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The Role, Value and Limitations of Poverty Research

by

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Anthony King
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Abstract

This paper provides a rationale for poverty research and outlines why a poverty line is important in that context. It begins by discussing the relationship between inequality and poverty and then proceeds to highlight the role of values in research on poverty. It emphasises that poverty lines must be based on scientific studies of need if they are to have validity. Some of the criticisms of the Henderson poverty line are then discussed and while its limitations need to be recognised, the paper argues that the Henderson line should not be abandoned until a better Australian poverty standard is available. The main findings to emerge from recent Australian poverty research are then reviewed and it is concluded that despite the application of different methodologies, a consistent pattern of results has emerged. Finally, the paper discusses how changes in the social wage can be incorporated into broader estimates of poverty. It is argued that inclusion of the social wage raises several difficult conceptual and measurement issues. However, using social wage estimates derived by the Australian Bureau of Statistics, it is shown that these had a major impact on poverty in the late 1980s. While only illustrative and preliminary, these results highlight the need for further research in this area.

1 Introduction

The topics addressed in this Session of the 1994 ACOSS Congress - poverty and inequality - are of fundamental importance. They matter not only to those actually experiencing hardship and disadvantage, nor just to those in the welfare sector who confront their various manifestations on a daily basis, but for anyone concerned about the kind of society we want, for ourselves and for future generations. I will focus in what follows on a discussion of poverty, partly because my time is limited, but also because I believe that we are currently at a critical stage in the poverty debate.

2 Inequality and Poverty

But first a few comments on inequality. In a paper presented to the Social Security Conference last year, I documented the increase in income inequality that had occurred over the 1980s (Saunders, 1994a, Table 1). That increase occurred whether income was measured before taking account of taxes and transfers or after taking account of them, and whether or not an adjustment was made for differences in need using the Henderson equivalence scale. The evidence is thus clear. The distribution of income in Australia became considerably more unequal over the 1980s, however one chooses to measure income, and whatever method is used to estimate the degree of inequality.

The increase in inequality was greatest for the wage and salary incomes of those in full-time work. It occurred even before the move to replace the centralised wage determination system by enterprise bargaining. That the increase in inequality was greatest for labour incomes is consistent with the work of Bob Gregory documenting the increasing polarisation of job opportunities - the so-called 'disappearing middle' thesis (Gregory, 1993), although the polarisation of **individual earnings** is much less apparent in the distribution of **family income**. That the major source of inequality has arisen in the primary labour market is consistent with overseas research which points to a widening of earnings disparities in many countries over the last two decades (OECD, 1993; Reich, 1991).

The trend to inequality brings with it a new set of challenges for social (and economic) policies. Time prevents any substantial discussion of these, except to note the re-emergence of a range of familiar problems associated with the inter-relationships between the transfer, tax and wage systems at the lower end of the distribution. Questions also arise concerning the sustainability of a continuation of the trend to inequality and its effects on the stability and cohesion of Australian society.

One of the ironies of the international trend to inequality is that it highlights the effectiveness of tax and transfer policies in redistributing incomes. The rise in inequality is widespread, but not universal. In some countries, existing or new tax, transfer and incomes policies have managed to stem the rising tide of inequality. In others, existing policies have been less successful and new policies have been resisted. In yet others, policy has been directed specifically to increasing income disparities in the cause of improving the incentives to work and save.

We have the means to offset the market-driven increase in inequality, but we have to **choose** that option, and having chosen it, follow it through with policies which intervene in market processes and moderate market outcomes. That is why we need to document the trend in inequality, understand its causes and debate its consequences. Unless we engage in this debate, we run the risk of abandoning the goal of social justice and having our social institutions challenged and possibly swept away.

No account of inequality and livings standards in Australia would be complete without taking account of the level and change in the social wage - noncash subsidies in the form of welfare, housing, health and education services. The Australian Bureau of Statistics (ABS) has estimated that social wage subsidies contributed over $110 a week to average weekly household money income of $646 in 1988-89 (ABS, 1992). Including the social wage also reduces the ratio of the incomes of the 10 per cent of households with highest (gross) incomes to those of the bottom 10 per cent - from over 18 to one to less than 11 to one. The impact of the social wage also increased in the five years to 1989, as demonstrated in my own work (Saunders, 1994b), as well as in a report based on research conducted at the University of New South Wales as part of the Study of Social and Economic Inequalities (Raskall and Urquhart, 1994).

Documenting trends in the level and distribution of **money** income nevertheless remains an important task, because money income still remains the single most important and direct determinant of living standards, but also because such analysis sheds light on the role of tax, transfer, wage and other (e.g. interest and exchange rate) policies on disposable incomes. Social wage analysis should thus complement, not replace, conventional income analysis, a point I will return to later.

