

# Poverty Before and After Paying for Housing

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## POVERTY, BEFORE AND AFTER PAYING FOR HOUSING

by

Bruce Bradbury, Chris Rossiter and Joan Vipond



### Social Welfare Research Centre

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## ABSTRACT

This report presents new data on the incidence of poverty in Australia. The findings are based on recently-released unit records from the Australian Bureau of Statistics' **Income and Housing Survey 1981/82** and, for the first time since Professor Henderson's Commission of Inquiry into Poverty, they include an analysis of the effect of housing costs on poverty levels. The paper argues that any analysis of poverty requires an understanding of the relationship between accommodation costs and incomes.

In the decade after the Henderson study, the incidence of poverty, defined simply in terms of income, changed little: the IHS showed that 11.6 per cent of income units had incomes below the poverty line, compared with 10.2 per cent in 1972/73. However, the present study found a substantial increase in the extent of poverty after housing outlays had been accounted for, suggesting that access to affordable housing is no longer the cushion against poverty that it once was. In the 1972/73 survey, 6.7 per cent of income units were in poverty after paying for housing, but by 1981/82 this proportion had risen to 11.2 per cent.

The analysis investigates the impact of housing tenure on the likelihood of experiencing after-housing poverty and concludes that it is particularly prevalent amongst tenants of private landlords (21.4% of such income units are below the after-housing poverty line), those paying rent to someone in the same dwelling (19.0%) and tenants of housing authorities (18.8%). However, poverty is not exclusive to these tenures and, in terms of numbers alone, the category containing most income units in after-housing poverty was couples with dependent children who were purchasing their homes - mainly because of the sheer size of this category overall. The paper reviews recent government policy on housing and related issues, and notes its differential impact on households in the various tenure types.

If the effect of housing on poverty is included - as it clearly should be, as housing is an important indicator of wealth - then the extent of poverty in Australia appears to have increased over the 1970s. After-housing poverty reflects not only the low income levels of those involved, but also the effect of their housing circumstances. Income units below the poverty line experience not only much lower incomes but also significantly higher accommodation costs than other people.

The paper concludes that measures aiming to ease poverty must address both aspects of the problem and must incorporate an understanding of the complex relationship between housing and poverty.

## **CHAPTER 1**

### **THE ISSUES**

#### **Introduction**

This report began as an exploration of the social welfare issues associated with housing. In Australia, these centre on the cost of housing in relation to people's incomes. Australian housing is generally of a high standard in physical terms, as Stretton's eulogy to the traditional cottage on its quarter-acre block points out (Stretton, 1974). Slum conditions of dilapidation and overcrowding are not common. Nevertheless, housing appears to create problems. Waiting lists for public sector accommodation are long and increasing. There are frequent complaints that private sector rents impose poverty on low-income tenants. Even among owner occupiers, generally the most favoured sector, all is not well. The young require assistance to become owner occupiers, while the elderly need concessions on rates to maintain their owner status. We have, for example, the federally-funded First Home Owners Scheme and a variety of local government measures to reduce or postpone rate payments. A common feature of these issues is the high level of housing expenditures of some families in relation to their total family incomes.

To understand the social welfare implications of housing, the analysis had to concentrate upon income levels and housing equally. It had to consider in detail the situations of people on very low incomes, i.e., those in poverty. The combination of the analyses of poverty and housing threw a focus on new inter-relationships. To some extent these were as revealing of the nature of poverty in Australia today as they were of its housing implications. Hence our chosen title, "Poverty, Before and After Paying for Housing".

Usually, we think of poverty as a situation in which basic needs cannot be met by available resources. People fall below a poverty line if this is the case. Needs can be determined according to the type of the social unit being considered (whether an individual or family or

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household) and its size, since a basic level of subsistence can be approximated for each type and size of unit.

The simplest indicator of resources is income, but this measure ignores accumulated wealth, which is another important component. Data on wealth and its distribution in Australia are scanty (Nevile and Warren, 1984; Piggott, 1984). Yet, what evidence there is suggests that housing plays a vital role as the main type of asset held by low income households (Yates, 1981).

The Commission of Inquiry into Poverty (1975) provided a simple method of analysing poverty in Australia which took account, approximately, of the distribution of wealth in the form of equity in people's homes. It measured poverty first according to people's income levels and, secondly, by their incomes minus their housing outlays. For owner occupiers who own their dwellings outright, the only outlay is rates. Owner/purchasers must make mortgage repayments as well as paying rates. Tenants pay rents of which a proportion covers rates. Taking into account these differential outlays on housing gives a more accurate measure of poverty than can be obtained by simply measuring people's incomes.

Not only are figures on after-housing poverty more representative of real situations of poverty, they also indicate the extent to which housing itself contributes to or ameliorates poverty. Are there more people in poverty after paying their housing costs? Or do more people live in poverty if it is measured before housing? Are the same people in poverty before and after paying for housing? If not, then some are aided by their access to affordable housing, while others are impoverished by the costs of shelter.

The objective of this report is to compare, for the year 1981/82, poverty measured before and after people have paid for their housing. This report, therefore, partially updates the findings of the Commission of Inquiry into Poverty. It does not, however, attempt to replicate the Inquiry itself, which was much broader in scope and used more comprehensive methods to study poverty. This report analyses only one aspect of poverty in Australia, the relationship between families' housing circumstances and their experience of poverty. It is,

therefore, complementary to other recent analyses of aspects of poverty, for example, Cass' analysis of the feminisation of poverty (1985) and the work of Gallagher (1985) and Cox, Bascand and Gallagher (1985) on the family structure of the population with incomes below the poverty line.

In the following chapters, we define our measurements more exactly and explain the most appropriate use of the available statistics in understanding poverty in relation to housing. As a preview of the issue in this chapter, we present changes in poverty between 1972/73 and 1981/82. Statistics from the Income and Housing Survey of 1981/82, which have recently been released by the Australian Bureau of Statistics, have been presented so that they are comparable with the Poverty Inquiry data referring to the year 1972/73 (Commission of Inquiry into Poverty, 1975).

#### **A preliminary review of changes in poverty during the 1970s**

It is still true, as it was in 1972/73 at the time of Professor Henderson's analysis, that the extent of poverty in Australia is less when measured by incomes net of housing outlays than when measured by income levels alone. By 1981/82, however, the numbers experiencing after-housing poverty were only slightly lower than those in poverty before paying for housing. In 1972/73, 10.2 per cent of families (defined as income units, see below) had incomes below the standard poverty line, compared with 6.7 per cent in poverty after actual housing outlays had been subtracted and net incomes compared with an after-housing poverty line. In 1981/82, the corresponding figures were 11.6 per cent and 10.7 per cent (Table 1.1). This implies a much greater proportionate increase in poverty measured after people have paid for housing than in poverty as measured by income before housing outlays were deducted.

Too much emphasis should not be placed on these as exact measures. The increase over time in before-housing poverty was quite small and may reflect statistical errors. For instance, it has been suggested that the Henderson survey underestimated the actual population by ten per cent (Social Welfare Policy Secretariat, 1981, p.166). Moreover, Cox,

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TABLE 1.1 : THE INCIDENCE OF POVERTY, BEFORE AND AFTER PAYING FOR HOUSING, IN 1972/73 AND 1981/82

Tenure	Proportion of income units <sup>1</sup> living below poverty line <sup>1</sup>				Change in proportion of income units in poverty 1972/73 to 1981/82	
	1972/73		1981/82			
	Before paying for housing	After paying for housing	Before paying for housing	After paying for housing	Before paying for housing	After paying for housing
	%	%	%	%	%	%
Owner	15.3	3.7	11.9	5.3	-3.4	+1.6
Owner/purchaser	3.0	4.0	6.6	9.1	+3.6	+5.1
Housing authority tenant	14.2	9.8	24.0	18.7	+9.8	+8.9
Private tenant	10.3	12.8	15.3	20.9	+5.3	+8.1
All tenures <sup>2</sup>	10.2	6.7	11.6	10.7	+1.4	+4.0
Total no. of income units ('000)	3,916.0		5,119.0			

Notes: 1. For details of the procedure used to derive poverty lines before and after housing costs, see text and Appendix A. The income measure was annual income received in 1981/82, adjusted as outlined in Chapter 2. Housing costs were those measured in September-November 1982. Excluded from these estimates of 1981/82 poverty, but not from other estimates for subsequent tables were:

- . self-employed income units
- . single person income units aged under 20

2. For 1972/73 all tenures include rent-free, pays board and board free as well as the tenures shown.

For 1981/82 all tenures also include renting from someone in dwelling, 'other' tenants and rent free.

Source: Figures for 1972/73 were derived from Commission of Inquiry Into Poverty (1975) Poverty in Australia, Vol.1, AGPS, Table 10.2, p.159. Figures for 1981/82: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

Bascand and Gallagher (1985, p.31) found no increase between 1973/74 and 1981/82 in poverty before people paid for housing<sup>1</sup>. Nevertheless, despite these problems, the difference in trends in poverty before and after housing costs is of interest. In 1981/82, housing appeared less of a cushion to the living standards of low income people in Australia than it had been in 1972/73.

The statistics in Table 1.1 also indicate changes in the occurrence of poverty within the main forms of tenure. Henderson found that the major forms of occupancy could be ranked, in terms of the proportions of families living in poverty after paying for their housing and with the largest first, as follows: first, private tenants; second, housing authority tenants; third, purchasers; and fourth, outright owners. These rankings were not the same when measured according to the proportion of families in poverty before housing outlays. In that classification, owners were ranked first, not last. In 1981/82, the rankings had changed with respect to the incidence of poverty before housing. Housing authority tenants were the most likely to be in poverty in income terms before housing costs, but private tenants were still the most likely of all tenure groups to be in poverty after paying for housing.

The last two columns in Table 1.1 summarise the main changes. The increase over time in poverty measured both before and after housing outlays was smallest amongst owners. Indeed, poverty before housing outlays fell for this group between 1972/73 and 1981/82. The incidence of poverty increased, however, amongst the purchasers of housing - this was true when measured either before or after including housing costs. The figures for housing authority tenants perhaps reflect the trend in public sector housing policies from public housing to welfare housing (Paris, Williams and Stimson, 1985), because the incidence of before-housing poverty among housing authority tenants increased rapidly. In general, Table 1.1 shows that many changes were occurring in the structure of poverty in Australia. They were the result not only of trends in income distribution, but also of movements in the ownership of housing and in the costs of accommodation.

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In 1972/73, it could be argued that access to cheap housing lifted people out of poverty. Among owners, poverty fell from 15.3 per cent of families to 3.7 per cent. Among housing authority tenants, it fell from 14.2 per cent to 9.8 per cent (Table 1.1). Although there were more families in poverty after paying for housing among owner/purchasers and private tenants than there were in poverty before housing outlays, there was such a general reduction in poverty through low housing outlays, that the question of whether the composition of the population in poverty before housing was the same as the population in poverty after paying for housing was not addressed. The second population was mainly a smaller subset of the first. In 1981/82, however, the two populations in poverty were about the same size but, as Table 1.1 shows, their tenure distributions were different. Chapter 5 will analyse the extent to which the families in poverty before housing overlap with the families in poverty after paying for housing.

In Chapter 2, we shall deal with complications in the measurements of the poverty line and with the definition of family used in the data sources. The qualifications that must be made in interpreting the statistics in Table 1.1 will be emphasised. We shall present new data on poverty before and after housing costs and on its distribution among family types. In Chapter 3, the major issue will be housing policies. The responses to the housing problems of the 1980s will be described with a focus on the different circumstances of the public and private sectors and on renting versus ownership. Chapter 4 will present data on people in poverty after they have paid for housing in the different forms of tenure. Chapter 5 will analyse the distributions of incomes and of accommodation costs. It will measure how many families are lifted out of poverty by access to affordable housing and how many are in poverty as a result of high housing outlays rather than low incomes.

Chapter 6 will bring together the information on both poverty and housing. It will show that there has been a change since 1972/73 in poverty, particularly in the distribution of poverty between age groups. Because people of different ages have different housing needs and different housing assets, this change has been reflected in the level of poverty measured after people have paid for housing. The inter-

relationships explained in Chapter 6 help us understand why both housing and poverty appear such pressing problems today.

The emphasis on housing is both a strength and weakness of our approach to poverty. By concentrating on housing, we can encompass the complexities created by widespread owner occupation in Australia. On the other hand, we have to ignore one group of people who perhaps have the lowest incomes of all. These are the 4.4 per cent of Australians who live in non-private dwellings. The term covers a range of institutions from nursing homes to doss-houses, from private schools to prisons and it includes the cheapest forms of housing, boarding houses and caravan parks. Many people in such institutions live below the poverty line. The specialised needs of some of them have been addressed by recent studies of homelessness such as the reports of the Senate Standing Committee on Social Welfare (1982) and the Department of Housing and Construction (1985). Our data, unfortunately, did not permit an analysis of this issue.



## CHAPTER 2

### MEASURING POVERTY

#### Introduction

The debate on poverty measurement in Australia often appears as a game for insiders only<sup>2</sup>. The jargon is alienating. Poverty occurs among "income units". It is measured by a "line" or, more complex still, by a "gap". There are two poverty lines, one for before and one for after expenditures on housing. There is also an array of lines, for single people, couples and families of various sizes and types. Yet, even an outsider quickly learns that if the winner of the debate on the measurement of poverty were to be chosen by endurance, then undoubtedly the Henderson poverty line would be selected. Indeed one of Henderson's strongest supporters makes this claim:

The Henderson poverty line emerges from this discussion as a useful and practical device whose bona fides has been established as much by public debate after its original promulgation as by the logic of its original setting.  
(Manning, 1982, p.8)

While recognising as valid many of the criticisms of the Henderson poverty line (cass, 1985; Gruen, 1982; Saunders, 1980; Stanton, 1980; SWPS, 1981; Whiteford, 1981), we do not dispute Manning's defence. Our analysis is firmly based in the Henderson tradition.

One important reason for our use of his techniques was that other approaches reject the need for a separate study of the impact of housing costs on poverty. Stanton, for instance, suggests that:

... once the poverty line is adjusted for one item of expenditure, why not allow for others, e.g. the costs associated with food, clothing and travel?  
(Stanton, 1980, p.20)

Reasons for our special treatment of housing were outlined in Chapter 1. A more direct way of answering Stanton's question is to indicate that not having to make monetary payments for housing represents the benefits of the most important income "in kind" earned by Australian families. This

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income is the imputed rental income of owner-occupiers. This is the return they receive as a result of owning their dwellings rather than having to pay rent. It takes the form of **housing services** rather than monetary income. Imputed rental is so important that it is included in the national accounts of outlays on private final consumption expenditure in Australia. In 1984/85 it was estimated to be \$20,090 million<sup>3</sup>. The imputed rentals from durable goods such as cars, boats and caravans are not regarded as important enough to receive this official attention. Among home purchasers, imputed rentals are offset by interest payments on mortgages, which form the major part of their accommodation costs. However, among those who own their own dwellings outright or who have a very large equity in them, imputed rentals are additions to their real incomes. The benefit of imputed rents arising from the ownership of residential property are very approximately indicated by low housing outlays.

The importance of imputed rental incomes to people in poverty may be illustrated by the following example. In May 1985, a couple comprising an unemployed man and his non-employed wife could receive an income of \$157.30 per week in unemployment benefit. If they had no other income, this would be their income as measured in poverty studies. They would be below the poverty line of \$179.90 per week in March 1985 (Social Policy Research Unit, 1985). If the couple owned their own home, then they would receive an imputed income equal to the value of the rent they would otherwise have to pay. This amount could vary widely, (perhaps from \$30 to \$300 per week). While it is impossible for us to measure exact imputed rental figures for all owners, we can make some adjustment for differences in living standards due to home ownership by measuring poverty after people have paid for their housing. The housing cost allowed in the Henderson poverty line is currently \$48.40 per week for a couple without children. Thus, the couple's income would be about \$25 above the after-housing-costs poverty line of \$131.50 per week. If their outlays on rates were not above \$25, the unemployed couple would be above the poverty line after housing costs and this would more truly reflect their actual circumstances than would their income measured in relation to the before-housing poverty line. Certainly, their living standards would be better than those of a couple living on unemployment benefits and having to pay rent for their accommodation.

An additional reason for being concerned with after-housing poverty is that rents and house prices vary markedly from locality to locality in Australia. Probably no other major item of expenditure has such marked regional variation and thus none impinges so directly on poverty levels in different urban and rural areas.

While our study follows very closely the methods used by Henderson, we have made certain adjustments, as have others (for instance, Kakwani, 1983), so our measures do not exactly replicate those of the Commission of Inquiry into Poverty. Some adjustments were forced on us by the nature of our data, the individual income unit records of the 1981/82 Income and Housing Survey which were released by the Australian Bureau of Statistics in 1985. One important adjustment was made because of social changes that have occurred since the early 1970s.

Henderson's measure of poverty excluded juveniles, defined as income units aged under 21 who were neither married nor had dependants. Since his study, two trends have contributed to increasing poverty among such young people. One is the rise in youth unemployment from 5.8 per cent in August 1972 to 13.9 per cent in August 1981 and 16.7 per cent in August 1982<sup>4</sup>. The other is the tendency for many young people today to live apart from their parents. There is a positive correlation between these two trends which may not be coincidental but which has not been fully explained. At the 1981 census, the unemployment rate among teenagers who lived in households with unrelated others was 18.8 per cent, compared with 12.1 per cent among teenagers living in single family households with both their parents (Bradbury, Garde and Vipond, 1985, p.27). Because of this association between unemployment and the independent life styles of young people, poverty measures which exclude all juveniles are likely to underestimate poverty in Australia.

Whilst excluding juveniles in the previous chapter, we have included in our subsequent analysis, all income units with heads aged 16 to 20 (inclusive) who did not live with their parents<sup>5</sup>. Non-dependent single people of all ages who lived with one or both parents (when the parent was recorded as the household head and whether or not they paid board or rent) were excluded from our coverage for two reasons. First, we had no information on their housing costs from the Income and Housing Survey and

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second, it is difficult to know whether their incomes are a true indication of the resources available to them. In extending the coverage of our poverty analysis to include independent juveniles, we believe that a more accurate measure was obtained which better reflects common family living patterns of the 1980s than would a rigid application of Henderson's procedures.

Our analysis also incorporates other changes. For instance, we included self-employed people and farmers in our analysis whereas Henderson excluded them. However, these are less likely to influence the findings to a great extent, as shown by the similar results in Tables 1.1 and 2.1.

In the next sections we describe our data and methods, before presenting our main results on poverty before and after housing outlays.

### **Poverty line and after-housing poverty line measurements used in this study.**

Any "poverty line" is essentially an arbitrary division below which people are said to be in poverty and above which they are not. This, of course, is a gross simplification of the issue of poverty, but it is convenient to have such a cut-off point if we are to concentrate on the most disadvantaged groups in society. Henderson's standard poverty line was originally based on the view that the basic wage plus child endowment provided a minimum, or poverty-level, living standard for a family with employed husband, non-employed wife and two dependent children (Henderson et al., 1970, p. 1).

In a world of inflation, it is obviously impossible to have a poverty line fixed for all time at a certain number of dollars. A measure is required that is easily updated. While Henderson used the basic wage to set the poverty line, he used movements in average weekly earnings to update it. Later, figures from the national accounts on household disposable income per head came into use for this purpose<sup>6</sup>. These methods of updating the standard poverty line were used so that poverty could always be measured relative to the average standard of living of the population at any time (Manning, 1982).

