

ARE WE BETTER OFF NOW THAN WE WERE TEN YEARS AGO?



Christopher Sarlo

Well-being is hard to measure. It includes both economic and non-economic factors. In economic terms, the 1990s were not a period of extraordinary growth. Most measures of per capita income have been either flat or only gently rising, though measures of consumption do show greater growth. In terms of non-economic variables, the record is even more mixed. Life expectancy, most environmental indicators and educational qualifications have increased, but crime rates are higher than they were a generation ago and families are much less stable. All in all, it is quite possible we are worse off than we were ten years ago.

Le bien-être est une chose difficile à mesurer. Il est fait à la fois de facteurs économiques et de facteurs non économiques. En ce qui les touche les facteurs économiques, les années 1990 n'ont pas été marquées par une croissance extraordinaire : la plupart des courbes mesurant le revenu par habitant sont restées planes ou légèrement ascendantes, même si les mesures de la consommation indiquent une plus forte croissance. Quant aux variables non économiques, les résultats sont encore plus mitigés. On a certes vu croître l'espérance de vie, la plupart des indicateurs environnementaux de même que les niveaux de formation; mais les taux de criminalité sont plus élevés qu'ils ne l'étaient il y a une génération, et les familles sont nettement moins stables. Au total, il est fort possible que la situation soit plus mauvaise qu'il y a dix ans.

In order to even begin to comment intelligently on trends in living standards, one needs to recognize the important distinction between living standards in general and material living standards. 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 all 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 toward index construction.

Another difficulty with any assessment of living standards in the 1990s is that all the relevant data for that period is not yet in. Because Statistics Canada can provide most information only with a lag of about two to three years, data on the latter part of the decade is not yet available.

Despite these caveats, it is an interesting question and one that seems to preoccupy journalists and editorial writ-

ers a fair bit. In what follows, I take a first stab at providing some of the relevant considerations to assess the recent trend in Canadian living standards.

Let me start with some thoughts about how I believe well-being, in general, 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, to those who are not materially deprived it is not clear that we can be so confident material things are as important in improving well-being. My own bias is that, for most of us, non-economic considerations (our health, personal relationships, 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 true only for people who have their necessities covered (i.e., almost all Canadians). So, in assessing whether we are "better off" than before, my own preference is to give somewhat more weight to non-material considerations.

In 1998, I completed a project on Canadian living standards, which was subsequently published by the Fraser

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Institute as *Canadian Living Standards: 1998 Report*. In that study, I chose to focus almost exclusively on material living standards rather than the broader and more difficult issue of “well-being.” 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 per cent. At that time, there was insufficient data to make any assessment of the changes in the 1990s. I’m now able to be slightly more definitive in that respect.

What do we understand the meaning of material living standard to be? Essentially what we mean 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 usual 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 indicates his or her 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 discussed the problems with income as an indicator of well-being frequently in my work (including papers from 1992, ’96, ’98 and this year). Such factors as the growing underground economy, unreported income, in-kind income, and negative incomes all lead 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 income 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 quantifiable variables that, I think, are the best gauge of material living standards are: consumption, household facilities, wealth, poverty and income distribution. Taking each variable in turn:

Consumption. Consumption is not a perfect indicator. Especially when durable goods are involved, expenditure, the usual proxy for consumption, is not quite the same thing. However, consumption has the advantage that it 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 (family expenditure) surveys for 1986 and 1996. What we learn from those surveys is that, expressed in real 1996 dollars, total current household consumption is down slightly from the 1986 value. However, once we adjust for family size, which declined slightly, the 1996 value is about the same as the 1986 value. So, in terms of real average consumption levels, there is no evidence that Canadians are either better or worse off—at least over the 10-year period to 1996.

The whole issue of family size and living standards is an interesting one. There is a view that if average family size declines, then this lowers living standards because people are less able to take advantage of economies of scale in living. In other words, households operate less efficiently with fewer people. Between the mid-1980s and

Table 1
Ownership of selected household facilities: 1985-97
Per cent of households

Item:	All households				Bottom quintile households			
	1985	1990	1995	1997	1985	1990	1995	1997
Washing machine	70.5	75.1	77.6	78.3	44.2	51.3	53.3	54.3
Dryer	68.5	73.4	76.0	76.7	42.6	50.1	50.9	51.9
Dishwasher	38.1	42.0	47.1	48.5	14.7	17.9	20.9	21.2
Freezer	57.8	57.6	57.1	55.9	36.5	40.5	35.6	35.4
Smoke detector	73.9	86.3	95.0	96.1	62.1	80.5	91.3	93.2

Source: Statistics Canada, cat. nos. 13-218 (various) and 62-202.

the mid-1990s, the change in average family size was not very significant, however—according to the census, it declined from 3.1 to 3.0 in the ten years following 1986—so I have put that issue aside.