Another debate currently taking place in Australia concerns the measurement of poverty. It has arisen in the context of assessing the effectiveness of policies to combat poverty during the 1980s, but has wider significance. At the heart of this debate is the issue of what is meant by poverty and how it relates to inequality. It is an extremely important debate, because poverty is not just a problem for the poor. It is a problem for all of us, not only because the existence of poverty in a rich country like Australia is morally intolerable, but also because in the longer-run poverty threatens the social fabric on which we all depend.

Such claims can only be sustained if the concept of poverty on which they rest has validity in the sense that it incorporates carefully formulated and rigorous estimates of need. Statistical measures of 'poverty' based on average or median incomes provide no moral basis for eliminating poverty because they measure an aspect of inequality, not poverty in the sense of unmet need. This inevitably rasies the issue of how poverty is defined and how it is measured. To accept that poverty is relative does not mean that poverty and inequality are identical. There will always be a lower section of the income distribution, but poverty (in the sense of unmet need) can be abolished. Poverty is a **form** of inequality but it is not an inevitability, particularly in rich countries like Australia.

Defining poverty is important because until we have a clear understanding of what it is we are trying to solve, there is little prospect of coming up with appropriate and effective solutions. This is the primary role of research on poverty. By documenting the current situation and monitoring trends over time, poverty research has a role to play in achieving social justice. But it is important not to confuse the research task with the broader policy agenda. In the long-run, the value of poverty research will depend upon its legitimacy as **research**, not according to whether it supports a particular policy or value position in the short-term.

Because poverty research serves both as an important area of social enquiry and as an input into current policy debates, its proponents must tread a thin line between these competing interests. At times, that line can become very thin indeed. Some people argue that those involved in poverty research are obsessed with the minutiae of esoteric statistics and arguments and ignore the real world problems of the poor. I have some sympathy with this view, but it is misplaced because it implicitly assumes that research and action on poverty are substitute activities; one can do one or the other, but not both.

This is clearly not the case, although those of us who research poverty need to understand better the perspectives and concerns of those directly involved with low income and disadvantaged groups. Having said this, however, I do not accept the views of those who claim that poverty research serves to reinforce existing social divisions and further stigmatise the poor. Such a position is based on an exaggerated impression of the impact of research and a misguided view of what influences how low income people run their lives. A more telling criticism of Australian poverty research is that by focusing too much on using a poverty line to measure **outcomes**, it has failed to give adequate consideration of the **processes** underlying those outcomes. This in turn has caused too much emphasis to be given to the **measurement** of poverty, and too little to the **causes** of poverty.

In what follows, I will outline why I think research on poverty is important and identify what role such research can play in broader policy debates. I will illustrate how research can highlight important practical issues, but I do not want to overstate the role that research alone can play. What is required to address poverty is **action** and that involves engaging in a **political** debate.

3 Research and Values

Values are integral to research on poverty. This follows from the observation that there can be no value-free basis for determining a poverty line. Establishing a poverty standard requires making judgements and judgement, as John Veit-Wilson has recently observed, involves values (Veit-Wilson, 1994). Consideration of the values implicit in the poverty line can also serve to link the measurement of poverty to the causes of poverty. However, the fact that a poverty line cannot be value-free does not mean that it cannot be scientific, in the sense that it rests on a set of logical arguments, is derived from an appropriate and consistent methodology, produces results which can be replicated, and is consistent with empirical observation.

Here, I am in disagreement with Peter Travers and Sue Richardson, who have argued in their important and justifiably influential book *Living Decently. Material Well-being in Australia* for the abandonment of poverty **lines**, but not poverty **research**, in countries like Australia (Travers and Richardson, 1993). Their argument is partly based on the view that: ' ... the concept of poverty has a strong ethical content and should not be masked behind the seemingly technical exercise of setting a poverty line' (Travers and Richarson, 1993: 166).

Whilst I agree with the need for clarity and the separation of ethical from technical aspects, the fact that the latter might obscure the former is not a good reason for abandoning the poverty line.

If it were, then it would lead to the abandonment of more than just the poverty line. Virtually all discussion of economic policy, for example, masks important ethical (or value) issues behind technical argument and analysis, yet no-one argues for putting an end to such discussion, nor for abandoning the study of economic policy. We need to keep our values separate from our science and reject what Veit-Wilson (1992) refers to as 'package deal thinking' in which values, analysis and policy prescriptions become conflated and confused. I see the poverty line as a vehicle for achieving this by making the role and contribution of each explicit and thus open for debate.

Before we can begin to set a poverty line, we must define the concept of poverty itself. Researchers such as Sen (1983) and Doyal and Gough (1991) have argued that absolute needs exist and that there is, in Sen's words, an 'irreducible absolutist core in the idea of poverty' (Sen, 1983: 159). That core is characterised by an enforced lack of what Sen refers to as the capabilities required to function in society. In their recent book, Doyal and Gough group all basic needs into two broad categories, physical health and personal autonomy, then go on to specify intermediate needs in 11 dimensions ranging from housing, work environment, health care and support groups to physical security and economic security (Doyal and Gough, 1991, Table 9.2).

