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POVERTY, CHOICE AND LEGITIMACY

by Peter Saunders

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Tony Eardley
Editor

Abstract

This paper begins by arguing that the ‘poverty measurement debate’ has become bogged down in the poverty statistics and has failed to evolve into a consideration of the causes and consequences of poverty. In order to redress this imbalance, it is necessary to develop poverty measures that lead more naturally in these directions. It is argued that poverty can be given a meaning from two different perspectives, the first focusing on what poverty means to those who study it, and the second focusing on what it means to those who actually experience it. In attempting to shed some light on the latter interpretation, the paper presents some survey data in which DSS clients indicate what poverty means to them. The paper then explores three different approaches to measuring poverty, each of which draws on the two key features of poverty, that it is a situation in which choice is severely restricted, and that there must be some socially determined relevance to any poverty measure. The first method estimates and compares poverty using both income and expenditure data as a way of better understanding the choices and circumstances of the poor. The second method estimates a poverty line income as a situation where all resources must be devoted to meeting immediate consumable needs and where there are no expenditures on durable and luxury items. The third method, budget standards, is described briefly from the perspective developed in the paper with the aim of highlighting how budget standards research addresses issues of choice and social relevance.

1 Introduction: Measuring Poverty

Even in relatively affluent countries like Australia, the existence of poverty presents many challenges for social policy and any reduction in poverty is an important indicator of social progress generally. However, what many see as disturbing about the vigorous poverty debate that has taken place over the last few years is that it has focused not on the *causes* of poverty, nor its *consequences* and what should be done about them, but rather has become almost entirely pre-occupied with the *measurement* of poverty.

Of course, the measurement of poverty is not unimportant. Unless there is a degree of agreement on the measurement issues, there is little chance of reaching a consensus on the extent of poverty and what needs to be done to alleviate it. Unfortunately, however, the measurement debate has led away from such a consensus, not towards it. In the process, the credibility of the available poverty research has been compromised and its impact seriously undermined.

This is not to deny that estimates of poverty continue to attract enormous media interest, nor that poverty research has a role to play in highlighting what is an important social issue. Beyond that, however, it is difficult to believe that poverty research now has much (if any) impact on social security policy, or on the thinking of those responsible for it.

What some will find most surprising about this assessment is not that poverty research *now* has no impact on policy, but that it ever did so. In fact, a strong case can be made for the view that Australian poverty research has had a considerable impact on social security policy over the last two decades - at least in relation to the setting of payment levels and the relativities between them. Even the prevailing ‘political’ benchmark that the pension be set at 25 per cent of average weekly earnings can be traced directly back to the Henderson poverty line, which was at that level for those over 65 when the benchmark was first announced (Saunders, 1997). On the other hand, it is also the case that much of the policy debate generated by poverty research has focused far too narrowly on *adequacy* to the neglect of *coverage* which in turn reflects issues associated with the eligibility and *administration* of social security benefits (Saunders, 1994a).

As one who has been actively engaged in the poverty measurement debate for some time, I sympathise with the recent claim that: ‘Disagreement over the measurement of trends in poverty has been most helpful to those who wish to see poverty kept off the policy agenda’ (Manning and de Jonge, 1996: 354).

Why then has this debate been allowed to continue? There are two main reasons, one specific and technical, the other more fundamental and strategic. In relation to the first, it is important to take issue with those who criticise the ‘Henderson poverty line’ for what have often been invalid - sometimes even incorrect - reasons. To do so is to engage in the normal business of professional debate that characterises any vibrant and rigorous academic discipline.

The debate over the measurement of poverty is important because it raises fundamental *structural* issues concerning the meaning of poverty and what should be done about it. This debate has used the Henderson poverty line as its frame of reference, but only because that has been a convenient entry point into engagement with the broader issues. Put differently, if we did not have a poverty line to help give order and coherence to the debate, we would almost certainly have had to invent one.

Unfortunately, however, the debate has become bogged down in the minutiae of the poverty statistics. In doing so, poverty research has wandered into a cul-de-sac and in the process has been incapable of addressing the more important issues surrounding what it means to be poor or deprived in a country like Australia at the end of the 20th century. This line of reasoning suggests that the strongest case for replacing the Henderson poverty line lies not so much in the limitations of its assumptions, but more in the need to step outside of the restrictive framework into which the debate over its merits have led.

There are, however, some positive signs that things are beginning to improve, at least in the way we think about these issues, if not yet in how serious we are about addressing them. The important and influential study of Australian living standards undertaken by Travers and Richardson (1993) is significant in this context because it develops a broad approach to concepts such as income and welfare whilst avoiding having to debate the measurement of income poverty and the merits of the poverty line.

Subsequent research undertaken by Travers on commission to the Department of Social Security has taken this line of work further by confirming the low correlation between income adjusted for need and direct measures of deprivation, at least among a sample of DSS clients (Travers, 1996). He also demonstrates that it is possible to construct a single index of relative deprivation which can be used to compare the circumstances of different groups. What remains to be seen is whether or not this index (or some variant of it) will be able to withstand the criticisms associated with its use as the basis for establishing absolute (or even relative) levels of social security payments.

Included among the 21 items in Travers' composite deprivation index, for example, is not being able to afford a night out once a fortnight, being dissatisfied with the condition of one's home, and being dissatisfied with life in general (Travers, 1996: 44-5). Would policy makers be any more likely to agree to increase payments on the basis of evidence that certain groups were experiencing such forms of deprivation than if they were provided with comparisons of existing payments with a poverty line? I think not.

This strand of research has, however, managed to focus debate on broader issues surrounding what it means to be disadvantaged in Australia today, in the sense of not being able to enjoy things that the vast majority of the population take for granted and thus effectively being excluded from normal community life.

In this context, Peter Whiteford has recently criticised mainstream poverty research because:

> .… virtually no modern study of poverty tells us whether people living below the poverty line have an unacceptably low standard of living. This does not mean that relative poverty in rich communities is not real, but rather that *we need different sorts of research to link demonstrated problems with living standards and the statistical measures of low income*

> *commonly used as proxies for poverty*. (Whiteford, 1997: 44; italics added.)

Whiteford's claim that there is no evidence linking poverty to unacceptable living standards is an exaggeration. There have been several recent outcome studies investigating the consequences of poverty, including a recent SPRC study linking poverty to stress and other adverse health outcomes (Saunders, 1996a). This is a beginning, but there is certainly a need to investigate more thoroughly the outcomes that result from poverty and to link poverty estimates with further investigation of the actual circumstances of those classified as poor.

This was recognised several decades ago by none other than Ronald Henderson himself. It is all too easy, in the heat of the debate over the statistical measurement of poverty, to lose sight of the fact that Henderson attached great importance to complementing such analyses with detailed qualitative study of the actual lives and circumstances of the poor. Evidence for this emerges from a detailed reading of the Poverty Commission Report that Henderson authored (Commission of Inquiry into Poverty, 1975). It is also evident in the earlier study of poverty in Melbourne, the original impetus for which came from Henderson (Henderson, Harcourt and Harper, 1970) as well as in subsequent research conducted under Henderson's leadership of the Melbourne Institute (e.g. McCaughey, Shaver and Ferber, 1977).

From this perspective, current debates over whether to include the estimated benefits associated with the 'social wage' in income for the purpose of measuring living standards and poverty (Johnson, Manning and Hellwig, 1995; NATSEM, 1995) represent a return to the complementarity between the two strands of poverty research which developed in the Melbourne Institute in the 1970s. These developments also mirror broader concerns over the need for poverty measures to incorporate both direct and indirect indicators, reflect both measured (or objective) and experienced (or subjective) aspects, and take note of both monetary and non-monetary dimensions of material well-being.

