the definitions of "poor" usually refer to the official U.S. poverty lines, which are not at all comparable to the Canadian LICOs. However, in the U.S. studies quoted below, the definitions of "poor" and "working" both vary:

- *households* with heads earning under \$204 per week (in, 1984 U.S. dollars) - excluding persons aged 65 and over, disabled persons, students and women with at least one child under age six ([Danziger and Gottschalk](#), 1986);
- *persons* in families with incomes under the U.S. poverty line who spend at least half the year in the labour force ([Klein and Rones](#), 1989);
- *persons* with annual earnings under \$4,500 (in 1967 U.S. dollars), working at least 30 hours a week and 40 weeks a year ([Bluestone et al.](#), 1973).

Notes

Note 1

One recent example is Quebec's "apport" scheme, which provides income support to working families tied to the level of welfare benefits.

Note 2

[Gunderson, Muszynski and Keck](#) use the "person" approach because they are focusing on "working poor"

women.

Note 3

[Klein and Ronces](#) include both the employed and the unemployed.

Note 4

Strictly speaking, [Ross](#) (1981) first makes a distinction between the "working poor" and the "wage-earning poor" to stress that by no means all "work" is paid. He provides statistics for the "wage-earning poor", defined as poor families whose heads were in the labour force at the time the income data were gathered.

Note 5

For example, consider two families living in a city with a population of 50,000, the first a married couple living alone and the second a married couple with three dependent children. Suppose that, in both cases, total family income is derived solely from the earnings of the husband and this income is \$15,000 for the married couple living alone and \$20,000 for the married couple with three children. Because the LICO for a two-person family is \$13,500, compared with \$24,200 for a five-person family, only the larger family will be counted as having low income. Thus, only the husband in the larger family can be counted as "working poor", even though he has the higher earnings.

If both wives subsequently decide to work, only the second wife can be counted as "working poor", and then only if her hours are low enough for the family to remain in the low income zone.

The difficulties of defining the "working poor" directly in terms of persons is avoided by [Bluestone et al.](#), who define the "working poor" simply as persons with low earnings. For a discussion on workers with low earnings, see a recent study by [Akyeampong](#) (1989).

Note 6

It can be argued that it might be better to use different criteria for different family types. For example, if a definition based on 1,900 hours, representing one year of full-time work, were used for married couple families, a lower limit might be applied to lone parent families and unattached individuals.

Note 7

The term "family" refers to a group of two or more individuals who share a common dwelling unit and are related by blood, marriage or adoption. A one-person family is usually referred to as an unattached individual.

Note 8

The 1986 Health and Activity Limitation Survey found that, out of 15 million Canadians aged 15-64 living in private households, 1.3 million considered themselves to be limited at work because of a disability. Detailed questions on disability are not included in the Survey of Consumer Finances, from which the data in this article are generally taken.

Note 9

Income and employment data were obtained from the Survey of Consumer Finances (SCF) and the Labour Force Survey (LFS). The SCF collects general information on employment patterns and income over the previous year, while the LFS provides detailed information on employment during the previous week. Neither survey contains a question asking for annual hours worked. This information was derived by multiplying the usual hours worked in the current job by the number of weeks worked in the previous year.

Note 10

The figure of 1,900 is designed to represent roughly the number of hours worked per year in a full-time job (including paid holidays and other paid leave). It is approximately equal to a 40 hour workweek, 47 weeks a year or, alternatively, a 37.5 hour workweek, 52 weeks a year. (It is reasonable to assume that some people would be working less than 40 hours weekly in a full-time job and/or less than 52 weeks a year in a full-year job.)

Note 11

Their total income would be higher than \$18,000, because of social transfers such as family allowances.

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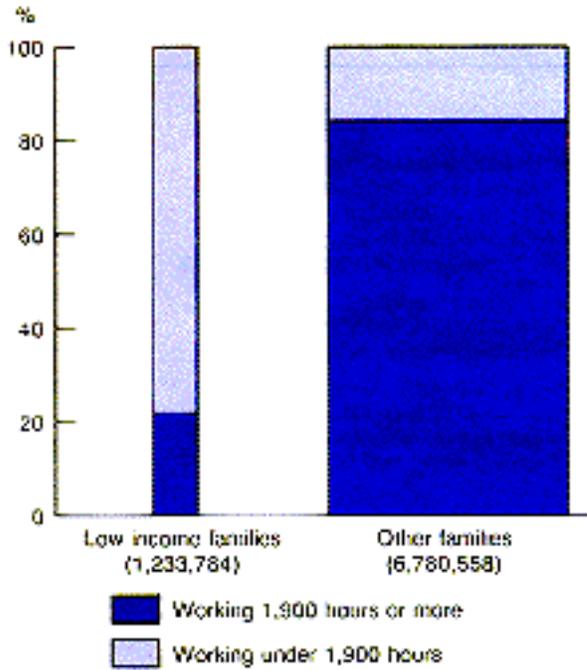
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Relationship between employment and low income

About one in five low income families work the equivalent of a full-year, full time job.