Acceptance of the view that some needs are absolute does not challenge the notion that, expressed in terms of access to **resources**, poverty can only be measured in relative terms. In Sen's terms, deprivation can be absolute in terms of capabilities, but will be relative in terms of commodities, resources and incomes (Sen, 1983: 153). Furthermore, if poverty is viewed as a **social** problem, then poverty can only be conceptualised relative to the circumstances in society as a whole. In the oft-quoted words of Peter Townsend:

> 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 which are customary, or at least widely encouraged or approved in the societies to which they belong. (Townsend, 1979: 31)

A similar definition of poverty was formulated by Australian Council of Social Service (ACOSS) itself over two decades ago in its submission to the Poverty Inquiry. There, poverty was defined as;

> .... a life condition created by a constellation of deprivation factors which together result in a standard of living **significantly** below that acceptable for and by the community. (ACOSS, 1973: 1; emphasis in the original)

Despite the efforts made at the time by ACOSS the to give practical effect to this definition of poverty, relatively little progress has been made since then in identifying minimum community standards of adequacy and deprivation - aside from the recent research by Brownlee and McDonald (1993) and Travers and Richardson (1993). Attempting to operationalise the ACOSS poverty definition in current circumstances would be a very valuable exercise.

The contributions mentioned above have exposed the sterility of earlier debates about whether poverty is an absolute or a relative concept. Despite this, claims that poverty is absolute not relative still permeate the Australian debate, though generally in the rather simplistic guise of arguing that the poverty line should be adjusted over time to reflect movements in prices not incomes. This debate has little to do with the definition of poverty, but much to do with the generosity of benefit levels and measurement of the effectiveness of income support policies.

The broad conceptions of poverty proposed by Townsend and ACOSS also challenge the notion, relevance and usefulness of any single poverty line. Despite running to some 250 pages, the ACOSS poverty submission made no specific reference to such a line. Does the use of a poverty line serve to narrow the discussion of poverty and deflect it away from consideration of more fundamental and structural aspects of inequality? At a conceptual level, I believe the answer is no - as long as the statistical measurement of income poverty is not identified with poverty in the broader sense. Strategically, I believe the answer is also no, because I take the view that a poverty line helps to mobilise support for policies which alleviate poverty in the short run whilst not at the same time reinforcing the conditions under which it is allowed to persist in the longer run.

In Australia, critics of the **only** poverty line which embodies considered and informed judgements about need and which was designed specifically for the purpose of measuring the extent of relative poverty - the Henderson poverty line (HPL) - have seized on its judgemental underpinnings to describe it as 'arbitrary' or 'essentially arbitrary'. This description was in fact used by Ronald Henderson himself on many occasions (e.g., Henderson, 1968) and I, too, have described the HPL as arbitrary on at least two occasions - possibly more! (Saunders, 1980; Saunders and Whiteford, 1989).

I now think that the word 'arbitrary' (defined in the *Concise Oxford Dictionary* to mean: 'derived from mere opinion') has unfortunate and misleading connotations when used to describe a poverty line. It conveys the impression that any particular poverty line is no better than any of a range - possibly a very wide range - of alternative poverty lines. This point was argued 15 years ago by the then Minister for Social Security, Senator Margaret Guilfoyle, during a speech in the Senate on the *Social Services Amendment Bill*, where she expressed reservations about the HPL because it was 'no less arbitrary than anyone else's judgement might be' on the question of income adequacy.

To describe a poverty line as arbitrary does not mean this at all. Acceptance of the fact that some form of judgement is necessary to establish a poverty line does not imply that **any** judgement has equal legitimacy. Some judgements will be superior to others, in the sense that they are better informed, better considered and articulated, or better reflect the views of the community as a whole.

At the time of the early poverty work in Melbourne in the mid-1960s and during the Poverty Commission in the early 1970s, no-one was better able to form a judgement on an appropriate poverty standard for Australia than Ronald Henderson, assisted by his colleagues, most notably Richard Downing, and later by his fellow Poverty Commissioners. What is at issue here is not whether their judgements were appropriate then, but whether they remain so today.

There is a second level at which values enter into the poverty discourse. This relates not to the measurement of poverty itself, but rather to the priority which should be accorded to the alleviation of poverty as an objective of policy. Some take it as self-evident that policies which aim to eradicate poverty should be accorded the highest priority. Writers like Jonathan Bradshaw and David Piachaud, for example, have argued that society has a moral obligation to meet the needs of the poor - a view which might explain why Margaret Thatcher argued so vociferiously against the existence of society as a seperate entity! To quote Bradshaw:

> The assertion that poverty is a categorical need ... gives the poor a moral claim for action - we have an obligation as fellow human beings to meet the needs of the poor. **The moral imperative is in the essence of the concept.** (Bradshaw, 1992: 3; emphasis added)

Other equally respected writers in the field, like Tony Atkinson, see the poverty rate as one amongst a range of societal objectives. The policy problem then involves selecting that combination of social and economic policies which achieves the best balance of objectives given existing constraints (Atkinson, 1993). How much emphasis is given to the abolition of poverty in this framework depends upon how important society ranks poverty alleviation relative to other objectives such as economic growth, inflation, income distribution, and so on. The pattern of societal preferences will reflect personal values as they are expressed through the political process.

