

Are Canadians Better Off in 1999 than in 1989?

Chris Sarlo Speaking Notes [CEA Conference, Saturday, May 29, 1999]

Two points:

Economists are much better equipped to discuss and compare material living standards than to determine whether people are better or worse off than they used to be. Being better off or worse off than before clearly does involve some element of economic or material well-being, but it involves a whole lot more. Our health, our attitudes, our personal relationships, the stability in our lives and the prospects for our children have a lot to do with our current well-being. And many of these non-economic factors are not amenable to quantification and so, do not easily fit into the economist's bias towards index construction.

Second, the time horizon is relatively short and much of the data needed to comment on the recent period (i.e., 1996 and beyond) is not currently available.

Nevertheless, it is an interesting question and one that seems to pre-occupy journalists and editorial writers a fair bit. So I'll take a stab at it.

Let me start with some thoughts about how I believe well-being is improved. I think we can be pretty confident that, for people who are materially deprived, more money (or more goods and services) will clearly improve well-being. However, once we go above that (that is, for those who are not materially deprived) it is not clear that we can be so confident that material things are as important in improving well-being. My own bias is that, for most of us in society, non-economic considerations (our health, our personal relationships, our outlook, etc.) are more important in terms of well-being than material things. Economic considerations are still important but, in my view, non-economic factors dominate. It is important to stress though that this is for people who have their necessities covered. So, in assessing whether we are "better off" than before, my own preference is to give somewhat more weight to non-material considerations.

About a year-and-a-half ago I completed a project on Canadian living standards. I chose to focus attention on material living standards rather than the more difficult issue of "well-being". In that study, I gathered together all the relevant data about material living standards from as far back as I could. In order to track the overall change over time, I constructed a very simple (equal weighted) index of about eight factors. The results showed that Canadian living standards rose over the period 1973 – 94 by about 50%.

In order to comment on the more difficult issue of whether we are better off now than ten years ago, I wish to treat separately the material and non-material aspects of the question. And let me say in advance that I think a good case can be made that Canadians are no better off (and very possibly worse off) than they were a decade ago.

A. Material Living Standards:

Essentially what we mean by this is: Do we have, on average, more stuff than we used to have? Are there more goods and services as a ratio of the population than before. If so, then material standards are higher.

The standard indicator here is income. Such measures as real disposable income or real after-tax family income are frequently used to determine trends in living standards. The idea is that a person's income should indicate command over goods and services in the market place. Income represents portable purchasing power that can be used to buy commodities the consumption of which generates "utility" or well-being for the household. Thus, the higher your income, the greater the implied material well-being of the members of the household.

The problem is that the income reported to Statistics Canada is different and in some cases much different than the household's "true" command over goods and services. I have outlined the problems with income as an indicator of well-being in my living standards study but such factors as the growing underground economy, unreported income, in-kind income, and negative incomes all lead one to the conclusion that income is not a reliable indicator of material well-being, especially at the lower income levels.

Let me borrow from a recent paper of mine to demonstrate the inadequacy of income as an indicator of economic well-being at the bottom end of the distribution.

" In 1996, there were about 62,000 households with before-tax incomes less than \$5,000. The average size of these households was 1.77. In other words, households of one or two persons tend to dominate this category. The average before-tax incomes within this rock bottom end of the distribution of income was a paltry \$1,645. Yet, the average consumption of these households was \$23,662. This difference is quite extraordinary. The gap between average incomes and average consumption here literally defies belief. While we could explain some of the differential in terms of money gifts to the poor or borrowing, this is largely a problem of unreported income. As we have long known, this problem is particularly acute at the bottom of the income distribution.

The average consumption level of this low income group compares favourably with consumption levels in general. For example, average consumption spending in all households of one and two persons is \$18,989 and 31,550, respectively. So, while their incomes define them as the poorest of the poor, their consumption levels are quite within the mainstream."

