Ending Child Poverty: An Assessment of the Government's Family Package

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by

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FOREWORD

During the 1987 federal election campaign, the Prime Minister made the pledge that 'by 1990 no child will need to live in poverty'. As a first step towards that goal a family package was announced during the election and spelt out in greater detail in the 1987-88 Budget in September. This report analyses the impact of the family package on children living below the poverty line. The report begins by noting that financial poverty among dependent children has increased from around 6 per cent in the mid-sixties to 20 per cent by the mid-eighties. This corresponds to a rise in the total number of children in poverty from 233 thousand in 1966 to over 800 thousand in 1985-86. International comparisons of the incidence of child poverty at the turn of the decade also show Australia in a very poor light. Using standardised definitions, the incidence of child poverty in Australia far exceeds that in a number of other industrialised economies with the exception of the United States.

The report follows earlier research by using the poverty line developed by the Poverty Commission - the Henderson poverty line - to base its assessment of the impact of the family package. It is argued that the incidence of poverty - the proportion of the population below the poverty line - is an insensitive measure against which to assess the impact of the family package. This is because poverty incidence only changes when families are moved from below the poverty line to above it. The report discusses an alternative measure, based on the concept of the poverty gap, and applies this to assess the family package.

After describing the main elements in the family package, the report discusses the assumptions on which the assessment of its impact is based. In analysing the impact of the family package on child poverty, account is taken of housing costs, using projections derived from the **1981-82 Income and Housing Survey**. The results indicate that about 100 thousand of the 540 thousand children in pensioner and beneficiary families will be moved out of poverty by the family package. However, all such families with children will receive increased incomes, and it is estimated that the poverty gap is reduced by $160 million, from $350 million to $190 million.

It is concluded that although the family package represents a significant improvement in the incomes of poor families, more will be required if the child poverty pledge is to be achieved. While additional income support measures are warranted, these need to be part of a co-ordinated, multi-dimensional policy approach. The report stresses the need for housing and employment policies which would help to ensure that families do not need to be so reliant on income support in the first place.

Peter Saunders
Director
Social Welfare Research Centre

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1. Introduction*

A key feature of the Hawke government's 1987 election policy platform was the pledge 'that by 1990 no child will need to live in poverty'. For those who regard poverty as embedded in deep-rooted structural inequalities in society, the pledge to remove child poverty in such a short time-frame may not be believable. It is clear, for example, that the government's pledge does not involve a radical assault on the basic mechanisms of production and distribution. Rather, its aim is to divert sufficient additional resources to families with children so that by 1990 no such family will be in a position where its **financial** circumstances leave it in poverty. It is this emphasis on the financial resources required to allow the child poverty pledge to be realised that forms the focus and underlies the analysis of this report.

As a first step towards the child poverty pledge, the government announced the proposed introduction of a family package during the election campaign. The package was to be introduced in November 1987, although this date was subsequently deferred for one month in the 1987-88 Federal Budget brought down in September. The package involves a new Family Allowance Supplement (FAS) to replace existing payments for children of pensioners and beneficiaries and the Family Income Supplement (FIS) for children in low income working families. It also provides for the extension of coverage of uniform rental assistance to all unemployment beneficiaries and to low income families eligible to receive FAS. These proposals constitute the most significant improvement in income support provisions for low income families since the introduction of family allowances in 1976. In the context of the 1990 poverty pledge, the key question is the extent to which the family

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* The authors would like to thank Bruce Bradbury, Jenny Doyle, Marilyn McHugh and Clare Stapleton for their assistance in the preparation of this report. We are grateful to the Department of Social Security for providing us with unpublished data on children in pensioner and beneficiary families. Earlier versions of the paper were presented at an internal seminar in the Social Welfare Research Centre, and at seminars in the Department of Social Security in Canberra and the Australian Institute of Family Studies in Melbourne, as well as at the 16th Conference of Economists in Queensland. We have benefited from the many comments received on these occasions. We would also like to thank Helen Brownlee, Andrew Burbidge, Anthony King and Joan Vipond for their comments on an earlier version of the paper. None of these is responsible for the views expressed in the report, nor for any errors it may contain. Successive drafts were typed with considerable skill by Maria Farrugia and Jane O'Brien.

package **alone** contributes towards its attainment. If the family package is not sufficient, then questions arise concerning what additional income support measures are required, and what other policies might need to be considered. The main aim of this paper is to provide an assessment of the impact of the family package on the financial circumstances of low income families, focusing on the impact of the package on poverty among families with dependent children. The paper also canvasses some policy options which may assist the government in achieving its poverty pledge over the next three years.

The paper is organised as follows: Section 2 brings together evidence on the growing incidence of child poverty in Australia in the last two decades. This is followed in Section 3 by evidence on the degree to which child poverty in Australia in the early eighties compares with that in a range of other advanced economies. Section 4 raises some methodological issues in the measurement of poverty which have relevance to the assessment of the family package, and the main features of the package are described in Section 5. The results of our assessment of the effectiveness of the family package in reducing financial poverty are contained in Section 6. Section 7 canvasses some proposals for further assisting low income families, while the main conclusions are summarised in Section 8. Supporting material and data are contained in a series of Appendices and Appendix Tables.

2. Trends in Child Poverty

The incidence of poverty among dependent children has increased substantially over the last two decades. In their survey of poverty in Melbourne in 1966, Henderson, Harcourt and Harper (1970) estimated that 6.2 per cent of children were in poverty at that time. Using similar procedures to those adopted in the Melbourne survey, the Commission of Inquiry into Poverty (1975) estimated the incidence of child poverty in 1972-73 to be 7.9 per cent. Since that time, a number of studies have produced estimates of the incidence of child poverty on the basis of the approach to poverty measurement developed by the Poverty Commission, using the so-called Henderson poverty lines.

On the basis of these estimates, presented in Table 1, it is difficult to escape the conclusion that child poverty in Australia has increased

Table 1: Children in Poverty, 1966-1986

Year	Source	Poverty before housing costs: Numbers ('000)	Poverty before housing costs: Per cent	Poverty after housing costs: Numbers ('000)	Poverty after housing costs: Per cent
1966	Henderson, Harcourt and Harper (1970), Table 2.7.	233.3[a]	6.2	na	na
1972-73	Commission of Inquiry into Poverty (1975), Table 3.4.	254.4	7.9	231.8	7.2
1978-79	Social Welfare Policy Secretariat (1981), Table 5.6.	395.1[b]	11.4[b]	na	na
1981-82	Gallagher and Foster (1986), Table 6.	591.8	17.0	541.5	15.6
1985-86	King (1987), Table 1.	810.8[c]	20.7	684.8[c]	17.5

Notes:

(a) Based on applying the Melbourne poverty rate to the total number of dependent children for whom child endowment was paid as at 30 June 1966

(b) Assumes an average of 3.5 children in married couple families with 3 or more dependent children.

(c) Assumes an average of 1.7 children in single parent families.

(d) All estimates are based on the detailed Henderson poverty lines and equivalence scales. The self-employed are excluded from all but the 1966 estimates. Juveniles are excluded from all estimates.

na = not available.

dramatically over the last two decades. In fact, since the 1966 poverty estimates are based on weekly income, in contrast to the other studies which estimate poverty on the basis of annual income, it is likely that the 1966 estimates have some upward bias relative to those for later years. To the extent that this bias exists, the actual increase in child poverty will be somewhat greater than that implied by Table 1. Taken at face value, however, the estimates indicate that the number of children living in families in poverty before adjusting for housing costs has increased from 233 thousand in 1966 to a quarter of a million by 1972-73, to almost 600 thousand by 1981-82 and to over 800 thousand by 1985-86. The incidence of child poverty has risen from about 6 per cent in 1966 to just over 20 per cent in 1985-86. The rise in the incidence of child poverty after adjustment for housing costs has been of a similar order of magnitude, although the absolute increase is somewhat lower in this case.

In attempting to explain the increase in child poverty in Australia, three factors are worth highlighting. The first relates to the considerable increase in the number of sole parent families and the corresponding rise in the number of children in families with only one parent. Since 1974, the number of sole parent families has grown considerably faster than all families with dependent children, increasing from 9 per cent of all families with dependent children in 1974 to almost 15 per cent by 1986. The number of children in social security pensioner sole parent families rose from 176 thousand in 1974 to 439 thousand in 1986 (Table 2). Much of this latter increase occurred between 1980 and 1983, when the number of children in sole parent pensioner families rose by more than one hundred thousand. A second factor, whose impact has been particularly significant since 1982-83, has been the increased incidence of unemployment among families with dependent children following the recession which began that year. As Table 3 indicates, the number of children in families with an unemployed head increased from 144 thousand in 1982 to 271 thousand a year later. There has been a decline in numbers since then, although the 1986 figure was still double that for 1980.

Together, these two trends - a reflection of economic and social developments - imply that an increasing number of children are now being raised in families which do not have access to the labour market, at least in the sense

Table 2: Growth in Sole Parent Families, 1974-1986

Year	Number of Sole Parent Families(a) ('000)	Percentage of All Families with Dependent Children(a) (%)	Number of Sole Parents in Receipt of Commonwealth Income Support(b) ('000)	Number of Children in Sole Parent Pensioner Families(c) ('000)
1974	183.2	9.2	105.1	176.2 e
1975	173.7	8.7	123.1	198.2 e
1976	203.3	10.1	137.9	221.4
1977	213.8	10.6	153.1	239.4
1978	na	na	169.6	261.3
1979	270.0	12.8	180.0	279.6
1980	268.7	12.6	191.7	295.4
1981	282.2	13.2	208.1	353.1
1982	306.2	14.1	222.5	375.4
1983	295.3	13.6	242.1	398.6
1984	313.8	14.3	251.9	413.2
1985	316.4	14.4	263.6	431.7
1986	319.9	14.6	268.4	438.9

Notes: (a) Data refer to November in 1974 and 1975, May in 1976 and 1977, July in 1979 and 1980, June in 1981, and July in 1982 to 1986. Due to a change in estimation procedures in 1983, data for subsequent years are not strictly comparable with figures prior to 1983.

(b) Includes age, invalid and widows' pensions, sheltered employment and rehabilitation allowances, supporting parents' benefits, unemployment, sickness and special benefits, as well as service and war widows' pensions and those receiving subsidised assistance under the States Grants (Deserted wives) Act.

(c) Includes children in supporting parent benefit families and class A widows families only.

e = estimated; na = not available

Sources: Social Security Review (1986), Table 1
Raymond (1987), Tables 2.6 and 3.2.

Table 3: Number of Children in Families Where the Chief Wage Earner is Unemployed, 1980-1986

Year	Couples Number ('000)	Couples Per cent[a]	Sole Parents Number ('000)	Sole Parents Per cent[a]	Total Number ('000)	Total Per cent[a]
1980	89.7	2.4	21.0	4.7	110.7	2.6
1981	90.5	2.4	16.8	3.6	107.3	2.5
1982	123.6	3.3	20.0	4.1	143.6	3.4
1983	229.0	6.1	41.6	8.6	270.6	6.3
1984	182.8	4.8	34.1	6.8	216.9	5.1
1985	172.2	4.6	26.5	5.2	198.7	4.7
1986	185.6	4.9	36.5	7.1	222.1	5.2
Change 1980-86 %	106.9	104.2	73.8	51.1	100.6	100.0

Note: (a) Expressed as a proportion of the total number of dependent children in respective family types.

Source: Whiteford (1987), Table 3.

of full-time paid employment. As a result, these families have had to rely on social security as their major source of income support. This brings us to the third factor behind the increase in child poverty, the declining value of social security payments to families with dependent children in real terms, but also relative to the poverty line.

The real value of social security payments for children has fallen substantially over the past ten years because these payments have not been indexed to inflation, but only increased on an ad hoc basis. Thus by 1982-83, each of these payments - additional pension/benefit for children, mother's/guardian's allowance and family allowance - were only about 76 per cent of their real 1976-77 value. At the same time, the real level of the poverty line has risen, as Figure 2.2 in Appendix 2 implies.

Figures 1 and 2 illustrate the net outcome of these trends for unemployment beneficiary families and single adult and sole parent families over the period since the introduction of family allowances in 1976. In constructing Figures 1 and 2, the poverty lines published by the National Institute of Economic and Industry Research (NIEIR) and the Royal Melbourne Institute of Technology in the April 1987 issue of their **Social Policy Research Unit Newsletter** have been used. They have been revised and projected backwards using the most recent estimates of seasonally adjusted household disposable income per head, as presented in Table 1 of the recent report by the Institute of Applied Economic and Social Research (IAESR) (Johnson, 1987).

On the basis of this method, the poverty line for the standard family used by the Poverty Commission, a man (working) with a non-working wife and two dependent children, becomes $62.70 in the September quarter 1973. This compares with the Poverty Commission's standard family poverty line of $62.60 in August 1973 (**Poverty in Australia**, Table 3.1, p.14). Thus, despite the fact that both the NIEIR and the IAESR now update the poverty line by household disposable income per head rather than average weekly earnings, the two series have moved so much in line over the last thirteen years that the choice between them has little bearing on the level of the poverty line in December 1986. The choice between the two indices may however cause larger differences over shorter time periods, an issue explored in more detail in Appendix 2.

Figure 1:
Unemployment Benefits Relative to the Poverty Line, 1976 - 1986

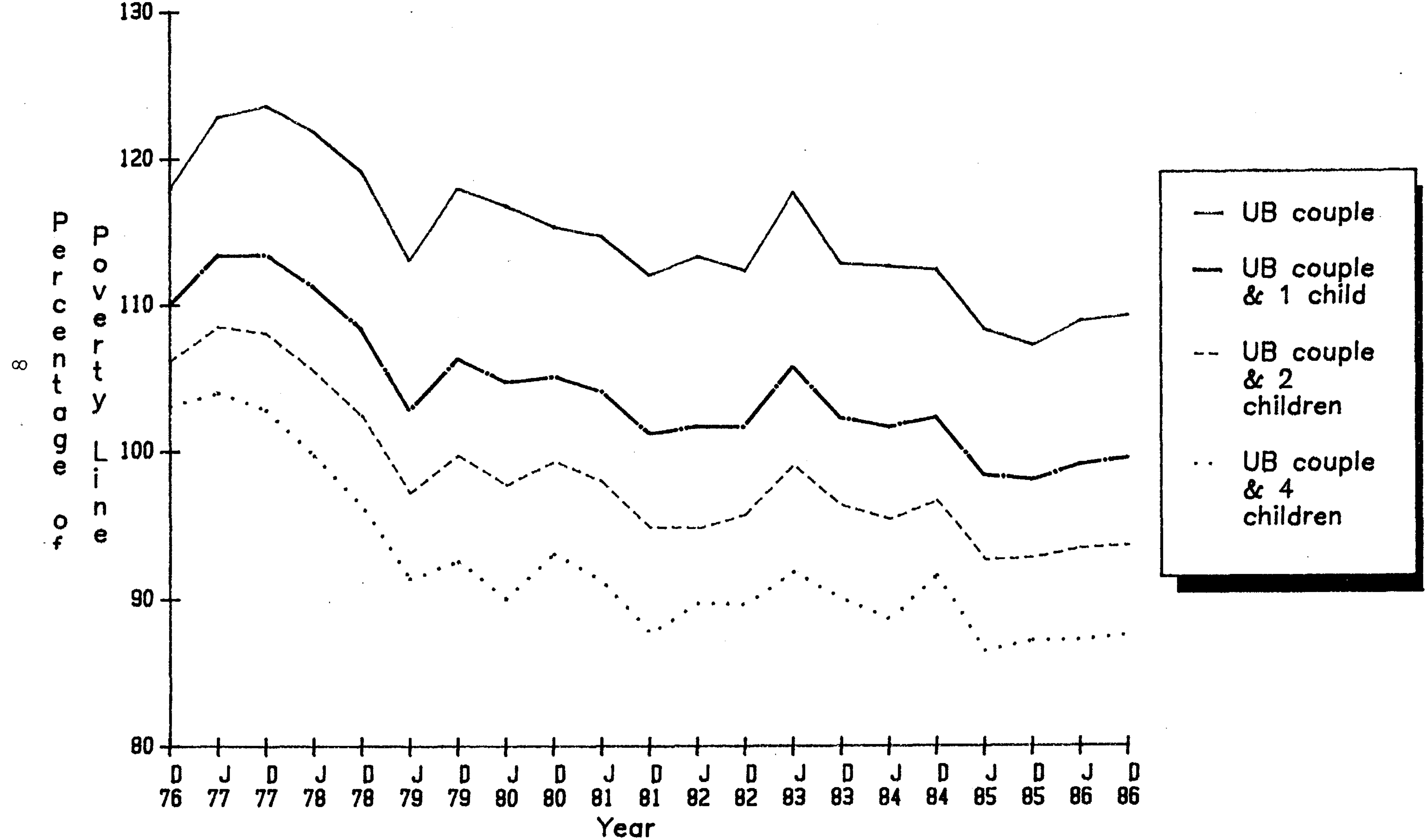
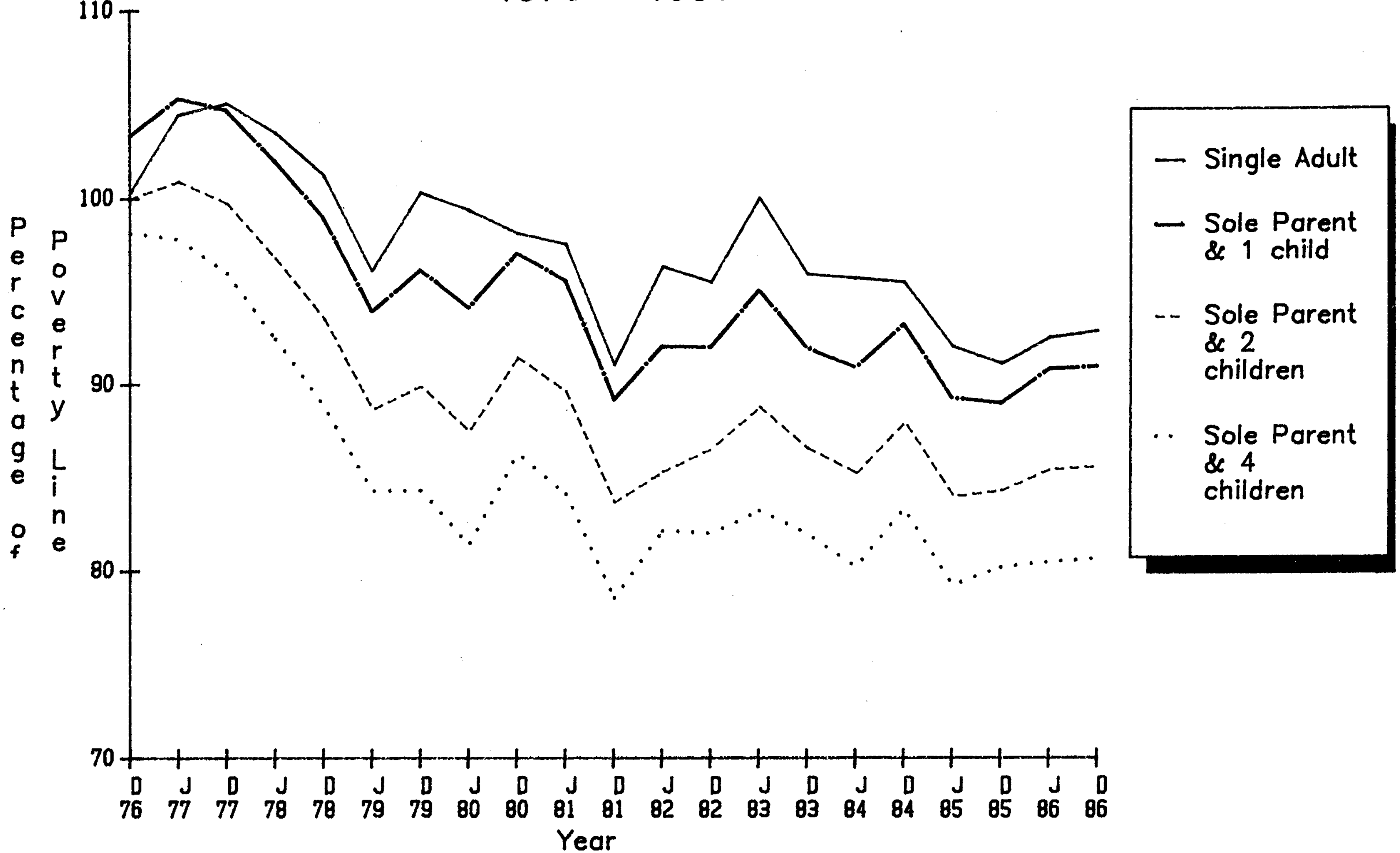