Of course, a single poverty line cannot measure the circumstances of one person and a family of four simultaneously. Henderson chose to define the poverty line for a standard income unit, consisting of husband (age under 40 years and in the labour force), wife (under 40 years and not in the labour force) and son (aged 6-15) and daughter (under 6) (Commission of Inquiry into Poverty, 1975, p.355). The poverty line for this standard income unit is currently set at 135 per cent of household disposable income per head derived from the National Accounts. In March 1985 it was equal to \$252.50 per week net of tax (Social Policy Research Unit, 1985).

To determine the appropriate poverty line levels for different income unit types, an equivalence scale developed for the New York Budget Standard Service in 1954 was used. The scale takes into account the size of the income units, the age of members and whether adult members are in the labour force. For example, the poverty line for a single person who was a member of the labour force was \$134.40 per week net of tax in March 1985 (Social Policy Research Unit, 1985).

Basically, an income unit is the narrowest definition of a nuclear family. It may consist of:

- . a single person
- . a couple
- . a couple with dependent child or children
- . a single parent with dependent child or children.

As Manning (1982) has noted, the choice of an income unit as the unit of measurement in poverty analysis was a compromise. If the individual were chosen as the basis of poverty measurement, many more people would appear to be in poverty - for example, all dependent children and wives who have no incomes of their own. In many cases, this would be a misleading measurement. Unfortunately, as we know so little about intra-family transfers of incomes (Edwards, 1984), distinctions about who is and is not dependent on the family income have to be arbitrary and we

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have to assume that all family members have access to that income. Henderson's use of the income unit implies that relatives of family heads other than wives and children - for example, elderly parents - are regarded as independent people. Henderson supported his use of the income unit by pointing out:

that aged relatives, for instance, should have a right to an income of their own, and that the income of an independent child living at home should be treated as his own. (Commission of Inquiry into Poverty, 1975, p.12).

His exclusion of juveniles from his sample avoided the tricky problem of whether the non-dependent young were poor. As noted, we have excluded such people only if they lived with their parents. We assume that living apart from their parents indicates that young people should be treated as separate units. If their incomes are low, we measure them as living in poverty rather than assuming they have family support.

Many of these young people live in shared households and hence economise in accommodation costs and other shared goods. The equivalence scale used here explicitly allows for such economies of scale (in housing, fuel and power costs) by taking into account the total number of people in the household as well as in the income unit itself.

Despite the fact that the Income and Housing Survey 1981/82 collected such information, there are no data on tax payments in the public use file. We have calculated the likely tax liability using the method of Burbidge (1984)<sup>7</sup>, so that we could follow Henderson's use of after-tax incomes in our calculations.

The Poverty Commission rightly considered annual income rather than weekly income to be the more appropriate measure in analyses of poverty levels, but our information on housing costs was only available for the week of the survey (taken over the period September to November 1982). To compare annual incomes (for 1981/82) with weekly housing costs, the annual incomes were adjusted to a weekly equivalent. After deducting imputed tax liabilities, we increased them by the change in household disposable income per capita between the financial year and the survey date and made the appropriate divisions. We used an average of the

poverty lines published by the Institute of Applied Economic and Social Research at the University of Melbourne for the September and December quarters 1982, as this corresponds to the survey period. Further details of our methodology are included in Appendix A.

As noted, Henderson computed not just one but two poverty lines for each type of income unit. On the basis of the New York budget studies, minimum housing costs were calculated and deducted from the initial poverty line. This identified not only how many people had incomes (net of tax) below the poverty line but also how many had incomes (net of both taxes and their housing costs) which were below the after-housing poverty line. In March 1985 the after-housing poverty line for a standard income unit of couple plus two children was \$195.50 per week. The allowance for housing was \$57 per week or approximately 23 per cent of after-tax income (Social Policy Research Unit, 1985).

As Stanton (1980) has pointed out, Henderson used a rather arbitrary method of controlling for housing costs, as he simply **assumed** that the proportion of income spent on housing by the poor in New York in the 1950s was equally applicable here. Stanton has argued that an approach based upon some measure of what people **need** to spend on housing (or conversely what they need to spend on other goods) to be above the poverty line in Australia, would be more acceptable. Whether the application of these 1954 New York figures to present-day Australia is justified, is a matter of some conjecture. However, the Income and Housing Survey shows that standard income units with poverty-level incomes spent on average 23.5 per cent of their after-tax incomes on housing in 1982, supporting the use of the Henderson procedure.

In brief, we calculated how many income units were in poverty before and after their housing expenditures, using the individual records from the Income and Housing Survey 1981/82. The only income units excluded from

# 16 Poverty, before and after paying for housing

TABLE 2.1 : THE INCIDENCE OF POVERTY, BEFORE AND AFTER PAYING  
FOR HOUSING, BY FAMILY TYPE, 1981/82

Family type	Proportion of income units below poverty line	
	Before paying for housing	After paying for housing
	%	%
Couple without dependants		
head aged < 65	4.7	4.7
head aged $\geq$ 65	5.4	3.9
Couple with dependants	11.6	12.2
Single parent	46.2	40.8
Single person		
aged 15-24	15.7	20.6
aged 25-64	14.1	12.8
aged > 65	11.0	5.2
All family types	11.8	11.2
Total number of income units in poverty ('000)	646.8	613.2

Source: Australian Bureau of Statistics, Income and Housing Survey  
1981/82, unit record file.



the analysis were those for whom no data were available on either housing costs or income. The major exclusions were therefore:

- people who changed their status during the year, such as women who had changed marital status, people who arrived in Australia from abroad or those who had just left school. There were no annual income statistics for them.
- people who lived in non-private dwellings and non-dependent children of any age who lived in households where their parent was the head. There were no housing expenditure data for these two groups.

Our figures for annual gross incomes in 1981/82 were converted into net-of-tax incomes on a weekly basis for the survey period, September to December 1982. Housing expenditures included rents, mortgage repayments and rates. (Expenditure on home maintenance or conversion or on energy costs were not included in the Income and Housing Survey.) Incomes and incomes net of housing outlays were compared with the averages for the third and fourth quarters of 1982 of the poverty lines, before and after housing.

#### **Poverty : before and after paying for housing in 1981/82**

Aggregate measures of the proportion of income units living in poverty before and after paying for their housing in 1981/82 are presented in Table 2.1. The proportion of income units living below the poverty line was 11.8 per cent before housing costs and 11.2 per cent after housing. These figures are very similar to those presented in Chapter 1, which were based on an analysis excluding independent juveniles and self-employed people. The fact that small changes do not alter the statistical results is further support for our main conclusion. Levels of poverty measured before and after people have paid for housing are now very similar in Australia.

Table 2.1 also shows the incidence of poverty according to family type. Poverty was most prevalent amongst single parents; 46.2 per cent lived below the poverty line before paying for housing in 1981/82. Single persons of all ages were more likely to experience poverty than were

# 18 Poverty, before and after paying for housing

TABLE 2.2 : THE DISTRIBUTION OF INCOME UNITS BY FAMILY TYPE, IN THE POPULATION LIVING BELOW THE POVERTY LINE AFTER PAYING FOR HOUSING AND IN THE TOTAL POPULATION, 1981/82

Family type	Proportion of income units	
	living below poverty line after paying for housing	in total Australian population
	%	%
Couple without dependants		
head aged < 65	8.0	19.3
head aged ≥ 65	2.7	7.9
Couple with dependants	37.1	34.1
Single parent	14.7	4.0
Single person		
aged 15-24	13.0	7.1
aged 25-64	19.4	17.0
aged ≥ 65	4.9	10.7
All family types	100.0	100.0
Total income units ('000)	613.2	5,473.2

Source: Australian Bureau of Statistics, Income and Housing Survey, 1981/82, unit record file.

couples. Young single persons had the second highest proportion in poverty: 15.7 per cent lived below the poverty line before housing.

The highest incidence of poverty after housing outlays was also experienced by single parents. They tended to benefit slightly from housing: 40.8 per cent lived below the after-housing poverty line. The impact of poverty amongst the old elderly was often reduced by their housing arrangements. Among single elderly persons, 11 per cent were below the before-housing poverty line; 5.2 per cent were in poverty after paying for housing. Conversely, young single persons (aged 15-24) were more likely to be in poverty after housing outlays than before them. More than 20 per cent of single person income units in this age range were in poverty after paying for housing.

Figures on the incidence of poverty within certain groups do not show its distribution throughout the Australian population because some types of income unit are more common than others. More couples with children were found among those in poverty after housing (Table 2.2) than any other income unit type, forming more than one third of such units. Together with single parents, they comprised more than half of the income units in after-housing poverty. All these income units contained children, reflecting the youthfulness of today's poverty. Couples without dependent children formed just over 10 per cent of income units living below the after-housing poverty line. The remaining 40 per cent were single persons: 5 per cent of the total were aged 65 or more, the others were younger.

These data summarise some of the key features of poverty measured after people have paid for housing. It affects single parents and single persons disproportionately - people who frequently have to afford shelter without the benefits of either two incomes or shared accommodation costs. It affects the young who have not had time to acquire the main form of family wealth - an owner-occupied dwelling. Nevertheless, as shown above, one half the families living in after-housing poverty contained dependent children. Most importantly, poverty measured after housing outlays is not much less widespread than poverty before housing costs. In 1972/73, conversely, poverty after paying for housing was considerably less common than poverty before housing outlays.

## CHAPTER 3

### HOUSING POLICIES

#### Introduction

All the evidence in Chapters 1 and 2 points to a simple conclusion: the overall extent of poverty measured by incomes alone did not change during the 1970s, but the incidence of poverty after people had paid for housing increased. The measurements used in these chapters became possible only in late 1985, four years after the events described. In the meantime, housing issues have been subject to major policy changes and much academic debate. These changes were a response to the problems that were suspected but had not been measured in detail. The policies and debates are directly relevant to an assessment of the scale of after-housing poverty which will be discussed in Chapter 4.

One important feature of Australian housing policies is their variation according to housing tenure. Even where assistance is directed specifically to social security recipients with housing problems, support (in the form of Supplementary Rent Assistance) is available only to tenants of private landlords and not to owners, while all housing authority tenants are eligible for rent rebates irrespective of income source. The main forms of direct federal housing policy are concerned with providing public-sector rental housing and with giving cash and loan assistance to home purchasers. Further, amongst house purchasers, taxation policy treats the incomes and housing expenditures of landlords and owner occupiers differently.

In Chapter 4, we present statistics on after-housing poverty by tenure, based on data from the period 1981/82, focussing on the tenures where poverty was greatest. In this chapter, we review policies that were developed during the 1980s, according to their impact on the different tenures.

We do not deal in detail with the federal policies of the second half of the 1970s, except to note that they involved a reversal of the expansionary policies of the Whitlam government. This reversal directly

## 22 Poverty, before and after paying for housing

affected both owner occupiers and public sector tenants. The Labor government's 1974 measure of allowing low income first home owners to deduct mortgage interest payments from income for tax purposes was replaced by the Home Savings Grants Scheme. It offered a grant of one dollar for each three dollars saved towards the purchase of a home, up to a maximum grant of \$2000. (It should be noted that these two schemes affected rather different groups of owner/purchasers.) Public housing was cut back over this period. Commonwealth-State Housing Agreement payments by the Fraser government in 1981/82 were less than one third of their 1974/75 level in real terms (Carter, 1983b, p.3).

Private tenants were not directly disadvantaged by the Liberal/National Party government. However, as Henderson has pointed out, they were adversely affected by the reduction of expenditure on public housing in these latter years which led to increased numbers of private tenants, thereby reducing vacancy rates for rental accommodation and driving up rent levels (personal correspondence, 1985). Private tenants had not been particularly helped by Labor during the 1970s.

Henderson's comment raises a general analytical issue on the interaction of demand and supply across the various forms of housing tenure in response to changes in policy. Neither houses nor people are confined to any particular form of tenure. Owner occupiers can vacate their homes and can simultaneously become both landlords and tenants (of different dwellings, of course). The sale of a previously rented dwelling to an owner occupier can set up a chain reaction creating vacancies and evictions throughout both the owner-occupied and rental sectors. These interactions are not well understood and are difficult to pinpoint. Because of the static nature of the data, such interactions are ignored in the present analysis. However, the discussion in this chapter will indicate some of the context in which individual decisions are made.

In this review we shall also ignore State housing policies during the 1980s, largely for the sake of simplicity and brevity. Possibly because of the federal miserliness with housing funds during the 1970s, many States became innovators. The Victorian government, for example, began several new housing programs over this period (Carter, 1983a; Carter &

Luscombe, 1984). In fact, there were so many different ventures in the various States which affected all the tenures, that it is impossible to review them in this short report.

### **Housing policies of the Liberal/National Party governments**

Restraint with respect to housing policies did not last throughout the entire period of the Fraser administration. A change can be discerned around 1981.

More generous assistance to first home buyers was one of the first indicators of such change. The August 1981 Budget increased the maximum grant for families with children. In March 1982, the Home Savings Grant Scheme was replaced by the Home Deposit Assistance Scheme which raised the grant to \$2,500 (\$3,500 for families with two dependent children) but which, unlike the former scheme, involved a means test. Both schemes were alike in that they had a savings requirement.

A new Commonwealth-State Housing Agreement was introduced in 1981. It set base-level federal funding for the States to provide public rental accommodation and home purchase assistance at \$200 million per annum, though the actual outlay in 1981/82 was somewhat higher.

Further to the increased housing expenditures, Supplementary Assistance - assistance with private rental payments available to most pensioners but not to unemployment beneficiaries - was raised from \$5 per week to \$8 per week in February 1982.

The changes in housing and related outlays by the federal government were thus aimed at increasing the extent of assistance available to households in all forms of tenure, although to differing degrees.

The year 1982/83 saw substantial increases in housing outlays; some were planned by the Liberal/National government, others were actually made by the incoming ALP government. The former increased existing forms of assistance by raising Supplementary Assistance by a further \$2 per week to \$10 in February 1983 and by planning to increase grants made under the

## **24 Poverty, before and after paying for housing**

Commonwealth-State Housing Agreement by 61 per cent. The total expenditure planned for the year on loans plus grants was, at \$332.9 million, well above the \$200 million base level funding of the Agreement. In 1982/83, States were also allowed to nominate money raised through the Loan Council for housing purposes.

The Liberal/National government introduced new forms of assistance to all home buyers - not just first home buyers - in their Housing Loan Interest Rebate. This measure allowed owner occupiers to claim a rebate, at the standard tax rate, on the amount of interest paid on their housing loans above 10 per cent on loans of up to \$60,000. It applied to the fiscal year 1982/83 only and was a response to the rapidly rising interest rates of 1981 and 1982 (see below).

In addition, 1982/83 saw the introduction of the Mortgage and Rent Relief Scheme with a federal outlay of \$20 million to be matched dollar for dollar by the States. As Carter has noted of this emergency scheme:

At least 25% of the monies had to be spent on each aspect of the program (mortgage and rent relief). The exact relationship of this scheme to the Supplementary Rent Assistance benefit was never clearly specified, nor was it explained to the States how they were to develop a workable scheme for assisting private tenants with such minimal resources.  
(Carter, 1983b, p.4)

Carter has further recorded in detail the problems this scheme created within Victoria, noting the inadequacy of funding levels in relation to the extent of rental problems and the prospect of short-term funding ending while the problems still remained.

### **Housing policies of the Australian Labor Party governments**

The first three years of the current Australian Labor Party government have seen a continued increase in federal housing outlays, a new Commonwealth-State Housing Agreement and a new First Home Owners Scheme. In addition, the existing support to pensioners who are private tenants, Supplementary Assistance, was increased from \$10 per week to \$15 per week

in November 1984. An important innovation of the 1985/86 Budget was the extension, from May 1986, of this form of rental assistance to people who have been unemployed long-term. Eligibility and levels of payment are still, however, more restricted than for other pensioners.

The most significant changes in the 1984 Commonwealth-State Housing Agreement, as compared with the 1981 CSHA, were that the base level of funding was set for the first three years at \$500 million per annum (c.f. \$200 million per annum) and that rents for public housing were to be fixed on cost rather than on a market-price basis. The new Agreement incorporates a range of programs including the Mortgage and Rent Relief Scheme, although whether that will help solve the problems described by Carter must be questioned. Bethune (1985) and Carter (1985) have both provided a critical review of the changes incorporated in the 1984 CSHA.

The First Home Owners Scheme replaced the Home Deposit Assistance Scheme in October 1983. The main changes were an increase in the maximum assistance available and a removal of the savings requirement. The reason for the removal of the savings requirement has been indicated by Wight:

Savings requirements discriminate against marginal first home buyers, particularly low to middle income earners, whose family circumstances and personal needs mean that it is very difficult to accumulate the savings required to satisfy this eligibility criterion.  
(Wight, 1985, p.14)

The First Home Owner Scheme was twice as popular as expected. Forecasts of 42,000 applications were far exceeded as actual applications numbered 91,000 and 55,250 applicants received assistance in 1983/84. In the following year, the income limits for assistance were reduced, especially for single people, although 88,500 households were still assisted. Current estimates indicate that 82,500 new households will receive assistance in 1985/6 (Treasurer of the Commonwealth of Australia, 1985b, p.169).

As Yates (1984) has noted, while the First Home Owners Scheme has been "widely acclaimed as a distinct improvement on earlier schemes", it cannot help people on very low incomes unless they live in areas with



## **26 Poverty, before and after paying for housing**

extremely low property prices. The maximum loan that a family on 80 per cent of average weekly earnings could obtain with FHOS assistance was \$34,200 in 1983 - less than minimum house and flat prices in many areas (Yates, 1984, pp.196-197).

Such people usually must continue to rent. Whether renters in general are discriminated against, considering the totality of government involvement in the housing market, is a matter of some debate.

### **Taxation policies and the impact of monetary policies**

The total impact of government on housing extends beyond the effects of explicit housing measures, such as the policies described above. Particularly important is the way in which the income tax system treats housing and the effect of the government's macroeconomic control upon the costs of finance. If such influences are neglected, a distorted view of the relationship between the housing situation and government policy will be presented.

The most important features of the tax system with reference to housing are as follows. Long-term capital gains are not taxed.

Owner/purchasers are not permitted to deduct their mortgage interest payments from their taxable incomes but neither are they taxed on their imputed rental incomes (see Chapter 2). But, while owner occupiers are not required to pay tax on imputed rental incomes, landlords are able to deduct interest payments from taxable income. However, they do have to pay tax on their incomes from rents.

