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THE UNIVERSITY OF NEW SOUTH WALES

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Anthony King
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Björn Halleröd is from the Department of Sociology, University of Umeå and was recently a Visiting Scholar at the Social Policy Research Centre. Earlier versions of this paper were presented to the Conference on The Distribution of Economic Well-Being in the 1980s: An International Perspective, held in Fiskebackskil, Sweden in June 1993 and the Nordiska Sociologkongressen held in Gävle, Sweden in August 1993. The authors wish to acknowledge the helpful comments made by participants on both occasions as well as by Anthony King.

Abstract

The consensual approach to the measurement of poverty is based upon responses to a question asking people how much money they need in order to make ends meet. In this paper, we explore the relevance and implications of the consensual approach using sample survey data for Australia and Sweden derived specifically for this purpose. Identical techniques are applied to the two sets of data and used to compare and contrast the resulting consensual poverty lines. The sensitivity of these lines to changes in the methods used to derive them is then considered. Finally, analysis focuses on a comparison of the characteristics of those whose incomes are below the consensual poverty line. This shows the structure of poverty in Australia and Sweden to be markedly different, specifically in relation to the relationship between age and the risk of poverty.

1 Introduction

That poverty still exists in wealthy nations like Australia and Sweden is sufficient to bring into question broader economic achievements as well as the more specific policies aimed at addressing the causes of poverty and alleviating its effects. To deny sections of the community a minimum standard of living is to condone 'poverty amongst affluence', yet the available evidence confirms that this continues to be the case in advanced nations (Smeeding and Torrey, 1988). A similar view has been expressed by Ringen, who argues that:

> To ask about poverty in the welfare state is to question the elementary effectiveness of social policy... While there is disagreement about the responsibility of government with regard to overall inequality, its responsibility in relation to poverty has been accepted for generations and is not seriously contested today. (Ringen, 1987: 141)

At the same time, comparative social policy research has emphasised differences in welfare state effort in different countries (Korpi, 1985) whilst acknowledging the deficiencies of simple expenditure-based measures of effort (Mitchell, 1991). Influential in this field of study is the work of Esping-Andersen, who argues that it is possible to cluster nations into a small group of welfare state regimes which differ according to the ways in which welfare states have been structured and their resulting effects in two key dimensions - decommodification and stratification (Esping-Andersen, 1990).

Whichever method of welfare state categorisation is adopted, the two countries included in the current study - Australia and Sweden - lie at opposite ends of the spectrum. All of the features which have for long made Sweden a model welfare state are noticeable primarily by their absence in Australia. These include the universal provision of cash and noncash benefits, a system of contributory finance and extensive state intervention in the market sector designed to redirect production and maintain full employment. In contrast, Australia (a classic liberal welfare state, to use Esping-Andersen's terminology) is characterised by a tightly-targeted and income-tested system of benefits which provides assistance only as a last resort. Income is generated in the largely unregulated market sector and the

welfare state steps in only when this system breaks down. Support for the unemployed has traditionally taken the form of passive policies which direct income support to the jobless, rather than active policies aimed explicitly at removing joblessness itself (though this has begun to change in recent years).

Another recent widespread trend is associated with the increased incidence of poverty. Even prior to the onset of recession in 1990, poverty amongst working age families was on the rise in many countries (Room, Lawson and Laczko, 1989). The current recession has exacerbated those trends and the concerns associated with them. In addressing the issue of poverty, this paper adopts a perspective which has come to be labelled 'the consensual approach'. Our main interest is in applying this methodology consistently to survey data for Australia and Sweden derived specifically for this purpose, and to make comparisons between the results for the two countries. In so doing, the paper will hopefully add to the rapidly-expanding body of research on consensual poverty, as well as to an understanding of how poverty in two extreme welfare states is perceived by citizens.

In endeavouring to compare perceptions of poverty and income adequacy in Australia and Sweden, we follow the consensual approach to poverty measurement established by Goedhart, Halberstadt, Kapteyn and van Praag (1977) and discussed by Walker (1987). It has subsequently been refined and applied to the measurement of poverty in the Netherlands (Hagenaars, 1986; Hagenaars and de Vos, 1988), eight EEC countries (van Praag, Hagenaars and van Weeren, 1982), the United States (Danziger, van der Gaag, Taussig and Smolensky, 1984; Colasanto, Kapteyn and van der Gaag, 1984) and Ireland (Callan, Nolan, Whelan, Hannan and Creighton, 1989). The method has been subject to scrutiny by Kapteyn, Kooreman and Willemse (1988) and Hagenaars (1986). The consensual approach has (in restricted form) been applied to Australian data by Saunders and Bradbury (1991) and (more conventionally) by Saunders and Matheson (1992). It has never before been applied to Swedish data.

The paper is organised in the following way: Section 2 discusses the rationale for choosing a comparison between Australia and Sweden. Section 3 discusses very briefly some of the general issues in poverty measurement before focusing specifically on describing the main features of the consensual approach. Section 4 describes our data and explains how they were derived, while Section 5 presents our consensual poverty lines

and investigates what they imply for the level and structure of consensual poverty in Australia and Sweden. The main conclusions are summarised briefly in Section 6.

2 Why Compare Australia and Sweden?

The importance of poverty research has varied considerably between countries at a point in time as well as within countries over time. From this point of view, Australia and Sweden can be looked upon as two extreme or polar cases. Social researchers in Australia have devoted considerable effort (and resources) to issues relating to the measurement of poverty. Some have seen the intensity of these efforts as somewhat misplaced, focusing on the minutiae of statistical and methodological issues and ignoring the real world concerns associated with the social and economic conditions which allow poverty to exist and be transmitted from generation to generation.[1] Others seem less critical of past Australian efforts. Thus, Townsend and Gordon (1991), for example, pointing to the marked acceleration in public and scientific interest in poverty in the 1980s note that for 'a number of years Australia has been in the forefront of research investment and technical advance' (Townsend and Gordon, 1991: 36).

The preoccupation with poverty research should also be seen in relation to the specific welfare system existing in Australia. In a recent review of Australian social security developments, Saunders and Whiteford (1991) make reference to an earlier study by McAlister, Ingles and Tune (1981) when noting the emphasis given to poverty in Australian social security analysis. Distinguishing between income support and income maintenance, Saunders and Whiteford argue that:

> ... the goal of income maintenance or protection has been performed in Australia through such occupational welfare provisions as the compensation, sick leave and occupational superannuation systems. In contrast, transfer payments ... are flat rate and appear to be designed to provide an adequate but modest standard of living for those with little or no private resources.

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1 Thus Bryson cities the views of an (unnamed) Scandinavian social scientist who has '... suggested that Australia is obsessed with statistics about poverty and poverty lines only because of its limited welfare coverage' (Bryson, 1988: 33).