The two stages at which values enter into the analysis of poverty - in the measurement of poverty and in the priority given to poverty alleviation in the policy context - need to be kept separate. This is not to deny that the two may be inter-related. As noted earlier, the 'moral imperative' approach raises issues about how poverty is defined and how the term poverty is used. It could be argued, for example, that the 'moral imperative' view of the abolition of poverty is widely accepted in the Australian community, but only as it applies to a variant of Sen's 'absolutist core of poverty'. When poverty is conceived in Townsend's 'thorough-going relativisitic terms', people are not prepared to accord it **over-riding** importance as an objective of policy. People may conceptualise poverty in relative terms, but not be prepared to fund the programs required to eradicate relative poverty.

This is all conjecture, mainly designed to highlight how little we currently know in Australia about what people's values are in relation to the definition and elimination of poverty. If values are important, then they need to be formulated and expressed before they can be incorporated. How to go about achieving this is an important task which lies ahead of us.

It is extremely important to locate poverty research and poverty policy within a framework of discourse centred around the conceptualisation and measurement of need. Without that, it is difficult to sustain the view that the problem of poverty is distinct from the broader issue of inequality, and once that is accepted the whole argument for according a **particular** priority to poverty as an objective of policy begins to crumble.

In summary, values are essential both to the measurement of poverty and to the priority accorded to policies designed to alleviate poverty. This does not mean that poverty research is any less scientific than other areas of public policy research. The 'moral imperative' view of poverty is, I believe, deeply ingrained in the consciousness - some might say the 'guilty consciousness' - of societies like Australia. Proponents of alternative poverty lines will always be competing for the status and legitimacy which that moral imperative brings with it in order to justify certain claims or discredit others. It should thus come as no surprise to find that poverty research is a controversial and contested subject.

4 The Henderson Poverty Line

Two things should be clear from the argument so far. The first is the importance of a poverty line for research and action on poverty. The second is that such a line must be based on scientific investigation of **needs** and analysis of the **resources** required to satisfy those needs. The Henderson poverty standard satisfies these two basic criteria, albeit imperfectly in some regards. But the thinking, analysis and judgements that went into the development of the HPL are almost three decades old, which raises legitimate concerns about whether or not that particular line has outlived its usefulness.

It is difficult to deny that the HPL has proved to be a valuable tool for research and policy over the past two decades. Research findings based on the HPL have helped to mobilise support for policy reforms and pressured goverments to introduce changes in the pattern of social security payment levels. Poverty research more generally also informed the work of the Social Security Review (Cass, 1986). Difficult issues which are highlighted in the HPL framework, such as how to assess the financial circumstances of the self-employed, how broadly to define the income unit when family members live together and how to treat ownership of housing and other assets, remain at the forefront of the research and policy agenda.

Updated estimates of the HPL are published regularly by the Institute of Applied Economic and Social Research (IAESR) at the University of Melbourne. They are reported extensively in the media and circulated to a wide audience. The regular mailing list for the poverty line updates is close to 300, about one third of which is made up of libraries, but the list also includes a broad range of government departments and agencies, community organisations, schools and a number of credit unions and other financial institutions. The IAESR also regularly receives a considerable number of enquiries about the poverty lines from a broad spectrum of organisations and individuals. Clearly there is a strong demand in the communtiy for this kind of information.

The HPL rests on a complicated structure. The poverty line for a given family type varies with the age, sex and workforce status of each family member and the number of other people living in the household. According to the most recent estimates of the IAESR, for example, in the June quarter

1994 the Henderson poverty line for the 'standard family' comprising a working husband, non-working wife and two children (a boy aged between six and 15 and a girl aged under six) was just over $397 a week (IAESR, 1994, Table 1). Of this, around $90 reflected housing costs and a further $40 work-related costs, leaving $267 a week to meet all other expenses.

These estimates are derived from the simplified Henderson equivalence scale. Using the detailed equivalence scale causes the personal, housing and work-related costs to vary with age, but the variation is not that great. However, if we assume that both the husband and wife are working, the detailed poverty line for the standard family increases from $397 a week to $459 a week. If we further assume that both parents are over 40 and both children are under six (not as unreasonable an assumption today as it was three decades ago) the poverty line declines to $418 a week. If both parents are under 40 and working, while both children are boys aged between six and 15, the poverty line rises again to $479 a week. If, in this last case, we assume that two other people live in the same house, the poverty line declines yet again to $450 a week.

