



# **TOWARDS A CREDIBLE POVERTY FRAMEWORK: FROM INCOME POVERTY TO DEPRIVATION**

By Peter Saunders

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SPRC Discussion Paper No. 131

*January 2004*

Published by  
The Social Policy Research Centre  
University of New South Wales  
Sydney NSW 2052  
Australia  
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ISSN: 1447-8978  
ISBN: 0 7334 2090 7

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Bruce Bradbury, Jenny Chalmers and Peter Saunders  
Editors

About the Author:

Professor Peter Saunders is the Director of the Social Policy Research Centre

Correspondence to: Peter Saunders  
Email: p.saunders@unsw.edu.au

This paper is largely based on the author's Submission to the Senate Community affairs References Committee Inquiry into Poverty and Financial Hardship (Saunders, 2003).

Acknowledgements:

The author acknowledges the comments provided by Bruce Bradbury and statistical assistance from Peter Siminski.

## ABSTRACT

There have always been differences of view on what poverty means in conceptual terms, and even greater differences on how to measure it. These differences span a broad spectrum of normative and ideological positions and raise a number of technical issues surrounding the statistical measurement of poverty. This paper explains the role of poverty research and the value of a poverty line, while acknowledging that limitations exist with the current instruments. It argues that any poverty measure must include two key ingredients of poverty – the idea that resources are inadequate to meet basic needs and the notion that needs can only be defined relative to prevailing community attitudes and standards. Survey results are used to support the view that most Australians see poverty in subsistence terms, but this does not contradict the idea of relativity, since subsistence is itself a relative concept. The principal arguments are illustrated using data from the *1998-99 Household Expenditure Survey* to estimate poverty on the basis of incomes, expenditures and a combination of a conventional income measure with additional data on hardship. The poverty rate is shown to be sensitive to which measure is chosen, both in aggregate and for specific groups in the population. However, all measures show that the group with the highest incidence of poverty is sole parent families, and that there is a strong association between joblessness and poverty, with full-time employment being required to escape poverty. The poverty rate among the aged is high when the conventional (income-based) measure is used, but far lower aged poverty rates are produced by many of the alternative poverty measures. State differences in income poverty are substantial but become much smaller when a deprivation-adjusted poverty measure is used.

## **Introduction**

Poverty is a cause of considerable community concern, but the term is now rarely used in government circles in Australia. As a consequence, developing strategies and programs that address the causes and consequences of poverty are not on the policy agenda. The attention of policy makers is focused on a number of issues that are correlated with poverty, including unemployment, jobless households, economic disadvantage, social exclusion and social capital - but these are not synonymous with poverty, defined as an inability to meet basic needs because of lack of resources.

There have always been differences of view on what poverty means in conceptual terms, and even greater differences on how to measure it. These differences span a broad spectrum of normative and ideological positions and raise a number of technical issues surrounding the statistical measurement of poverty. They have surfaced in Australia in the recent heated debate over the measurement of poverty and whether or not the poverty rate has increased, and by how much. The fragile consensus among researchers about how best to measure poverty has disappeared, while concerns over the quality of some of the data used to measure poverty have further undermined confidence in the poverty statistics.<sup>1</sup>

Many now see statistical estimates of poverty as mainly reflecting the judgments and ideology of those who measure it or those who exert political pressure on behalf of the poor. Not surprisingly, the poverty statistics no longer have the power they once did to stir the national consciousness and provoke ameliorative action. Australian poverty research is facing a severe credibility crisis, as its principal tools are no longer capable of providing an accurate and objective basis for monitoring trends over time, or differences within the population. Conservative critics have exploited this situation, providing ammunition to a government already sceptical of claims that economic growth has not caused a substantial reduction in 'genuine poverty'.

In order to reverse this trend, a robust and credible new framework for identifying and measuring poverty is needed to provide the basis on which anti-poverty strategies, policies and programs can be developed, implemented, monitored and evaluated. The bottom line of the 'poverty measurement debate' is that we must understand what poverty is before we can take action to reduce it. The following discussion is intended to guide the development of such an agenda, not to add yet further complexity to what has become a largely sterile debate over the poverty statistics.

### **Do We Need Poverty Research?**

All societies share a concern to ensure that their citizens are able to attain a minimum standard of living. This is generally justified on either social justice grounds – that everyone has a moral right to a minimum level of access to society's resources – or, more instrumentally, as necessary to avoid social division and unrest by guaranteeing everyone a minimally adequate level of social protection. The moral case for alleviating poverty is

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<sup>1</sup> See the ABS (2002a; 2002b), which report problems with the reported levels of income from welfare benefits and unincorporated businesses in the lowest decile of the income distribution.

particularly compelling and receives very widespread community support in rich countries like Australia. Poverty alleviation is also important among poorer developing countries, where reducing the poverty rate is an explicit goal of the development process. But there are important differences in what poverty means and how it is measured in rich and poor countries that the use of the same term should not be allowed to obscure.

There is no doubt that rich countries like Australia can afford to abolish poverty. The financial cost of doing so represents only a small fraction of our national income or gross domestic product (GDP). Estimates provided in one recent study, for example, imply that the total annual income shortfall of all Australians living below the poverty line in 2000 was around \$14.9 billion.<sup>2</sup> Even if this figure is somewhat exaggerated because of the generosity of the poverty line on which it is based (and the fact that some low incomes may be under-reported), the poverty gap is still only a small fraction of GDP, which was around \$632 billion in 2000. Even an exaggerated estimate of the poverty gap thus represents less than 2.4 per cent of GDP, with the true figure probably falling below 2 per cent. We can thus pay to remove all Australians from poverty if we want to: the fact that we don't do so is a matter of choice, not affordability.

Although identifying and measuring poverty are key dimensions of poverty research, a number of other aspects are also important. Understanding the causes and consequences of poverty involves looking beyond the statistics to examine the processes and events that expose people to poverty, the conditions that prevent their escape and thus lead to its entrenchment, and the consequences of poverty for those forced to experience it. The adverse impact of poverty on child outcomes is an issue of great concern currently in a number of countries and it warrants increased emphasis in the Australian debate. Poverty research is required to identify and understand these effects, particularly research that can track people through time using longitudinal data.