Household facilities. The acquisition of household facilities—especially labour-saving devices and household safety mechanisms—probably also improves 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, items such as washing machines, clothes dryers, dishwashers, freezers and smoke detectors.

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 healthy increase in each of the other facilities. As measured by their ownership of key labour-saving and safety appliances, there has been a clear improvement in the material well-being of Canadians.

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

The problem here is that we don't have very good data on wealth. Statscan has not regularly surveyed wealth, which is very regrettable. The best data we have, I think, is information from Statistics Canada's National Balance Sheet Accounts, which track the aggregate net worth of persons and unincorporated businesses. On a per capita basis, this value increased by 17 per cent between 1986 and 1996. Other studies by major banks and consulting firms confirm that, on average, the wealth of Canadians is increasing. For example, a report by Scotiabank, released in the spring of 1999, pointed out that real house-

hold wealth (net worth) rose by an average annual rate of nearly 4 per cent 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, and suggests that people have more income than they are reporting and that some of us are saving at a healthy rate. That the well-educated boomers are coming into their prime earning and prime saving years might be driving the trend in wealth. Unfortunately, this cannot be confirmed because there is no recent data on changes in distribution of wealth.

Poverty. It would be hard to argue that we are becoming better off if more people are unable to acquire their basic needs, if more children are hungry, or if more families are ill-housed. In past work, I have tracked poverty rates (using a basic needs approach) over time, mostly using income as an indicator.

As Figure 1 reveals, while there was a dramatic decline in poverty over the early post-war period to about the late 1970s, there has been little progress since. "Income poverty" seems to be stuck at about seven to eight per cent of the population. In other words, seven to eight per cent of the population does not earn enough income in a year to finance their basic needs.

In a forthcoming report, *Measuring Poverty in Canada: Report 2000*, forthcoming from the Fraser Institute, I estimate the trend in basic needs poverty using consumption as an indicator. These estimates show that "consumption poverty"—that is, the number of people spending less than is required to cover their basic needs—is running around five per cent of the population and that there has been little change in this rate over the past two decades. An upcoming article in *Canadian Public Policy* will also use consumption as an indicator in tracking recent changes in poverty.

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the other
quintiles.

The evidence we do have at this point, weak as it is, suggests that real poverty is stable.

Income distribution. The argument for including income distribution in an evaluation of well-being is, partly, to determine the extent to which gains are broadly based, but also to test the hypothesis that the degree of inequality may, itself, have an impact on economic growth and living standards. It is certainly possible for overall living standards to be judged as having risen if increasing good fortune among one segment of the population is thought to outweigh stagnancy or even a decline in well-being in other segments. A look at changes in the distribution of the gain would inform us as to how broadly based the gain is.

But, again, the strength of any results is undercut by the necessity to use reported income, with all of its flaws. The evidence on Canada's distribution of income, using all the common indicators (real after-tax income, total family income, and so on) reveals that there is no real change in income distribution (for example, the gini coefficient for after-tax family income is virtually identical in 1986 and 1996). More recent data on Canadian incomes suggests that income inequality has increased during the 1990s. In a study on income inequality in Canada and the United States released in June, 2000, Statistics Canada noted that while inequality of total income in Canada has edged up somewhat during the 1990s, "family disposable income has remained roughly stable since the 1970s." As well, earnings inequality and polarization have actually declined since the mid-1980s after having increased over the previous decade.

Thus, with the customary caveat regarding data quality, there is really no evidence of changes in income inequality.

The distribution of consumption and household facilities can be useful supplements in any analysis of distributional changes over time, particularly when reported income is suspect. Over the period 1986 to 1996, the lowest income quintile actually experienced a modest increase in average current consumption, compared with either reductions or no change in the other quintiles. As far as household facilities are concerned, the acquisition of key labour-saving appliances in the lowest income quintile was more rapid than the Canadian average acquisition rate between 1987 and 1997, as we see in Table 1.