> Their primary role is thus one of income *support* rather than income *maintenance*. This minimum income support system therefore gives priority to the anti-poverty objective. (Saunders and Whiteford; 1991: 129: italics in the original)

In short, it is no surprise that poverty research has a long (if narrow) history in Australia, because the alleviation of poverty has been a central aim of the entire social security system. The significance of this was made explicit in the initial work of the recent Social Security Review, which looked to poverty research to provide a basis for identification of the areas of policy where reform was most needed (Cass, 1986).

The situation in Sweden is radically different from that in Australia and research specifically concerned with poverty has, for a long time, played only a marginal role in social research. Questions of living standards and the distribution of economic resources have instead been dealt with in the broader context of overall inequality. Extensive work, often based on the Level of Living Survey and the Survey of Living Conditions has been undertaken in this area (see Erikson and Åberg, 1987; Persson, 1990). These studies have usually been seen as addressing the issue of poverty indirectly, since poverty has generally been regarded in Sweden as a phenomena closely related to the broader and more fundamental issue of inequality.

As in Australia, there is a connection in Sweden between the view of poverty and the nature of the Swedish welfare system. Sweden, unlike Australia, has built a universal system of income maintenance. The basic aim of the system has been not to guarantee a minimum income compared with some external benchmark, but rather to provide income maintenance that is strictly connected with, and conditioned by, labour market income. Transfer payments are generally designed to cover the total population, or at least those who participate in the labour market (Marklund, 1988; Marklund and Svallfors, 1987). The Swedish welfare system is therefore not only, or even mainly, directed at affecting the incomes of those at the bottom end of the income distribution, but rather at shaping inequality in the total population. The universal coverage and the relationship between labour market income and transfer payments diminish the need for specific programs dealing with poverty and partly explain the reduced interest in poverty research in Sweden. Much more emphasis has instead been put on the broader consequences of Sweden's solidaristic wages policy and its

active labour programs. By keeping unemployment low and minimum wages up, Swedish citizens were to be guaranteed a labour market income and a degree of income maintenance which in turn would establish a decent standard for everybody. This approach, in brief, constitutes the cornerstone of the Swedish welfare state.

Poverty has, when discussed in Sweden, usually been connected with social assistance, which is a means-tested income support program designed as a last resort for those unable to sustain their income in any other way. The poor in Sweden have thus often been equated with those receiving social assistance, with no attempt to derive a specific poverty measuring rod. Such a definition is, however, tautological and logically incoherent: tautological because the system designed to ameliorate poverty is also used to define poverty; and logically incoherent because it is only those who have received help, and who therefore should not be in poverty, who are defined as poor (Halleröd, 1991).

3 Defining Poverty: The Consensual Approach

It is now widely accepted that poverty is a normative rather than a purely objective concept. The most immediate consequence of this view is that any definition of poverty becomes relative, and thus that issues of value and ideology inevitably arise in selecting a standard against which to measure poverty. To argue that poverty is relative is to acknowledge that any definition of poverty must be made in a specific social (and moral) context and thus only has meaning relative to that context. This creates an obvious problem for comparative poverty research, where the economic and social contexts differ and where interest often focuses on the implications of these differences for the level, nature and structure of poverty. How can such exercises be undertaken using a context-dependent poverty line yet one which is comparative and thus, in some sense, independent of context?

In both Australia and Sweden there are existing standards used to reflect a minimum level of income necessary to escape poverty. The Henderson poverty line, for example, has been used in several studies of poverty in Australia (Commission of Inquiry into Poverty, 1975; Gallagher, 1985; Saunders and Matheson, 1991). Similarly, the standard norm for social assistance, defined by the Swedish Board of Health and Welfare, has been used in various Swedish poverty studies (Gustafsson, 1984; Halleröd, 1991).

Both of these standards can be, and have been, criticised. The Henderson poverty line has been criticised for being based on arbitrary assumptions (Stanton, 1980) and because it has not been upgraded to reflect contemporary Australian conditions (King, 1991). The Swedish standard norm for social assistance can be disputed for similar reasons, and because it is derived as a guideline for political decisions, not in order to set an external standard which can be used to identify the poor.

While it may be reasonable to assume that each of these existing standards reflect the conditions in each country (at least as an approximation) it is not reasonable to assume that the Henderson poverty line reflects conditions prevailing in Sweden, nor that the Swedish standard norm for social assistance is useful as a poverty benchmark in Australia. What we need is a definition of poverty that is relative to conditions in each country and, at the same time, derived from the same basic methodology so that comparison is possible. A common strategy employed to achieve this goal is to set a poverty standard at a certain proportion, usually 50 per cent, of the mean (or median) level of community income (Buhmann, Rainwater, Schmaus and Smeeding, 1988; Mitchell, 1991). Such a poverty standard is clearly set relative to the economic conditions in each country and yet is derived from the same basic assumption and is thus, in this sense, comparable.

There are, however, some fundamental problems with this approach which are related to two key principles which any poverty standard should embody if it is to be useful for the purpose of social monitoring and policy evaluation (Saunders and Matheson, 1992). The first principle is the need for the standard to be firmly embedded in relevant aspects of the socio-economic system within which it is to be used. We refer to this as the principle of **empirical validity**. This means, at the very least, that a poverty standard used in a country must be based to some extent on the conditions prevailing in that country. If the poverty standard is also to satisfy our second principle, then it must also assume **political validity**. This relates to the broad acceptability of the chosen standard, not just amongst the experts who derive it, but also among the poor themselves and the population at large. If this condition is not met - at least in broad terms - then research findings based on the poverty standard will have little chance of mobilising public concern and thus generating the political support necessary for action. Together, the two principles of empirical relevance and community acceptability emphasise the need for poverty research to be firmly

embedded in, and dependent upon, the broader social fabric in which values and perceptions are formed and their impact on living standards played out. This brings us directly to the consensual poverty line approach.

The consensual poverty definition is derived from public opinion on the minimum level of income necessary to 'make ends meet'. The definition is clearly relative to conditions prevailing in the community and can be regarded as satisfying the principle of empirical validity. The method also satisfies the principle of political validity, because deriving a poverty standard from the views held by the public increases the chance of having an impact on social policy in a democracy. The method can also be applied in different countries in the same manner and is therefore suitable for comparative purposes (van Praag, Hagenaars and van Weeren, 1982).

