

**A CHALLENGE TO WORK
AND WELFARE:
POVERTY IN AUSTRALIA
IN THE 1990s**

by Peter Saunders

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Abstract

This paper discusses issues associated with the measurement of poverty and how future trends in work and welfare will affect poverty in Australia. One of the main aims is to illustrate why and in what sense the measurement of poverty remains important in the broader policy debate. The role of budget standards in the development of poverty benchmarks is discussed, as are the limitations of the current method of updating the poverty line. Some possible ways of dealing with these are explored with the help of empirical data. The relationship between labour force status and poverty status is then explored using data from the latest (1990) household income survey. This is followed by a discussion of how income units at different points in the income distribution, and according to whether they are above or below the poverty line, evaluate their own perceived level of happiness and health status. Many of the differences revealed in the data are shown to vary significantly with the poverty status of the unit. Finally, the paper canvasses some of the issues associated with labour market changes and what these imply for future trends in poverty and income support policies.

1 Introduction

Twenty years ago, *Poverty in Australia*, the main report of the Poverty Commission ended with the statement that:

The survival of pockets of poverty in this rich country is a national disgrace. To remove them as quickly as possible should be an overriding concern for all levels of government. (Commission of Inquiry into Poverty, 1975: 308)

Since then, a good deal of effort and considerable resources have been devoted to the alleviation of poverty. Yet the statistics continue to show that poverty is on the increase, at least if it is measured using the approach developed by the Poverty Commission (Saunders, 1994; Harding, 1994).

Why is this? Three possible explanations suggest themselves: firstly, it reflects a failure of government policy - despite the enormous increase in program expenditures over the last two decades; second, that it reflects the impact of structural economic and social changes which are causing poverty to rise faster than the rate at which government programs can reduce it; thirdly, that the measured rise in poverty is a statistical artefact. While there is probably an element of truth in all three explanations, establishing their relative importance can help to shed new light on past debates and clarify what needs to be done to alleviate poverty in the future.

I do not intend to try and tackle this large and complex task here. Rather, in the limited time available, I will explore some of the issues raised by such an endeavour in three dimensions: those relating to the measurement of poverty, those relating to the causes of poverty and those relating to some of the effects of poverty. One of the main aims of the paper is to illustrate why the measurement of poverty remains an important issue in Australia in the 1990s. Questions associated with the impact of social security programs on poverty will not be addressed, not because these are unimportant, but because they have already received considerable attention in the literature (e.g. Mitchell, Harding and Gruen, 1994).

2 Measuring Poverty

Including Appendices, Volume 1 of the Poverty Commission's main report was 358 pages long. Only one chapter (Chapter 3) was devoted specifically to the

measurement of poverty, this running to 17 pages or less than five per cent of the entire report. The remaining 95 per cent focused primarily on the causes and consequences of poverty for different groups in the population and the design of income support and welfare services policies for assisting them.

Subsequent Australian poverty research has not managed to maintain this rather impressive ratio of 5:95 in the time and effort devoted to measurement issues as opposed to the analysis of causes, consequences and responses. The last twenty years has probably seen the percentage of poverty research devoted to measurement issues lie closer to 95 per cent than to five per cent, possibly a good deal closer. As one of the main participants in a debate which has contributed to this development, I am at least partly responsible. My response, outlined in a paper delivered to the 1994 ACOSS Congress and published earlier this year is that in the field of poverty research, measurement issues are important, need to be debated and resolved (Saunders, 1995a), though not to the exclusion of discussing the causes and consequences of poverty.

The fact that the measurement of poverty gives rise to the need for value judgements makes the task all the more important, not less. Tackling the measurement issue provides a basis for identifying areas where value judgements are required and making those judgements explicit. Poverty research can, from this perspective, inform public opinion and help shape the policies and politics of the poverty debate. Unlike Stanford University economist John Cogan (1995) who has recently dissented from the proposals for reformulating the current United States poverty line made by a panel of experts, I accept that there can be no purely scientific basis for establishing a poverty line and agree with the view expressed decades ago by Rein (1970) that no poverty line can be free of value judgement.¹

This does not mean, of course, that we should stick with the judgements, conventions and measurement techniques that we have, just because they are there. Poverty is a **social** problem and its measurement must reflect existing social and economic circumstances. This will involve reviewing the methods used to measure poverty and may require them to be revised. As the US Panel on Poverty and Family Assistance notes at the outset of its 500 page report on measuring poverty in the United States:

1 Cogan makes the interesting distinction between scientific judgements (which are an acceptable input into a scientific poverty line) and value judgements made by scientists (which are not), but this serves to confuse the issue unnecessarily.

The measure of poverty is an important social indicator that effects not only public perceptions of well-being ... but also like other important indicators, the poverty measure should be evaluated periodically to determine if it is still serving its intended purposes and whether it can be improved. (Citro and Michael, 1995: 1)

Many have expressed similar sentiments in Australia, though these have tended to be used to undermine the current poverty line without proposing an alternative. Among the most notable of the recent critics of the so-called 'Henderson poverty line' are Mitchell and Harding (1993), Gruen (1995) and the current Minister for Social Security (Baldwin, 1995) who has summarised the concerns in the following terms:

The problems with the Henderson poverty line are well known. It is remarkable that a measure set in 1966 at the then basic wage plus child endowment for a single earner couple with two dependent children, using equivalence scales derived from a 1954 study in New York City, still persists. The arbitrary nature of such a calculation is all too obvious ... the Henderson line is now clearly inadequate as a tool to help accurately characterise the (poverty) problem and to make judgements about the adequacy or otherwise of our payments. (Baldwin, 1995: 7-8)

By expressing its limitations so starkly, Minister Baldwin has challenged the proponents of the Henderson line to justify its usefulness as a basis for assessing the adequacy of social security payments. This is a reasonable demand from someone whose job it is to justify the role of the current level and structure of payments in alleviating poverty, but it fails to acknowledge that the poverty line should be more than just an input into government decision-making. As Atkinson (1993) has emphasised, the poverty line also serves as a standard for assessing social progress and as a vehicle for confronting economic policy with its social consequences. That involves using a poverty line which is credible and which can also be applied consistently, and with confidence, over time.

This having been said, no one would deny that the Henderson line does have limitations in the Australia of the 1990s. The case against the use of any poverty line has been expressed eloquently by Richardson and Travers (1995) who argue that the 'setting of a poverty line is not a technical matter to be left to experts' (1995: 59) and that traditional poverty lines 'are asked to carry too heavy a burden; they confuse issues of inequality with issues of the ability to

live decently, and seek a degree of precision which is greater than they can bear' (1995: 65). They prefer to use a range of descriptive indicators of actual living circumstances, leaving to others the final judgement as to whether or not these represent poverty.

