

# Income Poverty, Deprivation and Exclusion: A Comparative Study of Australia and Britain

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***INCOME POVERTY,  
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EXCLUSION: A  
COMPARATIVE STUDY OF  
AUSTRALIA AND BRITAIN***

By Peter Saunders and Laura Adelman

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Bruce Bradbury, Peter Saunders and kylie valentine  
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## Abstract

Poverty research has a long history in both Australia and Britain, but its influence on policy remains hostage to political priorities and ideology. This can partly be explained by the acknowledged limitations of defining poverty as low-income and measuring it using an income poverty line. This paper examines two new data sets that allow the income poverty profile to be compared with, and enriched by, the incidence of deprivation and social exclusion, measured using data that directly reflect experience. Although a degree of care must be applied when interpreting these new measures across countries, a validated poverty measure is developed that reflects both low-income and the experience of deprivation and exclusion. When results for the two countries are compared, they reveal stark differences between the alternative indicators. Britain has the higher income poverty rate, yet the incidence of both deprivation and exclusion are higher in Australia, while validated poverty is higher in Britain. The distributional profiles of deprivation and exclusion are shown to be very different in the two countries. These differences are explained by the very low incomes of low-income households in Britain, relative to other British households and relative to their Australian counterparts. In overall terms, the results suggest that the three groups facing the greatest risk in both countries are lone parents, single non-aged people and large (couple) families. This suggests that policies designed to improve low incomes would be targeted very differently from those aimed at alleviating deprivation or combating exclusion.

# 1 Introduction

Poverty research has a long tradition in Australia and Britain, yet its influence on policy has followed a fluctuating trajectory in both countries. The recent waning of interest in poverty in the Australian context has occurred while Britain has displayed renewed interest in the topic following the Blair Government's decision to monitor its performance against a set of child poverty reduction targets (Department for Work and Pensions, 2003). These contrasting developments illustrate how the impact of poverty research – and even the opportunity to conduct it – is often hostage to the policy, but also to the political and ideological, priorities of government.

Both countries have recently conducted official enquiries into poverty, albeit with very different emphases and outcomes. In Australia, the Senate Community Affairs References Committee (CARC) *Report into Poverty and Financial Hardship* revealed deep political divisions accompanied by an obsession with measurement, resulting in a total lack of impact (CARC, 2004). In stark contrast, it is clear from the recent report *Child Poverty in the UK* that poverty has become the focus of British efforts to provide a sound conceptual and research basis for social policy (House of Commons Work and Pensions Committee, 2004). Both reports acknowledge the inherent weaknesses involved in specifying poverty solely in income terms and measuring it using an income poverty line. The two main alternatives to the income approach to poverty definition and measurement are the deprivation and social exclusion paradigms and while both have featured prominently in the British debate, neither has had much impact in Australia.

The new British child poverty reduction measures have been heavily influenced by extensions to Townsend's relative deprivation approach that use consumer surveys to identify a set of 'socially perceived necessities' (Mack and Lansley, 1985; Gordon et al., 2000) whose enforced absence, in conjunction with low income, is defined as poverty. In contrast, there has been no systematic attempt to implement a deprivation approach in Australia, although the Department of Social Security recommended this in the mid-1990s (Department of Social Security, 1995).<sup>1</sup> Social exclusion has also featured prominently in Britain, through the work and influence of both the Social Exclusion Unit (e.g. 2003) and researchers associated with the Centre for the Analysis of Social Exclusion (Hills, Le Grand and Piachaud, 2002). In Australia, the emphasis given to encouraging economic and social participation in the McClure Report on welfare reform (Reference Group on Welfare Reform, 2000) reflects a deeper but narrower interest in the notion of social exclusion. But while inclusion has been mentioned as a theme in the government's response to welfare reform (Commonwealth of Australia, 2002), the concept of social exclusion remains on the fringes of both the research effort and the policy debate (Bradshaw, 2004).

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<sup>1</sup> The deprivation approach developed by DSS was successfully piloted by Travers and Robertson (1996) but has not been pursued by government.

The emergence of these two new paradigms reflects the limitations of defining poverty solely in terms of income. Low-income is neither a necessary nor sufficient condition for poverty to exist, as is clear from Townsend's classic definition, in which:

Individuals families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong (Townsend, 1979, p. 31)

One consequence of defining poverty using an income poverty line is that the multi-dimensional nature of poverty is lost in a definition in which low income becomes synonymous with poverty. This can result in poverty research ignoring the direct manifestations of poverty, as well as its causes and consequences (Lister, 2004). And by making poverty research dependent on a single poverty line, its findings are vulnerable to attacks on its credibility and the judgments contained within it.

From this perspective, the deprivation and social exclusion approaches can both be seen as addressing these weaknesses by measuring poverty directly by observing how people's way of life and compares with minimum standard (Ringen, 1988).<sup>2</sup> A stronger rationale relates to the fact that evidence which *demonstrates* that poverty exists is more convincing than that based on low income alone.<sup>3</sup> A key issue in this context relates to the degree of *overlap* between the alternative measures, specifically those based on income and those derived from alternative frameworks.<sup>4</sup> Where such overlap exists, it reinforces the conclusion that low-income results in poverty. Where it does not, it can point to areas that require further examination in order to better understand the factors and processes that cause poverty. In either case, the findings provide a stronger basis for claims that those who face a combination of problems are poor.

This paper contributes to these debates by presenting comparative estimates of the incidence of income poverty, deprivation and social exclusion in Australia and Britain designed to test the robustness of the measures by examining the overlaps between them. The comparative approach (which has a long tradition in studies of income poverty – see Bradshaw, 2000 and Vleminckx and Smeeding, 2001) has to date not been applied to the same extent in studies of deprivation or exclusion. This is partly because of lack of data on deprivation and exclusion that can be compared across countries where customs and accepted norms differ. There is as yet no deprivation or exclusion equivalent to the Luxembourg Income Study (Atkinson, 2004) that has, through an intense and prolonged

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<sup>2</sup> The concepts of deprivation and exclusion also overlap with Sen's notions of functioning and capability, although these have proved harder to translate into indicators that can influence policy (Sen, 1999; 2000).

<sup>3</sup> There are also concerns over the reliability of low-income data reported in household surveys – see Australian Bureau of Statistics (ABS, 2002; 2003).

<sup>4</sup> Examples of 'overlap' studies include Layte, Nolan and Whelan (2001) for Ireland, Perry (2002) for New Zealand, Adelman, Middleton and Ashworth (2003) and Bradshaw and Finch (2003) for the UK, and Saunders (2003) for Australia.

collaboration, generated the investment in data quality required to conduct reliable comparative studies of economic inequality and poverty (e.g. Kenworthy, 2004). However, the differences that emerge when comparing the profiles of deprivation and exclusion raise interesting questions of interpretation that enrich the overall analysis – as our results demonstrate.<sup>5</sup>

The paper is organised as follows: Section 2 describes the two data sets used and the indicators and methodological framework adopted, while the following three Sections present and discuss the main findings on inequality and income poverty (Section 3), on the incidence of deprivation and exclusion (Section 4) and on overlaps, or what we term validated poverty (Section 5). The main conclusions are briefly summarised in Section 6.