It is also important to emphasise that while any poverty measure must have a degree of acceptance by government, the measure must reflect the best available expert knowledge. The task for government is to decide how much effort to put into reducing poverty in the light of its priorities, not to support a poverty measure because it shows its policies in the best light. Poverty research must be independent of current government priorities if it is to serve its key function of informing the basis for poverty-reducing policies and actions.

### **Do We Need a Poverty Line?**

Although there are difficulties involved in setting a poverty line, some kind of poverty line has proved to be invaluable for national poverty researchers, for international agencies like the World Bank, and for governments in industrial and developing countries. The poverty line indicates the income level below which poverty exists, thus defining those who are in income (or primary) poverty. The (headcount) poverty rate is

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<sup>2</sup> This estimate has been derived from the poverty estimates contained in Harding, Lloyd and Greenwell, (2001: Tables 1 and 12. The average weekly poverty gap has been expressed on an annual basis and applied to the estimated numbers in poverty.

defined as the percentage of the population (or of sub-groups within the population) with incomes below the poverty line.

The headcount measure has been criticised because of its ‘all or nothing’ character. It implies that someone whose income is one dollar below the poverty line is defined as poor, whereas someone whose income is one dollar above the line is not poor. Can we ever be confident that such small income differences represent substantial differences in actual well-being? Clearly, the answer is no. But this suggests that caution must be applied when interpreting the headcount poverty statistics, and that the poverty rate should be accompanied by other measures.

One such measure is the poverty gap (referred to above), which indicates the total monetary gap between income and the poverty line for all those who are below it. The total poverty gap indicates how much income would need to be distributed to the poor in order to raise all of their incomes up to the poverty line, thus reducing the poverty rate to zero. This figure provides a useful benchmark for policy by setting limits on the financial task of tackling poverty. The poverty gap is also a valuable addition to the poverty rate, which indicates how many people are poor, but not how poor they are. Policies that increase the incomes of the poor will be reflected in a reduction in the poverty gap but may have little or no impact on the poverty rate.

There is a range of more sophisticated variants of the poverty gap, each of give greater weight to those whose incomes are furthest below the poverty line when deriving an overall index of the intensity of poverty. Although these measures exhibit a number of desirable statistical properties, they are rarely used in public debate over poverty, primarily because of their complexity. This highlights an important feature of any poverty measure, which is that it must be communicable, and readily understood by those in the population who will ultimately be asked to contribute to the cost of alleviating it. The poverty line, the headcount poverty rate and the poverty gap all satisfy this important characteristic and this explains their widespread use and resilience.

### **What is Wrong with the Current Poverty Line?**

The two key features that underpin the credibility of the poverty line are: firstly, that the methods on which it is based reflect ‘best practice’ scientific research methodology and data; and second, that the judgments on which it is based are broadly in line with community opinion on the meaning and measurement of poverty. The poverty line should be regularly exposed to these two criteria of *scientific integrity* and *community credibility* if it is to be a valuable tool for monitoring trends and policy impacts. Both of these conditions require the poverty measure to reflect information derived from the actual living conditions experienced by the poor, whether this is derived from large-scale survey data, or from smaller scale in-depth studies of poor people.

If these two criteria for the validity of the poverty line are applied to the Henderson poverty line (HPL), it is clear that there is an overwhelming case for developing a new formulation. The HPL has its basis in the research originally conducted at the University

of Melbourne in the mid-1960s.<sup>3</sup> In its original formulation, the HPL reflected the appropriateness of the minimum (basic) wage (supplemented by family allowance benefits) as being a close approximation to an ‘official’ Australian low-income standard for a one-earner family. It also incorporates the judgment that since income poverty is a relative concept, the poverty line should be adjusted to maintain its parity with average community incomes in a way that is consistent with community sentiment on the meaning of poverty.

Both of these decisions are now less justifiable than they were at the time, though for different reasons. The relevance of the basic wage to a poverty income benchmark has long disappeared, along with the ‘male breadwinner’ model of the labour market on which it was implicitly based. In fact, the poverty line is now often cited in Hearings before the Industrial Relations Commission as being a basis for setting the living wage, reversing the logic of Henderson’s earlier rationale. More generally, the fact that the labour market has changed so radically over the last forty years suggests that *any* income benchmark set before this happened is now in need of review.

These arguments might be less compelling if the method used to index the poverty line over time to average community income was sound. Then, it could be argued that the poverty line was originally set at a historically significant level and has had its relative position maintained in a way that gives contemporary relevance to that historical significance. Unfortunately, this case cannot be sustained because of the problems with how the poverty line has been adjusted over time. The current practice of adjusting the poverty line to reflect movements in household disposable income per capita (HDYC) produces an upward bias in measured poverty because the HDYC measure includes income components such as imputed rent and employer superannuation contributions that are not included in the ABS survey data that are used to estimate poverty.<sup>4</sup>

As a consequence, the Henderson poverty line has gradually shifted up the income distribution over time compared with other measures such as those based on median or mean income. This in turn has produced an upward bias in the measured poverty trend, opening the floodgates of criticism that has been directed at mainstream poverty research.

### **A Way Forward: Concepts and Measures**

There is no shortage of approaches to the conceptualisation and definition of poverty. Some of the most eminent social scientists have been trying to define poverty for more than 200 years and Table 1 summarises the key features of the most influential approaches. These definitions all encompass two key features that form the core of any definition of poverty. The first is that poverty is a situation in which resources are not adequate to meet *basic needs*. This is brought out most forcibly in Adam Smith’s reference to what is ‘indispensably necessary’, or in Rowntree’s famous definition in terms of ‘the minimum necessities of merely physical efficiency’, or in Sen’s ‘basic capabilities’. The second is that any definition of poverty should embody *community*

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<sup>3</sup> Henderson, Harcourt and Harper, (1970).

<sup>4</sup> Saunders (1996).

*perceptions* of poverty in some way – as reflected in Henderson’s reference to community attitudes, or in Townsend’s reference to activities, conditions and amenities that are widely approved, or in Mack and Lansley’s reliance on social perceptions.