There is much in this approach with which I would agree. Investigation of a range of indicators, including those based on direct observation of actual living conditions makes good sense. I also have no wish to impose my values on others, nor would I claim that the setting of the poverty line is a purely technical matter. There is, however, enduring merit in an income-based poverty measure which embodies a series of explicit judgments concerning unacceptable levels of **relative** well-being. But I would not reject the value of additional measures, nor would I wish to avoid having to debate the value judgements which help to classify who is poor and how poor they are. The risk in the 'living decently' approach is that these judgements will not be made unless mechanisms are developed for deciding on what they are and how they are to be resolved.

Despite its limitations, the Henderson poverty line continues to be used as a benchmark for estimating poverty, not only by researchers at the Social Policy Research Centre (SPRC), but also by analysts at the Australian Institute of Health and Welfare (AIHW, 1993) and the National Centre for Social and Economic Modelling (Harding, 1994). Even the Australian Bureau of Statistics (ABS) continues to use the much-criticised Henderson equivalence scale to calculate equivalent family incomes (ABS, 1995).

The quarterly updates of the *Poverty Lines* report which are released by the Institute of Applied Economic and Social Research (IAESR) at the University of Melbourne are distributed to a mailing list of almost 300 individuals and organisations, including a broad range of government departments and agencies. A version of the Henderson poverty line is still used to determine eligibility for legal aid, although I understand that this practice is currently under review. Notwithstanding this, it is clear that there is a broad demand in the community for information on poverty, however it is conceived, measured and constituted.

Within the context of a social security system which relies heavily on means-testing and the targeting of benefits to those in greatest need, it seems inevitable that an income poverty line will be not only desirable, but essential. Yet even this proposition has been challenged by Travers and Richardson (1995) who argue that equivalent disposable income - on which the poverty statistics are based - is an inferior measure of economic well-being. Poverty measures can be

misleading as a consequence, as can the policy of targeting income support to those with low levels of equivalent disposable income. This can result in assistance being provided to some who are not in need while failing to provide it to others who are in need - if need is measured on the basis of full (imputed) income rather than equivalent disposable (cash) income.

This raises important issues about whether cash income - and a poverty line expressed in cash income equivalents - is an appropriate framework for measuring poverty in a society where economic well-being has many other determinants.² Many of these are under direct government influence and compete with the provision of income support in the policy process. These concerns are important, conceptually, practically and in policy terms. They need to be addressed but, in my view, they do not yet constitute grounds for abandoning a cash income poverty line, whatever its limitations.

What is most striking about the debate over the Henderson poverty line over the last 20 years is that so much effort has gone into discrediting it and so little into revising it. There are signs that this situation is beginning to change. The SPRC has recently been commissioned by the Department of Social Security to undertake a two-year study into the development of a set of indicative budget standards for Australia. A budget standard is a specified basket of goods and services corresponding to a particular standard of living which can then be priced to estimate the money income required to attain that standard. The approach involves drawing on expert opinion in a range of areas, including nutrition, housing, transport and health care to draw up the detailed budgets which are then priced using information on costs and prices. Clearly, many of these costs will vary by location, giving a regional dimension to the exercise and its results.

The budget standards method has antecedents in the United States (where the existing Orshansky poverty line is a simplified version of a limited budget standard) and in the United Kingdom, where Bradshaw and his colleagues at the Family Budget Unit at the University of York have re-invigorated the approach (Bradshaw, 1993a; 1993b). Once developed, separate budgets for a range of household types can be used to derive estimates of key items such as housing and work-related costs which have significance for the structure of taxes and benefits. They can also be used to estimate how household costs vary with household size and composition - the equivalence scale issue. Such information

2 Similar concerns have been raised by Harding (1995) in a paper presented at this year's Conference of Economists.

is important in establishing payment relativities for those in different circumstances.

One criticism of the budget standards methodology is that the whole approach is too top-heavy and prescriptive. By replacing the judgements of a small group of experts like Henderson and his colleagues by a far greater number of intricately more detailed judgements made by a larger number of more narrowly focused experts, the final result becomes less transparent and further removed from everyday experience. Another criticism is that the approach could become too far removed from people's actual preferences if no account is taken of actual expenditure patterns and how these adjust to resource constraints.

In our proposed study, we will attempt to address these issues by asking a series of focus groups comprised of people who are actually experiencing the living standards in the types of household whose budgets we are developing and costing to review the budget standards as they are developed. This will be attempted at two separate stages in the research: at the time when the composition of the budgets is being developed, and again when the preliminary overall costings have been derived. The use of focus groups to try and validate the outcomes from quantitative research has not been attempted on such a large scale in the previous Australian research on poverty. It has, however, been used with some success in recent research aimed at developing a new poverty standard in New Zealand (Stephens, 1995). The experiences gained from this and other overseas studies will be used to inform our research which, by a convenient coincidence, will formally begin next week.

In order to illustrate the kinds of data which are generated by research on budget standards, Table 1 compares the 'low cost' budgets derived for the United Kingdom (Yu, 1993) with the Henderson poverty line and Australian social security assistance levels. The UK estimates have been converted to Australian dollars using the purchasing power parity (PPP) conversions published by the OECD (1995). The concept of a low cost budget is intended to reflect the consumption bundle necessary to attain requisites which people should not be expected to have to do without in societies like Britain or Australia. The items included in the consumption bundle were required to satisfy two criteria; that at least three quarters of UK households owned any durable items **and** at least two-thirds of the population had to regard the item as a necessity (Yu, 1993: 200-1). The prices at which the items were costed were also scaled-down to reflect the shopping patterns of low income households.

Table 1: Australian Dollar Equivalents of UK Low-Cost Budget Standards: October 1991 (weekly amounts in dollars)

Expenditure Item	Single pensioner ^(a)	Couple with two children ^(b)	Sole parent with two children ^(c)
Housing, fuel and household services	36.60	60.30	53.40
Food	42.50	117.90	87.40
Clothing and personal care	12.60	47.80	35.60
Household goods	17.50	39.40	37.00
Leisure goods and services	6.30	31.10	26.30
Transport	3.90	19.60	8.30
Total	119.40	316.10	248.00
Henderson poverty line	153.80	356.30	258.90
• housing costs component	(62.00)	(80.50)	(74.30)
Social security payment level ^(d)	150.80	360.70	273.90

- Notes:
- a) Assumed to be a public housing tenant.
 - b) Male in full-time work, female not in the labour force, boy aged ten and girl aged four, renting privately.
 - c) Female parent, not in the labour force, boy aged ten and girl aged four, renting privately.
 - d) Includes rent assistance except for pensioner household.

Sources: Yu, 1993, Table 13.5; IAESR, *Poverty Lines, Australia. December Quarter 1991*, Tables 1 and 4.