It has been argued that this system treats renters unfairly compared with those owner occupiers who do not have mortgages or who have very small housing loans (Priorities Review Staff, 1975). The former must pay rent from their after-tax incomes, the latter live rent-free yet pay no tax on the imputed incomes they receive from their home ownership. More recently, Kiefer (1978) has pointed out that, during periods of inflation, landlords have been advantaged because of their ability to deduct mortgage interest payments from their tax liabilities while they pay no tax on their capital gains. During periods of inflation both

interest rates and capital gains tend to be high so their savings have been considerable. Neutze (1984) has neatly summarised the debate:

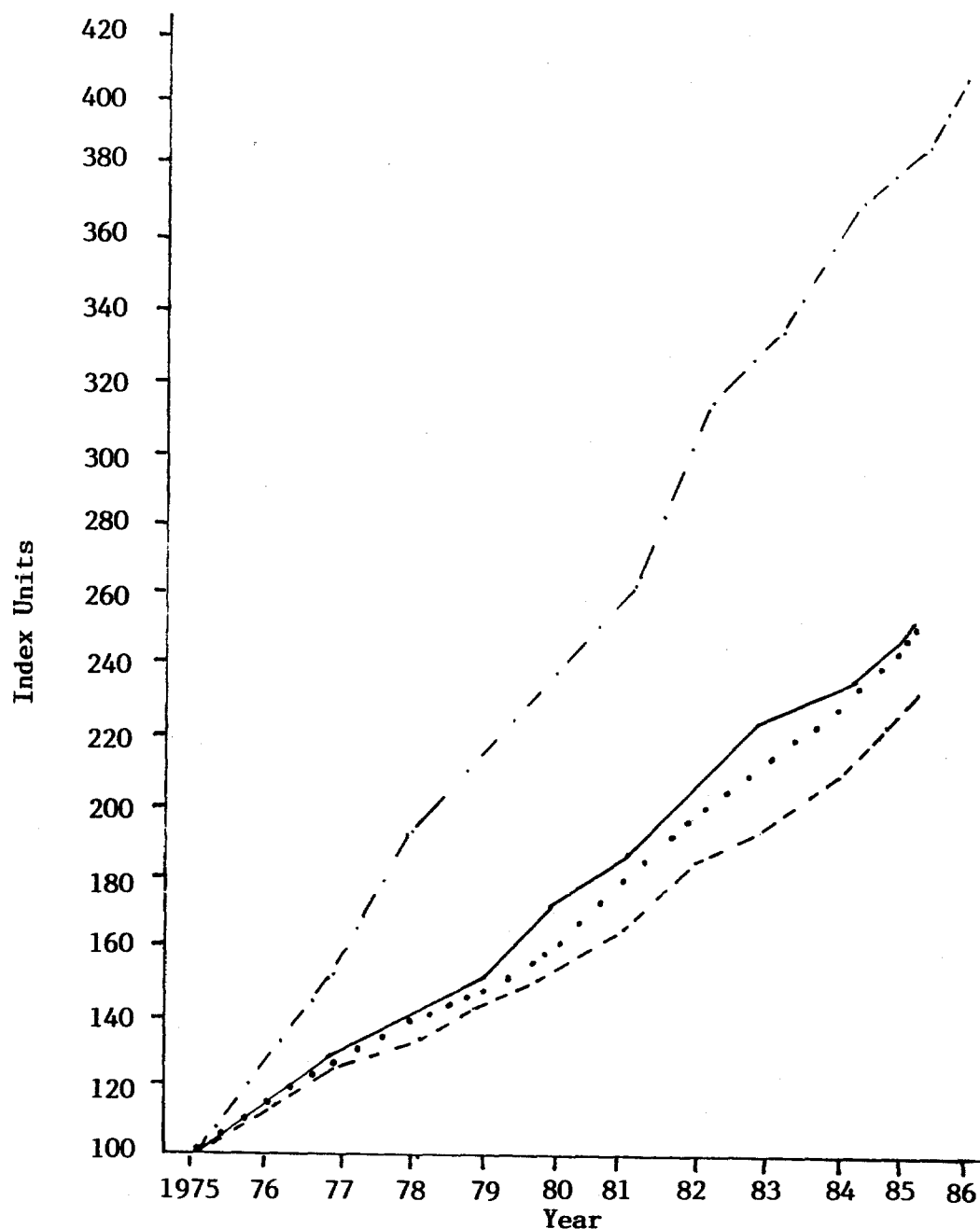
It appears that the pre-occupation of some Australian housing economists with the advantages of the non-taxation of imputed rent may have been akin to straining at a gnat while the camel of the cost advantages of renting that derive from the non-taxation of capital gains has been swallowed with barely a gulp.  
(Neutze, 1984, p.10)

In terms of poverty analysis, the most important question is whether the taxation advantages to the landlord are passed on to the tenant. Neutze calculated that this has not occurred to any great extent.

Currently, many people fear that rents will soon rise because the federal Treasurer is about to remove these taxation advantages. In particular, the advantages of negative gearing will be limited because landlords will not be able to offset their losses on newly-acquired property against income earned from other sources. Capital gains taxes are expected. It is widely feared that these moves will reduce the attractiveness of investment in rental property and, therefore, rents could rise as the supply of dwellings to let drops. It is impossible to know whether these fears are justified because landlords' responses to investment opportunities are not well understood. As noted, Neutze has suggested that the rental market did not react quickly to the tax advantages that emerged with inflation. We cannot assume, however, that it will be equally slow to react to their removal.

There are elements of discrimination - some conscious and some accidental - in the tax treatment of owner occupiers and landlords. Owner occupiers benefit from the deliberate exclusion of imputed rental incomes from taxable income. This favours only those with substantial equity in their dwellings, as owners with recent mortgages pay large interest bills which they are unable to deduct from their taxable incomes. Landlords have benefited from the effects of inflation through their ability to offset income losses from high interest against other taxable income, while not being taxed on the capital gains they have made. The benefits to landlords appear to have been an accidental outcome of a tax system that has not kept up with economic change. The fact that the current

FIGURE 3.1 : CONSUMER PRICE INDEX: MOVEMENTS IN TOTAL INDEX & HOUSING INDICES, AUSTRALIA, SEPTEMBER 1975 - SEPTEMBER 1985



Key:

- Total C.P.I.
- ..... Housing group component of C.P.I.
- - - - Private rental component of C.P.I.
- . - . Government rental component of C.P.I.

Source: See Appendix B.

review of taxation appears to be designed *inter alia* to remove the favourable tax treatment of investment in rental properties indicates support for this interpretation of events.

While it is easy to describe the tax treatment of owner occupiers and landlords, it is much more difficult to evaluate their outcomes. Are costs in one sector rising faster than in the other?

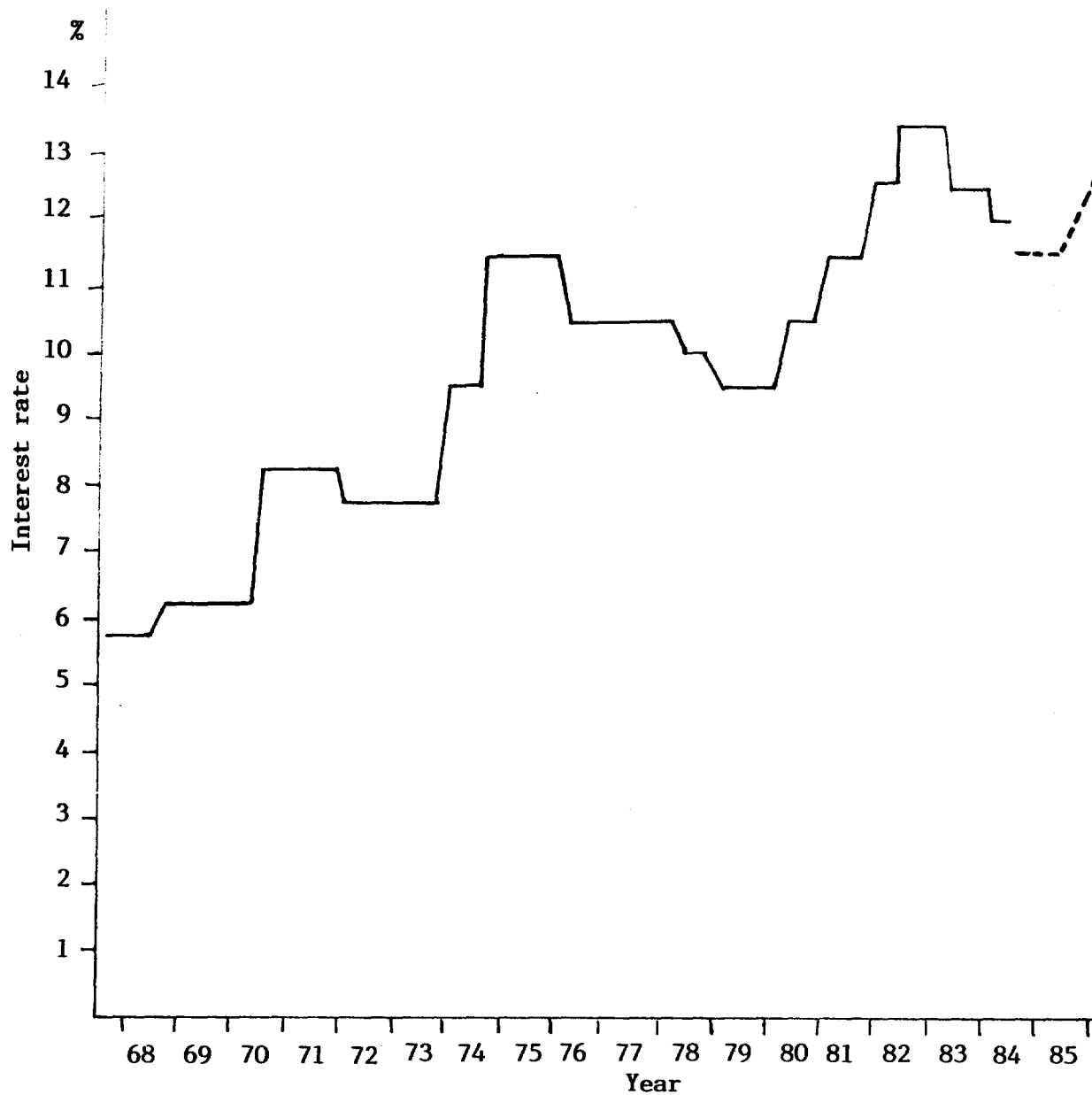
Neutze (1984) may be correct in arguing that the favourable tax treatment of the private rental investor has not been passed on to tenants. Yet, for some reason or other, average rents have increased by less than other prices. Private rental increases were less than any other component of the housing group in the Consumer Price Index and the housing group index itself rose less rapidly than the CPI for all items (Figure 3.1 and Appendix B).

The housing group of the Consumer Price Index is an index that shows quarterly changes in three types of housing cost: public and private sector rents and home-ownership costs. The weighted average of these costs rose less than the total CPI for all goods and services in the ten years 1975/76 to 1984/85 (shown in Figure 3.1 by "All Housing" and "Total CPI"). Thus, relatively, housing appears to have become cheaper over this time. Rents in government housing rose much more rapidly than either the total CPI or the "All Housing" component of the CPI (Figure 3.1). Undoubtedly, this reflects the movement towards charging market rentals in public sector housing, which trend may be reversed by the new Commonwealth-State Housing Agreement.

The index of home-ownership costs has not been included in Figure 3.1 because it does not truly reflect the costs faced by purchasers of dwellings. The index includes the cost of new dwellings but excludes both the cost of land and interest payments on mortgages. These defects flow through to the "All Housing" index, resulting in a measure that is not truly representative of all accommodation costs.

Information on the cost of houses plus land in Sydney and Melbourne (Neville, Vipond and Warren, 1984, Chapter 2), suggests that while nominal house prices increased in the second half of the 1970s, there was no

FIGURE 3.2 : SAVINGS BANK LOANS FOR HOUSING :  
MOVEMENTS IN INTEREST RATES, AUSTRALIA  
1967 - 1985



Key:

————

Maximum rate of a range of interest rates listed by the Reserve Bank

-----

Predominant rate as listed by the Reserve Bank

Source: See Appendix C

clear upward trend in the real price of houses (i.e., in the nominal prices deflated by the Consumer Price Index). If land were included in home ownership costs, it is not likely that the housing index would change greatly. Interest rates are, however, a different matter.

Interest rates are the channel by which monetary policy influences owner occupiers and landlords. While both are affected, the former tend to feel the pressures of rising interest rates more severely because of the different tax treatment of their costs compared with those of landlords.

Interest rates vary according to the source of finance: savings banks, building societies, finance companies etc. Movements in one rate tend, however, to be matched by others. Trends in interest rates for loans from various sources can be summarised by the savings bank loan rates for housing loans, as illustrated in Figure 3.2 and Appendix C.

The data show that mortgage rates fell from December 1975 until December 1979 - from 11.5 per cent to 9.5 per cent. In the following three years, however, there were substantial increases in rates which took their level to 13.5 per cent - a rate that continued throughout 1982. The very rapid rise in interest rates in the fiscal year 1981/82 was a factor in changing government policy towards housing. It is also a partial explanation for the after-housing poverty that we shall demonstrate among owner/purchasers in 1981/82. As Figure 3.2 illustrates, 1982 was the peak year for interest rates. They fell in 1983, though in 1985 they returned to their earlier levels and would go higher were it not for Government controls.

In summary, the changes in federal housing policy from 1981/82 to 1985/86 have:

- raised Supplementary Rental Assistance from \$5 per week in January 1982 to \$15 per week in November 1984, and will extend it to long-term unemployed people at the rate of \$10 per week from May 1986;

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- raised assistance to first home buyers from a maximum grant of \$2,000 (in 1980/81) to a maximum grant of \$7,000 (in 1983), removed the savings requirement and retained a means test so as to target the assistance to people on low incomes;
- increased federal outlays under the Commonwealth-State Housing Agreement from \$250.9 million in 1980/81 to \$654.4 million in 1985/86, thus assisting both public tenants and low income home buyers.

The tax system in the second half of the 1970s and early 1980s favoured investment in residential real estate - a situation that may be changed during 1985 and 1986. On the other hand, the effects of monetary policy in raising interest rates from the end of 1979 to the beginning of 1982 increased housing costs, especially for owner/purchasers but also for private tenants. In other words, throughout the 1980s, government has been very actively involved in the housing sector, which has affected all housing tenures. Since some government actions apparently aimed to counteract the ill effects of other policies, it is difficult to evaluate their overall impact, even qualitatively. The only certain conclusion is that all this activity was a response to a perception that many people were having difficulty affording accommodation.

## **CHAPTER 4**

### **HOUSING TENURE AND POVERTY AFTER PAYING FOR HOUSING**

#### **Introduction**

The previous chapter surveyed federal government policies and noted that these had varying impacts according to housing tenure. In this chapter, we return to the measurements of poverty after people have paid for their housing. Again, we are concerned with how many families are below the after-housing-costs poverty line after paying for their accommodation. We describe in detail the incidence of after-housing poverty according to the form of housing tenure occupied by income units of different types. We discuss the relevance of these detailed data to policy development aimed at targetting assistance so that it will have the greatest impact in alleviating poverty.

We adopted the procedures of the Income and Housing Survey which classified housing tenure (termed "nature of occupancy") into seven categories. They called the four major forms:

- 1. Owner occupier owning dwelling outright**
- 2. Owner occupier purchasing dwelling**
- 3. Renting - from housing commission or other housing authority**
- 4. Renting - from other landlord**

We have shortened these labels to:

- 1. Owners**
- 2. Owner/purchasers**
- 3. Tenants of housing authorities**



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#### 4. Tenants of private landlords.

In addition, the Australian Bureau of Statistics identified three other categories of tenure:

#### 5. Renting - rent paid to person in dwelling

#### 6. Renting - rent paid to other

#### 7. Rent-free

The fifth category, which we have called

#### 5. Tenants of someone in dwelling,

is particularly useful in analyses of income units, as it picks up the circumstances of individual income units which would be obscured in more typical housing studies focussing on the household. One household (i.e., a group of people who share accommodation and food) may contain within it two or more income units with different tenures. For instance, heads of households who are owners may have boarders and heads who are tenants may have sub-tenants paying rent separately from other household expenses. In the Income and Housing Survey both the boarders and the sub-tenants would be classified as paying rent to someone in the dwelling. The tenure of these income units would be masked by an aggregation of the statistics to the household level. The Income and Housing Survey did not, however, include individuals paying board or rent to their parents in this category. Neither are people living together as unrelated individuals, sharing rent equally among themselves included in this category. Persons in such group households are usually classed as separate income units, each as a tenant, unless there is a clear leaseholder to whom the others paid rent.

As shown, the category "tenants of someone in dwelling" contains a disproportionate number of young people in after-housing poverty. It is therefore unfortunate that we do not know precisely whether the accommodation costs recorded were for shelter only or whether in some cases they contained a component for food or other household expenses.

All respondents to the Income and Housing Survey who were not owners or owner/purchasers were asked,

"Do you pay rent or board to live here?"

and

"Who is it paid to?"

Housing Commission/Trust

Person in dwelling

Landlord/real estate agent

Other?"

We can generally assume that rent alone would be paid to housing commissions, landlords and real estate agents. When money is paid to someone in the dwelling the possibility of it including board (i.e., a component for food) is more likely.

Living in the sixth tenure category are people who have special housing arrangements and whose housing costs may therefore not be comparable with those of other tenants. Mainly, this category includes people who pay rent for housing associated with their jobs, such as transient workers, shop managers, government employees working in remote areas and so on. This category also includes people paying rent to relatives (other than parents) living in another dwelling. We have called people in this tenure,

#### **6. Tenants - special.**

The seventh form of tenure, which we have called

#### **7. Rent-free,**

describes the accommodation both of people living with friends or relatives (excluding parents) and paying no rent, and of those people whose accommodation is provided free for other reasons such as their employment.

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TABLE 4.1 : THE DISTRIBUTION OF INCOME UNITS, BY TENURE, 1981/82

Tenure	No. of income units	Proportion of income units
	('000)	%
Owner	1,883.2	34.4
Owner/purchaser	1,712.6	31.3
Tenant of housing authority	255.9	4.7
Tenant of private landlord	981.1	17.9
Tenant of someone in dwelling	183.3	3.3
Tenant - special	156.4	2.9
Rent free	300.6	5.5
All tenures	5,473.2	100.0

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

The importance of distinguishing the sixth and seventh categories lies in being able to separate them from the other major forms of tenure, so that housing costs are not distorted by figures based on non-market relationships. We do not analyse these forms of tenure in any detail in the present study.

Our analysis will concentrate on the five main forms of tenure. Among these, owner/purchasers are the second most numerous group (Table 4.1). In 1981/82, they formed 31.3 per cent of all income units. Owners formed another 34.4 per cent, bringing the total home ownership sector to 65.7 per cent of all income units. Tenants of private landlords comprised 17.9 per cent, tenants of housing authorities 4.7 per cent and tenants of someone in dwelling a further 3.3 per cent. The other two forms of tenure accounted for 8.4 per cent of income units. Our analysis therefore covers 91.6 per cent of all income units and it explores the after-housing poverty found within this group. Compared with Census data on tenure, the data in Table 4.1 may seem to reflect levels of home ownership that are too low. It must be remembered, however, that they refer to income units, while the Census records tenure among households. For the reasons mentioned above, data on households often mask the circumstances of income units that contain no household head. Such people are more often tenants of one type or another rather than owner occupiers.

### **Poverty and tenure**

In Chapter 2, it was noted that the number of people in poverty in Australia is similar whether measured by a poverty line in terms of income alone or poverty after housing payments. Despite this similarity, when the data are disaggregated according to housing tenure, it appears that it is not always the same people who are in poverty before and after housing costs. While access to cheap accommodation raises some people out of poverty, high housing costs force others below the poverty line. The ownership of dwellings, tenure of housing authority properties and living in rent-free accommodation all substantially lessen the likelihood of living below poverty levels measured by an after-housing poverty line. Offsetting this effect,

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TABLE 4.2 : THE INCIDENCE OF POVERTY, BEFORE AND AFTER PAYING  
FOR HOUSING, BY TENURE, 1981/82

Tenure	Income units living below the poverty line			
	Before paying for housing		After paying for housing	
	No ( '000)	% of all in tenure group	No ( '000)	% of all in tenure group
Owner	223.6	11.9	101.9	5.4
Owner/purchaser	116.8	6.8	168.3	9.8
Tenant of housing authority	60.7	23.7	48.2	18.8
Tenant of private landlord	151.0	15.4	209.8	21.4
Tenant of someone in dwelling	23.9	13.0	34.8	19.0
Tenant - special	17.8	11.4	17.1	10.9
Rent free	53.0	17.6	33.0	11.0
All tenures	646.8	11.8	613.2	11.2

Source: Australian Bureau of Statistics, Income and Housing Survey  
1981/82, unit record file.

high rent levels in the private sector and high mortgage repayments push other people, whose incomes are not particularly low, into after-housing poverty. Table 4.2 provides details of the relationship between poverty levels and housing tenure. Chapter 5 further explores the impact of tenure on the movement into and out of poverty.