Where they differ is in the extent to which all of these aspects can be captured in a single statistic. My guess is that Henderson would generally welcome recent research estimating the value and impact of the social wage, but that he would be somewhat uneasy over the fact that quantification of the social wage *individualises* the benefits of what are fundamentally *collective* provisions that reflect externalities and equity considerations.

Although the above discussion is critical of the amount of attention devoted to the measurement of poverty, the remainder of this paper focuses the measurement issue, broadly defined. It does so, however, by stepping outside of the Henderson framework in an attempt to open up the debate by linking measurement issues more specifically to the meaning of poverty and to the broader issue of the standard of living. The perspective adopted in the paper is that by being confined within the Henderson framework, the poverty debate has become bogged down with issues that cannot be resolved and, as a consequence, has missed the opportunity to embrace broader concerns relating to what it means to be poor in Australia in the 1990s.

2 The Meaning of Poverty

One consequence of devoting so much time and energy to debating the merits of the poverty line has been that too little attention has been paid to the *meaning* of poverty. This issue forms the main focus of the remainder of this paper, which first considers what poverty means at a conceptual level and then provides some examples to illustrate alternative ways in which the concept of poverty might be operationalised in the 1990s.

It is not easy to produce a precise definition of poverty, even in its narrow meaning in relation to material well-being or ‘primary poverty’. The definition of poverty that I am most attracted to is that proposed by Mack and Lansley in their study of poverty in Britain, in which they define poverty as *an enforced lack of socially perceived necessities* (Mack and Lansley, 1985: 39). This definition is not only admirably brief, it also embodies two features that are central to any realistic definition of poverty - the idea that poverty involves *restrictions on choice*, combined with the idea that poverty must in some way be *socially specific* (and thus culturally relativistic). Furthermore, wherever it is possible, the poverty line should not only be socially determined, but also socially endorsed if it is to have legitimacy in the community. These two aspects serve to focus the meaning of poverty to situations where the capacity of people to function in a specific cultural context are restricted by factors outside of their immediate control.

Translating these two key features (lack of choice and cultural or social specificity) into a practical measure of poverty is no easy task. The latter has generated a vast literature, mainly European, exploring how subjective perceptions of poverty can be translated into a poverty line (e.g. Van den Bosch et al., 1993), although some similar work has been conducted at the Social Policy Research Centre (SPRC) (Saunders and Bradbury, 1991; Saunders and Matheson, 1992). One lesson that emerges from this research is the inherent difficulty of deriving a single poverty line from what is a great variety of alternative ways of operationalising the subjective approach. Nevertheless, the basic approach has much to recommend it as a way of trying to democratise the study of poverty, as Walker (1987) has argued.

Thus far, discussion has focused on the meaning of poverty in a limited *definitional* sense. There are at least two other senses in which the meaning of poverty can be usefully explored. The first relates to what poverty means (in the definitional sense) not to poverty researchers, but to members of the community generally, or to those on low incomes in particular. The second considers the meaning of poverty to those who actually experience it. The first of these forms part of the subjective approach to poverty measurement outlined above, while the second forms part of the deprivation approach to investigating living standards, illustrated in the work of Travers and others.

The subjective approach to poverty is sometimes referred to as the ‘consensual approach’ but this label is misleading because when broad sections of the community are asked what they understand poverty to mean - even when the questions asked are worded very precisely - there is no consensus apparent in the replies. Instead, the responses display a great deal of variation. This comes through clearly in the SPRC research, where a sample of Australians were asked the ‘minimum income question’ (MIQ) , i.e. what was the minimum income they needed in order to make ends meet (Saunders and Matheson, 1992, Figure 3.1). Even after taking account of differences in the actual incomes and family circumstances of the respondents, we were never able to explain more than 30 per cent of the variation in the MIQ response. This in turn implies that any poverty line derived from the method will be very sensitive to the methods used to derive it: too sensitive in my view to make it useful for policy purposes, at least unless the sample size is increased considerably, and possibly even if it were.

The degree of variation in responses to such questions can be reduced by asking them of a more homogeneous sample in the first place. We have been exploring this by asking the MIQ to some of the samples of DSS clients we have surveyed (for other purposes) in recent years. The results from our study of the young unemployed indicated that (in November 1991) the mean response to the MIQ obtained from a sample of 389 JSA and NSA recipients aged between 16 and 24 varied between $110 and $210 a week, according to age and whether the respondents were living at home or not (King and Payne, 1993, Table 14.1). The MIQ response exceeded the actual incomes of those surveyed, generally by between 30 per cent and 80 per cent, although the interviewers noted that many respondents had difficulty answering the question and around 10 per cent chose not to.

More recently, the same question was asked of over 1,000 participants in the first wave of our longitudinal study of DSS clients. The focus of this study is the labour market and attitudinal responses to the income test and other changes introduced as part of the *Working Nation* reforms. Although the survey data have only just begun to be analysed and the following results should thus be regarded as preliminary, the overall mean responses to the MIQ was just over $400 a week. Around three quarters of responses fell between $200 and $500 a week, again indicating that there is considerable variation in what are perceived as minimum income levels, even amongst those whose actual incomes are broadly similar and standards of living even more so. Of course, these figures include responses from clients in a range of different circumstances and it will be important to account for this in further analysis of the data.

In addition to asking our longitudinal sample the MIQ, we also asked a number of other questions designed to shed light on what poverty means more generally to DSS clients. Again, it is important to emphasise that the results are preliminary and come from a series of questions that are themselves exploratory. They do, however, represent an initial attempt to investigate what poverty means for those who are actually experiencing it, as opposed to those whose (generally well-paid) job it is to study it.

In the course of the survey, respondents were asked (in a face-to-face interview) the following question:

> *There's been a lot written recently in the papers about poverty in Australia. Which of these statements BEST describes what being in poverty means to you?*

The statements provided and a breakdown of the 1149 responses they produced are summarised in Table 1. These figures indicate that the vast majority (over 68 per cent) of those interviewed couched their perceptions of poverty in terms of being able to afford basic needs without having to struggle to make ends meet all the time. Less than 10 per cent equated poverty with living decently, while only 6.7 per cent accepted that poverty means having to forego the 'good things in life', and very few saw poverty purely in terms of having less than others.

Table 1: Perceptions of the Meaning of Poverty Among DSS Clients

	Percentages
Not having enough money to make ends meet	12.3
Having a lot less than everyone else	1.8
Not having enough to buy basics like food and clothing	41.9
Having to struggle to survive each and every day	26.4
Never having enough to be able to live decently	8.6
Never being able to afford any of the good things in life	6.7
Don't Know	2.5

Source: SPRC Longitudinal Survey of DSS Clients, First Wave of Interviews (preliminary).

The overall impression one gets from Table 1 is that the aspirations of this group of DSS clients are surprisingly modest; they want enough to get by with, but expect no more than that. In contrast, the MIQ evidence reviewed earlier implies that although their aspirations may be modest, most DSS clients say that they need more money (often a good deal more) in order to make ends meet.

These results are both exploratory and preliminary. They do, however, suggest that there is value in further investigation along these lines in an attempt to articulate better what poverty means to those most directly affected by it. Such research will not provide 'the' answer to the definition of poverty, but it does hold the promise of influencing how poverty might best be defined for policy purposes. What would be useful in this context would be to link data on perceptions of poverty with information on deprivation indicators of the kind produced by Peter Travers in his study of the living conditions of DSS clients. (The proposed ABS *National Survey of Living Standards* provides a unique opportunity to do this systematically, and those responsible for the design of the survey should be encouraged to exploit its potential in this regard.)

3 Operationalising the Concept of Poverty: Alternative Approaches

This section discusses three methods for determining a poverty standard which build on the above discussion. All three are very much in their formative stage of development and the estimates presented below are preliminary, and are intended to illustrate some of the outcomes from the three approaches and draw comparisons between them. They should certainly not be seen as providing a definitive account of the Australian poverty profile in the 1990s.