The methodology employed to derive a consensual poverty line for Australia and Sweden is based on the *Minimum Income Question* (MIQ) originally developed by Goedhart and his colleagues at Leyden University (Goedhart, Halberstadt, Kapteyn and van Praag, 1977). The MIQ is usually worded with the intention of deriving the income level which survey respondents regard as the minimum necessary to 'make ends meet' given their existing circumstances. The exact wording of the MIQ used in our analysis is:

> In your opinion, what would be the *very lowest* net weekly income (that is, income after tax but before payment of any bills) that your household would have to have to just make ends meet?[2]

Details of the methods used to devise the consensual poverty line (CPL) from responses to the MIQ have been explained elsewhere (Goedhart et al., 1977; Saunders and Bradbury, 1991; Saunders and Matheson, 1992) and need not detain us here. In essence, the method involves using a sample survey to elicit responses to the MIQ from a representative sample of households who are simultaneously asked questions about their actual incomes and other relevant characteristics (e.g. family size and composition,

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2 The precise Swedish wording of the question was:

> Vad är, enligt Din åsikt, den allra lägsta netto inkomsten per månad (inkomst efter skatt men före det att Du betalt några räkningar) som Ditt hushåll behöver för att få ekonomin att gå ihop?

age, housing situation, and so on). If Y_i^* is the MIQ response of respondent i, Y_i their actual after tax family income, S_i the size of the family to which respondent i belongs, and N is the overall size of the sample, then the following relationship is estimated from the data;

$$Y_i^* = F(Y_i, S_i) \qquad (i = 1..... N) \qquad (1)$$

The consensual poverty line Y_p is then defined as the income level at which respondents would, on average, indicate that their current income level is just sufficient for them to make ends meet. Y_p thus depends upon the estimated parameters in equation (1) (F_1), but also varies according to family type (S). Thus;

$$Y_p = F_1(S_i) \qquad (2)$$

Equation (2) can be used to generate a consensual poverty line for each different family type contained in the sample. By comparing the resulting poverty lines for different family types it is clearly also possible to derive an equivalence scale which measures the relative needs of the different families.

The CPL approach thus provides a set of poverty lines and an implied equivalence scale which are based on community views regarding minimum income levels derived from responses to the MIQ. It is an elegant, yet simple and informative approach. It is, however, important to make a distinction between the consensual poverty line and a subjective poverty line. Consider for example respondent j whose response to the MIQ is an income level (Y_j^*) which is above her/his actual income level (Y_j); i.e. $Y_j^* > Y_j$. It can be argued that this respondent is implicitly indicating that their current income level is not enough for them to 'make ends meet'. They are thus in a sense in poverty according to their own assessment of the income level they require to 'make ends meet' in their current circumstances, even though they have not indicated as such directly. Yet there is no guarantee that (s)he will be defined as poor using the consensual poverty line approach described above. It is quite possible for $Y_j^* > Y_j$ yet for $Y_j > Yp$ at the same time. Similarly, it is possible for the opposite to occur, i.e. for respondents to indicate implicitly that their current income is above that required for them to 'make ends meet', yet for the consensual approach to classify them as poor. In this case we would have $Y_j^* < Y_j < Y_p$ (Saunders and Bradbury, 1991).

In providing an answer to the generalised form of the MIQ shown above, each respondent will make certain assumptions regarding which aspects of their existing circumstances they take as given in estimating the income required to 'make ends meet'. It seems likely that they will take their existing family structure as given, for example, but what of their housing costs? Or what if they have just purchased a new car on credit and have a monthly repayment or an urgent bill to meet? Will they assume their MIQ response to be conditioned by this aspect of their current circumstances? There is no unambiguous way of resolving such issues. Some of them will be randomly distributed across the population and will not bias the estimates of equation (1). Nonetheless, one would expect a considerable amount of variability to be left in the MIQ responses even after equation (1) (or a more refined version thereof) has been estimated. There is a difficult balance to be arrived at here in establishing the precise wording of the MIQ. On the one hand, one wants as far as possible to minimise the distortions arising from respondents taking account of what might be regarded for current purposes as extraneous factors. On the other hand, to be too directive in choosing the wording of the MIQ is to risk pre-judging the issue by allowing expert input to dominate over the genuine views of respondents.

4 The Survey Data

The Australian data were derived from a postal survey mailed to a national sample derived from the electoral rolls and conducted between April 1988 and the end of that year.[3] Of the total of 3507 questionnaires originally mailed out, 1814 responses were received, there were 1129 refusals and 564 non-contacts. Excluding non-contacts from the initial sample leads to an effective response rate of 62 per cent (i.e. 1814 / 2943 = 0.62). Unfortunately, not all 1814 responses could be used in the analysis, partly because not all respondents answered each question, but also because of ambiguities in the responses for respondents residing in multi-family households.[4] Because of these factors, the analysis reported below is

3 Voting is compulsory in Australia so that use of the electoral rolls provides a nationally representative sampling frame for the adult population.

4 These arose because the MIQ made reference to household circumstances, whereas actual income was only collected for the respondent and their immediate family (Saunders and Matheson, 1992: 106-7). We were thus forced to include only single-family households in the analysis.

restricted to single-family households only, giving a working sample of 1094. This was further reduced slightly by excluding all respondents aged 20 or under and 75 or over, in order to conform with the coverage of the Swedish sample. The final Australian sample comprised 1029 observations.

The full Australian sample was compared with other national data sets produced by the Australia Bureau of Statistics (ABS) in order to gauge its representativeness and to identify the nature of any possible biases. The results of these tests are reported in detail in Saunders and Matheson (1992: 38-45) and will not be repeated here. The conclusions reached by the authors as a result of these exercises are, however, worth reporting. They note that:

> ... the sample possesses a number of biases, some more pronounced than others. Briefly, there is some distortion in favour of women, white-collar wage and salary earners, the more affluent, people aged 'in the prime of life' and those living with others rather than alone. Nevertheless, the foregoing tables reveal a good degree of representativeness in many aspects of the sample, and where differences exist they tend to be in areas where others (including the ABS itself) have had difficulty ensuring a completely unbiased sample. (Saunders and Matheson, 1992: 45)

The Swedish data were produced by a survey designed to form the basis of a broad study of poverty in Sweden (Halleröd et al., 1993). The MIQ and the other questions used here represent only a small part of the collected data. A total of 1075 individuals who were representative of the total population aged between 21 and 74 were approached to seek their agreement to participate in the survey. The sample itself was derived by Statistics Sweden who also conducted the field work.

The data were collected between April and May 1992 in face-to-face interviews. The non-response rate was 24.5 per cent which left an actual sample of 793 responses. In 18 of these cases, it was not possible to make a reliable classification of the composition of the household to which the respondent belonged and these cases were thus excluded from the analysis. Of the remaining sample, 58 respondents did not answer the MIQ and they too were excluded from our analysis. The Swedish working sample thus consisted of 717 cases.