**Table 1: Alternative Definitions of Poverty**

|   |
|---|
| <p><u>Adam Smith (1776):</u></p> <p>‘By necessities, I understand not only the commodities which are indispensably necessary for the support of life but <i>whatever the custom renders it indecent for creditable people, even of the lowest order, to be without</i>. A linen shirt, for example, is strictly speaking not a necessity of life ... But in the present time ... a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful state of poverty’</p> <p><u>Seebohm Rowntree (1899):</u></p> <p>‘[A family is counted as poor if their] ... total earnings are insufficient to obtain <i>the minimum necessities of merely physical efficiency</i>’</p> <p><u>William Beveridge (1942):</u></p> <p>‘In considering the minimum income needed by persons of working age for <i>subsistence during interruption of earnings</i>, it is sufficient to take into account food, clothing, fuel, light and household sundries, and rent, though some margin must be allowed for inefficiency in spending’</p> <p><u>Ronald Henderson (1975):</u></p> <p>‘Insofar as poverty is defined by reference to a minimum acceptable standard of living, it is a relative concept. [It requires] a value judgment [that] must <i>reflect the productivity of the economy and community attitudes</i>. The task of determining a minimum standard of living is difficult given the variety of lifestyles and values in Australian society and the range of matters, such as food, shelter, clothing, health and education, that must be considered’</p> <p><u>Peter Townsend (1979):</u></p> <p>‘Individuals’ families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities <i>which are customary, or at least widely encouraged or approved, in the societies to which they belong</i>’</p> <p><u>Joanna Mack and Stewart Lansley (1985):</u></p> <p>‘Poverty is an enforced lack of <i>socially perceived necessities</i>’</p> <p><u>Amartya Sen (1992):</u></p> <p>‘Poverty [is] <i>the failure of basic capabilities to reach certain minimally acceptable levels</i>. The functionings relevant to this ... can vary from such elementary physical ones as being well-nourished, being adequately clothed and sheltered, avoiding preventable morbidity, etc., to more complex social achievements such as taking part in the life of the community, being able to appear in public without shame, and so on’</p> |
|---|

These two features reflect the inputs from the two main groups involved in the task of developing a poverty measure: the *experts* whose job it is to operationalise the measure, and the *community* who will have ultimate power over its use and impact. In meeting the demands of these two groups, the poverty measure must incorporate both expert information on needs and be consistent with community norms and expectations. Finally, it must reflect the experiences of the poor themselves since these provide the link between abstract notions of need and resources and the realities of living in poverty.

These features are designed to ensure that the poverty measure is credible amongst both the research community and within the community generally, and this is the key to the successful development of a poverty line will actually be used. However, these are only general principles and they do not pre-empt the need to think carefully about how best to build them into a specific operational definition of poverty.

It is important to note that it is how the concepts of need and community attitudes are expressed that provide the basis for the claim that poverty is a relative concept. The relative dimension of poverty is not inherent to the notion of how poverty is conceptualised and defined, but emerges when that notion is made operational in a specific context. This is when the notion of relativism comes to the fore, since it reflects the context that gives meaning to a notion that is otherwise divorced from reality.

There are two aspects to this relativity. First, there is an important sense in which even basic needs can only be defined relatively. How much people need, and of what, are questions that can only be answered for a specific place at a specific time, as reflected in social norms and economic conditions. Second, any notion of poverty that reflects community perceptions will also be relative, since those perceptions will embody specific social norms and attitudes.

Overall, the definition of poverty as ‘an enforced lack of socially perceived necessities’ captures the two critical aspects of poverty with admiral brevity. It also emphasises the fact that poverty is a situation that is forced onto people, not chosen by them. Many modern definitions of poverty take this as their reference point, refining it to suit specific social circumstances and community attitudes.

### **A Way Forward: Methods**

Four broad approaches to setting an income poverty line have been identified in the literature. These are:

- An approach which identifies needs in terms of a basket of goods and then estimates what it would cost to buy it (*budget standards*);
- An approach which sets standards in an explicitly relative way, i.e. as a fixed percentage of median (or mean) income (*low-income income benchmarks*);
- An approach based on ‘official’ or endorsed benchmarks for low income (as reflected in income support payment levels, for example) (*official thresholds*); and
- An approach that is based on community perceptions of minimum income levels (*the subjective approach*).

All four methods are open to criticism<sup>5</sup> and no single poverty standard can be expected to meet the many (often conflicting) demands placed upon it.<sup>6</sup> Each approach involves

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<sup>5</sup> Callan and Nolan (1991).

identifying a set of needs that constitute what poverty means, and one approach to this key task is for it to be informed by community understanding of basic needs.

### **Subsistence Needs**

The available research indicates that when they are asked, most people have a notion of subsistence in mind when they think about poverty, and the definition of poverty should thus reflect this. Table 2 summarises evidence produced from two recent surveys conducted by the Social Policy Research Centre (SPRC). Prior to asking the question, respondents were asked whether or not they agreed with each of a series of statements that described poverty. Most indicated that they agreed with *all* of the definitions they were shown, but they were then asked which definition *best* describes poverty, and the results this generated are summarised in the table.

The results support the claim that *the majority (around three-quarters) of Australians view poverty in subsistence terms*, and also that the percentage that takes this view is remarkably stable over time and across different sub-groups in the population. There is little support for definitions of poverty that embody an explicitly relative component. Thus, there is very little support for seeing poverty as having ‘a lot less than everyone else’, or not being able to afford either ‘what other people take for granted’, or ‘any of the good things in life’. Poverty thus means not having enough to buy basic items, rather than being unable to buy the items that the majority can afford: it reflects need, rather than envy.

It is very important to emphasise that adopting a needs-based subsistence definition of poverty does not imply that poverty should be defined in absolute terms. Although the needs themselves are absolute in the sense that they refer to universal conditions such as having access to adequate food, housing and clothing, the actual commodities that will satisfy these identified needs and their quality will be defined relative to existing customs and standards of living. To paraphrase Sen, while there is a core of poverty that is absolute in relation to *capabilities*, it is relative in relation to incomes or *resources*.<sup>7</sup>

The standard of housing that is regarded as providing a minimum level of shelter in Australia in 2003, for example, will differ from that in Australia in 1903, or from that in India or Indonesia in 2003. It is these differences that give a relative dimension to the operational expression of subsistence – even though the poverty line itself is derived as the cost of purchasing a fixed list of subsistence items.

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<sup>6</sup> Veit-Wilson (1998).

<sup>7</sup> Sen (1987).

