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A PERENNIAL PROBLEM: EMPLOYMENT, JOBLESSNESS AND POVERTY

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Abstract

The idea that unemployment is the principal cause of poverty among those of workforce age has been a central finding of poverty research. The precise nature of this key relationship has changed along with changes in the labour market, but unemployment remains a perennial cause of poverty among the working-age population. This paper, written in appreciation of the contribution made by Professor Peter Sheehan to work in the area, examines the links that exist between employment, unemployment, joblessness and poverty against the background of the growing diversity of labour market trends. After briefly reviewing the recent controversy that has surrounded the measurement of poverty trends in Australia, the paper examines the complex empirical links between income poverty, the employment status of individuals and the incidence of joblessness among households. A major finding is that a full-time job is needed to produce sufficient income to raise people above the poverty line. These results are then supplemented by an analysis that combines evidence of low-income with evidence of hardship or deprivation. The use of direct deprivation or hardship measures to supplement the indirect income-based measures of poverty does not affect the central conclusion that employment can only make substantial in-roads into poverty if it is full-time. Overall, the results demonstrate that unemployment continues to be a major cause of poverty in Australia and that employment only provides an escape when it comes in the form of a full-time job. Because many of the new jobs created over the last two decades have been either part-time or casual, they have not been sufficient, by themselves, to protect workers and their families from poverty.

1 Introduction

Employment and poverty have been at the forefront of economic and social policy debate for most of the last three decades. Although the emphasis has changed (as has the language), the idea that unemployment is the principal cause of poverty among those of workforce age has been a central finding of poverty research. However, this has had far too little impact on those who set policy – particularly economic policy. The result has been a widening gap between the achievements of economic policy and the problems confronting social policy. Despite the rhetoric, Australian policy-makers have been unwilling to develop the ideas and commit the resources required to eradicate poverty, except as a by-product of the achievement of other goals.

The precise nature of this key relationship has changed along with changes in the labour market, including the replacement of 'male breadwinner' families by dual-earner families as most typical, and the increased incidence of part-time and casual employment. But unemployment (or joblessness as it is now called in policy circles - the shift reflecting a subtle switch that gives greater emphasis to the shortcomings of those it affects compared with the policies that affect them) has been a perennial cause of poverty among the working-age population. Instead of using this to develop economic policies that directly address unemployment and thereby providing a foundation for sound social policies, unemployment has come to be seen as a minor nuisance, rarely mentioned by economic ministers, rather than an event that threatens the livelihoods of large numbers of Australian adults and children.

When Ronald Henderson and his colleagues first set a poverty line at the level of the basic wage (plus child endowment to allow for the costs of children), he was effectively making the notion of the 'working poor' a contradiction in terms. This reflected Australia's traditional emphasis on ensuring that, through the activities of institutions like the Arbitration Commission, the basic wage (or wage safety net as it is now called) was kept at a level that was adequate to meet the needs of working families. However, this view has come under challenge, not only by developments in the labour market, but also by those who argue that employment brings advantages in terms of self-esteem, discipline and example-setting irrespective of its income effects, implying that the maintenance of wage levels is of less importance. And this has occurred while the idea of a poverty line (and the usefulness of the notion of poverty itself) has been under threat.

In examining the links that exist between employment, unemployment, joblessness and poverty, account must be taken of these developments, even while recognising that a better understanding of the growing diversity of labour market trends may appear to weaken the powerful yet simple argument that reduced unemployment is a key element in the broader fight against poverty. A more relevant risk is that associated with the idea that since employment has positive effects that are independent of its impact on income, there is a case for promoting employment by cutting wages - the 'Americanisation of the Australian labour market' – irrespective of the impact on the numbers of working poor. This latter argument has featured prominently in the debate on welfare and labour market reform, and sweeping legislative changes to the industrial relations system are imminent in the wake of the Howard Government taking control of the Senate in July 2005.