The factors that I consider most important for material living standards are:

- **Consumption**
- **Household Facilities**
- **Wealth**
- **Poverty**

- **Income Distribution**

1. Consumption:

Consumption is not a perfect indicator. In some cases (especially with durable goods), expenditure is not quite the same as consumption. However, consumption is much more directly connected to well-being than income. The act of buying and consuming goods and services is thought to improve utility and make us better off. While there are measurement errors with consumption, I regard it as a far more reliable and credible indicator of material well-being than income.

We have no data on consumption for either 1989 or 1999. However, we do have the results of the Famex surveys for 1986 and 1996. What we learn from those surveys is that total current household consumption (in real 1996 dollars) is down slightly from the 1986 value. However, once we adjust for family size, the 1996 value is about the same as the 1986 value. So, in terms of average consumption levels, there is no evidence that Canadians are either better or worse off – at least over the ten-year period to 1996.

The whole issue of family size and living standards is an interesting one. There is a view that if family size, on average, declines, then this by itself lowers living standards because it means that people are less able to take advantage of economies of scale in living. In other words, households will be operating less efficiently with fewer people. Over the period from the mid-1980's to the mid-1990's, the change in average family size was not too significant, so I have put that issue aside.

2. Facilities:

The acquisition of household facilities – especially labour-saving devices and household safety mechanisms – can be said to improve well-being. People acquire these facilities in order to make their lives easier.

I have in mind a select group of facilities that function to save time or give the householder peace of mind. Such items as washing machines, clothes dryers, dishwashers, freezers and smoke detectors would be useful here.

Again, the best we can do for data is the period from 1987 to 1997. Except for freezers (the ownership rate of which has stayed about the same), there has been a rather healthy increase in each of the other facilities. Overall, there has been a clear improvement in the material well-being of Canadians from the perspective of the ownership of key labour-saving and safety appliances.

3. Wealth:

It is pretty clear that increases in wealth do improve a person's material well being. Wealth represents the amount of financial security that one has. In a real sense, it is your own personal insurance or safety net should bad things happen.

The problem here is that we don't have really good data on wealth. Statscan has not regularly surveyed wealth and this is really regrettable. The best I can come up with is information from Statistics Canada's National Balance Sheet Accounts which tracks the aggregate net worth of persons and unincorporated businesses. On a per capita basis, this value increased by 17% between 1986 and 1996. Other studies by major banks and consulting firms confirms that the wealth of Canadians, on average, is increasing. For example, a report by Scotiabank, released this April, pointed out that real household wealth (net worth) rose by an average annual rate of nearly 4% over the past decade.

The solid increase in the wealth of Canadians over a period in which both real after-tax incomes and real consumption levels have been stable is a bit surprising. What it suggests, perhaps, is that people have more income than they are reporting and that some of us are saving at a healthy rate. What might be happening is that the well-educated boomers are coming into their prime earning and prime saving years and this is driving the trend in wealth. There is no information that I am aware of that would give us the changes in distribution of wealth.

4. Poverty:

It would be hard to argue that we are getting better off if more people are unable to acquire their basic needs, if more children are hungry, or if more families are ill-housed.

I have tracked poverty rates (using a basic needs approach) over time mostly using income as an indicator.

While there has been a dramatic decline in poverty over the early post-war period to about the late 1970's, there has been little progress since. Income poverty seems to be stuck at about 4% to 5% of the population. However, this is using income.

Work is under way now to estimate the trend in basic needs poverty using consumption. Preliminary estimates, however, suggest that there has been little change in "consumption poverty" over the period in question.

The best information at this point is that real poverty is stable.

5. Income Distribution:

Again, the argument for including income distribution is to determine the extent to which gains are broadly based. It is possible for overall living standards to rise as a result of a strong movement by a certain segment which may outweigh losses by other segments. A look at changes in the distribution of the gain would inform us as to how broadly based the gain is.

Most info on distribution is based on some kind of income.