Converting the UK standards to their Australian dollar equivalent can give no more than a broad indication of the merit of the approach and illustrate its potential usefulness. In practice, different national policies with regard to indirect taxation, the structure of housing benefits, transport concessions, health care, public utility pricing and so on, impact upon the results. So too will the competitive structure of the retailing industry and prevailing community values as they are reflected in the judgement of the experts. Such qualifications caution against drawing firm conclusions from the estimates in Table 1, but do not undermine their value as a basis for illustrating what kinds of information are revealed by budget standards and what kinds of questions they give rise to.

On the basis of the illustrative estimates shown in Table 1, the UK low-cost budget standards are below both the Henderson poverty line and the prevailing levels of social security - well below in the case of a single pensioner. In terms of the relativities for different household types, however, the UK and Australian figures are surprisingly close for families with children.³ The main difference is that both the poverty line and the social security system treat pensioners more generously relative to the two-child family than the low-cost budget relativities suggest is appropriate. This leads to a consideration of which items in the budget are causing the discrepancy and to a debate over whether the inclusion (or costing) of these items should be revised: in the process illustrating the role and usefulness of the budget standards themselves.

These questions can only be answered once we have developed a set of budget standards using our own judgements and Australian data, including data on the actual expenditure patterns of Australian households. I hope that our research will both stimulate and inform such a debate. Whether our estimates will form the basis for a revised poverty line is more problematic. If they are to serve this purpose, they will probably need to be amended in some way, because that is not the purpose of the project, nor will it form part of the design of the research itself.

Before leaving the measurement issue, I would like to consider one of the aspects of the current poverty line which has been the focus of most criticism. It concerns the conventional practice of adjusting the poverty line over time in line with movements in household disposable income per capita (HDIC). This method has been used to update the poverty line since the early 1980s when it replaced the previous practice of updating in line with average earnings on the grounds that HDIC is a more comprehensive measure of income and one which allows for the impact of fiscal drag on disposable incomes (Manning, 1982). Subsequent criticism of the use of HDIC has been made on both conceptual and practical grounds. Conceptually, it has been argued that the poverty line should not be adjusted upwards with rising incomes but held constant in real terms; practically, HDIC has been criticised for being inappropriate because it incorporates some income components which are not part of income as measured in the household surveys used to estimate poverty.

3 According to Stephens (1995, Table 2) a series of New Zealand focus groups indicated that the necessary expenditure required for a (non-Maori) sole parent household with two children to achieve an 'adequate survival with minimum participation' in 1993 was NZ\$374 or A\$334 in PPP equivalents - well above the figure for sole parents in Table 1.

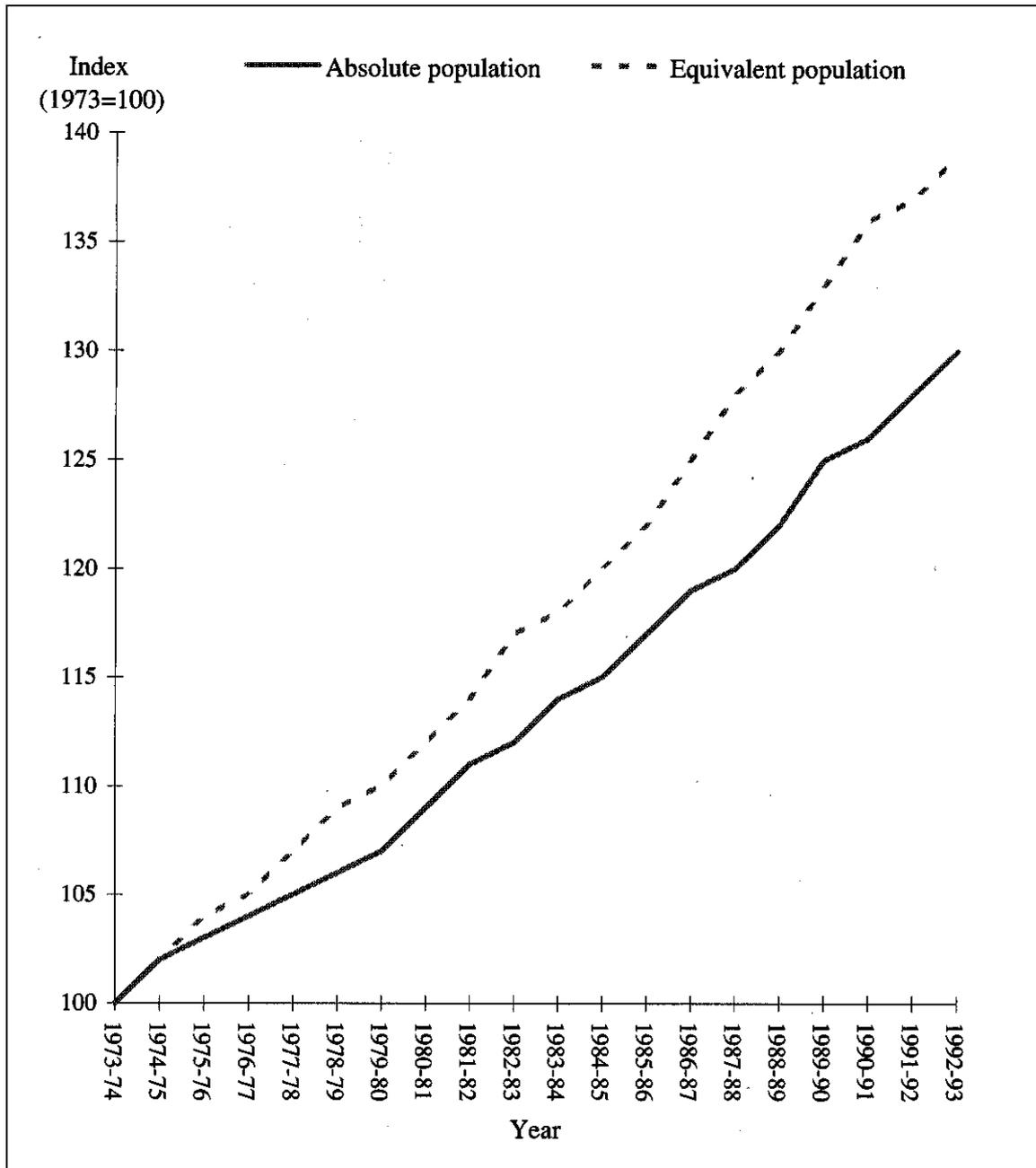
The former argument in effect denies the relativity of poverty. Even so, some proponents of this view suggest that the Henderson line should be updated by the CPI rather than by HDIC. These people reject the validity of the Henderson line but are still prepared to use its value in a base year as a benchmark which is then held constant in other years by CPI adjustment. The problem with this approach is that since the Henderson line itself varies over time in real terms, the method produces results which are dependent on the choice of base year, a decision which is itself totally arbitrary. Furthermore, as I have demonstrated in my response to Gruen's criticisms, the level at which the poverty line is held constant will affect not only the level of poverty at a point in time, but also the trend in poverty over time (Saunders, 1995b).