These issues were a feature of Peter Sheehan's contributions to Australian economic and social policy dating back over three decades. I had been introduced to his work as a result of a close interest in Henderson's work on poverty that brought me into contact with those working at the Institute of Applied Economic and Social Research (the pre-fix 'Melbourne' was added later) who were carrying Henderson's vision and ideas forward in the harsher post-oil shock, post-Whitlam Government economic and political climate of the late-1970s. Peter's book Crisis in Abundance was one of the first attempts to locate the analysis of poverty and social issues centrally in the broader debate over economic policy (Sheehan, 1980). The book was dedicated to Dick Downing and Ronald Henderson, and Peter acknowledged at the outset (p. vi) his gratitude to both for 'their broad concern for individuals and for issues beyond the compass of economics' – a sentiment that those steering our current economic 'ship of state' would do well to reflect on.

Crisis in Abundance opened my eyes to the need for an integrated approach to economic and social policy which recognises the constraints and the opportunities associated with Australia's potential to combine economic abundance with social equity and sustainability. In an incisive phrase about the viability of social policy, Sheehan argued (p. 129) that:

> [I]f significant social reform is to be achieved, the policies which are the vehicle of that reform need to remain in force for a good period of time. Conflict and change as occurred in the 1970s can only be destructive. Because of the intense controversies about social policy in our society, the policies must be thought out and researched in detail well in advance and they must be integrated into a viable economic strategy. It was the lack of this integration that was the decisive weakness in the policies of the Whitlam era.

The book itself sets out the main features of such an integrated blueprint for economic and social reform in the 1980s. A major theme concerns the need to make reduced unemployment the centrepiece of economic reform, yet this simple message has rarely found expression in the subsequent economic policy settings.[1]

Many of the issues addressed in Crisis in Abundance have been taken up in Peter's other writings. Sheehan and Stricker (1980) provides a comprehensive and authoritative account of the demise of full employment in Australia, focusing not only on describing the changes that have taken place but on examining their consequences and proposing remedies. Its closing remarks (p. 74) bear repeating, not only because of their wisdom and insight, but also because the challenge they raise is still with us:

> The institutions of the Australian labour market and social welfare system have been fashioned over decades of full employment. But full employment in Australia has collapsed; only if we start from an acceptance of that fact will we have a chance to fashion new institutions adequate to the reality of the 1980s.

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[1] It can be argued that the *Working Nation* package is a notable exception to this trend (Commonwealth of Australia, 1994), although few of those measures survived the election of the Howard Government in 1996.

The impact of high and persistent unemployment on poverty was taken up in a recent contribution, co-authored with Bob Gregory (Gregory and Sheehan, 1998). There, the authors argued that, by the mid-1990s, the propensity of the unemployed to be poor had increased to the point where unemployment had become (p. 119) ‘the overwhelming determinant of poverty for income units where the head is in the labour force’. The strengthening of the link between unemployment and poverty reflected not only the rise in the unemployment rate, but also the increasing duration of unemployment for those experiencing it. By 1989-90, the poverty rate was around 13 per cent for those unemployed for less than 8 weeks, but increased three-fold to 38 per cent among those unemployed between 26 and 28 weeks, and more than doubled again to reach 79 per cent – almost four-fifths! - among those unemployed for more than 52 weeks (Gregory and Sheehan, 1998, Table 5.6). Combined with the dramatic increase in long-term unemployment that has taken place since the mid-1970s (Bell, 2002), these estimates present a chilling picture of the prospects of those unfortunate enough to lose their job and suffer entrenched joblessness.

Throughout these contributions, the need to reduce unemployment has been emphasised by Sheehan not only because of the associated economic loss, but also because long-term unemployment gives rise to ‘impoverished neighbourhoods, physical and mental health problems … [become] interrelated and reinforced one another, often generating a sense of hopelessness among those affected’ (Sheehan, 1980, p. 53). Such claims have an almost eerie resonance with those voiced two decades later in the McClure Report on welfare reform (Reference Group on Welfare Reform, 2000). Yet the underlying idea that the forces that lock families into a cycle of poverty require a policy response has slipped from a policy agenda that is focused on reducing ‘welfare dependence’ through mutual obligation requirements and stricter surveillance of welfare recipients.

Sheehan also had some prescient observations to make about the nature of poverty that are worth repeating. Thus, he argued (1980, p. 237) that:

> [A]ny discussion of poverty must recognize both facets of poverty - the vicious cycle and the mobility of persons into and out of poverty – and the fluctuating balance between them. The mutually reinforcing aspects – for example, the vulnerability of the poor to any adverse development, the effects on family relationships, health and self-esteem of continued poverty and the implications for the social and educational development of the children – generate a vicious cycle of deprivation, from which it is very difficult to escape. Yet people do escape, and in ordinary times there is considerable flow into and out of poverty, as the personal and economic situations of individuals fluctuate.