Source: Survey of Consumer Finances

Table 1

Annual hours worked by low income families, 1988

	Proportion of low income families			
	Working at least:			With heads working full-time, full-year*
	40 hours	1,000 hours	1,900 hours	
	%			
Total low income families	66	38	22	20
Married couple families	78	59	44	35
Without children under 18	61	43	26	19
With one child under 18	88	61	46	32
With two children under 18	83	70	53	47
With three or more children under 18	89	68	56	48
Lone parent families	52	23	11	12
With one child under 18	51	24	10	11
With two or more children under 18	50	19	8	11
Unattached individuals	65	32	14	17

Source: Survey of Consumer Finances

* *Equivalent to 1,900 hours per year.*

Table 2

Earnings of low income families, 1988

	Proportion of low income families			
	Earning at least:			With family employment earnings accounting for over 50% of income
	25% of LICO	50% of LICO	75% of LICO	
	%			
Total low income families	48	29	11	47
Married couple families	60	40	16	56
Without children under 18	47	32	14	47
With one child under 18	65	39	18	58
With two children under 18	66	50	25	63
With three or more children under 18	66	41	8	61
Lone parent families	27	13	5	24
With one child under 18	28	13	5	25
With two or more children under 18	24	10	4	21
Unattached individuals	50	29	11	52

Source: Survey of Consumer Finances

Table 3

Composition of low income families, 1988*

	Number of families	Number of persons	Incidence of low income
	'000	'000	%
Total low income families†	1,234	2,578	15
Married couple families	324	1,185	6
Without children under 18	100	227	5
With one child under 18	68	217	6
With two children under 18	88	359	7
With three or more children under 18	69	382	13
Lone parent families††	243	672	40
With one child under 18	102	213	42
With two or more children under 18	114	401	58
Unattached individuals	634	634	29

Source: Survey of Consumer Finances

** Using 1978-based LICOs; excludes families with heads aged 65 and over and/or who are permanently unable to work.*

† Includes family types not shown here (e.g. siblings living together).

†† Includes lone parent families with children 18 years and over.

Table 4

Change over time in the proportion of low income families, 1981 and 1988*

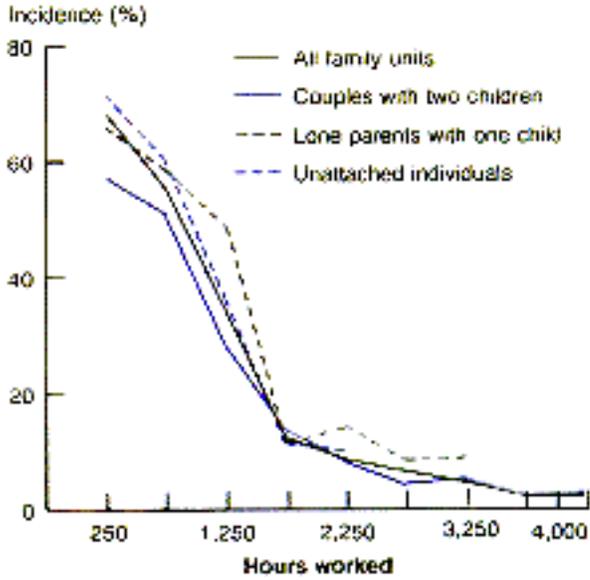
	1981	1988
	%	
Low income families as a proportion of all families	15	15
Married couple families	7	6
Lone parent families	39	40
Unattached individuals	28	29
Proportion of low income families working 1,000 hours or more	43	38
Married couple families	68	59
Lone parent families	24	23
Unattached individuals	33	32
Proportion of low income families working 1,900 hours or more	26	22
Married couple families	50	44
Lone parent families	11	11
Unattached individuals	15	14

Source: Survey of Consumer Finances

** Using 1978-based LICOs; excludes families with heads aged 65 and over and/or who are permanently disabled.*

Incidence of low income by hours worked, 1988

The more a family works, the less likely it is to have a low income.



Source: Survey of Consumer Finances

Low income cut-offs for 1981 and 1988 (1978-based)*

	Number of persons in the family						
	One	Two	Three	Four	Five	Six	Seven or more
	\$						
Year							
1981	7,200	9,400	12,600	14,500	16,800	18,400	20,300
1988	10,300	13,500	18,100	20,900	24,200	26,400	29,200

Source: Survey of Consumer Finances

** For families living in an urban area with a population from 30,000 to 99,999. Figures are rounded to the nearest \$100.*