The first of the three methods uses the Henderson poverty line to compare estimates of poverty derived on an income and expenditure basis; the second explores one way of operationalising the idea of poverty as reflecting a lack of choice; the third considers the role of the budget standards approach from the perspective of the general arguments developed in the paper and briefly canvasses some of its limitations.

Income Poverty or Expenditure Poverty?

Although virtually all Australian poverty research has used income to measure material well-being, the limitations of doing so have long been recognised. Sen (1992), for example, refers to these in relation to the study of inequality in the following terms:

> An important and frequently encountered problem arises from concentrating on inequality of *incomes* as the primary focus of attention in the analysis of inequality. The extent of real inequality of opportunities that people face cannot be readily deduced from the magnitude of inequality of *incomes,* since what we can or cannot do, can or cannot achieve, do not depend just on our incomes but also on the variety of physical and social characteristics that affect our lives and makes us what we are. (Sen, 1992: 28; italics in the original.)

These concerns have been echoed in Australia, where research conducted by the Australian Bureau of Statistics (ABS, 1996), by independent researchers under commission to the Commonwealth Government (Johnson, Manning and Hellwig, 1995), by individual researchers (Travers and Richardson, 1993; Saunders, 1994b), as well as by the Australian Institute of Family Studies (McDonald, 1993) and National Centre for Social and Economic Modeling (NATSEM, 1995) has highlighted the important role of the social wage and other factors in addition to money income in contributing to the standard of living.

One of the main features that emerges from this body of work is that any account of trends in living standards, particularly (though not exclusively) under the Accord period, will be extremely misleading if it does not incorporate the effect of changes in the social wage. Equally important, though less often emphasised, is the significance for this conclusion of the way in which the benefits from the social wage are estimated. This is not the place to enter into this debate, except to note that the policy-induced switch from money to social wage income experienced by many Australian families over the last 15 years or so has meant that increased living standards have been accompanied by a reduction in the extent to which choice can be exercised over how income is spent. It has also resulted in a more tenuous understanding of what an increase in income itself means, as evidenced by the ‘living standards’ debate.

If the conventional income measure is now becoming increasingly deficient, what alternative indicators are available? One possibility is the level of *expenditure* for which we have good data collected by ABS in its *Household Expenditure Surveys* (HES). Expenditure is in fact reflected in studies of the social wage and full income which impute incomes on the basis of the ownership of (and hence past expenditures) on dwellings and other durable goods, or according to current patterns of expenditure and/or service use.

The use of expenditure as an indicator of the standard of living has been implicitly endorsed by Travers and Richardson, who have argued in relation to measuring poverty, that:

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

Furthermore, the switch from income to expenditure is likely to have substantial empirical consequences, particularly in the context of measuring poverty. This has been borne out in recent research for the United States undertaken by Slesnick (1993), which revealed that:

> Households in the lower tail of the income distribution are disproportionately represented by those with temporary reductions in income and typically exhibit high ratios of consumption to income in an effort to maintain their standard of living. (Slesnick, 1993: 2)

There are, however, a number of limitations to using expenditure to measure the standard of living that also need to be recognised. These include the fact that what actually matters for living standards is the level of *consumption* of goods and services rather than the level of *expenditure* as such. Furthermore, where a low level of expenditure reflects the choice of consumers, there may be no case for drawing inferences from this for the level of living of those who voluntarily entered into these choices in the first place. This is particularly important in the context of poverty which, as noted earlier, is a situation that is characterised by constraint and enforcement, not by choice and preference. The wealthy miser may consume little, but this does not make him (or her) poor.

Similar problems surrounding the impact of choice arise in relation to income, which is the result of choices made regarding the number of hours of paid work, at least according to the underlying theory of labour supply. Here, the low labour supply of those with a strong preference for leisure may lead to low income, but they are no more in poverty as a result than is the miser referred to earlier. It has to be recognised, of course, that many people have little effective choice over the labour supply they offer to a labour market which is characterised by constraints, both on the overall level of demand as well as on the specific working-hour options that are on offer. The growth of part-time work and the 'casualisation' of the labour market are providing some with a more varied menu of possible labour supply choices, although these are still relatively limited.

Where labour supply choice is exercised, however, income may be low as a consequence but the standard of living and hence *welfare* may be high, certainly high enough to make any classification of poverty questionable. This has led some researchers (e.g. Haveman and Buron, 1993) to estimate poverty on the basis of *earnings capacity* rather than *actual earnings*, where the earnings capacity measure is constructed in a way which makes it independent of actual labour market choices regarding labour supply. A similar approach is implied in the 'full income' measure developed by Travers and Richardson.

What is perhaps most interesting about these issues is how readily income has been accepted as a measure of well-being despite it being the outcome of choices in the labour market, yet at the same time the use of expenditure has been criticised because it reflects choices in the product market.

Aside from these conceptual considerations, there are also a number of practical problems associated with using expenditure data in research on living standards and poverty. One of these relates to the infrequency of purchase of durable items (and, with the advent of less frequent shopping trips, possibly also to the main consumables) which leads to a degree of intertemporal variation in expenditure which ‘is not a genuine reflection of variance in household living standards’ (Blundell and Preston, 1995: 43). Goodman and Webb (1995) also note the tendency for expenditure surveys to under-report expenditures on tobacco and alcohol, although there is evidence of similar under-reporting of certain categories of income in income surveys.

Another area where there are problems with using expenditure data is in relation to taxation. It is far harder to identify and estimate the impact of indirect taxes on expenditures than it is to identify the impact of personal income taxes on income. Increased levels of expenditure that reflect higher levels of indirect tax do not signify a higher standard of living but the increased cost of achieving a *given* standard. Household A, which is a heavy consumer of highly-taxed goods may spend more than Household B whose consumption basket is filled with lightly-taxed items, but Household B may have the higher standard of living.

These remarks suggest that there are both conceptual and practical issues to be resolved in reaching any final conclusion regarding the superiority of income or expenditure in research on poverty and living standards. We use income partly because it is there and partly because it is *income* that gets redistributed through the tax-transfer system in alleviating poverty.

However, the above discussion suggests that it may be fruitful to consider income and expenditure not as substitute measures of well-being, but rather as complementary. Support for this approach is provided by Atkinson (1989) who distinguishes between two alternative conceptions of poverty: a *standard of living approach* which emphasises minimum levels of consumption of goods and leads naturally to an expenditure-based measure; and a *minimum rights approach* which emphasises the provision of minimum incomes but does not prescribe how these should be spent.

Finally, it is worth noting that expenditure measures have already been advocated for measuring the living standards of particular groups in the population. It is generally acknowledged, for example, that income as recorded in income surveys (or as reported to the tax authorities) is often a poor indicator of the standard of living of the self-employed. Recent research by Bradbury (1996) bears this out by showing how sensitive estimates of poverty among the self-employed are to whether poverty status is assessed on the basis of income or expenditure.

The elderly are another group where this is also likely to apply, though for rather different reasons. Here, the conventional view is that private action to maintain living standards by running down life-cycle saving during retirement may lead to a less pessimistic portrait of 'expenditure poverty' in old age than is the case if the conventional measure of 'income poverty' is used. As will become clear later, the relevance of this view has been challenged by evidence showing that many of the elderly continue to save after retirement regardless of their level of income.

This discussion suggests that there are good grounds for using expenditure data in poverty research, at least for exploratory purposes. However, such research should ensure that expenditure is used, at least initially, to *supplement* income not replace it. Whilst any results derived from this research need to be tempered by the problems associated with making comparisons based on the balance between the incomes and expenditures recorded for specific households in the HES, the method has the advantage that it allows some account to be taken of the role of choice in distorting estimates of poverty derived using either measure.