What a difference it would have made if we had heeded the insight and wisdom of these words instead of degenerating into a squabble over where to set the poverty line and the validity of the resulting poverty statistics! The emphasis given to two key aspects of poverty – outcomes and dynamics – were extremely perceptive for the time, and are only now beginning to exert an influence on an Australian poverty debate that has become obsessed with numbers and trends. The references to ‘mutually reinforcing aspects’ and to a ‘vicious cycle of deprivation’ indicate that

Sheehan recognised the shortcomings of relying solely on a static income framework to analyse poverty long before these issues received official acknowledgement.[2]

It is important to emphasise that we are still a long way from ensuring that these issues are 'researched in detail well in advance' - mainly because of lack of data. Almost none of the existing data sets contain both outcome measures and the kinds of detail on income needed to establish poverty status with any degree of reliability. And while the introduction of the longitudinal Household, Income and Labour Dynamics in Australia (HILDA) survey is welcome, it was a very long time coming and will not reveal much about the dynamics of poverty for some time. It is tempting to conclude that this lack of commitment to collect the kind of data required to pursue the research agenda set out by Sheehan reflects a deeper ambivalence about the importance of the issue of poverty itself.

Having briefly described the broad canvass that Peter Sheehan recognised almost three decades ago as being necessary to extend the debate over the links between poverty and unemployment, the remainder of this paper addresses the far less ambitious task of re-examining the links between joblessness and poverty at the individual and household levels using existing data. Some will see the analysis that follows as illustrative of the limitations of Australian poverty research, particularly the dominant role of static income poverty. However, while there is some truth in such concerns, the paper tries to demonstrate the value of such research in establishing the validity of certain propositions and in highlighting areas where more data and research are required.

The paper is organised as follows: Section 2 provides a (very) brief summary of the recent 'debate' (to use far too polite a word!) over the measurement of, and trends in, Australian poverty in the 1990s. Section 3 uses data from the 1998-99 Household Expenditure Survey (HES) to examine the links between income poverty and employment status, while Section 4 extends that analysis by using new data on financial hardship to assess how, if at all, the adoption of a deprivation framework affects the picture.[3] The main conclusions are briefly summarised in Section 5.

2 Measuring Poverty: Into a Statistical Cul de Sac?

When Ronald Henderson announced in the Poverty Commission Report almost 30 years ago that around one-in-ten Australian families were poor and almost one-in-eight were on the margins of poverty, everyone believed him (Commission of Inquiry into Poverty, 1975).[4] There were two very good reasons for this. First, as Chairman of the Poverty Inquiry, Ronald Henderson was widely acknowledged to be the leading

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2 See, for example, the Submission to the Senate Poverty Inquiry from the Department of Family and Community Services (2003).

3 The data examined here are often referred to as reflecting financial stress rather than hardship (see McColl, Pietsch and Gatenby, 2001). However, the term financial hardship or deprivation better describes the limited range of indicators analysed here.

4 Strictly speaking, the unit of analysis employed in most poverty research has been the income unit, which refers to two-generation nuclear families living together. For ease of exposition, the term 'family' rather than 'income unit' will be used in the discussion, and when reference is made to 'households' these only contain a single 'family'.

expert on Australian poverty who could draw on expertise from his Melbourne University colleagues and Poverty Commission staff. Second, no one else had access to the data on which the estimates were based to dispute the findings, even if they wanted to. The figures thus had the authority associated with unrivalled academic expertise and unparalleled data access – a very powerful cocktail.

Since that time, interest in poverty research has grown alongside our capacity to conduct it using data released by the Australian Bureau of Statistics (ABS) in the form of confidentialised unit record files that provide detailed data at the household level. In combination with advances in the statistical properties of alternative poverty measures, the greatly increased access to data has meant that we have become over-loaded with poverty 'experts' and with the estimates of statistical (income) poverty that this small army of number-crunchers is capable of producing. It is no exaggeration to claim that now virtually anyone can calculate a 'poverty rate' from the vast array of available data and this, not surprisingly, has led to concern over the credibility of the different estimates (particularly when they show different levels or trends).