A comparison of the Swedish sample with the 1990 Census shows that the data give a good representation of the population in regard to their gender, age, household composition and occupational class. There is, however, a bias regarding income, with low income earners somewhat under-represented in the Swedish sample (in contrast to the Australian sample, where the affluent tended to be under-represented). This will probably affect our results to some degree, but it is hard to say exactly how, because both the proportion of low income earners and the calculation of the consensual poverty line will be affected.[5]

The composition of the two samples according to family type is shown in Table 1. This reveals several substantial compositional differences, mainly reflecting differences in the socio-demographic structure of the two countries. Not surprisingly, the Swedish sample contains more elderly families than the Australian sample - 15.5 per cent as compared with 9.6 per cent - a reflection of different population age structures (OECD, 1988). There are considerably more couples with children in Australia than Sweden, but sole parent families comprise between 4 and 5 per cent of both samples. But the largest single difference shown in Table 1 is the far higher percentage of non-aged single people in the Swedish sample - more than three times the percentage of non-aged single people in the Australian sample. To some extent this difference may reflect the sample biases referred to earlier, although this is only part of the explanation. More fundamentally, it reflects real differences in the structures of the two populations.

There are some other important differences between the nature of the two sets of sample data which also need to be kept in mind. First, the Australian data were collected four years before the Swedish data. This difference is not as serious as might initially appear, firstly because it is relatively easy to adjust the data to refer to a common reference year (see below), and secondly because the survey years in both countries pre-date the onset of their recessions and the resulting rapid acceleration in the level of unemployment. Because of this, we are confident that major differences in the macroeconomic context of the two countries have been avoided.

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5 A more detailed analysis of the representativeness of the sample is reported in Stattin (1993).

Table 1: Family-type Composition of the Two Samples

Family Type	Percentage of Sample: Australia	Sweden
Single person		
- non-aged[a]	6.3	19.6
- aged[a]	2.5	4.2
Childless couple		
- non-aged[b]	18.7	24.2
- aged[b]	7.1	11.3
Couple, 1 child	16.8	14.1
Couple, 2 children	25.9	15.7
Couple, 3 children	13.3	5.3
Couple, 4+ children	4.6	1.3
Single parent, 1 child	2.4	2.7
Single parent, 2 children	1.5	1.3
Single parent, 3+ children	1.0	0.4
Total	**100.0**	**100.0**

Notes: a) Non-aged single people are defined to include females aged under 60 and males aged under 65 so as to conform with the age of eligibility for the pension in Australia.
b) Non-aged couples are those where the respondent is aged under 65.

Second, the Australian data were derived from a postal survey whereas the Swedish data were collected in face-to-face interviews. This, as noted later, could be of some consequence in that respondents may be more prepared to reveal deficiencies in their material circumstances in a mailed survey than directly to someone conducting a face-to-face interview. Third, the income data used in Australia are based on survey answers regarding pre-tax income, from which disposable income has been derived using a tax imputation model. In contrast, the Swedish income data were gathered from the official income register and give a highly reliable picture of household disposable incomes.

The answer to the MIQ in Australia was given in Australian dollars (A$) a week in 1988. In Sweden it was given in Swedish kronor a month in 1992. As a first step towards making these data comparable, the Australian data were updated to 1992 prices by adjustment in line with movements in the Consumer Price Index (CPI) between 1988 and 1992. The MIQ responses and the data on actual incomes for both countries were then transformed

into US dollars (US$) using conversions based on the OECD Purchasing Power Parity (PPP) standard for 1992.[6] We will henceforth analyse and refer to the data in this transposed form.

5 Results

In order to provide some background to the more detailed analysis which follows, we begin with some sample descriptive statistics. Figure 1 shows the distribution of responses to the MIQ in Australia and Sweden, after the former have been updated from 1988 to 1992 and both have been expressed in US$ as explained above. It is worth emphasising that, in PPP terms, GDP per capita in 1992 in both countries was virtually identical.[7] Despite this, the degree of similarity revealed by the MIQ responses in Figure 1 is little short of remarkable, particularly in light of the differences in timing and sampling technique from which the two sets of responses were derived. In both countries, the modal response fell in the range US$200 - US$299 a week and the distribution exhibited a long upper tail. The mean response in Australia was equivalent to US$318.0. In Sweden it was slightly lower, at US$274.3. This latter difference does not, of course, mean that Swedish households require less money to make ends meet than their Australian counterparts. Differences in the household composition of the two samples can give rise to a different mean value for the distribution as a whole. Table 1 shows, for example, that the Swedish sample contains a larger proportion of single person households and couples without children and this alone could explain the different overall sample means. If we re-weight the Swedish sample according to the relative frequency of different family types in the Australian data, the mean MIQ response for the former rises to US$307.6 - only about US$10 (3.3 per cent) below the Australian figure.

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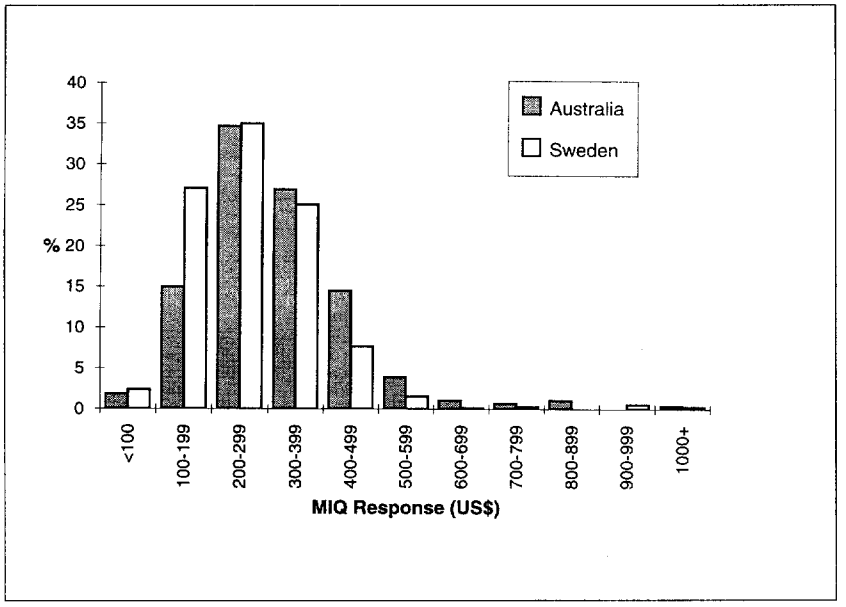
6 According to the OECD PPP standard for 1992, $US1.0 = $A1.34 and $US1.0 = SEK 9.79. The implied conversion between our currencies was thus $A1.00 = SEK 7.31 (OECD, 1992a). It should be noted that the Swedish Krona was under considerable pressure in the latter half of 1992, during which time the currency crisis in September led to very high interest rates and, eventually, to moves to float the currency in November which led to an immediate 10 per cent effective devaluation (OECD, 1992b).