With these limitations in mind, Table 2 compares four alternative estimates of the extent of poverty in 1993-94 using data on incomes and expenditures from the latest (1993-94) HES. The analysis is restricted to single income unit households because of the problems inherent in allocating certain household expenditures in the HES to income units who share accommodation. Poverty has been estimated in each case using the same (simplified) Henderson poverty line, updated to each of the four quarters of 1993-94 for which the HES data were collected. The self-employed have not been excluded despite problems with the timing of their tax data in the HES, for reasons which will quickly become apparent. Interest focuses on *comparing* the four sets of estimates shown in Table 2, rather than on investigating in detail what each separate measure reveals.

Table 2: Alternative Experimental Estimates of Poverty: 1993-94 (percentages)

Income unit type	Income (Y) poverty	Expenditure (E) poverty	Maximum (Y,E) poverty	Minimum (Y,E) poverty
Single aged (m,65+;f,60+)	37.2	41.4	21.4	57.2
Single, non-aged	28.0	20.6	12.1	36.5
Aged couples (head,65+)	9.3	22.2	2.8	28.7
Non-aged couples	11.3	11.7	3.1	19.9
Couples with dependants	16.8	14.1	5.2	25.7
Sole parents with dependents	33.7	20.4	12.3	41.8
All income units	**20.3**	**19.5**	**8.2**	**31.6**

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

The first two columns of Table 2 compare estimates of poverty derived on the basis of disposable income and total commodity and service expenditure, respectively. The estimates in the third column are derived by comparing the *maximum* of income and expenditure with the poverty line. The rationale for this measure is that it attempts to account for both low-spending/high-income misers and for high-spending/low-income groups (e.g. the self-employed), who will be in poverty only if the *higher* of their incomes or expenditures are below the poverty line (so that they are *both* income poor *and* expenditure poor). The idea is that those with high incomes who *choose* to spend little and those high spenders who *choose* a low income (subject to the qualifications noted earlier) are not included among the poverty population.

Finally, the estimates in column four estimate poverty according to the *minimum* of income and expenditure (so that the poor are *either* income poor *or* expenditure poor). The arguments developed above imply that this last measure will almost certainly produce an estimate of poverty that is biased upwards. Its use here is justified on the grounds that the estimates in the final two columns provide lower and upper bounds on the extent of poverty, at least if the above arguments about the merits of the income and expenditure measures are accepted.

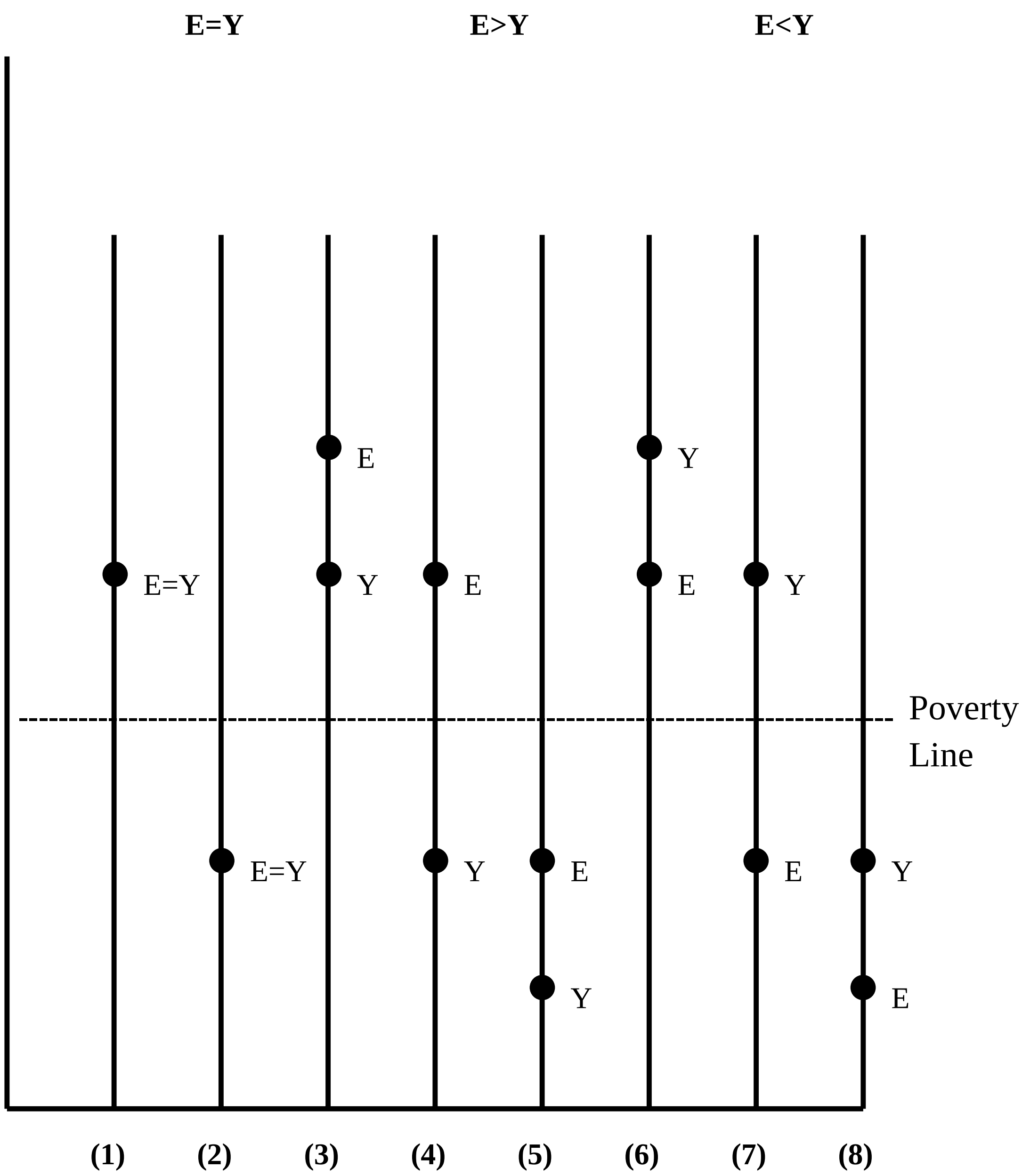
The configurations of the four sets of poverty estimates presented in Table 2 are illustrated in Figure 1. This makes it clear that all four poverty estimates have been derived using the same (Henderson simplified) poverty line, in order to make it easier to make comparisons between them. This graphical representation also draws out the nature of the four estimates and highlights what conclusions can be drawn from making comparisons between them. Thus, for example, the difference between the income poverty and the max(E,Y) poverty estimates correspond to the percentages in situation (4) in Figure 1, while the difference between the expenditure poverty and the max(E,Y) poverty estimates correspond to the percentages in situation (7) in Figure 1.

When poverty is measured on an income basis, the overall poverty rate in 1993-94 is around 20 per cent with poverty highest among single people and sole parents (as it was in 1989-90; see Saunders, 1994b). Income poverty among sole parents is high (33.7 per cent), but lower than it was in 1990, partly reflecting of increased benefits (Whitlock, 1993), although the two sets of estimates are not directly comparable and it also needs to be emphasised that restricting the analysis to single income unit households excludes over 27 per cent of all sole parents from the estimates in Table 2.

Income poverty is much higher amongst the single aged than amongst aged couples, although these estimates are very sensitive to where the poverty line is set, because of the close proximity of the single rate of pension to the Henderson poverty line. Reducing the line by 10 per cent causes the single aged poverty rate to decline to 5.0 per cent, while raising the poverty line by 10 per cent causes the poverty rate to increase to over 55 per cent.