The practical limitations of the use of HDIC revolve around the fact that the household income survey measure of income excludes some of the components of HDIC (e.g. employer contributions to superannuation funds) which have been growing most rapidly. While there is substance to these criticisms, little has been made of the fact that using total population size to express household disposable income on the per capita basis is inconsistent with the Henderson framework which focuses on equivalent adults as the basis for determining needs. One of the factors which has contributed to the growth in household income over the last three decades has been the increase in labour force participation - particularly among married women. Labour force participation increases need in the Henderson framework because the costs of work enter (positively) into the calculation of the poverty line. The consequence is that if labour force participation is increasing, the rate of population growth measured in terms of equivalent adults will exceed the actual rate of population growth.

This is illustrated in Figure 1, which also takes account of changes in population age structure which have an impact on equivalent population growth through the Henderson equivalence scale (which assigns less weight to children and older people than to prime-age adults).⁴ As expected, the growth in population is lower once the equivalence adjustment is made - to an extent which would have caused a seven per cent lower increase in the poverty line between 1973-74 and 1992-93. (Between 1981-82 and 1989-90, the two years on which estimates of the trend in poverty over the 1980s are based, this adjustment would have caused the increase in the poverty line to be around three per cent lower than otherwise).

4 The following discussion draws heavily on research being conducted jointly with Anthony King and George Matheson.

Figure 1: Population Growth in Absolute and Equivalent Terms



Next, the household disposable income measure itself has been adjusted to reflect the estimated impact of those factors which are not adequately covered in the income survey measure of income. This involves adjusting the National Accounts series on HDI by deducting:

- an estimate of the employer contribution component of 'wages, salaries and supplements';
- an estimate of the owner-occupier component of 'income from dwellings';

- ‘imputed interest on superannuation’; and
- ‘grants to non-profit institutions’.

The following item is then added back in:

- ‘unrequited funds transferred overseas’.

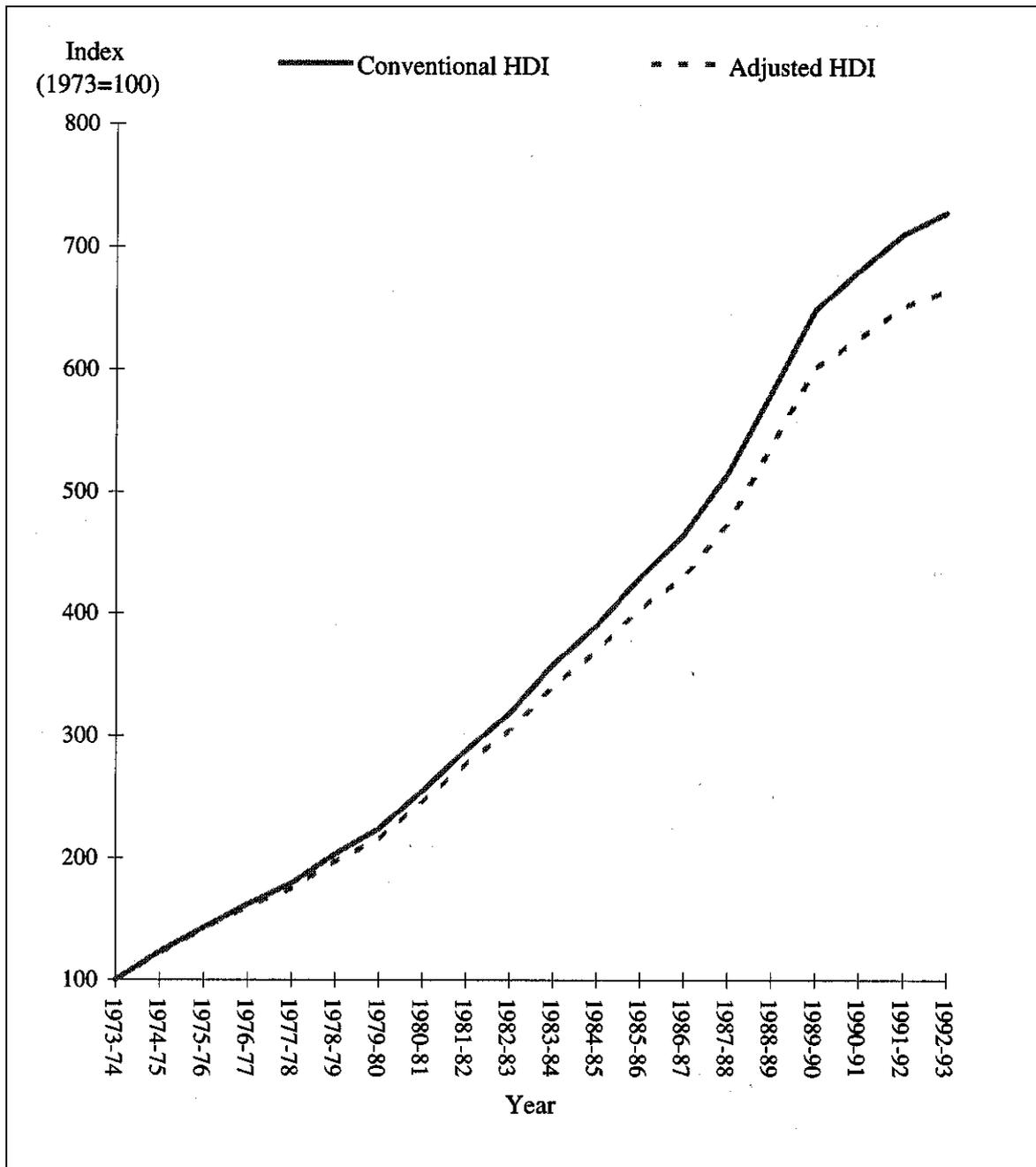
Figure 2 compares the growth in the conventional measure of household disposable income and the adjusted measure described above. These adjustments cause the implied increase in the poverty line between 1973-74 and 1992-93 to be almost nine per cent lower. (Between 1981-82 and 1989-90, the growth in the adjusted series is some 3.4 per cent below the conventional measure of HDIC: the two adjustments combined would thus have caused the increase in the poverty line to be 6.3 per cent lower over the 1980s).

Both adjustments thus cause the rise in the poverty line to be less than its conventional increase. Between 1981-82 and 1989-90, the adjustment is sufficient to offset a good portion of the real increase in the poverty line associated with the growth in real HDI to which many critics of the conventional updating method have objected.⁵ Over the 19 years to 1992-93, the total cumulative effect is 15.3 per cent, or a reduction in the rate of growth of the poverty line of less than 0.9 per cent a year. This is an important adjustment, but not one which is likely to cause a radical change in the poverty statistics, particularly given that the original poverty line cut-off was set at an austere level.