Is this degree of complexity warranted and, if so, can the detailed elements be justified in terms of their reliability? Probably not. Those who use the HPL need to be aware of its limitations and idiosyncracies. There are inevitable margins of error attached to any poverty line, which is why research on poverty can only ever produce **estimates** of the incidence and structure of poverty. But this is true of any poverty line and is not a criticism specific to the Henderson line. Those who use the HPL need to understand that, despite its great detail and technical complexity, it is only an imprecise instrument for measuring poverty.

While concern over of the complexity of the HPL has merit, the same cannot be said of some of its other alleged limitations. One comment, often advanced as a major 'criticism' of the HPL, is that it has never been officially endorsed by any Australian government. I see this as one of the great **strengths** of the HPL, not as a weakness. How poverty is conceived and measured should be determined independently of government, for precisely the same reasons that the Australian Bureau of Statistics (ABS) is independent of government. Does anyone seriously believe that any Australian government would ever endorse a poverty line which does anything other than confirm that existing benefit levels are at, or at least close to, the poverty line? Even if they did, would such a poverty line survive a change of government?

To seek government endorsement of **any** poverty line is to misunderstand the nature of both poverty research and the political process. Such endorsement would lead either to a set of justifications for the prevailing level and structure of benefits, or to a morass of qualifications and limitations to any poverty line which would undermine its usefulness. The former situation would not only disadvantage the poor (by statistically abolishing them) but would also remove any basis in need for considering changes to the adequacy of benefits, while the fate of the *Report on Poverty Measurement* produced over a decade ago by the Social Welfare Policy Secretariat (SWPS) surely illustrates the latter proposition all too well (SWPS, 1981).

A second criticism of the HPL is that it is no longer relevant to contemporary Australian conditions. This issue deserves serious consideration and any efforts along these lines is to be welcomed. Indeed, there is at present a group of academic researchers, policy analysts and welfare practitioners - including members of ACOSS and the Brotherhood of St Laurence - engaged in just such an exercise. What I find surprising in the recent Australian poverty literature, however, is that many of those who bemoan the lack of relevance of the HPL to current Australian conditions rely instead on a poverty framework which seems to me to have **even less** relevance.

I am thinking here, in particular, of the use of a poverty line based on median income and the OECD or 'Whiteford geometric mean' equivalence scales - neither of which have any firm basis in Australian historical experience. The OECD scale, for example, has now been discarded by many European researchers in favour of a 'revised OECD scale' which incorporates cost estimates more in line with research findings. The Whiteford mean scale was derived almost a decade ago from published equivalence scale research (for Australia and overseas countries) and should, at the very least, be re-calculated to reflect the very substantial body of more recent research on equivalence scales if it is to be used today.

An income level defined relative to median income has no claim to be a poverty line because it explicitly breaks the link between the measurement of poverty and the determination of need. It measures an aspect of income inequality, not poverty. This was recognised by Victor Fuchs, the US economist who first proposed the median income poverty benchmark, when he noted that it 'represents a tentative groping toward a national policy **with respect to the distribution of income**' (Fuchs, 1967: 89; emphasis italics added). The main justification in the US at that time for adoption of the median income approach was to focus attention away from the official poverty line, which was (and is) fixed in absolute (price level) terms, towards a relative measure which increased with the growth of national income.

The recent suggestion of Deborah Mitchell and Ann Harding that we should '"let many flowers bloom" in the poverty measurement field' (Mitchell and Harding, 1993: 413) has merit as long as this effort is concentrated on conceptions of poverty which are based on need. Indeed, there is much to be said for exploring the meaning of poverty in a wide variety of ways using a number of different approaches. But if the exercise is extended to also include relative income benchmarks, any claim that poverty alleviation should be accorded special status as a policy objective will disappear. We will be left with no basis for distinguishing the flowers from the weeds and that, as any horticulturist will tell us, can have disastrous consequences.

I favour instead an alternative strategy which builds on the strengths of the HPL while addressing its weaknesses. This cannot be done by poverty researchers alone, even when assisted by those from ACOSS and similar organisations. We need to seek community opinion on whether the HPL remains appropriate and, if not, how it should be changed. Ronald Henderson himself would, I am sure, favour such an approach, because it would replicate his own attempts in the 1960s and early 1970s to validate the values and methods implict in his poverty standard against community opinion.

As a first step in this process, the level of the HPL could be broken down into its constituent elements (personal costs, housing costs and work-related costs) and these could be assessed against the actual costs currently experienced by low income people. We have enough household expenditure data to convert the HPL incomes into indicative household budgets which could also be similarly validated. These efforts will not, of themselves, produce a revised poverty line. They will, however, point to areas where change is needed and open up the whole issue of whether the values implicit in the HPL are still appropriate or need reformulating.

In parallel with this process, researchers should continue with the more mundane, but no less important task of assessing the sensitivity of poverty estimates to the many elements that enter into the construction of the HPL, with a view to proposing simplifications in the approach and revisions to the existing procedures where appropriate. As I will show below, most of the main conclusions regarding who were the poorest groups in Australia at the end of the 1980s do not change when the methods used to measure poverty are varied.