When expenditure rather than income is used to determine poverty status, there is almost no effect on the overall poverty rate, but poverty among specific demographic groups (and hence the composition of the poor) changes considerably. Interestingly, as foreshadowed earlier, poverty amongst the aged actually *rises*, which is not what the life-cycle model of

Figure 1: Using Income and Expenditure as Alternative Poverty Measures



Income poverty:	(2) + (4) + (5) + (8)
Expenditure poverty:	(2) + (5) + (7) + (8)
Max(E,Y) poverty:	(2) + (5) + (8)
Min(E,Y) poverty:	(2) + (4) + (5) + (7) + (8)

consumption would predict. (Stephens, 1995, has reported a similar result for New Zealand.) Expenditure poverty among single people below pension age is less than income poverty, although there is little difference for non-aged couples (with or without children). There is, however, a marked drop in the poverty estimates for sole parents, whose expenditure poverty rate is close to the overall rate.

The results in the third column imply that there are many older Australians living alone who have very low incomes which constrain them to correspondingly low levels of expenditure, at least before bringing housing costs into the picture. The estimates in the final column of Table 2 indicate that poverty remains highest among single aged people living alone, although many more couples and sole parents now have either insufficient incomes to raise them above the line, or are not spending a poverty line budget when their incomes would allow them to.

One of the surprising features of the estimates in Table 2 is the low overlap between the estimates in columns two and three amongst all groups in the population. As Figure 1 indicates, this implies that there are many income units whose incomes and expenditures lie on either side of the Henderson poverty line. One possible factor contributing to this is the lack of consistency between the HES income and expenditure estimates referred to earlier. Another explanation rests on the view that the differences between income and expenditure are very small in dollar terms but still large enough to place each of them on opposite sides of the poverty line. This latter explanation is, however, not confirmed by sensitivity testing of the estimates in Table 2, which reveals the same general pattern when the poverty line is (increased or decreased) by 10 per cent.

In summary, although the estimates in Table 2 raise as many questions as they answer, they provide a basis for debating the extent of poverty within a framework that allows issues to be considered that relate to the meaning of poverty rather than focusing debate on the merits of a particular poverty line. That is their intention. They imply that, in 1993-94 there were many Australians who were managing to avoid poverty by spending more than they received as income, just as there were many who had low recorded incomes but still managed to save. The issue for the former group is one of sustainability; were they simply maintaining their well-being by dissaving to offset a temporary loss of income, or are their circumstances more permanent and hence more serious? Finally, although many of the aged appear to be continuing to save, albeit out of an income which is itself not that high, there are also many older people who are in poverty however it is measured.

Some of the questions raised here will only be able to answered with the aid of panel data which allows the family incomes and other circumstances to be tracked through time. The absence of such data in Australia is becoming all the more apparent as more and more countries collect longitudinal data for the analysis of income mobility and poverty dynamics and identification of the factors which determine them ; see, for example, recent papers by Jarvis and Jenkins (1995) for Britain and Berghman (1996) for the Netherlands.

In relation to the issue of choice, it seems unlikely that those who have sufficient resources to do otherwise would choose to force themselves to spend less than is needed to bring them up to the poverty line. Yet a comparison of the estimates in columns 2 and 3 of Table 2 indicates that many of the ‘expenditure poor’ had incomes that were above the poverty line. One conclusion to draw from this comparison is that the poverty line used to derive Table 2 is too high (at least in some cases) and that even those with relatively low incomes can meet their basic needs yet still manage to save.

Although this may reflect the variability in expenditure referred to earlier (which may impact particularly on the aged) it implies that either the Henderson poverty standard itself is now too high, or that the equivalence scale is too generous to some groups. Such claims would, however, need to be qualified in light of the deficiencies of the HES data when it comes to using them to reconcile the incomes and expenditures of individual households. More thorough analysis is needed of the estimates in Table 2 and the data from which they were derived.

Poverty as a Constraint on Choice

If people, for whatever reason, are constrained by lack of resources from meeting all of their basic needs, then they can be legitimately defined as being poor. Even in such circumstances, however, the most pressing needs will still be met. There is a hierarchy of need, beginning with basic needs for food, clothing, shelter and health and extending upwards from there. Enforced starvation does not exist in Australia, even though some go hungry and there are many forced into temporary homelessness who are clearly unable to meet even the most basic need for shelter.

Beyond fulfilling these basic survival needs, other coping strategies come into play. Some will resort to any means (including illegal activity) in order to increase their income. Those who cannot afford new clothes buy second-hand or simply make do with what they have. Furniture that wears out is not replaced, nor are household items that break down or otherwise need to be repaired or maintained. Insurance policies are allowed to lapse, while large utility and other bills are a constant source of anxiety. This much is clear from Travers' work on deprivation and that of others who have explored these issues in Australia (e.g. McDonald, 1993; Whiteford, Bradbury and Saunders, 1989).

These comments suggest that one possible way of identifying when people have access to so few resources that they are unable to meet their basic needs is to look at those who are not spending anything on the 'big ticket' items that arise infrequently when major items need to be replaced or repaired, but which nonetheless are required to meet legitimate needs. There may, of course, be some in this situation who are there not because they have no choice in the matter, but because they choose to spend their money on other things. Where those who spend nothing on basic needs are *also* spending on what might loosely be termed 'luxury' items, there must be a presumption that their poverty is to some extent chosen, not forced upon them, particularly if they do not spend all of the income they receive.

The approach developed to test this idea involves identifying the expenditure level at which all income is being spent, but none of it is devoted to purchasing any major durable items, nor to expenditure on luxury items. This is then considered to define a 'constrained expenditure level' at which all resources are devoted to meeting basic needs with nothing left over for discretionary spending on non-necessities. This lack of discretion is what identifies the method as an attempt to define poverty in terms of lack of choice.

When using information on durable expenditures for this purpose, there are several factors that may distort the picture and any conclusions that arise from the method. The most important of these is that the decision to purchase major durable items is generally taken within a medium-term perspective. This implies that the absence of expenditure on durables currently may not necessarily mean that expenditure is currently constrained but rather that expenditure may have been deferred to a time when income is expected to be higher. Many people vary the timing of major expenditures to ensure that variability in income does not translate into their standard of living. Taken further, this line of argument suggests tha the timing of durable purchases is determined with the whole life cycle of needs and resources in mind. These points should all be kept in mind when interpreting the estimates which follow.

The key point to note about the method is that it utilises data on the (absence of) *expenditures* on durable goods and luxury items as a way of identifying inadequately low income, as opposed to using information on the (lack of) *ownership* of certain durable items to indicate the presence of deprivation. The method thus focuses on analysing the current *flow* of expenditure over a period of time, rather than on patterns of ownership of the *stock* of durable goods at a point in time. (It should be noted that the durable items included in the model are those for which expenditure data in the HES is collected by asking respondents to recall their purchases over longer time periods than the normal weekly reporting period used in the HES. All of the items for which this recall method is used are included in the composite expenditure variables defined below and in the Appendix.)

Three different formulations of the idea have been explored and preliminary results are presented for all three using data from the 1988-89 HES. They differ in that each adopts a different definition of the variable comprising the list of commodities on which a zero level of expenditure is assumed to correspond to income being too low to meet need. The first (variable DUREXP1) includes expenditures on all of the principle household durables, vehicles and the main electrical and recreational durable items. The second (DUREXP2) also includes a range of expenditures on clothing, insurance, repairs and vehicle accessories. The third (DUREXP3) extends DUREXP2 to incorporate expenditures on such items as gardening equipment, vacations, independent school fees, gifts and charitable donations.

These three composite expenditure variables were defined as the dependent variable in a regression model in which the independent explanatory variables included total household commodity and service expenditure and a set of additional variables used to define the demographic, geographic and economic characteristics of each household. Once the three versions of the model had been estimated, the parameter estimates were used to derive the income levels at which, for a given set of household characteristics, all income was spent while at the same time nothing was spent on any of the durable, luxury and recreational items included in the DUREXP variables (see Appendix for further details). The expenditure (or income) levels at which *both* of these conditions co-exist was then use to define the 'constrained expenditure' poverty line.