Among owners, the number of income units living below the poverty line is more than twice the number living in after-housing poverty. This is the form of tenure which most substantially reduces the effect of poverty in Australia. It is not, however, the form of tenure of most people with low incomes before paying their housing costs. The proportion of owners in poverty before paying for housing is approximately the same as that for people in all tenures, i.e., 11.9 per cent compared with 11.8 per cent for all tenures.

The incidence of poverty before housing costs is highest amongst housing authority tenants. Other tenants are then ranked as follows: rent-free, tenants of private landlords and tenants of someone in dwelling. All rental accommodation except the "special" category contains an above average incidence of pre-housing poverty.

As we might expect, the lowest proportion of income units in before-housing poverty is found among those who are purchasing their dwellings. Poor people do not generally have the income necessary to qualify for mortgage loans. Among owner/purchasers who are currently poor, therefore, it is likely that some have retired from work and some have become unemployed since they obtained their mortgages. Others may have lost a second earner due to death or other reasons. Some of them may have very low weekly repayments on their mortgages so that they are not in poverty after paying for their housing.

Considering income after housing outlays, the incidence of poverty among tenants of housing authorities is lower than before housing, although it remains at 18.8 per cent which is well above the average of 11.2 per cent for all income units.

Tenants of private landlords experience the highest incidence of after-housing poverty, 21.4 per cent. The difference in poverty, before and

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after housing costs, among tenants of private landlords is very large; 15.4 per cent were in poverty before housing outlays were taken into account. The difference justifies a recent emphasis in housing research on rent levels and the plight of private tenants in general (Henderson, 1983; Kendig, 1984; Paris, 1984) and of those who are also pensioners (Field, 1983).

Among tenants of someone in dwelling, 19.0 per cent are in after-housing poverty - compared with 13.0 per cent of them who live in poverty before housing. These figures suggest that sharing accommodation does not solve housing or income problems among some very low income people; rather, housing exacerbates their financial problems. We must remember, however, that these data may be affected by the inclusion of payments for board (i.e., food and other household expenses) with housing costs.

Among owner/purchasers, the incidence of after-housing poverty is much greater than the incidence of poverty as measured by incomes alone. The figures are 9.8 per cent and 6.8 per cent, respectively. As noted in the previous chapter, many owner/purchasers experienced very rapid increases in mortgage-interest payments during 1981 and 1982, leading to accommodation costs high enough to introduce some of them to poverty.

#### **The incidence of after-housing poverty by family type and by tenure**

In Chapter 2, we showed that the greatest incidence of after-housing poverty was found amongst single parents with dependent children. Other family types with a high incidence were young single persons and single persons aged 25 to 64. The incidence of after-housing poverty according to both family type and housing tenure is shown in Table 4.3. The final column in this table repeats the information contained in Table 2.1. It lists the incidence of after-housing poverty by family type among all tenures. The bottom row in Table 4.3 is the same as the last column in Table 4.2. It shows the incidence of after-housing poverty, by tenure, among income units of all family types. The statistics within the main body of Table 4.3 help us identify the incidence of poverty after housing outlays for each combined class of family type and tenure.

We have noted that single parents bear the highest incidence of poverty: 40.8 per cent lived below the after-housing poverty line in 1981/82. The probabilities of being in poverty are not, however, the same for single parents in all tenure types, because both incomes and accommodation costs vary. Private tenants are the most likely to be poor: 61.7 per cent of single parents who were tenants of private landlords and 59.8 per cent of these who paid rent to someone in a dwelling lived in poverty after their housing outlays were accounted for. Tenants of housing authorities were little better off, with 47.3 per cent in poverty after housing costs. This is an extremely high incidence, especially as it is measured after the effect of rent rebates. It indicates the very low level of incomes of many single parents who live in housing authority dwellings. Single parents who are owners or owner/purchasers are less likely to be in after-housing poverty than single parents who rent. They are, however, two or three times more likely to be in poverty than are owners or owner/purchasers of all family types.

Among young single persons, so few are in either form of owner occupation or are housing authority tenants that reliable estimates of the incidence of after-housing poverty can be obtained only for renters in the private sector. There is little variation in incidence: 20.6 per cent of all young single person income units were in poverty after housing outlays. This encompasses the 20.5 per cent of tenants of private landlords and the 25.5 per cent of tenants of someone in dwelling who were beneath the after-housing poverty line.

Single parents and young single persons bear a disproportionately high incidence of after-housing poverty. Among other family types, couples with dependants and single persons aged 25 to 64 years also experience an above average incidence. The orders of magnitude of incidence are, however, very different; 40 per cent for single parents, 20 per cent for the young and only 12 per cent for the others. Among the last group, after-housing poverty is concentrated among tenants of private landlords, tenants of housing authorities and tenants of someone in dwelling.

The other people who experience a very high incidence of after-housing poverty are specific to two categories of family type and tenure. While



TABLE 4.3 : THE INCIDENCE<sup>1</sup> OF POVERTY, AFTER PAYING FOR HOUSING, BY TENURE AND FAMILY TYPE, 1981/82

Family type	Owner	Owner/ purchaser	Tenant of private landlord	Tenant of housing authority	Tenant of someone in dwelling	Tenant - special + rent free	All tenure types
	%	%	%	%	%	%	%
Couple without dependants							
head aged < 65	4.7	4.0	6.7	3.2*	16.6*	5.0*	4.7
head aged $\geq$ 65	2.8	6.3*	23.0	7.9*	0*	0*	3.9
Couple with dependants	9.0	11.1	21.8	21.3	16.6*	11.2	12.2
Single parent	12.5*	33.7	61.7	47.3	59.8	29.7	40.8
Single person							
aged 15-24	12.3*	17.9*	20.5	17.6*	25.5	17.7	20.6
aged 25-64	7.9	7.8	18.6	15.3*	15.0	13.6	12.8
aged $\geq$ 65	1.9	14.7*	25.9	2.8*	10.0*	5.4*	5.2
All family types	5.4	9.8	21.4	18.8	19.0	11.0	11.2

Notes: 1. The incidence shown is the proportion of all income units in each family type/occupancy type cell who were in poverty after paying for their housing.

\* indicates estimates subject to greater than 25% relative standard error.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

the elderly in general experience a low incidence of after-housing poverty (3.9 per cent of couples and 5.2 per cent of single persons compared with 11.2 per cent of all income units), poverty is prevalent among old people who are tenants of private landlords. Of all elderly couples renting from private landlords, 23.0 per cent lived in poverty after paying rent; among the elderly single tenants the proportion was 25.9 per cent.

The key statistics shown in Table 4.3 can be summarised by highlighting the categories in which the incidence of after-housing poverty exceeds one fifth of income units. Ignoring unreliable estimates for small subgroups, we can see that almost every combination containing single parents or young single persons is above the 20 per cent benchmark for the incidence of after-housing poverty. Most categories including tenants are above this benchmark. These are: tenants of private landlords combined with most family types; tenants of housing authorities combined with most family types; and almost all family types who live as tenants of someone in dwelling.

Table 4.3 contains important data which can be used in the evaluation of policies which affect both housing and income. It is obvious that general discrimination against the rental sectors - either public or private - is likely to do more harm to people in poverty than is discrimination against the ownership sector. Conversely, general assistance to the ownership sector is likely to benefit many people who are not in poverty. If policy makers want to redistribute resources to those who are poor, at the same time as favouring home ownership, assistance to owners and owner/purchasers should be carefully allocated on a means-tested basis.

We can also use the information in the table on family types. For instance, if we wish to assist the elderly or families with children but we have limited funds available, we should concentrate on giving them rental assistance. In that way we could target the groups with the greatest incidence of poverty. On the other hand, if young people are the target group, then general income assistance to all who do not live with their parents would be most appropriate since the incidence of poverty is not a direct result of their particular housing tenure.

TABLE 4.4 : THE DISTRIBUTION OF INCOME UNITS IN POVERTY AFTER PAYING FOR HOUSING,  
BY TENURE AND FAMILY TYPE, 1981/82

Family type	Owner	Owner/ purchaser	Tenant of private landlord	Tenant of housing authority	Tenant of someone in dwelling	Tenant - special + rent-free	All tenure types
	%	%	%	%	%	%	%
Couple without dependants							
head aged < 65	45.1	31.3	15.4	2.0*	0.9*	5.2*	100
head aged $\geq$ 65	58.2	12.0*	20.8	8.9*	0*	0*	100
Couple with dependants	17.3	49.8	19.1	7.8	0.5*	5.5	100
Single parent	5.3*	19.5	40.8	23.7	4.8*	5.9*	100
Single person							
aged 15-24	0.9*	3.1*	64.0	0.6*	18.6	12.9	100
aged 25-64	15.7	12.2	47.5	4.1*	8.5	12.1	100
aged $\geq$ 65	21.4	10.0*	35.3	4.0*	12.7*	16.5*	100
All family types	16.6	27.4	34.2	7.9	5.7	8.2	100

Notes: \* indicates estimates subject to greater than 25% relative standard error.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

These comments on the use of the information in Table 4.3 are illustrative only. It is not the aim of this report to evaluate policies, rather it is to provide aggregate measures of after-housing poverty which may be useful for later policy development and criticism. We must note, however, that alleviating the incidence of poverty is only one aspect of social policies. The above critique of policy, if taken to its logical conclusion, would call for a scheme to grant families means-tested housing assistance that varied with their individual housing outlays. The Fraser government considered such a scheme but stopped it very early in the experimental stage: the Housing Allowance Voucher Experiment was never completed (Albon, 1977).

There are many problems with housing allowance schemes. One is immediately obvious in the context of assistance to the young. If we help those young people who live apart from their parents because many of them are in poverty, do we create incentives for family break-up? Another problem of policy evaluation generally is that the objective of altering the incidence of poverty may not concern itself with the greatest amount of poverty in the community.

#### **The distribution of after-housing poverty by family type and by tenure**

As we explained in Chapter 2, the distribution of poverty depends both upon the incidence of poverty according to family type and the frequency with which each family type occurs. For instance, single parents experience by far the highest incidence of poverty but are not the largest group among the poor (Tables 2.1 and 2.2).

The distribution of income units living in after-housing poverty by tenure for each family type is shown in Table 4.4. Single parents experiencing after-housing poverty are most commonly tenants of private landlords (40.8%); almost a quarter of them are in housing authority accommodation and about one fifth are purchasing their own homes.

Young single people are even more concentrated amongst tenants of private landlords, accounting for 64.0 per cent in 1981/82. An additional 18.6

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per cent were tenants of someone in the dwelling. Single persons aged 25 to 64 are likely to live in similar tenure forms.

It is mainly because the family types with the highest incidence of poverty are concentrated in the private rental sector, that it contains such a large share of all income units living in after-housing poverty. More than one third of such income units are tenants of private landlords despite the fact that less than one fifth of all income units live in this form of tenure (see above) and despite the fact that the highest incidence of poverty is found among family types which are not the largest groups within society.

It was noted in Chapter 2 that, although the incidence of poverty is only slightly above average among couples with dependants, they form the largest proportion of all family types living in after-housing poverty because there are so many families of this type. Almost half the poor couples with dependants who lived in after-housing poverty in 1981/82 were purchasing their own dwellings. About one fifth were tenants of private landlords. The unexpected statistic is that no less than 17.3 per cent were outright owners. Their poverty must reflect low incomes, yet few of them would be over retirement age because the classification implies having dependent children. It suggests, perhaps, the difficult circumstances of families solely dependent on pensions (other than the Age Pension) and benefits or the low incomes of some self-employed people.

Among those who were elderly and in after-housing poverty, the main forms of tenure are ownership and private rental. Ownership is more common among couples, while single persons are most often tenants of private landlords.

Although there is no neat segregation of family types by tenure among those who live in after-housing poverty, there is a pattern of tenure and type shown in Table 4.2. Couples without dependants tend to be owners, while those with dependants are often owner/purchasers. Single parents and single persons live mainly in privately rented accommodation, as tenants of either private landlords or someone in dwelling. Housing authorities, however, provide **relatively** more accommodation for single

parents than any other family type. Renting from someone in the dwelling occurs frequently among young single people.

**Groups most commonly affected by  
after-housing poverty**

Both the incidence of poverty and its distribution among tenures are incomplete measures on their own. It is also important to know what proportion of total poverty is experienced by different categories of family type and tenure. As shown in Table 4.5 and Appendix D, couples with dependants who were purchasing their homes formed the largest category of income units in after-housing poverty. The second most numerous group was single persons aged 25 to 64 renting from private landlords.

Thus, in the first two ranks appear one tenure type - owner/purchaser - and one family type - prime-age single person - where we might least expect to find poverty. Admittedly, these two do not appear together. Couples with dependants occur in the first rank; single persons in poverty are usually linked with private rental tenure. The most disadvantaged family type, single parents, does not appear until the sixth rank. The figures show that we cannot simply look at the most disadvantaged family types or at one tenure in order to understand either after-housing poverty or measures aimed at reducing housing costs and prices. Both must be considered together.

By combining all the information in this chapter, we can see the many conflicts involved in the policy process. For example, we might attempt to evaluate the policy of the Housing Loan Interest Rebate (see Chapter 3); it applied only to the fiscal year 1982/83, so our data on accommodation costs are directly relevant. This was a tenure-specific policy aimed at owner/purchasers who, as shown in Table 4.2, have the lowest incidence of poverty before housing costs. It therefore assisted those people who had the highest incomes relative to their needs. On the other hand, they were the group on whom, *relatively*, housing costs imposed the greatest increase in poverty; 9.8 per cent experienced after-housing poverty, 6.8 per cent were in poverty before housing costs (Table 4.2). The policy was designed to reduce their housing costs.

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TABLE 4.5 : TEN MOST NUMEROUS CATEGORIES IN THE CROSS-CLASSIFICATION OF INCOME UNITS IN POVERTY AFTER PAYING FOR HOUSING, BY TENURE AND BY FAMILY TYPE, 1981/82

Rank	Tenure x family type classification <sup>1</sup>	No. of income units ('000)	% of all income units
1.	Owner/purchaser: couple with dependants	113.3	18.5
2.	Private tenant: person 25-64	56.6	9.2
3.	Private tenant: person 15-24	51.2	8.3
4.	Private tenant: couple with dependants	43.5	7.1
5.	Owner: couple with dependants	39.4	6.4
6.	Private tenant: single parent	36.8	6.0
7.	Owner: couple, head < 65	22.2	3.6
8.	H.A. tenant: single parent	21.4	3.5
9.	Owner: person 25-64	18.7	3.0
10.	H.A. tenant: couple with dependants	17.7	2.9
TOTAL 1 to 10		420.8	68.5

Note: 1. In all, there are 42 possible categories of income unit, classified by family type in combination with tenure type.

Source: Appendix D.

Critically, we can note that the only family type with a very high incidence of after-housing poverty among owner/purchasers was single parents (Table 4.3). They could have been helped more specifically. Moreover, as Tables 4.3 and 4.4 indicate, assistance to owner/purchasers would do little to help young or elderly tenants among whom there is a very high incidence of after-housing poverty. Nevertheless, as Table 4.5 shows, the policy was directed at the **largest group** who were living in after-housing poverty at that time, families with children.

This last fact draws attention both to the usefulness of the data presented in this chapter and to their dangers if used in a partial manner in the development of housing and anti-poverty policies. Such policies are designed to alleviate **individual** hardship. However, funds are always scarce. The temptation exists to target policies at groups with a high incidence of poverty because (assuming no incentives are created by the policies to expand the size of the groups) poverty **so defined** may be cheaply cured. If, however, as a result of targetting, poverty that occurs with a low incidence among a large group is ignored, then the cure will be illusory. There will still be many people living in poverty.

To analyse a measure such as the Housing Loan Interest Rebate fully, we would have to consider whether owner/purchasers were efficiently and equitably aided by tax rebates rather than other forms of assistance. However, that would take us beyond the scope of this chapter. Our aim here is simply to provide detailed data on poverty, measured after housing costs have been paid. We have emphasised that in using such data for policy analysis, the shock created by figures on the levels of poverty among minority groups should not lead us to neglect poverty hidden within the major categories of family type. After all, even though poverty can be identified by looking at groups, it is ultimately experienced by individuals.

There is an additional reason for treating figures on poverty measured after housing outlays with caution: they result from the combined impacts of income levels and accommodation costs. In the next chapter, we attempt to disentangle these two elements of after-housing poverty.



## CHAPTER 5

### MEASURING HOUSING-RELATED POVERTY

#### Introduction

A family experiences poverty after paying for housing, as a result of its income levels in conjunction with its accommodation costs. Whether the family's problems are due to housing circumstances depends upon its income. There is, however, no precise or definitive means of determining when incomes are too low and when housing costs are too high. In most cases, it is the relationship between the two which is critical.

Recently, the term "housing-related poverty" has appeared in the literature on housing. For instance, in his 1985 budget speech, Treasurer Keating justified his allocation of funds to the housing portfolio and the arrangements for States' use of Loan Council funds thus:

The increase in Federal funds provided for this priority area will allow us to continue our attack on housing-related poverty in Australia.  
(Treasurer of the Commonwealth of Australia, 1985a, p.15)

However, unlike the concept of after-housing poverty, housing-related poverty has not yet been given an operational meaning.

The main purpose of this report is to describe the poverty that exists after people have paid for their housing, rather than to analyse housing-related poverty, whatever it may mean. Nevertheless, an obvious question to ask is to what extent is after-housing poverty due to income levels and to what extent does it reflect high housing outlays? By definition, after-housing poverty is a function of the **relationship** between incomes and housing costs (together with income unit composition). Thus, algebraically, it makes no sense to distinguish between the poverty caused by low incomes and the poverty caused by high housing costs. When it comes to policy issues, however, it is not so simple to ignore this distinction. For example, if groups in after-

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TABLE 5.1 : MEAN ANNUAL INCOME AND MEAN CURRENT WEEKLY  
ACCOMMODATION OUTLAYS, 1981/82

	Mean annual incomes <sup>1</sup>	Mean weekly accommodation outlays <sup>2</sup>
	\$ pa	\$ pw
Income units living in poverty after paying for housing	5,617	51
All income units	16,761	37

- Notes:
1. Annual incomes include incomes from: wages and salaries; business, farms, shares in partnerships; government cash benefits; superannuation; interest, dividends and rents; other sources such as scholarships, maintenance, wills and annuities. These were recorded on an annual basis for 1981/82.
  2. Accommodation costs include payments for rents, rates and mortgages. These were recorded on a weekly basis at the time of the Income and Housing Survey.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

housing poverty can be more easily identified by reference to their housing situations than their incomes, then it is logical to consider the poverty problem a housing-related one.

In discussing this issue, we do not provide an exact definition of housing-related poverty. Rather, we show how incomes and housing costs are distributed among people who experience poverty after paying for housing. Our data support a preliminary conclusion that after-housing poverty is mainly an income problem, but that housing too has an important impact.