The irony is that many regard this increase in the number of poverty studies as not deepening our knowledge of poverty, but instead as casting doubt on the validity of any specific poverty measure and thus on the whole notion of poverty. Concern over the validity of the poverty line developed by Henderson and his colleagues – the 'Henderson poverty line' – have been voiced for some time, largely concentrated on the alleged shortcomings of the method used to update the poverty line over time (Saunders, 1996). There is certainly some truth in the view that the updating methodology has produced an upward bias in the poverty trend, but not enough of one to influence the finding that poverty increased during the 1990s (see below).

These concerns have led many poverty researchers to reject the Henderson poverty line in favour of one that is more in line with the international poverty literature, e.g. one set at a certain percentage of median income (Greenwell, Lloyd and Harding, 2001). However, while the use of a poverty line linked to median income has value when comparing poverty between countries, its use in national research studies means that there is no longer any link between how poverty is measured and the needs of families (Saunders, 1997).

This has resulted in an intense debate over the appropriate percentage of median income to use to define poverty, about which there can be no agreement because the choice is essentially arbitrary.[5] And in what has become an infamous change in definition, the highly publicised report on poverty produced for The Smith Family by the National Centre for Social and Economic Modelling (NATSEM) replaced the median by the (higher) mean (or average) income in investigating how poverty changed over the 1990s (Harding, Lloyd and Greenwell, 2001).

Whatever the limitations of the poverty measures used, the NATSEM report showed that however it is measured, Australian poverty increased over the 1990s - from 8.2 per cent to 8.7 per cent if the poverty line is set at one-half of median income, or from

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[5] In Europe, for example, the use of 50 per cent of the median has recently been replaced by a 60 per cent benchmark with little justification being provided for the switch.

11.3 per cent to 13 per cent if the higher (one-half of mean income) poverty line is used. Using the latter measure, poverty increased among men and women, among the employed and the unemployed, among all age groups except 15-24 year-olds living with their parents, across all six States (but not the two Territories), and across all family types except couples with children (where it fell slightly). On this measure, therefore, it is difficult to conclude other than that poverty increased over this period, which implies that those unwilling to accept this finding must take issue with the methods used to produce it.

As indeed they did. On its release, the Smith Family/NATSEM report received a barrage of criticism from a group based at the pro-market, thinktank the Centre for Independent Studies (CIS) for deliberately exaggerating the poverty trend in order to pressure the government to do something about it (Tsumori, Saunders, and Hughes, 2002).[6] Some of the CIS criticisms raised important issues of definition, measurement and interpretation, while others revealed a lack of understanding of how the original research was conducted, as well as deep-seated philosophical and moral differences over the meaning of poverty and what needed to be done about it (Saunders, 2002a).

The CIS attack raised questions about more than just the numbers and motives of those who conducted the original research. Their goal was to shift the focus of debate away from the growing numbers in poverty (and hence the need to strengthen the policy response) onto an obsession with the failures of the poor themselves and of the welfare state programs that assist them (Saunders and Tsumori, 2002). The criticisms received extensive media coverage, were inadequately dealt with by those who produced the original research, and left many confused about the issues, yet convinced by the claim that the poverty line is arbitrary, and thus doubtful about the voracity of claims that poverty had increased.

These views found practical expression (albeit unintended) in the Senate Poverty Inquiry Report on Poverty and Financial Hardship *A Hand Up Not a Hand Out: Renewing the Fight Against Poverty* released in March 2004 (CARC, 2004). The report – the first official national inquiry since the Henderson Inquiry was conducted more than thirty years ago – concluded that the poverty rate in 2000 was between 13 per cent and 19 per cent, implying that between 2 and 3.5 million Australians were living in poverty. Evidence presented to the Committee suggested that the numbers in poverty varied widely, with estimates ranging from a minimum of 900,000 to as many as 4 million. The lower-bound figure of close to one million poor Australians is close to the number of poor Australians estimated by the Poverty Commission in 1973, which suggests that poverty has at best hardly changed over the last thirty years, and has almost certainly increased. However, this important but distressing message has been lost in the battle over the credibility of the statistics.[7]

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6 It is unfortunate that one of the CIS authors shares the same name as the current author. His contributions are clearly indicated as being associated with the CIS as a way of minimising any further confusion.