It is worth noting that the expenditure conditions applying to the method are very stringent, as can be seen by reviewing the commodity listings provided in the Appendix. For example, according to the third durable expenditure variable (DUREXP3) the household's income will be such that nothing whatever is spent on any of the major household durables, nor on such items as a table cloth, plastic flowers, a sugar bowl, any cutlery, dishcloths, storage jars, light bulbs, an egg timer, a watch, any household repairs, no clothes (except jeans, underwear and children's clothing), no plants for the garden, not even a jigsaw puzzle or even a pack of playing cards. No holidays of four or more days are taken and almost no forms of expenditure on insurance and repairs were incurred. Given the very extensive nature of such a list, it seems difficult to believe that those who have no positive expenditure on *any* item in the list are not facing severe constraints on how much they can spend.

The regression results for the three formulations of the constrained expenditure model are shown in Table 3. Most of the variables relating to the size and structure of the household are significant, and there is a clear indication that the relationship between household size and total expenditure is non-linear. As explained above, the next step involves using the estimates in Table 3 to derive the levels of disposable income

Table 3: Regression Estimates of Alternative Constrained Expenditure Functions[(a)]

	Dependent variable[(b)]		
Independent Variables	DUREXP1	DUREXP2	DUREXP3
Constant	-1.471	2.641	4.581
	(0.14)	(0.26)	(0.47)
AGEDHD (aged head of household)	8.938*	9.513**	8.839**
	(1.76)	(1.96)	(1.94)
CITY (capital city)	-10.264***	-11.971***	-10.536***
	(3.31)	(4.05)	(3.81)
TOTEXP (total expenditure)	0.336***	0.443***	0.560***
	(63.12)	(87.18)	(117.7)
HT1 (outright owner)	-14.934*	-9.347	-8.065
	(1.73)	(1.13)	(1.04)
HT2 (purchaser)	-31.311***	-35.072***	-50.461***
	(3.56)	(4.18)	(6.43)
HT3 (private renter)	-22.206**	-32.717***	-51.589***
	(2.46)	(3.81)	(6.41)
HT4 (public renter)	-9.938	-15.884*	-30.327***
	(1.02)	(1.72)	(3.50)
HT5 (rent-free)	RC	RC	RC
LFC1 (employee)	9.534	9.636*	2.001
	(1.52)	(1.61)	(0.36)
LFC2 (self-employed)	-4.615	-8.703	-20.410***
	(0.76)	(1.51)	(3.77)
LFC3 (unemployed)	11.425	8.726	5.991
	(1.29)	(1.03)	(0.76)
LFC4 (not in labour force)	RC	RC	RC
NOEARNS (number of earners)	-22.211***	-23.251***	-23.612***
	(6.02)	(6.61)	(7.17)
PERSONS (number of household members)	-27.949***	-34.885***	-40.698***
	(5.77)	(7.55)	(9.41)
PSNSSQD (persons squared)	2.511***	3.035***	3.551***
	(3.40)	(4.32)	(5.39)
SNGPAR (single parent)	14.326**	19.339***	21.284***
	(2.21)	(3.12)	(3.67)
N	5525	5525	5525
R^2	0.439	0.605	0.740
F	310.2***	606.6***	1122.9***

Notes: a) */**/*** indicates statistical significance at the 0.10/0.05/0.01 level.
b) These variables are defined in the Appendix.
RC = Reference category.

Source: *1988-89 Household Expenditure Survey*, unit record file.

(which equals expenditure by definition) at which all household income is spent *and* none of it is used to purchase any of the identified durable (or luxury) items.

It is clear from the way the regression model is specified that there is an enormous range of household characteristic combinations for which the estimated equations can be solved to give the constrained expenditure levels. For reasons of space, only a small selection of these are shown in Table 4, in order to give an initial flavour for what the method produces.

Table 4: Alternative Constrained Income Levels for Australian Families: 1988-89
(dollars per week)

	Models:[a]		
Family Type	(1)	(2)	(3)
Single income, non-aged family, purchasing a house, living in capital city			
Single person	241.5	202.8	205.7
Single person	241.5	202.8	205.7
Couple	302.3	261.0	259.3
Couple, 1 child	348.2	305.5	300.3
Couple, 2 children	379.0	336.2	328.6
Couple, 3 children	395.0	353.2	344.2
Family, head unemployed, no other earners, purchasing a house, living in capital city			
Single person	169.8	152.4	156.4
Couple	230.6	210.6	210.0
Couple, 1 child	276.4	255.0	251.0
Couple, 2 children	307.3	285.8	279.3
Couple, 3 children	323.2	302.8	295.0
Sole parent family, public renter, not in the labour force, living in capital city			
Sole parent, 1 child	158.2	143.3	146.8
Sole parent, 2 children	204.2	187.7	187.8
Aged family, outright home owner, retired, living in capital city			
Single person	128.5	92.6	75.6
Couple	189.2	150.8	129.3

Note: a) Estimates of the three regression models are shown in Table 3.

Source: *1988-89 Household Expenditure Survey*, unit record file.

Given that the three durable expenditure variables become increasingly broader in scope, one would expect the constrained income levels to decline. In general, this does occur, although the final two regressions produce very similar results. Because it is the most restrictive model, the 'constrained expenditure' poverty line estimates produced by the third version of the model (shown in the final column of Table 4) have been used to provide a reasonable first approximation of what, in 1988-89, corresponds to minimum levels of expenditure for different Australian households.

These estimates can be used to derive the costs of children, of sole parenthood, of working, of living in major metropolitan areas and of different housing tenures. One feature that is striking is the extent to which the values for aged households are below those for younger people. This partly reflects the influence of life cycle factors which tend to make *all* of the aged less likely to purchase new durable items or partake in recreational pursuits which involve expenditures on new equipment (though this may be offset by the increased time available for the aged to engage in recreational pursuits). More significantly, however, is the impact of outright home ownership, which is attributed to the aged in Table 4, though not to others.

How do the estimates in Table 4 compare with the Henderson poverty line? This is explored in Table 5 which compares the constrained expenditure levels shown in the final column of Table 4 with the Henderson poverty line estimates for the December Quarter 1988 published by the Institute of Applied Economic and Social Research (IAESR, 1989).

In general, the constrained expenditure values for single people and couples (with or without children) are above the poverty line, although the difference narrows as family size increases and finally disappears. In relation to sole parents and the aged, however, the constrained incomes are below the poverty line, although again the difference narrows with increasing family size. These patterns partly reflect the fact that both sole parents and older families spend much less on durables and luxuries than other Australians, the former in response to what may be seen as a

Table 5: Comparison of the Constrained Income Levels and the Henderson Poverty Line: 1988-89 (dollars per week)

Family Type	Constrained income level ($)	(Relativity)	Henderson poverty line[a] ($)	(Relativity)
Single income, non-aged family, purchasing a house, living in capital city				
Single person	205.7	(0.79)	164.7	(0.75)
Couple	259.3	(1.00)	220.3	(1.00)
Couple, 1 child	300.3	(1.16)	264.9	(1.20)
Couple, 2 children	328.6	(1.27)	309.4	(1.40)
Couple, 3 children	344.2	(1.33)	353.9	(1.61)
Family, head unemployed, no other earners, purchasing a house, living in capital city				
Single person	156.4	(0.60)	133.6	(0.61)
Couple	210.0	(0.81)	189.2	(0.86)
Couple, 1 child	251.0	(0.97)	233.7	(1.06)
Couple, 2 children	279.3	(1.08)	278.2	(1.26)
Couple, 3 children	295.0	(1.14)	322.7	(1.46)
Sole parent family, public renter, not in the labour force, living in capital city				
Sole parent, 1 child	146.8	(0.57)	180.3	(0.82)
Sole parent, 2 children	187.8	(0.72)	224.8	(1.02)
Aged family, outright home owner, retired, living in capital city				
Single person	75.6	(0.29)	133.6	(0.61)
Couple	129.3	(0.50)	189.2	(0.86)

Note: a) The poverty line estimates for couples assume the family head is working, the remainder all assume that the head is not working.
Sources: Table 4 and *Poverty Lines, Australia. December Quarter 1988,* Table 1.

temporary period of low income, the latter because of their stage in the life cycle. And as noted above, the estimates for the aged are heavily influenced by their assumed outright ownership of their homes.