My own view is that it would not be difficult to reach agreement on those areas where marginal changes are needed, nor even on what form those changes should take. Even if it is not possible to reach agreement on all of the specifics, this does not necessarily mean that agreement cannot be reached on the trend in poverty, nor on identification of the groups most at risk of poverty. Work by Atkinson (1987) shows how it is possible to identify situations where conclusions about poverty remain valid over a range of alternative poverty lines.

Efforts to reformulate the HPL will be time consuming and expensive. However, if they result in a new consensus about the measurement of poverty in Australia in the 1990s they will justify that cost. It is time to stop debating the issues. We need to get on with the task of identifying those aspects of the poverty line where change is needed and building community support for, and ownership of, any revised poverty standard.

5 Poverty in 1989-90

Henderson Poverty

The latest ABS household income survey from which we can derive national estimates of poverty was undertaken in the latter months of 1990. Information was collected on income in the week preceding the survey and over the course of financial year 1989-90. Most poverty research uses the annual income data, on the grounds that this minimises the impact of short-run fluctuations and provides a more reliable standard of living indicator than weekly income. It is also more straightforward to estimate tax and hence disposable income from data on annual income.

What does the ABS income survey data reveal about the extent and structure of Henderson poverty in 1989-90? George Matheson and I have recently used the HPL framework to estimate that 16.6 per cent of all income units, containing 15.6 per cent of individuals, were in poverty in 1989-90 (Saunders and Matheson, 1993, Table 2). The incidence of poverty was highest among three groups; sole parent income units, and single people, both above and below pension age. These three groups also have the highest poverty rates if we use the family (rather than the narrower income unit concept) as the unit of analysis. Two of the three groups (sole parent families and non-aged single people) have the highest poverty rate if the Henderson standard is replaced by a half median equivalent income benchmark, while sole parent families and (to a lesser extent) non-aged single people also have the highest poverty rates when a range of different equivalence scales are used (Saunders and Matheson, 1993, Table 3).

We also know that the high estimated poverty rate among single people over pension age is somewhat illusory, as many of those in this group in Henderson poverty are only just so. Moving the poverty line by a few percentage points causes very substantial changes in the poverty rate of this group (Saunders, 1993, Table 11). Thus, this body of research indicates that the two groups most prone to poverty prior to the recession were sole parent families and non-aged single people, with single older people coming next.

Despite all the debate over poverty measurement and the trend in poverty over the 1980s, the poverty estimates for 1989-90 presented by Ann Harding and Deborah Mitchell tell much the same story (Harding and Mitchell, 1992). They find that poverty is highest amongst sole parent families, followed by single adults (aged and non-aged) and couples with children (Harding and Mitchell, 1992, Figure 3). The latter finding reflects their use of the OECD equivalence scale, which assigns a high value to the cost of children. There is thus clear evidence from the available poverty research regarding the groups whose incomes in 1989-90 were least adequate. You don't have to be a strict adherent of the HPL approach to agree that sole parent familes and single people were most in need of further assistance at that time.

Poverty and the Social Wage

The underlying basis for the Henderson poverty standard was the basic wage as it existed in 1966. Since then, the Henderson standard has been adjusted over time in line with movements, first in average earnings and, more recently, in average household disposable income. Such indices of **monetary** incomes are appropriate for adjusting a standard which also measures poverty in **monetary** terms.

Since 1983, however, the Federal Government and the ACTU have negotiated several wage bargains under the Accord which have traded-off increases in market wages for improvements in the social wage. Through its adjustment over time to household disposable income, the HPL has captured some of the effects of lower market wages and higher taxes which, directly and indirectly, have financed increases in the social wage, but this has been more by accident than design.

An alternative approach would be to include the social wage as part of income, as has been done in studies undertaken within ABS (ABS, 1992), and to use this extended income concept to measure poverty. However, whether the methodology developed in research on the social wage can be applied to the study of poverty is problematic, particularly if the HPL approach is used. In many areas (e.g. health care) services are used **because people need them**. Those groups who use these services the most do so because their needs are greatest, so that it is not legitimate to claim that social wage benefits raise them out of poverty.

Conceptual issues surrounding the valuation of noncash social wage benefits assume a particular significance in the estimation of poverty. Does it make sense, for example, to define low income people as no longer poor because of the value they are **assumed** to derive from the education their children are receiving, or from the health services they and their children are using? The availablity of these services does not make it any easier for the family to satisfy those basic needs which can only be met from cash income. On the other hand, subsidised public housing and community care services do meet the basic needs of some groups and thus relieve their poverty. These issues revolve around fundamental questions concerning choice, particularly the kinds of choices available to those on low incomes and the terms on which those choices can be exercised.

As it currently stands, the Henderson poverty line is not an appropriate vehicle for assessing the impact of social wage benefits on poverty. Its main purpose and value lies in identifying a **monetary** standard necessary for basic needs to be met through market purchases and identifying which groups are unable to meet that standard. It is, however, of interest to explore how far the HPL can serve this extended role, if only as a means of identifying how it might be done better.