**Table 2: Overall Descriptions of Poverty (percentages)**

| QUESTION: <i>Overall which of these statements BEST describes what being in poverty means to you</i> | Sample of DSS clients (1995) | Sample of adult Australians (1999) | Sample of rural and remote residents (1999) |
|--|------------------------------|------------------------------------|---|
| Not having enough to buy basics like food, housing and clothing                                      | 41.9                         | 43.8                               | 44.8  |
| Having to struggle to survive each and every day   | 26.4                         | 32.2                               | 30.1  |
| Not having enough money to make ends meet  | 12.3                         | 10.5                               | 11.0  |
| Not having enough to be able to live decently  | 8.6                          | 6.5                                | 8.2   |
| Not having enough to buy what most others take for granted   | -                            | 2.7                                | 4.2   |
| Having a lot less than everyone else   | 1.8                          | -                                  | -   |
| Not being able to afford any of the good things in life  | 6.7                          | 2.0                                | -   |
| Don't know/multiple responses  | 2.5                          | 2.5                                | 2.5   |
| Sample size  | 1,146                        | 2,269                              | 590   |

**Source:** Saunders (2002); supplemented by unpublished survey data.

Implicit in the subsistence approach to poverty is the idea that the poverty line should only be adjusted to reflect increases in the prices of the items that are included in the basket of goods that constitute subsistence. This is true as long as the specification of the subsistence items does not change. Over time, however, the nature of these items *will* change in line with economic conditions and social norms. This is why it is necessary to regularly review what actual commodities represent subsistence, and it is this that gives the subsistence approach its relative dimension.

The approach set out above provides the basis for using the idea of subsistence as a departure point from which to develop a new poverty measure. However, more information is needed in order to determine where to set the poverty line, as opposed to agreeing on what poverty actually means. The remainder of the paper explores two alternative ways of addressing this issue. The first involves supplementing information on low incomes with information on expenditures as a way of identifying who is in poverty. The second involves supplementing income data with information on deprivation and hardship in order to identify those who are poor.

Both approaches incorporate information on actual living conditions in order to give increased credibility to a poverty measure based solely on income, and each is designed to refute the claim that the poverty line is arbitrary. A common feature of both approaches is that they include some kind of direct indicator of poverty that reveals that basic needs are not being met. This is in contrast with the pure resource-based poverty

indicators such as income, which are indirect in the sense that they imply that poverty is present, but do not actually confirm this through direct observation.<sup>8</sup> In this sense, they represent a step towards informing the debate by drawing on aspects of the actual living conditions of the poor – although this aspect is only rudimentary at this stage, and requires further refinement.

### **Expenditure Poverty**

The use of expenditure to indicate the standard of living has been endorsed by Peter Travers and Sue Richardson, who have argued in relation to measuring poverty, that:<sup>9</sup>

‘When measuring the resources available to an individual it is preferable to quantify expenditure rather than income. Expenditure generates the flow of services from which material well-being is derived. Income, in contrast, provides the *capacity* to purchase things ... generally income is valued not for its own sake but for the ability it provides to buy goods and services. It is thus more satisfactory to measure directly the level of goods and services bought.’ (Travers and Richardson, 1993: 24)

The conventional rationale for defining poverty in terms of income is that it is after-tax income that restricts the total level of *consumption possibilities*. In contrast, the actual standard of living is better captured by consumption than by income, since the former more directly measures the actual standard of living. However, rather than having to choose between income and expenditure (both of which have strengths and limitations), it may be preferable to combine the two into a single indicator of poverty.

There are, of course, a number of practical issues surrounding the use of reported expenditures to measure poverty. First, the data include one-off expenditures on large items such as consumer durables, giving an upward bias to actual consumption in the survey period. The treatment of items such as capital gains and superannuation contributions in the survey measures of both income and expenditure is also problematic. Because of these limitations, the difference between reported income and reported expenditure cannot be taken as a good measure of the level of savings, at either the household or group level. These qualifications need to be kept in mind when reviewing the results presented below.

Figure 1 shows how all of the possible income and expenditure combinations compare with a (fixed) poverty line. In total, there are eight combinations of household income and expenditure relative to the poverty line.<sup>10</sup> The conventional income poverty approach defines as poor those households in any of the four situations labelled (2), (4), (5) and (8), while identifying poverty status on the basis of expenditure would include households who are in situations (2), (5), (7) and (8). Note that the former approach defines as poor those who in situation (4), even though their expenditure exceeds the poverty line, while

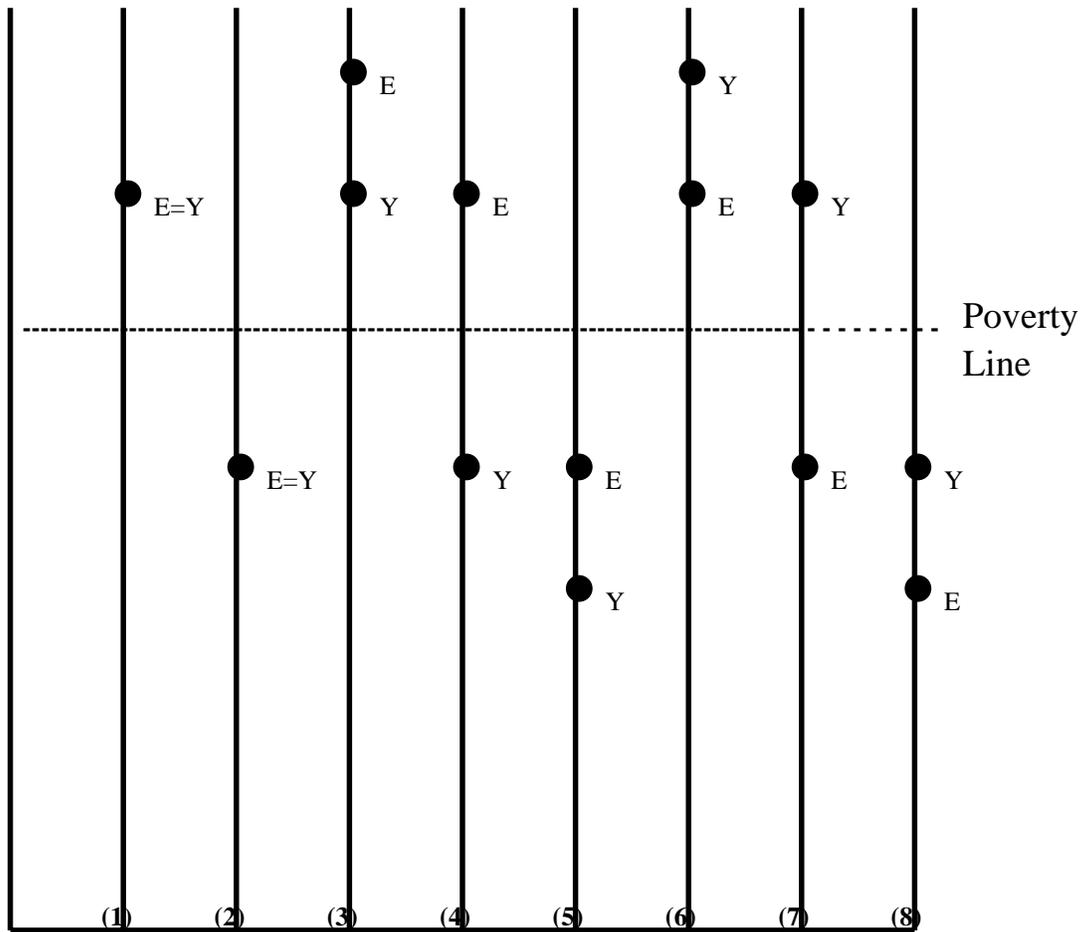
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<sup>8</sup> Ringen, (1988).