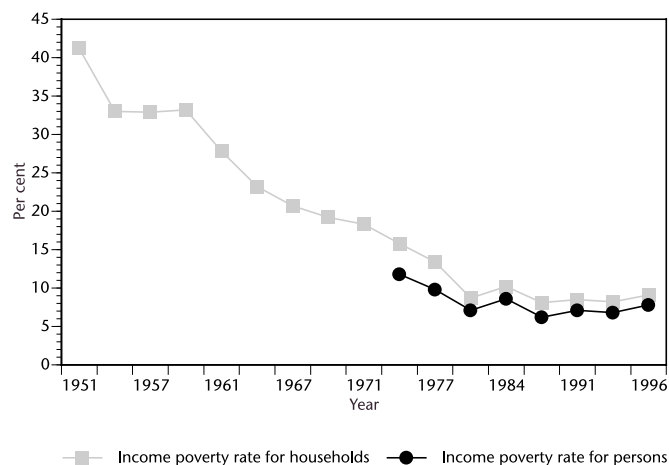
Based on these indicators, it can be argued that material living standards are higher in the mid-to-late 1990s than they were 10 years earlier—but the gain is not very impressive. A major concern is that, despite strong economic growth in the mid-1990s and beyond, real consumption does not appear to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

Other, non-economic considerations affecting well-being are far more difficult to settle on. Partly, this is a matter of taste. What is it that is particularly important to people's lives and their perception of a "standard of living"? Reasonable people can disagree on what should be included. There certainly will not be the uniformity of choices that seems to be the case with economic indicators. Choice is complicated by the fact that not all important considerations are amenable to quantification. Without the possibility of measuring change in a consideration, we are left with only a subjective judgement about how things have gone, which is far from satisfactory.

Let me offer several considerations that—consistent with the economists' bias toward that which is quantifiable—have measurable proxies. I recognize that some will find fault with one or another of these selections (or perhaps even the entire lot). My reading of some of the (new) literature on "quality of life" indicators suggests that these considerations are widely thought to be important. Again taking them in turn:

Education. The indicators used here are the average level of formal

Figure 1
Income poverty rates, Canada: 1951-1996



education (measured in years) and the number of university graduates as a proportion of the adult population. An increase in either or both would reflect an increase in societal well-being in two ways: by raising the knowledge and creativity base and therefore increasing the potential for economic growth, and by directly raising the quality of life of those who have become educated and their families (for example, by giving them better quality jobs, higher social status, and so on).

If we compare census data over the period 1986 to 1996, the clear evidence is that average education levels are rising and that the number of university grads as a proportion of the adult population is increasing. There is clear improvement on this score.

At the same time, there is increasing concern among parents that the quality of our educational system has eroded and that students leave school with less knowledge and poorer thinking skills than was the case several decades ago. So satisfaction concerning the obvious improvement in the quantity of education must be tempered by a concern about the quality of that education, at all levels. On balance, it is not clear where that leaves us.

Health. Are Canadians healthier than they were 10 years ago? How could we best determine this? One commonly used indicator of health is life expectancy. All the evidence is that life expectancy has been rising consistently over the decades and has continued to do so into the late 1990s. Just living longer need not leave people better off, however. If people are living longer because of improvements in medical technology but as a result are experiencing a marked decline in their quality of life, it would take a metaphysician to determine whether their situation has been improved.

In recent years, researchers have developed indicators of "healthy life expectancy" or "dependence-free expectancy" to provide a better gauge of the health of a population. For example, a 1998 study produced estimates of dependence-free life expectancy for Statistics Canada and concluded that "Canadians of both sexes can currently expect to live longer than ever dependence-free and in good health." The estimates are based on the period 1986 to 1996.

The health of Canadians could also reasonably be expected to depend on the state of our environment. If the environment is deteriorating, that would suggest that citizens' health will soon deteriorate as well.

One recent, comprehensive study suggests that the quality of the Canadian environment is improving. The Fraser Institute's report *Environmental Indicators* examines key indicators of environmental quality in several countries including Canada. Specifically, the authors look at trends in water quality, air quality, the state of our natural resources and our solid wastes and conclude that there does not appear to be any worsening of Canada's ecological system over the recent past. (In the 2000 budget, the federal government allocated \$9 million over three years for Environment Canada and Statistics Canada to develop a set of indicators to measure environmental performance. So a comprehensive look at the trend in the health of our environment by the government is still several years away.)