## 2 Data, Indicators and Methodology

### 2.1 Data

The Australian data were collected as part of the *Household Expenditure Survey* (HES) conducted in 1998-99 by the Australian Bureau of Statistics (ABS) and released publicly as a confidentialised unit record file that protects the confidentiality of participants.<sup>6</sup> For the first time, the 1998-99 HES included a series of questions on the incidence of financial stress over the previous year.<sup>7</sup> The indicators include participation in customary social activities ('having a night out once a fortnight' and 'having a week's holiday away from home at least once a year'), as well as a range of hardship measures ('buys second hand clothes most of the time' and 'pawned or sold something due to a shortage of money'). The questions on participation were followed up by asking non-participants whether this was because they did not want to participate, or because they could not afford to. Those relating to hardship asked if the event occurred because of a shortage of money. The results that follow refer only to those who indicated that they could not afford the activity, or experienced the event because of a shortage of money.

Undertaken in 1999, *The Poverty and Social Exclusion Survey of Britain* (PSE) was developed by researchers at the Universities of Bristol, York and Loughborough, and supported by the Joseph Rowntree Foundation (Gordon et al., 2000). The survey has its

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<sup>5</sup> It can be argued that there is in fact considerable similarity between the cultural and social norms that apply in Australia and Britain, given the close historical connections that exist between the two countries, giving less salience to the issue on non-comparability in this particular case.

<sup>6</sup> The 1998-99 HES covered 6,892 households and contains information on 13,964 individuals. Information is collected on all persons aged 15 and the raw data are weighted against external population, household type and labour force benchmarks (Siminski et al., 2003).

<sup>7</sup> The financial stress indicators selected for inclusion were based on previous research on living standards undertaken by the Australian Institute for Family Studies (Brownlee, 1990) and for the Department of Social Security (Travers and Robertson, 1996). The ABS notes that 'there are no precise definitions or an internationally agreed set of questions that can be drawn on to measure deprivation or financial stress' but it undertook piloting to ensure that the questions chosen 'worked in the field' (McColl, Pietsch and Gatenby, 2001, p. 14). Previous studies that have examined the HES data in this way include Bray (2001), McColl, Pietsch and Gatenby (2001) and Saunders (2002; 2003).

roots in the earlier *Breadline Britain* surveys of 1983 and 1990 (Mack and Lansley, 1985; Gordon and Pantazis, 1997) and the *Small Fortunes Survey* conducted by Middleton et al. (1997). The PSE survey was linked to the June 1999 *Omnibus Survey* and some questions were asked as a follow-up to the *1998-99 General Household Survey*, both of which were conducted by the Office of National Statistics (ONS).<sup>8</sup> PSE respondents were asked about their access to 39 items and 15 activities, and to indicate whether they had each item/activity, did not have it but did not want it, or did not have it because they could not afford it.<sup>9</sup> The results that follow are based on responses indicating that the respondent could not afford the item or activity.

The analysis is restricted to those items that are common across the two data sets, but despite this, it is important to acknowledge that there are a number of important differences between the two surveys. The HES data were collected as part of an official survey conducted by a government agency whose primary purpose was unrelated to the focus of the financial stress questions. In contrast, the PSE survey was conceived and conducted by independent agencies with the specific intention of collecting information on poverty and related issues.<sup>10</sup> Second, while the HES focuses on the circumstances of the household, the PSE also explores the conditions faced by individual household members. Third, there are important differences in the weighting methods used in the two surveys, which may affect some of the comparisons presented later.<sup>11</sup> There are also differences in the income data reported in the two surveys. The HES data reflect a detailed breakdown by income source and have been revised by ABS to correct for understatements of income from government benefits and own business income (ABS, 2002; 2003). The PSE income data are based on information collected by ONS in the *1998-99 General Household Survey* adjusted for subsequent changes in income.<sup>12</sup>

Of greater significance is the fact that while the income variables refers to *weekly income* in the period immediately prior to the survey, the questions on deprivation and exclusion refer to experiences *over the previous year*. The extent to which the use of different time periods distorts the results will depend on the variability of income as well as its impact on deprivation or exclusion: if income variability is high, many households who report

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<sup>8</sup> Further information on the conduct of the PSE survey is provided in Appendix 4 of Gordon et al. (2000).

<sup>9</sup> The choice of questions was based on earlier research and was informed by the outcomes from a series of focus group discussions relating to what constitutes necessities (Bradshaw et al., 1998).

<sup>10</sup> Reflecting these differences, the response rate is higher in the HES than in the PSE, but both are high enough to allay concerns over sample bias.

<sup>11</sup> The HES have been benchmarked against external sources and weighted accordingly, whereas the PSE weights adjust only for differences in selection probability and non-response.

<sup>12</sup> Respondents were asked whether their income had increased, decreased or stayed about the same between the two surveys, and to indicate an income bracket that corresponded to any income change. Their income from the GHS was then adjusted (up or down) by the middle value of this income bracket. Those who reported an income decrease of over £600 that did not result from job loss or retirement, or an income increase of over £600, which did not result from entering employment, promotion or changing jobs were assumed to be invalid, and their incomes were assumed not to have changed.



having low-income at the time of each survey may not have experienced either deprivation or exclusion over the past year because their incomes had been higher, while some high-income households may have experienced deprivation or exclusion in the past, when their incomes were lower. These cases will not show up in the data as ‘overlaps’, even though their actual experience may have been consistent with what the overlap approach seeks to describe.<sup>13</sup> The extent of such income variation may also differ between the two countries, distorting the comparisons between them, although the extent of such variation cannot be ascertained using either the HES or PSE data.

Finally, it is important to emphasise that the deprivation/exclusion questions that form the basis of the analysis reported below were derived from the findings of previous research undertaken in the two respective countries (as explained in footnotes 7 and 9). This is important because if these questions had had no systematic basis, it could be argued that the analysis captures only a limited part of the total deprivation/exclusion domains, making it difficult to reach conclusions for each country, and even more problematic to draw comparisons between them.

## 2.2 Indicators and Methodology

The analysis is conducted on a sub-section of the two data sets that could be rendered comparable in terms of coverage and definition. Three sets of variables are of particular interest, those relating to the specification of household types, and to the indicators of deprivation and exclusion, respectively.