<sup>9</sup> Travers and Richardson (1993).

<sup>10</sup> The following discussion draws heavily Saunders (1997).

**Figure 1: Income and Expenditure as Complementary Poverty Measures**



Income poverty: (2) + (4) + (5) + (8)

Expenditure poverty: (2) + (5) + (7) + (8)

Core/constrained poverty  
(equals Max (E,Y) poverty): (2) + (5) + (8)

the latter approach defines as poor those who are in situation (7), even though their income is above the poverty line.

This discussion suggests that situations (4) and (7) less clearly represent poverty than situations (2), (5) and (8), where both income and expenditure are below the poverty line. These latter situations correspond to situations where the *maximum* of income and expenditure is below the poverty line, and they refer to what might be called core or constrained poverty.<sup>11</sup>

Table 3 presents estimates of the three alternative poverty measures derived using unit record data from the *1998-99 Household Expenditure Survey (HES)*. The analysis has been restricted to single income unit households because of the problems inherent in allocating certain household expenditures in the HES to income units who share accommodation. Poverty has been estimated using a simplified and amended version of the Henderson poverty line in which the equivalence scale is set equal to the square root of household size. The income variable refers to disposable income, derived by deducting *imputed* income tax from *reported* gross income, while the expenditure variable refers to total goods and services expenditure.

**Table 3: Alternative Estimates of Poverty in 1998-99 (percentages)**

| Income unit type          | Income poverty (Y) | Expenditure poverty (E) | Core or constrained poverty (E*) |
|---------------------------|--------------------|-------------------------|----------------------------------|
| Single aged (m,65+;f,60+) | 63.8               | 59.3                    | 43.0                             |
| Single, non-aged          | 30.1               | 22.8                    | 16.2                             |
| Aged couples (head,65+)   | 37.6               | 35.0                    | 19.5                             |
| Non-aged couples          | 15.6               | 11.6                    | 5.7                              |
| Couples with dependants   | 13.2               | 12.5                    | 5.0                              |
| Sole parent families      | 55.9               | 43.2                    | 33.8                             |
| <b>All income units</b>   | <b>23.4</b>        | <b>20.3</b>             | <b>11.7</b>                      |

**Source:** ABS, *Household Expenditure Survey, 1993-94*, confidentialised unit record file.

The income and expenditure approaches give similar results (note that the same income poverty line is used in all three approaches), although poverty among the aged is worse (relative to the non-aged) when the expenditure measure is used. On the face of it, this is a surprising result, since conventional economic theory suggests that the aged should be running down their accumulated savings during their retirement so that their expenditure should exceed their income. This would imply that expenditure poverty should be below income poverty for the aged, unlike other groups, who are still building up their savings, where the opposite would be expected. However, the earlier comments relating to data

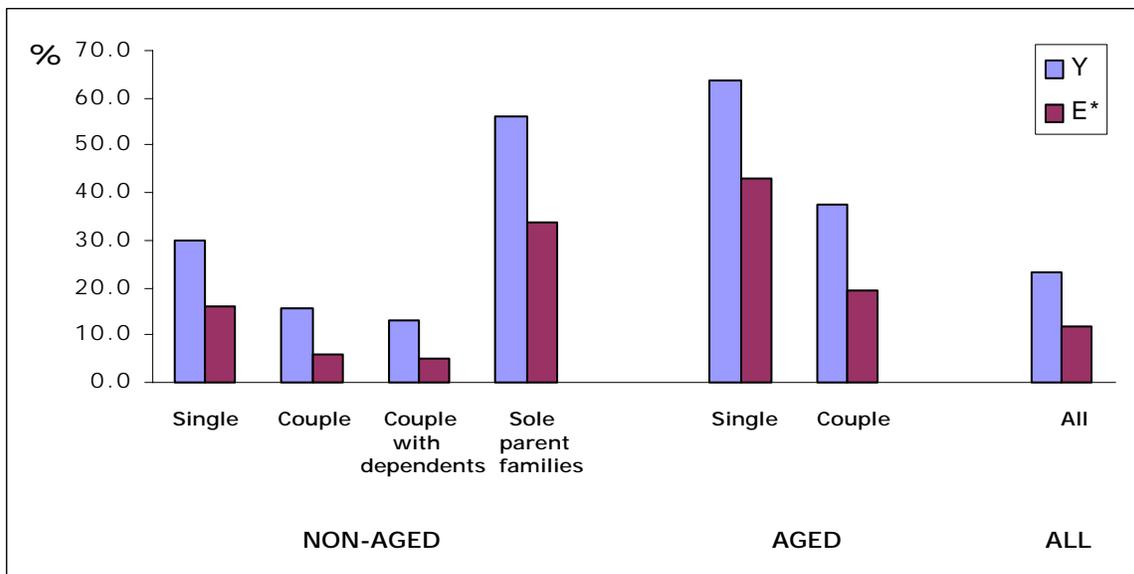
11 Note that in situation (8), not all income is spent, which suggests that the low level of expenditure reflects choice rather than constraint. This might be regarded as inconsistent with poverty, but even if all income was spent the situation would still be one of poverty because income too is below the poverty line.

quality are important in this context, particularly those relating to interpretation of the difference between income and expenditure at the household level.<sup>12</sup>

When the more restrictive core poverty approach is used, the poverty rate drops substantially, to half of that derived using the conventional income poverty approach. On this measure, differences in the poverty rates among the different family types are more pronounced, with the relative poverty risks of aged single people and sole parents increasing, and those of non-aged couples (with or without children) decreasing. On all three measures, the poverty rate among the single aged and sole parents families is around three times the national average, and the robustness of this finding confirms that poverty is highest among these two groups.

