

Estimates of the Sensitivity of the Index of Economic Well-being to LIM and LICO Poverty Estimates

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This paper uses comparative statics to show that the growth rate of the Index of Economic Well-being (IEWB) for 1981-2009 was greater when poverty was measured using Statistics Canada's Low Income Cut-Offs (LICO) than it was when poverty was measured using Statistics Canada's Low Income Measures (LIM). The LICO, an absolute definition of poverty, also exhibited greater cyclical variation than the LIM, a relative definition of poverty. Real income growth was determined to be a key factor in explaining these trends – absolute poverty lines remain fixed while relative poverty lines shift in response to changes in real income. This paper concludes that although the growth of the IEWB is rather robust to a change in poverty measure, this is due to the mitigating effect of linear scaling and the fact that poverty is only a component of the IEWB.