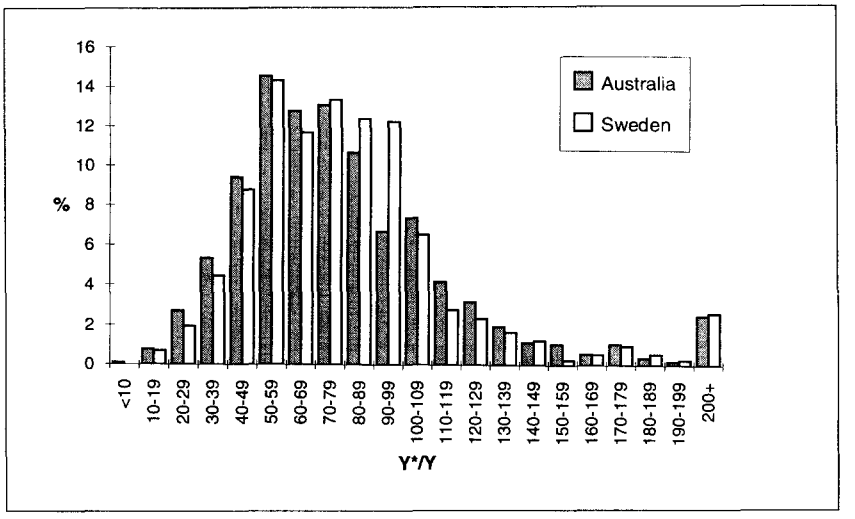
7 GDP per capita expressed in US$ using the OECD PPPs was equal to 0.73 of that in the United States (= 1.00) in Sweden, and 0.72 of that in the United States in Australia (OECD, 1992a).

Figure 1: The Distribution of Minimum Income Question Responses



The entire consensual approach assumes that there is a close relationship between the MIQ response (Y*) and the actual disposable income (Y) of respondents. It is thus of particular interest to compare the relationship between Y* and Y for the two countries. This is done in Figure 2. Again, there is a good deal of similarity in the two distributions, although the Swedish distribution exhibits a greater proportion of households in the range where the ratio of the MIQ response to actual income lies between 70 per cent and 99 per cent. Those households for whom the ratio shown in Figure 2 exceeds 100 per cent are, implicitly at least, indicating that their current level of disposable income, being below their MIQ response, is not enough for them to make ends meet. There are 23.7 per cent of Australian respondents in this situation and 19.9 per cent of Swedish respondents. We cannot, however, take these proportions to be indicative of the subjective poverty rates in the two countries, in part because respondents were not asked explicitly about their subjective evaluation of whether or not they were poor.

Figure 2: The Distribution of Minimum Income Question Responses (Y*) as a Percentage of Disposable Income (Y)



We turn now to the derivation of consensual poverty lines for the two countries. Following earlier research conducted by two of the authors (Saunders and Matheson, 1992) we experimented with a range of specific formulations of equation (1). These included simple linear and log-linear functional forms relating the MIQ response to actual disposable income. We then entered into each of these basic equations a third variable measuring family (or household) size (S) and, alternatively, the number of adults (ADTS) and children (CHDN) separately. Our results indicated that inclusion of these family size variables into the basic relationships significantly increased the explanatory power of the model and that, in general, inclusion of the variables ADTS and CHDN separately was the preferable formulation. We show the estimates of the linear and log-linear version of this model in Table 2.

It is not easy to choose between the linear and log-linear formulations of the model on overall statistical grounds. In terms of overall explanatory power, the former is preferable in Australia and the latter in Sweden. However, the variable ADTS is not significant in the linear formulation in Australia, although it is in the log-linear formulation. Largely for this reason, we thus favour the log-linear formulation in which all explanatory variables are

Table 2: Estimates of Consensual Poverty Line Models

	Dependent Variable (MIQ response)	Independent Variables[a] Intercept	Actual Income (Y)	Number of Adults (ADTS)	Number of Children (CHDN)	Sample Size	R^2	F
Linear formulation								
Australia	Y*	139.33** (6.59)	0.31** (18.04)	12.0 (0.99)	11.62** (3.69)	1029	0.285	137.47
Sweden	Y*	97.35** (6.77)	0.26** (10.08)	35.94** (3.97)	23.37** (5.97)	717	0.331	118.98
Log-linear formulation								
Australia	log Y*	3.68** (33.12)	0.30** (15.04)	0.09* (2.38)	0.04** (3.78)	1029	0.253	117.15
Sweden	log Y*	3.35** (22.74)	0.32** (10.98)	0.15** (4.57)	0.10** (7.04)	717	0.386	150.89

Note: a) T-statistics are shown in brackets: ** (*) indicates statistical significance of the coefficients on the independent variables at the one (five) per cent level.

significant in both countries. There is, perhaps not surprisingly in light of Figure 2, a good deal of similarity between the estimates of the model for the two countries. The coefficients on the income variable are very similar at around 0.30 - well below the estimate of 0.53 derived from Dutch data by Goedhart et al. (1977: 511), yet similar to the figure of 0.27 produced by Callan et al.'s Irish study (Callan et al., 1989: 84). In Australia, the absolute size of the coefficients on both ADTS and CHDN are well below those estimated for Sweden, although the size of the coefficient on ADTS relative to that on CHDN is considerably higher in Australia then in Sweden.[8] To explore what these differences imply for the way in which the consensual poverty line (CPL) varies according to family circumstances, we have used the estimates of the log-linear models in Table 2 to calculate the CPL for each country using the procedures referred to earlier.

8 The former, but not the latter, feature is also displayed by the estimates of the linear formulation of the model shown in Table 2.

Before proceeding to these results, we undertook an exercise designed to establish the robustness of the regression estimates reported in Table 2. This involved restricting our sample of respondents to those who might be thought to be able to provide the most reliable assessment of the minimum income level needed to 'make ends meet'. Elsewhere in both surveys, respondents were asked to indicate the ease with which they were able to 'make ends meet', by selecting which one of six possibilities best described their situation. The six possibilities and the percentages of respondents who indicated each possibility in the two countries are shown in Table 3.[9] It could be argued that those respondents who were not experiencing particular difficulties making ends meet might provide an uninformed response to the MIQ, which might, in turn, lead to biases in our regression estimates. In order to check for this, we re-ran the (log-linear) models shown in Table 2, firstly excluding all respondents who indicated that they were able to make ends meet 'very easily', and then excluding these respondents and also those who indicated that they were able to make ends meet either 'easily' or 'fairly easily'. The results are shown in Table 4.