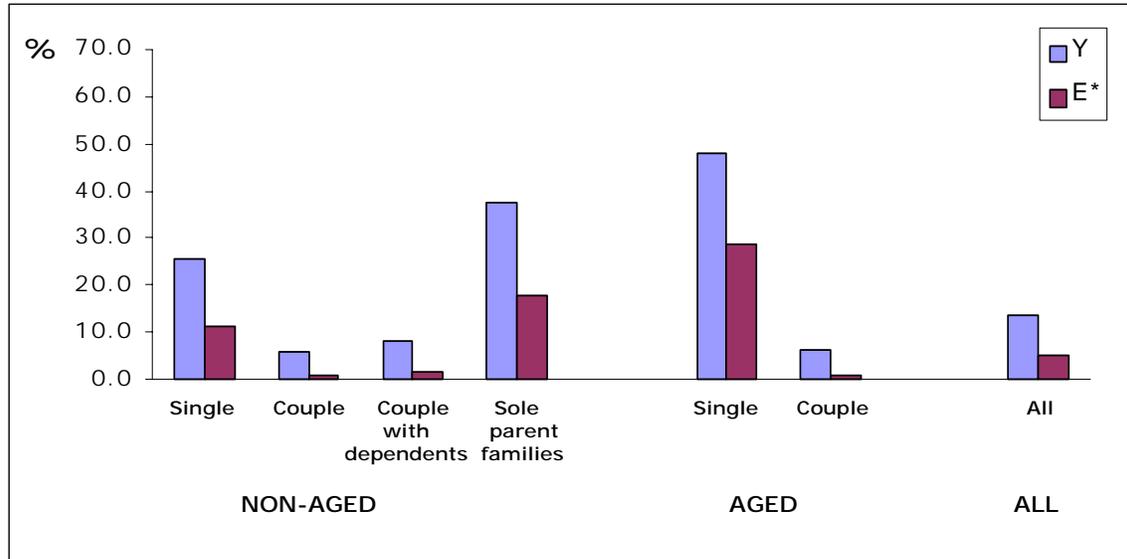
Figure 2 shows the impact of moving from the conventional (income) measure to the core (income and expenditure) measure for each of the family types shown in Table 3, while Figure 3 shows what happens to the estimates when the amended Henderson poverty line is replaced by a poverty line set at one-half of median income (with the same equivalence scale). In general, the median income poverty rates are a good deal lower than the Henderson estimates, although the difference varies across family type and poverty measure. However, the overall picture remains broadly unchanged and for this reason only the Henderson estimates are presented and discussed below.

**Figure 2: Income Poverty (Y) and Core/Constrained Poverty (E\*) in 1998-99 (Amended Henderson Poverty Line)**



12 Another issue relates to differences in the variability of expenditure over time between groups. For example, if the aged shop for groceries less frequently than other groups, more of them will report low expenditure in the survey period, causing their expenditure poverty rate to be higher. I am grateful to Bruce Bradbury for pointing this out to me.

**Figure 3: Income Poverty (Y) and Core/Constrained Poverty (E\*) in 1998-99 (Half Median Income Poverty Line)**



### Deprivation Poverty

For the first time, the latest (1998-99) HES collected data on a range of financial stress, hardship or deprivation.<sup>13</sup> Information on the fourteen hardship indicators shown in Table 4 can be used to modify the conventional income poverty measure by defining as poor those families with incomes below the poverty line *and* who have experienced some form of hardship or deprivation. This again represents a move towards defining poverty in a way that incorporates direct evidence that needs are not being met, thus increasing the scientific validity of the measure and, in light of the results in Table 2, raising its credibility among the community.

Two alternative versions of the approach have been tried. The first defines as poor those whose income is below the poverty line who also experienced at least one of the fourteen hardship indicators shown in Table 4. The second, more restrictive approach, supplements the income poverty measure with the experience of at least one of the six core hardship indicators shown in italics in Table 4. These two new measures and the standard income poverty measure are defined in Table 5.

13 See McColl, Pietsch and Gatenby (2001) and Bray (2001).

**Table 4: Indicators of Hardship and Financial Stress**

| Hardship Indicator | Definition   |
|--------------------|--|
| H1                 | Cannot afford a week's holiday away from home each year  |
| H2                 | Cannot afford a night out once a fortnight   |
| H3                 | Cannot afford to have friends/family over for a meal once a month  |
| H4                 | Cannot afford a special meal once a week   |
| H5                 | Cannot afford brand new clothes (usually buy second-hand)  |
| H6                 | Cannot afford leisure or hobby activities  |
| <i>H7</i>          | <i>In the last year due to shortage of money (LYSM), could not pay gas, electricity or telephone on time</i> |
| <i>H8</i>          | <i>LYSM, could not pay car registration or insurance on time</i>   |
| <i>H9</i>          | <i>LYSM, pawned or sold something</i>  |
| <i>H10</i>         | <i>LYSM, went without meals</i>  |
| <i>H11</i>         | <i>LYSM, unable to heat home</i>   |
| <i>H12</i>         | <i>LYSM, sought assistance from a welfare or community agency</i>  |
| H13                | LYSM, sought financial help from friends or family   |
| H14                | Could not raise \$2000 in a week if had to   |