Figure 2: Sole Parent Pensions Relative to the Poverty Line, 1976 - 1986



There is one aspect of the updating question that deserves further attention at this stage. It relates to the apparent paradoxical effects of real growth in the economy on income support payment levels relative to the poverty line (and by implication, to estimates of the numbers in poverty) under current indexation arrangements. Faster economic growth implies, assuming that fiscal drag is not substantial, that disposable incomes increase at a faster rate than prices. This in turn implies that the poverty line, which is adjusted to (seasonally adjusted) household disposable income, will rise faster than pensions or benefits, which are indexed to the consumer price index (CPI). Thus, the greater the success of government in achieving economic growth the worse its income support policies will appear (at least in the short-run) when social security payments are assessed relative to the poverty line. Of course, over the longer-term, some of the additional resources associated with increased economic growth may be redistributed to low income groups through discretionary real increases in pension and benefit levels. But the short-run impact will nevertheless remain in the data and, given the short electoral cycle in Australia, could take on unwarranted significance.

Consider, as an example, the period June 1983 to June 1985 when economic growth in Australia was exceptionally good by recent standards. Over this two year period, household disposable income per head increased by 24.6 per cent, while the CPI rose by only 10.8 per cent between the June quarter 1983 and the June quarter 1985. Because of the lag in the adjustment of pension and benefit rates to the CPI, combined with the fact that inflation was falling, pension and benefit rates rose by 14.5 per cent for those without children, and by up to 4 per cent more than this for those with children due to discretionary increases in additional pension and benefit for children in November 1983 and again in November 1984. Nevertheless, the net effect was for income support payments to **fall** relative to the poverty line over this period by between 5 and 8 per cent, as illustrated in Figures 1 and 2. Thus while economic growth provides the longer-run platform from which the incomes of the poor can be increased in relative terms, statistics are most likely to reveal the opposite tendency in the initial phases of a growth upturn. There is a need, therefore, to treat the short-run movements illustrated in Figures 1 and 2 with caution, although the longer-run trends are of greater significance.

For all family types shown in Figures 1 and 2, pension and benefit levels (including family allowances) have declined steadily relative to the poverty line over the last decade. The decline has been larger for sole parent pensioner families than for married couple beneficiary families. For both family types, the decline has been larger the more children there are in the family. For beneficiary couples with two children, benefits have been below the poverty line since December 1978; by December 1986 they were more than 6 per cent below it. For those with four children, benefits have been below the poverty line since December 1977; by December 1986 they were more than 12 per cent below it. For single parents with two children, pensions have been below the poverty line since June 1977; by December 1986 they were more than 14 per cent below it. Finally, payments for sole parents with four children have been below the poverty line for the entire decade since December 1976; by December 1986 they were more than 19 per cent below it. Thus while most pensioner and beneficiary families with children were receiving income support at poverty line levels or slightly above in December 1976 - reflecting the new family allowance payments introduced in July of that year - income support levels ten years later were below the poverty line in all cases, substantially so in many instances.

The developments outlined in this section have caused the financial circumstances of many families with dependent children to be simultaneously squeezed from two directions over the last decade. Increased marital breakdown and rising levels of unemployment have tended to restrict the possibilities for paid employment, while social security payments have tended to provide lower levels of support in relation to the needs of the families so affected. Seen against this broad background, the government's family package is a welcome attempt to address what has become a major social problem. However, as this discussion implies, and as will be argued further below, it will need to be accompanied by other more broad-reaching social policies if child poverty is to be effectively abolished.

3. International Comparisons

The trend in recent times towards increased child poverty is not unique to Australia. Similar developments have been occurring in a number of other countries. In the United States, for example, Preston (1984) reports that estimates prepared by the US Bureau of the Census show poverty rates for children (defined as those aged under 14) increasing from 16 per cent in 1970 to 23 per cent in 1982. In a recent paper, Smeeding, Torrey and Rein (1987) indicate on the basis of roughly comparable trend data, that developments in Canada and the United Kingdom over the 1970-84 period are similar to those in the United States (Smeeding, Torrey and Rein, 1987, Table A-1).

Although data do not allow a more detailed assessment of these trends, comparable estimates of the incidence of child poverty in a range of countries at a point in time are now available. These have been made possible through the Luxembourg Income Study (LIS), which has gathered together in one central location (the Center for Population, Poverty and Policy Studies, CEPS, in Walferdange, Luxembourg) several large microdata sets. These data sets contain comprehensive measures of income and economic well-being for a set of modern industrialised welfare states, including Australia. Researchers involved in the LIS project have assisted in the adjustment of the survey data to conform to standardised definitions of income, the income unit, and so on. As a result, it is possible to use the LIS data to produce measures of economic well-being, inequality and redistribution which are as near to perfectly comparable as the current data permit. The Australian data used in the LIS project are those produced on the **1981-82 Income and Housing Survey** unit record file, adjusted according to the LIS standardising procedures. Table 4 provides information on the microdata sets currently incorporated in the project. A number of other countries are negotiating to join the LIS project, and discussions to update the data sets to 1985-86 are also underway. For more information on the background to the LIS project, see Smeeding, Schmauss and Allegreza (1985) and Rainwater and Smeeding (1985).

Smeeding, Torrey and Rein (1987) have recently used the LIS data to assess the extent of child poverty in eight countries at the turn of the decade. Their estimates of child poverty rates on a relative and absolute basis are shown in Table 5 and, for the absolute measure, illustrated in Figure 3. Relative poverty is defined to include all families with an adjusted disposable income less than half the median family adjusted disposable income, where the adjustments are determined using the equivalence scales implicit in the US poverty line. Absolute poverty is defined according to the US poverty line, converted to other currencies using OECD consumption measures of purchasing power parity (Hill, 1984). In fact, because of the

Table 4

Overview of Luxembourg Income Study (LIS) Datasets

Country	Dataset name	Income Year	Dataset[a] Size	Population[b] Coverage	Basis of[c] Household Sampling Frame
Australia	Income and Housing Survey	1981-82	45,000	97.5[e]	Decennial Census
Canada	Survey of Consumer Finances	1981	37,900	97.5[e]	Decennial Census
Germany[d]	Transfer Survey	1981	2,800	91.5[g]	Electoral Register on Census
Norway	Norwegian Tax Files	1979	10,400	98.5[e]	Tax Records
Sweden	Swedish Income Distribution Survey	1981	9,600	98.0[e]	Population Register
Switzerland	Income and Wealth Survey	1982	7,036	95.5[h]	Electoral Register and Central Register of Foreigners
United Kingdom[d]	Family Expenditure Survey	1979	6,800	96.5[f]	Electoral Register
United States	Current Population Survey	1979	65,000	97.5[e]	Decennial Census

Notes:

(a) Number of actual household units surveyed.
(b) As a percent of total national population.
(c) Sample frame indicates the overall base from which the relevant household population sample was drawn. Actual sample may be drawn on a stratified probability basis, for example, by area, or age.
(d) The German and United Kingdom surveys collect subannual income data which is normalised to annual income levels.
(e) Excludes institutionalised and homeless populations. Also in relevant countries some far Northern rural residents (Eskimos, Lapps, etc.) may be under-sampled.
(f) Excludes those not on the electoral register, the homeless, and the institutionalised.
(g) Excludes foreign-born heads of households, the institutionalised population, and the homeless.
(h) Excludes nonresident foreigners and the institutionalised but includes foreign residents.

Table 5: Relative Low Income and Absolute Poverty Among Children in Selected Countries, 1979-1982

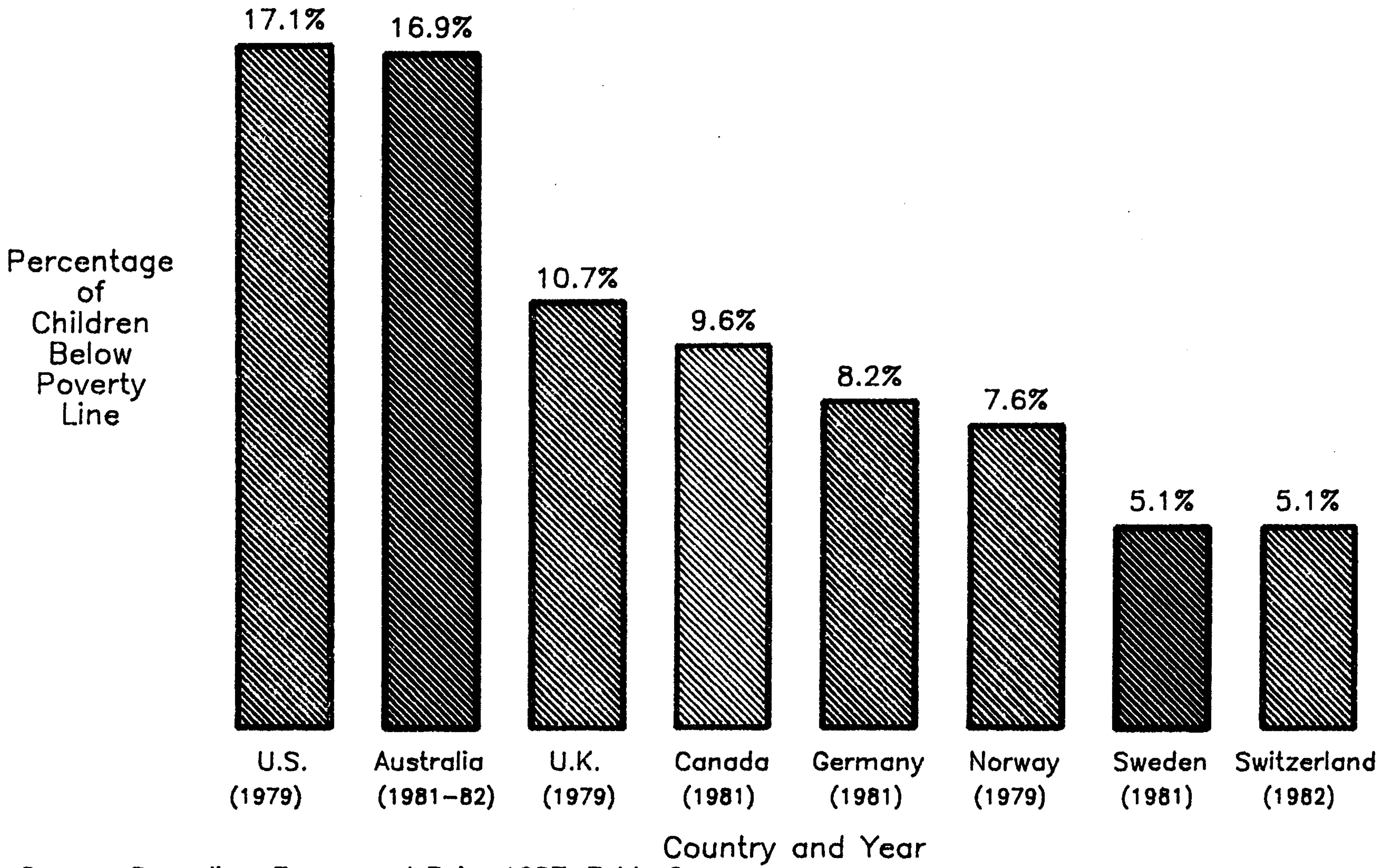
Country/Year	Child Poverty Rate (%) Relative Poverty(1)	Child Poverty Rate (%) Absolute Poverty(2)	Percentage of pre-tax and transfer poor who remain in poverty after taxes and transfers
Australia (1981-82)	15.9	16.9	85.6
Canada (1981)	15.5	9.6	63.8
Germany (1982)	4.9	8.2	68.8
Norway (1979)	4.8	7.6	51.7
Sweden (1981)	5.0	5.1	28.4
Switzerland (1982)	7.8	5.1	66.7
United Kingdom (1979)	9.3	10.7	54.8
United States (1979)	22.4	17.1	80.4

Notes: (1) Relative poverty includes all those with adjusted (equivalent) incomes below half the median adjusted national income.

(2) Absolute poverty includes all those with adjusted incomes below the US government three-person poverty line, adjusted using the US poverty line equivalence scales and converted to other currencies using OECD purchasing power parities.

Source: Smeeding, Torrey and Rein (1987), Tables 2 and A-5.3

Figure 3:
Absolute Poverty Among Children in Selected Countries



Source: Smeeding, Torrey and Rein, 1987, Table 2.

low level of median family income in Australia relative to the United States, the implied relative poverty line for a three person family in Australia is equivalent in annual terms to A$6797, slightly lower than the corresponding absolute poverty line of A$6994. These compare with the 1981-82 Henderson poverty line for a couple with one child of $6694 a year if the head is not in the workforce, based on the poverty line estimates discussed in the previous section.

Whichever poverty measure is used, it is clear from Table 5 and Figure 3 that child poverty in Australia in the early eighties was significantly higher than in all other countries covered except the United States. Australia's ranking is not unduly sensitive to the use of equivalence scales other than those implicit in the US poverty line. After experimenting with a range of equivalence scales, Smeeding and his colleagues conclude that, "... the choice of equivalence scale may change the absolute numbers, but they do not explain the patterns of child poverty across countries" (p.11). In seeking to explain the very high child poverty rates in Australia and the United States, Smeeding, Torrey and Rein point to two factors, both of which have already been alluded to in the Australian context. The first is the much greater economic vulnerability of one parent families in Australia and the United States compared with elsewhere. Although the percentage of children in one parent families in Australia in 1981-82 was relatively low - 9.1 per cent, as compared with around 12 per cent in Switzerland and 15 per cent in Norway, Sweden and the United States - the relative poverty rate among children in one parent families in Australia was 65 per cent, far higher than in the United States (51 per cent), Canada and the United Kingdom (38 per cent), Germany (35 per cent), Norway (22 per cent), Switzerland (13 per cent) and Sweden (less than 9 per cent) (Smeeding, Torrey and Rein, Table 4).

The second factor identified as contributing to the observed differences in child poverty rates is the inadequacy of income support payment for low income families with children in Australia and the United States. The inadequacy of payment levels is reflected in a much lower proportion of children in poverty being raised above the poverty line as a result of the operation of the tax-transfer system (Table 5, last column). As the authors note;

> 'The U.S. means-tested benefits, although presumably better targeted than social insurance benefits, were simply too low... to lift the average poor family with children out of poverty in 1979.' (Smeeding, Torrey and Rein, p.21.)