#### **Average incomes and average housing costs by tenure**

People in after-housing poverty are a lot poorer than average and yet spend more than average on their housing. In 1981/82, the mean annual income of all income units was \$16,761; weekly housing costs were \$37. However, among income units that were in after-housing poverty, the mean income was \$5,617, i.e., one third of the average of the entire population. Their mean weekly housing costs were \$51, i.e., 42 per cent higher than the average for the population (Table 5.1). That people who live in poverty should have higher housing costs in absolute terms is not a predictable result. Whilst high housing costs would, by definition, tend to decrease income net of housing costs and thus lead to an increased chance of being in after-housing poverty, we should also expect expenditures on housing to be strongly related to income. Thus, we should expect income units who have high incomes to spend large amounts on accommodation costs, while low income families would tend to be constrained in their housing expenditure. Despite this expectation, we find that, in a group of people whose average incomes are a third of the population average, housing costs are 40 per cent higher.

It is possible that the higher accommodation costs of those in poverty after housing are due to the different tenure distributions of the families involved as compared with all families. We can examine the extent of this by looking at each tenure separately.

Among owner/purchasers, the weekly housing costs of those who live in after-housing poverty are much higher than the average costs borne by the

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TABLE 5.2 : MEAN ANNUAL INCOMES AND MEAN CURRENT WEEKLY  
ACCOMMODATION OUTLAYS, BY TENURE, 1981/82

Tenure	Mean Annual Income		Mean current weekly accommodation outlays	
	All <sup>1</sup>	In Poverty <sup>2</sup>	All <sup>1</sup>	In Poverty <sup>2</sup>
	\$	\$	\$	\$
Owner	15,347	3,668	8	11
Owner/purchaser	22,787	8,536	68	89
Tenant of private landlord	13,571	5,075	51	57
Tenant of housing authority	11,184	6,340	35	34
Tenant of someone in dwelling	8,937	3,490	29	32
Tenant - special	17,235	4,426	30	44
Rent free	10,962	1,999	0	0
All tenures	16,761	5,617	36	51

- Notes: 1. All : All income units, except those with incomplete income or housing cost information in the Income and Housing Survey.  
2. In poverty : Income units in poverty after paying for housing.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

whole population (Table 5.2). In 1981/82, the difference was \$21 per week: people in poverty paid an average of \$89 per week; the overall average was \$68 per week. Owner/purchasers in after-housing poverty are not unique in having higher housing costs. With one exception, income units in after-housing poverty in every tenure pay more for their accommodation than the population in general. The biggest proportionate difference is among the small group of "special" tenants. Only among housing authority tenants do those in poverty pay a lower rent than the average. This is because only among housing authority tenants are accommodation costs based upon the tenant's ability to pay, so for equal quality housing, rents are higher for those above the poverty line than for those below.

The data on incomes show marked variation both within tenures and between income units in after-housing poverty and the population as a whole. The differences in average incomes between the two types of income unit are very large in the case of owners and those who live rent-free. These are income units most likely to contain elderly people with low incomes. The average "special" tenant earns much more than the poor "special" tenant and yet pays less rent. This suggests that the value of fringe benefits is lower amongst low incomes earners. This is hypothetical, however, as "special" tenants include people in a variety of circumstances.

The clear-cut statistical picture is that, on average, people who live in poverty after housing outlays earn low incomes. Amongst these people, there was no category of tenure where the mean income was above the before-housing poverty line for the standard income unit at the time. (The standard poverty line was then \$10,110 gross per annum (Burbidge, 1984, p.3)). For all income units in 1981/82, tenants of someone in the dwelling were the only tenure group with annual incomes below this benchmark; most of them were single-person income units.

The data on average incomes and on average housing costs suggest that after-housing poverty is both an income problem and a housing problem. These average figures may, however, mask variations at the upper and lower levels of expenditures and incomes. It may be that not all income units in after-housing poverty are on low incomes; some may have

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reasonable incomes but spend an inordinate amount on housing. Perhaps some after-housing poverty is in the nature of "voluntary" poverty, representing a willing sacrifice by people who either have very strong preferences for high quality housing or who want to speculate in the housing market. Some light may be thrown on this issue by the figures on the distributions of incomes and of accommodation costs.

### The distributions of incomes and of accommodation costs

Before analysing the distributions of incomes and housing costs, it must be noted that there is no unequivocal means of ascertaining whether after-housing poverty is voluntary. Housing outlays which are higher than average may possibly indicate "voluntary" poverty but this is not always so. It is likely that the after-housing poverty is due not to a deliberate choice but to unexpected events leading to either a rise in housing outlays or a fall in income. For example, a middle income family may have been a high income family before the loss of one income due to the unemployment or death of one member. If the loss is sudden, there may not be time to alter mortgage or rental commitments.

Our data on housing outlays refer to the end of a period of very rapidly rising interest rates, from 9.5 per cent in December 1975 to 13.5 per cent in December 1982. The impact of rising interest rates is becoming apparent again in 1985, even though savings bank loan rates have risen by only 2 percentage points, from 11.5 to 13.5 per cent. Headlines again decry "That Home Loan Crunch" (The Sun, October 14, 1985, p.9). The Sun also listed the effect on mortgage repayments of these latest increases: on a 20-year, \$40,000 loan, repayments rise from \$99 per week to \$112 per week, i.e., by 13 per cent. Whether owner/purchasers immediately face the full impact of interest rate increases depends upon whether or not they wish to or are able to extend the loan periods of their mortgages. Although many factors are involved, it is likely that rapid interest rate increases reduce the flexibility of loan periods. As they occur, a fixed amount of repayment covers more and more interest and less and less repayment of principal. Eventually, a limit is reached when further extension is risky, especially in cases where house value to loan ratios are high. In 1981/82 interest rates rose rapidly (see Chapter 3). Many owner/purchasers may not have had much flexibility about repayment levels

and may not have been able to increase the length of their mortgages leading to higher weekly outlays.

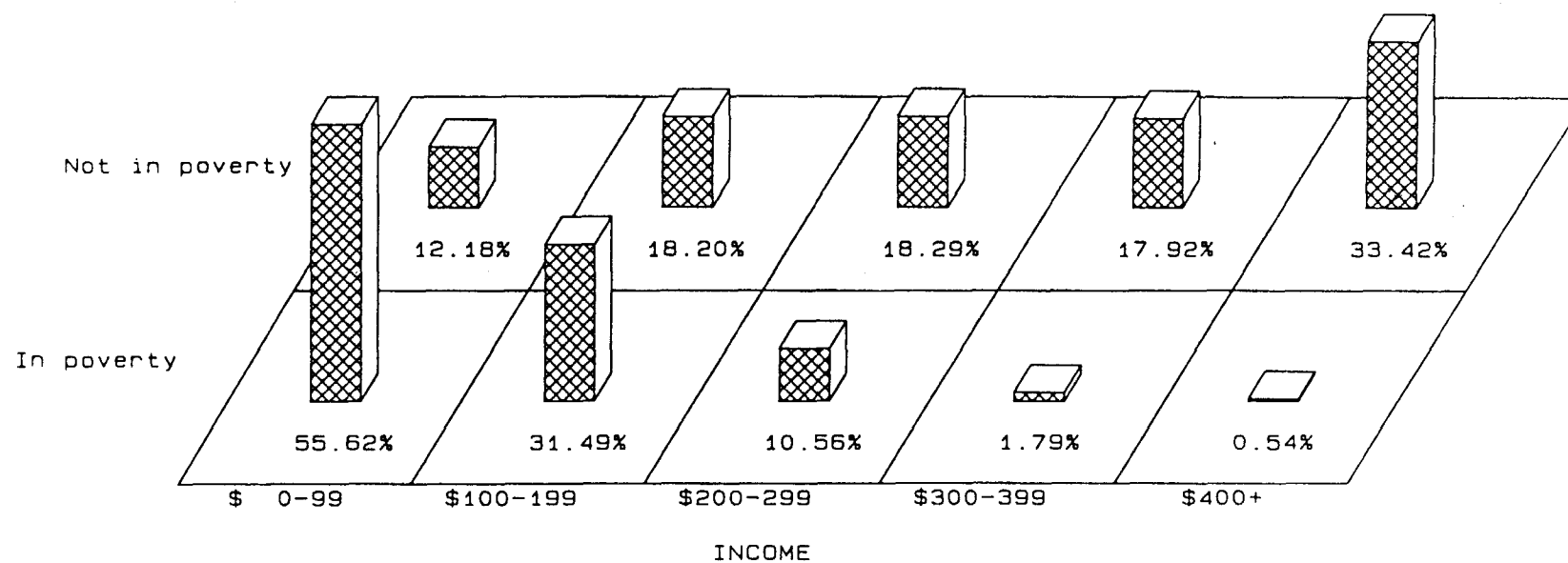
Although all families may be at risk of income loss, owner/purchasers probably have the least mobility in accommodation and may thus be prone to after-housing poverty when their housing costs rise. Private tenants can - in theory - move to cheaper accommodation relatively quickly. Owners rarely face escalating housing costs. Housing authority tenants have access to rent rebates when their incomes fall. Owner/purchasers may, therefore, be least able to avoid after-housing poverty in the face of either unexpected falls in income or rises in housing costs.

In considering the concept of voluntary poverty, the extremely frugal standard of living represented by the after-housing poverty line must be remembered. In March 1985, it was \$90.50 for a single person and \$195.50 for a couple with two children (Institute of Applied Economic and Social Research, 1985). One may question whether anyone would voluntarily opt for so few resources, even for a limited time. It seems unlikely that any opulence in housing conditions could compensate for such austerity. Perhaps only the pursuit of the great Australian dream of home ownership could make this worthwhile, suggesting that we might expect poverty to be voluntary only among purchasers of housing. However, as argued above, many of these people have little flexibility in their housing outlays and, in 1981/82, they were most susceptible to rising costs. Thus, we can expect high levels of housing expenditures among owner/purchasers, but we cannot unambiguously interpret this as a voluntary acceptance of poverty in exchange for a particular standard of housing or the desirable attributes of that form of tenure.

In order to compare more easily the distributions of incomes and housing costs, annual incomes are presented on a per week basis in this section. Figure 5.1 shows the income distributions of all income units in Australia divided into two groups: those in after-housing poverty and those who were not. The height of the blocks in each segment represents the proportion within each group in each income category. The figures beneath each block indicate the exact percentages.

## FIG 5.1 INCOME DISTRIBUTIONS:

Income units above and below the after-housing poverty line



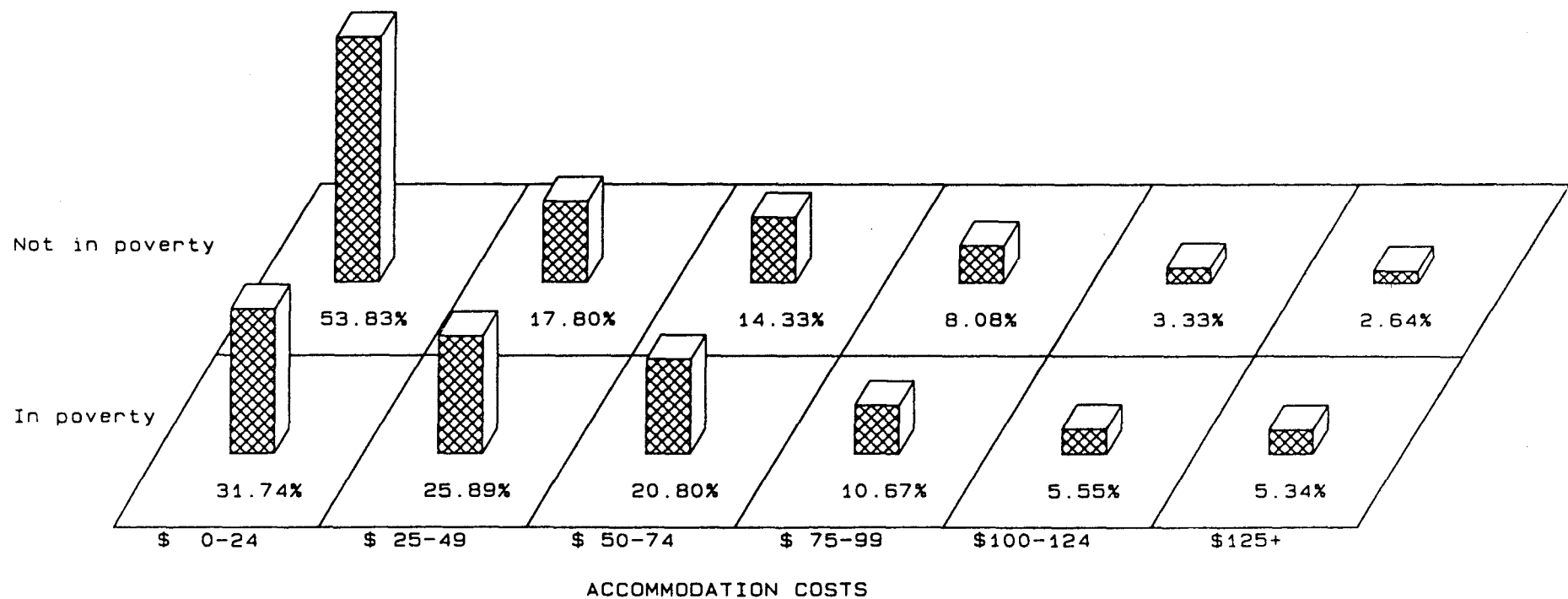
Note: Income refers to annual income for 1981/82 on a weekly basis.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file



## FIG 5.2 ACCOMMODATION COST DISTRIBUTIONS:

Income units above and below the after-housing poverty line



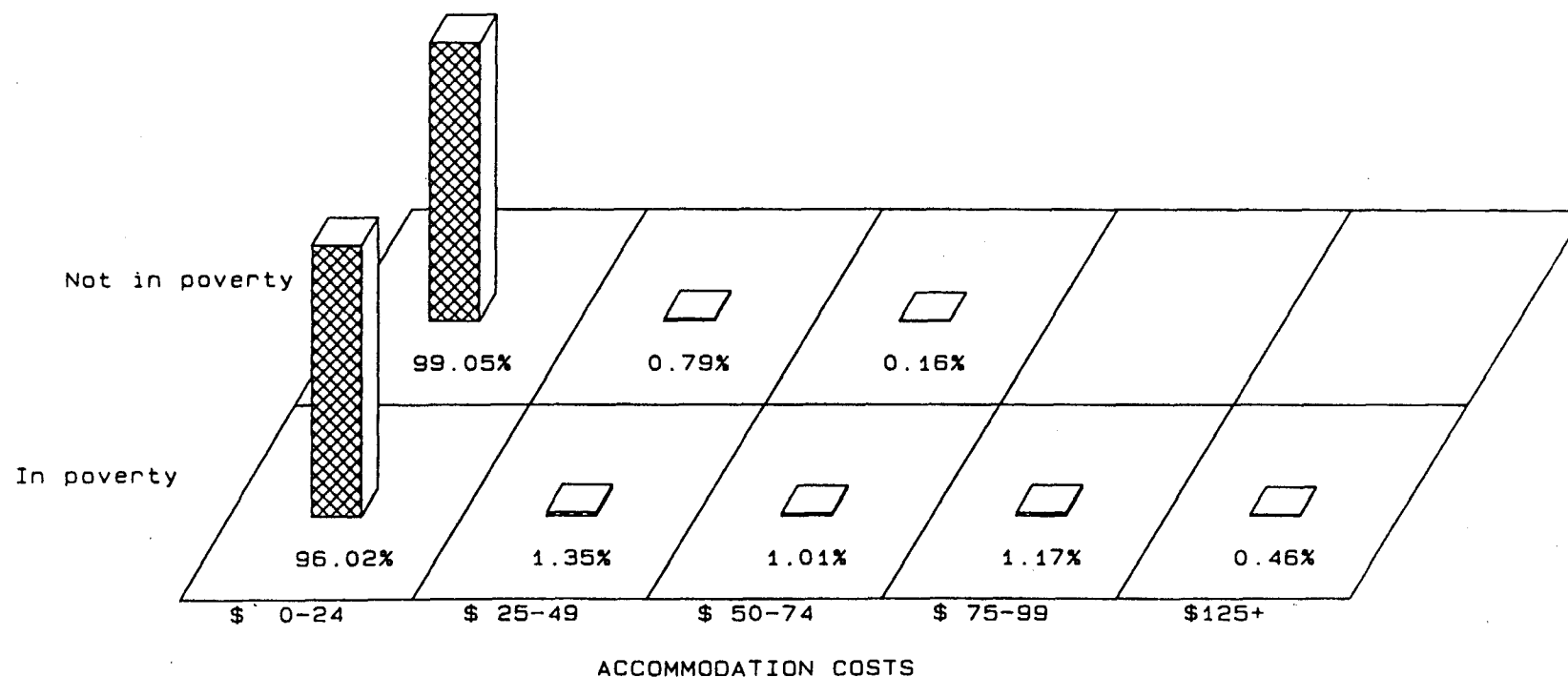
Note: Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

# FIG 5.3 ACCOMMODATION COST DISTRIBUTIONS:

Income units above and below the after-housing poverty line

Tenure=Owners



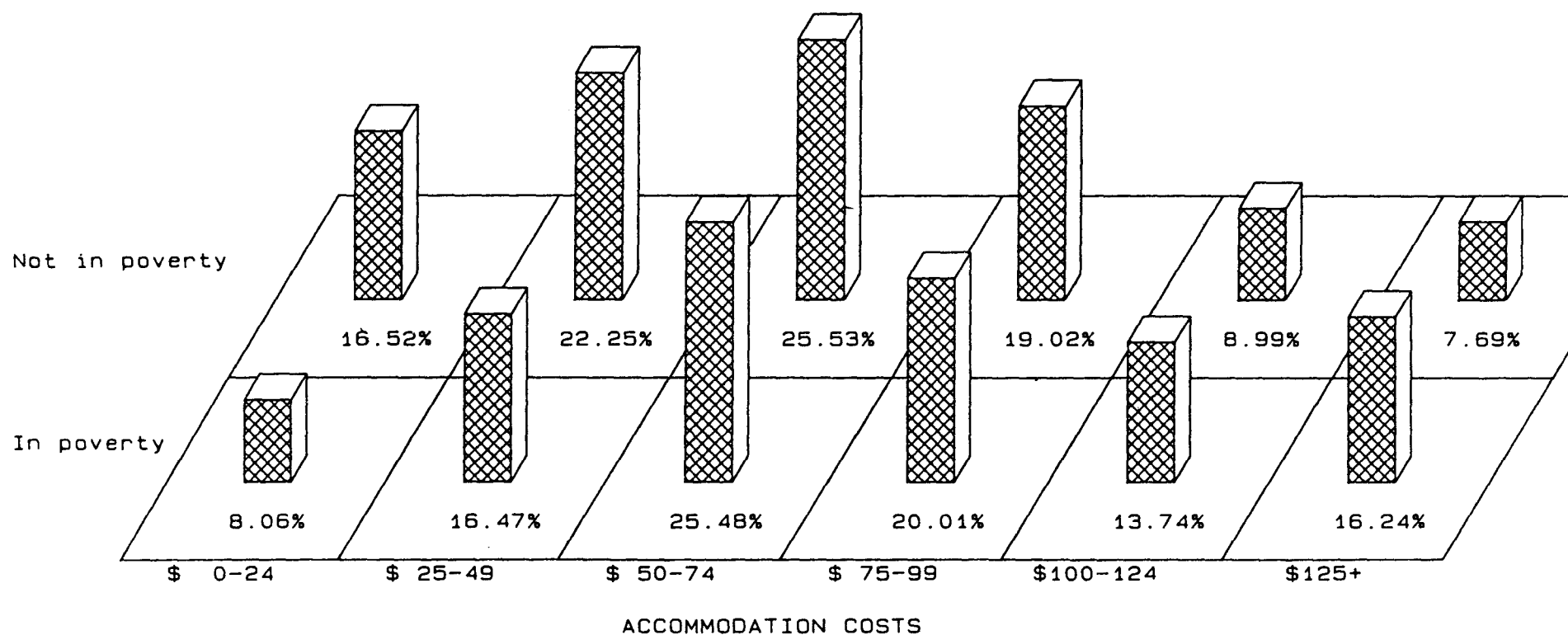
Note: Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