Although this analysis is preliminary and the results require further analysis and discussion, three main points emerge: first, there is a need to expand the scope of the income concept used in the household income surveys; second, there may be a need to adjust the national accounts disposable income measure for the purposes of adjusting the poverty line; and finally, there is a case to be made for expressing household income on an equivalent adult basis rather than a per capita basis, again in the context of updating the poverty line.

5 Although at first somewhat reluctant to concede this ‘own goal’ to those poverty line critics who have failed to discover it for themselves, honesty prevails on me to do otherwise - if for no other reason than to illustrate that I am motivated by a desire to achieve methodological consistency, not to maximise the level of the poverty line and the poverty statistics.

Figure 2: Household Disposable Income Growth: Conventional and Adjusted



3 The Causes of Poverty

To some extent, the foregoing discussion of measurement issues has already begun to encroach upon issues associated with the causes of poverty, for example in the reference to housing costs and the role of the growth in female labour force participation. Before embarking on a more systematic discussion of the causes of poverty, it is worth emphasising that the form of poverty being

considered here is income poverty, or access to an income which, when adjusted for need, is below the poverty line.

Other indicators which are based upon measures of deprivation in actual living conditions are important in providing additional information on the nature of inequality and disadvantage in Australian society. As argued earlier, to continue to use an income poverty measure is not to deny the importance of other measures. Rather, it reflects the fact that access to an adequate money income remains the most important single determinant of living standards for most Australians.

It follows by definition that, at the level of the individual, avoiding poverty involves either gaining access to sufficient income or reducing the level of need which must be supported by income. Most discussions of the causes of poverty focus on the first of these, although the second can also be important. Of course, most of the dimensions of need which are relevant to poverty are beyond the control of the individual in the short to medium term. The main exception concerns housing costs and how these are influenced by household size. The way that housing costs enter into the calculation of the Henderson poverty line means that there are considerable economies of scale from sharing accommodation with other people and these can have a substantial impact on the poverty status of those on low incomes.

For example in the case of a single male, in work and aged under 40, the number of detailed Henderson points used to derive their poverty line is equal to 37.80 (Commission of Inquiry into Poverty, 1975, Table F.1: 354). If that person shares a house with another similar person, his points score falls to 29.70, a decline of 21.4 per cent in both the points score and the relevant poverty line. If three similar individuals live together, the poverty line declines by a further 8.4 per cent, a total decline of 28 per cent. Clearly, where opportunities to increase income are limited, reducing housing costs by sharing accommodation can be a very effective means of reducing the risk of poverty. Alternatively, the inability to reduce housing costs through sharing can be seen as one of the causes of poverty, at least for some people. While it is normal to assume that each person's housing situation is fixed when estimating poverty, living circumstances are in fact a variable for many people. Sharing

accommodation can thus be a **response** to the poverty of some individuals as well as being a **reason** for the non-poverty of others.⁶

According to the 1990 Survey of Income and Housing Costs and Amenities, over 28 per cent of the population were in income units who were living with other income units at the end of 1990. Over 90 per cent of those income units who were the subsidiary unit in a household (of which there can be more than one) were single people, 53 per cent of them juveniles. Most of these lived with couple income units (often with their parents) but over half a million single people and juveniles lived with other one-person units in shared housing.

These statistics do not indicate how many of these people would have been in poverty had they lived alone. Nor do they indicate whether shared housing was the preferred option or a reluctant but unavoidable response to need. They do, however, indicate that sharing accommodation has the potential to have an impact on reducing poverty - just as the break-up of families has an impact on increasing it. It highlights the role of **housing costs** as a cause of poverty and the potential role of **housing policies** which can facilitate more diverse and flexible living arrangements in preventing low incomes from translating into poverty, at least for some people.

Two decades ago, the Poverty Commission showed that whether or not the head of the income unit was in work was the most important factor in determining the poverty status of the income unit. Whilst that relationship still holds for single-adult units, it is almost certain to be weaker now for couples, for two reasons. The first reflects the increase in the labour force participation of married women, which has made the financial status of the unit as a whole less dependent on the workforce status (and earnings) of any single member of the unit. The second reflects the growth in part-time work (particularly where this represents a form of under-employment) and low-paid full-time work. This has meant that access to paid work is now less of a guarantee against poverty than it once was. In 1972-73, only 3.9 per cent of income units whose head was in the workforce (i.e. either working or looking for work) were poor. By 1989-90, the corresponding annual income poverty rate among those in the workforce had almost doubled to 7.3 per cent (Saunders, 1994, Table 9.3). The existence of a growth in the numbers of 'working poor' - virtually a contradiction in terms in the 1970s - has become a reality in the 1990s.

6 This is not to condone the existence of forced sharing, but rather to highlight the fact that the categories used to present poverty statistics are not always independent of what it is that is being measured.

Investigating the relationship between poverty status and workforce status is complicated by the fact that the former is based on annual income, while workforce status can vary over the course of the year.⁷ In order to avoid these problems, Table 2 presents estimates of poverty in 1990 based on current (weekly) income as recorded at the time of the 1990 income survey. These estimates of poverty are high both because of the use of weekly (as opposed to annual) income and because they include the self-employed and juveniles, both of whom have above average poverty rates.

The estimates indicate that almost a quarter of a million income units headed by a self-employed person were below the poverty line in 1990, as were around 160,000 juveniles: more than the number of poor sole parent families. By definition, all of these juveniles were living with relatives and over three quarters of them were working, 64 per cent of them on a full-time basis. Around 96,000 juveniles were unemployed and a further 28,000 were not in the labour force, these two categories accounting for most of the poverty among juveniles.

The pattern of juvenile poverty by labour force status shows that the incidence of poverty among part-time workers is more than twice as high for juveniles, that poverty is a virtual certainty for unemployed juveniles and that poverty among those not in the labour force is three times as high for juveniles than for others. Full-time work again virtually guarantees an escape from poverty, although nearly four per cent of full-time juvenile workers were poor in 1990, compared with 2.6 per cent of non-juveniles. Overall, access to work is as crucial as a means of avoiding poverty for young people as for everyone else in the population, although youth joblessness carries an even greater risk of poverty and paid work somewhat less of a protection against it.

Of course, many of the juveniles who are classified as poor in the statistics may not in reality be so if they have access to income and other resources from the relatives (mainly parents) with whom they are living. Poverty among juveniles may thus be overestimated, but poverty amongst their families may be correspondingly underestimated - particularly if they are themselves close to the poverty line.

7 The issue is also affected by how well the allowance for work-related costs in the poverty line reflects the actual costs associated with being in the labour force. This will be explored in the Budget Standards project described earlier.