Despite the fact that family allowance in Australia provides support for all families with children (unlike the US means-tested categorical transfer system which excludes most poor two parent families with children from public support) the level of payment was clearly too low in relation to needs, as evidenced by the earlier discussion. The income tested payments for pensioners and beneficiaries with children in Australia seem to conform to the US explanation. The extent to which the inadequacy of payments in Australia and the United States reflects greater reliance on income testing in the income support system as a whole in these countries is a matter for conjecture, although Saunders (1987) and Rainwater, Rein and Schwartz (1986) have argued that these factors are not independent.

To summarise the evidence on child poverty presented in this and the previous sections, it is clear that child poverty in Australia has grown to extremely serious proportions in the last two decades, particularly since the mid-seventies. Comparisons of child poverty rates across countries around 1980 show Australia in a very poor light, and it is extremely unlikely that this pattern has changed markedly since then. To be blunt about things, child poverty in Australia has reached unacceptable levels and is a disgrace, both nationally and internationally. The remainder of this paper assesses the extent to which the government's family package will assist it in meeting its child poverty pledge, and canvasses a range of other policies which will also be required. Before proceeding to this analysis, a brief digression on the measurement of poverty is in order.

4. Measuring Poverty

Four separate questions must be resolved before any single quantitative measure of the extent of financial poverty at a point in time can be derived. First, what is the measure of economic well-being to be used? Second, how is the poverty line to be set for the standard family type? Third, what equivalence scales are to be used to derive poverty lines for other family types? Fourth, what form should the index of poverty measurement take? If these issues are resolved consistently, then a fifth question relating to the adjustment of the poverty line(s) over time is also resolved. However, the situation in Australia is such that the benchmark against which the poverty line for the standard family was originally set by the Poverty Commission - the basic wage plus child endowment payments - has not been used subsequently to update the poverty line over time, in part because the basic wage concept itself no longer exists. Thus the updating question has taken on an independent existence, rather than emerging automatically from the more fundamental choices. Rather than address the updating issue here, a discussion of some alternatives and their implications is contained in Appendix 2.

As explained further below, we have adopted the most well-known and generally-accepted answers to the first three of the above four questions. The combined income of all family members in the immediate income unit is the basic measure of economic well-being, while the poverty line and equivalence scales we use are those proposed by the Commission of Inquiry into Poverty (1975) and subsequently amended and up-dated regularly by the NIEIR and the IAESR. (Appendix 1 contains a more detailed discussion of the Henderson poverty line and the adjustments to it that were made to produce the estimates contained in Section 6 below). Following this adherence to convention, the index of the **incidence** of poverty would be a simple headcount measure (H) which expresses the percentage of the population whose equivalent income (i.e. income adjusted for needs using equivalence scales) falls below the relevant poverty line. Thus

$$H = N/X \qquad (1)$$

where N is the number of individuals, families or income units in poverty and X is the total number of individuals, families or income units in the relevant population. The **structure** of poverty can then be assessed by expressing the proportion of the total numbers in poverty in different socio-economic groups, i.e.

$$S_j^H = Nj/N \qquad (j = 1.....n) \qquad (2)$$

where j refers to each of the n socio-demographic groups.

The distinction between the incidence of poverty and the structure of poverty has an important bearing on the implied **risk** of poverty among particular sub-groups in the population. The headcount incidence of poverty for each sub-group in the population can be defined as;

$$Hj = Nj/Xj \qquad (j = 1.....n) \tag{3}$$

Using equation (2),

$$S_j^H = (Nj/Xj).(Xj/X).(X/N)$$

i.e.

$$S_j^H = (Hj/H).(Xj/X) \tag{4}$$

A particular sub-group can then be identified as having a high **risk** of poverty if S^H exceeds (Xj/X), that is, if that group's share in the total numbers in poverty exceeds its share in the total population. Using equation (4), this occurs when Hj exceeds H, i.e. when the incidence of poverty for the sub-group is greater than the incidence of poverty among the population as a whole.

It has long been recognised that the headcount measure is an insensitive indicator of poverty (Kakwani, 1980; Sen, 1976:1979). Among other things, it has the property that it does not reflect changes in the inequality of income amongst the poor themselves. This feature sits uneasily with the relative concept of poverty which is now widely-accepted as appropriate to the measurement of poverty in advanced economies. Furthermore, the headcount measure offers governments the temptation to provide additional assistance to those among the poor who are the best off, in the sense that they are **closest** to the poverty line, for by so doing the measured incidence of poverty can be reduced by the greatest amount for each dollar of extra resources devoted to assisting the poor. This is clearly at odds with the desire to provide assistance to those whose needs are greatest, i.e. those who are **furthest** below the poverty line. Furthermore, and of particular relevance in the current context, provision of additional support to those below the poverty line which does not raise them above it has **no impact** on the incidence of poverty as assessed on a headcount basis. Yet such a policy clearly has a marked impact on the extent of poverty and, more broadly, on economic inequality.

For these reasons, the headcount measure of poverty alone is an inappropriate indicator against which to assess the impact of government income support policies on the living standards of the poor. One measure which overcomes this difficulty is the poverty gap (G), defined as the absolute difference between the actual incomes of the poor and their respective poverty line incomes. The poverty gap measure can be defined as;

$$G = \sum^{N} (P_i - Y_i) \tag{5}$$

where Y_i is income and P_i is the poverty line. Note that the poverty gap is defined only for those (N) families who are actually below the poverty line. The structure of poverty can be assessed by calculating the poverty gap for each socio-demographic group and expressing this relative to the aggregate poverty gap, i.e.

$$S_j^G = G_j/G \qquad (j = 1.....n) \tag{6}$$

When summed across all the poor, or across sub-groups of the poor, the poverty gap indicates the minimum financial cost of raising the incomes of poor families to the poverty line, but no more. The aggregate poverty gap as defined above, or its average value for all those in poverty, can be compared with total national income or the average incomes of those not in poverty. Such measures provide an indication of the minimum financial burden to the community of raising all the poor to their respective poverty lines.

These are, of course, only summary indicators and they are not intended to imply that such policies are actually feasible in practice. Directing additional income support to the poor must operate within the framework of the existing income support system, and no matter how well this additional assistance is targeted, "spillovers" will occur either because some benefits go to those already above the poverty line, or because others serve to raise groups not only to the poverty line, but some way above it. For these reasons, the total budgetary cost of any income support package will exceed the impact of the package in reducing the poverty gap. However, the ratio of the poverty gap reduction brought about by the policy to its total cost provides an indication of the target efficiency of the policy.

One shortcoming of the poverty gap measure is that it is based on the absolute shortfall of income below the poverty line and is thus not adjusted for needs. A poverty gap of \$10, for example, is of more relative significance for a single person than for a couple with four children since the poverty line income level itself is higher in the latter case. Of course, from the viewpoint of budgetary costs, it is **actual incomes** and **actual dollar costs** that are relevant. However, from the broader social welfare perspective of the living standards of those in poverty, the appropriate measure is income adjusted for needs, or **equivalent income.**

One way of taking some account of this is to redefine the poverty gap in proportional terms, i.e.

$$G' = \sum^{N} \{(P_i - Y_i)/P_i\} \tag{7}$$

which expresses the absolute poverty gap as a proportion of the poverty line. However, while this measure has the advantage that account is taken of differing needs, it does not produce a monetary value for the aggregate poverty gap. An alternative measure which takes account of needs but also suffers from this shortcoming is the income to needs ratio (I), defined as;

$$I = \sum^{N} Y_i / \sum^{N} P_i \tag{8}$$

A final alternative way of adjusting for differences in needs involves expressing the poverty gap directly in terms of equivalent incomes, i.e.

$$G^* = \sum^{N} (P_i^* - Y_i^*) \tag{9}$$

where G^* is the adjusted poverty gap, P_i^* is the poverty line adjusted by equivalence scales (thus being equal in all cases to the poverty line for the standard family) and Y_i^* is equivalent income. The structure of poverty corresponding to this measure of poverty incidence becomes;

$$S_j^{G*} = G_j^* / G* \qquad (j = 1....n) \qquad (10)$$

The poverty measures presented in equations (9) and (10) provide a monetary estimate of the total poverty gap, but one expressed in equivalent dollars rather than actual dollar amounts. While this leads to problems of interpretation, it is worth emphasising that it is conceptually more valid to aggregate equivalent incomes (which are adjusted for differing needs) than it is to aggregate straight dollar amounts as in the simple poverty gap measure shown in equation (5). Again, there is a conflict here between the purely budgetary emphasis on actual dollars, and the social welfare emphasis where equivalent incomes and thus equivalent dollars are more relevant.

Although not without their own shortcomings, the poverty gap measures of the incidence and structure of poverty provide useful information over and above that provided by headcount measures. They are also more attractive than the headcount measure for assessing the impact on poverty of changes in income support policies, **because they are sensitive to changes in the living standards of all the poor**, even if the actual numbers in poverty do not change. As will be shown below, the government's family package will have the immediate effect of raising the incomes of pensioner and beneficiary families with children, but not to a sufficient extent to raise many of them above the poverty line. Because of this, changes in the headcount measure of poverty incidence are not an ideal way of assessing the impact of the package. As an alternative, we have thus also devised a measure of the poverty gap and assessed how it is affected by the family package. The results of this exercise are reported in Section 6.3 below.

The poverty gap measure used in our assessment of the government's family package is defined as follows;

$$G** = \sum^{N'} (P_i - B_i) \qquad (11)$$

where B_i is the pensioner benefit level for the i^{th} family. This measure is a simplified version of the poverty gap concept introduced in equation (5). We have decided to use a measure expressed in terms of actual dollar shortfalls because this can then be more readily compared with the budgetary cost of the family package and indicates in dollar terms the minimum level of additional spending required to raise all families to the poverty line.

Two further features of the measure we have used need emphasising. First, the measure is restricted to pensioner and beneficiary families only. Thus the poverty gap in equation (11) is defined for the N' social security families with children only, not for all (N) families in poverty. Our analysis excludes the impact of the family package on the working poor because of deficiencies in the data required to include such families. In any case, were the working poor to be included, the relevant poverty lines would be those where the head is in the workforce, whereas we have used the 'head not in the workforce' poverty lines. Second, the poverty gap measure in equation (11) aggregates the difference between the poverty line and the maximum rate of pension or benefit (including family allowance). In effect, this assumes that all pensioner and beneficiary families have no private income. Because of this, estimates of the poverty gap using the measure G^{**} will overstate the true poverty gap. In some instances, pensioner and beneficiary families may have a sufficiently large private income that their total income (pension or benefit plus private income) takes them above the poverty line. Many of those with private incomes would derive this from working, however, and their total incomes should therefore be compared with the higher, head-working poverty line. Thus, while our poverty gap estimates will be somewhat too high, it is most likely that the bias introduced by such considerations will be of only minor significance.

In any case, in assessing the impact of the family package we will focus on the **change** in the poverty gap as a result of the introduction of the family package. In this context, the errors introduced by our method will be of even less importance. What is of interest is the comparison between the cost of the family package (C), the poverty gap before its introduction (G_1^{**}) and the reduction in the poverty gap as a result of the family package ($G_2^{**} - G_1^{**}$). As will become clearer in Section 6, we will assess the effectiveness of the family package using two alternative indicators, the proportional reduction in the poverty gap, i.e. G_2^{**}/G_1^{**}, and the ratio of the reduction in the poverty gap to the cost of the family package, i.e. $(G_2^{**} - G_1^{**})/C)$.

5. The Government's Family Package

As a consequence of the changing nature of poverty in Australia, the issue of child poverty started to move onto the political agenda in the mid-1980s. In November 1985, the Minister for Social Security, Brian Howe, announced the establishment of a Review of aspects of the Australian social security system to be conducted by Professor Bettina Cass. In a paper for a seminar held at the Social Welfare Research Centre in November 1985, Professor Cass discussed the case for the Review, pointing out the major economic, social and demographic changes over the past decade which have had significant implications for the social security system. The changes specifically identified included the rapid increases in the rate and duration of unemployment, as well as changes in its distribution, the increase in the number of sole parent families, the large increase in the number of children in families dependent on pensions or benefits, and changes in the composition of the population in poverty as defined by the Henderson poverty line (Cass, 1986a, pp.6-10).

The Review has focused on three major aspects of social security policy - income support for families with children, social security and workforce issues, and income support for the aged. Priority was given to the review of income support for families and the first Issues Paper was published by the Review in October 1986 (Cass, 1986b). This Issues Paper canvassed a very wide range of concerns and identified a possible range of policy alternatives. While suggesting that a basic, universal family allowance payment should be maintained for all families with children, the Issues Paper gave greatest priority to improvements in the adequacy of income support for low income families and the establishment of a more appropriate equivalence for children in the social security system and its maintenance through indexation.

In January 1987, the Minister for Social Security announced that a special sub-committee of Cabinet had been established to draw together policies on income support, child protection and general welfare of families, with first consideration to be given to the proposals of the Social Security Review. The family package itself was announced in July, as part of the government's election policy platform. The package, to be introduced in December 1987, includes the following major elements:

(1) **A new Family Allowance Supplement (FAS) to replace payments for children of pensioners and beneficiaries and the Family Income Supplement (FIS) for children in low income working families.** Payments will initially be set at $22 a week for each child, an increase of $5 a week over current payments. For the first time these payments will be age-related, with an additional $6 a week for children aged 13, 14 or 15 who do not receive the AUSTUDY allowance for full-time students. (For convenience, these latter children will be referred to henceforth as aged 13 or over).

(2) **The income test on the new FAS payments will generally be more liberal than those applying to current payments.** At the moment, the additional pension for children is reduced by 50 cents for each dollar of extra income once basic pensions have been completely withdrawn. For a sole parent with one child, this is currently (November 1987) $300.30 a week (inclusive of mothers'/guardians' allowance) with the $17 a week payment for the child being reduced to zero once private income reaches $334.30. Additional benefit for children, in contrast, is withdrawn dollar for dollar, so that for a beneficiary couple with one child, the payment is reduced to zero between non-social security incomes of $237 and $254 a week. The Family Income Supplement is reduced by 50 cents in the dollar, with the point at which it starts to be withdrawn set at $20 a week above the 'cut-out level' for the married rate of benefit. Thus, the FIS payment for one child is currently withdrawn over the income range $257 to $291 a week.

The point at which the FAS payment starts to be withdrawn will be set at $300 a week and the withdrawal rate will be 50 per cent, so that payments for one child will be withdrawn between $300 and $344 a week where the child is under 13 years, or $356 a week where the child is 13 years or over. The threshold for withdrawal will be increased by $12 per week for each child after the first. In contrast, at the moment, only pensioners have an additional 'child disregard' in their income test. These details of the FAS income test are summarised in Table 6.

Table 6: Parameters of the Family Allowance Supplement System

Number and Age of children	Threshold[a] $p.w.	Cut out points[b] $p.w.	$p.a.	% of AWE[c]
One child	300			
- less than 13		344	17,888	66.6
- 13 plus		356	18,512	68.9
Two children	312			
- both less than 13		400	20,800	77.5
- one less than 13		412	21,424	79.8
- both 13 plus		424	22,048	82.1
Three children	324			
- all under 13		456	23,712	88.3
- 2 under 13, 1 over		468	24,336	90.6
- 1 under 13, 2 over		480	24,960	92.9
- all over 13		492	25,584	95.3
Four children	336			
- all under 13		512	26,624	99.1
- 3 under 13, 1 over		524	27,248	101.5
- 2 under 13, 2 over		536	27,872	103.8
- 1 under 13, 3 over		548	28,496	106.1
- all over		560	29,120	108.4
Five children	348			
- all under 13		568	29,536	110.0
- 4 under 13, 1 over		580	30,160	112.3
- 3 under 13, 2 over		592	30,784	114.6
- 2 under 13, 3 over		604	31,408	117.0
- 1 under 13, 4 over		616	32,032	119.3
- all over 13		628	32,656	121.6

Notes: (a) The threshold is defined as the point at which FAS payments begin to be reduced for each family type.

(b) The cut out point is defined as the point at which FAS payments are reduced to zero for each family type. For those renting privately, the cut out points are increased by $30 per week, equivalent to $1560 per annum or 5.8 per cent of AWE.

(c) Based on an estimated average weekly total earnings for full-time adult males of $516.43 in the November quarter of 1987.

Source: Australian Bureau of Statistics, **Average Weekly Earnings**, May 1987, Cat.No. 6302.0, and Commonwealth of Australia, **Budget Statements, 1987-88,** Budget Paper No.1.

(3) **Uniform rental assistance will be extended to all FAS recipients.** At the moment, pensioners who rent other than public housing are entitled to rent assistance of up to $15 a week, while sickness beneficiaries who have been in receipt of benefit for a continuous period of six weeks are also eligible. Unemployment and special beneficiaries who have been in receipt of benefit for a continuous period of 26 weeks or more are generally eligible for rent assistance of up to $10 a week. Under the new system, all FAS recipients who are private renters and who satisfy the other conditions now applying to pensioners will be eligible to receive a payment of up to $15 a week in rent assistance, which will be withdrawn by 50 cents in the dollar after FAS payments have been extinguished.

(4) **FAS payments will** continue to be increased in line with inflation in the longer term. The Government has committed itself to ensuring that total assistance per child moves from its current level of 11 per cent to at least 15 per cent of the combined married rate of pension, and that aggregate payments for older children should similarly attain a benchmark of 20 per cent of the combined married rate of pension (Australian Labour Party, 1987, p.20). Since the married rate of pension is currently indexed twice-yearly to increases in the Consumer Price Index (CPI), this commitment to maintenance of the relative value of payments appears to mean either that the combined value of the Family Allowance Supplement plus Family Allowances will also be indexed, or that these payments will be increased regularly, but on an ad hoc basis.