**Note:** The core hardship indicators are shown in italics.

**Source:** ABS (2000).

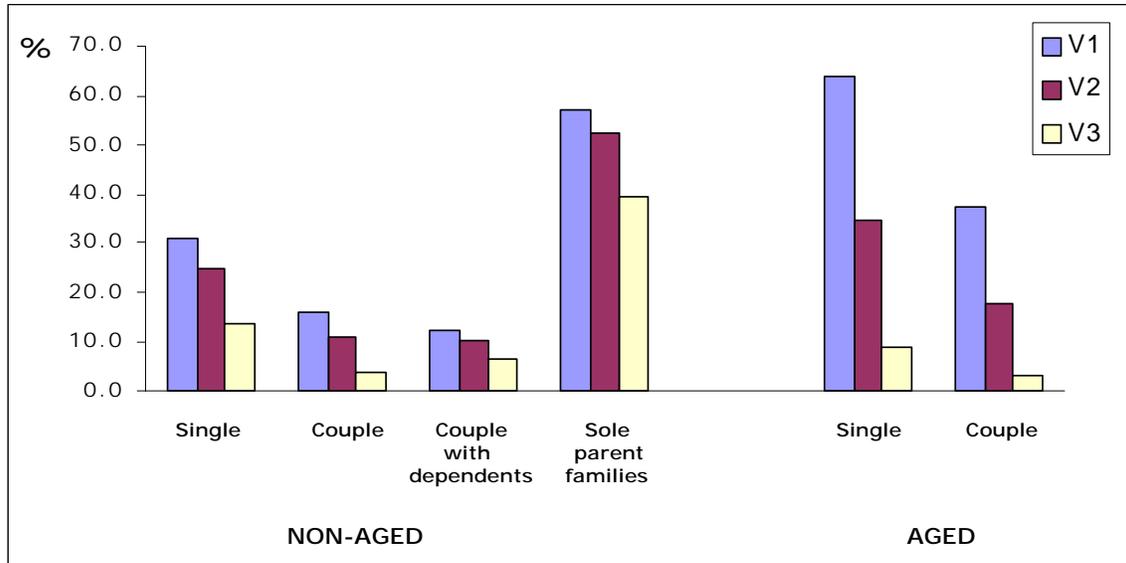
**Table 5: Specification of the Alternative Poverty Estimates**

| Version | Specification  | Comment   |
|---------|--|---|
| V1      | Amended Henderson poverty, base on all households, excluding those reporting a negative income from any source                                     | Reported negative incomes may be unreliable               |
| V2      | As V1, but removing from the poverty estimates any household who do not report experiencing at least one of the 14 financial stress indicators     | Supplements income poverty with a deprivation measure     |
| V3      | As V2, but removing from the poverty estimates any household who do not report experiencing at least one of the 6 core financial stress indicators | A stricter test of the supplementary deprivation approach |

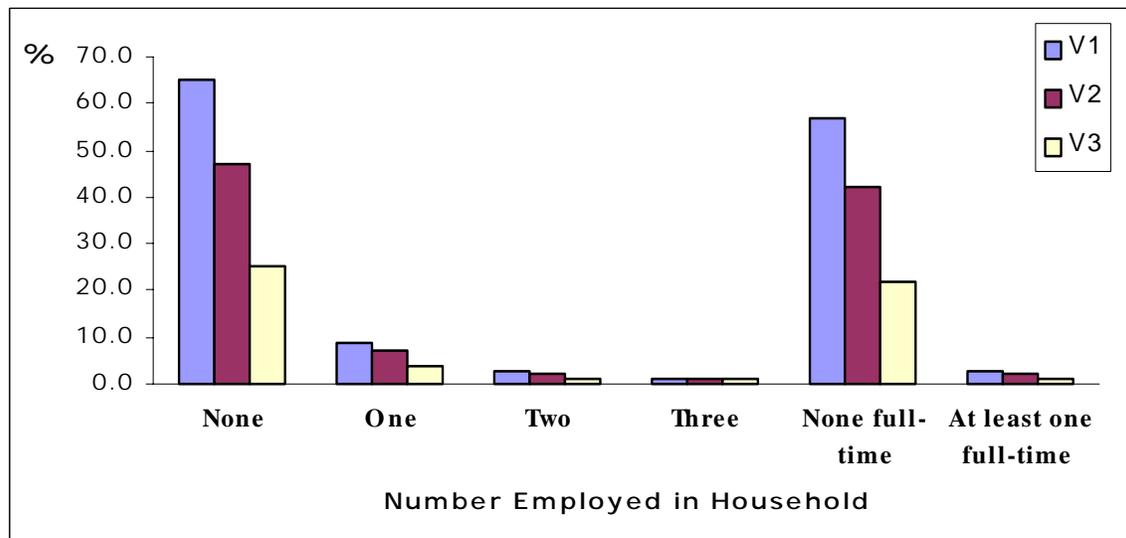
Results derived using the three alternative poverty measures (V1, V2 and V3) are shown in Figure 4 for the different family types defined earlier, while Figure 5 compares poverty rates by employment status and Figure 6 by State/Territory. Figure 4, which analyses the profile of poverty by family-type, is the most common way in which poverty has

traditionally been analysed in Australia, the estimates having direct relevance to the adequacy of different classes of income support payment.

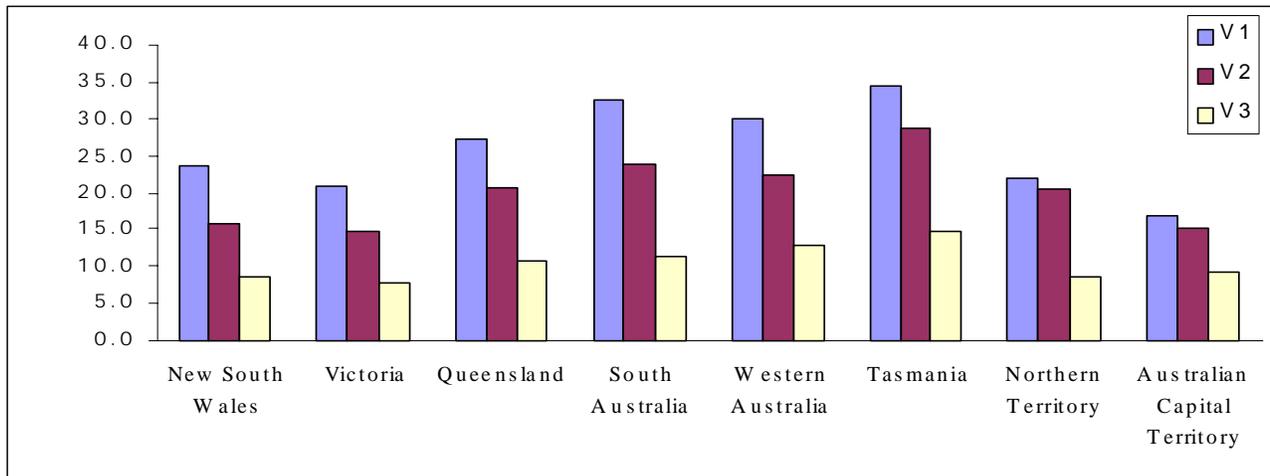
**Figure 4: Poverty (Amended Henderson) and Deprivation by Family Type**