Table 2: Poverty by Income Unit Type and Labour Force Status in 1990^(a) (Based on current weekly income)

Income Unit Type	Numbers in Poverty (‘000)	Poverty Rate (%)	Labour Force Status ^(b)	Numbers in Poverty (‘000)	Poverty Rate (%)
Single people:			In employment:		
• aged ^(c)	182.4	21.4	• self-employed	246.7	22.7
• non-aged	484.6	21.2	• employed full-time	105.3	2.7
Childless Couples:			• employed part-time	109.7	24.0
• aged ^(c)	43.2	7.4	Total in employment	461.8	8.5
• non-aged	131.0	9.1	Unemployed	472.2	82.6
Couples with children	326.5	15.8	Not in the labour force	551.4	25.7
Sole parents	157.5	40.8			
Juveniles ^(d)	160.3	29.5			
All income units	1485.4	18.2	All income units	1485.4	18.2

- Notes:
- The poverty line is based on the value of \$277 for seasonally adjusted household disposable income per capita in the December quarter 1990.
 - Labour force status of the reference person in each income unit.
 - Aged income units are males aged 65 or over, females aged 60 or over and couples where the (male) reference person is aged 65 or over.
 - Juveniles are defined as single people aged under 21 who are living with other family members.

Source: 1990 Survey of Income and Housing Costs and Amenities, unit record file.

Table 2 again makes it clear that, for both juveniles and other Australians, having a job is no longer a guarantee against poverty, particularly in the case of part-time work or self-employment. The poverty rate amongst all income units with an employed head is 8.5 per cent, or one in 12. In contrast, a quarter of those not in the labour force were poor, while so were over four fifths of the unemployed. Clearly, for most people, having a job was necessary in order to escape poverty in 1990, but it was not sufficient to ensure it.

4 Poverty and Perceptions of Well-Being

Income poverty denies to certain groups and individuals the material resources which are necessary to ensure the attainment of a minimum standard of living, including full social participation. Poverty is thus not only bad in its own terms, but also because it can lead to other things which are bad - for the poor themselves as well as for society as a whole. Some of these effects will take time to appear and may depend on the severity of poverty and its duration. Others are likely to be a more immediate result of the stress involved in constantly struggling to make ends meet. The following analysis explores this issue by investigating how perceptions about well-being vary with poverty as measured by low income relative to need.

It should be emphasised at the outset that the results reported below are preliminary. They have been derived from an integrated dataset based on unit record data from the 1990 Survey of Income and Housing Costs and Amenities (SIHCA) and the 1989-90 National Health Survey (NHS).⁸ Although detailed income information was collected in the NHS, income was grouped into rather broad classes when the unit record data were released - presumably for reasons of confidentiality. In order to derive reasonably accurate estimates of poverty, the SIHCA data have been used to model individual incomes and map these on to the NHS data tape.⁹ Cross-checking the resulting income estimates with information on the equivalent income decile of each income unit, indicated that the model produced reasonably accurate results in most cases. Over 90 per cent of all units were assigned to within one decile of their location according to the ABS income decile classification. Finally, having derived gross income, a simple tax model was used to derive disposable income and poverty status was then determined using the conventional Henderson methodology.¹⁰

The NHS contains a vast amount of information on health status, including data on the reported **incidence** of many dimensions of ill-health, the **use** of a variety

8 Funding for the initial stages of this research was provided through a small grant awarded by the Public Health Research and Development Committee.

9 Overall, the regression model performed well, except in the very highest income ranges, where a Pareto distribution was estimated from the SIHCA data and mapped randomly to those with annual incomes over \$60,000.

10 Reflecting the inevitable imperfections of the income data, the poverty line was set at 120 per cent of the Henderson line, thus including as in poverty both the 'very poor' and the 'rather poor'.

of medical and health care services, and the **subjective health status** of respondents. Some of these data are more reliable than others. Those on subjective health status relate only to perceptions which are neither explained nor validated. Against this, they indicate what people themselves **feel** about the state of their health. The data on the incidence of illness are more reliable, but even these are not validated against an independent assessment of health status. Finally, the data on the use of health services reveal a perceived need for health interventions which, without additional information on diagnosis and outcomes, are also open to interpretation.

For current purposes, attention focuses on two measures of perceived well-being. The first concerns subjective health status and is based on responses to the following question:

In general, would you say that your health is excellent, good, fair or poor?

Only about two per cent of the 33,000 or so adult individuals who are included in the integrated database described above indicated that they saw themselves as in poor general health. The upper panel of Figure 3 reveals that this percentage varies systematically across the income distribution, ranging from between three per cent and four per cent in the two lowest deciles of equivalent disposable income to less than 0.5 per cent in the top two deciles.

The second indicator of perceived well-being relates to general perceptions about the state of happiness of respondents. They were asked the following question:

Overall, would you say that you're very happy, happy, unhappy or very unhappy?

The lower panel of Figure 3 shows that the percentage indicating that they felt either unhappy or very unhappy also varies systematically with the level of equivalent income. In this case, the percentage who were unhappy ranges from around seven per cent in the lowest quintile of the distribution to two per cent in the top quintile.

Table 3 explores the relation between both perception indicators and poverty status using the 120 per cent poverty line cut-off described earlier.¹¹ Almost

11 The indicators refer to adult individuals only, although poverty status has been determined on an income unit basis.

Figure 3: Subjective Health Status and Perceived Unhappiness by Deciles of Equivalent Income (Percentage of Persons)