(5) **A new Child Disability Allowance free of means test, will be introduced.** This payment of $112 per month to families with a disabled child will replace the current Handicapped Child's Allowance of $92 per month for families with a severely disabled child, and the income-tested payment of between $20 to $92 per month for those with less severely disabled children. (This component of the package is not directly relevant to the poverty pledge, and will not be subsequently discussed.)

6. Assessment of the Family Package

Our evaluation of the family package involves three separate but related approaches. In Section 6.1 we describe the nominal impact of the package on the disposable incomes of pensioner and beneficiary families. This analysis provides an insight into the redistributive impact of the package at the lower end of the income distribution. Section 6.2 contains a discussion of the effects of the package on effective marginal tax rates for low income families and possible consequences for incentives to work. Section 6.3 contains the major part of our assessment, the effectiveness of the package in reducing financial poverty, the focus of the government's medium-term child poverty pledge.

6.1 Changes in Disposable Income

Detailed calculations of the effects of the family package on the disposable incomes of selected types of families are contained in Table 7. Taking the examples in Table 7, the main effect of the package is to increase the disposable incomes of sole parents by $5 a week for each child aged under 13 years and by $11 a week for each child 13 years or over (or by 3.4 per cent and 7.5 per cent, respectively). The dollar increases per child are generally the same except in those income ranges where sole parent families become newly entitled to part-rate FAS payments. Where there is one child under 13 years, the cut-out point for FAS would be increased to about 75 per cent of Average Weekly Earnings (AWE). Above this point, such a family will receive no additional benefit at all, unless the child is 13 years of age or over, or the family is renting privately and becomes entitled to rent assistance.

Invalid and age pensioner couples with children would generally receive the same dollar increases in disposable incomes as sole parent pensioners, as would unemployment, sickness and special beneficiary families with private incomes up to the cut-out point for basic benefit. Those unemployment or special benefit recipients currently receiving rent assistance would gain an additional $5 a week per family because of the increase in rent assistance to a uniform $15 a week. Beneficiaries with private incomes over the cut-out point for basic benefit would gain more, because of the eased FAS income test.

Table 7: Effects of the Family Package on Disposable Incomes for Selected Family Types

	Disposable Income ($ per week)			
	After July 1987 Tax Cuts and Poverty Traps Legislation		After Family Package	
Sole parent, 1 child	Not renting	Renting	Not renting	Renting
Pension, no private income				
- child under 13	146.40	161.40	151.40	166.40
- child 13 or over	146.40	161.40	157.40	172.40
Pension, private income = $100				
- child under 13	215.80	230.80	220.80	235.80
- child 13 or over	215.80	230.80	226.60	241.60
Pension, private income=1/2 AWE[(a)]				
- child under 13	274.65	289.65	279.65	294.65
- child 13 or over	274.65	289.65	285.65	300.65
Private income=$375				
- child under 13	322.15	322.15	322.15	322.15
- child 13 or over	322.15	322.15	322.15	327.65
Private income = AWE[(a)]				
child under 13	407.00	407.00	407.00	407.00
child 13 or over	407.00	407.00	407.00	407.00

Note: (a) Based on an estimated average weekly total earning for full-time adult males of $516.43 in the November quarter of 1987.

Table 7 (cont'd)

	Disposable Income ($ per week)			
	After July 1987 Tax Cuts and Poverty Traps Legislation		After Family Package	
Couple, two children	Not renting	Renting	Not renting	Renting
Benefit, no other income				
- both under 13	233.75	243.75	243.75	258.75
- 1 under 13	233.75	243.75	249.75	264.75
- both 13 or over	233.75	243.75	255.75	270.75
Benefit, private income between $70 and $237				
- both under 13	274.30	284.30	284.30	299.30
- 1 under 13	274.30	284.30	290.30	305.30
- both 13 or over	274.30	284.30	296.30	311.30
Benefit, private income = $250				
- both under 13	266.70	276.70	289.70	304.70
- 1 under 13	266.70	276.70	295.70	310.70
- both 13 or over	266.70	276.70	301.70	316.70
Private income = 3/4 AWE[(a)]				
Single Income				
- both under 13	341.85	341.85	348.20	363.20
- 1 under 13	341.85	341.85	354.20	369.20
- both 13 or over	341.85	341.85	360.20	375.20
Two income (ratio 3:1)				
- both under 13	351.50	351.50	357.85	372.85
- 1 under 13	351.50	351.50	363.85	378.85
- both 13 or over	351.50	351.50	369.85	384.85
Private income = AWE[(a)]				
Single income				
- both under 13	419.30	419.30	419.30	419.30
- 1 under 13	419.30	419.30	419.30	419.30
- both under 13	419.30	419.30	419.30	419.30
Two income (ratio 3:1)				
- both under 13	443.70	443.70	443.70	443.70
- 1 under 13	443.70	443.70	443.70	443.70
- both 13 or over	443.70	443.70	443.70	443.70
Couple, five children				
Private income = AWE[(a)]				
Single Income				
- all under 13	447.80	447.80	473.60	488.60
- all 13 or over	447.80	447.80	503.60	518.60
Two income (ratio 3:1)				
- all under 13	472.20	472.20	498.00	513.00
- all 13 or over	472.20	472.20	528.00	543.00

Similarly, low income working families would also gain more than simply the increase in the basic FAS payment because of interactive effects with the liberalisation of the income test. For example, both single income and two income families with two children and with combined private incomes equal to 75 per cent of AWE will have their disposable incomes increased by between $6.35 a week and $33.35 a week, depending on the age of their children and their housing tenure. Both single income and two-income families with the same total income benefit equally, because FAS, like the payments it replaces, is income-tested on the basis of joint family income. Table 7 also shows that larger families gain at higher income levels. For example, where there are five children, the increase in disposable incomes at AWE ranges from between $25 a week and $71 a week, depending on the age of children and housing tenure. Indeed, as Table 6 showed, the new FAS payments extend quite deeply into the income distribution. For families with four children, for example, cut-out points approximate average weekly earnings, while where there are five children, assistance can be available until combined income is around $30,000 a year, or higher. It should also be noted that FAS, like the payments it replaces, will not be taxable, so that these increases will not be offset by increased tax liabilities for the families assisted.

6.2 Effective Marginal Tax Rates and Work Disincentives

The extension of part-rate FAS payments to families at middle and higher income levels was the subject of some debate during the election campaign and subsequently. In particular, it was argued by Bascand, (1987) that the new package will involve the imposition of very high effective marginal tax rates (EMTRs) on those who become newly eligible for assistance. Because FAS payments are not taxable, the combined impact of withdrawal of the payment and income tax payable on the same private income means that recipients could face EMTRs of either 79 or 90 per cent. For some families facing the Medicare levy phase-in, EMTRs could rise to 110 per cent, although the number of families affected by this would be very small.

The combination of increased assistance (the income effect) plus higher marginal tax rates (the substitution effect) suggests that at least in theory the new FAS payment could provide additional disincentives to paid work. In addition, because FAS payments will be income-tested on the basis of joint family income, the possibly high effective marginal tax rates would appear to face both the 'primary' and 'secondary' income earners equally, although the FAS payments will be made to mothers in most circumstances. This suggests that the disincentive effects will be determined by the extent to which primary and secondary earners make their labour supply decisions jointly. Furthermore, given the greater labour supply responsiveness of secondary income earners to high effective marginal tax rates, this raises the concern that the FAS system may in the long run reduce the workforce participation of married women and contribute to the perpetuation of family poverty in some instances.

Such a conclusion would, however, be too strong, because specific design features of the FAS are intended to promote workforce participation. First, FAS, like FIS before it, will be based on joint family income averaged over the four weeks prior to claim, and will only be reviewed every six months. Entitlement will be reduced within a six month period after claim only if joint income during the period reaches 125 per cent of the prescribed threshold or joint income previously assessed, whichever is higher. (A person may, however, apply for an increase in payment at any time.)

An example of what this means is that a family with two children under 13 years, would receive the maximum FAS payment if their combined income in the four weeks prior to grant was less than $312 a week. Over the next 6 months, their FAS payments would be unaffected by any income change, unless their increased combined income exceeded $390 a week. Moreover, increases of less than 25 per cent do not affect entitlement within this six month period, so there are no 'overpayments' to be recovered. All that happens is that the family's FAS payment for the next six months will be determined on the basis of the higher average joint income. It follows, therefore, that for many families, the effective marginal tax rates apparently implied by the package will not in fact apply in practice during the crucial transition to work phase.

Conclusions of this sort have recently been criticised by Bascand (1987, pp.32-36), who essentially argues that administrative arrangements will not reduce EMTRs to any great extent, or where they do, they will be accompanied by attempts on the part of recipients to rearrange their affairs to qualify for FAS. Bascand argues that if

> 'FAS payments will be largely invariant to increased income and 'irregular' payments for overtime or casual employment, then the cost of the scheme will be much higher than has been allowed for and will provide assistance to many who are not the intended beneficiaries of the scheme' (Bascand, 1987, p.36).

The last of these criticisms does not take account of the fact that 'lagged' income tests are a common design feature in programs directed towards the 'working poor'. Examples include the Family Income Supplement in both Australia and the United Kingdom, the Family Support Program in New Zealand, and the Refundable Child Tax Credit in Canada. Eligibility for assistance in these programs is based on income in some period, such as the previous six months or the previous financial year, in order to reduce administrative burdens both on recipients and the paying authority. In circumstances where such arrangements are introduced, it is meaningless to suggest that a deliberate design feature extends assistance to persons who are not **intended** beneficiaries. By definition, it is the Government's intention to assist these groups and, in the process, to facilitate the transition to work.

The question of cost can only be resolved once the FAS program has been in operation for some time. It should be noted that the current FIS program can be used as a basis for estimating the annual cost of the new program, since it too has a lagged income test. It seems likely, moreover, that the estimates of the cost of the family allowance supplement would have taken account of this factor of income variability. It is certainly possible that some families could rearrange their financial affairs in order to qualify for FAS. For those outside the pension and benefit system, however, the financial gain would only be between $22 and $28 per week per child. This is a useful amount of money, but hardly a major incentive to such fraud. In any case, the usual concern with these sorts of programs is with low take-up of benefits, not the reverse.

The effect of the lagged income test on incentives to work is a more complex issue. The impact of these arrangements will depend in part on the time horizons that recipients have when making decisions about their work behaviour. Some families may base their decision on knowledge about the effects of increased work on their annual FAS entitlement; others may be more concerned about their immediate standard of living. This factor will interact with the 25 per cent 'buffer' before FAS entitlements are reduced. It is probable that many choices about increased work effort will be concerned with relatively minor opportunities for casual work or overtime, and may fall under this 25 per cent limit. Major decisions are more likely to produce income that exceeds this limit, for example, that by a non-employed spouse to take-up a substantial part-time or full-time job. But any such decision that produces a very significant increase in earned income is likely to outweigh the effects of the loss of FAS, unless the family is very large. In addition, if a previously entirely dependent spouse takes up a job earning between $100 and $200 per week, say, then the appropriate marginal income tax rate will be 24 per cent rather than 40 per cent, i.e. the family will become a two-income family. On this basis, it seems reasonable to conclude that many families will not actually face the EMTRs nominally implicit in the family package.(1)

Indeed, there are reasons to suggest that the proposed FAS system will have favourable effects on EMTRs. This is because beneficiaries with children can currently face EMTRs of 124 per cent over the income ranges where additional benefit for children is withdrawn (100 per cent withdrawal of the non-taxable benefit, plus 24 per cent tax). These EMTRs will be reduced to only 24 per cent in some cases and 79 or 90 per cent in others (subject to the proviso that they need not actually be faced for at least six months). For this group, therefore, the potential reduction in EMTRs' is very large.

One other aspect of the work incentive effects induced by the family package is worth emphasising. The main objective of FIS when it was introduced in 1983 was to provide an incentive to low income working families with children, who might otherwise be financially better-off by reducing or ceasing their hours of work and claiming unemployment benefit. FIS substantially reduced the financial incentives for such behaviour, but the extension in May 1986 of rent assistance (of $10 a week) to unemployment

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(1) It is also interesting to note that while the Centre of Policy Studies criticises the EMTRs produced by FAS, their preferred tax reform options involve a similar payment, without the lagged income test, which produces an EMTR for families with children more than twice as high as their proposed nominal top marginal income tax rate, 63 per cent compared with 30 per cent (Freebairn, Porter and Walsh, 1987, pp.228-229).

beneficiaries on benefit for 26 weeks or more once again narrowed the gap between the disposable incomes of those receiving benefit and those in low paid full-time work. By extending rent assistance to FAS recipients, this gap will be widened again, thus providing higher financial rewards to paid employment relative to reliance on unemployment benefit.

The main issue is not so much the theoretical impact of the new structure of effective marginal tax rates, but more the number of families whose level of assistance will change and who will face different effective tax schedules. The government estimated that a total of 510 thousand families with some one million children would be eligible for the new FAS payment. (Australian Labor Party, 1987, p.20) Of these 510 thousand families, some 270 thousand are current pensioners who will receive increased assistance and either unchanged or reduced effective marginal tax rates; 115 thousand families are beneficiaries who will similarly receive increased assistance, but face the same or lower EMTRs; around 60 thousand are current FIS recipients, who will receive increased levels of assistance, many of whom will also face lower EMTRs; there are thus only 50 thousand new recipients who will receive both increased assistance and (aside from the lagged income test) will also face higher EMTRs. Thus it is only for this last group - less than 10 per cent of all families eligible for FAS payments - for whom **both** income and substitution effects unambiguously imply reduced labour supply.

6.3 Effects on Child Poverty

As explained earlier, it is clear that the family package is directed towards the alleviation of **financial** poverty - that is, it is the government's intention to divert sufficient additional resources to families with children so that by 1990 no family will be in financial circumstances that leave it below 'the poverty line'. Assessing the effectiveness of the package, even in terms of these relatively narrow objectives is, however, problematic. The commitment hinges on a financial definition of poverty, which in turn must be operationalised in terms of a specific measure of the poverty line.

The most widely-known poverty line currently in use in Australia is the Henderson poverty line, which was first used by the Institute of Applied Economic and Social Research at the University of Melbourne in its 1966 survey of poverty in Melbourne, and was subsequently employed by the

Commission of Inquiry into Poverty. In line with most previous research into poverty in Australia, the following analysis is based on the Henderson poverty line. Further details of the derivation of the Henderson poverty line, in particular the equivalence scales used to adjust for different family types, are provided in Appendix 1.

The Henderson poverty line has attracted a significant amount of criticism in relation to its determination for the 'standard family', the equivalence scales used, and the method used for updating it over time (Saunders, 1980b; Stanton, 1980; Whiteford, 1985). Use of the Henderson line has, however, been advocated by Manning (1982), and it has been extensively used by other researchers (SWPS, 1981; Gallagher, 1985; Bradbury, Rossiter and Vipond, 1986; Vipond, 1986). In fact, it is this extensive use that has made the Henderson poverty line of particular interest, since it is the **only** measure available to assess trends in the circumstances of low income families, as illustrated in Table 1.

The most important factor in our decision to use the Henderson line was the recognition that there is **no** widely accepted, alternative poverty line available in Australia. While accepting the deficiencies of the Henderson line, we consider that the Government's pledge will most likely be judged by the public and by community groups with reference to the Henderson poverty line. Should the Government have an alternative indicator of poverty in mind, then it is for them to say so.

In theory, the effectiveness of the package can be evaluated in one of two ways. Ideally the impact of the package on disposable incomes should be assessed using actual data on family circumstances and the distribution of family incomes. The most recent data source available for this purpose is the Australian Bureau of Statistics' (ABS) **1981-82 Income and Housing Survey** unit record file. These data can be updated by 'statistical aging', but this is a complex and difficult task and in the final analysis it cannot be precisely certain that the results are close to the actual situation, given the long period of time over which the data must be 'aged'.[(2)] The ABS is planning to release a further unit record file based on the **1985-86 Income**

(2) For a discussion of the methodology used to 'age' the **1981-82 Income and Housing Survey** unit record file, see King (1987).

and Housing Survey, which should provide a useful basis for future analysis of this kind. For the moment, we have decided to assess the immediate impact of the family package using a second method, based on comparisons between pension and benefit rates and the poverty line before and after the introduction of the family package for different family types. Wherever possible, we will use data derived from the **1981-82 Income and Housing Survey** unit record file to complement our analysis with the actual income distribution, housing tenure and socio-demographic characteristics of poor families.

It is not easy to assess the immediate impact of the package on child poverty as measured by the Henderson poverty line, because we do not know at this stage what the updated poverty line will be by the end of this year, much less in 1990. In order to evaluate the impact of the family package on pensioner and beneficiary families, we have used the Henderson poverty lines for December 1986, and compared them with the pension and benefit rates that came into effect in December 1986. To evaluate the impact of the family package, we then added on the additional child payments that will be introduced in December 1987, adjusted to take account of movements in the married rate of pension since December 1986.(3) As a result, our analysis assumes payments for children aged under 13 increase by $4.60 a week instead of $5.00, while those for children aged 13 and over increase by $10.05 a week instead of $11.00. Thus, we have estimated what the effect of the family package **would have been** had it been introduced in December 1986. The conclusions reached should therefore be treated with caution, although the approach should be more reliable than projecting the movements in household disposable income required to update the poverty line to the end of 1987.