7 Further adding to the perception that the poverty statistics were unreliable was the acknowledgement by the agency that collected the data, the ABS, that there are problems with some aspects of the quality of the reported income data in their household surveys; see ABS (2002; 2003).

The problem currently confronting Austrian poverty researchers is how to regain the initiative in this crucially important debate without further adding to the confusion that already exists. Three strategies are required. The first requires the CIS critics to be tackled head-on over their mischievously misleading assertion that because poverty research requires judgments, it is fundamentally flawed. The logic of this position would make all other policy analysis similarly flawed, since all such analyses must make judgments of one kind or another: policy is about making choices. The second involves promoting those findings that are most robust, in the sense that they are independent of reasonable variations in the poverty line.[8] The third is more fundamental, and involves seeking information other than low-income to substantiate claims that poverty exists.

This 'direct' approach to poverty measurement (Ringen, 1988) has the advantage that it seeks to establish that those classified as poor are having to go without or miss out on things that everyone else takes for granted. i.e. that deprivation or social exclusion do exist. Such evidence is more convincing than that based on the existence of low-income as reported in a social survey, and thus provides the basis for greater credibility of the findings. My sense is that it is the kind of evidence that Peter Sheehan would have welcomed, to judge from the quotations cited earlier.

Unfortunately, data limitations are an obstacle to how far one can currently pursue these issues. This situation is, however, beginning to change with the introduction of HILDA and the new ABS *General Social Survey* (ABS, 2004), In addition, the latest HES includes, for the first time, a series of questions on financial hardship that provide the basis for the analysis reported in Section 4 below. Prior to that, Section 3 adopts a more conventional (Henderson) framework and uses the HES data to explore the relationship between unemployment and poverty.

3 Unemployment, Joblessness and Poverty

Before describing the main results, it is useful to consider the overlap between individual unemployment and jobless households, since the two are often treated as if they are identical. They are not. Scutella and Wooden (2004, Table 4) using data from the 1996 census show that only one-half of those individuals who were looking for work at the time of the census were living in jobless households, and they accounted for less than one-fifth of all people living in jobless households. Thus, many unemployed people live with others who have a job, while many people in jobless households are retired or not in the labour force rather than unemployed. Thus the two categories overlap, but the match between them is by no means exact, and they therefore need to be kept distinct.

Turning to the analysis itself, it needs to be emphasised at the outset that the main focus is not on the level of poverty, but on exploring the relationship between joblessness and poverty. For this reason (and to keep the task more manageable) a

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8 The need for this kind of sensitivity analysis has long been supported by poverty researchers themselves, following the robustness results derived by Atkinson (1987). For an Australian application of the approach, see Bradbury and Saunders (1990). It is also worth noting that the Henderson Report examined the sensitivity of its estimates using a range of poverty lines.

simplified version of the conventional Henderson poverty has been used. The methodology used to produce the results involves the following assumptions:

- The basic poverty line used is an amended version of the Henderson poverty line based on an equivalence scale equal to the square root of family size, using as its benchmark the poverty line for a two-adult, two-child family of $474.08 published by the Melbourne Institute.
- Results are also shown based on a poverty line set at one-half of median income, defined using the same equivalence scale.
- Estimates have been derived based on poverty lines set at 80 per cent of the two original lines, to provide an indication of the sensitivity of results to variations in the poverty line.[9]
- The results refer to single income unit households only, where an income unit consists of either a single person, a sole parent with children, and couples with or without children.
- Following the standard procedures, the results exclude all self-employed families and those who report a negative income from any source.

The main results are summarised in Table 1, which examines the relationship between employment status and poverty using the four different poverty lines. The first point to note is that the poverty rate is sensitive to where the poverty line is set; thus, a 20 per cent reduction in the (Henderson) poverty line results in a 56 per cent reduction in the poverty rate. This finding alerts us to the fact that there are many people with incomes only just below the poverty line, which provides valuable information about the severity of (income) poverty. It indicates that the scale of the poverty problem is not as dramatic as the head-count poverty rate implies, and that the cost of reducing the poverty rate substantially would not be prohibitive. What this result does not imply (contrary to the claims of the CIS critics) is that the whole approach is flawed because of the sensitivity of the results.