## FIG 5.4 ACCOMMODATION COST DISTRIBUTIONS:

Income units above and below the after-housing poverty line

Tenure=Owner/purchasers



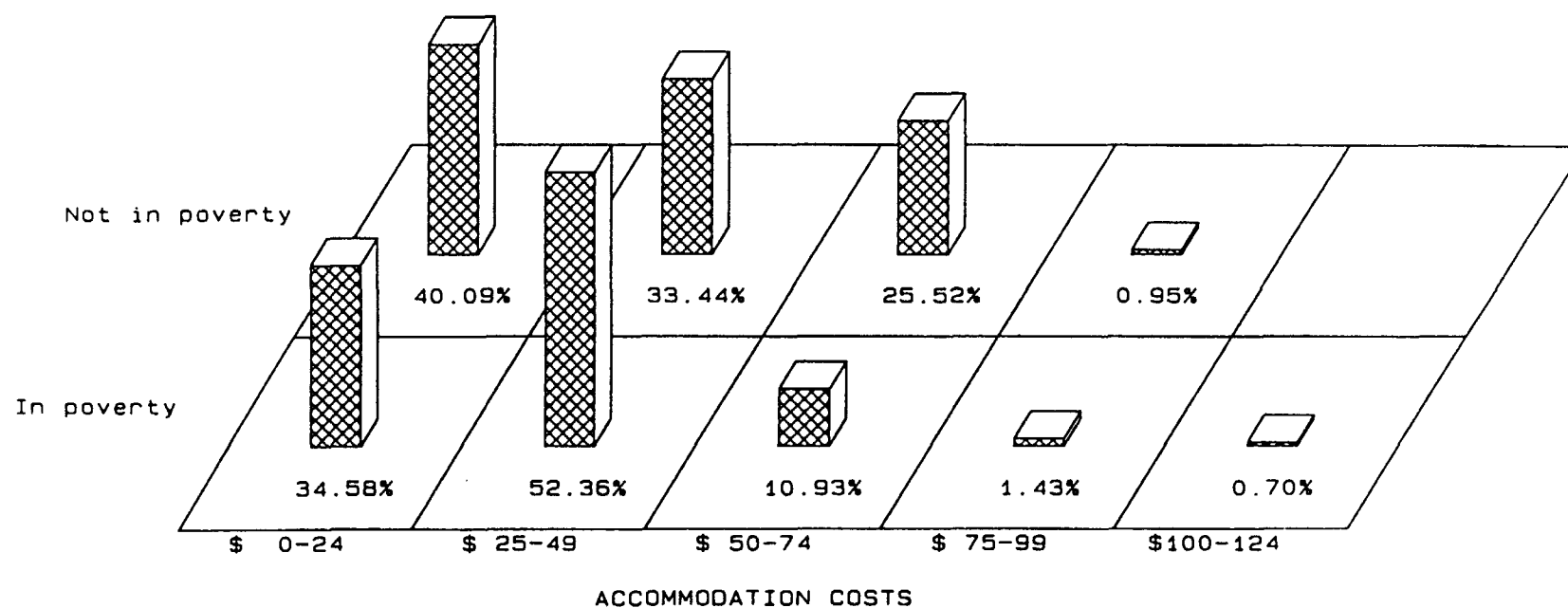
Note: Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

# FIG 5.5 ACCOMMODATION COST DISTRIBUTIONS:

Income units above and below the after-housing poverty line

Tenure=Tenants of Housing Authorities



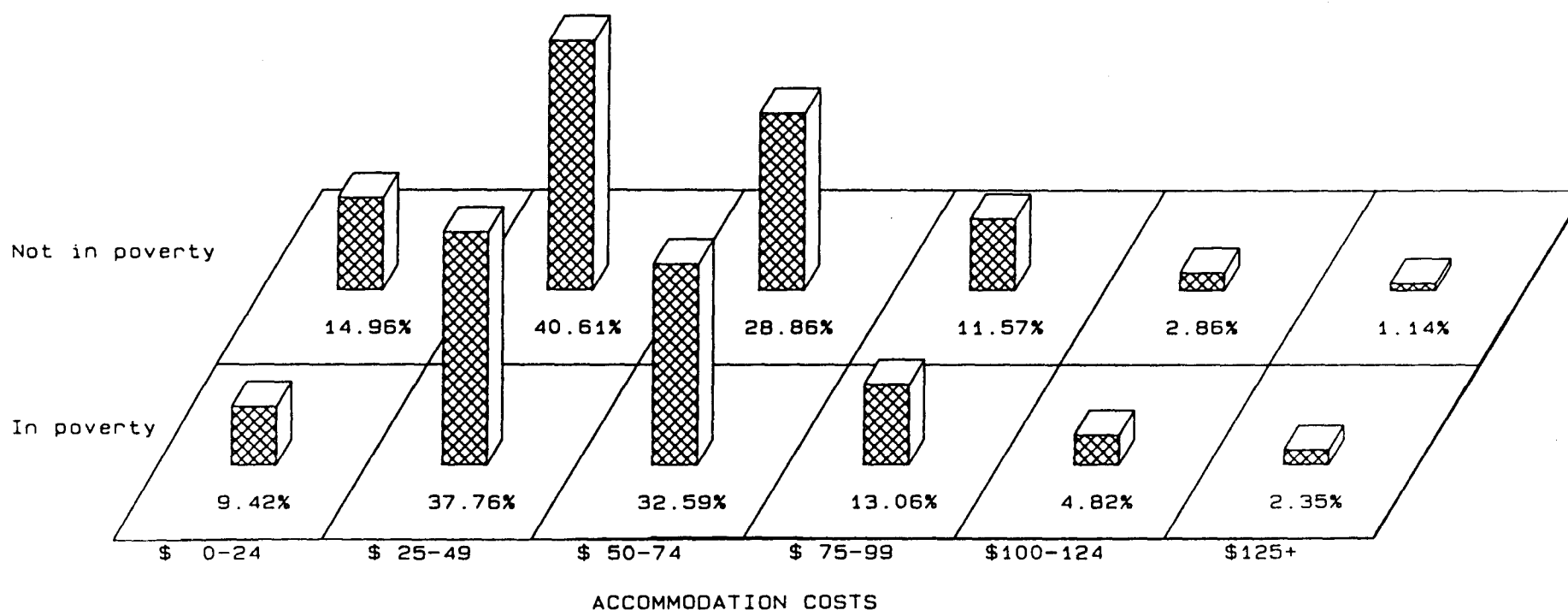
Note: Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

## FIG 5.6 ACCOMMODATION COST DISTRIBUTIONS:

Income units above and below the after-housing poverty line

Tenure=Tenants of private landlords



Note: Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

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As one might anticipate, people in after-housing poverty are poor: 87.1 per cent had incomes of less than \$200 per week in 1981/82. Only 30.4 per cent of the income units not in poverty had incomes in this range. Conversely, only 0.5 per cent of those in poverty had incomes of \$400 or more per week, while 33.4 per cent of the other income units were in this category.

Figure 5.2 presents the weekly accommodation costs of the same two groups. This demonstrates that not only do income units who are not in poverty generally have reasonable incomes, many of them also have very low accommodation costs. No less than 53.8 per cent had accommodation costs below \$25 per week in 1981/82. Among the people who were in poverty, only 31.7 per cent paid less than \$25 per week in that year. Few people who were not in poverty spent a lot on housing: only 2.6 per cent paid \$125 or more per week in 1981/82. Among income units in after-housing poverty at this time, 5.3 per cent had accommodation costs at this level.

Figures 5.3 to 5.6 present similar information for the main tenure types. The great difference in the expenditure patterns of different tenures becomes apparent here. Owners had very low accommodation costs, with over 96 per cent below \$25 per week for both those in poverty and those not in poverty. A slightly greater proportion of those not in poverty had such low outlays.

Owner/purchasers, on the other hand, had a much higher and more evenly distributed spread of costs. This group has less access to low housing costs to help insure against after-housing poverty; only 24.5 per cent of those in poverty had housing costs below \$50 per week, compared with 38.8 per cent of those not in poverty. As expected, this tenure disproportionately contains income units in poverty paying very high housing costs. Poor income units were twice as likely to be paying accommodation costs in the highest range as non-poor income units in 1981/82. Interest rates escalated rapidly over this period. This, together with the austere value of the poverty line, would suggest that poverty is not voluntary but is thrust upon those who suddenly found their housing costs beyond their means. Whether or not these high

housing outlays reflect people exercising choice, they do illustrate the high cost of the pursuit of the goal of home ownership.

For housing authority tenants, the differences between the two groups of income units reverses the previous pattern. Those in poverty tend, on average, to pay less for their housing. As noted earlier, this is the only tenure in which accommodation costs are related directly to incomes and in which a loss of income for a tenant can be matched by a rent reduction without the expense of moving house.

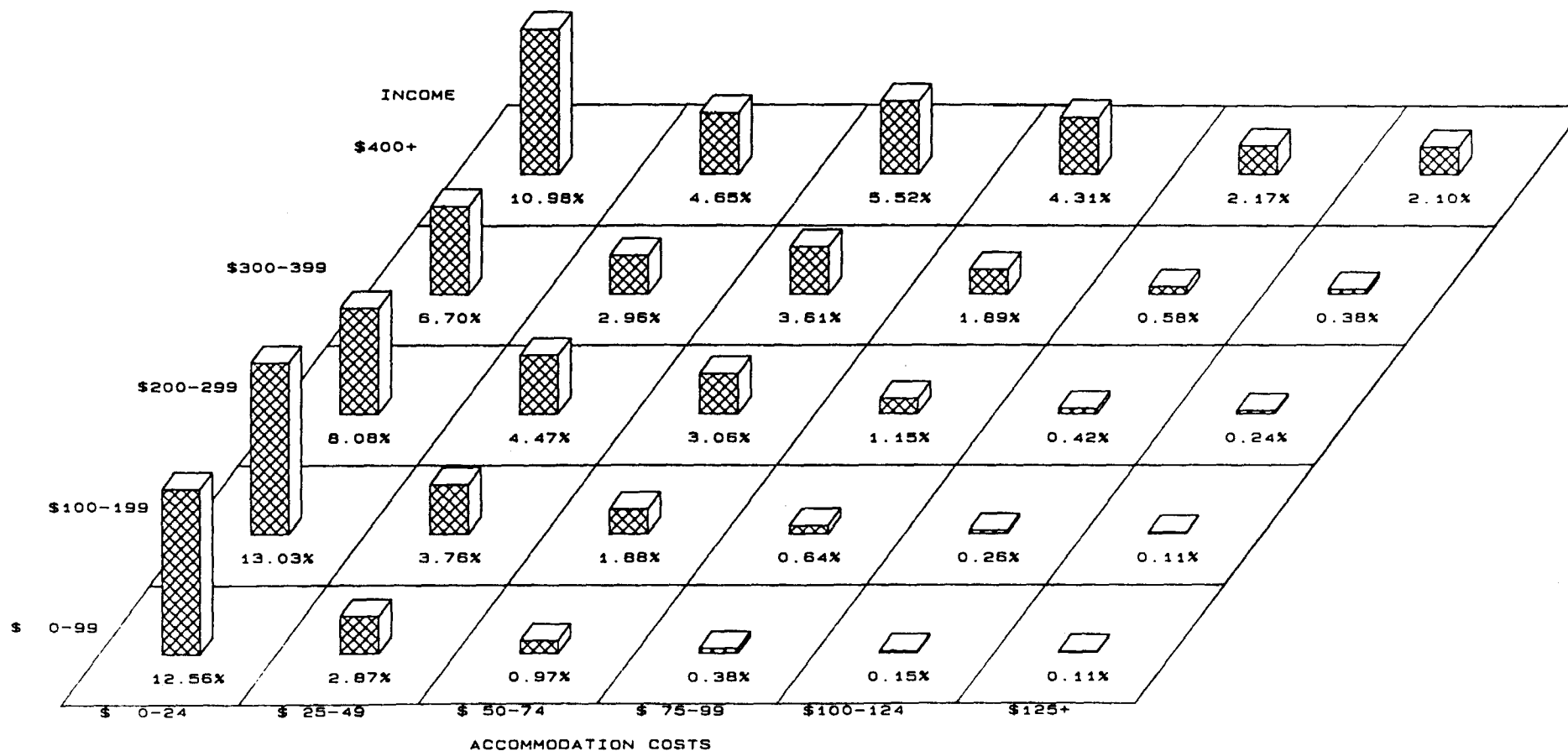
Private tenants in poverty have a similar distribution of accommodation costs to those not in poverty, though with an overall tendency towards higher expenditure. This bias, however, is not sufficiently large to justify the view that excessive rents are a cause of the very high concentration of poverty found in this form of tenure. Their income levels are more likely to be the source of their problems.

#### **The joint distribution of incomes and accommodation costs**

The detailed figures on housing outlays in the previous section indicate that after-housing poverty is mainly due to low incomes except among some owner/purchasers. Clearly, further research is required on housing costs and their complex role in families' assets and debts. Poverty among home purchasers is a relatively neglected subject. Among the community as a whole, however, income is of greater concern than housing for an understanding of poverty.

The contention that after-housing poverty is mainly - but not entirely - due to the very low incomes of many people is confirmed by Figures 5.7 and 5.8. These show the distribution of income levels and accommodation costs for, respectively, all income units and income units living below the after-housing poverty line. The height of the blocks in each segment represents the percentage of all income units (or all income units subject to after-housing poverty) in each particular income and accommodation cost category. As before, the actual percentages are listed beneath each block.

**FIG 5.7 DISTRIBUTION OF INCOME AND ACCOMMODATION COSTS:**  
All income units

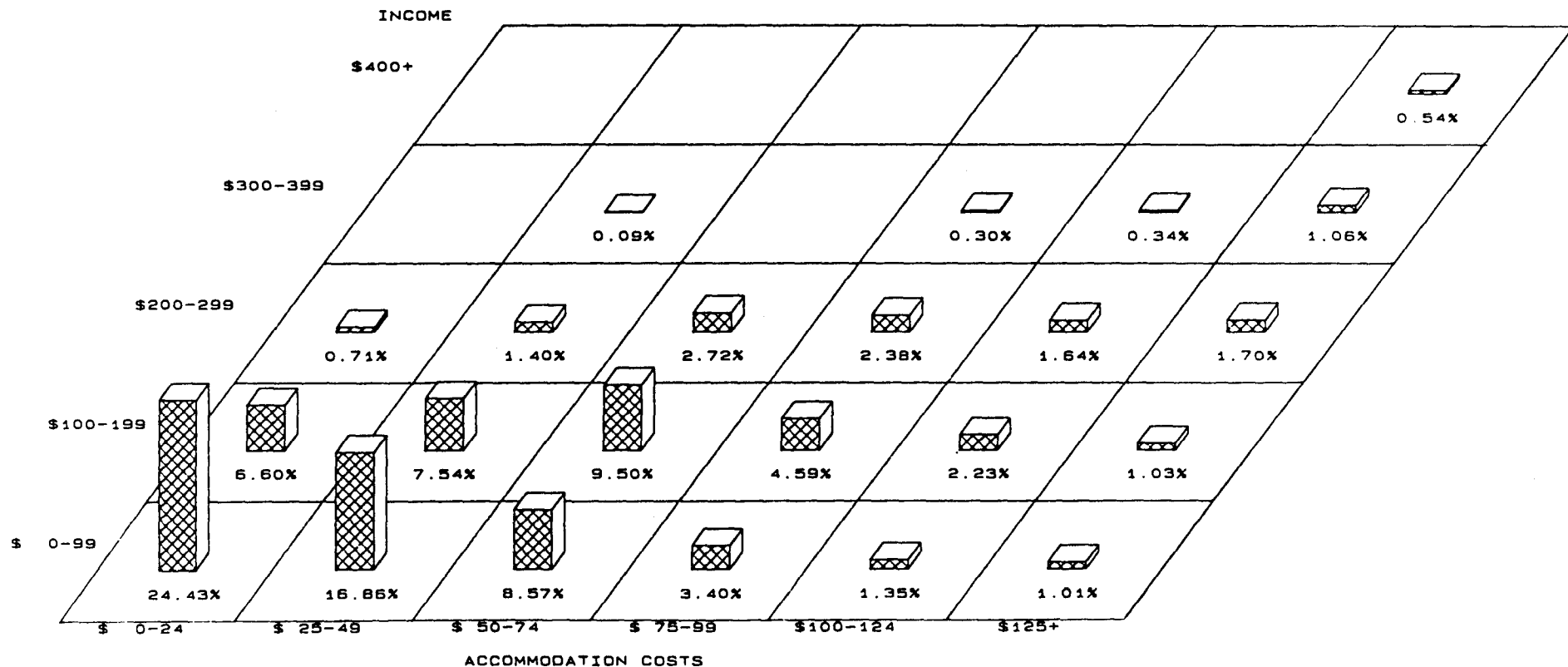


Note: Income refers to annual income for 1981/82 on a weekly basis. Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.



**FIG 5.8 DISTRIBUTION OF INCOME AND ACCOMMODATION COSTS:**  
Income units below the after-housing poverty line



Note: Income refers to annual income for 1981/82 on a weekly basis. Accommodation costs refer to weekly expenditure on rates, rents and/or mortgages.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

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TABLE 5.3 : CLASSIFICATION OF INCOME UNITS USING TWO POVERTY LINES :  
BEFORE AND AFTER PAYING FOR HOUSING, 1981/82

			Income units classified according to BEFORE-HOUSING poverty line		
			Below	Above	Total
Income units classified according to AFTER-HOUSING poverty line	Below	No ('000)	460.2	153.0	613.2
		%	8.4	2.8	11.2
	Above	No ('000)	186.6	4,673.4	4,860.0
		%	3.4	85.4	88.8
	Total	No ('000)	646.8	4,826.4	5,473.2
		%	11.8	88.2	100.0

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

Amongst all income units (Figure 5.7), there is a clear association between income levels and accommodation costs. Income levels clearly limit accommodation options. Income units with high incomes at the time of the survey had a relatively even spread of accommodation costs, probably reflecting age as well as financial resources, whilst those on lower incomes could only afford less expensive accommodation.

The distribution of income and accommodation costs of those in after-housing poverty is quite different (Figure 5.8). As noted earlier, this group had much lower income levels, together with a somewhat higher level of accommodation costs, than income units as a whole. Some 2.4 per cent of these income units had accommodation costs that were clearly greater than their incomes. This could occur because the accommodation figures refer to the brief survey period whilst the income figures refer to the previous year or possibly because of data collection errors. However, some income units were apparently living off their savings. Most notable about Figure 5.8, however, is that very few of the income units in after-housing poverty had both high incomes and high accommodation outlays. Whilst 22 percent of these income units paid over \$75 per week for housing, only 8 percent also had incomes of over \$200 per week. The bulk of those in after-housing poverty are there simply because they have low incomes.