Next, it must be decided whether to use the simplified or the detailed Henderson poverty lines. As Appendix 1 shows, the detailed Henderson lines make allowances for the age and sex of children, the age, sex and workforce status of the income unit head, the age and workforce status of wives, and whether the income unit head lives alone or with others. Because of the complexity of these scales, we initially decided to use the simplified

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(3) The government announced in the 1987-88 Budget that the introduction of the package would be delayed by one month.

Henderson poverty lines at December 1986.[(4)] These are presented for information in Appendix Table 1.3. This choice meant that we did not allow for the fact that the costs of children increase as they grow older, since the simplified poverty lines for children take a weighted average of the age-related costs for children of all ages. Given that a feature of the family package is a larger increase in assistance for older children, this is a questionable procedure.

In order to overcome this problem, we calculated an 'age-adjusted' poverty line, which was essentially a weighted average of the age relativities in the detailed Henderson poverty line, adjusted to be in line with the age differentials embodied in the family package. We also averaged out the differences between male and female children. The resulting poverty lines are shown in Appendix Table 1.4.

The next issue involved is whether to employ the 'head working' or the 'head not working' poverty line. As can be seen from Appendix Table 1.3 the 'head working' poverty line in all cases is $26.70 per week higher than the corresponding 'head not working' line. It follows therefore that the gap between pensions and benefits and the poverty line will be significantly wider if the 'head working' line were to be used in the assessment. The rationale for the higher 'head working' poverty line is quite clear. Those who are participating in the labour force must face the direct costs of work (e.g. transport, extra clothing) that those at home need not pay.

Previous users of the Henderson line have argued that the 'head working' line should be used to assess the adequacy of unemployment benefits, which are intended to support people while they are looking for work. Indeed, the Poverty Commission itself argued that the 'head working' poverty line is relevant to those in the full-time work force, and that this "... includes not only persons who are engaged in full-time work, but also those unemployed persons who are looking for full-time work" (**Poverty in Australia**, 1975, p.355). In contrast, sole parents have for many years not been expected to be participating in the workforce and the 'head not working' line has therefore been taken as the relevant measure for this group. We decided to

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(4) These simplified poverty lines were used in our initial assessment of the family package (Saunders and Whiteford, 1987).

use the 'head not working' poverty line for all groups in our assessment, and our approach can therefore be criticised as underestimating poverty among the unemployed. As a result, our procedure will put the best possible light on the Government's package. However, where some families remain below the poverty line after the family package, a different assumption about workforce costs would not move them above the line.

Use of the 'head not working' poverty line has one further important consequence. Our results are only relevant to families on pensions and benefits, not to low income working families with children, where the 'head works' poverty line is clearly appropriate. It follows that this paper can say little about the effects of the family package on poverty among current FIS recipients, or those working families receiving the augmented FAS payments. Thus our analysis excludes children in poverty who are in low income working families.

A final choice that must be made when using the Henderson line is whether poverty should be judged before or after housing costs have been paid. The housing cost assumptions of the simplified Henderson poverty line can be derived from Appendix Table 1.3. These assumptions imply that housing costs are uniform for all households of the same size so that, for example, both a couple without children and a sole parent with one child were allowed $50.70 a week for housing costs in December 1986. These costs then increase by $4.60 a week for each additional household member (Appendix Table 1.3).

The Henderson after housing costs methodology involves comparing the poverty line less these standard housing costs with the difference between actual incomes and actual housing costs. Given the approach we have adopted of comparing 'model' families receiving social security payments, there is an obvious problem of lack of data on actual housing costs. Our solution is to derive **average** housing costs for each type of family, differentiated according to family size and housing tenure. These average costs were derived from expenditures reported in the **1981-82 Income and Housing Survey**, then updated to December 1986 by movements in the appropriate components of the Consumer Price Index. The estimates derived in this way are given in Table 8.

Table 8: Estimated Average Housing Costs by Family Type and Housing Tenure, December 1986

($ per week)[a]

Type of Family	Renting Privately	Public Tenant	Owner	Owner/ Purchaser
Sole Parent				
1 child	58.50	26.80	15.80	57.80
2 children	77.40	29.80	13.40	52.90
3 children	78.90	32.80	13.40	49.60
4 children	80.40	35.70	13.40	75.50
5 children	81.90	38.20	13.40	71.00
Unemployed couple				
1 child	78.20	38.60	18.50	100.40
2 children	79.70	41.50	18.50	79.10
3 children	81.20	44.50	18.50	66.70
4 children	82.70	47.50	18.50	47.80
5 children	84.20	50.40	18.50	40.70

Note: (a) Rounded to the nearest 10 cents.

Source: 1981-82 Income and Housing Survey, unit record tape.

Those who consider estimates of average housing costs to be unreliable may argue that it would be preferable to avoid the issue of housing tenure entirely and assess the package in relation to the before housing poverty line. Recent research on poverty strongly suggests, however, that housing is a most important element to consider (Bradbury, Rossiter and Vipond, 1986). The results reported below also show that consideration of housing costs significantly changes perceptions of which groups are facing the greatest difficulties, and consequently affects the policy conclusions to be drawn. For example, pensioners in the private rental market may currently be eligible for rent assistance of up to $15 a week. Use of the before housing poverty line would suggest that a family receiving this payment is actually better-off than one that is a public tenant or a home owner, because the latter groups are not eligible to receive additional rent assistance. But Table 8 shows that in December 1986, average housing costs for a sole parent pensioner with one child were $58.50 per week where the sole parent was renting privately, $26.80 per week for a similar public tenant, and $15.80 for a similar pensioner who fully owned their home. Clearly, the private renter is the worst-off of these groups not the best-off, yet the before housing costs poverty line would imply the reverse. If, as an alternative, the additional rent assistance were simply disregarded, then the analysis would be ignoring one of the important elements in the family package. The only way to address this question, therefore, is to use the after housing costs poverty line.

The figures shown in Table 8, however, do give rise to a number of concerns. First, **average** housing costs may not capture the full extent of the variation in **actual** housing costs faced by families in poverty. Because a number of low income families will have costs lower than the average, and a number will have far higher housing costs, use of an average figure may distort the actual situation. Second, these variations in housing costs may reflect differences in preferences - some people may give higher priority to housing quality than others. The third issue is that Table 8 shows trends in housing costs between family types and tenure types that are apparently contradictory and difficult to understand For example, there is a large increase in average housing costs for sole parents between those who have one child and those who have two, but costs increase only slightly thereafter. Furthermore, an unemployed couple with five children faces private rental costs only $6.00 per week higher than those with one child. Again, sole parents who are purchasers show housing costs that decrease with family size, and then jump somewhat for very large families. In contrast, unemployed couples who are purchasers show consistently decreasing housing costs as family size increases. What is one to make of these patterns?

In relation to the first issue, analysis of the variability of housing costs for social security recipients (by family type and size) using the **1981-82 Income and Housing Survey** shows that there is comparatively little variability in housing costs for such families with children. Unemployment beneficiaries without children, in contrast, have extremely variable housing costs, but this group is not relevant to our analysis.

The second concern raises a more fundamental problem. Home purchasers in particular are in the process of acquiring a valuable asset and many purchasers in the general community also take on very high commitments in the early stages of buying a home. However, while there may generally be an element of choice involved when these decisions are initially taken, they may nevertheless imply very serious financial constraints on families whose incomes are subsequently reduced, through unemployment for example.

Affordability of housing is commonly judged by the proportion of income which can be paid for housing without placing an undue financial burden on the family. This proportion is generally considered to vary between 20 and 30 per cent of income, with the most common criterion being 20 per cent. (Bradbury, Rossiter and Vipond, 1986). This proportion is also often used as the basis for rents charged to those in public housing.

Comparison of Table 8 with Appendix Table 3.1 shows, for example, that sole parents who are renting privately spend between 32 and 43 per cent of their incomes on rent, with the majority, spending more than 35 per cent. The majority of unemployment beneficiary couples with children who are private renters spend between 35 and 40 per cent of their incomes on rent. Similarly, most sole parents who are purchasing a home spend between 30 and 40 per cent of their income on repayments, with the comparable figures for couples with children being between 25 and 50 per cent.

These figures suggest that many families in poverty are paying far more for housing than they can afford. Rather than being a conscious choice to take higher quality housing, this probably reflects the fact that housing is a basic necessity, combined in some cases with a reduction in income after initial housing decisions were taken. While it may be theoretically possible to reduce personal housing expenses - by moving into a caravan park or a refuge, or moving to another city or State - these involve major decisions and involve costs which may reduce the family's welfare even further.

Purchasers, who are particularly concentrated among the unemployed, also face similar constraints. Except for unemployed couples with one child, Table 8 shows that the only ways for purchasers to reduce their housing costs are either to become outright owners or to move into public housing. These families are trying to become owners - that is the problem. With long waiting lists for public housing, it is clearly impractical to expect many unemployed purchasers to be able change tenure in this way. In addition, to the extent that a period of unemployment is longer than the individual anticipates, they will not apply for public housing, but will continue to pay their mortgage and reduce their current living standards in the hope of finding a new job. For many in this group, therefore, the likeliest alternative tenure is private rental accommodation, where their housing costs would increase even further.

In this context, the third issue of the apparently contradictory trends in housing costs by family size becomes clearer. Private renters, with the exception of sole parents with one child, pay on average between $77 and $84 a week in rent. The very small increase in rent as family size increases thus suggests that most of these families economise on housing to a very high extent. This probably results in overcrowding and lower rather than higher quality housing.

The contrasting pattern of reductions in costs for purchasers as family size increases probably reflects the fact that that **1981-82 Income and Housing Survey** provides a 'snapshot' of families at different stages in their life cycles. At a point in time, larger families are likely to be older families, and older families are more likely to have purchased their homes earlier. Thus, the lower current housing costs of large families may simply reflect the fact that they are further advanced in repaying their mortgages and have smaller mortgages. The increase in costs for sole parents with four of five children simply reflects the very small number of families in these circumstances - an estimated 1,700. These differences could therefore be the result of sampling error, but with the number of families affected being so few, this bias will make almost no impact on our results.

In summary, we would argue that the results presented in Table 8 reinforce the conclusions reached by earlier researchers (e.g. Bradbury, Rossiter and Vipond, 1986) that high housing costs are a major cause of financial poverty among families with children. It is an issue to which the paper will return.

One final proviso should be noted. The results reported below compare pensions and benefits as percentages of the poverty line before and after the family package. Because of the caveats outlined above, the precise figures presented should be treated with care. We have rounded the figures to the nearest whole percentage to emphasise that they should be thought of as approximate rather than precise. Nevertheless, the differences between the results, particularly those for housing tenure types and different types and sizes of families, give us confidence that the general pattern implied by these results is robust.

For illustrative purposes, Table 9 shows the position of different pensioner and beneficiary families with children relative to the **simplified** poverty line before the introduction of the family package. Table 10 shows the estimated pension and benefit levels relative to the simplified poverty line for families by different housing tenure types following the introduction of the package. The table shows results for families with up to five children, where all children are aged under 13 or all are aged 13 or over, thus providing the smallest and largest possible changes after the package. For families who have a combination of children aged under 13 and 13 or over, it is possible to take a weighted average of the two extreme situations shown in Table 10 to estimate their position after the family package. The raw figures from which these percentages are derived are provided in Appendix Tables 3.1 to 3.5.

Table 9: Pensions and Benefits Relative to the Simplified Poverty Line - Before Family Package

(per cent)

	Before Housing Costs		After Housing Costs			
Type of Family	Private Renters	Other	Private Renters	Public Tenants	Owners	Purchasers
Sole parent pensioner						
with 1 child	100	90	93	109	120	79
2 children	93	85	75	98	110	81
3 children	89	82	74	92	104	82
4 children	86	80	74	88	99	69
5 children	87	82	74	86	97	73
Unemployment Beneficiary Couple (< 6 months)						
with 1 child	99	99	83	111	124	68
2 children	93	93	80	102	114	80
3 children	90	90	79	96	109	86
4 children	87	87	79	93	105	93
5 children	86	86	79	91	103	94

Table 10: Pensions and Benefits Relative to the Simplified Poverty Line - After Family Package

(per cent)

	Before Housing Costs:				After Housing Costs:							
	Private Renters		Other		Private Renters		Public Tenants		Owners		Purchasers	
Age of children:	<13	>13	<13	>13	<13	>13	<13	>13	<13	>13	<13	>13
Sole parent pensioner												
1 child	103	107	94	97	98	103	113	117	124	129	84	89
2 children	98	104	90	96	81	89	103	110	117	125	88	96
3 children	95	102	88	96	82	92	99	106	117	121	90	100
4 children	93	101	87	95	83	94	96	104	108	119	78	89
5 children	92	100	87	96	84	95	94	103	106	118	82	94
Pensioner/Beneficiary Couple												
1 child	109	112	102	104	97	101	113	116	128	131	71	75
2 children	103	108	97	102	94	100	106	111	119	126	86	92
3 children	100	106	95	101	93	100	102	108	115	123	92	100
4 children	98	105	93	100	92	101	99	106	112	121	100	109
5 children	97	105	93	100	93	102	98	106	111	121	103	113

Note: In this and all subsequent tables the sign > should be interpreted to mean 13 years or over.

The main focus of our analysis is presented in Tables 11 and 12, which concentrate on pensions and benefits relative to the **age-adjusted** poverty line and show results after housing costs have been accounted for. It is apparent that the Government's family package goes quite a long way to improving the financial circumstances of low income families. For example, sole parents with one child under 13 and who are private renters will have their incomes increased from 93 per cent to 98 per cent of the after-housing costs poverty line; where the child is over 13 the increase will be from 85 to 93 per cent. An unemployment beneficiary couple with one child and who are private renters will have their income increased from 82 per cent of the poverty line to 95 per cent where the child is under 13 years, and from 76 to 92 per cent where the child is over 13 years.

These estimates suggest that the package will raise the incomes of a number of families from below to above the poverty line. Other families - particularly those who wholly own their own home - will find that the package raises their income further above the poverty line than it was originally. Many other low income families will have their incomes increased by the family package yet still remain below the poverty line. These effects for different family types are illustrated in Figure 4.

In the context of the government's poverty pledge, the key question is how many **children** will be raised above the poverty line by the family package. On the basis of 1986 figures supplied by the Department of Social Security on the distribution of families receiving social security payments by family size, and using data from the **1981-82 Income and Housing Survey** on the housing tenure and age of children in families in poverty, we estimate that the family package will reduce the number of children in pensioner and beneficiary families living in poverty by around 100 thousand.(5) On the basis of this estimate, there would still remain some 440 thousand such children in poverty in Australia after December 1987. As emphasised above, however, and illustrated in Figure 4, the package will also improve the

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(5) Note that this figure has been revised following our earlier analysis (Saunders and Whiteford, 1987), and there are differences between the results presented. It should also be remembered that these figures refer only to social security families and do not include the effects of the family package on poverty among children in working families.

Table 11: Pensions and Benefits Relative to the Age-Adjusted Poverty Line - Before Family Package

(per cent)

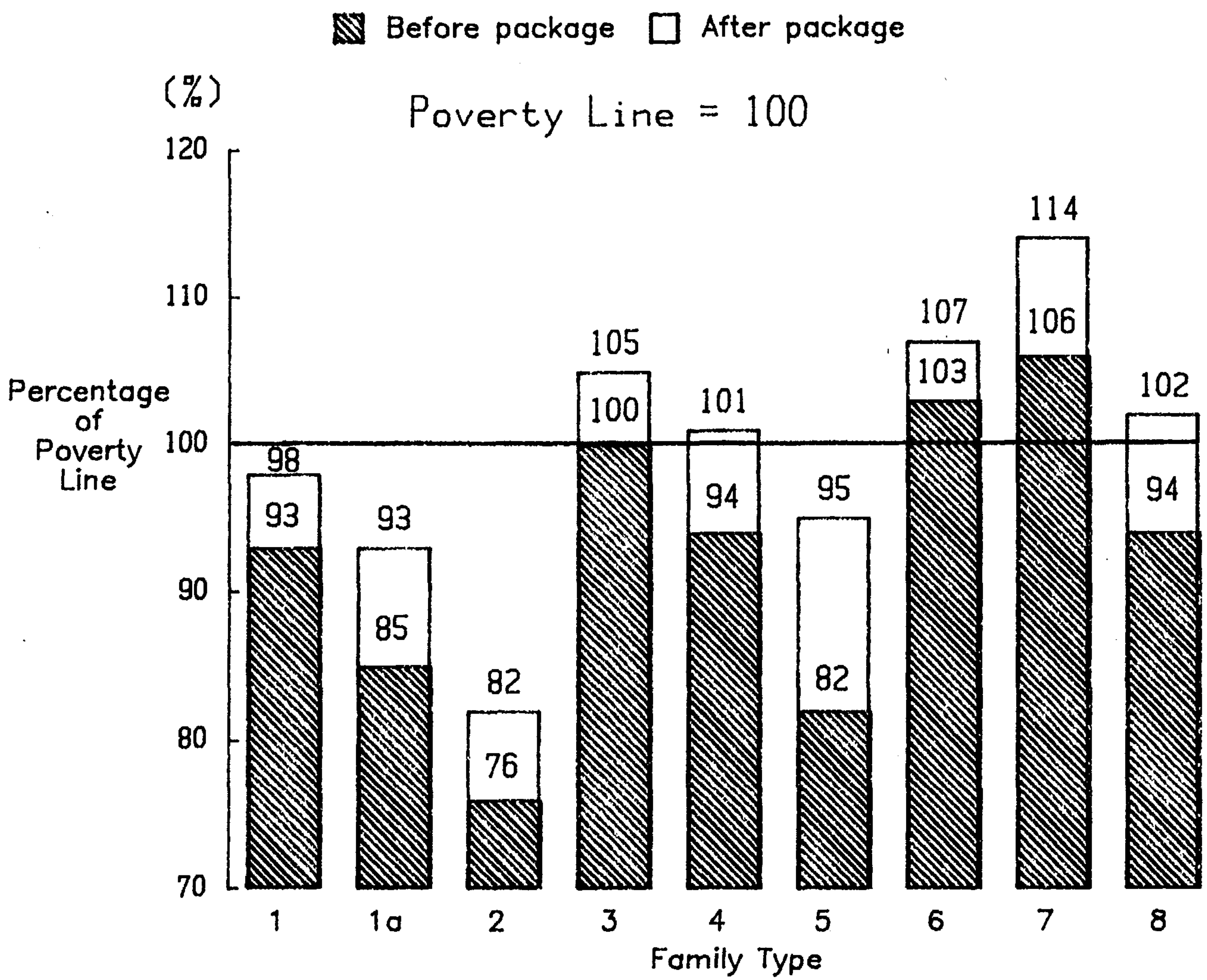
Type of Family	Private Renters	Public Tenants	Owners	Purchasers	Rent-Free
Sole parent pensioner					
- 1 child					
- under 13	93	109	120	80	135
- 13 or over	85	99	109	72	122
- 2 children					
- under 13	76	100	112	83	122
- 13 or over	65	86	97	71	105
- 3 children					
- under 13	76	94	106	84	114
- 13 or over	64	79	89	71	96
- 4 children					
- under 13	76	91	102	71	109
- 13 or over	63	75	84	59	90
- 5 children					
- under 13	77	89	100	75	106
- 13 or over	63	73	82	61	86
Unemployment/Beneficiary Couple					
- (< 6 months)					
- 1 child					
- under 13	82	109	122	67	135
- 13 or over	76	101	114	62	126
- 2 children					
- under 13	82	103	116	82	126
- 13 or over	72	91	102	72	111
- 3 children					
- under 13	80	97	110	87	118
- 13 or over	69	84	95	75	103
- 4 children					
- under 13	80	94	106	94	114
- 13 or over	68	80	90	80	97
- 5 children					
- under 13	81	93	105	96	111
- 13 or over	67	78	88	81	93