In relation to household demographic variables, the following definitions were applied:

- Adults are defined as all persons aged 15 and over (16 and over in Britain); aged adults are males aged 65 and females aged 60 and over; aged couples contain a male aged 65 or over;<sup>14</sup>
- All households who report zero or negative income are excluded;
- Equivalent income is estimated using the ‘revised OCED’ equivalence scale, under which the first adult = 1.0, all other adults = 0.5 and children = 0.3; and
- Household weights have been used to derive all aggregate indicators.<sup>15</sup>

The following five indicators of deprivation are available on a comparable basis for the two countries, all of them applying only to those who could not afford each item over the last year due to a shortage of money (except for the last two in Britain, which refer to

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<sup>13</sup> Gordon et al. (2000; Appendix 2) develop a model where variations in living standards lag behind variations in income, suggesting that caution should apply when interpreting evidence showing a (lack of) association between current income and past deprivation/exclusion

<sup>14</sup> In Australia there are a small number of persons aged 15-17 years who were living in households with children who were counted as (dependent) children.

<sup>15</sup> Person weights are preferable in some instances, but they are not available for the PSE data set.

periods shorter than one year):<sup>16</sup>

- Unable to pay gas/electricity/telephone bills (Utility bills)
- Had to pawn or sell something (Pawned something)
- Had to borrow money from family or friends (Borrowed money)
- Went without meals (Missed meals)
- Unable to heat home (No heating)

Six indicators of social exclusion have been used, all of which apply only to those who could not afford (CA) them:<sup>17</sup>

- CA at least one week's holiday away from home a year (No holiday)
- CA a night out once a fortnight (No night out)
- CA friends or family over for dinner once a month (No family dinner)
- CA a special meal once a week (No special meal)
- CA new clothes, buys second hand most of the time (Secondhand clothes)
- CA spend time on leisure or hobby activities (No hobby)

We then define the following three indicators of hardship or poverty:

*Income poverty* (IP) - defined using poverty lines set at 40 per cent, 50 per cent and 60 per cent of median equivalent household disposable income (before housing costs).

*Deprivation* (DEP) - defined as experiencing at least one of the five hardship indicators.

*Social exclusion* (SE) – defined as experiencing at least one of the six exclusion indicators.

Finally, we follow the ‘overlap’ literature in defining the following measure(s) of validated poverty:

*Validated poverty* (VP) – defined as being in income poverty *and* experiencing deprivation or social exclusion, either separately or in combination.

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<sup>16</sup> The use of the ‘cannot afford’ condition is intended to distinguish between those who choose to forego each condition from those whose actions (or inaction) reflect enforcement or constraints. In practice, it is extremely difficult to distinguish between these reasons on the basis of the survey questions asked, reflecting the difficulty of interpreting what is meant by ‘cannot afford’. In addition, the emphasis given to affordability means that both deprivation and exclusion are closely related to the low-income that defines income poverty, and not everyone would regard this specification as legitimate.

<sup>17</sup> Many studies of social exclusion (e.g. Burchardt, Le Grand and Piachaud, 2002) specify different dimensions of exclusion, i.e. in the realms of production, consumption, political engagement and social interaction. The indicators examined here refer primarily to the social interaction dimension only (although the deprivation indicators cover the consumption dimension).

There is no agreement in the literature on what is the appropriate number of conditions that constitutes deprivation or exclusion, although following Mack and Lansley (1985), most studies include only those indicators that are regarded as necessities by a majority of the population. Our data sets do not allow us to apply the ‘majority rule’ definition for Australia, and we are in any case wary of using an arbitrary number of conditions in our empirical analysis. We have thus defined deprivation and exclusion as experiencing at least one from the list of indicators listed above for each condition (although we also examine how the incidence varies when the number of conditions is increased).

We acknowledge that a degree of caution must be applied when using the direct indicators to draw inferences about deprivation or exclusion. For example, an inability to pay a telephone bill – even if it is due to a shortage of money – may reflect a temporary shortage of funds rather than deprivation as conventionally defined. Similarly, some of those who do not have family or friends over to dinner – even if they say they cannot afford to – may still suffer no adverse effects in terms of exclusion; some may even relish the prospect! While the emphasis on not being able to afford the items goes some way to establishing that the event is enforced not chosen, there is still room to debate the meaning of the information provided and this needs to be kept in mind.<sup>18</sup>

These definitional difficulties are compounded when making comparison between countries. Differences in household structure, for example, will affect aggregate comparisons of deprivation and exclusion and while this is also true for income poverty, the use of the equivalence scale is intended to minimise its effect. Climate and custom also vary between countries in ways that can influence the significance attached to specific results. Being unable to heat one’s home is likely to be far more serious in Britain than in (most of) Australia. The significance of having a holiday away from home, eating out or having family meals at home varies between age groups and family types as well as across cultures in ways that will affect what interpretation to place on those who miss out on them. Finally, seemingly innocuous differences in the wording of survey questions can affect the results in ways that also need to be kept in mind.<sup>19</sup>

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<sup>18</sup> In addition, some indicators, such as eating out may be a more important activity for some groups (younger, without children) than others (families with young children, or the aged), while the importance attached to going without meals or having a holiday away from home may also differ between sub-groups.

<sup>19</sup> For example, the question about being unable to heat one’s home refers in Australia being ‘unable to heat home due to shortage of money,’ whereas in Britain the question refers to ‘going without adequate heating to warm living areas because it could not be afforded’. Similarly, while the Australian question refers to having ‘pawned or sold something due to shortage of money’, the British question asks whether ‘there have been times during the past year when you have had to borrow money from a pawnbroker in order to pay for your day-to-day needs’.

### 3 Results I: Inequality and Income Poverty

Because the aggregate profiles of deprivation and exclusion reflect differences in household structure, we begin by comparing the (weighted) household structure in the two countries. Table 1 indicates that the main differences are the greater proportion of aged households in Britain (27.6 per cent) than Australia (19.9 per cent), the higher proportion of childless couples in Britain (21.0 per cent compared to 16.1 per cent) and the higher incidence of sole parent households in Australia (8.8 per cent compared to 5.7 per cent). Just under two-fifths (38.9 per cent) of Australian households contain children, of which 22.6 per cent have only one parent. In contrast, far fewer (28.5 per cent) of British households contain children, and slightly fewer of these (20.0 per cent) have only a single parent. The incidence of group households containing three or more adults is somewhat higher in Australia, at 16.6 per cent compared to 12.9 per cent in Britain, while in both countries, around one in seven households consist of single non-aged people living by themselves.

**Table 1: Household Structure of the Australian and British Samples (percentages)**

Household Type	Australia	Britain
Single aged person	10.4	16.9
Aged couple	9.5	10.7
Single non-aged person	14.6	14.0
Non-aged couple	16.1	21.0
Lone parent	8.8	5.7
Couple plus 1 child	7.5	5.8
Couple + 2 children	10.1	9.2
Couple + 3 plus children	6.5	3.8
≥3 adults	10.6	8.9
≥3 adults plus child(ren)	6.0	4.0
All households (%)	100.0	100.0
All households (n)	6,560	1,534

Before comparing the income distributions in the two countries, it is worth noting that, when expressed in current prices and US dollars using current OECD (2004) purchasing power parities (PPPs), the level of GDP per head in the two countries is remarkably similar, at US\$24,696 in Australia and US\$24,014 in the UK (OECD, 2002).<sup>20</sup> Thus, the two income distributions shown in Table 2 indicate how similar levels of total income are distributed among households in each country. Mean incomes are shown in national currency units and relative to mean income in each country in order to facilitate the comparisons.