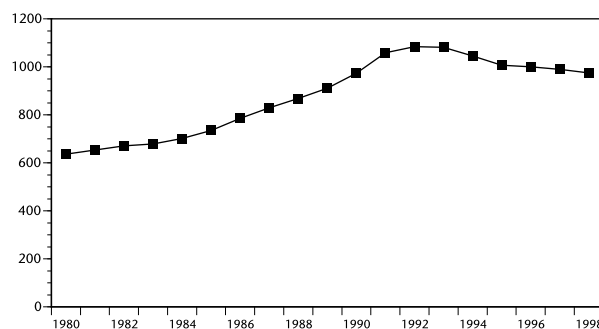
Crime. It seems safe to say that higher rates of crime, especially violent crime, would tend to reduce the well-being of Canadians by undermining their personal or physical security.

The evidence here is somewhat mixed. According to StatsCan crime statistics (see Figure 2), while the rate of violent crime has been declining since 1992, as of 1998 it was about 19 per cent higher than in 1987. In that year, the rate of violent crime in Canada was 829 incidents per 100,000. It rose rapidly from there to a high of almost 1,100 in 1992 and has been declining since then. In 1998, it was 975 per 100,000. So, while we do have evidence that the rate of violent crime is declining, this decrease is only over a very short time and it is a decline from historic highs. By comparison, in the early 1970s, the rate of violent crime was about half its current level.

So if we focus only on the 1990s, the rate of violent crime rate was at virtually the same level in 1998 as in 1990. But for people with a longer memory in terms of the perception of personal

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Figure 2
Violent crime rate, Canada 1981-1996



Source: Statistics Canada, cat. no. 84-213.

Table 3
Divorce and single parents Canada: 1981-1996

Year	Divorce rate (per 100,000) of population)	Single parent families as a per cent of all families with children
1981	272	12.6
1984	254	14.6
1988	311	15.0
1991	274	15.9
1994	270	18.8
1996	241	20.0

Source: Statistics Canada, cat. no. 84-213.

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Divorce/separation. Separation and divorce can have devastating consequences for the couple involved, for their families and friends, but especially for their children. Marriage break-up often leads to reductions in material well-being, higher stress levels, costly litigation and, for children, emotional and behavioural problems. As family break-ups increase, we are almost certainly worse off as a society.

The crude divorce rate peaked in 1987 (just after “no-fault” divorce came in) and has declined since then. However, there are many more common-law relationships now—three times as many in 1995 as in 1981, according to the Vanier Institute so lower divorce rates do not tell the full story: Fewer people are bothering to get married.

The proportion of single-parent families has continued to increase throughout the 1990s as has the proportion of children living in single-parent families. Youth suicides have also increased somewhat, while other symptoms of disillusioned children (problems in school, behavioural difficulties and youth violence) appear to be on the increase.

Economic security. The Canadian Council on Social Development (CCSD) has recently released its index of economic security. The index includes such components as employment, disposable income and personal debt. It concludes that, despite apparent gains in the late 1990s, economic security has weakened over the past two decades. As well, a 1998 paper on Canadian living standards written by Lars Osberg and Andrew Sharpe has presented evidence that economic security has been reduced in recent years.

These sources reveal that people in general

feel less secure economically than they felt a decade ago. If that is true, it suggests that individuals and families are worse off in a “psychic” sense, given their very real concerns about the state of their finances.

Any conclusion about whether we are better off now than 10 years ago clearly depends fundamentally on how one weights the various influences. If we emphasize the importance of material considerations, then a case could be made that Canadians are becoming better off. If, on the other hand, we believe, as I do, that non-economic considerations matter most when it comes to well-being, then one could easily conclude that we are becoming worse off. The long-term rise in the crime rate and the uneasy state of Canadian families suggest that people might be feeling much less secure than they used to. Children, in particular, appear to be worse off despite increases in material well-being on average. They are more likely to live with divorced or unmarried parents than was the case 10 years ago, and this automatically puts them at higher risk of a variety of emotional, behavioural, educational and social problems. For many young people, family instability creates considerable stress, and it appears to be growing.

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Reproached When [the Supreme Court decision on unilateral patriation] finally came ... the majority judgement ... seemed rather ambiguous. It stated that the unilateral action of the federal government was legal but offensive to the traditional “convention” of getting provincial consent. My staff and I jumped on the word “legal” and dismissed the rest ...

So I went to the press and said we had won and would proceed on our resolution as planned. “The convention is irrelevant,” I explained. “There is a convention that we have an election every four years even though the law says one is required every five years, so someone who breaks a convention may be reproached by the electorate but can’t be attacked by the law.”

Jean CHRÉTIEN, *Straight from the Heart*, 1985