Using the (amended) Henderson line, Table 1 indicates that whereas the overall poverty rate is around 25 per cent, the poverty rate among households where no-one is employed is two-and-a half times higher, at 65 per cent. Having someone in employment, but not in a full-time job reduces the poverty rate, but only marginally, to 57 per cent. It is only when at least one person is in a full-time job that major reductions are made in family poverty, the poverty rate falling to below 3 per cent. The poverty rate among two-earner households is also very low (3.3 per cent) but only if at least one of them has a full-time job.

The general pattern is the same if either variant of the median income poverty line is used, although the estimated poverty rates are all lower than those based on the Henderson approach.[10] It follows that it is not employment as such which greatly reduces exposure to poverty but full-time employment. More importantly, this finding

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9 The lower Henderson poverty line roughly adjusts for the inflated adjustment of the original line in line with household disposable income per capita – see Saunders (1996).

10 As can be seen from Table 1, the figures based on the median income poverty line are very close to the estimates derived from the 80 per cent Henderson line.

is robust with respect to changes in where the poverty line is set, implying that the result does not depend in any substantial way on the contested issue of measurement. Thus, the results illustrate that while there is an arbitrary element involved in setting a specific poverty line, this does not mean that all findings based on any poverty line are arbitrary.

Table 1: Poverty and Employment Status in 1998-99 - Sensitivity Results

Poverty line used	No employed person	One employed person	Two employed persons	No full-time employed person	At least one full-time employed person	All house-holds
Amended Henderson (100%)	65.1	8.8	3.3	56.9	2.9	25.2
Amended Henderson (80%)	28.8	3.3	1.8	24.5	1.6	11.1
Half-median income (100%)	35.7	4.0	2.1	30.4	1.8	13.6
Half-median income (80%)	13.0	1.9	1.4	11.3	1.1	5.3

Source: Saunders, 2003; Tables 4.7 – 4.10.

Research by labour economist Bob Gregory provides a disturbing complement to the above discussion by pointing to the fact that the Australian labour market has been creating relatively few full-time jobs in recent years (Gregory, 2002). Between 1990 and 2000, for example, only one-quarter of all new jobs created were full-time and these were virtually all casual (Gregory, 2002, Table 1). Furthermore, average earnings from full-time casual and all part-time jobs (permanent or casual) have gone backwards relative to average full-time permanent earnings. Gregory (2002, p. 278) concludes that:

> [W]e have not really made progress over the last three decades in solving the problem of the lack of full-time job growth. It is disturbing that we do not seem to have a good grip on what is going wrong and what to do about it.

This can only be bad news for Australian poverty, given the important role that full-time employment plays in protecting workers and their families from poverty – all the more so since the period discussed by Gregory was one of strong overall employment growth.

Table 2 examines these issues from a slightly different perspective, focusing in this case on the relationship between individual joblessness and the poverty status of households.[11] The data source used here is wave I of the HILDA survey, and poverty is defined as having an income less than one-half of the median.[12] These results

[11] It should be emphasised that the results in Table 2 are not comparable with those based on the median income poverty line in Table 1 because of differences in coverage.

[12] See Scutella and Wooden (2004, pp. 200-01).

reinforce those shown in Table 1 by highlighting the importance of relating the poverty status of individuals to the employment (or unemployment) status of other adults in their household. Poverty among those who are unemployed in jobless households (56.2 per cent) is around six times higher than poverty among the unemployed in households where someone else has a job (9.4 per cent), and a similar ratio applies to those who are not in the labour force. Thus, the poverty rate of *individuals* living in households where at least one person has a job is not much higher if that person is unemployed (9.4 per cent) than if they are employed (6.8 per cent).

Table 2: Joblessness and Poverty Among Working-Age Households in 2001

Household Employment status	Poverty rate (%)
Jobless households:	
unemployed	56.2
not in the labour force	62.6
Other households:	
unemployed	9.4
not in the labour force	11.4
employed	6.8

Source: Scutella and Wooden, 2004, Table 5.

To summarise, while Table 1 shows that having any job is not an automatic guarantee against poverty, Table 2 indicates that not having a job does not automatically imply poverty. Together, these results indicate that employment growth alone will not guarantee a reduction in poverty unless two conditions are satisfied: first, there must be an increase in the number of full-time jobs, since only a full-time job can generate enough income to avoid poverty in the vast majority of cases; second, how jobs are distributed among households is also important, because of the relationship between joblessness and poverty.