**Figure 5: Poverty (Amended Henderson) and Deprivation by Employment Status**



**Figure 6: Poverty (Amended Henderson) and Deprivation by State/Territory**



In overall terms, the aggregate poverty rate falls from over 25 per cent on a pure income basis (V1), to 18 per cent when the definition is restricted to the definition V2 shown in Table 5, and to less than 10 per cent when the even stricter deprivation-adjusted measure V3 is used. The latter estimate is of a similar order of magnitude to the core/ constrained poverty measure shown in Table 3. Again, the different poverty measures have a differential impact on different family types and thus affect the composition of poverty. The most striking aspect of this is the very large reduction in poverty among the aged when the income measure as supplemented by evidence of hardship or deprivation. At close to 40 per cent, the poverty rate among sole parent families is more than four times the national rate, once again confirming that this group is particularly prone to poverty, however it is measured.

Figure 5 presents a different perspective on the causes of poverty by presenting poverty rates not by family type, but by employment status. The role that joblessness plays as a cause of poverty is apparent from these results, although it is clear that it is *full-time employment* that is needed to protect against poverty, rather than employment *per se*. There is virtually no poverty among those families with at least one person in a full-time job, pointing to the importance of the full-time job market in alleviating poverty. Having someone in other than full-time employment reduces the risk of poverty, but it remains very high – at over 50 per cent on a pure income basis, and above 20 per cent even when the deprivation-adjusted measure is used.

Finally, Figure 6 compares poverty rates by State/Territory and although the differences are now smaller, they by no means disappear. On an income basis, the State poverty rate varies from 17 per cent in the ACT to over 34 per cent in Tasmania. Although the estimates for the Northern Territory are based on a small sample, the poverty rate of 22 per cent is about average, similar in magnitude to that in Victoria and New South Wales. Here we find that, compared with the income-based measures, the deprivation-adjusted poverty rates show considerably less variability across State/Territories – poverty on the

more restricted (V3) measure varying between 8 per cent in Victoria and 15 per cent in Tasmania, with most State poverty rates falling between 8 and 11 per cent.

The State differences shown in Figure 6 are interesting. Unlike the family type differences in Figure 4, the state differences in Figure 6 cannot be attributed to differences in the adequacy of income support payments since these are (with some very minor exceptions) set at the same level in all States. In part, they reflect differences in the composition of the population in each State, as well as differences in employment patterns and thus in State economic performance. The fact that the State poverty rate differences decline substantially when the deprivation-adjusted poverty measures are used suggests that there may be some substance to the view that State differences in the cost of living allows those with poverty-level incomes in some States to manage on low incomes without experiencing deprivation. This is, however, only a speculative conclusion that requires further examination.

### **Summary and Conclusions**

Concern over the methods used to identify and measure poverty have undermined the credibility of poverty research and created a hiatus that has seen poverty fall off (or be kept off) of the policy agenda. Yet poverty alleviation remains a primary goal of the Australian income-tested social security system and a raft of other public programs (e.g. legal aid and housing assistance) still use poverty status as a way of determining eligibility and targeting resources.

Any poverty measure will always be subject to controversy and contested, but this does not mean that all measures are equally arbitrary, as some have implied. Although any poverty line will embody judgements, some judgements are better than others and the aim is to find those that best reflect the available expert knowledge, are most widely endorsed and most enduring. This is a challenging, but not impossible task.

If poverty research is to be influential, its findings must be able to be communicated to the community in a form that can be readily understood. The poverty line and the headcount poverty rate both meet this important condition and, for this reason, both serve a very valuable purpose. This paper reflects the view that the poverty line is a very important vehicle for communicating research findings and raising community awareness about the nature, causes and consequences of poverty.

There is still an urgent need for an income poverty line, despite its many conceptual limitations and practical imperfections. Most people lives depend principally on their income and everyone can understand what poverty means in terms of income by extrapolating from their own experience. However, more attention needs to be paid to the limitations of the survey-based income measures and, more importantly, the methods used to identify poverty must also incorporate direct observations on deprivation. This is a step towards building a poverty measure that reflects the conditions actually experienced by the poor, although there is much more that needs to be done in this area.

The evidence presented here is consistent with the view that the Henderson poverty line is now set at an inflated level because of the way in which it has been updated over time. This conclusion is drawn from the estimates that show that many of those whose incomes

are below the poverty line are not experiencing hardship or deprivation. However, when evidence of low spending or deprivation is used to supplement low income as an indicator of poverty, its level declines but is still high enough to be a cause for concern.

In addition to these aggregate findings, several features of the poverty estimates presented here are robust across all of the alternative measures examined. All measures show that the group with the highest incidence of poverty is sole parent families, whose poverty rate varies from between twice and four times the overall (national) poverty rate. There is also a strong association between joblessness and poverty, with a clear indication that full-time employment is required to escape poverty. Labour market reforms that further undermine the full-time job market are thus likely to exacerbate poverty. The poverty rate among the aged is high when the conventional (income-based) measure is used, but far lower aged poverty rates are produced by many of the alternative poverty measures. Finally, State differences in income poverty are substantial but become much smaller when a deprivation-adjusted poverty measure is used.

Despite its growing economic prosperity, there are still pockets of poverty in Australian society and some of these are large and enduring. No country can take comfort from its economic performance while poverty still threatens its citizens. A rich country like Australia has the resources to substantially reduce poverty, even to abolish it altogether. But there is a need for convincing evidence to support claims that poverty has immediate and enduring harmful effects before public support can be mobilised to exert the political pressure required to bring about change in our current policy priorities.

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