Evidence there is that for all the common indicators (real after-tax income, total family income, etc.) there is really no change in income distribution (eg. The gini for after-tax family income is virtually identical for 1986 and 1996 – latest data available)

With consumption, the lowest income quintile actually had a modest increase in average current consumption compared to reductions or no change in the other quintiles. With facilities, the acquisition of key labour-saving appliances in the lowest income quintile was faster paced than average over the 1987 to 1997 period.

Finally, as mentioned already, there is no info on distribution of wealth.

Based on these indicators, it can be argued that material living standards are higher in the mid-to-late 1990's than they were 10 years earlier – but the gain is not very impressive. The concern is that, despite strong economic growth in the 1990's, real consumption does not appear to have increased and the poverty rate has not come down.

B Other Considerations Affecting Well-Being: (The Non-Material Factors)

Other considerations that seem to be relevant and that typically get included in discussions of this type are:

- Education (The proportion of those with higher education, for example)
- Health
- Crime (esp. violent crime)
- Divorce/Separation
- Economic Security

Education:

- average level of formal education in society and esp. the number of university grads as a proportion of the adult population
- if this is increasing it would improve well-being in two ways:
 - Raise the knowledge and creativity base and have beneficial effect on the economy
 - Directly raise the quality of life of those people and their families (better quality jobs, higher social status...)

- the clear evidence (mainly from the census) is that average education levels are rising and that the number of university grads as a proportion of the adult population is increasing. Clear improvement on this score.

Health:

Are Canadians healthier than they were ten years ago? How could we best determine this?

- look at outcomes – ie., life expectancy, which has continued to rise over the past decade.

- it would be better to examine an indicator like “healthy life expectancy”, not currently available over this period.

It would seem that the health of Canadians would be, at least in part, affected by the state of our environment. If the environment is deteriorating, it would suggest that there are or will be more unhealthy citizens.

New Fraser Institute study = Environmental Indicators looks at key indicators of environmental quality in several countries including Canada. Specifically, the authors examine trends in water quality, air quality, the state of our natural resources and our solid wastes. Their conclusion is that from the mid-1980's to the mid-1990's, environmental degradation in Canada has declined.

So in terms of outcomes and in terms of fairly reliable data on the state of our environment, the health of Canadians seems to be better now.

Crime:

Higher crime rates, especially violent crime, would reduce the well-being of Canadians. It would undermine their personal or physical security.

- While the rate of violent crime has been declining since 1992, it is (as of the most recent date – 1997) about 19% higher than it was in 1987. [in 1987, the rate of violent crime in Canada was 826 per 100,000. In 1997, it was 980]

The increased violent crime rate would suggest a reality of greater physical insecurity.

4. Divorce/Separation:

Separation and divorce can have devastating consequences for the people involved, for their families and friends, but especially for any children involved. Marriage break-up often leads to reductions in material well-being, higher stress levels, costly litigation and for children – emotional and behavioural problems. It is fairly clear to me that as family break-ups increase, we are worse off as a society.

Evidence:

The crude divorce rate peaked in 1987 (just after no-fault came in) and has declined since then. However, there are many more common-law relationships now and so lower divorce rates do not tell the full story. Fewer people are bothering to get married. While we lack a good replacement indicator about the state of our families, experts at the Vanier Institute suggest that the state of Canadian families is not good.

5. Economic Security:

CCSD has very recently (late April) released its index of economic security. It includes such components as employment, disposable income and personal debt. It concludes that economic security has weakened over the past two decades. I have not had a chance to review the report. I think that some measure of economic security should be included in any analysis of material living standards.

As well, the Sharpe-Osberg paper on living standards is also clear that economic security has been reduced in recent years.

Finally, the debt/GDP ratio really tells us about the burden we are placing on future taxpayers, and this ratio is higher in 1998 than it was in 1988, although it has come down from peak values in the early 1990's.

Overall:

Depends on how you weight things

Case could be made for a decline – due to the non-economic factors and especially due to the declining prospects for family life.