All of the findings presented so far assume that an income poverty framework can be used to assess the relationship between joblessness and poverty. However, much of the concern over poverty research reflects the deficiencies of using an income cut-off to measure poverty, no matter how sophisticated the method used to derive the cut-off point. In responding to this criticism, the following section examines the issue using a poverty measure that captures both low-income and other evidence that the household is experiencing financial hardship (or deprivation).

4 Supplementing Income Poverty with Deprivation/Hardship Indicators

As noted earlier, the 1998-99 HES included for the first time a series of questions designed to establish whether or not households had experienced financial hardship or deprivation over the last year. This issue had been identified as worthy of examination in an earlier report by the (then) Department of Social Security (DSS, 1995) and followed the successful piloting of the approach by Travers and Robertson (1996).13

[13] Studies that describe and analyse the new financial stress data include those by McColl, Pietsch and Gatenby (2002), Bray (2001) and Saunders (2002b). Scutella and Wooden (2004) also examine this issue using wave I HILDA data.

The new questions included in the HES resulted in the list of hardship indicators shown in Table 3, which identifies a sub-set of six hardship measures (shown in shading) as being most closely associated with deprivation or directly experienced poverty.[14]

Table 3: Indicators of Hardship and Financial Stress

Hardship Indicator	Definition
H1	Cannot afford a week's holiday away from home each year
H2	Cannot afford a night out once a fortnight
H3	Cannot afford to have friends/family over for a meal once a month
H4	Cannot afford a special meal once a week
H5	Cannot afford brand new clothes (usually but second-hand)
H6	Cannot afford leisure or hobby activities
H7	In the last year due to shortage of money (LYSM), could not pay gas, electricity or telephone on time
H8	LYSM, could not pay car registration or insurance on time
H9	LYSM, pawned or sold something
H10	LYSM, went without meals
H11	LYSM, unable to heat home
H12	LYSM, sought assistance from a welfare or community agency
H13	LYSM, sought financial help from friends or family
H14	Could not raise $2000 in a week if had to

Source: Household Expenditure Survey, User Guide 1998-99, ABS Catalogue No. 6527.0.

Having presented the hardship or deprivation indicators, these are now used to supplement the income poverty measures described earlier to derive what can be thought of as a validated poverty measure. In order to keep the analysis manageable, three different versions of the new measure have been used:

- Version 1 (V1) – defined as having an income below the poverty line and experiencing *at least one* of the six core hardship/deprivation measures shown in Table 3;
- Version 2 (V2) - defined as having an income below the poverty line and experiencing *at least two* of the six core hardship/deprivation measures shown in Table 3; and
- Version 3 - defined as having an income below the poverty line and experiencing *at least three* of the six core hardship/deprivation measures shown in Table 3.

The specification of these three alternative versions of the hardship/deprivation validated poverty measure reflects the uncertainty surrounding what constitutes deprivation, but is also consistent with the sensitivity analysis focus of this paper.[15] In applying these increasingly stringent criteria, attention is focused on whether and how

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14 The first six indicators shown in Table 3 relate mainly to the issue of exclusion rather than hardship or deprivation, while the last two have only an indirect bearing on the actual experience of poverty.

15 The deprivation literature has not reached a consensus regarding how many separate conditions constitutes deprivation, although many studies including the original one undertaken by Townsend (1979), define deprivation as lacking at least three of a set of indicators that is longer than that shown in Table 3.

this affects the broad conclusions derived from the earlier analysis based on a simple income poverty line approach. Application of the measures and methods described above produces the results shown in Table 4.[16]

In terms of overall levels, it is clear that the more stringent definition of poverty used in Table 4 results in a lowering of the poverty rates shown in Table 1 – from 25.6 per cent to 9.6 per cent using the Henderson approach, and from 13.6 per cent to 5.6 per cent if the median income benchmark approach is used. Thus, the amended Henderson approach suggests that around one-in-ten Australian families had both low-income and experienced financial hardship in 1998-99. The remaining 15 per cent or so who reported low-income but did not indicate that they had experienced any of the core hardship indicators may still have been poor, but their poverty has not translated into observed hardship and is thus to some (unspecified) degree, different. There may, of course, be many valid reasons for this, and the results suggest that more work is required to establish what is going on. This kind of discussion reveals the value of the hardship data, when used in conjunction with (not as a replacement of) conventional income data.