Table 12: Pensions and Benefits Relative to the Age-Adjusted Poverty Line - After Family Package

(per cent)

Type of Family	Private Renters	Public Tenants	Owners	Purchasers	Rent-Free
Sole parent pensioner					
- 1 child					
- under 13	98	113	124	84	139
- 13 or over	93	106	117	81	131
- 2 children					
- under 13	82	105	118	89	128
- 13 or over	78	96	109	84	118
- 3 children					
- under 13	84	101	114	93	122
- 13 or over	79	92	104	86	111
- 4 children					
- under 13	85	99	112	80	118
- 13 or over	79	88	101	75	106
- 5 children					
- under 13	87	97	110	85	116
- 13 or over	80	87	99	79	104
Pensioner/Beneficiary Couple					
- 1 child					
- under 13	95	111	125	70	138
- 13 or over	92	106	120	69	132
- 2 children					
- under 13	95	107	121	87	132
- 13 or over	89	98	112	82	121
- 3 children					
- under 13	93	102	116	93	125
- 13 or over	88	94	108	88	115
- 4 children					
- under 13	93	100	114	102	121
- 13 or over	87	91	104	94	111
- 5 children					
- under 13	94	100	113	105	120
- 13 or over	87	90	103	96	109

Figure 4:
Illustrative Effects of the Family Package in Reducing Child Poverty



FAMILY TYPES:
All children under 13 except 1a

1. Sole parent, private renter, 1 child under 13
1a. 1 child over 13

2. Sole parent, private renter, 2 children

3. Sole parent, public tenant, 2 children

4. Sole parent, public tenant, 3 children

5. Couple, private renters, 2 children

6. Couple, public tenants, 2 children

7. Couple, owners, 4 children

8. Couple, purchasers, 4 children

financial circumstances of **all** children in poverty, even if it does not raise them out of poverty entirely.

As explained in Section 4 above, the headcount measure of the incidence of poverty is a an insensitive indicator for assessing policies like the family package. To overcome this, we have used the crude measure of the poverty gap explained at the end of Section 4 to estimate the total income shortfall of all poor pensioner and beneficiary families with children, assuming that they have no additional income other than their pension or benefit receipt. This effect is also illustrated by Figure 4. The poverty gap measure is simply equal to the aggregate value of the differences between pensions and benefits and the poverty lines for all different family types below the poverty line. This poverty gap measure provides a better means of assessing the impact of the family package than the simple headcount poverty incidence measure. Our resulting estimates of the impact of the family package on the headcount and poverty gap measure are summarised in Table 13, which compares results using the simplified and age-adjusted poverty lines. The detailed estimates underlying these results are presented in Appendix Three.

As indicated earlier, prior to the introduction of the package there were an estimated 540 thousand children living in pensioner or beneficiary families in poverty. The effect of the package is to reduce the poverty headcount by 100 thousand children or by around 19 per cent. This may not seem like a significant reduction in poverty, given the cost of the family package ($380 million in a full year). Table 13 shows, however, that the estimated poverty gap is reduced to a much larger extent, from around $350 million to $193 million, or by around 45 per cent. Thus the poverty gap is reduced by $157 million, or by 41 per cent of the total cost of the family package.

One point to note from Table 13 is that the original poverty gap is slightly less than the cost of the family package. The package does not reduce the poverty gap to zero because some of those who benefit are already above the after-housing poverty line, and the package raises these families further above the line, as well as increasing the incomes of other families to more than 100 per cent of the poverty line. (Figure 4) Furthermore, as Table 10 and Figure 4 indicate, many families will remain in poverty even after the introduction of the family package.

Table 13: Effectiveness of Family Package in Reducing Child Poverty

	Simplified poverty lines	
	Number of pensioner/beneficiary children in poverty ('000)	Poverty Gap ($ p.a.)
1. Before Family Package	514.3	$309.4m
2. After Family Package	403.0	$157.0m
3. (1) minus (2)	111.3	$152.4m
4. (2) as per cent of (1)	78.3	50.7

	Age-Adjusted poverty lines	
	Number of pensioner/beneficiary children in poverty ('000)	Poverty Gap ($ p.a.)
1. Before Family Package	542.2	352.2m
2. After Family Package	440.4	192.6m
3. (1) minus (2)	101.8	$159.6m
4. (2) as per cent of (1)	81.2	54.7

These observations should not be taken as implying that the package is inefficiently targeted. Indeed, comparison of Tables 11 and 12 suggest that the package is very well targeted. For any family type, within each tenure situation, the further below the poverty line, the greater is the increase in pensions or benefits relative to the poverty line. For example, sole parents with one child and who are private renters will have their incomes increased from 93 to 98 per cent of the poverty line (i.e. by 5 percentage points) when the child is under 13 years and from 85 to 93 per cent (i.e. by 8 percentage points) when the child is 13 or over. This targeting arises because of the deliberate decision to provide higher payments for older children, and to extend uniform rent assistance to unemployment beneficiaries with children. It also arises because flat increases in cash transfers are necessarily progressive - they form a higher proportion of income relative to the poverty line, the lower is one's income in relation to the poverty line.

7. Achieving the Poverty Pledge: Some Additional Proposals

If the Government is to achieve its poverty pledge by 1990, what further needs to be done? Over the longer-term, the Government has committed itself to maintaining the level of assistance for younger children at at least 15 per cent of the combined married rate of pension and that for children 13 years and over at 20 per cent of the combined married pension rate. While this committment - which effectively indexes payments for children as long as the married rate of pension is itself indexed - is a crucial step in maintaining equity in assistance, it is not in itself sufficient to further reduce after-housing poverty.

Table 14 shows the relativities that would have been achieved had the family package been introduced in December 1986. Where the children are under 13 years, the benchmark of 15 per cent is already surpassed, while where children are 13 years or over, further increases are required to reach the 20 per cent target. But Table 12 showed that most low income families with younger children would remain below the poverty line after the introduction of the family package. It follows, therefore, that achieving the 15 per cent benchmark would do little (if anything) to **further** reduce poverty among those with younger children. Increases in the rate for older children would be useful, but if set at 20 per cent would be insufficient to have a significant impact.

Table 14: Assistance for Children Relative to the Combined Married Rate of Pension, December 1986

Size of Family	Assistance when each child under 13 years ($ p.w.)	Relativity per child (%)	Assistance when each child 13 years or over ($ p.w.)	Relativity per child (%)
1 child	26.85	15.2	32.30	18.2
2 children	55.95	15.8	66.85	18.9
3 children	86.55	16.3	102.90	19.4
4 children	117.15	16.5	138.95	19.6
5 children	149.25	16.9	176.50	19.9

The only way that indexation of payments to maintain these benchmarks would further reduce poverty would be if the poverty line itself fell in real terms due to declines in real per capita household disposable income. In fact, as Appendix Figure 2.2 illustrates, this has occurred at various times over the past fifteen years, as well as more recently between December 1985 and March 1987. This may seem to some (including us) as a less than desirable means of reducing poverty, but it is a logical consequence of the **relative** view of poverty which is reflected in how poverty is conceived and measured. The gap between pensions and the poverty line in many circumstances is currently so wide (e.g. for sole parents with two or more children) that real disposable incomes would have to fall so far to close it as to make this a totally implausible (as well as undesirable) scenario. In any case, government policies over the next three years will presumably be designed to achieve sustainable economic growth and lower inflation. Successful policies of this sort would in fact tend to widen rather than narrow the gap between pensions and the poverty line.

The differences shown in Table 12 and Figure 4 between the characteristics of those groups remaining above and below the poverty line after the family package provide a basis for identifying policies that will further reduce the number of children in poverty. In general, all those receiving the higher rate of payment for older children are worse-off relative to the poverty line than are similar families with younger children. Larger families are less well-placed relative to the poverty line than are smaller families, while sole parents have significantly lower incomes relative to the poverty line than do couples with children. In addition, the highest incomes relative to the poverty line are enjoyed by those who own their own homes, and by public tenants who are receiving the higher rate of FAS for older children. Private renters are significantly worse off than public tenants, and home purchasers are in most instances worse off again.

A coordinated approach to ending child poverty by 1990 is therefore necessary, one that would have the following features. First, it is most important to recognise that the best way to avoid being in poverty is to have access to income in addition to that provided by social security payments, even after the family package. There is no doubt that increases in employment and reductions in unemployment among families with children remains the most overall effective way of reducing child poverty in the longer run. It should be noted, however, that the Government has been less successful in reducing unemployment among families with children than in reducing unemployment generally. In the broader context of a more determined effort to return to conditions of full employment, specific attention should be given to labour market and training programmes for unemployed families with children, and to training and child care provisions for sole parents.

Apart from having a job, the next best way to avoid poverty is to own your own home outright. Table 12 indicates that home purchasers are worse off in income terms than public tenants, although they may be considerably better off in terms of assets. There are, however, impossible strains on home purchasers living on pension or benefit, particularly when interest rates are so high. More thought could be given to ways of allowing them to defer mortgage repayments, while simultaneously seeking to return them to the job market as quickly as possible. Table 12 also shows that it is generally better to be a public tenant than a private renter, although large families in public housing are still below the poverty line. This suggests that an expansion of public housing in order to reduce waiting lists will also be important.

Even if these employment and housing policies are to be implemented, it appears that further improvements in social security payments will also be required. In particular, it is clear that the proposed rates of payment for children are still not completely adequate and are insufficient to end financial poverty. Comparison of Tables 10 and 12 shows, that the higher level of payment for children 13 or over appears more appropriate to cover the costs of younger children. This suggests that raising the rate of payment for younger children to 20 per cent of the married rate of pension and further increasing the rate for older children, say, to 25 per cent, would go a long way towards achieving the Government's poverty pledge. The family package provides a very sound platform from which the Government can further reduce child poverty, at relatively moderate cost to the community. We would argue, therefore, that the family package should be extended by further real increases in the value of payments for children.

Further improvements in rent assistance would also be a particularly target-efficient way of reducing child poverty. One way in which the after-housing poverty gap could be reduced to zero would be if the housing costs of pensioners and beneficiaries were completely covered by income support payments. In fact, it would appear that relating income support more closely to **actual** housing costs would probably be a very target efficient method of assisting poor families, a point discussed in more detail in Vipond (1987). In any case, there are obviously strong arguments for increasing the rent assistance of $15 a week, when **average** private rental payments are estimated to be between $58 and $85 a week for pensioner and beneficiary families with children (Table 8). Another target efficient method of reducing child poverty would be to provide additional assistance to large families, who tend to fall further below the poverty line as family size increases (Figures 1 and 2).

Finally, sole parents are worst-placed relative to the poverty line, and even the improvements outlined above could well leave many children in sole parent families still in poverty. This suggests that further specific initiatives should be directed towards sole parent families. Such moves could be facilitated as part of the Government's current consideration of reforms to the child maintenance system, **if** it provides for real improvements in the living standards of sole parent pensioners, rather than simply being a revenue-saving exercise.

8. Conclusions

The Government's pledge to effectively abolish child poverty by 1990 represents official acknowledgment that the number of children living in poor families has reached alarming proportions. Available evidence shows the incidence of poverty among children in Australia has increased steadily over the last two decades to unacceptably high levels, well above those prevailing in a number of similar OECD countries, with the exception of the United States. Something clearly needs to be done to address what has become a major social problem, and the poverty pledge is encouraging evidence of the Government's willingness to act. As a first step, the family package to be introduced in December 1987 will provide additional income support to many low income families with children. This paper has focused on the impact of the family package on child poverty and discussed a range of additional policies which will be required if the poverty pledge is to be achieved within the next three years.

While it is a relatively straightforward exercise to estimate the impact of the family package on the disposable incomes of pensioner and beneficiary families, its impact on the incidence of poverty is more complex. The latter exercise requires the poverty line to be specified and an index of poverty measurement to be utilised. Our estimates of the impact of the package compare results based on the simplified Henderson poverty lines developed by the Poverty Commission with an 'age-adjusted' poverty line derived from the detailed Henderson relativities. However, there are a number of technical issues to be resolved before the analysis can proceed, and these have been spelled out in detail in the paper.

We would stress two particular aspects of our analysis that will require further research. First, our results are sensitive to the estimates of the housing costs of pensioner and beneficiary families. We have used data from the **1981-82 Income and Housing Survey**, updated by the relevant price movements, to estimate poverty after housing costs. However, while the resulting housing cost estimates will be reasonably accurate, changes in the pattern of housing tenure since 1981-82 have not been allowed for and these could influence our results considerably. Second, it has not been possible to extend the analysis to low income working families with children, many of whom will benefit substantially from the family package.

With these limitations in mind, our analysis suggests that the family package will reduce the number of children in poor pensioner and beneficiary families from approximately 540,000 to some 440,000, a reduction of 19 per cent. However, the package raises the financial resources of all other poor families with children, but not by enough to raise them above the poverty line. A better indicator of the impact of the package is provided by our poverty gap estimates, since these account for the improvements in the disposable incomes of all poor families. On this basis, we estimate that the family package will reduce the poverty gap from $350 million to $190 million, a reduction of some 45 per cent. Thus, while the package is a significant step towards achieving the longer-run child poverty pledge, further measures will also be required. One of these measures would be further real improvements in the adequacy of social security payments for children.

An issue of more fundamental significance in our view is that income support measures **alone** will not be sufficient to achieve the poverty pledge in any sustainable way. We have emphasised two areas of policy which will also need to be addressed, those relating to employment and to housing. The best way to avoid being in poverty is to have access to income in addition to (or to replace entirely dependence on) social security payments. Thus, more emphasis must be given to increasing employment opportunities overall and, through education and training initiatives, to enhancing the employability of the unemployed and other social security recipients. Apart from having a job, the next best way to avoid poverty is to own your own home outright. Yet many low income families are private renters, paying rents far in excess of the rent assistance they receive, while those who are home purchasers face impossible financial strains. The sensitivity of our results to our housing tenure and housing cost assumptions does not undermine the great significance of housing costs for the living standards of poor families; rather, it suggests that much more attention needs to be given to housing policies specifically targeted on poor families.

Our analysis suggests that the elimination of child poverty, even in the narrow context assumed, will require a co-ordinated and multi-dimensional policy approach. Our estimates point to the significance of what might be seen as purely technical issues involved in selecting a poverty line against which to judge policy outcomes. We would stress, however, that underlying these issues are such basic concerns as housing and employment-related costs which impact upon the living standards of all families, particularly those on lowest incomes. The Government's child poverty pledge has set the policy agenda for the rest of this decade and served to focus attention on a major social problem. The family package is a significant policy initiative, but one which will require additional, supportive and fundamental measures in a range of areas. In an era of budgetary stringency and resource constraints, it will need the political will of a Government committed to social justice to ensure success.

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APPENDIX 1

The Henderson Poverty Line

The first detailed survey of poverty in Australia was undertaken by the Institute of Applied Economic and Social Research at the University of Melbourne in 1966, and the results were first published in **The Economic Record** (Harper, 1967) and later in more detail in **People in Poverty, A Melbourne Survey** (Henderson, Harcourt and Harper, 1970). The poverty line used was essentially arbitrary - it was simply assumed that if the standard family of a man in work, wife at home and two children had an income that was below the 1966 basic wage plus child endowment, they would be likely to be in poverty. Thus, the rounded poverty line of $33 per week for such a family was derived without any study of the actual needs and costs of Australian families.