#### **A comparison of income units living in poverty before and after paying for housing**

A further method of distinguishing the impact of high housing outlays and low incomes in creating after-housing poverty is to compare the populations that live in poverty before and after housing costs have been paid. To what extent do these two groups contain the same people?

In the Australian population in 1981/82, 85.5 per cent of income units avoided poverty both before and after paying for their housing, while 8.4 per cent were in poverty in both instances (Table 5.3). For our purposes, the interesting groups are the 3.4 per cent of income units with below poverty line incomes whose low housing outlays prevented poverty-level living standards and the 2.8 per cent whose high housing

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TABLE 5.4 : THE IMPACT OF ACCOMMODATION COSTS IN AMELIORATING  
POVERTY, BY TENURE, 1981/82

Tenure		Income units with incomes below the poverty line before paying for housing		
		Below poverty line after housing	Above poverty line after housing	Total
Owner	No.('000)	101.4	122.2	223.6
	%	45.4	54.6	100.0
Owner/purchaser	No.('000)	105.3	11.5	116.8
	%	90.1	9.9	100.0
Tenant of housing authority	No.('000)	42.7	18.0	60.7
	%	70.3	29.7	100.0
Tenant of private landlord	No.('000)	142.1	8.8	151.0
	%	94.1	5.9	100.0
All tenures <sup>1</sup>	No.('000)	460.2	186.6	646.8
	%	71.1	28.9	100.0

Note: 1. 'All tenures' includes tenant of someone in dwelling, tenant - special and rent free in addition to tenures listed.

Source: Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

outlays imposed poverty. While these percentages are small fractions of the total population, they represent more than one quarter of the income units living in poverty - measured either before or after housing costs had been paid. Thus, for three-quarters of families in poverty, housing outlays did not change their poverty status. This figure is perhaps the most important evidence to justify our argument that poverty after housing is mainly but not entirely an income problem.

As we might expect, income units who were shifted from below to above the poverty line by low housing outlays were mainly owners (122,200 income units, 65.5% of the 186,600 lifted out of poverty by access to cheap housing, see Table 5.4).

Half the owners who had incomes below the poverty line before housing costs lived above the poverty line after paying for their housing (Table 5.4), highlighting the importance of wealth in the form of housing in ameliorating poverty in Australia. Among housing authority tenants, access to cheap housing was also significant; 29.7 per cent of low income public tenants were shifted above the poverty line by low accommodation costs. Only 9.9 per cent of owner/purchasers and 5.9 per cent of tenants of private landlords who had incomes below the before-housing poverty line moved above the poverty line after paying for their housing.

These two forms of tenure are instrumental in causing families with moderate incomes to fall below the poverty line after they have paid for their housing. Owner/purchasers and tenants of private landlords formed, respectively, 41.2 per cent and 44.2 per cent of the 153,000 income units whose housing outlays imposed poverty (Table 5.5). As shown in the previous section, renters who are in poverty after paying for their housing pay on average a little more for their accommodation than people who are not in poverty. Among owner/purchasers, the difference in payments is greater - people in poverty pay considerably more. However, the impact of housing outlays on poverty measured in this way depends partly on how close to the poverty line are incomes before housing costs. It appears that many renters are close to the benchmark separating poverty from adequacy. As shown in Table 5.5, 8.2 per cent of income units who were tenants of private landlords with incomes above the poverty line before housing were in poverty after housing costs.

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TABLE 5.5 : THE IMPACT OF ACCOMMODATION COSTS IN IMPOSING  
POVERTY, BY TENURE, 1981/82

Tenure		Income units with incomes above the poverty line before paying for housing		
		Living below poverty line after housing	Living above poverty line after housing	Total
Owner	No.('000)	0.5	1,659.1	1,659.6
	%	0.0	100.0	100.0
Owner/purchaser	No.('000)	63.0	1,532.7	1,595.7
	%	3.9	96.1	100.0
Tenant of housing authority	No.('000)	5.5	189.7	195.2
	%	2.8	97.2	100.0
Tenant of private landlord	No.('000)	67.7	762.5	830.2
	%	8.2	91.8	100.0
All tenures <sup>1</sup>	No.('000)	153.0	4,673.4	4,826.4
	%	3.2	96.8	100.0

Note: 1. 'All tenures' includes tenant of someone in dwelling,  
tenant - special and rent free, in addition to tenures  
listed above.

Source: Australian Bureau of Statistics, Income and Housing Survey,  
1981/82, unit record file.

This was the largest proportionate impact of housing costs on poverty. The next highest was found among owner/purchasers; 3.9 per cent were shifted from above to below the poverty line by paying their mortgages.

In this chapter, we have analysed as far as possible the separate impact of low incomes and high housing outlays on poverty. The details we have presented are important to an understanding of the nature of poverty in Australia today. In addition, the figures help inform the issue of whether poverty can or should be measured after housing costs have been paid.

We have argued the case for doing this by pointing out the importance of owner-occupied housing as the most widespread, highly-valued asset among the Australian population. Ownership of this form of wealth ameliorates the poverty of some low income earners.

On the other hand, some people have argued against treating housing as a special issue. There is a danger that by measuring poverty after people have paid for their housing, we shall include people who are not really poor but who temporarily accept poverty as a means of acquiring their own homes. Certainly this form of investment provided higher returns than other forms over the period 1968 to 1981 (Warren, 1984). The data in this chapter suggest that very little after-housing poverty is of the form of voluntary poverty. Of income units living in poverty after paying for housing, three-quarters had incomes below the before-housing poverty line. Of the quarter with incomes above the before-housing poverty line but who lived in poverty after housing costs, 44.2 per cent were private tenants.

The number of owner/purchasers made poor by housing outlays alone was 63,000 in 1981/82. Although they represented 37.4 per cent of all owner/purchasers in poverty after housing (Table 4.1), they were only 10 per cent of the 613,000 income units in poverty after paying for housing (Table 5.3). At most, only one income unit in ten may have been voluntarily sacrificing current living standards to achieve the goal of home ownership. Some may have been overtaken by unexpected rises in housing costs, especially the rapid increase in interest rates. In any event, the possible presence of a small amount of "voluntary" poverty is

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no justification for failing to measure and analyse poverty after housing costs among the total population nor among owner/purchasers.



## CHAPTER 6

### CHANGES IN POVERTY DURING THE 1970s

#### **The issues**

In this report we have attempted to interrelate two issues - poverty and problems of housing affordability - which are usually treated as separate concerns. In this chapter we aim to summarise some conclusions about the scale of poverty and the causation of housing problems and to show how, when they are brought together, they may help to resolve some old controversies.

In the field of housing, the immense increase in government intervention described in Chapter 3 denotes a perception of the growing urgency of housing problems. Yet, there is little statistical evidence that either house prices or rents are increasing rapidly. Instead, rents in the private sector declined in real terms over the last decade (Figure 3.1) and real house prices showed little change, at least in Sydney and Melbourne (Neville, Vipond and Warren, 1984).

Rising interest rates were a major cause of the overall increase in housing costs, especially in the period from 1979 to 1982; much government housing policy was undoubtedly a response to the problems caused by monetary policies. In the main, this cost increase affected purchasers of dwellings. Analysts of the housing scene, however, emphasised that the private rental sector contained the greatest hardship (Paris, 1984; Henderson, 1983; Kendig, 1984). As Table 4.2 showed, the incidence of after-housing poverty, although not insignificant among owner/purchasers, was indeed highest in the private rental market. Among all income units that lived below the after-housing poverty line, 40 percent were tenants of either private landlords or of someone in the dwelling. A further 27 percent were purchasing their own dwelling.

If the housing trends of the late 1970s are considered in isolation, one might conclude that poverty was an increasing problem. Since rents were not increasing fast, surely the housing problems of people in the private rental market must have been due to their low incomes? Put bluntly, how

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could one expect unemployed teenagers to afford any sort of housing when their social security incomes were frozen at \$36 per week from 1975 to 1982. Unemployed adults were little better off as their benefits were also below the before-housing poverty line. Of course, not all private renters were unemployed; the example of unemployed people is used simply to illustrate the general problem of low incomes relative to accommodation costs.

The conclusion that incomes were the crucial factor could solve the intellectual puzzle of the source of rental housing problems. Unfortunately, it conflicts with the evidence of most poverty analysis.

In addressing the question of whether poverty has increased or decreased since the early 1970s, the Social Welfare Policy Secretariat (1981, Chapter 5) presented graphic protestations from people concerned with poverty relief that poverty was indeed increasing. However, their statistical analysis showed a slight decline in the extent of poverty between 1973/74 and 1978/79. While our data based on incomes in 1981/82 are not directly comparable, they too show little change in before-housing poverty after 1972/73.

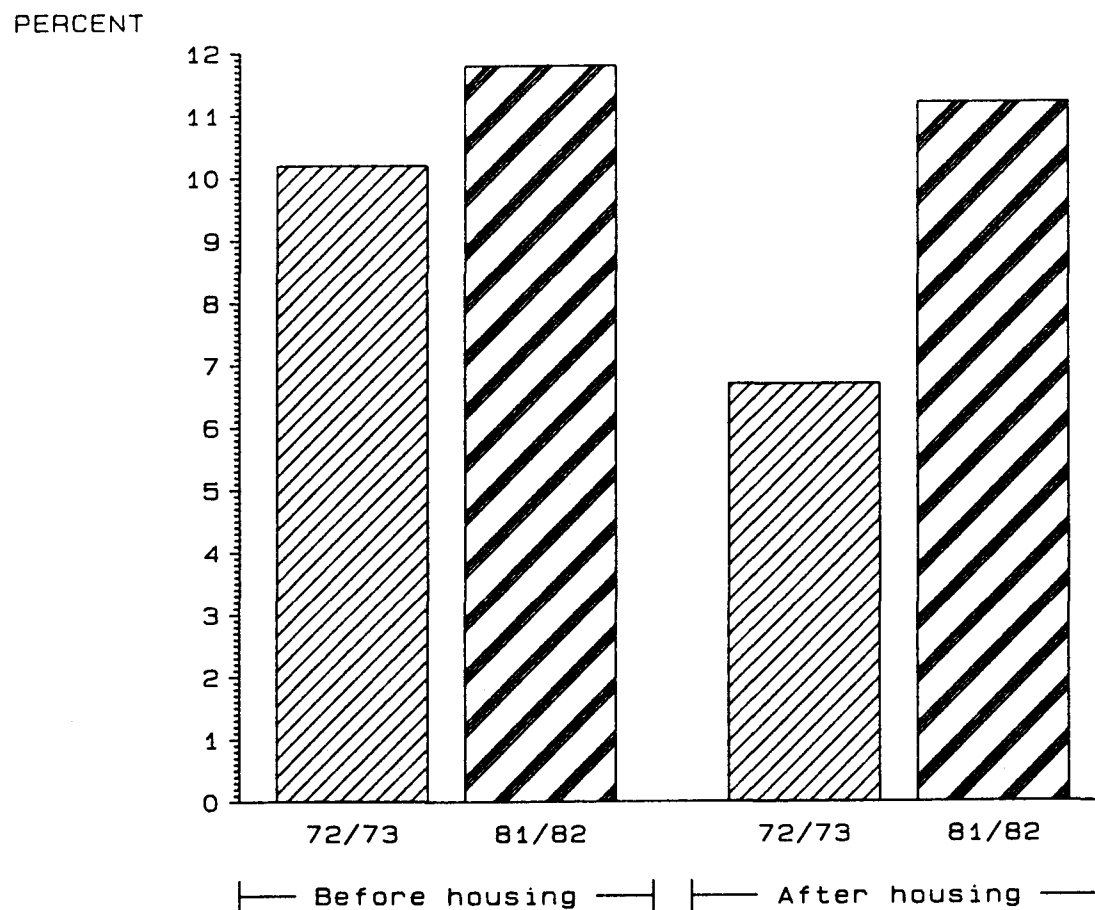
Until recently, the only data available on the debate on poverty referred to incomes. Now that housing cost figures have been analysed and we can measure poverty using a more sensitive measure, perhaps there will be greater accord between those who deal with the effects of poverty and those who measure it. In addition, some light may be thrown on the nature of housing problems in Australia.

### **The evidence**

It is not the purpose of this report to settle the question of whether poverty before housing has increased or decreased; we can agree that poverty measured after people have paid for housing has become a much greater problem. The change from 6.7 per cent of income units in after-housing poverty in 1972/73 to 11.2 per cent in 1981/82 is unlikely to be a result either of redefinitions or statistical errors. With these data

# FIG 6.1 CHANGES IN POVERTY, 1972/73 TO 1981/82

Percentage of income units living below the poverty line



Source: Tables 1.1 and 2.1

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TABLE 6.1 : INCOME UNITS IN AND NEAR POVERTY, BEFORE AND AFTER  
PAYING FOR HOUSING, 1981/82

Income units	Before paying for housing		After paying for housing	
	No. ( '000)	%	No. ( '000)	%
Living below the poverty line	646.8	11.8	613.2	11.2
Living between poverty line and 120% of poverty line	577.9	10.6	235.5	4.3
Living at or above 120% of poverty line	4,248.5	77.6	4,624.5	84.5
All income units	5,473.2	100.0	5,473.2	100.0

Source: Australian Bureau of Statistics, Income and Housing Survey  
1981/82, unit record file.

using an after-housing measure, it is possible to confirm the impressions of the agencies dealing directly with people in extreme need - poverty has certainly increased. Figure 6.1 illustrates the difference between the changes in poverty before and after paying for housing.

In Figure 6.1, we have used the statistics from the 1972/73 Commission of Inquiry into Poverty and compared them with data for 1981/82 analysed according to the procedures described in Chapter 2. The main difference in statistical technique reflects our belief that young people who live apart from their parents are independent and that their poverty should be recognised. The earlier study treated poverty among juveniles as a special issue. Such technicalities, however, cause only minor variations in findings. The figure shows the very large increase in after-housing poverty from the early 1970s to the beginning of the 1980s. Not only did after-housing poverty increase markedly between 1972/73 and 1981/82, it was also very similar to before-housing poverty in that year. Thus housing no longer ameliorates poverty, as defined by a strict poverty line, as it did in the early 1970s.

Housing still has a major influence on the living standards of low income people and would seem to have some cushioning effect on the finances of people who could be termed "rather poor" rather than "very poor". More than ten per cent of all income units had incomes between the poverty line and 120 per cent of the poverty line in 1981/82. Less than five per cent were in this category after housing costs were taken into account (Table 6.1), indicating the importance of low housing costs in lifting those who are "rather poor" to above 120 per cent of the after-housing poverty line.

The figures in Table 6.1, on people who were poor but not in poverty, can be explained in terms of the changing nature of poverty. While the extent of poverty in Australia has been subject to much debate, there is general agreement on its changing nature. Because of real increases in pension levels, elderly people are not as likely to be in poverty as they once were. New groups in society have been affected by current social and economic problems and have moved into the ranks of the very poor. Today, poverty is more likely to be found among single parents and people unemployed long-term.

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TABLE 6.2 : THE DISTRIBUTION OF INCOME UNITS LIVING BELOW THE  
POVERTY LINE BEFORE AND AFTER PAYING FOR  
HOUSING, BY AGE AND FAMILY TYPE, 1972/73 AND 1981/82

Age/family type	Proportion of income units below poverty line	
	1972/73	1981/82
	Before housing costs	
	%	%
	Elderly singles and couples	42.9 13.5
	Single parents	11.3 15.8
	Others	45.8 70.7
All groups	100.0	100.0
	After housing costs	
	Elderly singles and couples	20.7 7.6
	Single parents	14.5 14.7
	Others	64.8 77.7
All groups	100.0	100.0

Source: For 1972/73, Commission of Inquiry into Poverty 1975, p.19.  
For 1981/82, Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

As a result of these changes, people now in poverty are less likely to own their own homes than was the case in 1972/73, when the elderly constituted a greater proportion of the very poor. The elderly are now poor rather than in poverty. Most still benefit from Australia's housing system with its emphasis on owner occupation. However, that system is less helpful than it was to those who now live below the poverty line.

These arguments on the changing nature of poverty are supported by data presented in Table 6.2. Over the 1970s, there was a marked drop in the proportion of people in poverty before housing who were aged 65 or over. Whereas 42.9 per cent of income units living below the poverty line were elderly couples or single persons in 1972/73, the proportion in 1981/82 was only 13.5 per cent. There was an increase in the proportion formed by single parents, from 11.3 per cent to 15.8 per cent. The main increase in poverty was among people who were neither elderly nor lone parents. We can surmise that much of their poverty was due to unemployment but a full analysis of the unemployment-poverty nexus has yet to be undertaken.

It should not be inferred from the data in Table 6.2 that elderly Australians are now all wealthy. Elderly couples and single persons formed 18.6 per cent of the total population of income units in 1981/82; while they comprised 13.5 per cent of income units in poverty before housing, they constituted 45.1 per cent of income units living between the poverty line and 120 per cent of the poverty line before housing costs. These are the people Henderson defined as the "rather poor", compared with the "very poor" who live below the poverty line.

Indeed, if we had used 120% of the poverty line as a benchmark, we would have found a more substantial increase in the incidence of before-housing poverty (17.9% in 1972/73 up to 22.3% in 1981/82). This is because many income units, in particular the elderly, were moved only marginally across the accepted poverty line.

Turning to after-housing poverty, changes in the types of income units affected were smaller but in the same direction as those revealed above. In 1972/73, 20.7 per cent of income units who were in after-housing

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poverty were elderly; in 1981/82 the proportion was 7.6 per cent. Single parents formed the same proportion in both years. Younger single people and younger couples, with and without children, increasingly experienced after-housing poverty during the 1970s (Table 6.2).

While changes in the nature of poverty largely explain why there has been a perceived increase in both poverty and housing problems, not all housing problems can be attributed to this single cause. While the level of incomes matters, so too does the level of housing expenditure. As shown, not only are people in poverty after paying for their housing much poorer than other people, they also spend more on their accommodation. Average weekly accommodation costs in 1981/82 were \$51 among the former group and only \$37 among the latter (Table 5.1). Moreover, higher average accommodation costs were found amongst those in poverty in each separate type of tenure except those renting from housing authorities. There is an obvious reason for the exception: housing authorities offer rent reductions to low income people. Statistics in Chapter 5 on the costs of housing in the other non-subsidised forms of tenure are evidence of an emerging problem of housing-related poverty which requires much further research.

### Changes since 1981/82

This report has mainly concentrated on the relationship between housing and poverty at the time of the Income and Housing Survey in 1981/82 and on the changes compared with the 1970s. It is equally important to consider what has happened since that time, even if only speculatively.

The common opinion amongst agencies providing emergency assistance suggests that poverty has continued to rise. Recently, it has been estimated that emergency relief payments by State and Territory governments (except Victoria) stood at \$15.5 million in 1983/84, an increase of 80% on the figure for 1981/82 (Prasser, 1985, p.24). Other factors also support the contention that after-housing poverty has, at best, not improved and has probably worsened.

Looking to income levels, unemployment has increased since the time of the Income and Housing Survey. Amongst younger people who have been



shown to be especially prone to after-housing poverty unemployment was very high. Until very recently, unemployment beneficiaries were unable to claim any assistance with private rents (available to other pensioners and beneficiaries in the form of Supplementary Assistance), although those who were public tenants would have received rent reductions in keeping with their diminished incomes.