Table 3 indicates that, overall, Swedish respondents were finding it easier to make ends meet than Australian respondents. The percentage able to make ends meet at least fairly easily was 37.4 per cent in Australia but far higher, at 64.0 per cent, in Sweden. At the other extreme, while less than 19 per cent of Swedes had some or great difficulty making ends meet, the corresponding figure in Australia was more than twice as high, at almost 39 per cent. Given, as noted earlier, that the actual levels of per capita income in the two countries were virtually equal in PPP terms, these differences in the perceived ease of ability to 'make ends meet' reflect differences in attitudes, aspirations, the structure of need, or in non-income factors influencing perceptions of how difficult it is to get by in the two countries. Although in material terms the two countries are, on average, equally well-off, Table 3 suggests that Australians seem to have considerably more difficulty making ends meet than Swedes.

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9. The question asked was:

   Thinking of your household's current total weekly income, is the household able to make ends meet ...

   This was followed by a listing of the six alternatives shown in Table 3, from which respondents were asked to choose the one most appropriate to their circumstances

Table 3: Experience of Making Ends Meet in the Household Economy
(Percentages)

Respondent indicated they were able to make ends meet...	Australia	Sweden
... with great difficulty	12.7	5.4
... with some difficulty	26.1	13.1
... with a little difficulty	23.7	17.4
... fairly easily	24.3	33.9
... easily	9.0	15.9
... very easily	4.1	14.2
All respondents	**100.0**	**100.0**

Table 4: Estimates of Consensual Poverty Line Models Based on Restricted Samples [a]

		Independent Variables						
	Dependent Variable (MIQ response)	Intercept	Actual Income (Y)	Number of Adults (ADTS)	Number of Children (CHDN)	Sample Size	R^2	F
Excluding Those Respondents Making Ends Meet 'Very Easily'								
Australia	log Y*	3.64**	0.31**	0.09	0.03**	987	0.264	118.78
		(32.29)	(15.11)	(2.41)	(3.43)			
Sweden	log Y*	3.28**	0.33**	0.15**	0.09**	614	0.414	145.53
		(21.21)	(10.72)	(4.50)	(6.19			
Excluding Those Respondents Making Ends Meet 'Very Easily', 'Easily' or 'Fairly Easily'								
Australia	log Y*	3.59**	0.32**	0.10*	0.03*	644	0.283	85.66
		(27.06)	(12.59)	(2.20)	(2.17)			
Sweden	log Y*	3.63**	0.28**	0.18**	0.08**	258	0.407	59.72
		(16.43)	(6.36)	(3.91)	(3.86)			

Note: a) See Note to Table 2.

The main, and important, conclusion to emerge from Table 4 is that the regression estimates shown in Table 2 are stable and not overly sensitive to the exclusion of those who seem to be coping financially with most ease. The only difference of any consequence occurs in the Swedish estimates, in particular in that the ratio of the coefficient on ADTS to that on CHDN increases when the sample is restricted, from around 1.5 in Table 2 to in excess of 2 in the restricted version shown in Table 4. Because, overall, the results in Table 4 are so similar to those in Table 2, we report only the CPLs derived from the estimates shown in Table 2. These are shown in Table 5.

In general, the CPL results in Table 5 indicate that the income needs of the first adult in Australia are considerably higher than they are in Sweden. The single person poverty line in Australia exceeds that in Sweden by 27 per cent. This implies that when the single person is used as the reference point for the calculation of the equivalence scale - as is done in the first scale shown in Table 5 - country differences in the scale for families with children appear exaggerated. However, the CPLs themselves are closest to each other in monetary terms in the case of the 'traditional' family comprising two adults and two children, where they differ by less than 4 per cent. If this family type is used as the reference category for the calculation of the equivalence scale, differences between the costs of adults now emerge and those between children are reduced - even though the relativities overall are, of course, identical to those in the first scale. The Australian CPL equivalence scale is relatively flat, increasing only slowly with family size, a finding which is consistent with other research utilising the CPL approach (Rainwater, 1990; Saunders and Matheson, 1992; Buhmann et al., 1988). In contrast, the Swedish CPL equivalence scale rises much more steeply and is close to what emerges generally from other studies of relative need (Buhmann et al., 1988: Table 2).[10]

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10 Buhmann et al. (1988) propose a single parameter equivalence scale given by the coefficient α in the relationship $E = D/S^{\alpha}$ where E = equivalent income, D = disposable income and S = the number of family members. This model was estimated in logarithmic form as a precursor to the selection of the results presented in Table 2. The results produced a value of $\alpha = 0.04$ for Australia and $\alpha = 0.10$ for Sweden. Both values are well below the estimates presented by Buhmann et al., which range between $\alpha = 0.12$ and $\alpha = 0.36$ with a mean value of $\alpha = 0.24$ (Buhmann et al., op.cit.; Table 2). These estimates were, however, derived from regressions which constrained the intercept to equal zero, whereas ours did not.

Table 5: Consensual Poverty Lines Based on Regression Estimates from the Full Sample

Household or Family Type	Poverty Line		First Equivalence Scale		Second Equivalence Scale	
	Australia	Sweden	Australia	Sweden	Australia	Sweden
	($US per week)					
Single person	218.3	171.9	100	100	78	60
Couple, 0 children	248.2	214.4	114	125	89	75
Couple, 1 child	262.8	248.3	120	144	94	86
Couple, 2 children	278.3	287.7	128	167	100	100
Couple, 3 children	294.6	333.2	135	193	106	116
Couple, 4 children	312.0	386.0	143	224	112	134
Single parent, 1 child	231.1	199.2	106	116	83	69
Single parent, 2 children	244.7	230.7	112	134	88	80
Single parent, 3 children	259.1	267.3	119	156	93	93

Source: Table 2.

However one looks at them, the CPL results in Table 5 imply that the costs of children relative to the costs of adults are far higher in Sweden than in Australia. This finding is at odds with the relativities derived from previous research in the two countries which, according to Buhmann et al. (1988: Table 2) suggest a very similar pattern of equivalences. Given the generally more extensive and generous levels of public provision for children in the Swedish than Australian welfare state, it is difficult to see why children add more to the costs of making ends meet in Sweden, although differences in climate and what these imply for the cost of clothing, heating and so on may be a factor. The other way of looking at this issue relates not so much to the fact that children cost relatively more in Sweden, but rather that adults cost relatively less. Certainly, the difference in the single person CPL already alluded to is substantial and in need of some explanation. Indeed, this difference is even more striking given the fact that there are a higher proportion of single people who are aged in the Australian sample than in the Swedish sample (Table 1) - a difference which might be expected to

cause the overall single person CPL in Australia to be reduced relative to that in Sweden.[11]

Having presented and discussed the two sets of CPL estimates, we turn now to use these to measure the extent of consensual poverty in Australia and Sweden from the survey data described in Section 4. We begin with the estimates in Table 6, which were derived by comparing the disposable income of each family with the CPL for that family shown in Table 5. We present separate poverty estimates for aged and non-aged single people and childless couples, but emphasise that the poverty line itself does not differ according to age (for the reasons explained in footnote 11). It is, however, important to distinguish the aged from the non-aged in our poverty estimates because of the differences in the age composition of our samples (Table 1). We should also emphasise that the age used to define the categories used in Table 6 (and subsequent tables) refers to the age of the person who responded to each survey, whether it is the husband or the wife.