<sup>20</sup> The estimates presented in Table 2 confirm these aggregate figures. Thus, the overall mean income figure for Australia of A\$420.6 converts to GB£207.3 on a PPP basis, and if a further adjustment is made to reflect the different household structures in each country, this latter figure increases to around GB£224.1 – very close to the reported mean of GB£229.8 shown in Table 2. Note that although the levels of reported mean total income are consistent with levels implied by National Accounts data, the different weighting procedures may still distort income comparisons at the household level.

Table 2 indicates that Australia has less income inequality than Britain, with most of the difference concentrated in the bottom and top deciles of the distribution. Thus, the income share of the lowest decile in Australia is around one percentage point higher than in Britain, while the income share of the highest decile is around five percentage points lower in Australia. The most striking aspect of these comparisons is the very low level of (equivalent) household income at the bottom of the British income distribution relative to households further up the British distribution, and relative to households in the bottom decile of the Australian distribution. The mean income of bottom-decile British households converts in PPP terms to A\$107.5 – equivalent to just over three-quarters (76.8 per cent) of the mean income of bottom-decile Australian households (A\$140.0). In contrast, the A\$ equivalent of mean income in the top-decile of the British distribution is equal to A\$1279.1, or more than one-third (34.7 per cent) higher than the mean income of top-decile Australians.

**Table 2: Relative Equivalent Incomes in Australia and Britain**

Equivalent income decile	Australia		Britain	
	Mean equivalent income of decile (Aus\$)	Ratio of decile mean to overall mean (= income share x 10 <sup>-2</sup> )	Mean equivalent income of decile (GB£)	Ratio of decile mean to overall mean (= income share x 10 <sup>-2</sup> )
1	140.0	0.333	53.0	0.231
2	198.0	0.471	82.6	0.359
3	234.1	0.557	110.3	0.480
4	277.4	0.660	141.5	0.616
5	329.2	0.783	172.3	0.750
6	394.6	0.938	203.6	0.886
7	467.7	1.112	241.4	1.050
8	551.8	1.312	287.7	1.252
9	663.6	1.578	375.4	1.633
10	949.3	2.257	630.6	2.744
<b>All deciles</b>	<b>420.6</b>	<b>10.00</b>	<b>229.8</b>	<b>10.00</b>

The results in Table 2 lead one to expect income poverty to be considerably higher in Britain than in Australia. This is confirmed by Table 3, which presents estimates of income poverty, using alternative poverty lines set at 40 per cent, 50 per cent and 60 per cent of median income in each country.<sup>21</sup> The British poverty rate is more than three times that in Australia using the 40 per cent cut-off, and although the difference narrows as the poverty line is increased, the British poverty rate remains more than twice that in Australia using the 50 per cent benchmark and is around one-quarter higher using the 60 per cent line. The poverty rates shown in Table 3 can be related to the inequality estimates in Table 2 because they imply that the 60 per cent of median income poverty line corresponds approximately to the upper boundary of the second income decile in Australia, whereas the 50 per cent of median income poverty line falls slightly below the

<sup>21</sup> The higher of these three benchmarks is now a widely accepted income poverty standard in the European Community (Atkinson et al., 2002) but not in Australia, where a 50 per cent median income benchmark is commonly used, as it is in other English-speaking countries (Micklewright, 2004).

upper boundary of the second income decile in Britain. The significance of these observations will become apparent later.

Focusing on the estimates based on the 50 per cent of median income poverty line, the groups with greatest exposure to poverty are similar in both countries. The single aged (particularly in Britain) and couples with three or more children all face above-average poverty, as do lone parents, of whom more than one-half are poor in Britain.<sup>22</sup> Non-aged single people face high poverty in Australia, although not to the same extent as in Britain, while the high head-count poverty rate among Australian aged couples is moderated by the fact that the married rate of pension is only slightly below the poverty line.<sup>23</sup>

**Table 3: Income Poverty Rates, Relative to Median Income (percentages)**

Household Type	Australia			Britain		
	40% median	50% median	60% median	40% median	50% median	60% median
Single aged person	4.3	18.8	54.4	19.1	34.5	48.0
Aged couple	3.9	5.7	33.1	6.1	18.2	29.9
Single non-aged person	5.5	14.8	26.0	13.6	16.2	20.9
Non-aged couple	2.8	3.7	11.9	4.8	7.2	12.7
Lone parent	5.4	12.1	26.0	44.7	51.8	60.0
Couple plus 1 child	3.3	4.7	8.6	8.5	15.7	19.5
Couple + 2 children	3.0	4.3	9.5	8.7	10.9	13.8
Couple + 3 plus children	4.9	10.9	17.4	7.7	13.5	23.1
≥3 adults	0.8	2.5	5.4	4.1	7.4	9.9
≥3 adults plus child(ren)	2.6	5.5	10.5	6.3	20.4	26.5
<b>All households</b>	<b>3.7</b>	<b>8.4</b>	<b>20.7</b>	<b>11.7</b>	<b>18.5</b>	<b>25.6</b>

In both countries, households with children experience below-average poverty rates, but importantly, only if there are two parents present in the household. The main exceptions are for couples with three or more children in Australia and for households with at least three adults in Britain. Poverty rates for households with children are uniformly lower in Australia than Britain.<sup>24</sup> Children living in households with more than two adults face below-average poverty rates at the lowest poverty line but above-average poverty rates at the two higher poverty lines (particularly in Britain). This suggests that some of these households have very low incomes and may be co-habiting in order to share housing costs.

<sup>22</sup> The poverty rate among Australian lone parents is lower than other studies have found (Saunders, 2002), because the revised OECD equivalence scale incorporates a low estimate of the costs of children.

<sup>23</sup> Australian research indicates that many of the single aged are only slightly above the poverty line because the single rate of pension just exceeds the poverty line, with many aged couples falling just below the poverty line (Harding, Lloyd and Greenwell, 2001).

<sup>24</sup> This may appear surprising in light of the British child poverty reduction policy. However, this policy was not introduced until March 1999, some months after the PSE survey was conducted.

## 4 Results II: Patterns of Deprivation and Exclusion

### 4.1 Overall patterns

The overall incidence of deprivation and social exclusion is shown in Table 4. In contrast to the poverty rate rankings in Table 3, the incidence of both deprivation and social exclusion is considerably higher in Australia than in Britain. Compared with the British, Australians report far higher rates of being unable to afford to pay utility bills, having to pawn things, having missed meals, not having a special meal and relying on secondhand clothes – despite having lower poverty rates. There are only three indicators (‘borrowed money’, ‘no heating’ and ‘no family dinner’) where the overall incidence is higher in Britain than Australia, but in all three instances the difference is very small.