Overall, however, the results in Table 5 suggest that there is some value in the approach even though there is again more work to be done before anything definitive can be claimed for it. One of the most important extensions will involve testing how sensitive the final results are to how the list of ‘big ticket’ durable and luxury items is defined. In the meantime, the initial results suggest that some modifications to the Henderson poverty line may be necessary (particularly its implied equivalence scale), although even this conclusion needs to be heavily qualified at this stage.

Budget Standards

The two main themes developed so far are that poverty is characterised by lack of choice and that the judgments required to operationalise the concept of poverty need to draw upon community understanding of its meaning. How does the budget standards approach measure up against these two criteria.

It is important to emphasise at the outset that although budget standards provide a coherent framework for developing a poverty line by specifying in great detail the range of goods and services required to meet needs and then costing them, the method itself will not satisfy those who are searching for a definitive answer to where the poverty line should be set. Nor will it appease those who want the poverty line (and poverty research) to be objective and value-free. Those who seek these features in a poverty line fail to understand what poverty means in a country like Australia and will thus be forever disappointed.

The value of research on budget standards lies not in its ability to come up with definitive answers to such questions, but rather in bringing together the variety of normative judgments about living standards that already exist in the community with others designed to fill the gaps. These normative judgements are combined with behavioural data which reflect prevailing community values and practices and are analysed within a systematic framework that translates needs into budgets, budgets into costs, and costs into expenditure and hence incomes.

On the crucial question of *choice*, the budget standards approach avoids the issue by adopting an aggregated budget component framework that is largely outside of the conventional model of consumer decision-making. The budget standards methodology is thus somewhat at odds with neoclassical choice theory in the sense that choice - which involves satisfying some needs at the expense of others - does not influence the normative standards which underlie the budgets. It is, however, true that these normative judgments are generally combined with behavioral data to derive the budget components, which are then costed and aggregated.

Furthermore, since the behavioural data themselves reflect the outcomes of aggregate consumption choices, consumer theory does enter the method, albeit indirectly.

It is important to recognise, however, that there is no suggestion that anyone who was provided with an income equal to the final budget outcome for their circumstance would (or even *should*) actually purchase those items that appear in the basket of goods and services on which the budget is based.

Budget standards are concerned with estimating the level of income required to have the *ability* to purchase the items required to meet needs, not with ensuring that these items are *actually* purchased and consumed. To return to Atkinson's (1989) distinction cited earlier, although budget standards are derived using a standard of living framework, their use in determining an adequacy benchmark fits more clearly within a minimum rights approach to poverty alleviation.

One criticism of budget standards is that the approach is dominated by expert assessment of the normative dimensions of adequacy. The fact that these judgments have been made by a wide range of experts working in a variety of different fields (including nutritionists, housing experts, health care specialists and financial counselors) does not detract from the fact that they remain normative. The recent US report *Measuring Poverty. A New Approach* expressed concern that such expert judgments can be misleading because they can convey an unwarranted impression of objectivity (Citro and Michael, 1995).

This itself is a judgment, but one that is worth reflecting on. At the end of the day, determining adequacy standards requires some judgments to be made, so that the issue is how this can be done most convincingly and in a way which combines simplicity and transparency. From this perspective, budget standards score rather low in terms of simplicity, but offer a framework which, while complex, is transparent and flexible. In particular, it is possible to test the budgets against actual behavior and modify them in the light of comment and feedback from consumers. As a result the budget standards methodology has the potential to produce results that combine technical expertise with community endorsement.

Even though the normative judgments which underlie budget standards are supplemented by behavioral data derived from actual experience, budget standards also need to reflect community input. The research on budget standards currently being undertaken within the SPRC is attempting to achieve this by using focus groups to provide feedback on the preliminary budgets so that they can be revised accordingly (Saunders, 1996b). These focus groups are being organised in Sydney by ACOSS and in Victoria by the Brotherhood of St Laurence, respectively, and are an attempt to locate the standards somewhat more securely within everyday experience, attitudes and opinion.

We are also using focus groups to explore how relevant the standards are to the circumstances of groups with specific needs, notably families containing an adult with a disability, non-custodial parents who have regular access to their children and those living in rural areas. The focus groups are thus an important component of the research, designed to broaden community involvement in, and hence acceptance of, the standards that are produced. The idea that the budget standards should be revised in light of feedback received from consumers is important. Our use of focus groups should be seen as the initial attempt to implement this idea in a limited way, but the idea itself should be seen as an on-going process in which the standards are constantly reviewed and systematically revised.

Jonathan Bradshaw has described the task of deriving budget standards as ‘nothing less than a ghastly chore’ (Bradshaw, 1993: 72). He was, on reflection, being rather generous. As our research has proceeded, we have become aware of just how data-intensive budget standards are, how little data we have in many areas to assist us in our work and how time consuming it can be to obtain access to the data that are available. Trying to obtain even rather basic information like the annual sales of refrigerators or washing machines (from which we can estimate lifetimes and hence their contribution to a weekly budget) has proved to be very difficult. Often, such information simply is not available. Even when it is, concerns over commercial confidentialities can limit access to it, as we have discovered when trying to gain access to lists of the shelf prices of generic and leading brands. Establishing what kind of budgetary information is available and whether, how, if and when it can be accessed has occupied far more time and effort than was originally envisaged.

Yet these data problems pale into insignificance when compared with some of the conceptual issues that have to be confronted in budget standards research. On what basis are normative judgments to be made when none are available, and how can one avoid making arbitrary judgements that are difficult to defend yet can have far-reaching implications for other budget components that are often not immediately apparent? We have addressed this issue by establishing 'rules' which are designed to act as guidelines in such circumstances. One such rule is the '75 per cent rule' under which if three-quarters of the population own a particular good or use a specific service then that good or service (putting the issue of *quality* to one side) is regarded as a 'socially defined and endorsed' necessity and included in the low-cost budgets.

But should this rule be applied to the population as a whole, or separately to sub-groups within it? It is probably the case, for example, that more than 75 per cent of younger families in Australia now have a home computer, but fewer than 75 per cent of all households may own one. Should the rule be adjusted in such cases, and if so what *new* rule should be used to determine the exceptions to the *old* rule? How can one prevent any new rule leading to pressures for a new-new rule, and so on?

This is but one, rather simple, example, but there are many others. And as the budgets develop, further difficulties arise in ensuring consistency across the different budget components and keeping track of them. For example, it is not possible to estimate entitlement to rental subsidies among public housing tenants and hence their housing costs until the entire budget, and hence the income required to sustain it, is known. Similarly, the cost of home contents insurance cannot be estimated until the house has been fully furnished and equiped and all items are costed.

Should younger couples be allowed to purchase a house with additional bedrooms in anticipation of having a family, even though in the meantime this places them above the normative housing benchmark we are using? What about those in the 'empty nest' and retirement places of the life cycle whose homes have become 'under-occupied' as their children have moved out. Should they be required to trade their house down so as to conform with the housing benchmarks, even though all of the evidence indicates that most Australians are extremely reluctant to do this? Where do we draw the line between the normative and behavioural elements of budget standards?

These examples illustrate some of the problems inherent in doing research on budget standards. For each problem for which a sensible solution can be found, another equally difficult one is waiting to emerge. The main point that emerges is that budget standards research provides a framework for thinking consistently and systematically about those issues of need, choice and values that are central to modern conceptions of poverty.