According to Table 6, the overall CPL poverty rate in Australia (21.5 per cent) was more than half as high again as that in Sweden (13.4 per cent). In Australia, poverty was most prevalent among the single aged, aged couples, single parent families generally and single people. Aside from the high incidence of poverty among aged couples, this confirms the general pattern of poverty highlighted recently by Saunders (1993) who uses ABS income data and applies the methods developed by the Commission of Inquiry into Poverty (1975) to show that the risk of poverty is far higher if there is only a single adult in the family than if there are two adults. The reason why CPL poverty is so high among single adult families in Australia is because of the high CPL poverty line for the first adult (Table 5). Unlike other estimates of poverty in Australia (Saunders and Matheson, 1991), Table 6 shows poverty to be very high amongst non-aged childless couples but to be below average amongst couples with less than four children. In Sweden, the CPL poverty estimates show a somewhat different profile of the poverty population from that in Australia. Here, the incidence of poverty is highest amongst single people (aged and non-aged), single parents with two children and couples with more than two children.

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11 In our regression analysis we experimented with the inclusion of an AGE variable in addition to those variables shown in Table 2. However, while this produced reasonable results for Australia (as reported in Saunders and Matheson, 1992) we were unable to discover any significant relationships from the Swedish data.

Table 6: The Incidence and Structure of Consensual Poverty
(Percentages)

	Australia		Sweden	
	Incidence of Poverty	Structure of Poverty	Incidence of Poverty	Structure of Poverty
Family Type				
Single person[a]				
- non-aged	32.3	9.5	32.1	46.9
- aged	69.2	8.1	30.0	9.4
Childless couples[a]				
- non-aged	15.6	13.6	8.1	14.6
- aged	53.4	17.6	6.2	5.2
Couple, 1 child	18.5	14.5	9.9	10.4
Couple, 2 children	10.2	12.2	4.5	5.2
Couple, 3 children	11.7	7.2	10.5	4.2
Couple, 4+ children	23.4	5.0	11.1	1.0
Single parent, 1 child	48.0	5.4	5.3	1.0
Single parent, 2 children	46.7	3.2	22.2	2.0
Single parent, 3+ children	80.0	3.6	0.0	0.0
All families	**21.5**	**100.0**	**13.4**	**100.0**
Age of Respondent				
21-29	15.1	10.4	27.3	49.0
30-39	13.6	17.6	11.6	18.7
40-49	7.2	8.1	7.1	11.5
50-64	36.5	44.8	4.8	7.3
65-74	60.0	19.0	15.1	13.5
All families	**21.5**	**100.0**	**13.4**	**100.0**

Note: a) See Notes to Table 1.

There are some interesting similarities and differences in the patterns of poverty shown in Table 6. First, the poverty rate of non-aged single people is virtually identical (at 32 per cent) in both Australia and Sweden. In both countries, the incidence of poverty is below average among couples without children or with up to two children, with the risk of poverty rising with each additional child after the first. The incidence of poverty also follows a U-shaped pattern as age increases, declining up until middle age and then rising, particularly after retirement. There are, however, also a number of differences, the most significant of which is the far higher poverty rate amongst the aged and single parent families in Australia. It seems difficult to believe other than that this is a reflection of the more generous levels of assistance provided to these groups under the Swedish welfare state, in terms of the levels of income support for the aged, and the provision of child

care and other labour market measures designed to facilitate employment amongst single parents. Perhaps the most striking difference in Table 6, however, is that while poverty in Australia is predominantly experienced by older age groups, in Sweden almost half of the total poverty population comprises families below the age of thirty. Poverty, it seems, can eventually be grown out of in Sweden but is gradually grown into in Australia.

As noted earlier, the CPL estimates in Table 6 take no account of respondents' subjective assessment of the degree of ease or difficulty with which they are able to 'make ends meet'. There is, in fact, a good deal of difference between those defined as being in consensual poverty (Table 6) and those who indicate that they are only able to 'make ends meet' with either some or great difficulty (Table 3). Thus, in Australia over 38 per cent of those families in consensual poverty according to Table 6 indicated that they experienced little or no difficulty making ends meet.[12] In contrast, almost a third (32.7 per cent) of the Australian sample who were not in consensual poverty indicated that they had more than a little difficulty making ends meet. The corresponding figures for Sweden are 65.6 per cent and 16.2 per cent, respectively.

With these differences in mind, we adopted a more restrictive definition of poverty, in which in order to be defined as poor two conditions had to be satisfied. First, family disposable income had to be below the CPL and **in addition** the respondent had to indicate that they had either some or great difficulty making ends meet. This is a definition of poverty which attempts to take account of both objective and subjective indicators of income inadequacy. The resulting poverty estimates are presented in Table 7. As compared with the estimates in Table 6, poverty according to Table 7 is reduced by about one-third in Australia but by closer to two-thirds in Sweden. As a consequence, Australia's overall poverty rate is now almost three times as high as that in Sweden.

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12 In terms of the categories shown in Table 3, we distinguish the first two situations (having some or great difficulty making ends meet) from the last four (having little difficulty making ends meet, or doing so with ease).

Table 7: The Incidence and Structure of Consensual Poverty: Restricted Estimates
(Percentages)

	Australia		Sweden	
	Incidence of Poverty	Structure of Poverty	Incidence of Poverty	Structure of Poverty
Family Type				
Single person[a]				
- non-aged	23.1	11.0	12.9	54.6
- aged	34.6	6.6	10.0	9.1
Childless couples[a]				
- non-aged	9.4	13.2	0.6	3.0
- aged	28.8	15.4	1.2	3.0
Couple, 1 child	12.1	15.4	3.0	9.1
Couple, 2 children	6.8	13.2	2.7	9.1
Couple, 3 children	7.3	7.4	5.3	6.1
Couple, 4+ children	14.9	5.1	11.1	3.0
Single parent, 1 child	16.0	2.9	5.3	3.0
Single parent, 2 children	40.0	4.4	0.0	0.0
Single parent, 3+ children	70.0	5.1	0.0	0.0
All families	**13.2**	**100.0**	**4.6**	**100.0**
Age of Respondent				
21-29	11.2	12.5	9.3	48.5
30-39	9.4	19.9	4.5	21.2
40-49	4.8	8.8	3.2	15.2
50-64	19.6	39.0	1.4	6.1
65-74	38.6	19.8	3.5	9.1
All families	**13.2**	**100.0**	**4.6**	**100.0**

Note: a) See Notes to Table 1.