Henderson, Harcourt and Harper then used the 1954 'Family Budget Standard', prepared by the Budget Standard Service of the Community Council of Greater New York to adjust their poverty line for differing family structures. The Family Budget Standard attempted to reflect for New York a 'modest but adequate' level of living based partly on expenditure studies, and partly on what were judged to be 'scientific' requirements for good nutrition and health. These were used to formulate a regimen appropriate to families in low to moderate income groups. Because of the complexity of the 1954 data (they not only allowed for the number of adults and children in the family unit, but also for age, sex, and workforce status of family members, and whether the head lives alone or with other people), Professor Henderson used a simplified version of these relativities in the **Interim Report** and **First Main Report** of the Commission of Inquiry into Poverty. The more complex standard cost assumptions were used by the Commission to compute the numbers and percentages below the poverty line. The only change was that for costs varying with household size (housing, fuel, power costs, etc), the series was smoothed to eliminate irregularities and anomalies (for example, rental costs in the 1954 data were less for two persons than for one).

In deriving his simplified system of relativities, Henderson aggregated the 1954 New York standard costs into five classes of individuals: working head, non-working head, working wife, non-working wife, and dependent children. He did this by calculating simple averages for all classes except dependent children. For these he calculated a weighted average to avoid the upward bias which the significantly higher standard costs for the 15 and over age groups would give to a simple average. Appendix Table 1.1 illustrates the standard costs used in the adjustment of income.

The standard costs in Appendix Table 1.1 are made up of two parts: First, there are the specific costs for each person, covering items such as food, clothing, education, recreation and transport, that vary according to the characteristics of the individual. Second, there are the housing and other costs like power, light and furniture that depend on the total size of the household. The elements are shown in Parts A and B, respectively, of Appendix Table 1.1. In order to calculate the costs of different types of income units, the appropriate costs for individuals (head, wife and any children) are taken from Part A and added to the appropriate housing and other costs from Part B. In the case of income units sharing a household with others, the housing and other costs are taken as a fraction of the costs of the appropriate total household size, the fraction being the ratio of the number of persons in the income unit to the total number of persons in the household.

The Henderson equivalence scales are calculated from these standard costs by determining some standard family (say a couple with working head, non-working wife (both under 40) and no dependent children), then determining the appropriate costs from Part A and adding to them the costs from Part B, and then replicating this procedure for any other family of interest and expressing the result as a percentage of the costs for standard family. For example:

(i)	Standard costs or points for the standard family of working head, non-working wife (both under 40) and no dependent children	19.70 + 10.00 + 20.00 = 49.70 points
(ii)	Standard costs for single male age pensioner living alone	12.95 + 17.00 = 29.95 points
(iii)	Equivalence scale value	$\frac{29.95}{49.70} = 0.60$

Appendix Table 1.1

Henderson Standard Costs

Part A: Food, clothing and other costs that vary with family status, age, sex and work status of individuals.

I. STANDARD COST OF INCOME UNIT HEADS

(i) Where income unit head lives alone

Age	Under 40		40 - 65		65 and over	
Employment status	Works	At home	Works	At home	Works	At home
Males	20.80	14.80	20.30	14.30	20.00	12.95
Females	20.40	12.75	20.15	12.50	19.85	10.85

(ii) Where income unit head lives with other people

Age	Under 40		40 - 65		65 and over	
Employment status	Works	At home	Works	At home	Works	At home
Males	19.70	13.70	19.20	13.20	18.90	11.85
Females	20.40	12.75	20.15	12.50	19.85	10.85

II. STANDARD COST OF WIVES

Age	Under 40		40 - 65		65 and over	
Employment status	Works	At home	Works	At home	Works	At home
Wife	20.70	10.00	17.45	9.75	17.15	8.10

III. STANDARD COST OF CHILDREN

Age	Under 6	6 - 15	15 and over
Males	5.08	8.48	13.00
Females	5.08	8.23	11.05

Part B: Costs varying with household size (points)

Household size	Housing costs	Fuel/power etc. costs	Total
1	12.1	4.9	17.0
2	13.1	6.7	20.0
3	14.5	8.0	22.5
4	15.7	9.3	25.0
5	16.9	10.6	27.5
6	18.2	11.8	30.0
7	19.4	12.6	32.0
8	20.0	14.0	34.0
9	21.2	14.8	36.0
10	21.8	16.2	38.0
11	22.4	17.6	40.0
12+	24.2	19.8	44.0

Source: Poverty in Australia, 1975, p.354.

The relativities derived in this way are shown in Appendix Table 1.2. Overall, as could be expected, these equivalence scales reflect the patterns found in Appendix Table 1.1, showing the standard costs.

The simplified Henderson poverty lines are given in Appendix 1.3. These poverty lines differ slightly from those published by the National Institute for Economic and Industry Research (1987a), because household disposable income per head for December 1986 was revised downward from $206 to $205.40 between the April and September 1987 NIEIR **Newsletters**.

Age-adjusted relativities

In order to derive poverty lines that varied by the age of children, in line with the age distinctions in the Government's family package, it is necessary to refer to Part A.III of Appendix Table 1.1, which gives the standard costs of children by age and sex. The sex distinctions were averaged out, i.e. a child aged 0 to 5 years was given a standard cost of 5.08 points, a child 6 to 15 years was given a standard cost of 8.355 points and child 15 years and over was given a standard cost of 12.025 points. The relativity for children under 13 was then calculated as the average of 6 years at 5.08 points and 7 years at 8.355 points; correspondingly, the value for children 13, 14 or 15 years of age was calculated as the average of 2 years at 8.355 points and 1 year at 12.025 points. This gives standard costs of 6.84 points for those under 13 and 9.58 for those 13 years or over.

Because the sex distinction between childrens' costs had been eliminated, it was decided also to average out the standard cost differences between adult males and females, as well as between those under 40 and those 40 to 65 years. These recalculated standard costs were then added to those varying by household size using the approach outlined previously.

Taking the Henderson standard family (working head under 40, wife under 40 at home, son aged 6 to 15 years, and daughter under 6 years) as a base, the recalculated relativities were expressed as a proportion of the poverty line for this standard family. The standard family was thus set at 68.26 points, implying a poverty line of $265.30 per week in December 1986. The resultant age-adjusted poverty lines for other family types are given in Appendix Table 1.4.

Appendix Table 1.2

Henderson Relativities for Selected Family Compositions - New York, 1954

Family Composition	**Heading Working**		**Head not Working**	
	Male	Female	Male	Female
Single, under 40 years	.76	.75	.64 (0.73)	.60 (0.68)
40-65 years	.75	.75	.63 (0.72)	.59 (0.67)
65 and over	.74	.74	.60 (0.68)	.56 (0.64)
Single, under 40 years with:				
one child under 6	.92	.91	.80 (0.91)	.76 (0.86)
two children, m6-15, f0-6	1.14	1.14	1.02 (1.16)	.98 (1.11)
three children, m15+, f6-15, m0-6	1.45	1.44	1.33 (1.51)	1.28 (1.45)
	Wife works	Wife at home	Wife works	Wife at home
Couple, under 40 years	1.21	1.00	1.09 (1.24)	.88 (1.00)
40-64 years	1.14	.98	1.02 (1.16)	.86 (0.98)
65 and over	1.12	.94	.98 (1.11)	.80 (0.91)
Couple, under 40 years, with:				
one child under 6	1.36	1.15	1.24 (1.41)	1.03 (1.17)
two children, m6-15, f0-6	1.59	1.37	1.46 (1.66)	1.25 (1.42)
three children, m15+, f6-15, m0-6	1.89	1.68	1.77 (2.01)	1.55 (1.76)
four children, m15+, f6-15, m0-6, f0-6	2.04	1.83	1.92 (2.18)	1.71 (1.94)
five children, m15+, f6-15,m6-15, f0-6, m0-6	2.26	2.04	2.14 (2.43)	1.92 (2.18)
six children, m15+, f15+, m6=15, f6=15, m0-6, f0-6,	2.52	2.30	2.40 (2.73)	2.18 (2.48)

Notes: The figures in brackets are the relativities derived if a couple with head not working and no children is taken as the base. m = male, f = female.

Source: **Poverty in Australia**, 1975, pp.354-355.

Appendix Table 1.3

Simplified Henderson Poverty Lines, December 1986

($ per week)[a]

Types of Family Income Unit	Head in workforce		Head not in workforce	
	All costs including housing	Costs other than housing	All costs including housing	Costs other than housing
Couple	188.90	138.20	162.20	111.50
Couple and 1 child	227.10	171.80	200.40	145.10
Couple and 2 child	265.30	205.40	238.60	178.70
Couple and 3 child	303.40	238.90	276.70	212.20
Couple and 4 child	341.60	272.10	314.90	245.40
Couple and 5 child	377.90	303.80	351.10	277.10
Single person	141.20	95.00	114.50	68.30
Single parent and 1 child	181.20	130.50	154.50	103.80
Single parent and 2 children	219.40	164.10	192.70	137.40
Single parent and 3 children	257.60	197.70	230.90	171.00
Single parent and 4 children	295.80	231.30	269.10	204.60
Single parent and 5 children	334.00	264.90	307.30	238.20

Note: (a) Rounded to nearest 10 cents and from all sources after tax.

Source: Calculated from National Institute for Economic and Industry Research, 1987a; 1987b.

Appendix Table 1.4:

Age-Adjusted Poverty Lines, Head not Working, By Age of Children, December 1986 ($ per week)

Type of Income Unit	All Costs Including Housing	Costs Other than Housing
Couple	162.20	111.50
Couple and 1 child		
- under 13	204.30	147.90
- 13 or over	214.90	158.60
Couple and 2 children		
- both under 13	237.80	176.80
- both 13 or over	261.90	200.90
Couple and 3 children		
- all under 13	276.90	211.20
- all 13 or over	308.80	243.20
Couple and 4 children		
- all under 13	313.20	242.50
- all 13 or over	355.80	285.10
Couple and 5 children		
- all under 13	347.60	272.20
- all 13 or over	400.80	325.40
Single person	114.50	68.30
Sole parent, 1 child		
- under 13	154.90	104.00
- 13 or over	165.60	114.70
Sole parent, 2 children		
- both under 13	192.00	135.70
- both 13 or over	213.30	157.00
Sole parent, 3 children		
- all under 13	228.30	167.30
- all 13 or over	260.30	199.20
Sole parent, 4 children		
- all under 13	264.60	198.90
- all 13 or over	307.20	241.50
Sole parent, 5 children		
- all under 13	300.90	230.20
- all 13 or over	354.20	283.40

APPENDIX 2

Trends in the Consumer Price Index, Average Weekly Earnings and Household Disposable Income per Head, 1973-74 to 1986-87

A crucial part of the development of poverty lines once the initial standard has been set is to determine how the lines should be updated over time. When it was initially set in 1966, the Henderson poverty line was 56.5 per cent of seasonally adjusted average weekly earnings. Consequently, the poverty line used by the Commission of Inquiry into Poverty was also set at 56.5 per cent of the then seasonally adjusted average weekly earnings.

Use of average weekly earnings for updating the poverty line has been criticised, however, since the poverty line is usually thought of as a disposable income concept, while average weekly earnings is a gross income concept. Thus, if there are real increases in taxes, the poverty line can increase as a proportion of **disposable** average weekly earnings (Stanton, 1980, pp.17-18).

In responding to those criticisms, Manning (1982, pp.10-12) suggested that household disposable income per capita would provide a better measure of community living standards than would (pre-tax) average weekly earnings. Since that time, the Henderson poverty lines published by the Institute of Applied Economic and Social Research and more recently by the National Institute of Economic and Industry Research have been updated by increases in (seasonally adjusted) household disposable income per capita.

Appendix Tables 2.1, 2.2 and 2.3 provide, respectively, detail on trends in the consumer price index, average weekly earnings and household disposable income per head over the period 1973-74 to 1986-87. These trends are also illustrated in Appendix Figure 2.1. It can be seen that while the trends for these indicators differ markedly between different periods, over the long run the trends in the relative levels of average weekly earnings and household disposable income per head have been fairly similar, both significantly in excess of the increase in the consumer price index over this period.

As a result of this, the poverty line has increased in real terms over this period. In contrast, pensions and benefits have generally been indexed to the CPI for most of the period and, as discussed in the text, have therefore fallen relative to the poverty line. Appendix Table 2.4 and Appendix Figure 2.2 show, however, that this has not been a consistent trend, and that in certain periods household disposable income per capita, and consequently the poverty line, have fallen in real terms.

Appendix Table 2.1:

Consumer Price Index - Weighted Average of Six Capital Cities, 1973-74 to 1986-87 (September 1973 = 100)

Year/Quarter	September	December	March	June
1973-74	100.0	103.6	106.0	110.3
1974-75	115.9	120.2	124.5	129.0
1975-76	129.9	137.1	141.2	144.8
1976-77	148.1	156.9	160.5	164.4
1977-78	167.5	171.6	173.8	177.4
1978-79	181.0	185.1	188.2	193.2
1979-80	197.7	203.6	208.1	213.9
1980-81	218.0	222.5	227.7	232.8
1981-82	237.6	247.5	251.8	257.8
1982-83	266.8	274.5	280.6	286.7
1983-84	291.6	298.4	297.2	297.7
1984-85	301.8	305.8	310.3	317.7
1985-86	324.7	331.3	338.9	344.5
1986-87	353.6	363.7	370.9	

Source: Australian Bureau of Statistics, **Consumer Price Index**, Cat.No.6401.0, various.

Appendix Table 2.2:

Average Weekly Earnings - Full Time Males, 1973-74 to 1986-87 (September 1973 = 100)

Year/Quarter	September	December	March	June
1973-74	100.0	108.8	102.4	116.3
1974-75	125.1	139.6	130.0	141.4
1975-76	142.4	158.8	149.4	162.5
1976-77	167.0	176.6	166.1	179.6
1977-78	184.5	192.1	185.4	195.5
1978-79	197.9	206.3	201.4	210.3
1979-80	216.0	225.0	222.1	233.1
1980-81	244.4	261.9	244.6	266.0
1981-82	272.2	284.4	300.1	309.7
1982-83	317.0	324.4	327.6	329.8
1983-84	336.0	347.8	356.1	368.8
1984-85	371.1	374.2	377.3	381.6
1985-86	387.3	397.7	406.1	408.8
1986-87	420.1	428.8	428.1	

Sources: Australian Bureau of Statistics, **Average Weekly Earnings**, Cat.No. 6301.0, various: **Labor Statistics**, 1976, Cat.No. 6.61.

Appendix Table 2.3:

Seasonally Adjusted Household Disposable Income per Head, 1973-74 to 1986-87 (September 1973 = 100)

Year/Quarter	September	December	March	June
1973-74	100.0	101.4	105.2	108.7
1974-75	118.6	122.5	129.9	132.6
1975-76	140.4	143.1	145.4	150.7
1976-77	161.6	160.4	162.1	166.8
1977-78	170.7	173.6	179.8	183.9
1978-79	191.5	194.4	202.1	204.9
1979-80	208.0	213.6	217.3	227.4
1980-81	234.8	241.9	242.5	253.0
1981-82	260.6	270.9	271.5	284.9
1982-83	288.2	299.6	303.1	304.7
1983-84	321.6	331.8	338.4	346.0
1984-85	349.3	356.5	367.4	379.6
1985-86	383.5	397.9	404.9	408.7
1986-87	417.1	423.5	426.8	437.5

Source: National Institute for Economic and Industry Research, (1987 b), Table 4.