4 Concluding Remarks

The main themes developed in this paper are that more research is needed to explore the meaning of poverty, both as it exists in the minds of people generally, and as it affects the poor themselves. This approach has the potential to link poverty research to the broader living standards debate and leads more naturally into a discussion of the causes and consequences of poverty. Research on these latter issues would also be greatly facilitated by the availability of panel data of the kind collected in the British Household Panel Survey.

Some of the conceptual issues raised in the paper have been illustrated using poverty estimates derived from several different methods, each of which uses the latest ABS survey of household expenditures. Although these methods and the estimates they produce are primarily illustrative, they highlight both the value of the approach and some of the as yet unanswered questions to which it gives rise. Their main aim is to broaden the poverty measurement debate beyond the narrow confines surrounding the merits and limitatioins of the Henderson framework. There is clearly a need for a good deal more work along these lines before any definitive conclusions can be reached.

In relation to budget standards, the single over-riding impression that has emerged as our work has evolved is that budget standards research is best seen as an on-going process that will give rise to its own questions and thus generate its own momentum. Engagement in the debate over the merits of alternative normative judgments, different sources of information and the various methods for analysing them is both seductive and frustrating. It is also time-consuming, as members of the Budget Standards Unit research team and the BSU Steering Committee will readily attest.

Budget standards alone will not resolve all of the issues surrounding the measurement of poverty and the determination of adequacy. To expect them to is to fundamentally misunderstand their purpose and misrepresent their contribution. This was acknowledged in the Department of Social Security's recent report on adequacy benchmarks, which concluded that while budget standards have a significant role to play in developing a framework for benchmarking adequacy, they should be seen as no more than offering 'a significant opportunity to contribute to the ongoing debate on income poverty in Australia' (DSS, 1995: 31)

Our task is to develop a set of *indicative* budget standards for Australia. My hope is that they will highlight the strengths (and weaknesses) of the budget standards methodology, whilst simultaneously informing public policies concerned with adequacy questions. However, what results should be regarded as contributing to the on-going debate on assessing the adequacy of Australian incomes and living standards, not as providing a final answer.

Appendix: Definitions of Alternative Durable Expenditures Variables[a]

DUREXP1 =	Weekly household expenditure on:
	Kitchen Furniture (351), Bedroom Furniture (352), Lounge/Dining Room Furniture (353), Outdoor/Garden Furniture (354), Other Furniture (355), Carpets (356), Floor Rugs, Mats and Matting (357), Vinyl and Other Sheet Floor Coverings (358), Floor Tiles (359), Bed Linen (360), Blankets and Traveling Rugs (361), Bedspreads and Continental Quilts (362), Pillows, Cushions (363), Towels and Face Washers (364), Table and Kitchen Linen (365), Curtains (366), Blinds (367), Other Household Textiles (368), Paintings, Carvings and Sculptures (369), Other Furnishings and Ornaments (370), Cooking Stoves, Ovens, Hotplates and Ranges (371), Refrigerators and Freezers (372), Washing Machines (373), Air Conditioners (374), Dish Washers (375), Clothes Dryers (376), Other Electrical Household Appliances (377), Other Non-Electrical Household Appliances (378), Tableware and Crockery (379), Glassware (380), Cutlery (382), Cooking Utensils (383), Cleaning Utensils (384), Kitchen Utensils N.E.C. (385), Lawnmower (Including Electric) (386), Gardening Tools (387), Other Tools (388) , Household Durables N.E.C. and Undefined (389), Purchase of Motor Vehicle (501), Purchase of Motor Cycles (502), Purchase of Caravans (Other than Selected Dwelling) (503), Purchase of Trailers (504), Purchase of Bicycles (505), Television (551), Television Aerial (552), Radio/Stereo/Hi-Fi Equipment (553), Video Cassette Recorder and Equipment (554), Home Computer Equipment (555), Photographic Equipment (567), Studio and Other Professional Photography (571), Musical Instruments and Accessories (572), Purchase of Boat (573), Boat Parts and Accessories (574), Camping Equipment (597) and Watches and Clocks (701).
DUREXP2 =	DUREXP1 *plus* weekly household expenditure on:
	House and Contents Insurance (Selected Dwelling (105), Repair and Maintenance to Contractors (Selected Dwelling) (106), Interest Payments - Loans for Alterations and Additions (108), Suits (Mens's) (301), Coats (Mens's) (302), Trousers (Men's) - Excluding Jeans (303), Cardigans, Jumpers, Sweater, Pullovers (Men's) (305), Shirts (Men's) (306), Sleepwear (Men's) (308), Men's clothing N.E.C. (309), Men's Clothing Undefined (310), Dresses, Suits, Skirts, Trousers (Women's) - Excluding Jeans (311), Coats (Women's) (313), Cardigans, Jumpers, Pullovers, Sweaters, Twin Sets, etc. (314), Sleepwear (Women's) (317), Women's Clothing N.E.C. (318), Women's Clothing Undefined (319), Hats and Other Headwear (329), Clothing Accessories (e.g. Ties, Gloves, Handkerchiefs (330), Hire of Clothing and Footwear (341), Pest Control Services (413), Gardening Services (414), Housekeeping,

Cleaning Services (Including Ironing) (315), Household Services N.E.C. (416), Carpet Cleaning (421), Repair and Maintenance of Soft Furnishings (423), Repair and Maintenance of Household Appliances (424), Repair and Maintenance of Tools (425), Repair and Maintenance of Household Durables N.E.C. and Undefined (426), Hire of Tools (438), Hire of Household Durables N.E.C. (430), Household Appliances Repairs Insurance (431), Batteries (514), Tyres and Tubes (515), Motor Vehicle Electrical Accessories (Purchased Separately) (516), Vehicle Parts N.E.C. (Purchased Separately (517), Vehicle Accessories N.E.C. (Purchased Separately) (518), Crash Repairs (519), Vehicle Servicing (Including Parts and Labour) (520), Driving Lessons (523), Vehicle Hire and Holiday Leasing Expenses (Non-Holiday) (525), Vehicle Charges Including Hire of Accessories N.E.C. (526), Repairs to Audiovisual Equipment (592), Repair of Optical and Photographic Equipment (593), Registration and Insurance of Boats (596), Health and Fitness Studio Charges (597), Animal Purchases (619), Personal Belongings Insurance (729) and Repairs of Miscellaneous Commodities (734).

DUREXP3 = DUREXP2 plus weekly household expenditure on:

Trees, Shrubs and Plants (406), Gardening Products N.E.C. (407), Swimming Pool Chemicals (408), Ambulance Insurance (Separate Insurance) (452), Sickness and Personal Accident Insurance (453), Air Fares (533), Removalist Fees (534), Freight Charges N.E.C. (535), Recreational Equipment N.E.C. (579), Live Theatre and Admission Charges (609), Day Trips and Other Excursions N.E.C. (613), Holiday Air Fares - Australia (Four Nights) (624), Holiday Rail Fares - Australia (Four Nights) (626), Holiday Petrol (For Holidays of Four or More Nights) (628), Hotel, Motel Charges (629), Holiday, Flat/House Charges (630), Other Accommodation (632), Airfare Inclusive Package Tours (633), Other Package Tours (634), Holidays - Overseas (Selected Expenses) Air Fares (635), Other Fares (636), Hotel/Motel Charges (637), Other Accommodation Charges (638), Airfare Inclusive Package Tours (639), Other Package Tours (640), Primary School Fees (Independent) (712), Secondary School Fees (Independent (714), Private Education Tuition Fees (717), Cash Gifts, Donations to Charity (723), Non-Holiday Accommodation (732) and Miscellaneous Services N.E.C. (735).

Note: (a) Numbers in brackets refer to the ABS three-digit commodity classification.

Source: *1988-89 Household Expenditure Survey, HESCCL Index. Numeric Listing.*

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