One possible reason why the incidence of deprivation and exclusion varies so much between the two countries is that custom and social norms affect what is regarded as acceptable and thus constrain what actions people take (or are willing to admit to taking when being interviewed) to make ends meet when they have inadequate resources. Two conditions where these problems of cultural specificity and interpretational ambiguity are potentially less acute are being unable to afford a night out (a key indicator of social exclusion), and having to borrow money from family or friends (an obvious sign of deprivation). However, the disaggregated results reported in Saunders and Adelman (2004: Table 5) indicate that the overall incidence of these two indicators is similar in both countries, as is the pattern across household types. This suggests that cultural norms do not explain the differences in the reported patterns.

**Table 4: The Overall Incidence of Deprivation and Social Exclusion in Australia and Britain (percentages reporting each indicator)**

Indicator	Australia	Britain
<i>Deprivation:</i>		
Utility bills	16.0	6.8
Pawned something	4.2	0.7
Borrowed money	9.7	10.0
Missed meals	2.7	0.7
No heating	2.2	2.6
<i>Social exclusion:</i>		
No holiday	27.7	17.7
No night out	19.9	16.1
No family dinner	5.4	6.3
No special meal	11.8	4.2
Secondhand clothes	12.0	6.0
No hobby	9.2	6.6

### 4.2 Incidence patterns across households

Tables 5 and 6 provide a breakdown of the incidence of single and multiple forms of deprivation and exclusion by household type in Australia and Britain, respectively. In Australia, the incidence of social exclusion is around twice as high as deprivation, the

differential widening with the number of conditions experienced.<sup>25</sup> Lone parent households rank highest in terms of both deprivation and exclusion, although in general the household type rankings differ from the income poverty rate rankings in Table 3. Thus, the aged in Australia experience relatively less deprivation and exclusion than other household types despite having higher poverty rates, while households with children have higher rates of deprivation and exclusion than of income poverty. Households containing more than two adults also face above-average rates of deprivation and exclusion, whereas they generally experienced less income poverty than many other households.<sup>26</sup>

Table 6 indicates that in Britain also, social exclusion is far more prevalent than deprivation and the differential again increases with the number of conditions specified. As in Australia, the aged in Britain face below average rates of deprivation and exclusion despite the high income poverty rates shown in Table 3. The precarious situation of lone parent households in Britain is reinforced, while couples with children are more prone to deprivation and more likely to be excluded than to experience income poverty. However, in contrast with Australia, households with more than two adults in Britain appear worse on the basis of both the deprivation and exclusion indicators than on an income poverty basis – both in absolute terms and relative to other households. Very few British households other than single non-aged people and lone parents experience three or more forms of deprivation, and this is also true in Australia. In contrast, the incidence of multidimensional exclusion (missing out on three or more activities) is relatively high in both countries.

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<sup>25</sup> It should be noted that there are six conditions included in the definition of exclusion, but only five deprivation conditions, which may explain why exclusion shows up as more common. However, the two exclusion variables that could be omitted on the grounds that their meaning is ambiguous – not being able to afford to have a special meal or to have leisure activities or a hobby – both have low incidence rates (Table 4) and would thus not affect the results very much if they were omitted.

<sup>26</sup> These latter results could reflect the fact that the equivalence scale (or, more likely, the equal resource sharing assumption) may be less appropriate for these households.



**Table 5: Measures of Deprivation and Exclusion in Australia (percentages)**

Household Type	Deprivation (DEP)			Social Exclusion (SE)			DEP $\geq$ 1 & SE $\geq$ 1
	DEP $\geq$ 1	DEP $\geq$ 2	DEP $\geq$ 3	SE $\geq$ 1	SE $\geq$ 2	SE $\geq$ 3	
Single aged person	8.9	3.2	1.5	35.3	20.0	14.0	8.2
Aged couple	4.7	1.1	0.4	29.2	15.6	8.6	3.9
Single non-aged person	25.8	14.2	6.5	38.9	22.5	14.3	19.3
Non-aged couple	13.8	4.9	1.3	28.0	14.1	6.1	9.1
Lone parent	48.1	25.9	12.7	67.0	42.1	26.7	42.6
Couple plus 1 child	24.2	9.1	4.1	41.3	23.2	10.5	17.5
Couple + 2 children	21.3	7.0	2.3	41.5	23.9	12.7	15.9
Couple + 3 plus children	36.3	16.9	5.2	58.6	38.9	22.5	29.9
$\geq$ 3 adults	11.6	3.6	1.2	22.7	10.7	6.4	6.4
$\geq$ 3 adults plus child(ren)	26.3	10.4	3.3	46.5	26.4	15.0	21.1
<b>All households</b>	<b>20.7</b>	<b>9.1</b>	<b>3.7</b>	<b>38.8</b>	<b>22.2</b>	<b>12.8</b>	<b>16.1</b>

**Table 6: Measures of Deprivation and Exclusion in Britain (percentages)**

Household Type	Deprivation (DEP)			Social Exclusion (SE)			DEP $\geq$ 1 & SE $\geq$ 1
	DEP $\geq$ 1	DEP $\geq$ 2	DEP $\geq$ 3	SE $\geq$ 1	SE $\geq$ 2	SE $\geq$ 3	
Single aged person	7.2	1.6	0.0	25.5	11.7	6.7	4.2
Aged couple	2.5	0.6	0.6	20.9	7.8	2.6	2.6
Single non-aged person	23.3	9.5	3.3	26.2	13.6	11.2	14.7
Non-aged couple	10.6	2.6	0.6	18.2	10.2	5.3	6.4
Lone parent	45.3	15.1	4.7	60.2	39.8	28.9	36.6
Couple plus 1 child	14.6	2.3	0.0	41.4	19.5	10.5	14.9
Couple + 2 children	15.7	8.6	1.4	29.2	15.3	9.5	9.5
Couple + 3 plus children	21.4	3.6	0.0	56.4	37.0	16.4	18.9
$\geq$ 3 adults	13.6	6.1	0.0	26.9	12.3	5.4	10.2
$\geq$ 3 adults plus child(ren)	16.9	8.6	1.7	22.8	13.8	8.6	10.5
All households	14.6	5.0	1.1	28.1	14.7	8.7	10.3

The results in Tables 4, 5 and 6 indicate that households with children in Australia and Britain appear far more susceptible when the direct indicators are used than on an income poverty basis (Table 3).<sup>27</sup> The final column in Tables 5 and 6 shows the percentage of households who experience at least one form of deprivation *and* at least one form of exclusion. The overall incidence of this indicator is much higher in Australia (16.1 per cent) than Britain (10.3 per cent), although there is a consistent ranking of household types in both countries, reinforcing the patterns identified earlier.