Appendix Table 2.4:

Real Seasonally Adjusted Household Disposable Income per Head, 1973-74 to 1986-87 (September 1973 = 100)

Year	September	December	March	June
1973-74	100.0	97.9	99.2	98.5
1974-75	102.3	101.9	104.3	102.8
1975-76	108.1	104.4	103.0	104.1
1976-77	109.1	102.2	100.1	101.5
1977-78	101.9	101.2	103.5	103.7
1978-79	105.8	105.0	107.4	106.1
1979-80	105.2	104.9	104.4	106.3
1980-81	107.7	108.7	106.5	108.7
1981-82	109.7	109.5	107.8	110.5
1982-83	108.0	109.1	108.0	106.3
1983-84	110.3	111.2	113.9	116.2
1984-85	115.7	116.6	118.4	119.5
1985-86	118.1	120.1	119.5	118.6
1986-87	118.0	116.4	115.1	

Source: Calculated from Appendix Tables 2.1 and 2.3

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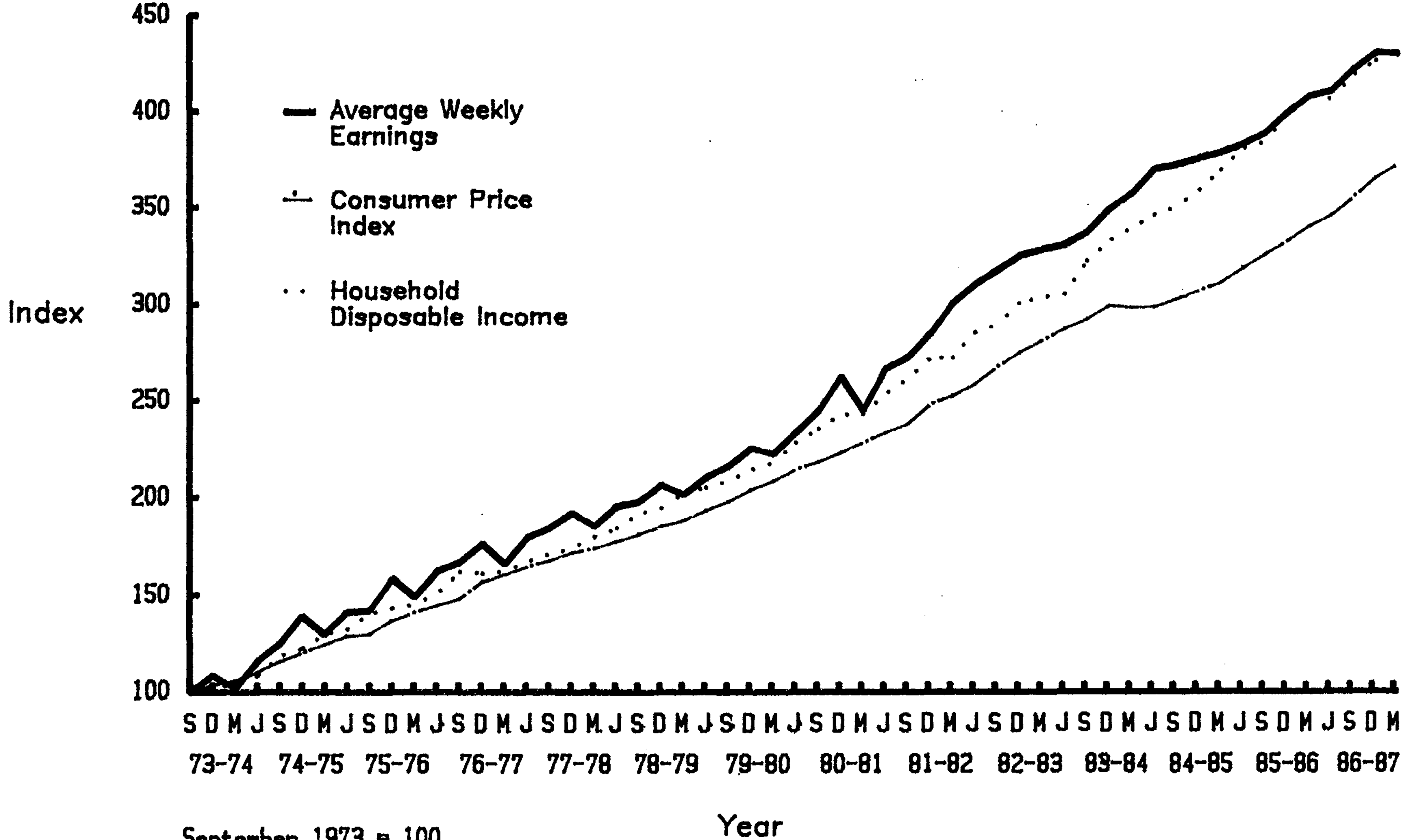
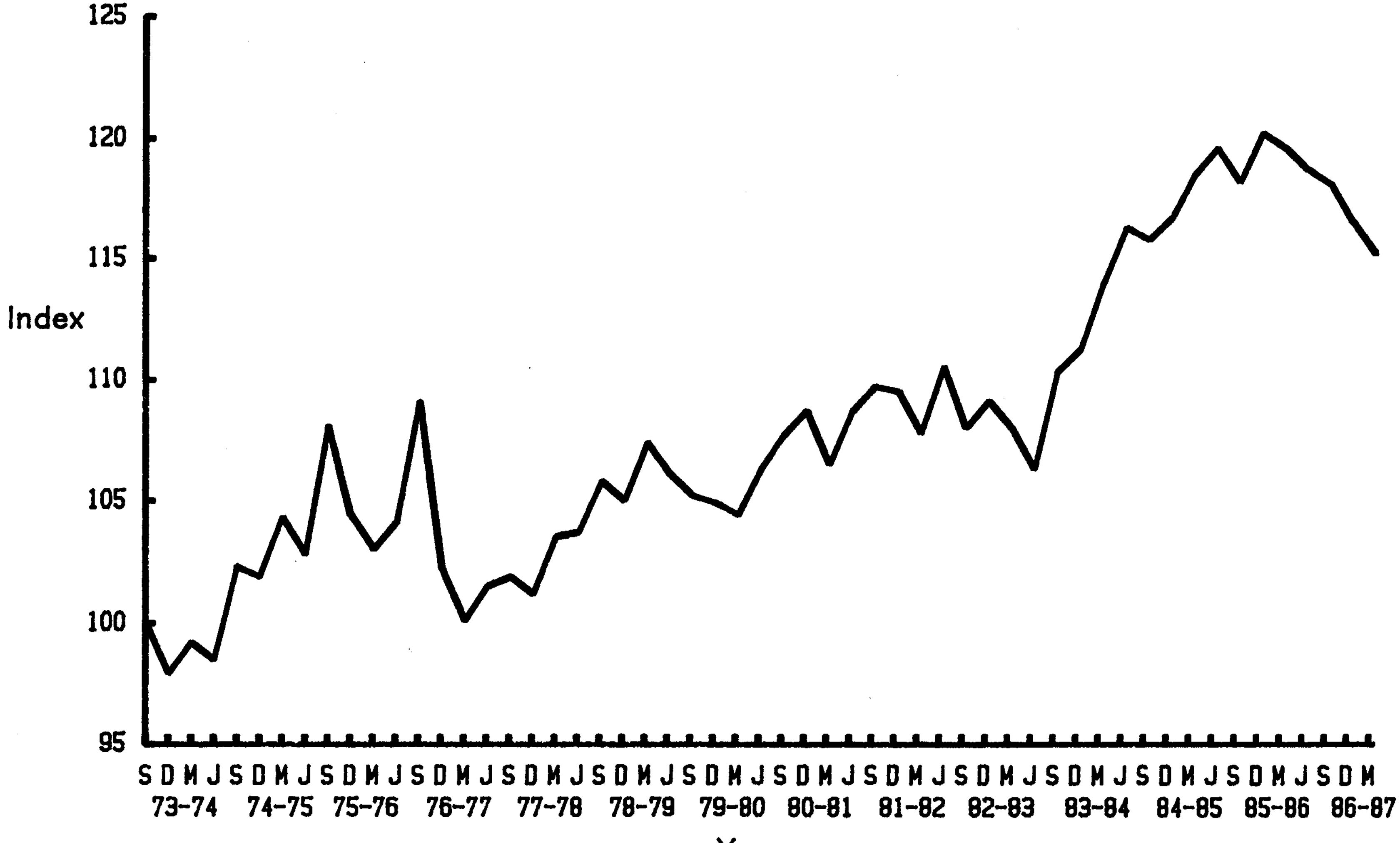
Appendix Figure 2.1:
Average Weekly Earnings, Consumer Price Index and Household Disposable Income Per Head, 1973–74 to 1986–87



September 1973 = 100

Appendix Figure 2.2:
Real Household Disposable Income Per Head, 1973–74 to 1986–87



September 1973 = 100

APPENDIX 3:

Estimating the Effects of the Family Package on Child Poverty

This Appendix provides the data which were used to derive the estimates of the impact of the family package on child poverty presented in Section 6.

Appendix Table 3.1 shows the levels of pensions and benefits before and after the package by type of family and family size, housing tenure and age of children. Table 8 in the text showed estimates of average housing costs faced by different types of families in differing housing tenures. These estimates were generally derived from the **1981-82 Income and Housing Survey**, updated to December 1986 levels according to movements in the appropriate components of the Consumer Price Index. The housing costs of public tenants were calculated as 20 per cent of gross income (excluding family allowance), and therefore costs for this group increase once the package is taken into account.

The figures in Table 8 were subtracted from the corresponding figures in Appendix Table 3.1 to produce the results given in Appendix Tables 3.2 and 3.3, which show the level of income of pensioner and beneficiary families after paying housing costs, both before and after the family package. These figures were then compared with the after-housing poverty lines for each family type given in Appendix Two. The results given in Tables 9, 10, 11 and 12 in the text were calculated by comparing the figures in Appendix Tables 3.2 and 3.3 with the relevant poverty lines.

In order to estimate the number of families and children 'moved' over the poverty line and to determine the impact of the package on the poverty gap, it is necessary to know the distribution of pensioner and beneficiary families with children by family type and size. These figures are given in Appendix Table 3.4, which was derived from data provided by the Department of Social Security.

The next step was to allocate these social security families (excluding FIS recipients) by housing tenure and age of children. Information on housing tenure and age of children in social security families was derived from the **1981-82 Income and Housing Survey** unit record file, and then applied to the figures provided by the Department of Social Security. The resulting estimates are shown in Appendix Table 3.5. (It should be noted that these estimates show differing age distributions within each tenure type and family size and type. For example, in around 16 per cent of sole parent families who have one child and who are renting privately, the child is 13 years of age or over; the corresponding figures for sole parent homeowners with one child is 74 per cent).

Table 3.5 was then used as the basis for estimating the number of children moved out of poverty by the family package. The poverty gap figures were also calculated by combining data from this table with the difference between pensions and benefits after housing costs have been paid and the relevant poverty lines.

The results given in this report differ somewhat from those in our earlier paper published in the September issue of **Australia Society** (Saunders and Whiteford, 1987). These differences arise because:

(1) Seasonally adjusted Household disposable income per capita and consequently the Henderson poverty lines were revised down very slightly after the September **Australian Society** had been finalised.

(2) The Department of Social Security provided us with unpublished data on the distribution of children of family type and size, which differed somewhat from what had been estimated from published data.

(3) Initial estimates of the distribution of children by age, family type, family size and housing tenure were based on the assumption that the age distribution of children was uniform across all these cells. As noted above, estimates from the **1981-82 Income and Housing Survey** which provide for differing age distributions by family type and tenure were subsequently derived and used.

(4) In the initial estimates, no account had been taken of families who were living rent-free. In the final estimates, account was taken of this group (consisting of some 23 thousand families and 42 thousand children), who consequently were 'removed' from poverty.

(5) Finally, and most importantly, the development of the age-adjusted equivalence scales altered the levels of the poverty lines both for children under 13 years and those 13 years or over. This affected the size of the poverty gap as well as the number of children moved from below to above the poverty line.

Appendix Table 3.1:

Pension and Benefit Incomes Before and After Family Package

($ per week)

Type of Family	Pensions Before Package: Renting Privately	Pensions Before Package: Other	Pensions After Package: Renting Privately <13	Pensions After Package: Renting Privately >13	Pensions After Package: Other <13	Pensions After Package: Other >13
Sole parent						
1 child	155.45	140.45	160.05	165.50	145.05	150.50
2 children	179.95	164.95	189.15	200.05	174.15	185.05
3 children	205.95	190.95	219.75	236.10	204.75	221.10
4 children	231.95	216.95	250.35	272.15	235.35	257.15
5 children	259.45	244.45	282.45	309.70	267.45	294.70
Unemployed couple (<6 months)						
1 child	199.35	199.35	218.95	224.40	203.95	209.40
2 children	223.85	223.85	247.55	258.45	232.55	243.45
3 children	249.85	249.85	278.65	295.00	263.65	280.00
4 children	275.85	275.85	309.25	331.05	294.25	316.05
5 children	303.35	303.35	341.35	368.60	326.35	353.60

Appendix Table 3.2:

Pension and Benefit Incomes After Paying for Housing - Before Family Package

($ per week)

Type of Family	Renting Privately	Public Tenant	Owner	Purchaser	Rent-free
Sole Parent					
1 child	96.99	113.67	124.69	82.70	140.45
2 children	102.57	135.15	151.54	112.07	164.95
3 children	127.07	158.20	177.54	141.31	190.95
4 children	151.57	181.25	203.54	141.50	216.95
5 children	177.57	206.27	231.04	173.45	244.45
Unemployed Couple					
1 child	121.17	160.79	180.84	98.99	199.35
2 children	144.17	181.87	204.84	144.21	223.35
3 children	168.67	205.32	231.34	183.13	249.85
4 children	193.17	228.37	257.34	228.02	275.85
5 children	219.17	252.99	284.84	262.61	303.35

Appendix Table 3.3:

Pension and Benefit Incomes After Paying for Housing - After Family Package

($ per week)

Type of Family	Renting Privately <13	>13	Public Tenant <13	>13	Owner <13	>13	Owner/Purchaser <13	>13	Rent-free <13	>13
Sole parent										
1 child	101.59	107.04	117.35	121.71	129.29	134.74	87.30	92.75	145.05	150.50
2 children	111.77	122.67	142.51	151.23	160.74	171.64	121.27	132.17	174.15	185.05
3 children	140.87	157.22	169.24	182.32	191.34	207.69	155.11	171.46	204.75	221.10
4 children	169.97	191.77	195.97	213.41	221.94	243.74	159.9	181.70	235.35	257.15
5 children	200.57	227.82	224.67	246.47	254.04	281.29	196.45	223.70	267.45	294.70
Unemployed couple										
1 child	140.77	146.22	164.47	168.83	185.44	190.89	103.59	109.04	203.95	209.40
2 children	167.87	178.77	189.23	197.05	214.04	224.94	153.41	164.31	232.55	243.45
3 children	197.47	213.82	216.36	229.44	245.14	261.49	196.93	213.28	263.65	280.00
4 children	226.57	248.37	243.09	260.53	275.74	297.54	246.42	268.22	294.25	316.05
5 children	257.17	284.42	271.39	293.19	307.84	335.09	285.61	312.86	326.35	353.60

Appendix Table 3.4:

Distribution of Children (Excluding Students) by Family Type and Size and Social Security Payment Received, December 1986

(Thousands)

Sole Parent	Class A and B Widows' Pension and SPB	Other Pensions	Unemployment, Sickness and Special Benefit	FIS	Total Number of Families	Total Number of Children
1 child	124.1	4.3	5.3	.4	134.1	134.1
2 children	76.5	1.3	1.7	.4	79.9	159.8
3 children	28.4	.4	1.1	.2	30.1	89.7
4 children	8.4	.1	-	.1	8.6	34.8
5+ children	2.8	.1	-	-	2.9	16.0
Total	240.2	6.2	8.1	1.0	255.4	434.3

Couples	Age and Invalid Pension	Unemployment Benefit	Sickness and Special Benefit	FIS	Total Number of Families	Total Number of Children
1 child	16.8	28.3	4.3	3.2	52.5	52.5
2 children	9.8	33.2	4.4	8.4	55.8	111.6
3 children	4.2	19.5	2.8	8.8	35.0	105.3
4 children	1.6	8.6	1.1	5.0	16.4	65.5
5+ children	1.8	4.7	.7	2.7	8.9	50.0
Total	33.2	94.3	13.3	28.1	168.7	384.8

Notes: SPB = supporting parent beneficiary families;
FIS = family income supplement recipient families.

Source: Unpublished data provided by the Department of Social Security.

Appendix Table 3.5:

Distribution of Pensioner and Beneficiary Families with Children by Income Unit Type, Number and Age of Children, and Housing Tenure, December 1986

(Thousands)

		Private renters		Public Tenants		Owners		Purchasers		Rent-free		Total	
		Families	Children	Families	Children	Families	Children	Families	Children	Families	Children	Families	Children
1. Sole parents													
1 child	<13	66.8	56.3	29.4	22.1	16.7	4.4	12.8	8.3	7.9	6.7	133.7	133.7
	>13		10.5		7.3		12.3		4.5		1.2		
2 children	<13	29.5	49.8	20.7	35.5	13.8	9.9	10.8	12.4	4.7	7.9	79.5	159.0
	>13		1.3		1.5		1.9		1.9		0.2		
	combination		7.9		4.4		15.8		7.3		1.3		
3 children	<13	11.7	21.1	8.6	16.0	2.7	2.7	5.1	8.0	1.8	5.3	29.9	89.7
	>13		-		-		-		-		-		
	combination		14.0		9.8				5.4	7.3		-	
4 children	<13	2.6	7.1	3.9	8.4	0.7	1.2	0.8	-	0.5	1.4	8.5	34.0
	>13		-		-		-		-		-		
	combination		3.3		7.2		1.6		3.2		0.6		
5+ children	<13	-	-	1.8	4.3	-	-	0.9	5.0	0.2	1.1	2.9	116.0
	>13		-		-		-		-		-		
	combination		-		5.6		-		-		-		

Appendix Table 3.5 (cont'd)

		Private renters		Public Tenants		Owners		Purchasers		Rent-free		Total	
		Families	Children	Families	Children	Families	Children	Families	Children	Families	Children	Families	Children
2. Couples													
1 child	<13	8.6	6.3	5.8	4.0	17.8	6.5	14.4	10.1	2.7	2.0	49.3	49.3
	>13		2.3		1.8		11.3		4.3		0.7		
2 children	<13	11.7	15.8	7.4	9.0	11.4	17.4	14.3	19.8	2.6	3.5	47.4	94.8
	>13		-		0.7		0.7		0.7		-		
	combination		7.6		5.1		4.7		8.1		1.7		
3 children	<13	7.4	11.2	3.9	8.1	4.7	11.2	8.7	17.1	1.4	2.2	26.2	78.6
	>13		-		-		-		2.2		-		
	combination		11.0		3.6		2.9		6.8		2.1		
4 children	<13	1.9	5.5	3.7	8.9	3.4	9.1	1.8	3.0	0.6	1.8	11.4	45.6
	>13		-		-		-		-		-		
	combination		2.1		5.9		4.5		4.2		0.7		
5+ children	<13	1.7	-	1.9	4.7	1.4	6.0	0.8	2.9	0.3	-	6.2	34.8
	>13		-		-		-		-		-		
	combination		9.7		5.9		2.0		1.6		1.9		
TOTAL		141.9	242.8	87.1	179.8	72.6	131.5	70.4	138.7	22.7	42.3	395.0	735.5

Source: Appendix Table 3.4 and **1981-82 Income and Housing Survey**, unit record file.

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