The ABS has released a computer tape containing data from the 1988-89 Household Expenditure Survey which also includes its own estimates of the value of noncash welfare, housing, health and education social wage benefits (ABS, 1992). These estimates do not reflect the value which service users themselves place on the benefits they receive, but are derived by apportioning the costs of providing services in line with the differential use made of each service by different groups in the population. Furthermore, if low-income groups utilise these services less than middle- or high-income groups, or if they use them less **relative to their needs**, then estimating the benefits in accordance with service use will induce a bias which will cause the benefits to appear more redistributive than they actually are.

This means, for example, that students who enjoy their studies are allocated the same value of education benefits as those who detest them, and (as observed earlier) that the groups most prone to illness are allocated a disproportionate share of health benefits. Higher doctors' salaries are thus automatically reflected in increased health benefits, while the replacement of paid professionals by unpaid volunteers results in lower welfare benefits and an increase in private rents will increase the estimated value of subsidised public housing. In each case, the value of the **subsidy** increases, but not necessarily the value of the **benefit**. These examples serve to caution one against uncritical acceptance of the ABS estimates, even though are the best available.

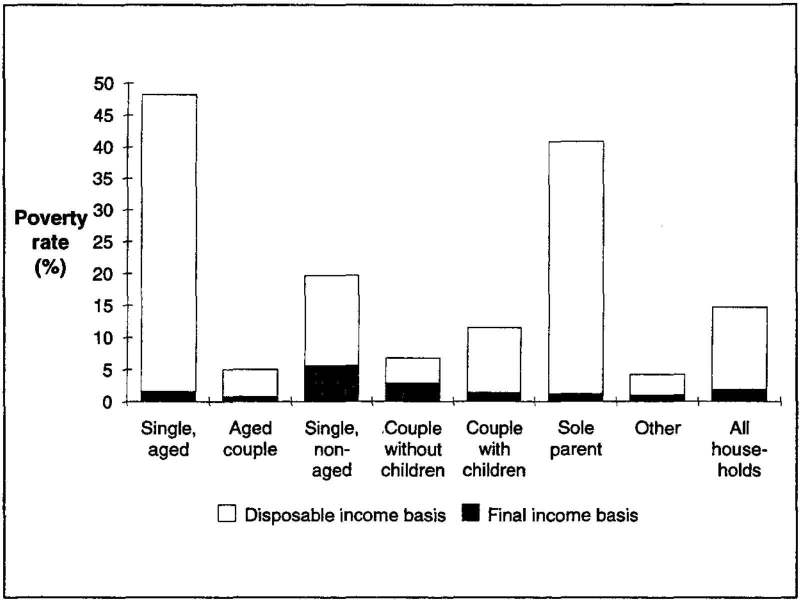
In estimating the impact of noncash social wage benefits on poverty, the ABS estimates of social wage benefits have been treated as if they were identical to cash income of the corresponding amount. This means that in adjusting final (cash disposable plus noncash social wage) income for needs, the same equivalence scale has been used. This procedure can be criticised because some social wage benefits cannot be shared among household members in the same way as cash income, but it is a reasonable basis for an initial look at the issue. The poverty estimates are derived from data on weekly income, and they use the household as the unit of analysis. Following the usual Henderson practice, the self-employed and juveniles living with their parents have been excluded.

Figure 1 presents the Henderson poverty estimates, derived firstly on the basis of disposable (cash) income alone and then by including noncash social wage benefits to arrive at final income. On a cash income basis, the overall poverty rate is estimated to be 14.7 per cent - not too different from the income survey estimates for 1989-90 described earlier. The highest estimated poverty rates are for single aged households (48.2 per cent), sole parent households (40.9 per cent) and single non-aged households (19.7 per cent). Again, these are the same three groups identified in other poverty research as being in greatest need.

Once the value of noncash social benefits is included as part of income, the estimates of poverty are reduced for all groups, as one would expect. Despite the considerable limitations and qualifications attached to these estimates, the extent of the estimated reduction in poverty is substantial. The overall poverty rate declines from 14.7 per cent to 1.9 per cent, corresponding to a decline from around 710,000 to less than 95,000 poor households. The incidence of poverty is now estimated to be highest amongst couples without children and non-aged single people - the two household groups who receive no education benefits (because they have no children), as well as few welfare, housing or health benefits (because they are relatively healthy). The estimated number of sole parent households in poverty falls from 96,000 to less than 3,000 - an enormous decline by any standards.

These estimates need to be qualified since much of the decline in poverty occurs because an **expanded** (cash plus noncash) measure of household income is compared with a **monetary** poverty line. Furthermore, as previously observed, the higher incomes associated with social wage benefits must be viewed in conjunction with the needs that those benefits satisfy. The HPL is a measure of income poverty not necessarily suited for broader purposes. However, if it is to be used for such exercises, the poverty standard and the needs from which it is derived should be made more consistent with the broader measure of household income.