<sup>27</sup> This could reflect the fact that the equivalence scale used to derive the income poverty estimates underestimate the costs of children

### 4.3 Cross-country comparisons

There are some interesting cross-country differences in how households are ranked according to the different deprivation and exclusion indicators. These rankings are relatively stable in Australia, but are more volatile in Britain, particularly for couple households with children. However, one of the most striking features of the results in Tables 5 and 6 is the difference in the incidence of both deprivation and exclusion *between* the two countries. Deprivation is around twice as prevalent in Australia than in Britain, while social exclusion is about 50 per cent higher. These rankings reverse the position implied by the income poverty estimates in Table 3.

Further, while the lone parent poverty rate in Britain is more than four times higher than in Australia, British lone parents report experiencing less deprivation and exclusion than their Australian counterparts. And while single aged people have a (half-median income) poverty rate around twice the national rate in both Australia and Britain (Table 3), they experience less than half the national rates of deprivation in both countries and about the average rate of exclusion (Tables 5 and 6).

One explanation of these differences is that low-income households in Britain have access to cheaper services and/or have better social connections (or fewer social aspirations) than those with low-income in Australia. Access to transport may be a key factor here, particularly given the differences in the geography and urban structure of the two countries. Whatever the reason, it is clear that low-income in Britain is less likely to be associated with deprivation or exclusion than in Australia, and therefore that comparing income poverty rates provides a misleading picture of the relative risks of low living standards facing households in the two countries. At the very least, the results suggest that policies designed to improve low incomes would be targeted very differently from those aimed at alleviating deprivation or combating exclusion.

## 5 Results III: Overlaps and Validated Poverty

The Australian results in Table 7 indicate that the joint incidence of deprivation and low-income is about half of that between exclusion and low-income at both poverty lines. The combination of low-income, deprivation and exclusion has an overall incidence of 5.5 per cent (as shown in the final column of Table 7), which is only slightly below the incidence of validated deprivation (6.3 per cent), indicating that almost all of those who are deprived are also excluded in at least one dimension. In contrast, more than half of the 12.4 per cent of households who are in validated exclusion do not face deprivation. The combined presence of low-income, deprivation and exclusion is relatively rare in Australia generally, but is most prevalent among lone parent households, followed by single non-aged people living alone and couples with three or more children.

**Table 7: The Incidence of Validated Poverty in Australia (percentages)**

Household Type	Low-income & Deprivation		Low-income & Exclusion		Low-income, Deprivation and Exclusion	
	50% & DEP $\geq$ 1	60% & DEP $\geq$ 1	50% & SE $\geq$ 1	60% & SE $\geq$ 1	50% & DEP $\geq$ 1 & SE $\geq$ 1	60% & DEP $\geq$ 1 & SE $\geq$ 1
Single aged person	2.6	6.4	8.1	26.0	2.4	5.7
Aged couple	0.4	3.0	2.2	15.7	0.4	2.6
Single non-aged person	7.1	11.6	9.5	18.4	5.5	9.7
Non-aged couple	0.5	2.6	1.1	6.7	0.4	2.3
Lone parent	6.3	15.7	9.3	20.6	5.6	14.2
Couple plus 1 child	1.7	4.4	3.4	6.4	1.5	3.8
Couple + 2 children	1.4	4.3	2.7	6.6	1.4	4.0
Couple + 3 & children	5.7	9.7	7.3	12.6	5.2	9.1
$\geq$ 3 adults	0.4	1.9	1.0	2.7	0.4	1.6
$\geq$ 3 adults & child(ren)	1.5	3.8	2.4	5.9	1.0	3.1
<b>All households</b>	<b>2.7</b>	<b>6.3</b>	<b>4.7</b>	<b>12.4</b>	<b>2.3</b>	<b>5.5</b>

The results for Britain in Table 8 shows that whereas most (60 per cent of median income) poor households who experience deprivation are also excluded, around half of poor households who are excluded are not deprived. Using the higher poverty line, the combined incidence of low-income, deprivation and exclusion in Britain is just over 6 per cent – slightly higher than in Australia - although this condition is again highest among lone parents, couples with three or more children and non-aged individuals living alone.<sup>28</sup>

At the lower (50 per cent of median income) poverty line, Britain has about twice as much validated deprivation, exclusion and both conditions than Australia, whereas the two countries are much closer together using the higher (60 per cent of median income) poverty line. However, using the higher poverty line, the incidence of low-income, deprivation and exclusion among British lone parents is close to five times the national rate, whereas in Australia the corresponding relativity is less than three to one. Overall, the incidence of all three conditions is much more even across different households in Australia than in Britain, where it varies from less than one per cent to over 31 per cent. This difference is more a reflection of household differences in the reported incidence of deprivation and exclusion than of different income poverty rates in the two countries.

These validated estimates indicate that the choice of indicator makes a difference to who is defined as poor and what factors contribute to this situation. Conventional income-based levels of poverty are reduced considerably when combined with reported deprivation or exclusion. Thus, while the Australian income poverty rate is just over 20 per cent using the 60 per cent of median income poverty line (Table 3), it falls to less than one-quarter of this (5.5 per cent) when the validated indicator is used (Table 8).

<sup>28</sup> Use of the higher (60 per cent of the median) poverty line in Tables 7 and 8 can be justified on the grounds that other (non-income) indicators are also included.