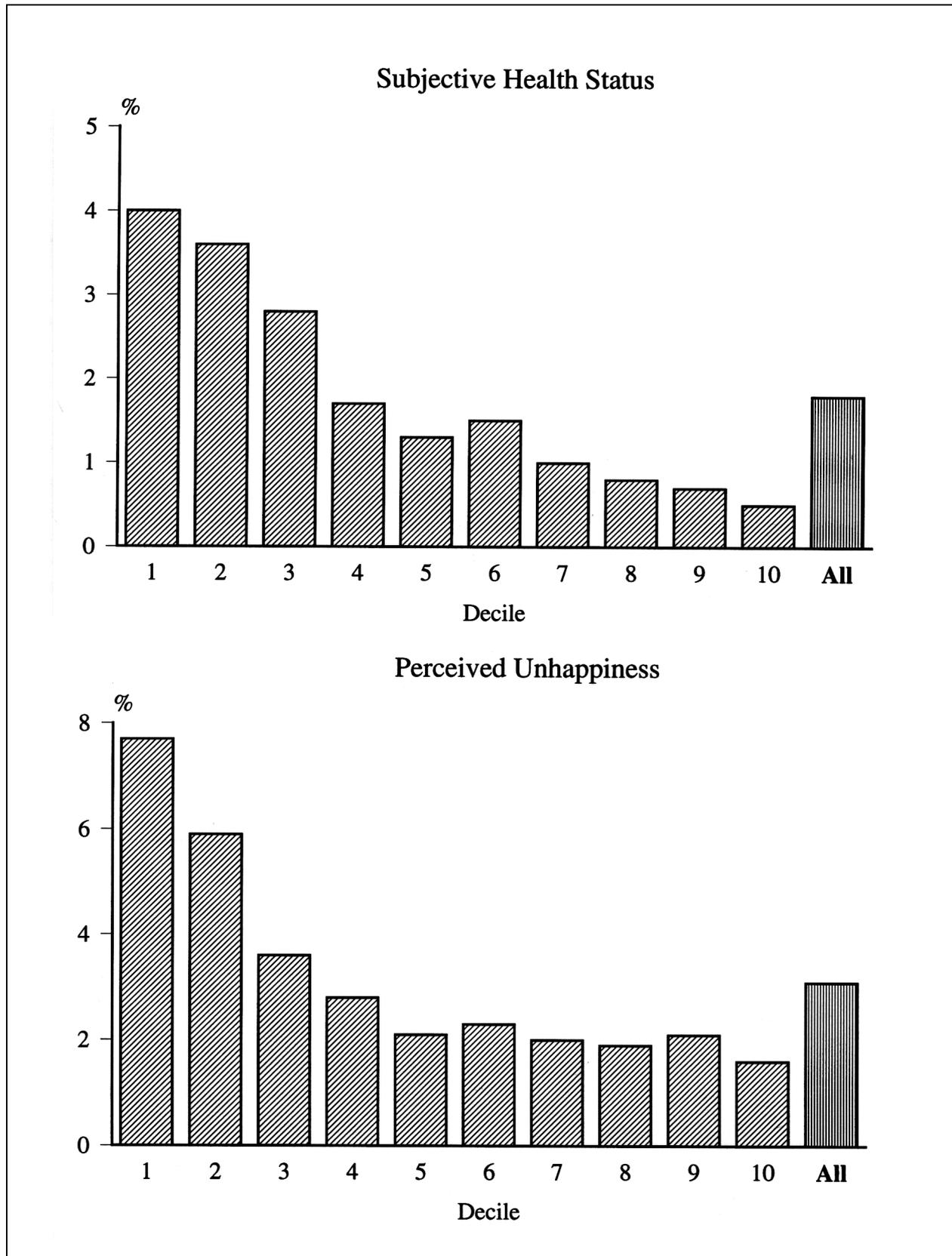


Table 3: Subjective Poor Health and Unhappiness by Poverty Status and Income Unit Type^(a)

Income unit type	Subjective health status: 'poor'		Subjective happiness: 'unhappy' or 'very-unhappy'	
	Below 120% of poverty line	Above 120% of poverty line	Below 120% of poverty line	Above 120% of poverty line
Single person:				
aged under 25	2.3	1.2*	3.4	1.9*
aged 25-44	4.7	1.7**	14.0	4.3**
aged 45-59/64 ^(b)	14.7	6.8**	15.4	8.5**
aged 60/65 and over ^(b)	12.4	12.4	10.6	8.6
Childless couples: ^(c)				
aged under 25	0.0	0.8	0.0	1.3
aged 25-44	3.0	1.2	4.5	1.3**
aged 25-64	9.7	6.5**	9.0	4.7**
aged 65 and over	10.7	11.6	8.1	4.1*
Couples with children:				
one child	8.1	1.6**	7.5	2.1**
two children	4.8	1.1**	6.7	1.6*
three children	3.4	0.9**	3.5	2.3
four or more children	5.6	1.8*	4.1	0.0**
Sole parents:				
one child	7.7	1.8**	10.8	4.5*
two children	3.1	1.4	4.8	5.4
three or more children	4.5	0.0	14.4	22.6

Notes: a) The asterisks (*/**) indicate that the differences are statistically significant at the (0.05/0.01) level of significance.

b) Females aged 45-59 and males aged 45-64. Females aged 60 and over and males aged 65 and over.

c) Age refers to the age of the male partner.

Source: See text.

without exception, those in poverty see themselves as being in poorer health and unhappier than those with incomes above the poverty line cut-off. These results challenge the view that it is the rich who are under the greatest stress and least able to enjoy themselves. The differences in Table 3 are often statistically significant, particularly for non-aged single people and couples, with or without children. Interestingly, although the aged perceive themselves as being above

average in relation to both ill-health and unhappiness, these differences are not related to their poverty status.

Overall, while the differences shown in Table 3 are probably not surprising, they serve to highlight how living below the poverty line affects people's self-esteem and perceptions of both their health and general level of well-being. These effects have the potential to turn what might have been only temporary episodes of poverty into more enduring spells of inadequate resources, poor health and loss of confidence. More research is now needed to investigate whether these subjective indicators are replicated in objective measures of health and well-being, and whether or not the observed associations reflect causal or contingent relationships.

5 The Future

One of the limitations of the kind of poverty research described so far is that it tends to be backward-looking. Indeed, given the time lags involved in the release of the income survey data at the unit record level, Australian poverty research runs the risk of becoming of mainly historical interest.

Notwithstanding these dangers, the foregoing analysis has tried to demonstrate that poverty research has a role to play in delineating the size of the poverty problem, in investigating its causes and in identifying its consequences. Certainly, research on poverty has an important role to play in drawing attention to the issue. As was argued at the end of *Poverty in Australia*:

Progress towards the abolition of poverty will not continue if the subject is allowed to fall out of sight of the general public. We need a continuing program to remind those who are comfortably off of the plight of poor people and what has to be done. (Commission of Inquiry into Poverty, 1975: 306)

Thus far, the discussion has focused on poverty as defined by a deficiency in income. Complementary research is required which identifies and analyses other forms of poverty.

Some disadvantaged groups are not well covered in the available income poverty statistics. These include the self-employed and juveniles living with their parents, who are often excluded from poverty estimates because of concerns that measured income does not accurately reflect their standard of living. Other groups (e.g. the homeless or newly-arrived migrants from non-

English-speaking countries) are excluded from the survey data used to estimate poverty. As a result, poverty among these groups is often hidden, in a statistical as well as in a real sense. Yet some of these groups are increasing in size and new methods of identifying and quantifying their problems are required.

Other forms of poverty cannot, by their nature, be adequately described or documented in income terms. The most obvious example here is poverty among indigenous Australians. The fact that indigenous Australians have low incomes can never convey the severity of their disadvantage. In order to come to grips with this issue, poverty measures are needed which focus on deprivation as actually experienced in its many dimensions. The poverty research agenda needs to be broadened to encompass these areas of need which require not only a different framework of analysis, but also a different set of policies and responses.