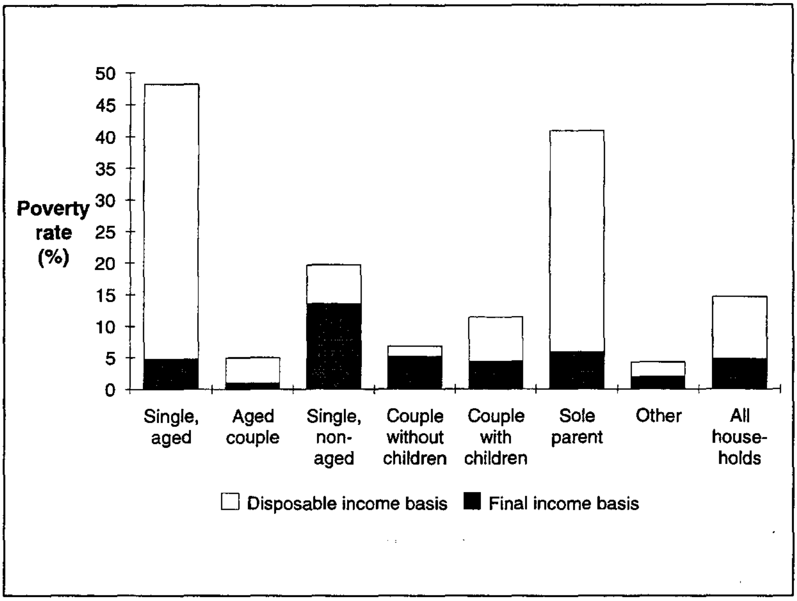
Figure 1: Poverty and the Social Wage, 1988-89: Henderson Poverty Line



As a first step in this direction, the poverty line was adjusted upwards by the ratio of final income to disposable income among all households included in the analysis. The above exercise was then repeated. This produced the estimates shown in Figure 2. Even after this adjustment, noncash social wage benefits have a very large impact on poverty, reflecting the fact that the ratio of social wage benefits to cash income is greater for low income households than for all households. The overall poverty rate now declines from 14.7 per cent to 4.8 per cent - a decline of more than two-thirds. Single non-aged households again have the highest poverty rate (13.6 per cent), followed by sole parents (5.9 per cent) and couples without children (5.2 per cent).

It would be unwise to place too much weight on the precise results which emerge from this exercise. As emphasised on several occasions already, the Henderson framework was not designed to measure poverty on other than a monetary income basis and the adjustments made here are only

Figure 2: Poverty and the Social Wage, 1988-89: Adjusted Henderson Poverty Line



approximate. A more comprehensive analysis would need to re-consider the whole basis for the Henderson poverty standard in a context where noncash forms of social protection like the social wage have increased in size and importance. Figures 1 and 2 point to the important contribution which noncash social wage benefits have made to households in poverty. These benefits have definitely improved their absolute and relative living standards and thus alleviated their poverty, however it is measured.

6 Summary and Conclusions

The focus of this paper has been on Australian poverty research. Why we do it, how we do it, how we might to do it better and what we find when we do do it. Past Australian poverty research has served as a focus for identifying important conceptual and empirical issues and as a force for social change. It also reflects the emphasis given to the alleviation of poverty in the Australian social security system - an emphasis recognised in the attention given to poverty and poverty research by successive Ministers for Social Security over the last two decades.

Poverty cannot be addressed without confronting the broader issues of inequality of power, access and resources. But poverty and inequality **are** distinct issues and they should be kept separate - as research topics and as objectives of action and policy. To accept that poverty is relative is not to equate poverty and inequality, but rather to acknowledge that needs - the **only** basis for a poverty standard - are defined and determined in a social context.

Benchmarks based on mean (or median) income levels have a useful role to play in focusing attention on inequality at the lower end of the income distribution, as well as in providing a convenient point of comparison across countries and over time within countries, but they have no intrinsic merit as a standard of poverty measurement.

Poverty research inevitably involves judgements about minimum income standards and these must be based on scientific inquiry into human needs. Without that basis, any claim that poverty should be accorded a particular priority for government action lacks credibility. The Henderson poverty line incorporates judgements about need, but that fact alone is no reason to abandon it. Like any other poverty line, the HPL has its limitations and not too much should be asked of it.

A case can be made for reformulating the Henderson framework so that it accords more with contemporary Australian values and conditions. That is a major task, but it is by no means beyond us. There is much to be gained from undertaking such an exercise, but we should not abandon the poverty standard that we already have until we are confident that we can come up with a better one.

The poverty line is not only a research tool, it is an important social institution; an expression of social values relating to income levels below which no member of society should be forced to live, except temporarily and in the most extreme circumstances. We should continue to debate the details of the poverty line, when and how it should be used, and to what ends. But to abandon the poverty line that we have would be a retrograde step - for all of us.

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