**Table 8: Consistent Indicators of Poverty and Deprivation in Britain (percentages)**

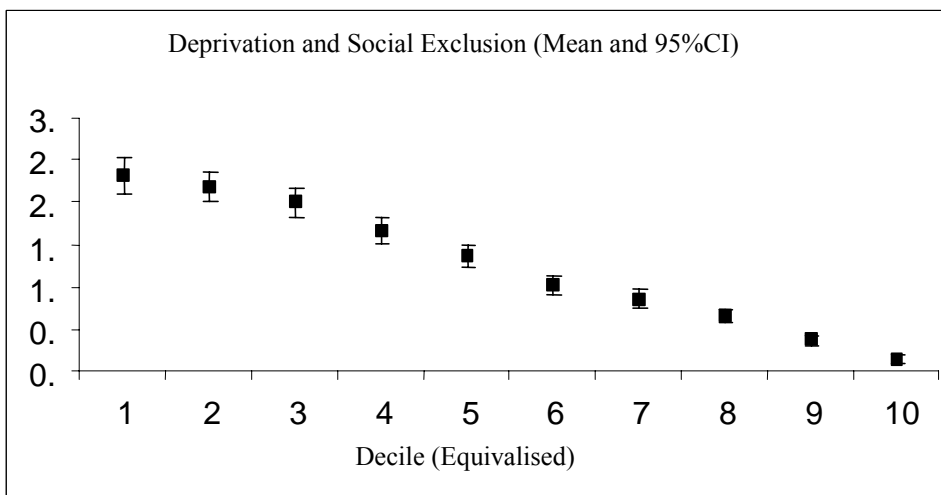
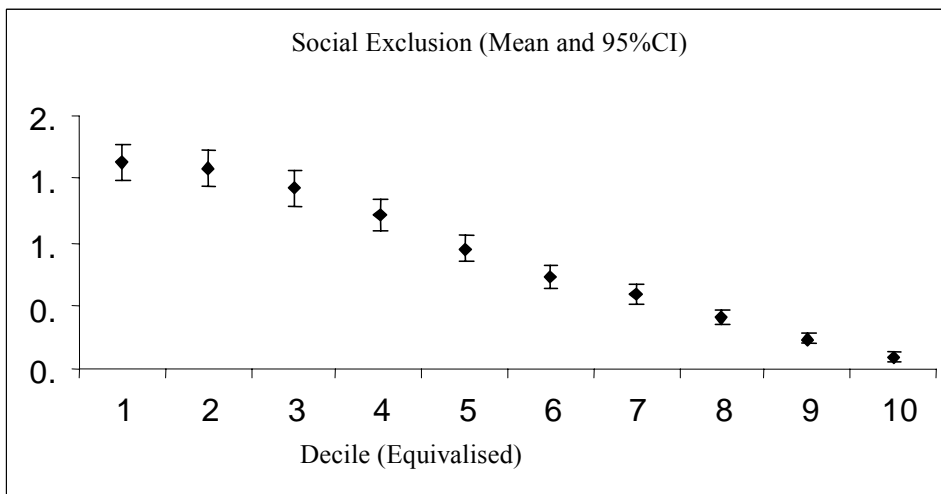
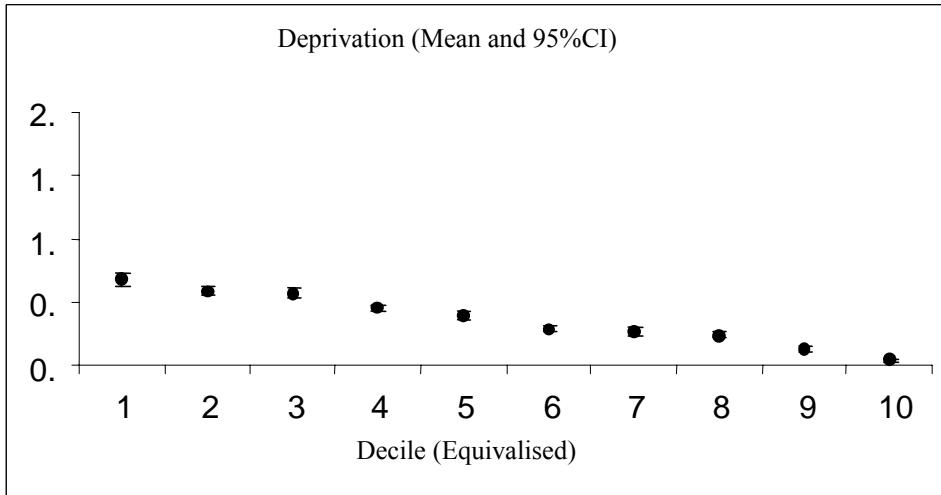
Household Type	Low-income & Deprivation		Low-income & Exclusion		Low-income, Deprivation & Exclusion	
	50% & DEP $\geq$ 1	60% & DEP $\geq$ 1	50% & SE $\geq$ 1	60% & SE $\geq$ 1	50% & DEP $\geq$ 1 & SE $\geq$ 1	60% & DEP $\geq$ 1 & SE $\geq$ 1
Single aged person	1.8	2.7	11.6	15.3	1.4	1.9
Aged couple	0.7	0.7	5.9	9.6	0.7	0.7
Single non-aged person	9.0	10.6	10.2	11.8	7.0	8.1
Non-aged couple	1.4	3.2	3.6	5.5	1.5	2.6
Lone parent	31.0	36.1	40.0	44.4	28.8	31.3
Couple plus 1 child	8.6	9.9	13.6	14.8	8.6	9.9
Couple + 2 children	4.4	5.8	6.7	7.5	4.5	4.5
Couple + 3 & children	8.0	12.0	8.2	16.0	6.4	12.5
$\geq$ 3 adults	4.2	4.2	5.2	7.8	4.4	4.4
$\geq$ 3 adults & child(ren)	6.4	8.7	6.7	13.0	2.2	4.4
<b>All households</b>	<b>5.7</b>	<b>7.2</b>	<b>9.6</b>	<b>12.4</b>	<b>5.1</b>	<b>6.1</b>

In Britain, the income poverty rate of over 25 per cent (Table 3) compares with a combined (validated) rate of around 6 per cent (Table 8). However, these differences conceal a more stable pattern of findings on the relative risks facing different households in each country. Aside from the improved standing of older households when moving from income poverty to deprivation, exclusion or validated poverty, three household types are consistently shown to face the greatest risk of poverty in both countries. These are lone parents, single non-aged people living alone and large (couple) families.