In terms of the structure of poverty, the estimates in Tables 6 and 7 are, however, broadly similar for both countries, indicating that those families no longer defined as poor are representative of the overall poverty populations in both countries. This suggests that there is no estimation bias being induced by our more restrictive approach which depends upon just the family circumstances (and age) of survey respondents. Rather, it indicates that, across all socio-demographic groups, many who may be defined as poor using objective measures based in part on their actual incomes are in fact coping reasonably well financially according to their own subjective evaluation. Alternatively, this may simply reflect an unwillingness of the part of people to admit that they are having difficulties making ends meet - an interpretation which is consistent with the fact that far fewer respondents admitted to such difficulties in the face-to-face interviews in Sweden than

were prepared to in the Australian postal survey. For these reasons, we would not wish to make too much of the differences between the estimates in Tables 6 and 7.

We do, however, believe that the poverty estimates presented in Table 7 are of significance in themselves. They indicate, for Australia, that the groups most at risk of poverty are again the aged, non-aged single people and single parent families generally. In Sweden, poverty is again seen to be very much a problem for single people generally, and for non-aged single people in particular. In both countries, around one in ten people aged below 30 are in poverty. In Australia, this risk doesn't decline significantly until the age of 40 and it rises again after 50 before rising even more sharply at age 65. In contrast, in Sweden poverty amongst the population aged over thirty is very low and shows no tendency to rise markedly in old age.

As a final check on our results, we compare them with those which would result from a poverty benchmark frequently used in international comparative poverty research (Buhmann et al., 1988; Smeeding, Torrey and Rein, 1988; Mitchell, 1991). This involves the use of a poverty line set equal to 50 per cent of median equivalent family income, estimated (in our case) using the equivalence scale proposed by the OECD. In the OECD equivalence scale, the first adult in the family is assigned a scale value equal to 1.0, the second adult a value of 0.70 and each child a value of 0.5. This scale, it should be noted, is markedly different from those shown in Table 5 which assign far less weight to the second adult and to children relative to the first adult. Thus, for example, the OECD scale for a couple is equal to 170 (where the scale for a single person is equal to 100) compared with 114 (in Australia) and 125 (in Sweden) in Table 5. For a couple with two children, the differences are even more substantial, with the OECD scale being 270 compared with the 128 (in Australia) and 167 (in Sweden) shown in Table 5. Clearly, use of the OECD equivalence scale will greatly affect estimates of the structure of poverty.

Use of the half median OECD equivalent income poverty line produces the poverty estimates shown in Table 8. Poverty in Australia remains higher than in Sweden, though the differential is closer to that shown in Table 6 than to that in Table 7. In Australia, poverty among the aged is now much lower - well below the national poverty rate. Single parent families are the group with the highest incidence of poverty, followed by larger couple

Table 8: The Incidence and Structure of Poverty Using the Half Median Income Poverty Line and the OECD Equivalence Scales (Percentages)

	Australia		Sweden	
	Incidence of Poverty	Structure of Poverty	Incidence of Poverty	Structure of Poverty
Family Type				
Single person[a]				
- non-aged	7.7	5.4	12.9	40.0
- aged	3.8	1.1	3.3	2.2
Childless couples[a]				
- non-aged	1.0	2.2	5.2	20.0
- aged	4.1	3.3	1.2	2.2
Couple, 1 child	9.8	18.5	8.9	20.0
Couple, 2 children	5.6	16.3	2.7	6.7
Couple, 3 children	11.7	17.4	5.3	4.4
Couple, 4+ children	27.7	14.1	11.1	2.2
Single parent, 1 child	28.0	7.6	0.0	0.0
Single parent, 2 children	40.0	6.5	11.1	2.2
Single parent, 3+ children	70.0	7.6	0.0	0.0
All families	**8.9**	**100.0**	**6.3**	**100.0**
Age of Respondent				
21-29	8.6	14.1	12.3	46.7
30-39	8.7	27.2	4.5	15.6
40-49	5.6	15.2	5.1	17.8
50-64	11.4	33.7	4.8	15.6
65-74	12.9	9.8	2.3	4.4
All families	**8.9**	**100.0**	**6.3**	**100.0**

Note: a) See Notes to Table 1.

families. The profile of poverty remains broadly constant up until age 50 when it rises markedly, before rising again after age 65. In Sweden, Table 8 shows that poverty remains highest among younger single people, larger couple families and some single parent families. As was the case earlier, the risk of poverty in Sweden declines noticeably after age 30, although it now remains broadly constant up until age 65 when - in marked contrast to Australia - it declines sharply rather than rising.

6 Conclusions

The consensual poverty line (CPL) method offers a new approach to the measurement of poverty, one which is based on the income levels people

say they need in order to 'make ends meet'. Its great advantage lies in its consistency with broader democratic principles and in its attempt to 'let the people speak' in defining what is (and what is not) an adequate level of income given prevailing circumstances. The method does not, however, avoid the input of 'the experts', because considerable expertise is required in order to apply the principles of the method in practice. It seems to us to be both unnecessary and undesirable to seek a method of defining poverty which is devoid of expert input altogether. Rather, we see the main potential advantage of the CPL approach to lie in its ability to ground the derivation of the poverty line in the everyday experiences of people. That having been said, however, we acknowledge that the precise methods whereby this is achieved can make a good deal of difference to the final outcome and that alternative methods are capable of producing markedly different results.

We have, in this paper, attempted to illustrate some of the strengths and limitations of the CPL approach using sample survey data for Australia and Sweden. These data have been produced by two surveys which, in both design and aim, have been developed specifically for the task. For this reason, we regard our results as truly comparative and, even if they leave unanswered many questions relating to the extent of consensual poverty in each country, nevertheless reveal several significant differences in the ability of Australian and Swedish citizens to 'make ends meet'.

Some aspects of our results are fairly robust, others less so. By presenting the results produced from a variety of specific methods, we hope to have revealed these in a manner which will allow others to judge them for themselves. Among the more important of our findings which we ourselves would wish to emphasise is the fact that, however we measure it, poverty in Australia is considerably higher than poverty in Sweden. The groups most susceptible to poverty in Australia are, according to most measures, the aged and, according to all measures, single parent families. In contrast, in Sweden poverty seems to be mainly a problem for younger single people. We find it difficult to believe that these differences do not largely reflect the relative generosity of welfare state provisions for the different groups in each country.

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