In relation to the alleviation of income poverty itself, it has already been noted that to argue that what is needed is increased access to market incomes and improved adequacy of transfer incomes is a truism. Both are important, but so too is a third requirement which cuts across them: the need to provide viable market income/transfer income combinations which can prevent poverty among those in part-time work or in low-wage full-time work.

Governments in countries like Australia currently face two related challenges. First, how can the conditions of aggregate demand and supply be managed so as to generate sufficient employment growth to keep unemployment down in a situation of increasing labour force growth? Second, how can the transfer system be reformed in order to accommodate the growth in the number of low-wage, part-time and casual jobs? The United States has responded to this dilemma by sacrificing welfare programs and benefit adequacy in favour of low wages and maximum labor market flexibility, a strategy which has been successful in generating jobs (Gregory, 1993) but far less successful in alleviating poverty among those of working age (Förster, 1994). The European solution has involved the maintenance of more generous welfare benefits combined with a more rigidly structured labour market and the higher rates of unemployment and poverty to which this leads (OECD, 1994).

Is there a middle way between these two extremes which Australia can follow? The Australian system of wage flexibility with minimum standards operating within a broad centralised framework, its commitment to the alleviation of poverty in its welfare programs, combined with the flexibility provided by a targeted income support system, suggests that such a solution is, in principle,

possible. However, this will require a co-ordination of wage and transfer systems and will involve benefit reforms in response to the increased incidence of low wages and part-time work which will result in an increasing overlap between the wage and benefit systems. This will pose a fundamental challenge to how labour force status is used to determine eligibility for social security payments.

The significance of these issues was highlighted in the 1993 Green Paper on *Restoring Full Employment* (Committee on Employment Opportunities, 1993) and the *Working Nation* (Australia, Prime Minister, 1994) income support reforms go some way towards addressing them, though not far enough. In relation to the growth in part-time work, the issue revolves around the ability of the social security activity test to provide equity of treatment between those who wish to accept part-time work in order to supplement a benefit income and those who wish to receive a part-rate of benefit to supplement a part-time wage income (Saunders, 1995c). Because of its implicit insistence on full-time work as the preferred long-run employment solution, the activity test has not yet come to grips with the new labour market realities. The issue is how to structure an activity test to determine benefit eligibility on a basically two-dimensional scale when the labour market is generating a more varied spectrum of employment opportunities?

The problem of low-wages is more fundamental. It is also likely to grow in significance, particularly as Australia's links with the Asian region become stronger. It seems inevitable that this process of integration will place further downward pressure on the wages of low-skill tasks which are already least well paid in Australia. If these jobs are to be protected, the benefit system will have to supplement what will no longer be a 'living wage' so that it becomes part of a viable income package. This has been attempted so far through the mechanism of family assistance, specifically by extending Additional Family Payment to low-wage workers. In principle, this process can continue, but the (lack of) provision for single and childless workers remains an issue which needs to be addressed.

The final issue I wish to draw attention to is the increase in self-employment. The proportion of self-employment in total employment in the non-agricultural sector has been growing since the late 1970s in most OECD countries (OECD, 1994, Chart 1.3). Australia's self-employment share in 1992 was about average and its growth since 1979 was somewhat below-average. In some countries (e.g. the United Kingdom) where self-employment has been growing rapidly, its

growth has been in response to government policies which have actively encouraged the unemployed into self-employment and to policies which have encouraged firms to contract out parts of their operation.

An OECD analysis of six countries indicates that, in the late 1980s, the self-employed tended to be more concentrated at the bottom of the income distribution than wage and salary employees in four of the countries studied (including Australia), but not in the remaining two: (West) Germany and the United States (OECD, 1992, Table 4.7). The degree of concentration of low incomes for the self-employed was particularly striking among full-year full-time workers in Australia, a finding which is confirmed by the 1990 figures presented in Table 2. The OECD analysis also reveals that the degree of mobility between labour force categories is higher for the self-employed than for wage and salary employees. In Australia, for example, 17 per cent of the self-employed moved between labour force categories in successive quarters - well above the corresponding figure of seven per cent for wage and salary employees (OECD, 1992: 166). At one level, this high mobility is a sign that the growth in self-employment reflects, and is contributing to, greater overall flexibility in the labour market. At another, it suggests that increasing numbers of workers face the prospect of low self-employment incomes and the risk of poverty to which they can lead.

In Australia, the social security system is not designed to deal with the problems of the self-employed, any more so than with other workers on low incomes. The activity test, in particular, has difficulty in responding to the situation of those who are already **in** work - and are thus not strictly available **for** work - but who would also be entitled to receive some support on the basis of income and assets tests. The Department of Social Security has recently argued that there may be scope for limited extension of unemployment payments to the self-employed, but it also cautions against the potential cost (and political) implications of any broad-ranging changes at this stage (DSS, 1993). It is difficult to disagree with their assessment that the whole issue of income support for the self-employed is a 'difficult policy issue which requires careful treatment' (DSS, 1993: 28).

The difficulties encountered in reforming a means-tested social security system to cope with the greater variety of labour market opportunities reflects the weakened relationship between the labour force status and poverty status described earlier. The activity test is central to the whole issue - as one would expect in a system which has been following an 'active society' reform agenda

throughout the 1990s. The increased diversity of work arrangements and earnings combinations is reflected in the increasing complexity of the social security system.

This has led to renewed calls for the introduction of some form of basic income (Cass, 1995; Probert, 1995) - a variant of the guaranteed minimum income scheme which was the preferred reform option proposed two decades ago by the Poverty Commission. Whilst appealing in principle, these schemes often promise more than they can ever deliver, in the sense that they are either prohibitively expensive or end up replacing the existing complex eligibility and entitlement criteria by another set (Saunders, 1995d). However, the fact that the 1990s debate is returning to the reform agenda proposed in the 1970s by the Poverty Commission illustrates again the enduring value of their deliberations and analysis.

6 Concluding Remarks

Even the most optimistic forecasts see little prospect of the level of unemployment in Australia declining to five per cent by the turn of the decade. Despite Australia's rather impressive recent record of employment creation, joblessness remains unacceptably high and its social consequences disturbingly evident. With such a large portion of the nation's human resources condemned to enforced idleness, claims that the active society reforms of the 1990s are succeeding have a hollow ring to them. The whole issue of the sustainability of the active society strategy in a context of high unemployment will have a central bearing on future developments in poverty, as well as in anti-poverty policy.

Nevertheless, despite its acknowledged problems, the Australian social security system has shown itself to be reasonably adaptable to changes in economic structure, the labour market and work arrangements. Rather than abandon a system which has the potential to be both resilient and flexible, more attention should be devoted to how it can be further improved. This needs to be accompanied by the introduction of policies which reduce the level of unemployment. Ronald Henderson's research showed that this was the most effective strategy for attacking poverty in the 1960s and 1970s. That remains true today - and will do so in the future.

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