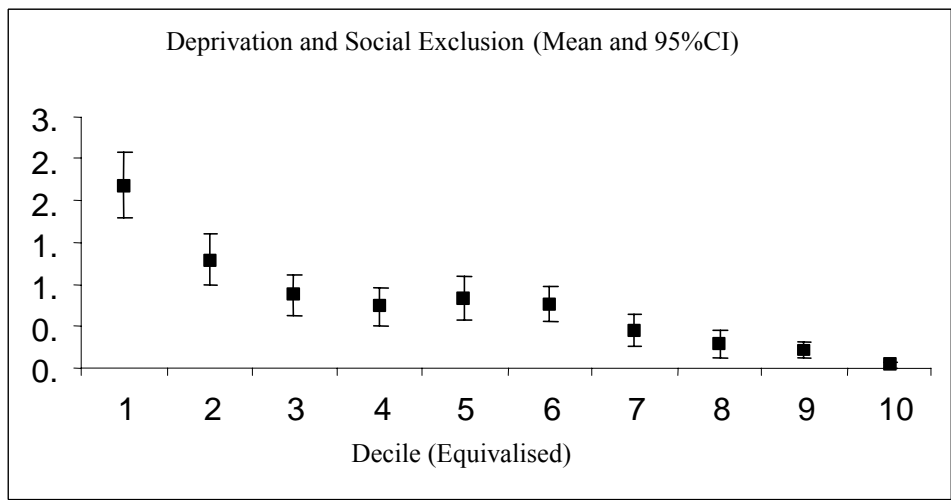
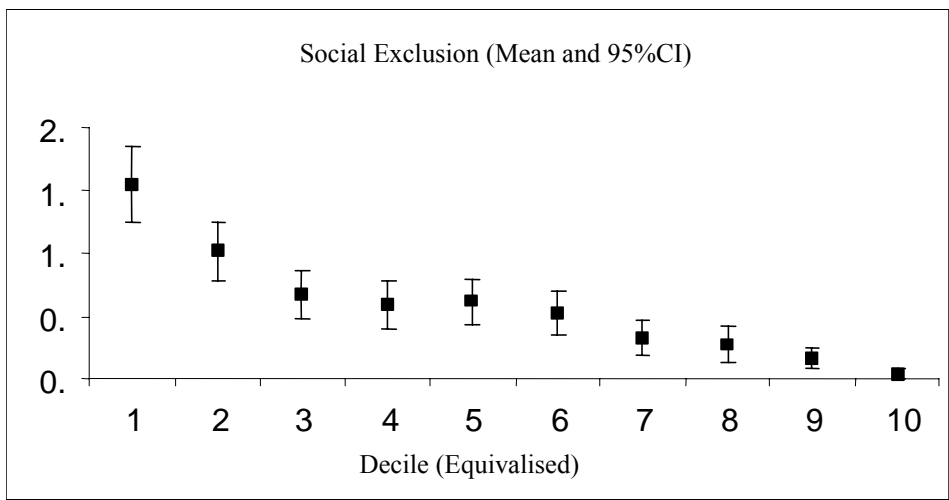
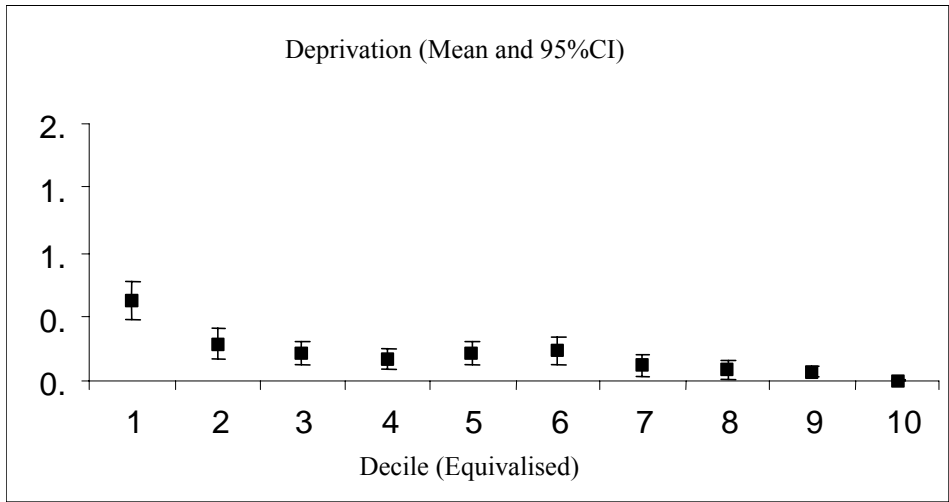
Figures 1 and 2 provide additional information on the above patterns by showing for each country, the mean number of deprivation and exclusion conditions experienced (and the associated 95 per cent confidence intervals) in each decile of the equivalent income distribution. In Australia, the number of conditions experienced remains more or less constant across the bottom three deciles of the distribution before declining steadily as income rises. However, it is not until decile four, that the number of either deprivation or exclusion conditions is significantly below (in a statistical sense) that experienced in the lowest decile.

The British patterns in Figure 2 reveal a much sharper delineation between the number of conditions experienced in the lowest decile and those experienced higher up the income distribution, particularly in relation to deprivation. The mean number of exclusion conditions experienced declines to around 0.6 in the third income decile in Britain (compared with 1.4 in Australia), while the mean number of deprivation conditions in decile three is around 0.2 in Britain (compared with 0.5 in Australia). These differences thus imply that households in the *third decile* of the Australian income distribution report similar degrees of deprivation and exclusion as households in the *lowest decile* of the British income distribution.

**Figure 1: The Distributional Profile of Deprivation and Exclusion in Australia  
(mean number of conditions)**



**Figure 2: The Distributional Profile of Deprivation and Exclusion in Britain (mean number of conditions)**



The patterns shown in Figures 1 and 2 also help to explain the results presented earlier. As noted, Table 3 implies that the 60 per cent of median income poverty line falls at around the 20<sup>th</sup> and 25<sup>th</sup> percentiles of the Australian and British income distributions, respectively. But whereas deprivation and exclusion are spread evenly across all three lowest income deciles in Australia, they are heavily concentrated in the bottom decile in Britain. There are thus many Australian households experiencing relatively high levels of deprivation and/or exclusion who have above-poverty level incomes, whereas there are many British households below the poverty line who experience no more deprivation or exclusion than those with higher (equivalised) incomes. The direct deprivation and exclusion indicators thus tend to exaggerate the overall extent of poverty in Australia, whereas the income approach produces an over-estimate of the extent of poverty in Britain. Drawing on both direct and indirect indicators is thus preferable to considering either indicator in isolation.

## **6 Conclusions**

Increasingly, researchers are using direct measures of deprivation and exclusion to overcome the acknowledged limitations of measuring poverty using an income poverty line. This paper has examined the structure of poverty, deprivation and exclusion in Australia and Britain and compared the sensitivity of results to different indicators of poverty. The indicators examined are income poverty (defined relative to median income benchmarks), the number of deprivation and exclusion conditions actually experienced (as reported in surveys), and the overlap between the different indicators.

The results show that while Britain ranks well above Australia in terms of the incidence of income poverty, the incidence of both deprivation and social exclusion is considerably higher in Australia than in Britain. Despite these aggregate differences, the ranking of household types is more stable across the different methods within each country, and in some instances, between the two countries. Lone parent households stand out in both countries as experiencing the highest rates of both income poverty and validated poverty, followed by single non-aged people living alone and couples with three or more children.

There is a tendency for the susceptibility of the aged to income poverty not to translate into either deprivation or exclusion to the same degree as other households. In overall terms, the aged in Britain experience higher income poverty than in Australia, but they also experience lower rates of deprivation and exclusion. One possible explanation of these variations is that the equivalence scale over-states the (relative) needs of the aged, producing a downward bias in equivalent income and an exaggerated estimate of aged poverty. Another is that the items/activities used to identify deprivation and exclusion do not adequately capture the needs and circumstances of the aged in either country.

One of the key lessons to emerge from the analysis is that direct national indicators of deprivation and exclusion cannot be as readily compared cross-nationally as indirect, income-based measures, which conform to international standards of definition and measurement. Cross-national studies of deprivation and exclusion must therefore ensure that the measures used are comparable before attempting to draw conclusions from observed differences. The results demonstrate that an approach that combines information on income poverty with direct indicators of deprivation and exclusion is

capable of providing evidence on patterns of poverty that, being validated, has more credibility than that based solely on low-income. Although income poverty remains an important issue, poverty research should draw on other information in order to better understand how low-income affects people's lives and why its effects are more debilitating for some groups than for others.



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