One explanation for the high levels of after-housing poverty amongst owner/purchasers relative to their levels of before-housing poverty during 1981/82, is that interest rates were particularly high at that time, reaching a record level of 13.5 per cent in 1982. Although they did subsequently drop, as noted in Chapter 3, they have crept up to this ceiling level again. Thus, some of those owner/purchasers in after-housing poverty in 1981/82 might have received only temporary respite in the intervening years.

Certainly, recent federal housing policy has been directed towards home ownership, largely in response to difficulties perceived in this sector. However, much assistance, such as the First Home Owners Scheme, has taken the form of helping people into home ownership. Not only is this measure unlikely to help existing owner/purchasers who may have experienced problems resulting from sudden loss of income, but also it may actually increase the extent of the problem by helping into home ownership people with the least resources to face either income loss or increased interest rates.

The Income and Housing Survey data showed the difficulties encountered by many renting in the private sector, particularly single parents and elderly tenants. Yet, 1981/82 was a period when private rents were increasing more slowly than either inflation or other housing costs, as measured by the CPI. More recently, however, rent levels have been catching up with other components of housing costs (Chapter 3). Moreover, it is feared that planned changes will affect the taxation position of landlords, who may become reluctant to invest in rental properties. This could raise rents further.

Rent levels in the public sector have been increasing faster than any other housing component of the CPI, due to the emphasis on charging

## **84 Poverty, before and after paying for housing**

market rents for housing authority tenancies. However, the system of rent rebates means that most families pay no more than one-fifth of their incomes in rent. This is demonstrated in the reduction of the numbers of public tenants in poverty after paying for housing compared with before-housing measures. Future rent increases may be slowed by the new emphasis on cost rents in the 1984 Commonwealth-State Housing Agreement (Bethune, 1985).

There are no general means of gauging how rents in the other sectors have moved since 1981/82, although they seem unlikely to have fallen. Given the relatively small numbers of income units in these household arrangements, it is similarly unlikely that unpredictable movements would greatly affect the overall level of after-housing poverty.

It thus seems reasonable to conclude that after-housing poverty has not diminished since the early 1980s. Indeed, it would appear to be fast becoming a prevalent feature of Australian life.

### **Conclusion**

The major result of the analysis described in this report is that the problem of poverty increased during the 1970s. The cause was not that a larger proportion of the population were on low incomes; indeed, that figure was fairly stable. Rather, there was a change in the age and family circumstances of people who had low incomes. Whereas in the early 1970s many people in poverty were elderly, in the early 1980s more younger people were living below the poverty line. The change implied a major difference in the circumstances of low income people. In Australia, with its high level of home ownership, many older poor people have some assets in the form of their own dwellings. These assets ameliorate the effects of low incomes directly because they provide accommodation at low cost. Of course, not all age pensioners own their homes and, amongst those who do not, there is often considerable hardship (Rossiter, 1985). Nonetheless, home ownership is higher amongst the elderly than any other age group (even amongst age pensioners) and, in the early 1970s when the elderly were over represented in before-housing poverty, home ownership saved many from experiencing after-housing

poverty as well. In the 1980s, however, the two measures were about the same, implying a major increase in after-housing poverty.

Among younger people, there is little likelihood that those with low incomes will have acquired assets. Possibly, some of them "own" houses but usually these are heavily mortgaged. As non-elderly people become increasingly prevalent amongst the total number of people in poverty, there has tended to be increasing demands for assistance from welfare agencies. These people have no assets on which to borrow and they often must pay heavily for accommodation. Their poverty and related problems of debt are more likely to reach crisis proportions than is the case amongst elderly homeowners.

The perception of agencies offering emergency assistance that there is increasing poverty certainly appears correct. Measurements of poverty should not rely on income figures only but should incorporate the effects of having wealth. Although the after-housing poverty statistics take only approximate account of peoples' assets, they are a better indicator of real poverty than statistics based on incomes alone. After-housing poverty undoubtedly increased during the 1970s.

In addition to the impact of greater poverty, some hardship is imposed by the current housing situation of some poor income units. The greatest incidence of housing problems appears to be located in the private rental sector, despite the fact that the tax regime treated landlords favourably during this period. Neither is poverty among owners/purchasers uncommon. There has been rather less research on housing than on the poverty problem, so that at this stage it is impossible to offer full explanations.

We must qualify our conclusions by noting that they are subject to all the familiar problems of measuring poverty by drawing lines. While these lines for poverty and after-housing poverty are not entirely arbitrary, they are based on techniques that have been widely criticised. In addition, the use of poverty lines as a cut-off ignores how close people are to the lines. We have noted already that, while old people are no longer found disproportionately among those who are "in poverty",

many live only barely above the poverty line used here which represents an austere life style.

There is an obvious and well-documented need to improve the measurement of poverty in Australia. This report has not attempted to consider the technical issues involved except for two aspects. First, we argue the need for close attention to the experience of poverty among young people. Second, we urge that the research required should not ignore housing, despite the danger that in measuring poverty after housing outlays, we are including people who have voluntarily chosen poverty because of strong preferences for high quality housing or the status of home ownership. For the reasons outlined in Chapter 5, we do not think that voluntary poverty is widespread. Our main reason is that life on the after-housing poverty line is so austere that we cannot envisage people opting for it if they had the choice. At most, we estimate that ten per cent of income units in poverty might have had some choice in the matter.

It is possible that future research on the measurement of poverty may lead to a change in our main finding - that after-housing poverty increased during the 1970s. There are, however, two reasons for having confidence in our results. First, the magnitude of the change is large. Second, it can be sensibly explained by reference to the changing nature of poverty in Australia.

If the changes measured here withstand alternative analyses, then the adequacy of social security support and housing policies must be soundly addressed. Referring to measurements of poverty before housing, Gruen (1982) concluded that recent effort in social policy had counter-balanced the harm created by social and economic change.

Higher social security expenditure seems mainly to have prevented poverty from getting worse - which the increase in both unemployment and sole parenthood would otherwise have produced.  
(Gruen, 1982, p.212)

If our statistics are accurate and if our argument that after-housing poverty is the more reliable measure of unacceptable living standards than is poverty measured only by income, then such optimism is unwarranted.

First, it ignores the impact of a third form of economic change - sustained high levels of interest rates and their effect upon the costs of the tenure containing more than one third of all income units, that is, owner occupiers who are purchasing their dwellings. Second, the two changes mentioned by Gruen, unemployment and sole-parenthood, probably increase the incidence of poverty when it is measured after rather than before paying for housing. Taken together, these three changes more than offset the reductions to after-housing poverty caused by increased social security payments.

Unfortunately, underlying social and economic circumstances are worse than the above quotation would suggest. If we want to stand still in terms of the amount of after-housing poverty we are prepared to tolerate, we shall have to run faster with our social security and housing policies.

## NOTES

1. The differences between the figures for 1981/82 in Table 1.1 and those presented in Cox, Bascand and Gallagher (1985) are mainly attributable to differences in the methods used to account for income units sharing with others, together with a possible understating of poverty in the 1972/73 survey used by the Poverty Commission.
2. For the initiated, Appendix A explains the finer details of the analytical procedures used in this report.
3. The figure quoted refers to gross imputed rentals. No net imputed rentals are available. Source of data: Australian Bureau of Statistics, National Income and Expenditure 1984-85. 1985-6 Budget Paper No. 10. page 13.
4. Source of data: Australian Bureau of Statistics, Social Indicators Australia No.4 1984 Cat. No. 4101.0 p.192
5. Our analysis excluded those income units consisting of the non-dependent children of people defined as the household head. The Income and Housing Survey classified such income units according to whether or not they paid board or rent, but did not record any details of their housing circumstances (including the amount of rent/board paid). For this reason they have been excluded from the current analysis of poverty before or after housing costs. One problem associated with this method is that it overlooks the impact of board/rental payments from non-dependent children to their parents on the parents' incomes. However, it is unlikely that such an impact would be very large.

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6. Household income consists of the aggregate of wages, salaries, other private income and social security incomes. As we measure disposable incomes, income taxes, consumer debt interest and overseas transfers are subtracted from total household income. Recent population estimates are used to calculate per capita household disposable income.
7. This assumes a tax rate of 32 cents in the dollar, single-earner income units and effective taxable income thresholds of \$6789 per annum for a taxpayer with dependant spouse, \$6578 per annum for a sole parent and \$4195 for individuals. Family allowances were also accounted for. The assumption that all income units are single-earner income units would impute more tax to double-earner income units than they actually paid. This is not likely to influence the poverty measures use here, as most double-earner income units would have been well above the poverty line.

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## APPENDIX A

### DETAILS OF THE POVERTY MEASURES USED

The construction of the equivalence scales and poverty lines used in this report followed closely the methods of the 1972/73 Commission of Inquiry into Poverty, headed by Professor Ronald Henderson. The after-housing poverty line for the standard income unit was derived from the average of the September 1982 and December 1982 quarter after-housing poverty lines published by the Institute of Applied Economic and Social Research at the University of Melbourne (1984).

It should be noted that these estimates have subsequently been revised, in line with the revision of the Australian National Accounts and population estimates. In the May 1985 publication by the Institute, for instance, the poverty line for 1981/82 was some 1.5 percentage points higher than the one used here. The use of this poverty line would have implied even greater numbers in poverty in 1981/82. Problems such as these are unavoidable, but should be reflected in some caution in the interpretation of the finer details of our results.

To apply these results to income units of different compositions, the detailed equivalences described in Appendix F of the first main report of the Poverty Commission (1975) were used. The following sections detail the ways in which our measures differ from those of the Poverty Commission

#### **Population differences**

The Poverty Commission excluded farmers, other self-employed people and juveniles (unmarried persons under 21) from its main poverty tables. In Table 1.1, we have approximated this by excluding those income units whose principal source of income was from own farm or business or who were single person income units aged under 20. In Chapter 2 and subsequently, where we did not wish to limit our analysis in this way, we have not excluded these groups.

In all tables, however, we have excluded income units who were children of the household head, as the Income and Housing Survey collected no information on the housing costs of this group. Though the Poverty Commission did not exclude these income units explicitly, the exclusion of under 21 year olds would have substantially overlapped this exclusion.

Persons in non-private dwellings have also been excluded from all tables. Whilst this was also done in the Poverty Commission survey, it used a wider definition of private dwelling. Included in the Poverty Commission survey, but not here, were people usually resident in boarding houses, tertiary colleges, flop-houses and construction camps.

For a measure of income, the Poverty Commission used annual income except where the circumstances of the income unit had changed (e.g., via marriage), in which case current income was used. We have used annual income and **excluded** income units whose circumstances changed in this way.

#### **Differences in equivalence scales**

These are generally minor. For children, the Poverty Commission used the age categories 0-5, 6-14, and 15 and over, differentiated by sex (1975, p.354). The Income and Housing Survey only allows us to use the age categories of 0-4, 5-14, and 15 and over, without differentiation by sex. We have used the equivalence weights for the closest corresponding age groups, compensating for the difference in age ranges and averaging the weights for the sexes.

#### **Incomes**

The Income and Housing Survey file does not contain information on taxes paid, so it was necessary to impute this. We used the method of Burbidge (1984), which assumes a tax rate of 32 cents in the dollar (appropriate to those with incomes around the poverty line), and thresholds depending upon family type. Family allowances are also accounted for.

Because there was substantial inflation during the survey period and because the housing cost information was collected some three months

after the end of the 1981/82 financial year, it was necessary to inflate the annual incomes to their expected value at the time of the survey. This was done by first calculating the after-tax income as described above, and then multiplying it by the following ratio:

$$\frac{\text{average household disposable income per capita for the September and December quarters 1982}}{\text{average household disposable income per capita for all quarters of 1981/82 financial year}}$$

It is not known whether the Poverty Commission adopted a similar approach.

Income from dependants within the income unit (e.g., school children working part time) was excluded from the Income and Housing Survey, although it was included in the Poverty Commission study.

In calculating poverty after housing outlays, the Poverty Commission deducted \$7 per week from the housing costs of those who were boarding, as an estimate of the food component of the board. The Income and Housing Survey only indicates whether persons were paying rent to another person in the dwelling; many of these people may not have been boarding, so we have not made this adjustment here. However, many of these income units will have been excluded from the analysis, in any event, by the exclusion of non-dependent children of the household head mentioned above.

## APPENDIX B

## CONSUMER PRICE INDEX AND HOUSING COMPONENTS OF CONSUMER PRICE INDEX

Calculated at Base: September 1975=100

Year/ Quarter	Total C.P.I.	Housing Group Component of C.P.I.	Components of Housing Group		
			Private Rental	Govt Rental	All Home- ownership
1975/76 S	100	100	100	100	100
D	105	105	103	106	106
M	108	108	106	113	109
J	111	112	109	117	114
1976/77 S	113	116	112	131	117
D	120	120	116	138	121
M	123	122	118	143	124
J	126	126	121	145	128
1977/78 S	128	128	123	154	130
D	131	131	125	166	133
M	133	133	127	173	135
J	136	135	130	175	137
1978/79 S	139	137	131	193	138
D	142	140	134	196	140
M	144	141	137	205	141
J	148	144	139	206	144
1979/80 S	151	146	141	218	146
D	156	150	144	219	150
M	159	152	146	221	153
J	164	156	148	225	157
1980/81 S	167	160	151	239	162
D	170	164	153	240	167
M	174	168	156	245	171
J	178	172	159	249	177
1981/82 S	182	177	163	261	181
D	190	182	167	266	187
M	193	186	171	277	191
J	198	193	177	284	197
1982/83 S	205	198	182	315	202
D	211	203	186	326	208
M	215	206	189	326	211
J	220	209	193	327	214

## APPENDIX B (CONT.)

Year/ Quarter	Total Housing Group C.P.I. Component of C.P.I.		Components of Housing Group		
			Private Rental	Govt Rental	All Home- ownership
1983/84 S	224	212	196	336	216
D	229	217	199	344	222
M	228	220	202	348	225
J	229	225	206	358	230
1984/85 S	231	229	210	369	234
D	235	233	214	379	238
M	238	236	218	382	241
J	244	242	222	386	246
1985/86 S	249	248	228	415	252

**Note:** In order to create the indices with base September 1975=100, the original C.P.I. Publications of the ABS have been recalculated from the following:

- (a) December Quarter 1975/76 to March Quarter 1981/82 - an index with Base : 1966/67=100
- (b) June Quarter 1981/82 onwards - an index with Base : 1980/81=100

**Source:**

Australian Bureau of Statistics, Consumer Price Index, Cat. No.9.1 (up to 1977)  
 Australian Bureau of Statistics, Consumer Price Index, Cat. No.6401.0 various.



**APPENDIX C**  
**SAVINGS BANK LOAN RATE FOR HOUSING LOANS**

Year/ Quarter	Rate %	Year/ Quarter	Rate %	Year/ Quarter	Rate %
1967 : 3	5.75	1973 : 3	7.75	1979 : 3	9.50
1967 : 4	5.75	1973 : 4	9.50	1979 : 4	9.50
1968 : 1	5.75	1974 : 1	9.50	1980 : 1	10.50
1968 : 2	5.75	1974 : 2	9.50	1980 : 2	10.50
1968 : 3	6.25	1974 : 3	11.50	1980 : 3	10.50
1968 : 4	6.25	1974 : 4	11.50	1980 : 4	11.50
1969 : 1	6.25	1975 : 1	11.50	1981 : 1	11.50
1969 : 2	6.25	1975 : 2	11.50	1981 : 2	11.50
1969 : 3	6.25	1975 : 3	11.50	1981 : 3	12.50
1969 : 4	6.25	1975 : 4	11.50	1981 : 4	12.50
1970 : 1	6.25	1976 : 1	10.50	1982 : 1	13.50
1970 : 2	8.25	1976 : 2	10.50	1982 : 2	13.50
1970 : 3	8.25	1976 : 3	10.50	1982 : 3	13.50
1970 : 4	8.25	1976 : 4	10.50	1982 : 4	13.50
1971 : 1	8.25	1977 : 1	10.50	1983 : 1	12.50
1971 : 2	8.25	1977 : 2	10.50	1983 : 2	12.50
1971 : 3	8.25	1977 : 3	10.50	1983 : 3	12.50
1971 : 4	8.25	1977 : 4	10.50	1983 : 4	12.00
1972 : 1	7.75	1978 : 1	10.00	1984 : 1	12.00
1972 : 2	7.75	1978 : 2	10.00	1984 : 2	11.50
1972 : 3	7.75	1978 : 3	10.00	1984 : 3	11.50
1972 : 4	7.75	1978 : 4	9.50	1984 : 4	11.50
1973 : 1	7.75	1979 : 1	9.50	1985 : 1	11.50
1973 : 2	7.75	1979 : 2	9.50	1985 : 2	12.00
				1985 : 3	13.00

**Notes:**

Rates refer to those for new housing loans to individuals for owner-occupation. They applied in the final month of each quarter.

Prior to 1984:2, the Reserve Bank listed a range of rates. In these cases the maximum rate has been listed. From 1984:2 onwards, the predominant rate has been listed.

**Source:**

Reserve Bank of Australia Bulletin, various dates.

**APPENDIX D : ALL INCOME UNITS IN POVERTY AFTER HOUSING COSTS,  
CROSS-CLASSIFIED BY FAMILY TYPE AND BY TENURE**

Family type		Owner	Owner/ purchaser	Tenant of private landlord	Tenant of housing authority	Tenant of someone in dwelling	Tenant - special + rent-free	All tenures
Couple without dependants	head < 65	N	22.2	15.4	7.6	1.0	0.4	49.2
		X	45.1	31.3	15.4	2.0	0.9	100.0
		X	21.8	9.1	3.6	2.1	1.3	8.0
	head ≥ 65	N	9.7	2.0	3.5	1.5	-	16.6
		X	58.2	12.0	20.8	8.9	-	100.0
		X	9.5	1.2	1.6	3.1	-	2.7
	Couple with dependants	N	39.4	113.3	43.5	17.7	1.1	227.6
		X	17.3	49.8	19.1	7.8	0.5	100.0
		X	38.7	67.3	20.7	36.8	3.3	37.1
Single parents		N	4.8	17.6	36.8	21.4	4.3	90.3
		X	5.3	19.5	40.8	23.7	4.8	100.0
		X	4.7	10.5	17.5	44.5	12.4	14.7
Single person	aged 15-24	N	0.7	2.5	51.2	0.5	14.8	80.0
		X	0.9	3.1	64.0	0.6	18.6	100.0
		X	0.7	1.5	24.4	1.0	42.7	13.0
	aged 25-64	N	18.7	14.5	56.6	4.9	10.2	119.1
		X	15.7	12.2	47.5	4.1	8.5	100.0
		X	18.3	8.6	27.0	10.1	29.3	19.4
	aged ≥ 65	N	6.5	3.0	10.7	1.2	3.9	30.3
		X	21.4	10.0	35.3	4.0	12.7	100.0
		X	6.4	1.8	5.1	2.5	11.1	4.9
All family types		N	101.9	168.3	209.8	48.2	34.8	613.2
		X	16.6	27.4	34.2	7.9	5.7	100.0
		X	100.0	100.0	100.0	100.0	100.0	100.0

**Notes:**

Each block of figures represents a category of income units in after-housing poverty. In each block, there are three figures. The first is the number of income units in that category (in thousands). The second item is the row percentage, indicating the distribution of tenures within that family type. The third item is the column percentage, indicating the distribution of family types within each tenure.

**Source:**

Australian Bureau of Statistics, Income and Housing Survey 1981/82, unit record file.

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