Table 4: Joblessness and Poverty Using an Income and Deprivation Approach

	No employed persons	One employed person	Two employed persons	No full-time employed person	At least one full-time employed person	All Households
Amended Henderson poverty line:						
V1	24.6	4.1	0.6	21.8	1.0	9.6
V2	15.2	2.4	0.2	13.5	0.5	5.8
V3	7.3	1.3	0.1	6.4	0.4	2.9
Half-median poverty line:						
V1	15.1	1.7	0.2	12.8	0.5	5.6
V2	10.2	0.9	0.0	8.6	0.1	3.6
V3	5.3	0.5	0.0	4.4	0.1	1.9

***Notes* and *Source*:** See text.

Although the aggregate results are of considerable interest in their own right, attention here is focused more on what the disaggregate results in Table 4 imply for the earlier findings linking joblessness and poverty. In fact, the patterns shown in Table 4 are reassuringly similar to those shown in Table 1. Again, it is clear that the risk of poverty (while lower overall because of the definitional change) is only markedly reduced when at least one member of the household is employed on a full-time basis. In fact, on this more restrictive definition, there is virtually no poverty among households containing a full-time worker (or among households with two employed members, whether or not they are in full-time work). But where employment does not extend to a full-time job, the risk of poverty, as before, is only marginally reduced below the level existing among jobless households.

16 For ease of exposition, only those results based on the two alternative poverty lines are presented and discussed. It is clear from the earlier results that the inclusion of the lower (80 per cent) poverty lines would not markedly change the conclusions.

The results thus indicate that the use of direct deprivation or hardship measures to supplement the indirect income-based measures of poverty does not affect the central conclusion that employment can only make substantial in-roads into poverty if it is full-time. This result is robust and does not dependent on how poverty is measured – or even on the overall framework used to define poverty. This is an important finding that puts to rest the claims of those who see poverty research as invalid and self-serving. If we are going to address poverty, then we must first define it conceptually and then measure it empirically. These tasks both present formidable challenges, but this does not mean that we should give up, or meekly accept the admonitions of the poverty line sceptics. The results presented above illustrate how even the much-maligned existing poverty measures are capable of providing important insights into the complex relationships between employment, joblessness and poverty.

5 Conclusions

The demise of full employment that began in the 1970s has produced an unacceptable level of unemployment that has lasted longer than even the most pessimistic observers originally imagined. With the current unemployment rate stuck stubbornly above 5 per cent, joblessness remains the main cause of poverty for far too many Australians. The first step in addressing this issue is to get poverty back onto the policy agenda, and this requires creating a credible evidence base that is capable of withstanding the inevitable criticisms from those who reject the notion of poverty because they know that its solution will put upward pressure on taxation. Peter Sheehan had the advantage of working on these issues at when Ronald Henderson had generated such an evidence base, but we are far from that situation today and much effort will be needed to regain the ground (and credibility) that has been lost in the poverty debate.

The critics of poverty research like those based at the CIS have managed to convey the impression that because it involves making value judgments, poverty research is arbitrary and thus incapable of generating results that can provide a reliable account of trends in poverty, or assist in the design of policies to combat poverty. However, there is a very large difference between research that requires experts to make reflexive and informed judgments, and arbitrary statements that have no academic validity. By allowing these two notions to become confused in the public debate, we have done a disservice to the many Australians whose lives and prospects remain blighted by their poverty.

The results presented here demonstrate that unemployment continues to be a major cause of poverty in Australia and that employment only provides an escape when it comes in the form of a full-time job. Many of the new jobs created over the last two decades have been either part-time or casual and have thus not been sufficient, by themselves, to protect workers and their families from poverty. This is not to deny that such jobs have other redeeming features, particularly in terms of the flexibility that they offer to workers who are trying to balance work and family commitments. Even so, the earlier claim that the phrase ‘working poor’ is internally contradictory in the Australian context no longer applies with anything like the same force. The labour market has changed irrevocably and this needs to be recognised by those responsible for developing new programs and policies that can reduce and eventually eliminate, poverty.

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